

# Operational and Financial Review

The successful multi-brand strategy as well as the improved quality of its mobile network and the enhanced customer experience have strengthened the Company. Sunrise has become the leading market challenger and is gaining customers across all segments.

---

## **7      Operational and Financial Review**

8	Business Activities
8	Sunrise Strategy
11	Customers
12	Market Environment
14	Products, Services and Sales Channels
20	B2B
21	Network
23	Regulatory Environment
26	Corporate Responsibility
29	Employees
33	Environment
35	Community
36	Major Events
37	Financial Review
44	Risks
46	Additional Disclosures
48	Outlook

# Operational and Financial Review

## 1 Business Activities

Sunrise is the second-largest integrated communications provider in Switzerland. It brings mobile voice and data, landline voice, landline Internet and IPTV services to residential customers, business customers and other carriers across Switzerland using an integrated nationwide landline network and the best Swiss mobile network.

### 1.1 Residential Customers

Sunrise offers its residential customers mobile calling, landline, Internet and TV services from a single source. Mobile voice and data services are available on both a postpaid and prepaid basis. Sunrise offers are tailored to meet its customers' needs for unlimited, high-speed access to the Internet at home and on the go, while also providing competitive, easy-to-use products, and various convergence options with no limits to digital access.

### 1.2 Business Customers

Sunrise business customers can select from a comprehensive range of products and services, from mobile offers and landline voice, Internet and data solutions, to systems integration and management of services. Sunrise meets the specific needs of its customers with a portfolio of standardized products for small businesses, as well as customized, scalable and secure offers for large enterprises.

### 1.3 Wholesale

Wholesale operations provides mobile voice and data as well as Internet services to national and international carriers. Sunrise offers voice hubbing services based on excess capacity on the proprietary landline network.

## 2 Sunrise Strategy

In line with its past strategy, Sunrise continued to position itself as The Unlimited Company. It aims to become the most recommended telecommunications provider in Switzerland, while concurrently gaining market share and leveraging its strong position in the mobile market and its positive momentum in the Internet, TV, and B2B areas.

The successful multi-brand strategy as well as the improved quality of its mobile network and the enhanced customer experience have strengthened the Company. Sunrise has become the leading market challenger and is gaining customers across all segments. Going forward, its plan of action is to further strengthen the following five key strategic components with the goal of becoming the most recommended telecommunications provider in Switzerland.

---

### Focus on innovation and convergent products

Launch innovative products for home and on the go and strengthen the Unlimited Promise even more in the digital era

---

Every year, Sunrise has demonstrated that keeping a watchful eye on innovation and customer preferences is a key to its success.

In 2018, Sunrise enhanced its existing Sunrise Freedom and Sunrise Freedom Young subscriptions to include more roaming services, and new streaming and social media services at stable prices. For example, its subscriptions for customers under 30 meet the needs of young people even better and

continue to be unrivaled in its features. In the coming year, the Company's objective is to take further steps toward the Unlimited Promise by introducing new unlimited offers for a simpler everyday digital life.

Innovation is not only reflected in products, but also in the way Sunrise interacts with its customers by leveraging digitalization, eliminating complexity and increasing customer satisfaction and loyalty. One example is the My Sunrise app, for which Sunrise added options for automatic user feedback on mobile network performance. Once customers have installed the app and agree to help Sunrise continue to improve its mobile network, the app will send performance information, such as location, signal strength, and connection speed automatically. The information gathered will help Sunrise forge ahead and continue to work toward "zero defects," making the best mobile network in Switzerland even better for its customers.

As an important step in the digitalization and simplification process, Sunrise has streamlined and expedited the cancellation process. Since May 28, 2018, customers have been able to cancel all Sunrise subscriptions conveniently over the phone or via Sunrise Chat. Customers have access to a dedicated toll-free cancellation hotline or can communicate with the cancellation department via the chat feature on the website.

Sunrise has repeatedly earned top rankings as the best full-service provider for residential customers and small and medium-sized enterprises in the BILANZ rating, the largest annual independent customer survey in the Swiss telecommunications market. These recurring distinctions are some of the signs that the Sunrise strategy is showing positive results.

---

## **Best-in-class customer service**

Deliver a best-in-class customer service experience to become the most recommended telecommunications provider

---

With a Service team of over 1,000 agents covering the entire Sunrise product portfolio, the Company is committed to delivering an outstanding customer experience. It has continued its strategy of the last two years of placing increased focus on service across the entire organization. Its number-one priority is the pragmatic and customer-focused approach of enhancing its customer service level.

With its continuous focus on the Net Promoter Score (NPS), on contact resolution and customer feedback, Sunrise identifies customer pain points and barriers to an exceptional customer experience. These pain points are a key component of the service transformation plan. They are reviewed weekly with the Executive Leadership Team and select other leaders on the newly established Service Steering Committee.

The evolution of the service operating model delivers the best structure for providing support to customers. Phone lines staffed with subject-matter experts were recently introduced to ensure that customers always get assistance from the most qualified agent. Applying this approach more broadly, the implementation of a benchmark model ensures consistency across the front-line staff with regard to all customer inquiries.

To meet customer expectations and offer a multichannel experience, Sunrise has also been enhancing its digital service capabilities by rolling out new tools and systems, including messaging for support, IVR enhancements and an automated chat solution. All initiatives focus on making information customers need available to them through their preferred channels and as effortlessly as possible.

The best example is the expansion of the Company's customer service team with a specialized Fiber Welcome Team to assist customers wanting to switch to a Sunrise fiber optic connection. Customers are assigned a personal contact who provides direct customer support during the entire switching process. Not only does this help Sunrise drastically simplify the switch, but it also boosts customer satisfaction even further. Thanks to this team of specialists, the number of technical requests handled through first-contact resolution has increased by more than 60%.

---

## **Maintain a state-of-the-art infrastructure**

Leverage the superior frequency spectrum position and continue to invest to maintain a competitive advantage and capitalize on future growth opportunities

---

Since launching the network program together with its technology partner Huawei in 2012, Sunrise has invested more than CHF 1.6 billion; the vast majority of this investment has been funneled into its mobile network.

Sunrise will continue to leverage and maintain a state-of-the-art mobile and landline network infrastructure to continue to provide customers with a reliable high-speed network throughout Switzerland and to ensure a best-in-class customer experience while also capitalizing on future growth opportunities in convergence and data.

In the landline area, Sunrise will build on its own infrastructure and backbone transmission to provide customers with innovative, fast, high-quality voice and data transmission. It will continue to provide high-speed access in Switzerland by leveraging the latest VDSL developments with G.fast, as well as fiber coverage through partnerships with Swisscom, local utilities, and Swiss Fibre Net AG, the joint venture of local energy providers in Switzerland.

After achieving great success in the internationally recognized quality benchmark test conducted by connect in 2016 and 2017, the Sunrise mobile network was rated "outstanding" in 2018 for the third consecutive time. It is the most reliable network for data and, thanks to its excellent coverage, indisputably offers the best voice services. This recognition confirms once more that the Company's strong focus on quality is paying off.

Sunrise will focus on "5G for People" as the area with the greatest potential and will present its commercial activities in 2019. 5G makes it possible to deliver the fiber optics bandwidth over a mobile network using only a 5G Wi-Fi hotspot and a 5G mobile network connection. In particular, "5G for People" benefits business and residential customers outside cities and densely populated urban areas, where fiber-optic connections are typically not available.

---

## **Accelerate brand development and significantly increase quality perception**

Further invest in brand building to highlight the Company's values and to strengthen all relevant consideration drivers

---

Past investments in marketing that supported the Company's brand positioning generated strong momentum for the Sunrise brand and all brand drivers. This momentum was further accelerated when Roger Federer was named the Sunrise Brand Ambassador in 2014. Since then, Sunrise has been able to significantly improve its brand esteem and recognition.

In 2018, a new shop concept was launched with the customer as its focal point. Sunrise broke away from the classic concept of customers stepping in, pulling a ticket, standing in line and talking to the employee behind a desk. Customers entering a Sunrise shop now can move around freely and touch and try out everything. They can experience all products and hardware live – Sunrise does not have a single dummy left in its state-of-the-art shops. Employees are nearby, make recommendations to customers, and answer questions. Shop acoustics allow conversations at a pleasant volume. The shop concept helps employees focus fully on the customer. The sales process is easy and pleasant for the customer.

As a state-of-the-art telecom provider, Sunrise also focuses on digitalization in its shops. The Sunrise ID Checker lets shop employees quickly and easily identify subscription customers digitally and via an app. Long scans or even paper copies are no longer needed. Moments later, customers have their digital documents in their My Sunrise online account. Digitalization has also introduced new forms of communication: Instead of posters and printed posters, which were displayed in shop windows and hung on different days, modern electronic displays are now used.

Throughout 2019, Sunrise will continue to implement and anchor its brand values and strengthen the relevant drivers of consideration by enhancing its communication across all relevant communication touchpoints.

---

## **Grow B2B**

Grow the business market share by offering high-quality digital communication services to large and small business customers

---

Sunrise serves large companies with tailored, scalable and secure telecom solutions that include professional services and support for its customers on their journey toward digitalization and during their transition to making maximum use of cloud-based services.

For small companies, Sunrise continuously invests in expanding its portfolio of standardized, straightforward products and in strengthening direct and partner sales channels to increase its market reach.

To make an attractive, innovative, and flexible workplace available to its business customers, Sunrise aligns its products and services entirely with its goal of an “Unlimited Mobile Workplace.”

The services are provided through its own expert resources. Sunrise will enhance these offers through strategic and selective cooperation with leading partners such as the FreeMove alliance and ngena, where leading providers unite to offer their customers coordinated services throughout the world.

## **3 Customers**

Sunrise continues to put a significant focus on improving the customer experience, a key principle of its business strategy. Processes are in place to survey customers and gather feedback from them after each contact. This information is then used to enhance methods of working across all channels and touchpoints. These efforts resulted in a number of awards for Sunrise in 2018. The BILANZ Telecom Rating recognized Sunrise as the best universal provider for residential customers offering the best TV and mobile telephony services. In addition, Sunrise finished first in the connect Shop Test 2018, providing the best customer service experience in its shops.

### 3.1 Net Promoter Score

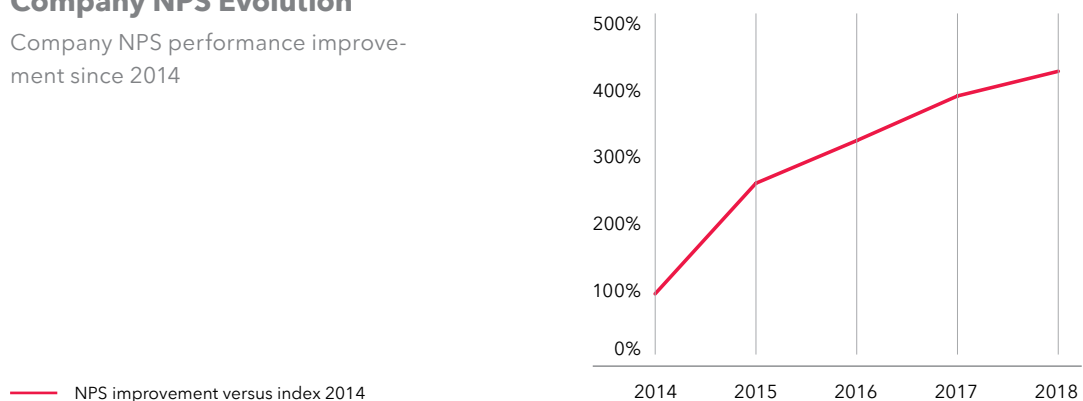
In 2013, Sunrise launched a company-wide, multi-year program dedicated to achieving a substantial improvement in the customer experience across multiple customer touchpoints. The enduring nature of this program, the Net Promoter Score (NPS) program, is proof of its success.

The NPS program has allowed Sunrise to continuously identify areas with improvement potential and ensure the successful implementation of enhanced customer service. NPS is a powerful and easy-to-understand metric for measuring customer loyalty and satisfaction. It is obtained through a simple customer survey administered immediately after customers have defined interactions with Sunrise and is supported by follow-up measures.

As a result, Sunrise has significantly improved its Company NPS score (from a baseline of 330% in 2016 to 434% in 2018, against an index of 100% in 2014).

#### Company NPS Evolution

Company NPS performance improvement since 2014



Sunrise offers support across all products and services including sales, administration, dealer support, and technical support for both mobile and landline products. Its Customer Services organization provides services through dedicated call centers, written correspondence and an online chat service both in-house and through outsourced partners.

To meet soaring customer expectations in an increasingly digital world, Sunrise has been focusing on significantly improving its digital capabilities during the past few years. At this time, the Company continues to implement digital initiatives to further increase its market share and profits.

## 4 Market Environment

The Swiss telecommunications market is a highly competitive market with one of the highest levels of service quality in the world.

### 4.1 Economic Environment

The Swiss economy continues to be robust following its remarkable over-performance in 2018.

Swiss GDP growth was at around 3% in 2018, the strongest growth rate since 2010 (the 2017 growth rate was 1.7%); nevertheless, the GDP is expected to grow at a lower rate in 2019 (IMF World Economic

Outlook, October 2018, projection for 2019). The solid performance of 2018 was due to a combination of factors difficult to repeat in 2019 such as major international sporting events that were celebrated in 2018 and a favorable trade balance. The probability of a recurrence of these conditions in 2019 is poor amid the latest wave of Swiss franc appreciation.

In 2017, inflation turned positive after two years of deflation, and consumer prices continued to increase in 2018 at a rate of 1.1%, compared to 0.5% in 2017 (IMF World Economic Outlook, October 2018, projection for 2019). Although almost half of the 2018 increase is due to higher oil prices, price increases have also accelerated in other consumption areas.

## 4.2 Industry and Competitive Environment

Swisscom is the largest Swiss mobile network operator (MNO) followed by its challengers Sunrise and Salt. Each of the three MNOs has its own nationwide network infrastructure with a spectrum license granted until 2028. At the beginning of 2019, a spectrum auction took place, where a total bandwidth of 475 Mhz was awarded in a single transaction.

In addition to the MNOs, there are branded wholesale resellers on all three mobile networks, as well as MVNOs (mobile virtual network operators) that use the MNOs' infrastructure to provide their services. The market share structure in Switzerland has remained quite stable over the past few years. Following the previous years' trend, 2018 was a highly competitive year in terms of mobile prices with aggressive promotions from every provider throughout the year. The competition in the budget market continued to increase. In this context, Sunrise has emerged as a strong challenger whose mobile postpaid subscriber base increased in 2018, and who has shown faster growth in the Internet sector than its main competitors.

### 4.2.1 Mobile Networks

Mobile networks in Switzerland enjoy a high standard of quality. connect, the independent network tester, rated the Sunrise network as "outstanding" for the third consecutive time. It is the most reliable network for data and, thanks to its excellent coverage, indisputably offers the best voice services. A minute score difference of 0.1% (1 point on a 1,000-point scale) prevented Sunrise from winning the third consecutive test and thus scoring a hat trick. Nevertheless, as "The Unlimited Company" and leading challenger, Sunrise is demonstrating what intense competition can make possible: Its award-winning network is one of the best in the world.

---

#### The best network for mobile calling

Sunrise has the only network that has been rated "outstanding" three times in succession. Sunrise undoubtedly offers the best network for mobile calling, thanks to its excellent coverage.



---

### 4.2.2 Landline Services and TV

Landline broadband Internet connections can be established via several different access technologies, including fiber, VDSL, and cable modem. Swisscom is the leader in the Swiss broadband Internet market, followed by UPC and Sunrise. Wholesale offerings and fiber unbundling has made access lines available to providers including Sunrise and Salt. Salt entered the Swiss landline market in March 2018 offering an

ultrafast broadband service based on optical fiber and a triple-play product at very aggressive prices, increasing the competition in the landline segment.

In Switzerland, landline voice services run primarily over the digital access lines of the phone network and the access lines of cable network operators. Swisscom is the largest provider of landline voice telephony in Switzerland, followed by UPC and Sunrise.

The two leaders in the Swiss television market, serving slightly more than half the market, are Swisscom and UPC. The rest of the market remains fragmented among local cable companies, satellite and digital terrestrial television providers. In the past few years, UPC has been losing market share to providers of IPTV (mainly Swisscom and Sunrise). Sunrise entered the TV market in 2012 and has been steadily gaining market share since then by leveraging a high-quality TV offer with extensive content. This offer was reached by pursuing strategic partnerships with content providers.

To meet the increasing demand for higher bandwidth services and IPTV, Sunrise entered into an agreement with Swisscom that grants Sunrise access to all fiber- and copper-based access technologies, including VDSL and G.fast. Additionally, Sunrise has partnerships with the three biggest utilities (Basel, Geneva and Zürich), Swiss Fibre Net AG and a joint venture of smaller local energy providers in Switzerland.

## 5 Products, Services and Sales Channels

Based on the Company's values of bold, intuitive and positive, Sunrise focuses on its customers' needs and satisfaction to delight them with innovative and high-quality products and services. This has created effortless and engaging customer experiences, making a difference every day in the success Sunrise enjoys in a challenging environment.

### 5.1 Convergent Offer: Sunrise One

With Sunrise One, Sunrise positioned itself as The Unlimited Company.

Sunrise One combines mobile, landline, Internet, and TV services in one convergent offer that comprises Sunrise Mobile (swiss unlimited, swiss neighbors or europe&US) and Sunrise Home Unlimited. Sunrise One is very attractive compared to equivalent packages offered by competitors.

Keeping in mind that convergence is a key market trend, Sunrise offers its customers different types of convergence. Customers can either create their own package offering the best of both worlds with the Home (landline) and Freedom (mobile) subscriptions and benefit from the Sunrise Advantage (a 10% discount on all basic fees every month), or they can select Sunrise One, the convenient combo package.

In response to the increasing demand for unlimited Internet by itself, Sunrise launched Sunrise One light in November 2018. It combines mobile, landline, and Internet services in one convergent offer, always with the highest possible connection speed.

### 5.2 Mobile Offerings

Sunrise mobile service offers include mobile voice and data, mobile Internet, and other value-added services such as international calls, roaming, extra SIM, hardware insurance, network browsing protection, as well as access to Sunrise TV products via mobile hardware. Sunrise also offers mobile phones and tablets, plus other hardware and accessories.



### 5.3 Sunrise Freedom

The Sunrise Freedom portfolio launched in 2014 targets the mass market. In May 2016, Sunrise refined its Freedom portfolio to better satisfy the growing demand for mobile data and roaming, and in March 2018 Sunrise relaunched its Freedom offer. The best features, the essence of Sunrise Freedom, remain the following: subscription changes are possible any time; there is no minimum contract duration; and hardware from CHF 1.00 upfront payment with a hardware plan. Additionally, more calls, and more surfing at faster speeds, as well as more roaming have been included.

"Freedom swiss start" and "Freedom swiss calls" are the new entry-level offers with more value for the money compared to previous equivalent rate plans. "Freedom europe&US" includes international calls and even more roaming.

As an innovation, Sunrise launched "Freedom swiss neighbors." This subscription includes roaming in neighboring countries (France, Germany, Austria, Italy, and the Principality of Liechtenstein) and is the best offer for Swiss tourists and cross-border commuters.

### 5.4 Sunrise Freedom Young

In September 2010, Sunrise launched the MTV mobile rate plans that provide attractive products to customers up to the age of 30. In March 2018, MTV mobile Freedom became Sunrise Freedom Young following the same flexible principle as Sunrise Freedom. It offers lower monthly fees and more data for high-speed surfing on 4G+, in addition to existing popular benefits such as a 50% discount on the SBB half-fare and unlimited national WhatsApp messaging. Additionally, thanks to a partnership with TIDAL, the global music and entertainment platform, six months of HiFi music streaming is included in the Sunrise Young portfolio at no charge.

In November 2018, additional services at constant prices were added to the Freedom Young portfolio, making it perfect for the digital lifestyle of young people. Unlimited data for WhatsApp use abroad (Roaming Region 1) and unlimited data for Snapchat in Switzerland have been added as new features.

The Freedom Young swiss data and Sunrise One Young light subscriptions are new in the Young portfolio and have been aligned with the needs of young customers.

Freedom Young swiss data is the first mobile subscription completely tailored to the usage preferences of digital natives. It offers unlimited 4G+ data usage (up to 700 Mbit/s) for CHF 45.00 per month. Sunrise One Young light offers unlimited Internet and a mobile subscription at home, as well as unlimited surfing on the go – all for CHF 99.00 a month, and always at the highest possible connection speed.

The Forever Young guarantee from Sunrise allows customers to keep their Young subscription even after they turn 30 – at the same price and with all the benefits of a Young subscription (except the SBB discount).

### 5.5 Roaming and International

Being sensitive to the diversity of the Swiss population, Sunrise uses different approaches to accommodate its customers' wide range of international needs.

In the last few years, Sunrise launched and enhanced a comprehensive, attractive and competitive range of products and services targeting both regular and occasional roamers. While the former can select one of the Freedom rate plans including roaming, occasional users benefit from the broad portfolio of roaming options (Sunrise travel days, travel data options and travel talk options) and pay only when they need it. The Sunrise Roaming Cockpit allows customers to keep costs under control.

With its new Freedom subscriptions launched in March 2018, Sunrise replaced the previous standard tariff for data roaming in Region 1 with the travel day pass data tariff, a new standard tariff for data

roaming (100 MB for CHF 1.90 per day). The travel day pass data tariff allows customers to roam at the lowest standard tariff for data roaming in 46 countries and offers cost protection.

Taking a further step toward the Unlimited promise, Sunrise suspended the monthly 4 GB limit, from June 1 to September 30, 2018 and offered unlimited surfing abroad for the Freedom swiss neighbors and Freedom europe&US mobile subscriptions at no extra charge. Additionally, Sunrise doubled the data volume of the travel data roaming option from 2 GB to 4 GB while keeping the price unchanged.

### **5.6 Prepaid Offerings**

Sunrise offers prepaid voice and data services under a wide range of brands (Sunrise, ALDI SUISSE mobile, yallo, Ortel and Lebara) to appeal to different market segments and their diverse needs. With all brands, the Company offers a wide range of customized options, including calling, SMS messages, data and roaming, as well as combinations thereof, for a monthly fee. As smartphone penetration and data usage increase, prepaid is declining, and there is a shift from prepaid to postpaid subscriptions.

### **5.7 Mobile Internet**

Sunrise has a mobile Internet offer that fulfills the Unlimited promise with different prices per month for different speeds, thus giving customers easy and carefree surfing options with no data limits.

### **5.8 Hardware and Accessories**

Sunrise offers its customers a broad range of mobile hardware and related accessories sourced from a number of well-known suppliers and distributors, including Apple, Samsung, and Huawei. The Company continuously seeks to improve the quality and range of its mobile hardware and accessory portfolio by embracing new technology developments and mobile hardware features.

As the Unlimited Company, Sunrise went the extra mile for its customers by betting on the latest Samsung and Apple highlights, the smartwatches.

Sunrise was one of the first two telecommunications companies in Europe to offer the Samsung Galaxy Watch and one of only eight telecom providers in Europe to offer the Apple Watch Series 4 (GPS + Cellular) with talk and surf functionality.

With the Sunrise extra SIM watch, customers can use their mobile number on their LTE/Cellular smartwatch and tap into voice and data from their Freedom rate plan without needing a second SIM card.

Sunrise took another step forward by offering customers the option to purchase accessories by adding them to their installment plans and paying them off in convenient monthly installments.

### **5.9 Innovative Services**

Since April 2016, Sunrise has been offering its customers a direct carrier billing option, called Sunrise Pay, as a payment method for Google Play. Over the past few years, Sunrise has continued its efforts to onboard various partners and services to expand this innovative solution.

Since June 2018, Sunrise customers have also been able to pay for purchases from the App Store, and for Apple Music, iTunes, and iBooks, directly through their mobile phone account. With the launch of this service, Sunrise took a dynamic new step toward the development of its financial services and customer service. Sunrise has two innovative and unique programs in Switzerland that meet the diverse needs of Apple hardware customers.

The Sunrise Smartphone Upgrade option allows customers with a subscription to trade in their iPhone 8, iPhone 8 Plus, or iPhone X for an iPhone Xs or iPhone Xs Max after a one-year subscription. The new phone also comes with a 24-month hardware plan, and any unpaid installments for the previous iPhone are waived.

With the Smartphone Recycling Plan, Sunrise customers getting the latest iPhone can sign up for a hardware plan and pay for it in smaller monthly installments over 30 rather than 24 months. If the iPhone is returned after 24 months, customers receive the six outstanding monthly installments free of charge and can buy new hardware.

## **5.10 Landline Voice, Internet, and IPTV Offers**

Sunrise provides Internet access and landline voice and television services based on the Internet Protocol (IP) to both residential and business customers.

### **5.10.1 Internet and IPTV**

With Sunrise Home, customers can select the combination of Internet, digital TV and landline that best suits their needs and make changes to adjust their package quickly and at no charge. In addition, they can opt for Sunrise One.

As a result of the expansion of its high-speed coverage throughout Switzerland during 2018, Sunrise is now able to offer its customers more speed at the same price.

To allow a seamless transition following a new Internet order, Sunrise launched the quick-start option for a one-time fee of CHF 65.00 in June 2018. It consists of a “plug and play” solution with a preconfigured LTE USB stick inserted in the Sunrise Internet Box and includes unlimited surfing in Switzerland with no speed restrictions for 60 days. Once the Internet Box is automatically connected to the fiber optics line, the stick can be used as a backup solution.

Since launching Sunrise TV in 2012, Sunrise has transformed television into a completely new experience every year. One of the key elements of IPTV is the content, and Sunrise is continuously expanding its partnerships with Europe’s largest pay-TV providers.

In 2016 and 2017, Sunrise entered into partnerships with Sky, Teleclub, and Netflix making the Company the leading challenger in sports. In July 2018, Sunrise launched Sky Show and was the first provider in Switzerland to include the new Sky Show app on its TV Box. As a launch special, Sunrise offered Sky Show for twelve months at no additional charge to new customers switching to Sunrise Home with Sunrise TV.

In addition to the Sky Show app, Sunrise TV offers yet another innovation: Customers with an Apple Watch can now control their Sunrise TV Box remotely from their smartwatch. Whether they want to adjust the volume, select or record a program – in combination with the Sunrise Smart TV app, customers can now control everything conveniently from their Apple Watch.

---

## **BILANZ rating**

In the annual survey conducted by the business magazine “Bilanz,” Sunrise again earned first place as a universal provider. In addition, Sunrise took first place in the category Mobile Telephony for Business Customers and was ahead of Swisscom and UPC in the Digital TV category. Each provider was evaluated on innovation, quality, price, flexibility, and customer service. This result strongly reflects not only the improvements Sunrise made in the areas of network quality and customer interaction, but also its ability to keep the quality over the years.



### 5.11 Sales Channels

Sunrise distributes its products and services through direct and indirect channels.

Direct distribution occurs through self-branded company stores, self-branded mobile centers, websites, web chats, mobile apps, direct mail, and phone sales via call centers (inbound and outbound). As of December 31, 2018, Sunrise had 92 self-branded points of sale.

In 2018 Sunrise continued to freshen up the look of its shops, implementing a modern and flexible design that gives the brand a clear and distinct appearance and increases foot traffic. The shop enhancements will continue in 2019.

Sunrise was the winner of the connect Shop Test 2018. According to connect, Sunrise provides the best service at its shops. Short wait times, highly professional and proficient advice: This is what sets Sunrise apart from the competition and resulted in Sunrise earning this distinction.

Indirect channels range from nationwide chains such as Mobilezone (the largest independent telecommunications retailer in Switzerland), Swiss Post, MediaMarkt, Interdiscount, and Fust to regional Sunrise Premium Partners and dealers. Indirect channels provide approximately 2,500 points of sale throughout Switzerland.

The continuous improvements Sunrise has made in the structure and performance of [www.sunrise.ch](http://www.sunrise.ch) with an emphasis on sales and service demonstrate the Company's unmistakable focus on its online shop. New features have been added like the "World of Apple", a specific landing page for Apple fans where they can discover new Apple hardware options, find valuable user advice and many suggestions for an exciting Apple lifestyle. As a result of these continuous enhancements and the further improvement of the self-care section, digital transactions increased substantially by approximately 17% in 2018.

Sunrise has dedicated account management teams for its medium and large enterprise customers, while small business customers are primarily supported by sales partners (indirect channels) and the Company's own retail stores.

### 5.12 ISO-Certified Services

In October 2018, an external audit reconfirmed the ISO 27001 certification of the Sunrise Information Security Management System (ISMS). Sunrise was the first telecom provider in Switzerland to have its entire organization – both its company-wide technology infrastructure and operational processes – certified to the ISO 27001 standard. This certification ensures the highest levels of quality and security for Sunrise customers, therefore protecting their personal information and communication.

### 5.13 Digital Experience

The Company's digitalization strategy is an important element of this innovation and encompasses all brands. Not only did Sunrise improve its website, but it also digitalized a great many processes and drove change within the Company. Extensive enhancements have been made to the digital platform, enabling new tools for deeper analytics, for a full digital performance marketing experience (like artificial intelligence), as well as micro-segmentation for targeted campaigns.

In addition to the regular webchat, Sunrise introduced the video chat in 2018 which offers the great customer experience that is reflected in its exceptional NPS results.

Sunrise focuses on numerous digital initiatives aimed at simplifying and improving its customers' online experience. Examples are the Sunrise ID checker and the new Roaming Cockpit.

The digital strategy approach has also been reflected internally with the introduction of the cross-functional work approach in the Sunrise Digital Hub with its so-called "squads."

## **5.14 yallo, Lebara and Ortel**

### **5.14.1 Prepaid and Postpaid Offers**

Since the relaunch of yallo postpaid in March 2015 and the brand refresh in March 2017, the portfolio has evolved to better meet the needs of the budget market, which is growing as a result of increasing smartphone penetration and data consumption in this segment. Specifically, yallo launched a new prepaid rate plan in February 2018 with a nearly unbeatable data package capable of accommodating even extremely quality-conscious customers who value data usage yet shy away from restrictive contracts.

In the postpaid line of products, yallo added new higher-priced XL rates to its attractive online rate portfolio in September 2018. This strategic move aims to boost customer value, both in acquisition and within the postpaid base: yallo super fat XL and yallo fat XL target customers whose lifestyles involve more frequent travel within Europe, more international calls and increased use of roaming data.

Going one step further, yallo launched yallo Home Internet in February 2018. Home Internet is a flexible, ultra-fast mobile Internet solution positioned as an alternative to the traditional landline connection. This product was designed as a combination between the yallo Home Box and the yallo Go!XL tariff and is available at a monthly price of CHF 39.00.

Lebara entered the mobile subscription business for the first time in February 2018 with its launch of "Lebara Europe." This brand-new postpaid rate offers unlimited national and international calls in Switzerland and to 29 European countries as well as unlimited mobile Internet in Switzerland with 6 GB of high-speed data for CHF 39.00 per month. Two World options covering international calls to an even wider range of countries round off the offering geared toward this more ethnic target group.

Throughout 2018, efforts to phase out the Ortel brand culminated in a large-scale shift of Ortel customers to Lebara. All remaining Ortel customers were successfully migrated to the Lebara brand by mid-November 2018.

### **5.14.2 Roaming**

yallo knows its customers and the priority they put on roaming. To meet this need, it introduced several attractive roaming offers in July 2018. Not only were yallo mobile subscription customers able to benefit from 100 MB of free data volume in the European zone (which also includes Russia, Canada, and the US), but the promotional prices for big roaming data options were even available until the end of August.

At the same time, yallo and Lebara introduced their new Roaming Cockpit, which allows customers to buy roaming options, monitor their costs, and manage their roaming settings.

### **5.14.3 Sales Channels**

The yallo, Lebara and Ortel brands have a comprehensive and target segment-specific distribution network with approximately 1,500 points of sale. Additionally, yallo and Lebara are offered through several indirect channels including nationwide chains such as Mobilezone (the largest independent telecommunications retailer in Switzerland), Swiss Post and Interdiscount.

In 2017, yallo expanded the distribution of its brand to the mass market through its new online shop. That milestone marked a shift in the company's strategy in 2018 with a stronger focus on digital channels. This realignment is now bearing fruit with digital sales currently accounting for a substantial portion of total sales.

Following in yallo's footsteps, Lebara launched its own online shop in May 2018.

## 6 B2B

Sunrise is the leading challenger in the area of communications services for large and small businesses in Switzerland.

Explicitly designed for business customers, Sunrise B2B offers a comprehensive range of services focusing on the "Unlimited Mobile Workplace." Products range from mobile to connectivity (Internet, multi-site and inhouse networking and landline voice) and Work Smart services with cloud-based apps and system integration.

It is the Company's objective to be the most recommended telecommunications provider in Switzerland by consistently providing high-quality services and a high level of ease of doing business.

### 6.1 Portfolio

Sunrise offers a complete range of mobile, connectivity and Work Smart services that are tailored to small and medium-sized enterprises as well as large companies.

#### 6.1.1 Mobile

Sunrise business mobile provides communications solutions for mobile calling and high-speed data needs. Its flat rates are tailored to the needs of the mobile workforce that requires 24/7 accessibility – both in Switzerland and during business travel abroad.

#### 6.1.2 Mobile M2M/IoT

As the number of interconnected hardware continues to rise, efficient machine-to-machine (M2M)/Internet of things (IoT) management is becoming increasingly important. Sunrise services are designed to facilitate communication between machinery and hardware – without direct human intervention. Sunrise helps small and medium-sized enterprises use their machines and construction vehicles more efficiently. Multiple features are integrated into the M2M management platform allowing employees to view all hardware-related connection information in real time. This facilitates the optimization of business processes and increases efficiency.

#### 6.1.3 Work Smart

Sunrise offers a wide range of scalable solutions for efficient communication and collaboration. It supports company-internal flexibility and productivity and simplifies employees' day-to-day lives. Unified communication offers all the features of traditional voice solutions plus messaging and presence technology, online meetings, telephony and video conferencing. It is valued for providing high levels of availability as well as flexibility and scalability for core business tasks.

#### 6.1.4 Connectivity

With its connectivity services, Sunrise provides complete IP solutions for linking company locations and ensures that users have the fastest possible access to the Internet. It offers connectivity between locations throughout Switzerland and abroad.

### 6.2 Sales Channels

Sunrise has dedicated account management teams for its medium and large enterprise customers, while small business customers are mainly supported by sales partners (indirect channels) and the Company's own retail stores.

## 6.3 References

### **Swiss International Air Lines**

Switzerland's airline settles for nothing but the best. This is why around 1,500 SWISS employees make calls and surf the Internet on the best network in Switzerland.

### **Zurich Airport**

Zurich Airport is Switzerland's aviation hub, and Sunrise – being the leading carrier – is their hub for mobile and landline voice and data communication.

### **Cornèr Bank**

All mobile communications for Cornèr Bank's several hundred employees run over the Sunrise network.

### **P&G**

Sunrise provides a fully convergent solution for mobile and landline telephony to P&G's 2,000 users.

### **Nestlé**

The 6,500 end users at Nestlé benefit from a fully managed mobile phone service that includes a dedicated platform specifically designed to meet Nestlé's needs.

### **Calanda, a Heineken company**

Easier, faster, and more efficient: Thanks to extra SIM surf&talk from Sunrise, Calanda employees can use up to five hardware with a single number.

## 7 Network

In 2018, Sunrise continued its long-term strategy toward providing a defect-free network and therefore globally acclaimed, exceptional quality. After achieving great success in the internationally recognized quality benchmark test conducted by connect in 2016 and 2017, the Sunrise mobile network was rated "outstanding" for the third consecutive time. It is the most reliable network for data and, thanks to its excellent coverage, indisputably offers the best voice services. This confirms once more that the Company's strong focus on quality is paying off.

### 7.1 High-Quality Technologies

Sunrise provides mobile services over its own network using GSM/GPRS/EDGE/UMTS/HSPA and 4G/4G+ technologies. In the landline sector, Sunrise leverages more than 630 points of presence in its fully-invested local loop unbundled network, covering over 85% of households in Switzerland. It benefits from a more than 12,400 km long, state-of-the-art fiber optic network spanning Switzerland. As a result of its long-term agreement with Swisscom and a strategic collaborative partnership with Swiss Fibre Net AG, a joint venture of Swiss energy providers and local utilities, the Company has access to the most advanced, next-generation copper- and fiber-based access technologies such as vectoring, fiber-to-the-street, fiber-to-the-building, and fiber-to-the-home.

### 7.2 Investment in the Network

Sunrise has continued to invest in the quality, availability and security of its network and has remained committed to its strategy of expanding 4G+ technology and driving network quality to a new record value in industrial standards. By the end of 2018, Sunrise reached a record-breaking level of 96% in 4G area coverage, while at the same time expanding its 4G+ population coverage to a level above 80%. Key drivers for this strategy continued to be the sustained rapid growth in data traffic, which currently doubles every 16 months, and the demand for mobile and landline broadband services.

The success of this clear quality-driven strategy is paying off, not only in the continued growth of our residential customer base, but also very visibly in the successful acquisition of well-known, quality-centric top brands such as Swiss International Airlines, UBS, Tesla, and many more.

### 7.3 Sunrise is the 5G Pioneer

Together with its long-term technological partner Huawei, Sunrise demonstrated as early as in late 2017 that it had been working on the future of mobile communications. In December 2017, Sunrise publicly presented a live 5G network demo that provided a glimpse into the future of mobile networks and demonstrated eye-opening experience showcases such as the parallel provision of multiple 4K TVs over the air, live 360-degree videos, and virtual and augmented reality use cases. Guests from the business, politics and civic sectors, along with members of the media, watched as the download data throughput reached a world record level of 3.28 Gbit/s in the 3.5 GHz (band 42) frequency band.

But Sunrise did not stop there. Six months after setting this 5G world record, Sunrise put Switzerland's first 5G antenna into operation. As one of the first providers, Sunrise demonstrated "5G for People" with Huawei 5G Wi-Fi hotspot hardware. In this demonstration, Huawei provided the latest 3GPP-based 5G New Radio equipment and customer-premises equipment (CPE), which enabled Sunrise to be one of the first in Europe to show to the public the potential of 5G in an end-to-end environment. Sunrise demonstrated real life use cases such as multiple 4K TVs and various tablets and mobile communication hardware connected to one single 5G CPE.

Only five months later, Sunrise, together with Switzerland's most innovative ski resort, "Weisse Arena Laax," demonstrated the first standardized 5G network in the world in a ski resort. Also, this demonstration focused on real-life use cases for end consumers.

### Sunrise 4G coverage

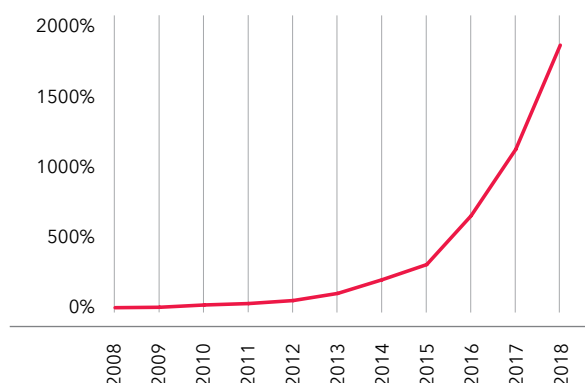
(as of December 2018)

With its strong focus on network expansion, Sunrise now provides more than 99% of Swiss residents with 4G mobile high-speed Internet and covers 96% of the territory of Switzerland.



### Data traffic in %

Massive increase in data traffic over the past ten years





#### **7.4 Network App**

The network app that allows customers to provide direct feedback on their experience with the Sunrise mobile network was further developed in 2018. The app, launched in May 2015, has provided immensely valuable direct feedback from customers and has been used to design the Sunrise network expansion programs since then. In 2018, Sunrise took another step toward its customers and is now able to communicate individually by push notifications with every customer based on the individual feedback they provided. The update, consisting of push notifications, was rolled out at the end of 2018.

#### **7.5 Outstanding Network**

Sunrise is the first mobile communications provider to attain the highest score ever achieved in the European connect network test twice in a row, and in comparison with more than 70 countries. It also has the only network that has been rated “outstanding” three times in succession. Sunrise undoubtedly offers the best network for mobile calling, thanks to its excellent coverage, and it has the most reliable network for mobile data connections.

The connect test, however, is not the only test that has confirmed the outstanding quality of the Sunrise mobile network: Various crowdsourcing platforms such as Ookla (speedtest.net) and OpenSignal have upheld the unparalleled quality and speed of the Sunrise mobile network. As far as 4G speeds are concerned, Sunrise has been delivering the fastest mobile upload speeds for 2.5 years in a row, as confirmed by the results obtained by Speedtest by Ookla. Regarding the 4G coverage footprint, Sunrise has been providing the highest 4G availability for the past year, as supported by the results obtained by Speedtest by Ookla. Also, OpenSignal’s latest Swiss country report (November 2018) established that Sunrise has the highest 4G availability.

## **8 Regulatory Environment**

Sunrise Communications Group AG (Sunrise) is listed on the SIX Swiss Exchange in Zurich and is therefore bound by Swiss stock corporation law. As a mobile and landline operator in Switzerland, Sunrise is subject to regulation and supervision by various Swiss government agencies, including the Federal Communications Commission (ComCom) and the Federal Office of Communications (OFCOM).

#### **8.1 Regulatory Framework**

The regulatory framework is based primarily on the Swiss Federal Telecommunications Act (TCA) and its associated regulations (such as the Swiss Federal Ordinance on Telecommunications Services), but also the Swiss Cartel Act, the Swiss Federal Act on the Surveillance of Postal and Telecommunications Traffic (BÜPF), the Swiss Federal Radio and Television Act, and related ordinances. There are some conceptual differences between Swiss and EU telecommunications regulations. The most important ones are: ex-post regulation in Switzerland as opposed to ex-ante regulation in the EU, the technology-based “last mile” system in Switzerland, which grants access at long-run incremental cost conditions only to the incumbent’s copper infrastructure, and the lack of regulation on end-consumer pricing in international mobile roaming. The fact that EU regulations within the European Economic Area do not apply to Swiss carriers has led certain operators in the EU to increase the termination rates charged to Swiss carriers for voice traffic originating in Switzerland to price levels higher than those charged to operators located within the EU; this is the subject of ongoing negotiations. Although Sunrise believes that these EU operators are in violation of WTO rules on international free trade, European authorities seem to protect or at least tolerate their practices. Bilateral price negotiations have now largely succeeded in mitigating the situation.

## **8.2 Revision of the Swiss Telecommunications Act (TCA)**

In December 2015, the Federal Council launched the public deliberation on the partial revision of the TCA. A large majority of the submissions received during the deliberation confirm that a partial adaptation of the regulatory framework is required. The Federal Council therefore tasked the Federal Department of the Environment, Transport, Energy and Communications with the preparation of a draft revision of the TCA, which was submitted to the Parliament by September 2017.

The proposal called for the addition of youth and consumer protection measures, transparency requirements regarding network neutrality, as well as the preservation of proven ex-post regulations regarding network access. The originally proposed ex-officio or ex-ante regulation was dropped. To prevent a new monopoly, especially in combined fiber-optic and copper network technologies (FTTC, FTTB, and FTTS broadband infrastructures based on the copper network without competitive access), Sunrise and almost all other important providers have proposed that the Federal Council be granted the right to extend regulations to fiber technologies. In the event of a market failure, that would guarantee a minimum level of fair competition and ensure investments in network expansion, especially in rural areas. Another objective is the proposed facilitation of the common use of mobile networks and frequencies. The more liberal provisions regarding network cooperation and frequency transfers may improve the efficiency of the handling of scarce resources. As a result, Switzerland would benefit from further investments in new technology and competition, and the improved supply would be particularly beneficial in remote areas.

During 2018, the parliament already largely debated the TCA revision. In its considerations regarding the access regulation, the parliament did not follow the recommendations of the Federal Council, ComCom, OFCOM, the price supervisor, consumer organizations, the vast majority of telecommunications providers, etc., and rejected the respective extension. This means that there is now no access regulation other than the outdated access regulation for copper technology. The Federal Council is only obliged to submit a report to the parliament on the competitive situation in the broadband Internet market within three years after the revised Telecommunications Act has come into effect, which may lead to fiber regulation at a later date.

## **8.3 Allocation of new mobile radio frequencies**

On behalf of ComCom, OFCOM launched deliberations in May 2016 regarding the allocation and use of the new mobile radio frequencies. The frequency bands involved are 700 MHz, 1400 MHz, and 3400 to 3800 MHz, which are expected to be available for use from 2019 on. In July 2018, ComCom decided that the new mobile radio frequencies would be awarded within the framework of an auction. The auction was held at the beginning of 2019, and on February 8, 2019 ComCom announced the results.

#### **8.4 Copyright Protection**

In December 2015, the Federal Council submitted the draft of a new copyright protection law for deliberation. It focuses on the carriers' responsibility to restrict access to websites illegally offering copyrighted content and to send warnings to customers sharing content through peer-to-peer services. In December 2016, the Federal Council announced the results of the deliberations regarding the partial revision of the Copyright Act. The Federal Council submitted the corresponding draft act to the Parliament in November 2017. The bill is based on a compromise agreed upon by various stakeholders in a working group that had been set up by the Federal Department of Justice and Police. It strengthens the rights and interests of creative artists and the culture industry by taking an appropriate approach to pirated online content without imposing obligations on access providers to block such content. At the same time, it upholds the principle that consumers who take advantage of such illegal offers will not be criminalized. In the Legal Commission of the National Council, a discussion on replay TV commenced. The majority of the commission members proposed a provision that enables TV channels to prevent skipping advertisement. The National Council rejected the proposition in December 2018. A similar request could be subject to debate in the Council of State. Replay TV operators and consumer organization have threatened to call for a referendum.

#### **8.5 Telecommunications Surveillance**

Telecommunications providers are subject to the BÜPF. They are required to maintain their own infrastructure for adequate surveillance and must be capable of running surveillance operations at any time. In the spring 2017, the Parliament approved a revision of the BÜPF aimed at extending surveillance. A referendum opposing the revision to the law was rejected. Providers will be subject to additional requirements as a result. The Federal Council decided in November 2017 that the new BÜPF and its implementing regulations would go into effect on March 1, 2018 with a transitional period for implementation.

#### **8.6 Revision of the Federal Act on Data Protection**

The Federal Council approved a revision to the Federal Act on Data Protection (FADP) in the spring of 2015 and asked the Federal Department of Justice and Police (DFJP) to submit a preliminary draft of a revision of the FADP based on data protection reforms adopted in the EU and by the Council of Europe. The DFJP delivered a corresponding draft on December 21, 2016 for deliberation by the Federal Council. In September 2017, the Federal Council approved the draft of the revised law and sent it to the Parliament. The draft will tighten data protection substantially. At the same time, it will align Swiss law with developments in the EU and in the Council of Europe. The Parliament divided the revision in two parts and adopted the urgent adaptation to the Schengen treaty in September 2018. The debate on the remaining part of the revision is being continued.

#### **8.7 Environmental Protection from Radio Emissions**

The Swiss Ordinance on Protection against Non-Ionizing Radiation (NIR) requires Swiss carriers to comply with ten times stricter safety limits than those of most carriers in the European Union. In February 2015, in response to two political initiatives, the Federal Council issued a report on options for expanding capacity in mobile communication networks. Three possible measures mentioned in the report are: an increase in limits, a change in the number of installations per carrier, and the simplification of processes. Despite support from the Swiss National Council and the Expert Committee of the Council of States for immediate implementation of these measures, the Council of States twice voted down a respective motion in December 2016 and March 2018 by a narrow margin. However, the Federal Council retains the power to adjust the ordinance. Mobile network operators have warned that without any changes in the NIR regulation the country-wide introduction of 5G with its all-powerful features will not be possible and will be greatly delayed and very expensive. As the Federal Council considers 5G to be a key element of its digitalization strategy, the former Federal Councillor Doris Leuthard and Head of DETEC (Federal Department of the Environment, Transport, Energy and Communications) initiated a working group. This working group includes all stakeholders and analyzes the needs and risks for the near and far future of mobile radio and radiation exposure, in particular in connection with the introduction of 5G. Future

plant limit values will also be discussed in compliance with the precautionary principle. The working group has planned to present a report with recommendations for further action in mid-2019. At the same time, the Federal Office for the Environment (FOEN) is preparing a small revision of the Ordinance on Protection against Non-Ionizing Radiation in order to address loopholes that could impede the development of 5G networks. In particular, these include the introduction of a monitoring system for non-ionizing radiation and the setting of an installation limit value for frequencies between 900 and 1800 MHz. The revised ordinance is to be accepted by the Federal Council in the spring of 2019.

### **8.8 International Roaming**

Switzerland has not regulated international roaming. As part of the current revision of the TCA, the Federal Council is recommending measures for increased transparency and more accurate billing. The Parliament is going to delegate the facility to define such measures to the Federal Council.

### **8.9 Network Neutrality**

In its draft of the new Telecommunications Act, the Swiss Federal Council limits its proposal to the introduction of transparency requirements for differentiated services and subsequent monitoring of market developments as needed to evaluate future regulations. Based on a code of conduct signed by Sunrise, Swisscom, Salt, UPC, and Suissedigital, the carriers established a conciliation body effective September 2015. The parliament is going to tighten rules on network neutrality in the context of the revision: Net neutrality shall be stipulated as a principle by law, however, certain exemptions are intended.

### **8.10 Sports Broadcasting Rights**

Due to the abuse of market dominance through exclusive sports broadcasting, the Competition Commission imposed a CHF 71.8 million fine on the Swisscom Group (including Cinetrade and Teleclub) in May 2016 without ordering any specific actions. According to the judges' decision, which was appealed by the parties before the Swiss Federal Administrative Court, the requirements for protective measures were not met. The decisions by the Competition Commission and the Federal Administrative Court show that competition laws in general (such as the Swiss Cartel Act) are not sufficient for creating or protecting competition. Although the Competition Commission has regularly found the former monopolist guilty of abuse of power and imposed heavy fines on it, the regulatory agencies and courts have failed to prevent this abuse from happening in the first place. Swisscom's appeal against the fine is still pending. In the meantime, the Competition Commission opened an investigation of UPC in regard to Swiss ice hockey broadcasting rights.

## **9 Corporate Responsibility**

To ensure credible sustainability management, Corporate Responsibility (CR) must be deeply entrenched in the organization's culture and main strategy. Its primary focus areas and strategies are also influenced by current challenges, such as digitalization.

### **9.1 Corporate Responsibility Strategy**

The Corporate Responsibility strategy, which encompasses social and environmental aspects, is aligned with both the main corporate strategy (see section Strategy on pages 8 et seq.) and global challenges driven by society to ensure state-of-the-art sustainability management.

In order to enhance the effectiveness of its corporate sustainability management, Sunrise links its main CR strategy focus, defined as highly relevant in the materiality analysis (see figure in chapter 9.3 on page 28) to the Company's main corporate strategy. A focus on customer need, defined as a high CR materiality area, is covered by Sunrise ongoing efforts to maintain the best-in-class customer service. Digitalization and innovation, another CR focus area with high internal and external stakeholder signifi-

cance, is also strongly driven by the main corporate strategy action field to enhance growth in B2B. Maintaining a state-of-the-art infrastructure as another key corporate strategic topic is strongly linked with the high material CR topic of network quality and reliability.

CR focus areas and strategies at Sunrise are also tailored to current global challenges, thus ensuring relevant sustainability management both now and in the future. The ongoing digitalization of society is an important driver, significantly impacting the focus of CR activities in the various sustainability dimensions.

Digitalization has had a number of positive effects on the environment, such as the decrease in resource consumption as a result of the virtualization of many aspects of daily life. As a leader in the digitalization movement, Sunrise must deal with the sharp rise in data consumption that is associated with rising Internet usage and the increasingly widespread linking of communication hardware. It is the Company's goal to make the high annual surge in network performance independent from increased direct power consumption. The environmental strategy of Sunrise is thus clearly focused on boosting the energy efficiency and therefore the ecological performance of its network (see section Environment on pages 33 et seq.).

Digitalization is also impacting the work environment. For example, flexible work hours and models are becoming increasingly important and are a deciding factor in a company's appeal as an employer. Sunrise offers its employees a modern work environment with flexible working hour models (see chapter 10.7 on page 32).

## **9.2 Corporate Responsibility Governance and Principles**

In addition to involving decision-makers, incorporating behavioral principles and guidelines is an important part of CR at Sunrise.

A CR Steering Committee that extends across business lines meets quarterly and is made up of both management and staff representatives. It ensures that the CR function receives the attention it deserves at the highest levels of the Company. The Committee's objective is to manage CR activities and focus while also broadening the support CR receives throughout the Company. In addition, the Steering Committee regularly evaluates CR activities on behalf of the Audit Committee, which consists of representatives from the Board of Directors.

Sunrise has had company-wide environmental and social responsibility policies in place for three years. These policies, in turn, form the basis for additional rules and standards, such as social and environmental requirements for its suppliers.

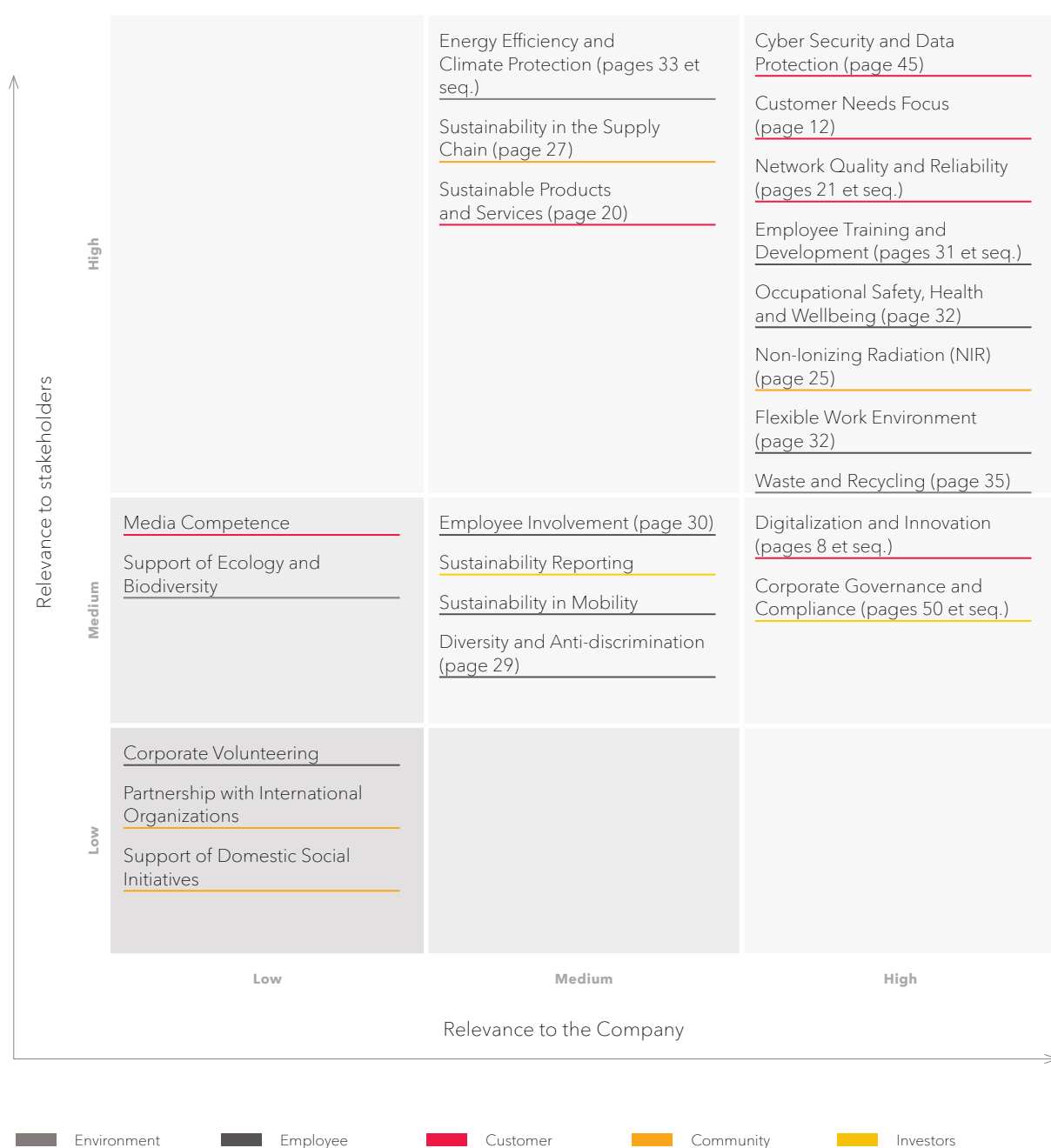
## **9.3 Stakeholder Exchange and Materiality Analysis**

Sunrise maintains an open dialog with various internal and external stakeholders to ensure that their perspectives are aligned with the Company's current CR focus. This exchange serves as a driving force for future projects and activities and as an important channel for the external communication of the Sunrise perspective on individual CR aspects. In 2018, stakeholder discussions focused on topics such as working conditions in the supply chain and the reporting of environmental performance indicators. As a result of the last topic discussions, Sunrise joined the Carbon Disclosure Project (CDP) in 2018 and takes part in the Ecovadis supplier assessment system.

Materiality analysis is a central CR management tool used to boost the impact of CR activities and promote a common understanding of CR topics. It also helps better determine improvement potential as well as risk areas. The Company conducted a comprehensive materiality analysis during the summer of 2018. The sustainability topics outlined in the analysis were selected by evaluating comparable materiality analyses and were then submitted to decision makers in the Company for approval. These sustainability topics were then assessed for internal relevance during workshops and in consultation with all

hierarchy levels, business areas and the CR Steering Committee. The external relevance analysis was based on focus interviews with key stakeholders and an online survey that included responses from several hundred Sunrise customers.

## Sunrise materiality analysis



## 10 Employees

Sunrise has adopted a set of values that not only promote, but exemplify everything it does: bold, intuitive and positive. Bold because the Company believes in blazing new trails and winning with bold ideas, in rewriting the rules on behalf of the customer and making a difference every day. Intuitive alludes to the Company's firm belief in outstanding quality which is tailored to satisfy its customers' individual needs. Lastly, positive means that Sunrise believes optimists go further: that the Company aspires to create simple and engaging experiences that are beautifully engineered and fit to purpose. That it aims to make every day brighter, one sunrise at a time. Sunrise employees are encouraged to regularly examine these values and discuss their practical implementation both inside and outside the Company.

As of December 31, 2018, Sunrise had 1,671 employees (1,611 full-time equivalents) throughout Switzerland (a decrease of 2.5% over the previous year). These jobs are located at the Company's headquarters in Zurich, its offices in Prilly, Geneva, Bern, Basel and Lugano, and at some 92 points of sale across the country's different linguistic regions.

Women account for 27.8% of the Sunrise workforce and 13.73% of its leadership. Of the overall workforce, 62.4% work under the Collective Employment Contract. The employee-initiated attrition rate for the year averaged 13.5%. The average age of employees is 39 years, and they stay at Sunrise for an average of 7.3 years. The overall part-time quota is 12.7%, 63.7% of which are women.

### Employee KPIs

In full-time equivalents (FTE) or headcount (heads) as indicated	2018	2017	2016
Total staff (FTE)	1,611	1,645	1,656
Total staff <sup>2</sup> (headcount)	1,671	1,713	1,723
Extended management <sup>1</sup> (headcount)	37	42	33
Women in extended management <sup>1</sup> (headcount)	10	12	6
Men in extended management <sup>1</sup> (headcount)	27	30	27
Women (headcount)	465	498	501
Men (headcount)	1,206	1,215	1,153
Apprentices (FTE)	140	122	109
Participants in employee engagement survey (headcount) <sup>3</sup>	92.0%	82.5%	-
<b>Personnel expenditures in CHFk<sup>4</sup></b>	<b>213.9</b>	<b>214.6</b>	<b>221.4</b>

<sup>1</sup> Executive Leadership Team and selected other Top Management.

<sup>2</sup> Including extended management.

<sup>3</sup> Of all employees with a permanent or a fixed-term employment contract.

<sup>4</sup> Wages and salaries, pension expenses and other social security costs.

### 10.1 Diversity and Anti-Discrimination

Employees from more than 50 nations contribute with their knowledge, innovative thinking and extraordinary commitment to help Sunrise succeed. Sunrise stands not just for Swissness, but for an international, multi-cultural and open work environment as well. Sunrise firmly believes that it can better meet the varied needs of its customers by fostering an environment of diversity and inclusion. Mutual respect, tolerance toward other cultures and a discrimination-free workplace are part of everyday life at Sunrise.

Sunrise protects its employees' mental and physical integrity and does not tolerate mobbing, sexual harassment or any other form of discrimination. Sunrise employees are expected to show respect for all colleagues, customers, and vendors. They are encouraged to report observed misconduct according to the anti-discrimination policy.

## **10.2 Whistleblowing Process**

Sunrise encourages all employees to report any violations of applicable law or internal guidelines so that the Company can launch appropriate investigations into such claims. Individuals who report a violation of this nature (referred to as whistleblowers) are protected against retaliatory measures of any kind. Sunrise maintains a whistleblowing portal for this purpose where employees can anonymously report any misconduct of which they have become aware or of threats made toward them, their colleagues or the company, secure in the knowledge that any and all information disclosed through this channel will be kept confidential. Six reports were received through the whistleblowing portal in 2018.

## **10.3 Employee Involvement**

As a responsible employer, Sunrise cultivates an open, constructive dialog with the employee-elected representatives of the Staff Committee. The Executive Leadership Team and the newly installed Employee Relations Manager provide Staff Committee delegates with a monthly update on the Company's development, specifically with regard to any decisions that might impact the workforce. Other topics the Staff Committee addresses are issues such as the workplace environment and employee assistance in the event of bilateral conflicts. The Staff Committee members collect employees' information and consult with the ELT accordingly. In the event of a reorganization, merger, acquisition or large-scale layoff, close collaboration between the Staff Committee and the ELT is essential. The nine members of the Staff Committee are elected for a three-year term, with the current term ending in December 2019.

## **10.4 Trade Union Relationship and Collective Employment Contract**

Progressive employment terms are essential to ensuring employee satisfaction and employer appeal. Sunrise partners actively with the Swiss trade union syndicom, taking part in respectful and honest dialogs, negotiating terms and finding balanced solutions.

Sunrise successfully negotiated a new Collective Employment Contract (CEC) with syndicom in 2017, which entered into force on January 1, 2018. It guarantees proper working conditions for Sunrise employees and is valid through 2022. The goal of the CEC is to establish a set of binding employment terms that will continue to meet the growing demands placed on a present-day employer. The CEC strikes a balance between social security for the staff and flexibility for Sunrise. With syndicom, Sunrise employees will continue to have, in addition to the Staff Committee, a strong partner in all social policy issues.

Guaranteeing health care and time off for employees is essential in any company today. Sunrise and syndicom have agreed that staff members have the explicit right to be inaccessible outside their contractual work hours. The CEC contains progressive and family-friendly employment terms. For example, it provides for a higher minimum wage and extends the length of both maternity and paternity leave.

## **10.5 Employee Survey**

Through its partnership with Gallup, Sunrise systematically and periodically measures engagement based on employees' responses to the Q12 survey. The poll consists of actionable workplace elements with proven links to performance outcomes. Surveys were conducted in June and November of 2018.

Employee participation in the first survey was 91%. Earning a grand mean score of 4.25 points and up.14 points over the previous year, Sunrise made significant gains in terms of engagement and placed in the 66<sup>th</sup> percentile of Gallup's overall database. This positive improvement can also be seen in the employee net promotor score (eNPS) which rose from 35 to 48.

With a response rate of 93%, an even higher number of employees participated in the second survey conducted in November 2018. The overall results are encouraging as well: both employee engagement and the Company's attractiveness as a workplace have increased, with the grand mean rising from 4.25 on page to 4.39 points, placing Sunrise in the 75 percentile of Gallup's overall database. In 2019, the



Company and its teams will define and implement further actions to improve and strengthen workgroup engagement and performance.

## 10.6 Employee Training and Development

Sunrise promotes a culture of excellence and strives to continuously improve the services it offers to its customers. Its annual goal-setting and evaluation process is an essential results-oriented leadership tool, as are individual agreements on development objectives and measures. Sunrise focuses on business strategy, firm corporate values and clear management principles to provide guidance and to fulfill the Company's promise to its customers. The consolidation of the Company values and leadership principles is supported through various continuing education offers. In accordance with the Sunrise values and principles, managers are provided with an online self-assessment program which allows them to contribute their skills more effectively to the everyday work environment. The new values are also reflected in the personal objectives of each staff member. Regular employee surveys help to anchor these values even further.

Frequent, constructive feedback meetings between management and staff shed light on personal performance and provide reference points for individual development. A dedicated Leadership Development team ensures the continuous development of Sunrise managers, guaranteeing their ability to respond to ongoing changes in leadership and teams.

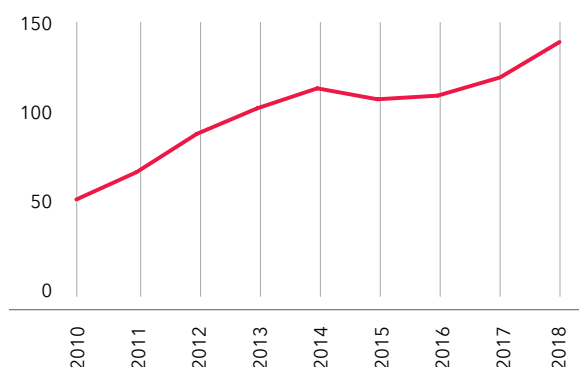
Employees can take part in in-house continuous education courses with access to computer-based learning modules. If the in-house training resources do not meet employee training needs, Sunrise turns to external training programs. Sunrise Academy, the Company's Training and Development group for practical training, is continually developing new learning modules and training courses for practical education.

### A growing number of apprentices at Sunrise

As a highly engaged and well-known participant in the Swiss apprenticeship market, Sunrise puts great effort into training up-and-coming professionals. With 140 apprentices on staff, equivalent to 8% of all full-time positions, a number well above the legal requirements and the industry benchmark, Sunrise holds the highest percentage of apprentices of all major telecommunications providers! Apprentices are trained in the areas of sales, customer relations, IT, mediamatics and retail. Sunrise considers this part of its responsibility to society while also understanding the importance of systematically developing its own young talent pool.

### A growing number of apprentices at Sunrise

Sunrise invests in talent and therefore has a long tradition of training apprentices in various positions.



The Company plans to host 155 apprentices in 2019, further increasing the already high quota. All apprentices who completed their apprenticeship in 2018 passed without exception. Two of the 35

apprentices are among the best of their year with their outstanding performance. In 2018, 74% of apprenticeship graduates went on to become full-time employees of the Company. The benefits of an in-depth, diverse and valuable apprenticeship at Sunrise have been verified again and again. For example, in 2017, two former retail apprentices were promoted to store managers.

## **10.7 Occupational Safety, Health and Wellbeing**

As part of its responsibility as an employer, Sunrise seeks to protect its staff from workplace accidents and health hazards. Based on the company-wide occupational safety plan, Sunrise has taken several steps toward improving workplace safety, such as a series of emergency drills conducted at corporate headquarters with the goal of improving the interaction between emergency teams in the event of an evacuation. In 2018, Sunrise concluded an external occupational safety audit conducted by Schweizerischen Büros für integrale Sicherheit (SBIS). The audit scope comprised all the Company's relevant safety-related aspects and business activities. It culminated in a set of recommendations which then served as a basis for defining improvement measures and an implementation plan. Given the fact that training and education are vital elements of workplace safety, Sunrise provided additional safety training to a total of 79 employees on topics such as first aid, working near antennas, etc. in 2018. Safety-related aspects of network and antenna operations remain an important focus area. Occupational Safety officers from Sunrise and its network partners meet on a regular basis to evaluate the status of occupational safety at both network and antenna locations.

Sunrise offers employment terms that are both progressive and competitive. This contributes to its positive image as an employer. To this end, it offers a wide range of benefits, such as a pension plan in excess of the mandatory requirements, unpaid leave, and a flexible vacation policy, all of which make it easier for employees to strike a healthy work-life balance. Each employee, for instance, is entitled to up to two additional weeks of unpaid vacation. Sunrise employees also enjoy five weeks of vacation, or six weeks until the age of 20. Starting at the age of 50, employees have six weeks of vacation. Sunrise offers its employees a supportive work environment during the various phases of their professional careers. Maternity and paternity leave following the birth or adoption of a child, for instance, is designed to help both parents get comfortable in their new roles.

To promote the physical and mental health of its employees, Sunrise encourages joint participation in athletic events. This not only strengthens employees' sense of team spirit but also encourages physical activity to compensate for time spent in the office. Sunrise offered a series of preventive training sessions on resilience and stress management for employees and managers in 2018. Sunrise also switched its provider of sick leave benefits in January and now works with a new insurance company that provides case management services for employees with long-term absences. Sunrise intensified its collaboration with the new insurance company in order to help employees during their reintegration.

## **10.8 Flexible Work Environment**

Flexible work arrangements help improve the health and wellbeing of employees and promote a better work-life balance by reducing stress while raising productivity. Flexible work hours and the option of working from home are only one aspect of the efforts Sunrise is making in this area. All office employees in Zurich will move into the newly refurbished Ambassador House in Glattpark/Opfikon in February 2019, where a new office concept will be implemented. This new concept will offer a wide range of flexible work settings including shared desks combined with new work spaces such as focus rooms, offices for a day and project areas, all of which are equipped with modern technology. Add to that an in-house childcare service and fitness area, and it is plain to see that Sunrise is striving to create an ideal environment to meet most of its employees' needs.

## 11 Environment

In the environmental sector, Sunrise focuses on the two most relevant topics of "Energy Efficiency and Climate Protection" and "Waste and Recycling," which are referenced in the materiality analysis in the section on Corporate Responsibility.

Energy efficiency is essential to the Company's operations since electricity consumption has the largest direct environmental impact on climate protection at Sunrise and is an important internal cost driver.

Environmental KPIs are critical indicators to monitor in an effort to reduce the ecological footprint. Therefore, Sunrise focuses on the most important KPIs with the highest direct environmental impact on climate protection. These KPIs are described in greater detail in the following section on energy efficiency and climate protection.

Waste and Recycling is the other topic customers and other external stakeholders perceive to be significant in the context of the global environmental issue of e-waste and packaging. Product life cycle and business ecology aspects are addressed in greater detail in the following section called "Waste and Recycling."

Sunrise is currently participating in various sustainability initiatives and ratings. For example, Sunrise joined the Carbon Disclosure Project (CDP) in 2018 and is also part of the supplier ratings conducted by EcoVadis. In addition, the Company's environment and sustainability performance has been positively rated by agencies assessing socially responsible investment (SRI), such as Vigeo Eiris, Inrate, zRating, ISS-oekom, J. Safra Sarasin, and Sustainalytics.

The impact Sunrise has on the environment and vice versa is constantly evaluated by the Corporate Responsibility Steering Committee that meets quarterly (see section Corporate Responsibility on pages 26 et seq.). This committee also assesses operational ecology and risk, and monitors the status quo.

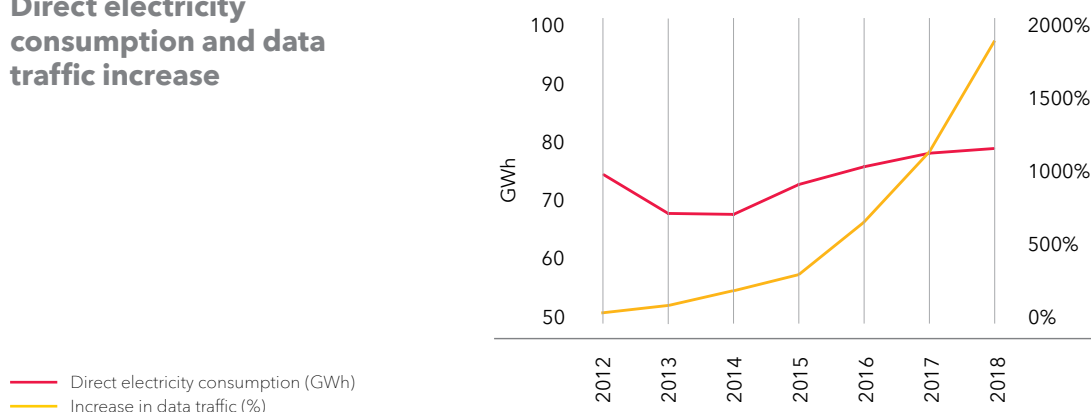
### 11.1 Energy Efficiency and Climate Protection

#### 11.1.1 Energy Efficiency

As already pointed out in section Corporate Responsibility on pages 26 et seq., one of the biggest challenges for Sunrise in the environmental area will be the separation of the rapid rise in data usage brought about by ongoing digitalization from the increased direct electricity consumption (see chart on page 34). Energy efficiency plays a key role in driving sustainable development with the limited use of finite resources.

Sunrise assesses its energy efficiency as part of a voluntary energy efficiency target agreement with the Swiss Federal Government and launched several efforts in 2018 to improve its energy efficiency. The biggest source of harmful emissions Sunrise can directly influence is its direct electricity consumption, more than 80% of which is attributable to the network infrastructure. To this end, the Company installed more efficient air conditioning systems and upgraded power supply units at antenna locations to optimize power consumption. To date, these efforts have resulted in total savings of up to 212,945 kWh of electricity per year. Despite the rapid growth in data usage and increased network performance, total direct electricity consumption at Sunrise has risen only slightly over the past five years.

### Direct electricity consumption and data traffic increase



#### 11.1.1.1 Energy Consumption and Efficiency Objectives

By defining energy efficiency objectives, Sunrise seeks to make its environmental protection efforts measurable and assessable. The goal is to increase energy efficiency by at least 13.5% (based on 2012 levels) by 2020 as part of the Company's voluntary efficiency agreement with the Swiss Federal Government. Given that Sunrise has already increased its energy efficiency by more than 12% in 2018, it is highly likely that it will surpass the original target set in 2012.

#### 11.1.2 Climate Protection

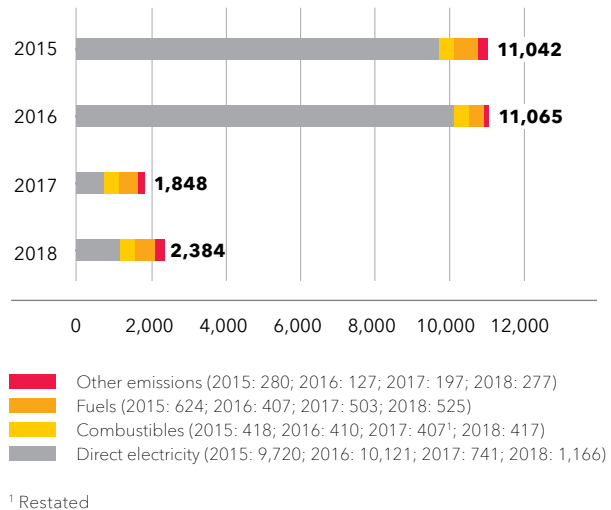
A company's environmental footprint is an important measure that can help determine the impact of its business activities on the climate. 2016 marked the first time Sunrise calculated its environmental footprint. Since then, these measurements have been expanded (see chart on page 35). In addition, Sunrise joined the Carbon Disclosure Project in 2018 to continue improving its reporting.

The environmental footprint analysis included the relevant factors the Company has direct control over: greenhouse gas emissions from fuels and combustibles and direct electricity consumption (Scopes 1 and 2). Not included in the calculations were indirect (Scope 3) emissions, which would for example also take into consideration the environmental impact of mobile phone production.

Greenhouse gas emissions from combustible fuels include heat generation for offices and points of sale. Sunrise has a relatively low score in this area, since the Company's headquarters and other larger buildings use district heating. The opening of several new Sunrise shops has mainly led to an increase in combustible emissions in 2018. Vehicle emissions include the Sunrise vehicle fleet. In 2018, 174 vehicles traveled an average of 25,750 kilometers. The expansion of the B2B sector and its vehicle pool led to an increase in CO<sub>2</sub> emissions. The average CO<sub>2</sub> emission per company car has slightly decreased from 128 g CO<sub>2</sub> per kilometer in 2015 to 117 g CO<sub>2</sub> per kilometer in 2018. The "Other emissions" category mainly accounts for refrigerant losses in air conditioning systems installed at the Company's network sites. Direct electricity consumption (Scope 2) produces the lion's share of greenhouse gas emissions.

As announced in 2016, Sunrise switched its electricity supply to 100% renewable energy sources, thus taking an essential step toward climate protection. In 2018, more than 75% of the total renewable energy share was domestically sourced, and water power is the most used renewable energy source. This climate protection measure had a major impact on the environmental footprint: in 2017, Scope 2 emissions were reduced by almost 90%. In 2018, Scope 2 emissions increased slightly due to rising electricity consumption at our network sites.

## 2018 CO<sub>2</sub> equivalent emissions in metric tons (Scopes 1 & 2)



### 11.2 Waste and Recycling

Waste and recycling, a highly relevant topic, as described in the materiality analysis, is an important aspect for Sunrise to meet its customers' and other stakeholders' expectations of sound environmental management. A solid product life cycle view can enhance the attractiveness of products in the eyes of Sunrise customers.

In the area of product and business ecology, Sunrise has several initiatives in place to lower waste and improve the recycling of its own products. Since 2015, Sunrise has been offering a take-back program for mobile phones and tablets. The Company continued the program in 2018, taking back a large number of mobile phones and tablets for proper recycling or refurbishment. Sunrise also has in place a refurbishment program for Sunrise TV and Internet Boxes returned by customers. The goal of this program is to increase the use of these hardware while at the same time decreasing e-waste.

A state-of-the-art approach to office ecology can help Sunrise improve employer attractiveness. Digitalization is therefore an important driver toward sustainable office ecology. With the move to its new Headquarters in 2019, Sunrise seeks to minimize paper consumption and waste by offering its employees a modern, paperless, digital work experience. As part of the new workplace, Sunrise also developed a state-of-the-art recycling concept for the new Headquarters in 2018.

## 12 Community

Sunrise demonstrates its social engagement by promoting talented athletes and collaborating with the Roger Federer Foundation.

### 12.1 Support for the Roger Federer Foundation

As part of its collaboration with Roger Federer as the Company's brand ambassador, Sunrise is also involved in the activities of the Roger Federer Foundation. The Roger Federer Foundation supports educational projects in the southern part of Africa and in Switzerland. Young athletes are the main beneficiaries of the support provided through the Stiftung Schweizer Sporthilfe (Swiss Sports Foundation). Sunrise makes an annual donation that benefits these young, up-and-coming athletes.

## 12.2 Promotion of Marginal Sports

In Switzerland, providing professional training conditions to young athletes engaging in marginal sports is often quite difficult. As a result, Sunrise is actively involved in the Swiss Sports Foundation sponsorship program through the support it provides to the Roger Federer Foundation. The foundation promotes talented young athletes pursuing careers in competitive sports in Switzerland, particularly in disciplines and age categories largely neglected by sponsorship arrangements.

Sunrise is currently supporting young athletes between the ages of 10 and 16 in marginal sports including rock climbing, fencing and chess. Wheelchair-bound athletes are usually somewhat older when they first enter competitive sports. Every year, around 500 talented young Swiss athletes receive individual or performance-based funding and are motivated through sponsorship arrangements or awards.

## 12.3 Premium Partner of Swiss Olympic

Sunrise entered a multi-year premium partnership with Swiss Olympic in 2018. By doing so, the Company makes a commitment to popular sports and supports the best Swiss male and female athletes with the best Swiss network.

# 13 Major Events

## 13.1 Refinancing Transactions

In Q2 2018, the Group completed the amendment and extension as well as repricing of its existing senior facilities agreement. The existing term loan B facility ("TLB") was increased by CHF 500 million to CHF 1,410 million. The revolving credit facility ("RCF") remains unchanged at CHF 200 million and is currently undrawn. The leverage-dependent margins of the facilities were reduced by 25 and 30 bps throughout the margin grid for the TLB and the RCF, respectively. The new facilities have a maturity of five years. The proceeds from the increased TLB were used to redeem the outstanding CHF 500 million 2.125% senior secured notes due March 2022. Furthermore, the Group placed CHF 200 million inaugural Swiss domestic senior secured notes 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.

The refinancing had the following impacts on the consolidated financial statements:

- Positive net impact of CHF 185 million on cash flow from financing activities (repayment of CHF 500 million senior secured notes and an additional early redemption fee of CHF 5 million, issuance of CHF 200 million senior secured notes and the extension of CHF 500 million TLB less transaction costs of CHF 10 million);
- Increase in the non-current portion of loans and notes in the consolidated statements of financial positions to CHF 1,568 million;
- CHF 9 million increase in financial expenses for 2018, of which CHF 5 million relate to an early redemption fee for the CHF 500 million notes redemption and CHF 4 million are due to the release of capitalized debt issuance costs;
- Increase of financial income by CHF 15 million and of interest expenses by CHF 4 million in 2018 due to the application of IFRS 9 debt modification adjustments related to the repricing of the existing term loan B.

## 14 Financial Review

Revenue for 2018 exceeded the guidance, while adjusted EBITDA came in at the mid-to-high end of the guidance. Revenue increased by 1.2% year over year, whereby the impact of the initial application of IFRS 15 as of January 1, 2018 was immaterial. Revenue growth was mainly attributable to customer growth in mobile postpaid, landline Internet and TV as well as higher hardware revenue. Adjusted EBITDA for 2018 demonstrated a flat year-over-year development. The higher network service fees, following the disposal of the subsidiary Swiss Towers AG in August 2017 (hereinafter referred to as the "tower deal") had a negative impact on adjusted EBITDA. Excluding those higher network service fees, adjusted EBITDA rose by 3.4% year over year (2.3% excluding IFRS 15).

IFRS 15 Revenue from Contracts with Customers is effective for annual reporting periods beginning on January 1, 2018. The application of IFRS 15 in 2018, which mainly related to the capitalization of costs to obtain a contract, resulted in an increase in EBITDA of CHF 7 million.

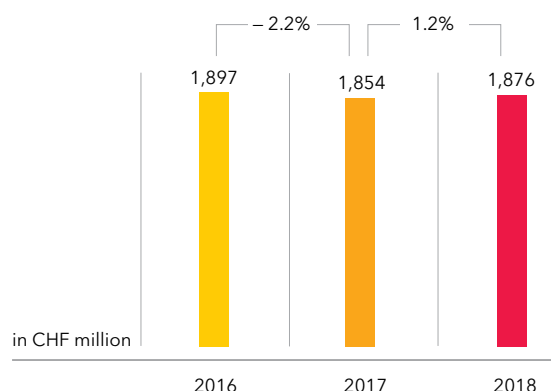
The table below summarizes the immaterial impact of applying IFRS 15 in the segments Residential and Business.

CHFk January 1 – December 31	RESIDENTIAL			BUSINESS		
	2018	2017 <sup>1</sup>	Change (%)	2018	2017 <sup>1</sup>	Change (%)
<b>Revenue reported</b>	<b>1,351,929</b>	<b>1,317,198</b>	<b>2.6</b>	<b>285,326</b>	<b>267,570</b>	<b>6.6</b>
IFRS 15 impact	(1,117)	-		670	-	
Revenue excluding IFRS 15	1,350,811	1,317,198	2.6	285,996	267,570	6.9
<b>Gross profit reported</b>	<b>907,777</b>	<b>894,681</b>	<b>1.5</b>	<b>188,104</b>	<b>180,539</b>	<b>4.2</b>
IFRS 15 impact	(1,117)	-		4,885	-	
Gross profit excluding IFRS 15	906,660	894,681	1.3	192,989	180,539	6.9
<b>EBITDA reported</b>	<b>712,144</b>	<b>695,253</b>	<b>2.4</b>	<b>124,756</b>	<b>122,669</b>	<b>1.7</b>
IFRS 15 impact	(7,040)	-		482	-	
EBITDA excluding IFRS 15	705,104	695,253	1.4	125,238	122,669	2.1

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated.

## 14.1 Revenue

Total revenue at Sunrise increased by 1.2% in the 2018 financial year, which includes an immaterial positive impact from the initial application of IFRS 15 as of January 1, 2018. Revenue growth was mainly driven by higher service revenue (mobile postpaid, landline Internet and TV) and mobile hardware revenue.



### Revenue by segment and service

Sunrise reports the segments Residential, Business, Wholesale and a reportable Head Office segment, which includes the finance, 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:

	RESIDENTIAL		BUSINESS		WHOLESALE <sup>1</sup>		HEAD OFFICE ACTIVITIES		TOTAL	
CHFK January 1 – December 31	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>	2018	2017 <sup>2</sup>
<b>Revenue</b>										
External customers	1,351,929	1,317,198	285,326	267,570	198,747	230,538	40,462	38,869	1,876,464	1,854,175
Inter-segment revenue	-	-	-	-	-	1,232	-	-	-	1,232
<b>Total</b>	<b>1,351,929</b>	<b>1,317,198</b>	<b>285,326</b>	<b>267,570</b>	<b>198,747</b>	<b>231,770</b>	<b>40,462</b>	<b>38,869</b>	<b>1,876,464</b>	<b>1,855,407</b>

<sup>1</sup> Including hubbing revenue of CHF 96 million generated for the year 2018, and CHF 128 million generated for 2017.

<sup>2</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated.

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 a breakdown of the segments by services and instead provides a breakdown of total revenue by services.



CHFk January 1 - December 31	2018	2017 <sup>1</sup>
Mobile services	1,270,891	1,231,048
– <i>Thereof mobile postpaid</i>	802,204	767,804
– <i>Thereof mobile prepaid</i>	96,273	122,340
– <i>Thereof mobile hardware</i>	279,403	255,686
– <i>Thereof other</i>	93,011	85,218
Landline services	325,331	378,276
– <i>Thereof landline voice</i>	125,997	137,353
– <i>Thereof hubbing</i>	95,580	128,253
– <i>Thereof other</i>	103,754	112,670
Landline Internet and TV	280,242	244,851
<b>Total</b>	<b>1,876,464</b>	<b>1,854,175</b>

<sup>1</sup> The Group has initially applied IFRS 15 and IFRS 9 as of January 1, 2018. Under the transition methods chosen, comparative information is not restated.

### Mobile Services

Mobile service revenue grew 3.2% year over year to CHF 1,271 million. This trend was mainly driven by growth in mobile postpaid service revenue of CHF 34 million, which exceeded the CHF –26 million decline in mobile prepaid service revenue.

The impact of applying IFRS 15 as of January 1, 2018, on mobile services revenue was CHF –0.2 million or –0.1%.

While the mobile postpaid subscription base increased by 8.5% year over year, a lower average revenue per user (ARPU) led to a 4.5% increase in mobile postpaid revenue (incl. IFRS 15). The year-over-year postpaid ARPU reduction of CHF –1.3 incl. IFRS 15 was mainly driven by secondary SIM dilution and roaming off.

The postpaid subscription base totaled 1,729 thousand subscribers as of December 31, 2018 (December 31, 2017: 1,594 thousand). The subscription base increase was driven by high network quality, good customer experience, prepaid to postpaid migration, competitive mobile rate plans and strong B2B sales momentum. The continuous growth in mobile data traffic is reflected in the increase in secondary subscriptions (such as secondary SIM cards 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 –1.2). The prepaid subscription base shrank year over year by –17.0% to 628 thousand subscribers as of December 31, 2018. The migration of high-value prepaid customers to postpaid, fewer international prepaid calls related to more attractive postpaid offers and increased OTT usage are factors that contributed to the reduction of the subscription base.

Mobile hardware revenue (low margin) increased year over year by 9.3% to CHF 279 million. Average hardware prices were higher than in previous years due to the launch of higher priced handsets, but the volume of hardware sold was lower. Hardware revenue depends on handset innovation/launches and on volatile sales to retailers.

### Landline Services

Landline services revenue decreased by 14% to CHF 325 million in 2018, mainly driven by hubbing and landline voice. The revenue generated by hubbing (international trading business) decreased by 25.5% to CHF 96 million; this business has a low margin and is volatile by nature. Landline voice revenue decreased by 8.3% to CHF 126 million due to fixed-to-mobile substitution, voice flat rates and the increased use of OTT services.

### Landline Internet and TV

Landline Internet and TV revenue increased by 14.4% to CHF 280 million in 2018.

The total Internet subscription base increased by 8.3% year over year to 457 thousand subscriptions.

The TV product, which can be purchased along with Internet service, increased its customer base by 14.1% year over year to 244 thousand subscribers. Customer growth was supported by convergence benefits including the Sunrise One offer, and by enhanced TV sports content.

ARPU were roughly stable and impacted by promotions, convergence discounts, Sunrise One, as well as increased Internet prices accompanied by higher speeds.

## 14.2 Costs and Profitability

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

### 14.2.1 Gross Profit

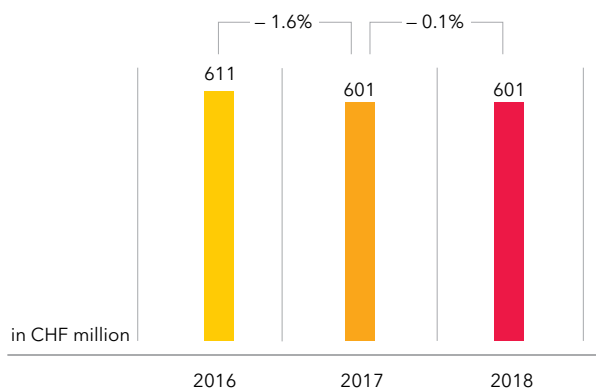
Gross profit rose by 2.2% to CHF 1,219 million. This increase was mainly driven by growth in mobile postpaid, Internet and TV revenue. The gross margin increased from 64.3% to 65.0%, supported by decreased hubbing revenue (low margin) and a slight improvement in the service gross margin.

### Transmission Costs and Cost of Goods Sold

Transmission costs and the cost of goods sold totaled CHF 657 million for 2018. This represents a decrease of -0.6% year over year (excl. IFRS 15: CHF 653 million; a decrease of -1.3%), mainly driven by the reduced hubbing cost of goods sold along reduced revenue.

### 14.2.2 Adjusted EBITDA

For 2018, adjusted EBITDA amounted to CHF 601 million, which reveals a year-over-year decrease of -0.1% (excl. IFRS 15: CHF 594 million; year-over-year decrease of -1.1% or CHF -7 million). Excluding the higher network service fees due to the tower deal, adjusted EBITDA excl. IFRS 15 increased by CHF 14 million or 2.3%. This was supported by gross profit growth, partly offset by higher commercial expenses since cost savings have been reinvested to sustain commercial momentum.



The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA in 2018 and 2017. The adjustments for events related to prior years amount to CHF –3 million. The adjustments for non-recurring, non-operating events add up to zero, due to compensating effects. The most major effect relates to the reduction of the asset retirement obligation as a result of a lower cost assumption (CHF 10 million) which was offset by adjustments for the set-up/preparation of the frequency auction (CHF –4 million), early employee contract terminations (CHF –3 million) and other minor effects (CHF –3 million). The adjustment for share-based payment expenses amounts to CHF 2 million.

in CHF million January 1 – December 31	2018	2017	2016
<b>Reported EBITDA</b>	<b>602</b>	<b>592</b>	<b>599</b>
Prior-year-related events	(3)	(6)	(3)
Non-recurring and/or non-operating events	–	13	14
<i>Thereof restructuring effect, net</i>	–	–	7
Costs related to share-based payment	2	2	2
<b>Adjusted EBITDA</b>	<b>601</b>	<b>601</b>	<b>611</b>

#### 14.2.3 Reported EBITDA

The Group generated an EBITDA of CHF 602 million in 2018. This is a year-over-year increase of CHF 10 million or 1.7% from CHF 592 million in 2017 (excluding the IFRS 15 impact of CHF 7 million, the year-over-year increase would have been CHF 3 million or 0.6%).

The EBITDA increase is mainly attributable to increased service revenue which outperformed the higher commercial and operating expenses incurred as a result of the tower deal as well as a reduction in the asset retirement obligation due to a lower cost assumption (CHF 10 million).

#### Other Operating Expenses

Other operating expenses increased by CHF 30 million or 7.5% (excl. IFRS 15: CHF 39 million or 9.7%), namely from CHF 396 million to CHF 425 million year over year. This was mainly due to higher network service fees, higher marketing costs and higher customer service investments in brands and segments (Sunrise and the ethnic brand as well as the B2B segment).

#### Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 214 million in 2018. This represents a flat year-over-year development of –0.3% with one-time early employee contract terminations of CHF 3 million being offset by a lower FTE base and higher capitalization of wages.

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 85 million in its consolidated financial statements as of December 31, 2018. 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. Compared to 2017, the pension liability remained stable (2017: CHF 85 million).

#### Other Income and Expenses, Net

Other income and expenses, net, increased by CHF 12 million year over year. Other income increased by CHF 15 million year over year. This is mainly attributable to higher income related to the sale of telecom towers based on the build-to-suit (BTS) agreements with Swiss Towers AG, early termination fees and a

reduction of the asset retirement obligation due to a lower cost assumption (CHF 10 million). Other expenses increased by CHF –3 million year over year, mainly due to costs related to the sale of telecom towers based on the BTS agreements.

#### **14.2.4 Net Income**

The Group reported net income of CHF 107 million for the year ended December 31, 2018, a year-over-year decrease of CHF 398 million from CHF 505 million in 2017. 2017 net income was mainly impacted by the recorded gain of CHF 420 million related to the sale of Swiss Towers AG. Excluding this gain, net income in 2018 would have exceeded the previous year by CHF 22 million. In 2018, higher operating income of CHF 12 million and lower net financial items of CHF 18 million overcompensated for the higher tax expenses of CHF 8 million.

#### **Depreciation and Amortization**

Depreciation and amortization are in line with the prior year. For the year 2018, depreciation and amortization totaled CHF 426 million, of which CHF 126 million related to the amortization of purchased intangibles (2017: CHF 126 million). 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 year 2018 mainly consist of financial expenses in the amount of CHF 51 million (2017: CHF 52 million), one-time financial income of CHF 15 million (2017: CHF nil) and CHF 2 million in foreign currency gains. In addition to the interest expenses of CHF 41 million, there is a non-recurring impact on net financial items in connection with the refinancing transaction executed in Q2 2018. CHF 9 million of financial expenses related to bond breakage costs and the accelerated amortization of capitalized issuance cost of old debt. Financial income of CHF 15 million relating to the new IFRS 9 accounting standard, applied as of January 1, 2018, was also recorded. IFRS 9 requires to immediately record the difference resulting from a debt modification related to differences between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate.

#### **Gain on Disposal of Subsidiary**

No material disposal of subsidiary occurred in 2018. In 2017, the gain on disposal of subsidiary related to the sale of Swiss Towers AG resulted in a net gain of CHF 420 million.

#### **Income Taxes**

For the year 2018, net income tax expenses of CHF 36 million (2017: CHF 28 million) consist of a CHF 53 million (2017: CHF 54 million) tax expense related to current income taxes and a tax benefit of CHF 17 million (2017: CHF 26 million) related to the change in deferred taxes.

### **14.3 Cash Flow, Balance Sheet and Dividend Policy**

#### **14.3.1 Cash Flow**

Cash and cash equivalents totaled CHF 421 million as of December 31, 2018, an increase of CHF 148 million compared to the cash position held as of December 31, 2017. The increase is mainly driven by the Q2 refinancing (CHF 185 million) and equity free cash flow generation of CHF 149 million, partly offset by the dividend payout (CHF 180 million) as well as the repayments of capital leases (CHF 7 million).

#### **Cash Flow from Operating Activities**

The year-over-year decrease of CHF 89 million in 2018 is primarily attributable to an outflow from net working capital and higher income tax payments. Taxable income in 2017 increased significantly compared to 2016 and led to higher income tax payments (relating to 2017) in 2018 compared to the prior year.

### **Cash Flow from/(Used) in Investing Activities**

Cash flow used in investing activities amounts to CHF 293 million as of December 31, 2018, which is CHF 428 million higher than in the prior year (2017: cash flow from investing activities CHF 135 million). The cash flow in 2017 was positively impacted by the net proceeds from the sale of Swiss Towers AG of CHF 450 million. In 2018, the cash outflow related to the purchase of intangible assets and property, plant and equipment was CHF 12 million lower than in the prior year and the sale of property, plant and equipment resulted in a cash inflow of CHF 10 million.

### **Cash Flow Used in Financing Activities**

Cash flow used in financing activities decreased by CHF 604 million in 2018 compared to the prior year. In 2017, the cash flow was negatively impacted by the partial repayment of the existing term loans of CHF 450 million, whereas the refinancing of the long-term loans and notes resulted in a net cash inflow of CHF 185 million in 2018. Furthermore, a higher dividend of CHF 30 million was paid out in 2018.

#### **14.3.2 Net Debt**

The Group's consolidated debt position – consisting of a term loan B3 facility, senior secured notes and capital leases – amounted to CHF 1,573 million (nominal value: CHF 1,615 million compared to CHF 1,419 million as of December 31, 2017), of which CHF 2 million is expected to be paid within 12 months. The increase, compared to December 31, 2017, is related to the Group's refinancing transactions in Q2 2018 which involved the issuance of an additional CHF 200 million senior secured note. Net debt at nominal value totaled CHF 1,194 million as of December 31, 2018, resulting in a net debt to EBITDA leverage ratio of 2.0x (December 31, 2017: 1.9x).

#### **14.3.3 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, trade receivables, trade payables and deferred income. Changes in trade and other payables related to the mobile license and non-cash capital expenditures related to Indefeasible Rights of Use (IRU) are excluded.

For 2018, the change in net working capital resulted in a decrease of CHF 49 million. This is mainly driven by a reduction in trade and other payables (CHF 55 million) caused by payments of mobile phones and tablets bought in Q4 2017 and roaming settlements. The negative development was also impacted by a reduction related to IFRS 15 accounts (CHF 15 million). These effects were partly offset by the reduction of inventory (CHF 11 million) and by a positive change in trade and other receivables (CHF 10 million).

Comparing the 2017 positive change in net working capital of CHF 32 million to the negative net working capital change in 2018 of CHF 49 million results in a negative gross net working capital cash impact of CHF 81 million between the two years' operating cash flows. Compared to 2017, the change in net working capital showed a decline of CHF 81 million. This negative development was mainly driven by movements in roaming discount settlements, which had a positive impact in 2017 and reversed in 2018, the disposal of Swiss Towers AG in 2017 and the application of new IFRS accounting standards (IFRS 9 and IFRS 15).

#### **14.3.4 Dividend Proposal and Distribution Policy**

The Board of Directors proposes allocating approximately CHF 189 million from the reserves from capital contributions to the dividend reserves to pay a dividend of CHF 4.20 per share (a total of CHF 189 million) in 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 the net debt/adjusted EBITDA leverage is below 2.0x. Sunrise is targeting an annual 4% to 6% dividend progression from 2018 to 2020. This guidance specification was introduced to buffer investors from near-term cash flow volatility due to landline access and spectrum payments.

### 14.3.5 Shareholder Return

Sunrise stock price decreased by –3% in 2018 and increased by +27% since the IPO in February 2015. The table below shows the total shareholder return. The figures in this table take both stock price performance and dividend payments into account. The total shareholder return on Sunrise stock amounted to +2% in 2018, which surpassed the performance of its peer index.

Total shareholder return (in%)	2018	2017	IPO 2015
Sunrise	2%	39%	44%
STOXX Europe 600 Telecom Index	–8%	1%	–10%
Swiss Performance Index (SPI)	–9%	20%	2%

Source: Bloomberg; IPO was on 6 February, 2015; Telecom Index performance in EUR

As per the end of 2018, the sell-side brokers, who cover Sunrise stock and publish regular research are: Barclays, Berenberg, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, Jefferies, J.P. Morgan, Kepler Cheuvreux, Morgan Stanley, New Street, RBC Capital Markets, Redburn, UBS and Vontobel.

Further information, as well as a comprehensive fact sheet about the Company's financials and KPIs, can be found on the Sunrise investor relations website [www.sunrise.ch/ir](http://www.sunrise.ch/ir) under Reports and Presentations.

## 15 Risks

### 15.1 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.

### 15.2 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.

### **15.3 Main Risk Clusters**

The following risk clusters are focus areas for Sunrise.

#### **15.3.1 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.

#### **15.3.2 Regulatory Framework**

Under the current regulations on non-ionizing radiation, the activation of new frequencies requires a reduction in transmission power and thus less coverage and lower capacity, which is at odds with increases in data traffic and the digitalization needs of customers (see chapter 8.7 on pages 25 et seq.). This scenario might mean that the spectrum acquired in the 2019 frequency auction will tie up investments that cannot be utilized without an easing of NIR regulations. With the goal of bringing about a more favorable regulation, Sunrise is attempting to mitigate this risk by stepping up its lobbying activities and by educating all stakeholders about the impact of the restrictive regulatory framework on network evolution, especially the 5G rollout.

#### **15.3.3 Cyber Security and Data Protection**

Continuous technological innovation and digitalization open up new business opportunities and services for Sunrise customers. At the same time, the rising technological complexity of the solutions requested by customers and the growing volume of available data combined with shorter innovation cycles increase the complexity of technical implementations. They also open up a wider range of opportunities for attacks to be launched on these systems and solutions. Additionally, both the power commanded by cybercriminals as well as the number of cyber attacks committed increase year after year. The Company's mature internal information security framework ensures that Sunrise services meet the standards customers demand and that threats are recognized early enough to allow the implementation of appropriate preventive actions. Sunrise is certified to the ISO 27001 standard, which covers all personnel, operations processes and technology infrastructure used for the processing, storing and transmission of customer information and communication.

#### **15.3.4 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.

#### **15.3.5 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.

### **15.3.6 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.

### **15.3.7 Financial Risks**

The Company is exposed to a variety of financial risks, specifically to market, credit, and liquidity risks. A detailed description of the financial risks is provided in Note 25 (on pages 143 et seq.).

## **16 Additional Disclosures**

### **16.1 Material Affiliate Transactions**

#### **16.1.1 Changes in the Board of Directors**

At the ordinary Annual General Meeting on April 11, 2018, Ingrid Deltenre was elected to the Board of Directors as a new member by the General Meeting for a term of one year. All other Board members were re-elected for an additional one-year term.

Joachim Preisig resigned from the Sunrise Board of Directors as of December 31, 2018. His successor will be elected at the ordinary Annual General Meeting in 2019.

#### **16.1.2 Changes in the Executive Leadership Team**

Karin Schmidt, Chief Human Resources Officer and Member of the ELT since May 2016, left the company on March 24, 2018. Françoise Clemes, CSO, led the Human Resource unit ad interim. Tobias Foster was appointed as the new Chief Human Resources Officer for Sunrise, effective from January 1, 2019.

Marcel Huber was appointed as the new Chief Administrative Officer and Member of the ELT, following Dominik Rubli, who left the company as of August 31, 2018. Marcel Huber took office on February 11, 2019 taking over from Patrick Alain Meier, Director Legal who had been leading the Administrative Office in the interim.

#### **16.1.3 Share Capital Increase**

In connection with the long-term management incentive programs, and as approved by the Annual General Meeting on April 15, 2016, the share capital was increased by means of an authorized capital increase of 69,028 shares on February 9, 2018.

#### **16.1.4 Dividend Payment**

At the Annual General Meeting on April 11, 2018, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 180 million (CHF 4.00 per share) in respect to the 2017 financial year was approved. The dividend payment was made on April 18, 2018.



## **16.2 Material Contractual Arrangements**

Sunrise entered into new agreements with Swiss Fibre Net AG (SFN), Services Industriels de Genève (SIG) and Basel Industrial Works (IWB). The new agreements grant Sunrise access to a certain amount of fiber lines on new terms: Sunrise invested CHF 56 million upfront during 2018 and will benefit from an additional low single-digit annual gross profit contribution.

The Group's refinancing transactions resulted in new material contractual arrangements. These comprised the placement of CHF 200 million in Swiss domestic senior secured notes and the amendment, extension and repricing of the existing term loan B facility (refer to "Major Events").

Sunrise and Swisscom agreed to prolong the existing agreement concerning fixed broadband connectivity services from January 1, 2019, to June 30, 2022. As part of the prolongation, Sunrise will make a one-time investment of CHF 101 million for the use of wholesale broadband connectivity services from Swisscom which will be paid in installments of 60% in 2019, 20% in 2020 and 20% in 2021. The new agreement allows Sunrise to supply broadband and TV services independently.

Sunrise Communications Group AG entered into an agreement with Swiss Towers AG regarding the sale of 133 telecom towers for a consideration of CHF 29 million. The agreement is effective as of January 1, 2019. The resulting gain on the transaction will be treated as a non-recurring gain and therefore will not have an impact on the adjusted EBITDA guidance.

Sunrise joined ngena (the Next Generation Enterprise Network Alliance), a global alliance of international telecom companies, such as T-Systems, Centurylink, PCCWGlobal, Telus, A1 Telekom Austria Group, KPN and many more. As a partner of the alliance, Sunrise will be able to use the global Software-Defined Wide Area Network (SD-WAN) to offer Swiss and international customers Ethernet- and Internet-based global connectivity services to customer sites and cloud services across the world.

## **16.3 Certain Other Contractual Commitments**

Total contractual and purchase commitments as of December 31, 2018 amounted to CHF 441 million (2017: CHF 88 million) and comprised future investments in property, plant and equipment and intangible assets. The increase compared to the prior year is mainly related to the newly signed access deals.

## **16.4 Credit Ratings**

As of December 31, 2018, the corporate family ratings for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG, were BBB- (outlook stable) by S&P Global Ratings ("S&P") and BB+ (outlook stable) by Fitch Ratings. The Swiss domestic senior secured notes, the term loan B facility, as well as the revolving credit facility are all rated BBB- by Fitch Ratings and S&P.

## **16.5 Acquisitions, Disposals and Recapitalization**

No material acquisitions, disposals or recapitalization occurred in 2018.

## **16.6 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.

## 17 Outlook

### 17.1 Impact of the Application of IFRS 16

From 2019 onward, the new standard on leases (IFRS 16) will be applied. From the initial recognition of the standard, Sunrise expects an initial increase in assets and liabilities in the range of CHF 275 million to CHF 285 million. Since the modified retrospective transition method was chosen, no impact on equity is expected. Furthermore, the expected positive impact on EBITDA lies between CHF 40 million and CHF 45 million. The expected increase in depreciation and interest expenses is between CHF 49 million and CHF 51 million. Therefore, net income is expected to be negatively impacted within a range of CHF –4 million and CHF –11 million.

### 17.2 2019 Guidance

2019 revenue and adjusted EBITDA are expected to range from CHF 1,860 million to CHF 1,900 million and CHF 608 million to CHF 623 million, respectively. The guidance includes IFRS 15, which is expected to have a year-over-year negative impact on adjusted EBITDA in the low- to mid-single-digit CHF millions. The guidance does not yet include the effects of IFRS 16. The 2019 Capex is expected to be in the range of CHF 420 million to CHF 460 million. As indicated previously, this includes CHF 91 million for the spectrum payment, CHF 61 million an upfront payment for landline access at Swisscom, and a CHF 16 million upfront payment for landline access scope extensions at utilities. Excluding these effects, Capex guidance is expected to be between CHF 252 million and CHF 292 million. This includes the 5G rollout investment, which will drive network excellence and customer momentum and provide the basis for mobile broadband in rural areas.

### 17.3 Dividend Policy

Sunrise confirms its long-term dividend policy of paying out at least 65% of equity free cash flow and continues to target 85% if net debt/adjusted EBITDA leverage is below 2.0x. For 2018 to 2020, Sunrise reiterates its annual 4% to 6% dividend progression guidance. This near-term guidance specification was introduced in March 2018 to protect investors from near-term cash flow volatility due to landline access and spectrum payments. Upon meeting its 2019 guidance, Sunrise expects to propose a dividend in the range of CHF 4.35 to CHF 4.45 per share for 2019, to be paid out of capital contribution reserves in 2020.