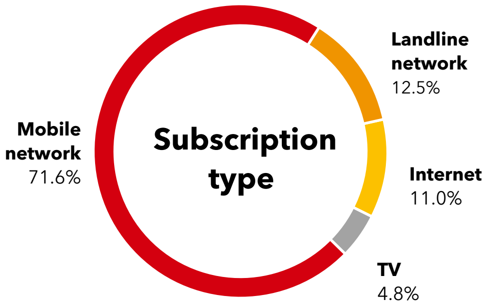
Sunrise

Annual Report 2016

Facts & Figures

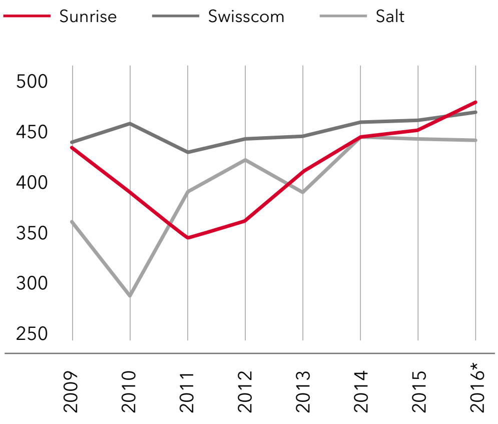
Customers by subscription type

(in percent)



connect test history since 2009

(in points)



* In 2016 connect used a 1000-point scoring system.
The values in the chart have been adjusted to the 500-point scoring system of previous years.

Customer service

Key performance indicators from January 1 to December 31, 2016.

92%

Availability
92% of callers spoke to an agent.

84%

Efficiency
84% of issues were resolved on first contact.

www.sunrise.ch/customersatisfaction

3.346
million

Customers

With more than 3.3 million customers, Sunrise is the leading alternative telecom provider in Switzerland, both in the mobile and landline network sectors. Additionally, Sunrise is the third largest provider of landline network, Internet and TV services.

1,656

Employees

30% of the total number of 1,723 Sunrise employees (1,656 FTEs) are women. Approximately 43% of Sunrise employees are citizens of countries other than Switzerland. Sunrise trains 109 apprentices for positions in five apprenticeship programs.

89

Offices and retail stores

With 83 retail locations, Sunrise has a presence in all regions of Switzerland. The Company is headquartered in Zurich and has additional business offices in Prilly, Geneva, Bern, Basel and Lugano.

Content

Message to Shareholders

Peter Kurer
Chairman of the Board (left)

Olaf Swantee
Chief Executive Officer (right)

Dear Shareholders,
In 2016 we launched a number of initiatives to solidify our role as the leading market challenger, building on proven concepts and further strengthening our position as an agile, customer-oriented and cutting-edge telecommunications provider.

Strict cost control produces solid results
Despite growing competition, Sunrise added 85,700 new customers in the mobile postpaid sector (+6.1%). The landline Internet sector also grew compared to the previous year, with a total of 30,200 new customers (+8.9%). The strongest growth driver was Sunrise Smart TV, with 29,000 (+21.7%) new subscriptions. This growth, however, did not entirely compensate for the decline in revenue to CHF 1,897 million. Despite this contraction, adjusted EBITDA decreased only slightly to CHF 611 million thanks to streamlined organizational and management structures and higher cost efficiency. Following the loss in the previous year caused by the one-time impact of the IPO and of refinancing, Sunrise ended the year 2016 with a net profit of CHF 87 million which is a reflection of the Company's hard work.

Positive second year as a publicly listed company
Our second year on the exchange was marked by the exit of CVC Capital Partners as a shareholder along with above-average share price performance, leaving Sunrise in a significantly better position than the market as a whole. After more than five years under the control of CVC Capital Partners managed

funds, freenet AG ("freenet") became the new majority shareholder in March of 2016 by acquiring more than 23.8% of Sunrise shares (around 10.7 million shares). freenet is the largest network-independent provider of mobile telecommunications services in Germany.

The Sunrise share price rose by 13.9% in 2016. In comparison, the Swiss Performance Index showed only a slight increase of 1%. During the same timeframe, the STOXX Europe 600 Telecommunications Index (€) lost 11.7%. In terms of total return (stock price change plus profit distribution), Sunrise achieved above-average results due to the additional high dividend payout. At the Annual General Meeting, a higher ordinary dividend payout of CHF 3.33 per share will be proposed. This corresponds to a total dividend of approx. CHF 150 million and an attractive 11% dividend growth compared to the previous year.

Changes to the Board of Directors and management

After Dr. Dominik Koechlin's passing in the summer of 2015, Lorne Somerville stepped into the role of Chairman of the Board on ad interim basis. In the spring of 2016, he handed the reins to Peter Kurer, the newly elected Chairman of the Board. At the 2016 Annual General Meeting, the existing members of the Board of Directors, Jesper Ovesen, Peter Schöpfer and Lorne Somerville, were re-elected for another year. Meanwhile, Robin Bienenstock, Michael Krammer, Joachim Preisig and Christoph Vilanek joined the Board as newly elected members.

On May 9, 2016, Libor Voncina handed over leadership of the organization to the new Sunrise CEO, Olaf Swantee.

With the goals of further strengthening the organization, developing its potential, streamlining structures and promoting diversity, Mr. Swantee reviewed and adapted the Sunrise management structure in collaboration with the Board of Directors.

Network and quality awards

Sunrise won several awards over the course of 2016:

– The Swiss business magazine Bilanz evaluated Sunrise in the areas of quality, innovation and flexibility, naming Sunrise the best mobile network and TV provider in Switzerland for the second consecutive year. Sunrise also received recognition for its Internet services and landline telephony. Subsequently, Sunrise was chosen as the best universal provider for private and business customers looking to obtain services from a single source.
– In 2016 Sunrise broke every record in the mobile network test published by connect, Europe's largest trade magazine, winning the overall test and beating out Swisscom for the first time. In another first, Sunrise became the first company ever to receive a rating of "Outstanding" in a connect test. In addition to the best mobile calling network, Sunrise also has the fastest mobile Internet in Switzerland as well as the entire DACH region.
– In 2016, Sunrise was the first Swiss mobile phone provider to become ISO 9001:2015 certified – evidence that it adheres to the strictest audit requirements in the mobile sector. Furthermore, an external audit confirmed the ISO 27001 certification of the Sunrise information security management system, making Sunrise the only telecom provider in Switzerland to have its entire organization (company-wide technology infrastructures and operational processes) certified under ISO 27001.

In 2016, Sunrise received wide recognition for its high-quality network.

Olaf Swantee
Chief Executive Officer

Continuous investments and a focus on quality led to excellent ratings in 2016.

Peter Kurer
Chairman of the Board

Continuous growth in customer base
Sunrise considers customer orientation one of its most important company values, and its customers once again demonstrated their high level of satisfaction with Sunrise products. Despite a highly competitive market environment, in 2016 Sunrise was able to increase its number of mobile postpaid customers by 6.1% (net growth of 85,700 customers), ending the year with a total of 1.49 million subscriptions. Thanks to the Company's first-rate Sunrise Smart TV offer and attractive rates, Internet and TV customer numbers posted increased as well. Altogether, net growth in TV subscriptions totaled 29,000 (+21.7%) in 2016.

Strategic partnerships with global leaders such as Microsoft, Cisco, Alcatel Lucent, Apple, IBM and Huawei were another important source of customer growth. In addition to its partnership with Telefónica, Sunrise has also become a member of the FreeMove Alliance, allowing the Company to increase its competitiveness and generate further growth. It also gives Sunrise access to the networks of the four large Alliance providers as well as their partner networks in more than 100 countries. This association benefits all of our customers, but especially our business customers.

Network quality, customer orientation and innovative products
Sunrise has the best mobile network, beating every record. The quality of the Sunrise mobile network has been improving continuously for a number of years now. For the second year in a row, the Sunrise mobile network earned a rating of "Very Good" and was chosen as the best network in the "mobile telephony" category. Sunrise also set a new record by receiving the highest score ever earned in a connect test (951 out of a maximum of 1000 points). Never in the 23-year history of connect network testing has a mobile network in Germany, Austria or Switzerland achieved such high results. Consequently, the Sunrise mobile network was rated not only "Very Good" but also "Outstanding."

Currently, the Sunrise mobile network provides 4G services to 99.4% of the Swiss population and supplies 4G+ high-speed mobile Internet speeds of up to 300 Mbit/s to Switzerland’s largest cities. By expanding its mobile network with the customer in mind, Sunrise is ensuring its ability to offer top-quality services well into the future.

A warm thank-you

We look back on a challenging and intense year. Our continuous investments and consistent focus on quality earned us a first place ranking and a rating of “Outstanding” for our mobile network. For this, we give special thanks to our network team as well as our technology partner Huawei, who made this outstanding achievement possible with their great dedication and enthusiasm. We owe our success to our dedicated staff, the trust our customers place in us and the loyalty of our shareholders. We thank each and every one of you.

Looking ahead

2016 was a successful year for us. However, we should not become complacent, as there are huge challenges ahead of us. Instead, let us give our very best to continue to meet these challenges as we go forward.

Peter Kurer
Chairman of the Board

Olaf Swantee
Chief Executive Officer

Financial and Operational KPIs

Sunrise achieved customer growth in the areas of mobile postpaid, Internet and TV. This growth, however, did not entirely compensate for the decline in revenue to CHF 1,897 million. Adjusted EBITDA decreased slightly to CHF 611 million, supported by a strong cost focus. Sunrise reached CHF 87 million in net profit in 2016.

Financial KPIs

CHF million	**2016**	2015	Change (%)
Revenue			
Mobile services	1,264	1,304	(3.1)
Thereof mobile postpaid	*768*	*775*	*(1.0)*
Thereof mobile prepaid	*161*	*197*	*(18.3)*
Thereof mobile hardware	*253*	*260*	*(2.4)*
Landline services (incl. voice)	419	472	(11.3)
Thereof landline voice	*152*	*170*	*(10.6)*
Thereof hubbing	*132*	*142*	*(6.6)*
Landline Internet and TV	214	200	7.0
Total revenue	**1,897**	**1,976**	**(4.0)**
Service revenue (excl. hubbing & mobile hardware)	1,511	1,575	(4.0)
Gross profit	**1,193**	**1,244**	**(4.1)**
% margin	62.9%	62.9%	
% margin (excl. hubbing & hardware revenue)	78.9%	79.0%	
EBITDA	**599**	**616**	**(2.8)**
EBITDA adjusted	**611**	**627**	**(2.5)**
% margin	32.2%	31.7%	
% margin (excl. hubbing & hardware revenue)	40.5%	39.8%	
Net income	**87**	**(113)**	**177.1**
Cash flow			
Reported EBITDA	599	616	(2.8)
Change in NWC (incl. factoring)	(68)	(29)	133.0
Net interest	(51)	(97)	(47.7)
Tax	(30)	(34)	(13.1)
Capex	(213)	(292)	(27.2)
Other financing activities	(8)	(11)	(29.5)
Equity free cash flow	**230**	**153**	**50.2**
Other	(262)	(31)	743.0
Total cash flow	**(32)**	**122**	**(125.8)**
Net debt	**1,663**	**1,639**	**1.5**
Net debt/adj. EBITDA (LTM)	2.7×	2.6×	

Operational KPIs

CHF million	2016	2015	Change (%)
ARPU (CHF)			
Mobile blended (excl. installment)	**32.2**	**33.3**	**(3.2)**
Mobile blended (incl. installment)	37.4	36.9	1.5
Postpaid (excl. installment)	44.5	47.6	(6.5)
Thereof origination	*39.1*	*42.3*	*(7.6)*
Thereof termination	*5.4*	*5.3*	*2.5*
Postpaid (incl. installment)	53.2	54.1	(1.6)
Prepaid	13.9	15.2	(8.8)
Landline blended	**69.2**	**72.1**	**(4.0)**
Retail voice	30.8	35.0	(12.1)
Internet	35.8	36.9	(3.2)
Internet and IPTV	46.1	45.9	0.4
Subscription base (in ’000)			
Mobile			
Postpaid	1,485.2	1,399.6	6.1
– Primary	1,240.4	1,189.9	4.2
– Secondary	244.8	209.7	16.8
Prepaid (3-month rule)	909.8	1,014.2	(10.3)
Prepaid (12-month rule)	1,482.2	1,662.8	(10.9)
Landline			
Retail voice	416.7	394.3	5.7
Internet	371.8	341.5	8.9
Thereof coupled to IPTV	*162.8*	*133.8*	*21.7*
Thereof without IPTV	*209.0*	*207.7*	*0.6*
LTM Churn (%)			
Postpaid	14.1	13.9	0.9
Landline	12.5	13.7	(8.8)
Employees			
FTEs	1,656	1,701	(2.6)
Apprentices	109	108	0.9

Operational and Financial Review

Sunrise has continued to focus on innovation, excellence in customer service and the provision of a state-of-the-art network infrastructure. Thereby, Sunrise has been able to position itself as the leading full-service competitor in the highly competitive Swiss market.

Operational and Financial Review

1 Business Activities

Sunrise provides mobile voice and data, landline voice, landline Internet and IPTV (Internet protocol television) services to residential customers, business customers and other carriers across Switzerland through an integrated nationwide landline network and the best Swiss mobile network.

1.1 Residential Customers

Sunrise offers residential customers mobile telephony, landline, Internet and TV services from a single source. Mobile voice and data services are provided on both a postpaid and prepaid basis. Sunrise offerings are tailored to meet demand for high-speed connectivity while offering competitive, easy-to-use products, such as plug-and-play solutions and bundling options for retail voice, Internet, IPTV and mobile products.

1.2 Business Customers

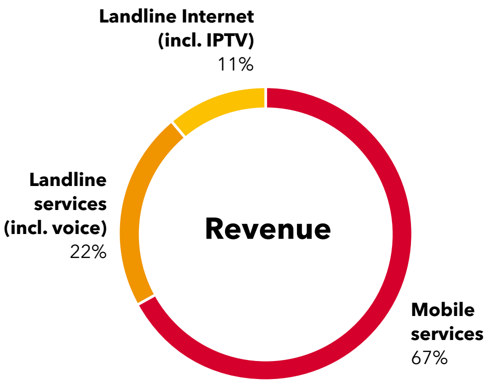
For business customers, Sunrise offers a comprehensive range of products and services, from mobile offerings to landline voice, Internet and data solutions, system integration and management of the services. The specific needs of customers are met with a portfolio of standardized products for small businesses as well as customized, scalable, secure offerings for large enterprises.

1.3 Wholesale

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

Revenue

By subscription type



2 Sunrise Strategy

The Sunrise strategy is to leverage its strong position in the mobile market as well as its positive momentum in Internet and TV to become the most recommended telecommunications provider while concurrently gaining market share.

The successful multi-brand strategy of previous years brought Sunrise new residential customers across the quality mass market as well as in the Young and Youth, Budget and Ethno market segments. This strategy has also further strengthened the Company, raising its status to that of market challenger. Moving into the new year, Sunrise plans to employ the five key strategies described below with the goal of becoming the most recommended telecommunications provider in Switzerland.

The implementation of these five key strategies is expected to boost the Company's profitability and cash flow.

Focus on innovation and convergent products

Launch innovative products for home and on the go to strengthen the Company's position as market challenger in the convergence segment

Innovation continues to be a key factor in the Company's success. Sunrise strengthens its competitive positioning by offering innovative products and services that match the preferences of Swiss consumers and enterprise markets.

In line with consumer preferences and market trends, Sunrise has been focusing on convergence as a way to ensure growth and profitability by offering an integrated product portfolio from a single source that reduces complexity for both consumers and business customers and enhances cross-selling and customer loyalty.

Past investments and efforts have helped Sunrise earn the distinction of having the best mobile, TV and Internet products of all the large domestic telecom providers in the residential market and therefore being the best "Universal Provider" for both residential and business customers (according to the 2016 rating by the Swiss business magazine Bilanz) as well as offering the best mobile network (according to the mobile network test conducted by independent network magazine connect in December 2016).

Continuing on this successful path, the Company's new objective is to become "The Unlimited Company." To accomplish this, various product innovations will be launched, the first one being Sunrise One.

Therefore, Sunrise continues to capitalize on its standing as a high-quality, full-service, integrated provider of mobile, landline, Internet and IPTV (Internet Protocol television) products and services in the Swiss market as well as on cross- and upselling with the help of transparent, easy-to-understand, flexible and convergent product offerings.

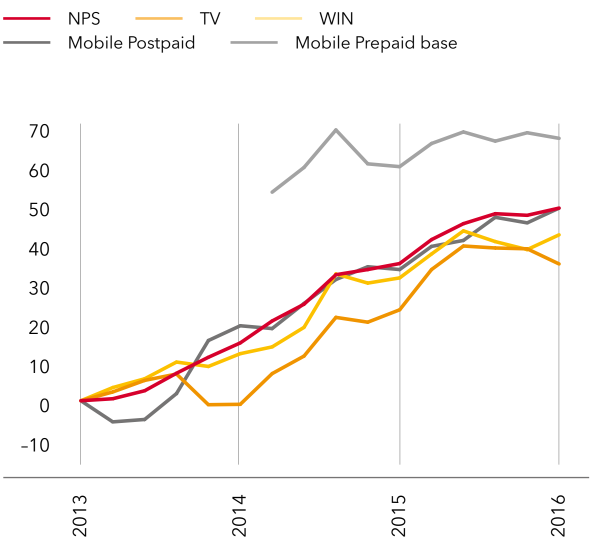
Demonstrate excellence in customer service

Deliver high-quality service and provide a superior customer experience supported by digital initiatives to strengthen the foundation for becoming the most recommended telecommunications provider

As a customer-focused organization, Sunrise maintains high levels of customer satisfaction and strives to increase customer loyalty and strengthen customer relationships by providing a best-in-class customer experience.

Base NPS evolution

NPS improvement since launch of customer experience program in 2013 (values indexed to Q1 '13)



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 the program is proof of its success.

Through the Net Promoter Score (NPS) program, Sunrise has been able 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 NPS (from a basis of 132.4% as of December 31, 2015, to 144.1% as of December 31, 2016, compared to index of 100% in 2013). However, to deliver a best-in-class customer experience, the Company will have to improve its NPS even further. It is committed to the ongoing evaluation of customer as well as employee feedback and to making organizational improvements through customer feedback a key component of its strategy to further improve the quality of its services and enhance the customer experience. Sunrise aims to maintain its focus on customer care by working with key partners, investing in training and coaching, and upgrading service levels for all customers.

The Company's customer orientation is also reflected in customer service that is focused on operational excellence and driving continuous improvement to the customer experience. 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.

Customer service availability levels and resolution rates at Sunrise have substantially improved. The performance indicators of the Company's call centers are updated weekly and made available on the corporate website (see www.sunrise.ch/customersatisfaction).

To meet soaring customer expectations in a digitalizing world, Sunrise has during the last two years focused on significantly improving its digital capabilities. At the current time, the Company continues to implement digital initiatives to further increase its market share and profits while providing the best digital customer service experience through the deployment of state-of-the-art, self-directed services to simplify the customer's digital journey.

Maintain a state-of-the-art infrastructure

Leverage the superior frequency spectrum position and continue to invest in a state-of-the-art network infrastructure to maintain a competitive advantage and capitalize on future growth opportunities

In November 2016, Sunrise was named the winner of a comprehensive mobile network test conducted by Europe's leading telecom magazine connect, overtaking Swisscom for the first time. Sunrise achieved the highest score ever in a connect mobile network test and was the first telecom provider to achieve the rating of "Outstanding" in a network test in the DACH region.

Thanks to continuous investments and a continuous focus on quality and customer feedback, Sunrise has now earned the distinction of having the best mobile network and the fastest mobile Internet in Switzerland and the DACH region.

Since the launch of the network program in collaboration with technology partner Huawei in 2012, Sunrise has invested more than CHF 1.3 billion into the expansion and upgrade of its network; 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, ensuring a best-in-class customer experience and 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 and high-quality voice and data transmission. Sunrise will continue to provide high-speed access in Switzerland by leveraging the latest VDSL (Very High-Speed Digital Subscriber Line) technology with G.fast as well as fiber coverage through partnerships with Swisscom, local utilities and Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland. In 2017, Sunrise will introduce plug and play, providing simpler and faster access to the wireline network.

Introduce new brand framework and values

Invest in brand repositioning to highlight the Company's new values of bold, intuitive and positive to further challenge the market

Past investments in marketing that supported the Company's brand positioning generated strong momentum for the Sunrise brand and all brand drivers. This was further accelerated by the naming of Roger Federer as Sunrise Brand Ambassador in 2014. Since then, Sunrise has significantly improved its brand esteem and recognition.

To move forward, Sunrise has defined a new brand framework that represents a fundamental lever for challenging the market once again. The new marketing strategy aims to showcase Sunrise as "The Unlimited Company" based on three new brand pillars, the company values of bold, intuitive and positive. These reflect the Company's commitment to becoming the most recommended telecom brand in Switzerland.

Sunrise has also strengthened its competitive positioning by offering innovative services. Recent product launches, and Sunrise One in particular, demonstrate the Company's ability to be at the forefront of trends and thereby increase its customer base.

Grow B2B

Further grow the enterprise market share by expanding distribution channels and evolving the portfolio to continuously address customer needs

Sunrise is the leading challenger in the enterprise market and can build on the trust of a substantial customer base.

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

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

Sunrise focuses on solutions that are designed to simplify processes and thus increase productivity. Sunrise is capitalizing on a broad portfolio of large customers such as Swiss Post, Zurich Airport and many others.

The services are provided through its own expert resources. Sunrise will enhance this offering through strategic and selective cooperation with leading partners.

With its expertise, Sunrise supports the enterprise market in the challenge of accelerating the transformation of their businesses to meet high customer expectations.

3 Market Environment

The highly competitive market means that overall conditions remain challenging in the telecom industry, despite the Swiss economic recovery. Nevertheless, the quality of telecommunications services in Switzerland has never been higher.

3.1 Economic Environment

During 2016, the Swiss economy recovered from the economic slowdown set off by the appreciation of the Swiss franc in early 2015. Although the Brexit referendum and the Trump effect triggered uncertainty on the global stage, it has not affected the Swiss economy to any significant degree. Additionally, the moderate recovery in the eurozone and the rest of the world has had a positive impact on the Swiss economy.

Swiss GDP growth was solid at around 1% in 2016 and thus higher than the 2015 growth rate of 0.8% (IMF World Economic Outlook, October 2016, projection for 2017).

On the topic of inflation, currency appreciation led to a −0.4% decline in consumer prices in 2016 compared to −1.1% in 2015. Although deflation continued in 2016, a gradual shift toward positive inflation rates is expected in the coming year (IMF World Economic Outlook, October 2016, projection for 2017).

3.2 Industry and Competitive Environment

Switzerland's largest mobile network operator (MNO) is Swisscom (publicly traded with a 51.0% stake held by the Swiss Confederation as of December 2016), followed by challengers Sunrise and Salt. Each of the three MNOs has its own nationwide network infrastructure with a spectrum license granted until 2028. In addition to the MNOs, there are branded wholesale resellers on all three mobile networks. Other market players, referred to as mobile virtual network operators, use the MNOs' infrastructure to provide their services.

The market share structure in Switzerland has remained quite stable over the past few years. 2016 was a highly competitive year in terms of mobile competition, driven mainly by growth in the budget market and by Salt, which has put pressure on mobile segment prices with aggressive promotional campaigns. Nevertheless, the subscriber base of Swisscom and Sunrise has remained relatively stable and is even growing in the postpaid segment.

3.2.1 Mobile Networks

Mobile networks in Switzerland boast a high standard of quality. While the networks operated by Swisscom and Salt earned a rating of "Very Good," the Sunrise network was rated as "Outstanding" by connect, an independent network tester, thus overtaking Swisscom for the very first time. In 2016 Sunrise not only earned the highest score ever awarded in a connect mobile network test, it also became the first telecom provider ever to receive a rating of "Outstanding" in a network test. According to the test, Sunrise has the best mobile network and the fastest mobile Internet in Switzerland and the DACH region.

The best mobile network

Sunrise has the best mobile network in Switzerland, Austria and Germany and is therefore rated "Outstanding" by independent network tester connect.

3.2.2 Landline Services

Landline voice services are run primarily over the analog and digital access lines of the telephone network and the access lines of cable network operators. Swisscom is the largest provider of landline voice telephony in Switzerland, followed by UPC. Unbundling has made access lines available to providers including Sunrise.

In Switzerland, landline broadband Internet connections can be established via several different access technologies, including DSL (digital subscriber line), cable modem and fiber. Swisscom is the leader in the Swiss broadband Internet market, followed by UPC and Sunrise.

Sunrise is the largest LLU (local loop unbundling) provider in Switzerland, covering around 85% of households through its own network of more than 600 points of presence. To meet increasing demand for higher bandwidth services and IPTV, Sunrise has an agreement with Swisscom which grants Sunrise cost-effective access to all fiber- and copper-based access technologies, including VDSL (very high-speed digital subscriber line). Sunrise also has partnerships with Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland, and local utilities which provide the Company access to their fiber networks.

In September 2016, the Swiss business magazine Bilanz rated Sunrise the country's number two Internet services provider and confirmed the Company's third-place ranking with regard to landline telephone services.

3.2.3 TV

UPC and Swisscom are the two leaders in the Swiss television market, serving slightly more than half the market. The rest of the market remains fragmented between local cable companies, satellite and DTT (digital terrestrial television) providers. In the past few years, UPC and the other cable operators have been losing market share to providers of IPTV (mainly Swisscom and Sunrise). Having entered the TV market as recently as 2012, Sunrise is gaining market share and leveraging the IPTV offering launched in November 2015. This was underscored by the outcome of a September 2016 ranking performed by the Swiss magazine Bilanz which rated Sunrise as the best provider of TV services in Switzerland.

4 Products, Services and Sales Channels

Simplicity and quality are the key characteristics of the Sunrise product portfolio. The Company's innovative products and services are designed in line with consumer preferences, with a focus on single-source convergence that reduces complexity for customers and ensures the success of Sunrise in a challenging environment.

4.1 Mobile Offerings

Mobile service offerings include mobile voice and data and other value-added services such as international calls, roaming and device insurance as well as access to Sunrise TV products via mobile devices. Sunrise also offers mobile phones and tablets plus other hardware devices and accessories.

4.2 Sunrise Freedom

The Sunrise Freedom portfolio targets the mass market, which represents the highest-value customers. With the launch of the Sunrise Freedom rate plans in April 2014, Sunrise introduced uncoupled service and mobile phone plans without a fixed contract duration. Customers can adjust their subscriptions at no cost any time their needs change. Sunrise was the first mobile network operator to launch this concept in the Swiss market.

Now, two and a half years later, almost all customers eligible for the Freedom portfolio are taking advantage of these attractive rate plans. In May 2016, Sunrise refined its Freedom portfolio to better satisfy the growing demand for mobile data and roaming.

Messaging data sent via WhatsApp in Switzerland has been included in all Sunrise Freedom rates since March 1, 2016. Going one step further, Sunrise strengthened its offerings to high-value customers in June 2016, providing more high-speed data to Sunrise Freedom relax and max customers by increasing the data volume from 10 GB to unlimited at no additional charge. In addition, the data volume for surfing abroad was increased from 1 GB to 2 GB (Region 1 including the USA and Canada) for Sunrise Freedom super max. Existing customers in the above-mentioned rate plans were automatically upgraded.

The Sunrise mobile network, which has been rated "Outstanding" by the independent telecom journal connect, meets customers' requirements in every regard. Customers on Sunrise Freedom relax, max and super max as well as MTV mobile Freedom world and max can now enjoy unlimited high-speed surfing with 4G+ at speeds of up to 300 Mbit/s in Switzerland.

4.3 Sunrise Freedom Share Data

To meet the growing demand for mobile Internet access, Sunrise launched Freedom share data in February 2015, which allows customers to use the high-speed data volume included in their Freedom mobile subscriptions on another device equipped with a second SIM card for CHF 5 per month. Customers can also sign up for an additional hardware plan for a second device. This innovative product is unique in the Swiss market.

4.4 MTV mobile

In September 2010, Sunrise successfully launched the MTV mobile rate plans based on an agreement with MTV. MTV mobile provides attractive products to youth segment customers up to the age of 30 and is the only telecommunications brand in the Swiss market to specifically target the youth market. MTV mobile Freedom follows the same flexible principles as Sunrise Freedom and has been highly successful. The offer is attractively positioned in all postpaid youth segments and is boosted by attractive benefits relevant to the age group, such as the Swiss Half-Fare Card on the SBB railway system.

In response to the increasing demand for higher volumes of data for mobile Internet in the Young and Youth market, MTV mobile Freedom world customers have been enjoying unlimited high-speed data volumes (instead of the 10 GB that was included before) and 200 MB in Region 1 (previously 100 MB) at no extra charge since June 2016. In addition, roaming data for max subscribers has been increased to 1 GB (previously 200 MB). The same data volume also applies to WhatsApp messaging on both rate plans.

4.5 Roaming

Sunrise offers a wide range of fair and flexible roaming solutions that allow customers to pay for roaming only when they actually need it and keep costs under control with the Sunrise Roaming Cockpit.

In April 2015, Sunrise launched a comprehensive and attractive range of products and services for travelers, expanding the roaming portfolio with offers such as Sunrise travel days, all-inclusive packages for 7 or 30 consecutive days with unlimited calls/SMS and large data volumes.

In May 2016, Sunrise made its roaming packages even more appealing. The price of the travel data package with 500 MB of data was reduced to CHF 29 (previously CHF 39), and the 1 GB data package was increased to 2 GB of data for the same price of CHF 49. The data volume for Sunrise travel days 7 was increased to 500 MB (previously 200 MB) and that of Sunrise travel days 30 to 1 GB (previously 500 MB) at no extra charge.

4.6 International

Conscious of the diversity of the Swiss population, Sunrise uses different approaches to cover its customers' wide range of international needs.

For high-value customers, unlimited calls to 17 countries are included in Freedom super max, Freedom max, MTV mobile Freedom max and MTV mobile world. To meet more specific needs, the international portfolio can be complemented with lower-cost options for international calls (Sunrise International options) and attractive, dedicated options for a number of countries (Sunrise my country options).

In August 2016, Sunrise added my country Turkey and my country Kosovo, two very attractive minute packages including hours of phone calls, to its My country options portfolio. The new options for calls to these countries, which are calculated based on minutes per call, represent some of the most attractive offers on the market.

4.7 yallo Postpaid Plans

In March 2015, Sunrise relaunched the yallo postpaid plans in response to increasing smartphone penetration and data consumption in the budget and ethno markets. The growing budget market also prompted the evolution of the yallo postpaid portfolio over the course of 2016 to better meet the needs of its specific target groups.

yallo Flat includes unlimited calls to all networks in Switzerland and to 43 European countries as well as 1 GB of data at 4G speeds and unlimited SMS worldwide. This rate plan is also available as yallo PostPaid, which offers extra benefits (1.5 GB of data at 4G speeds) and is available exclusively at Swiss post offices. yallo Swiss is a new offer launched in March 2016 which includes unlimited calls within Switzerland, 1 GB of data at 4G speeds and unlimited SMS worldwide.

October 2016 saw the launch of a new mobile Internet offer, yallo Go! This product offers unlimited data at ultra-fast speeds for CHF 39 per month without a fixed-term contract or for CHF 29 per month with a 12-month contract. This simple, attractive offer (with no connection fees) meets the Internet needs of the ethno and budget segments, both at home and on the go.

4.8 Prepaid Offerings

Prepaid subscribers may choose from rate plans that allow for prepaid credit to be deducted on a per-unit, per-day or per-month basis. Sunrise offers prepaid voice and data services under a broad range of brands (Sunrise, MTV, ALDI SUISSE mobile, yallo, Ortel and Lebara) to appeal to different market segments and their varying needs. With all brands, the Company offers a wide range of customized options, including calling, SMS, data and roaming as well as combinations thereof for a basic monthly fee. With increasing smartphone penetration and data consumption, prepaid is declining and there is a shift from prepaid to postpaid subscriptions.

The current Sunrise and MTV prepaid portfolio is based on offerings with a cost-control feature (dubbed airbag) and two prepaid options. With the Sunrise Prepaid airbag plan, customers pay only for the first two minutes of a call, and with MTV mobile WhatsApp pre, they pay a maximum of 75 cents per day for mobile Internet usage. The two prepaid options Sunrise, Prepaid budget 10 and Sunrise Prepaid budget 15, are particularly appealing to regular users as they provide a set number of calls, SMS messages to all Swiss networks and megabytes of mobile Internet surfing at 4G speeds.

yallo, Ortel and Lebara offerings consist mainly of attractive minute-based rates for international calls and competitive voice and data plans for Switzerland.

yallo has greatly improved its portfolio over the course of 2016. In April, the price for yallo Flat Prepaid changed to CHF 39, which includes unlimited calls to Switzerland and Europe as well as 1 GB of high-speed mobile Internet access. Offers to specific countries have been strengthened and now include four options for calling Balkan countries: Kosova Flat S (one week of unlimited calls for CHF 9), Kosova Flat L (one month of unlimited calls for CHF 29), Macedonia 40 (40 min. to be used in seven days for CHF 10) and Macedonia 100 (100 min. to be used in 30 days for CHF 25).

In response to increased data usage in the prepaid segment, in August 2016 Lebara launched Lebara Plus, a brand new rate portfolio that meets the full range of needs of its target market (immigrants and Swiss citizens with connections abroad) and focuses on customers' increased data usage. Lebara Plus offers international savings options, low-cost daily passes for Switzerland (data, voice and SMS) plus free 4G data every time credit is added to the card, successfully replacing the previous free monetary credit model.

4.9 Devices and Accessories

Sunrise offers its customers a broad range of mobile devices and related accessories sourced from a number of well-known suppliers and distributors, including Apple, Samsung, HTC, Huawei and Beats etc. Sunrise continuously seeks to improve the quality and range of its mobile device and accessory offerings by embracing new technological developments and mobile device features.

Sunrise launched the Sunrise Smartphone Upgrade option in September 2016. This program was introduced with the launch of the iPhone 7 and is free of charge. It allows customers with a 24-month hardware plan for their iPhone 7 or 7 Plus to trade in their old iPhone for a new, next-generation model provided they are at least 12 months into their initial contract. The new phone also comes with a 24-month hardware plan, and any unpaid installments for the old iPhone will be waived.

This exclusive offer is a result of the Sunrise partnership strategy focusing on attractive special offers for Sunrise customers.

4.10 Innovative Services

In April 2016, Sunrise launched the innovative and customer-friendly service Sunrise Pay, a convenient, easy and secure payment method in combination with mobile phone bills. Sunrise Pay lets users purchase apps, games, music, eBooks, movies, tickets and much more from their smartphone or tablet and pay conveniently via their monthly bill or prepaid balance. In 2016 this payment method was only available to Android users making purchases from the Google Play Store. However, as of February 2017, Sunrise customers can also purchase iTunes codes and Apple Music memberships via Sunrise Pay.

MyDelivery was launched in November 2016. With this service, Sunrise is the first Swiss telecommunications provider to offer its customers the choice of when and where they want to receive their hardware orders. In addition to home delivery, customers can choose from around 2,500 pickup points across Switzerland.

4.11 Landline Voice, Internet and IPTV Offerings

Sunrise provides Internet access, landline voice and television services based on the Internet Protocol (IP) to both residential and business customers. Sunrise will continue providing this high-speed access in Switzerland by leveraging the latest VDSL (very high-speed digital subscriber line) innovations with G.fast and fiber coverage through partnerships with Swisscom, local utilities and Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland.

4.11.1 Landline Voice

Sunrise offers local, national, landline-to-mobile and international voice services to residential and business customers throughout Switzerland.

4.11.2 Internet and IPTV

Sunrise Home and MTV home let customers put together their own packages of landline service, Internet and TV, which Bilanz magazine recognized as the best TV offer in Switzerland: comprehensive, yet transparent and flexible, customers only pay for what they actually use and for what makes sense for them. They also have the option of adjusting the individual products in their package quickly and at no charge to meet their changing needs at any given time.

Sunrise increased the speed of its Sunrise Home Internet start subscription by 50% for just CHF 5 more in June 2016 in response to the rapid rise in data consumption.

With Sunrise TV, 2012 saw the launch of the latest generation of TV entertainment. Since then, Sunrise TV has provided customers with a number of innovative services that have transformed television into a completely new experience. These include such popular time-shifting features as ComeBack TV and Live Pause. Sunrise TV offers a wide variety of TV channels including HD, dedicated TV content packages and an attractive Video on Demand offer.

With the Sunrise TV app, the whole family can watch different channels on TV and on up to five smartphones or tablets at the same time – at home or on the move. Even while abroad, Sunrise TV gives you access to all ComeBack TV content and stored recordings via Wi-Fi. The Sunrise TV app lets users find their favorite shows quickly and easily and then transfer those shows straight to their television sets using the Push2TV function. The cloud-based recording function also lets customers record any ComeBack TV shows they may have missed over the past seven days.

Bilanz rating

In 2016 the Swiss business magazine Bilanz rated Sunrise as the best universal and mobile phone service provider for residential and business customers as well as the best TV provider. The result strongly reflects the Company's improvements in network quality and customer interaction as well as its improving brand perception.

4.12 Business Offerings

Sunrise offers a complete range of mobile, landline network, Internet and data services that are tailored to both small and medium-sized businesses as well as large companies.

4.12.1 Mobile

Sunrise business mobile provides communication solutions for mobile calls and high-speed data. The flat rates are tailored to the needs of the mobile workforce that requires 24/7 accessibility – whether in Switzerland or on business trips abroad.

4.12.2 Mobile M2M/IoT

As the number of interconnected hardware units continues to rise, efficient M2M/IoT management is becoming increasingly important. Sunrise services are designed to facilitate communication between machines and hardware – without direct human intervention. Sunrise helps small and medium-sized companies use their machines and construction vehicles more efficiently. Multiple features are integrated into the M2M management platform so that all device-related connection information can be seen in real time, thus making it easier to optimize business processes or increase efficiency.

4.12.3 Unified Communication

Sunrise offers a wide range of scalable solutions for efficient communication and collaboration. It supports flexibility and productivity within the company 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.

4.12.4 Connectivity

Sunrise connectivity services provide complete IP solutions for linking company locations and ensuring they have the fastest possible access to the Internet. It offers connectivity between locations throughout Switzerland.

4.12.5 Security

Sunrise provides a wide range of security services that protect data and ward off threats. Security-conscious companies want to benefit from the advantages of the Internet without putting their own data and systems at risk. Their modular structure and scalability make Sunrise security services perfect for both SMEs and large corporations.

4.13 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 telephone sales via call centers (inbound and outbound). As of December 31, 2016, Sunrise had 83 self-branded points of sale.

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

A comprehensive and target-segment-specific distribution network with approximately 1,500 points of sale offers services for the ethno segment under the Lebara, Ortel and yallo brands.

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

4.14 ISO-Certified Services

The Company's ISO 27001 certification (information security management system) was reconfirmed by an external audit and ensures the highest levels of quality within Sunrise. This includes all offices, employees and operational processes, the handling of customer information and communications as well as the technology infrastructure and services used for processing, storing and transmitting customer information and communication. The certification includes residential and business customer data.

In addition, Sunrise is the first telecom operator in Switzerland to earn certification under the new ISO 9001:2015 standard for the quality management system in its Integrations department.

4.15 Digital Experience

August 2016 marked the launch of the new Sunrise website and the new My Sunrise app. Sunrise now has a state-of-the-art online shop where purchases can be completed in just three steps. In the My Sunrise app, customers can also find an overview of all their subscriptions and important information, such as their address, personal profile, invoice details, options and cost control services. With the My Sunrise app, customers can easily modify their products and subscriptions at any time.

In the section called Sunrise in 20 Seconds, entertaining 20-second films provide explanations on everything Sunrise does, including products like Freedom, special offers or events such as the Company's 20th anniversary.

The launch of the new website and the My Sunrise app laid the foundation for implementing numerous digital initiatives aimed at simplifying and improving the online customer experience.

This digital approach has been extended to all brands. As a result, the yallo online shop was launched in October 2016, extending the distribution of the yallo brand to the mass market and making it easier to purchase yallo products. In December, yallo additionally launched an HD video web application that allows the online demonstration of yallo products, the presentation of promotional offers and realtime support chats with the aim of boosting engagement with the online public.

5 Network

In 2016, Sunrise continued on its path toward uncompromising quality. The Company earned the highest score ever in a connect mobile network test and was the first provider to be rated "Outstanding," proving that its maximum focus on quality is paying off.

5.1 High-Quality Technologies

Sunrise provides mobile services over its own network using GSM / GPRS / EDGE, UMTS / HSPA and 4G / 4G+ technologies. On the landline side, Sunrise leverages more than 600 points of presence in its fully-invested local loop unbundled network (LLU), covering approximately 85% of households in Switzerland. Sunrise benefits from an 11,800-km-long, Swiss-wide, state-of-the-art fiber optic network. 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, thanks to its long-term agreement with Swisscom and a strategic collaboration with Swiss Fibre Net AG, a joint venture of local energy providers in Switzerland, as well as with local utilities.

5.2 Investment in Network

Sunrise also continued to invest in network quality, availability and security. The Company remained committed to its clear strategy of expanding 4G technology, achieving more than 99% population coverage by the end of 2016. Key drivers for these investments included the continued fast growth of data traffic and the demand for mobile and landline broadband services.

Furthermore, Sunrise followed its clear strategy of making use of valuable low-band frequencies in the 800 MHz band and increased its 4G geographical area coverage to almost 90% by the end of 2016. This very high level of geographical coverage is unique in the telecommunications market anywhere in the world.

Sunrise 4G coverage

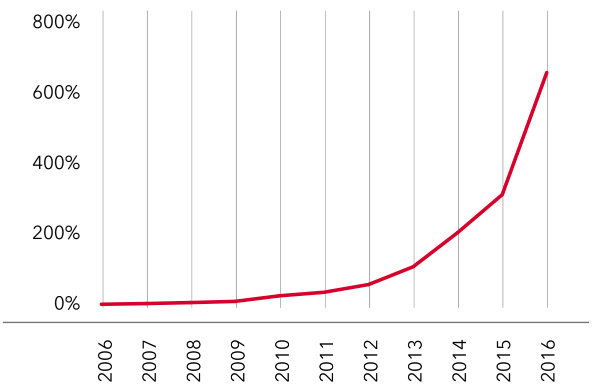
(as of December 2016)

Thanks to its strong focus on network expansion, Sunrise now provides more than 99% of Swiss residents with 4G high-speed Internet for mobile usage and covers almost 90% of the Swiss geographical territory.

Sunrise also continued its successful cooperation with Huawei, one of the leading technology companies in the world. Huawei supports Sunrise with its latest technologies as a showcase for the European market. To accommodate the exponential growth in data traffic, Sunrise is continuously enlarging its bandwidth capacities.

Data traffic in percent

Immense increase in data traffic over the past ten years.



5.3 Network App

A network app launched in May 2015 allows Sunrise customers to provide direct feedback about their experience with the Sunrise mobile network. By the end of 2016, Sunrise had received thousands of feedback submissions and tens of thousands of proactively triggered speed test submissions from customers. This feedback was used as a major input during the planning phase of the 2016 mobile network rollout. It allowed Sunrise to precisely target its investments in the areas that matter most to customers.

5.4 Outstanding Network

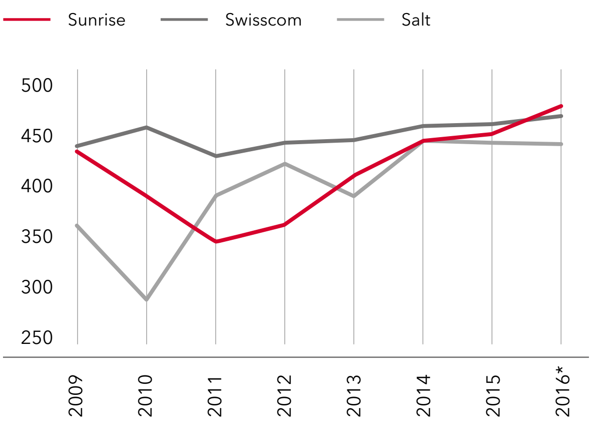
For the first time ever, the renowned telecom magazine connect rated a network in Germany, Austria and Switzerland as "Outstanding." Sunrise earned this accolade with a record-breaking 951 points (out of a possible 1,000) in this year's network test – the highest connect score ever recorded. After two years of consecutive wins in the mobile voice category, in 2016 Sunrise excelled in the mobile data category, giving it the winning edge in the overall test.

The chart below shows the impressive improvements that Sunrise has achieved in the past four years in terms of network quality. Coming from a clear 3rd place in 2012, Sunrise has now taken the lead – not only in Switzerland, but also in Germany and Austria.

Its outstanding network quality has been recognized not only by connect magazine but also by various crowdsourcing platforms, such as Ookla, the owner of the speedtest.net domain and app. Sunrise was named "Switzerland's fastest mobile network" by Ookla as well as by OpenSignal.com, another crowdsourcing app.

connect test history since 2009

(in points)



* In 2016 connect used a 1000-point scoring system. The values in the chart have been adjusted to the 500-point scoring system of previous years.

6 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 (BAKOM).

6.1 Regulatory Framework

The regulatory framework is based primarily on the Swiss Federal Telecommunications Act (FMG) 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 being ex-post regulation in Switzerland as opposed to ex-ante regulation applicable in the EU, the technology-based "last mile" system in Switzerland, which grants access at long-run incremental cost (LRIC) 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 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 applicable to operators located within the EU; this is the subject of ongoing negotiations. Sunrise believes these EU operators are in violation of WTO rules on international free trade.

6.2 Revision of the Swiss Telecommunications Act

In December 2015, the Federal Council began deliberations on a partial revision of the Swiss Telecommunications Act. The original proposal called for the addition of youth and consumer protection measures, transparency requirements regarding network neutrality as well as the possibility of ex officio or ex ante regulations on network access. Another objective was to facilitate the common use of mobile networks and frequencies. While the draft of the revision did call for network access to be expanded to other technologies such as fiber optics (so-called technology neutrality), this was slated for a second phase.

After evaluating the proposed changes, the Federal Council concluded that non-gradual adjustment of the legal bases is necessary and has asked the Federal Department of the Environment, Transport, Energy and Communications to submit a petition to modify the Telecommunications Act by September 2017. The proposed changes regarding ex officio or ex ante regulations have been widely criticized. Sunrise and numerous other market players are asking the Federal Council, in the event of market failure, to apply the existing regulatory framework to the last-mile fiber optics market.

6.3 Microwave Transmission Fees

Microwave transmissions allow the wireless connection of mobile antennas. In response to political pressure, the Federal Council passed a revision to the Regulation on Telecommunication Fees lowering microwave transmission fees effective January 1, 2016.

6.4 Universal Service Requirements

ComCom periodically grants licenses for the provision of universal services under certain conditions. As in the past, Swisscom currently holds such a license for the period from 2008 to 2017. According to a survey by BAKOM for the period from 2018 to 2022, the former monopoly is the only provider with an interest in a license. Sunrise has based its disinterest on insufficient network access regulation, which makes it unfeasible for the Company to provide universal services. In December 2016 the Federal Council passed a revision to the Telecommunications Services Ordinance under which traditional analog and digital connections will be replaced by a multifunctional connection as of 2018. The minimum data transfer rate for Internet access will also be raised to 3000/300 kilobits per second.

6.5 Copyright Protection

In December 2015, the Federal Council submitted the draft of a new copyright protection law for consultation which focuses on carriers' obligations to restrict access to Web pages 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 deliberations regarding partial revisions to the Copyright Act. The Federal Department of Justice and Police (FDJP) is currently evaluating the changes and will submit its recommendation for further action to the Council by the summer of 2017.

6.6 Telecommunications Surveillance

Telecommunications providers are subject to the Swiss Federal Act on Postal and Telecommunications Surveillance (BÜPF). They are required to maintain their own infrastructure for adequate surveillance and be capable of running surveillance operations at any time. In the spring, the Swiss National Council and Council of States approved the recommendation of the Conciliation Committee and resolved the final objections to the revision of the BÜPF. A referendum against the revision to the law was rejected. As a result, providers will be subject to additional requirements. The Federal Council is currently working out the details. In addition, a revision to the Federal Intelligence Agencies Act imposing comprehensive surveillance obligations was passed by Parliament and approved by public referendum vote in September 2016.

6.7 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 FDJP to submit a preliminary draft of a revision of the FADP based on ongoing data protection reforms in the EU and the Council of Europe. The FDJP delivered a corresponding draft on December 21, 2016 for deliberation by the Council.

6.8 Environmental Protection from Radio Emissions

The Swiss Ordinance for Protection from Non-Ionizing Radiation requires Swiss carriers to comply with much stricter safety limits than most of the 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 by the Swiss National Council and the Expert Committee of the Council of States for immediate implementation of these measures as requested in a motion by the National Council Committee, the Council of States voted against the motion by a narrow margin. However, the Federal Council retains the power to adjust the ordinance. Mobile network operators have already warned of impending capacity shortages amid the current increase in data which will negatively impact their ability to provide mobile services to the public and the business sector.

6.9 International Roaming

Switzerland has thus far not regulated international roaming. As part of the current revision of the FMG, the Federal Council is recommending measures for increased transparency and more accurate billing.

6.10 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 to evaluate future regulations if necessary. Based on a code of conduct signed by Sunrise, Swisscom, Salt, UPC and Suissedigital, the carriers established a conciliation body effective September 2015.

6.11 Mobile Termination Fees

Mobile termination fees (MTFs) are transmission fees collected by a mobile communications provider when it accepts a call from another landline or mobile network and forwards the call to a customer on its own network. Sunrise, Salt and Swisscom have agreed to lower MTFs. The new mobile termination fees took effect on January 1, 2017.

6.12 Sports Broadcasting Rights

Due to abuse of market dominance through exclusive sport broadcasting, in May 2016 the Competition Commission imposed a CHF 71.8 million fine against the Swisscom Group (including Cinetrade and Teleclub) 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 monopoly 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.

7 Corporate Responsibility

2016 brought a focus on activities aimed at more firmly anchoring Corporate Responsibility in the Company's various business activities. In addition, a materiality analysis was performed that helped define the priorities for the coming years.

7.1 Corporate Responsibility Governance

The integration of Corporate Responsibility (CR) principles and decision-making channels is a vital cornerstone of a well-functioning CR management system. In 2015, Sunrise adopted a company-wide CR Guideline consisting of environmental and social responsibility standards that were also integrated into new supplier contracts as mandatory provisions. Building on this, the Company took a number of different steps in 2016 with the aim of more fully incorporating the concept of CR into its organization. A CR Steering Committee comprising members of the Executive Leadership Team, Directors and employee representatives from various business lines of the organization has been meeting quarterly since early 2016. This committee's objective is to manage CR activities and focus while also broadening support for CR throughout the company. In addition, the Steering Committee regularly evaluates CR activities on behalf of the Audit Committee that consists of representatives of the Board of Directors.

7.2 Materiality Analysis and Stakeholder Engagement

Discussions with external stakeholders are crucial for the Company's ability to align CR with current requirements. In 2016, Sunrise held a number of stakeholder meetings on a variety of topics including labor rights in the supply chain and the requirements of sustainability funds. In an effort to develop more broad-based support for CR-related strategic thrusts, the Company performed an extensive materiality analysis in the summer of 2016 (see table Sunrise materiality analysis 2016 opposite). This analysis is geared toward gaining a better understanding of the needs of both internal and external stakeholders in regard to the individual sustainability topics while also identifying improvement potentials. By assigning relevance scores to individual CR projects, this materiality analysis also lays a more solid foundation of support for the thrust of future CR projects and their underlying strategy.

The sustainability topics cited in the materiality analysis were selected on the basis of an evaluation of comparable materiality analyses and then submitted to decision makers within 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 is based on focus interviews with key stakeholders and an online survey that included responses from several hundred Sunrise customers.

Sunrise materiality analysis 2016

Relevance to stakeholders	Low	Medium	High
High	– Media competence	– Sustainability in supply chain – Sustainable products and services – Non-ionizing radiation (NIR) – Renewable energy and climate protection	– Digitalization and innovation – Information security and data protection – Customer needs focus – Network quality and reliability – Energy and eco-efficiency – Employee training and development – Active dialog between management and employees – Occupational Health and Safety – Employee care management
Medium	– Support of ecology and biodiversity – Corporate volunteering	– Sustainability reporting – Sustainable mobility – Diversity	– Rural telecommunication development – Sustainability in office and workplace
Low	– Partnership with international organizations	– Sponsoring of culture, sports and art	

Relevance to the Company

The following sections will primarily look at topics classified in the materiality analysis as highly relevant:

– Customer-related topics: Digitalization and innovation (see sections 4.15 Digital Experience and 4.10 Innovative Services on pages 20 and 18, respectively), information security and data protection (see section 4.14 ISO-Certified Services on page 20), customer needs and media competence (see section 10 Customers on page 29), network quality and reliability (see section 5 Network on page 21 et seq.), media competence (see section 10 Customers on page 29)
– Employee-related topics (see section 8 Employees on page 25 et seq.): employee training and development, active dialog between management and employees, occupational safety and health, employee care management, diversity
– Environmental topics (see section 9 Environment on page 28 et seq.): energy and eco-efficiency, renewable energy and climate protection
– Social engagement (see section 11 Community on page 29 et seq.): cultural, sports and art sponsorships

Even though Corporate Governance is also regarded as highly relevant, it is not specifically mentioned in the materiality analysis. The topic is discussed in a separate section, Corporate Governance (see page 39 et seq.).

8 Employees

As of December 31, 2016, Sunrise had 1,723 employees (1,656 full-time equivalents) throughout Switzerland (a decrease of 2.2% from the previous year). These jobs are located at company headquarters in Zurich, the offices in Prilly, Geneva, Bern, Basel and Lugano, and at some 80 points of sale across the country's different linguistic regions.

Women account for 29.7% of the Sunrise workforce and 17.1% of the Company's leadership. Top management comprises approximately 104 employees, with women accounting for 16.2%. The average age of employees is 37.1 years, and they stay at Sunrise for an average of 6.1 years.

Employees hailing from 60 different countries constitute an enormous wealth of experience and ensure a high degree of creativity and flexibility. Our day-to-day actions are based on tolerance, respect and an open attitude toward other cultures. Sunrise is confident that teams of employees with different cultural backgrounds can better understand our customers' needs and build trust through their inclusive presence. While the Company's working languages are German and English, the multilingual chatter heard in the offices and along the hallways adds even more vibrant color to the Sunrise culture.

8.1 Employee Representation

As a responsible employer, Sunrise cultivates an open, constructive dialog with the employee-elected representatives on the Staff Committee. Every three months, the Executive Leadership Team provides Staff Committee delegates with an update on the Company's performance and development, specifically with regard to any strategic decisions that might impact the workforce. Other topics the Staff Committee addresses are issues such as occupational safety and health, accident prevention, occupational illnesses, workplace environment and employee assistance in the event of a reorganization. An ordinary election was held in November of the year under review to reconstitute the nine-person committee for a three-year term.

8.2 Trade Union Relationship and Collective Bargaining Agreement (CBA)

Sunrise and syndicom, the Company's social partner, negotiated several changes during the year under review. These negotiations saw both parties work together to discuss and devise solutions that are not only fair but, above all, supported by both sides. In the fall of 2016, Sunrise employees held free elections to choose the new members of the syndicom Management Board at Sunrise.

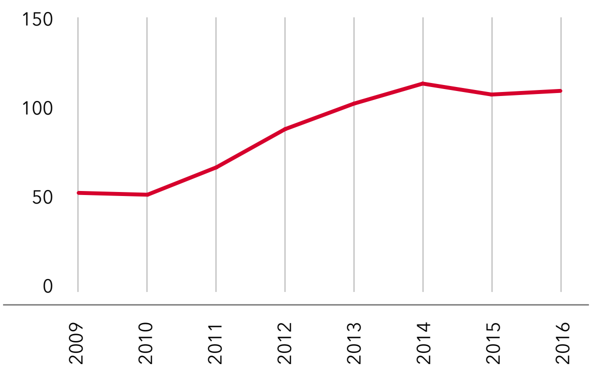
Forward-looking working conditions are a prerequisite for employees to be satisfied. The CBA enables Sunrise to implement working conditions that extend beyond minimum legal requirements. Employees subject to the CBA have a 40-hour work week; they have five weeks of paid time off per year, and six weeks per year once they reach the age of 50.

8.3 Employee Development

Sunrise trains 109 apprentices for positions as business managers, retail associates, IT specialists and customer contact professionals. In line with the Company's digitalization strategy, Sunrise has, since the summer of 2016, also been advocating for a new career field called Mediamatics that combines elements of business, IT, multimedia, project management and marketing. With a workforce consisting of 6.8% trainees, Sunrise makes a very clear statement about the immense importance of vocational training in Switzerland. In recognition of his extraordinary commitment to this pursuit, the Company's Head of Vocational Training received the Golden Headset Award in the Hall of Fame category. The jury presented this award in acknowledgement of "the lifetime achievement of an outstanding individual whose contribution has made a lasting impact on the development, promotion, image and professionalization of the industry." This recognition fills Sunrise with pride.

A growing number of apprentices at Sunrise

Sunrise is investing in talents and therefore has a long tradition of training apprentices in various positions.



When hiring new employees, Sunrise gives priority to candidates who have relevant expertise and who, in addition, uphold and support the Sunrise values of fairness, transparency and customer orientation. Thanks to a recently revised recruiting process, this concept has become an integral part of candidate selection.

Sunrise places great value on the continuing development of its employees and the organization. In this context, Sunrise focuses on corporate strategy, corporate values and management principles. The regular employee evaluation process allows Sunrise to manage and lead employees based on performance criteria. Employees receive regular feedback on their performance and progress and get the support they need to reach specific goals. To accomplish this, a company-wide process is inplace. Personal employee development is divided into three pillars:

– Management development curriculum for management employees
– Project management training for employees working in a project-driven environment
– Various individual continuing education opportunities, such as language or IT training, for all employees

In addition, employees have access to a computer-based learning management system for in-house training and continuing education. 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.

8.4 Occupational Safety and Health

Based on the company-wide occupational safety concept adopted in 2015, Sunrise has taken several different steps to enhance 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 2016, occupational safety measures focused on the network. A total of 1089 network locations were examined in terms of their occupational safety and improvements were initiated wherever necessary. Occupational Safety officers from Sunrise and its network partner Huawei met on a regular basis to evaluate the status of occupational safety at network and antenna locations. Working together with other Swiss telecommunications companies and with SUVA (public sector insurer and leading provider of health care coverage for employees in case of accidents), Sunrise, during the summer of 2016, began to revise the industry's 2008 occupational safety guidelines for antenna locations to bring them in line with the current state of technology.

8.5 Values

At Sunrise, we live and breathe the corporate values of fairness, transparency and customer orientation. Within their respective teams and on a company-wide basis, employees regularly examine these values and discuss their practical implementation both inside and outside of the Company.

8.6 Engagement in Dialog

A culture of constructive feedback underpins continuous development and improvement efforts at Sunrise. The Company created a number of different dialog platforms to this end. To measure and check its progress, it elicits employee feedback on a regular basis. This tool reveals how strategic targets are reached, whether employees' day-to-day actions are in line with the Company's values and whether the Company's leadership manages Sunrise with diligence and deliberation. Personal discussions between managers and employees offer guidance in terms of the kind of performance and conduct expected and required of employees while also providing reference points for individual development. In addition, Management engages in regular discussions with employees, addresses their needs, answers questions and provides responses to staff suggestions submitted in a feedback box.

8.7 Workplace Wellbeing

Sunrise strives to create and cultivate a positive work environment. To this end, it offers a wide range of benefits, such as a pension plan exceeding mandatory requirements, unpaid leave, and a flexible vacation policy, all making 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. The Company also offers part-time work, flexible work hours and working from home whenever possible depending on how an employee's work is linked to front-office activities.

Sunrise offers its employees a supportive work environment during the various phases of their professional careers. Paternity leave following the birth or adoption of a child, for instance, is designed to help both parents get comfortable in their new roles.

In regard to sports, Sunrise encourages its employees to participate in athletic events together. This not only strengthens the team spirit but also encourages physical activity to compensate for time spent in the office.

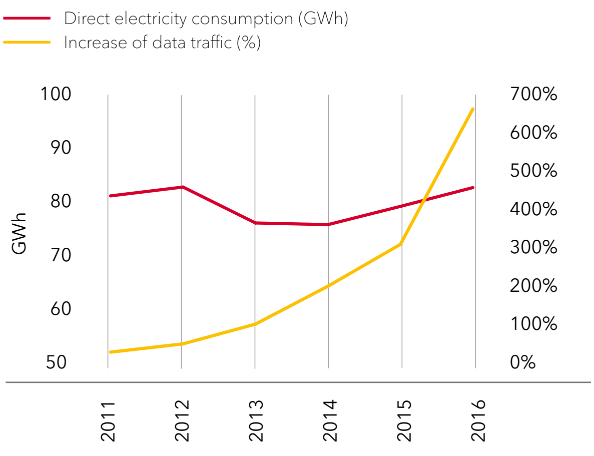
9 Environment

In the environmental sector, Sunrise focuses on energy and energy efficiency and, in doing so, makes a significant contribution toward climate protection.

9.1 Energy Consumption and Energy Efficiency

A strong focus on energy efficiency is a key element of the Company's effort to reduce its energy use and promote sustainable development. Sunrise measures energy efficiency within the scope of a voluntary energy efficiency agreement with the Swiss Federal government. Several efforts were launched in 2016 to continue to boost energy efficiency. By implementing energy-saving measures over the past four years, Sunrise has, pursuant to the agreement, increased its energy efficiency by almost 11%. The use of more efficient heating, ventilation and air conditioning systems was a key element of these energy-saving measures in 2016 and helped to save 460,000 kilowatt hours of electricity annually. Despite the rapid growth in data usage and increased network performance, total direct electricity consumption remained roughly constant over the past five years (see chart below).

Direct electricity consumption and data traffic increase



Electricity consumption accounts for the largest category of greenhouse gas emissions that Sunrise has direct control over; about 80% of this electricity is used in connection with the network infrastructure. The Company decided in 2016 to switch its power supply in 2017 to 100% renewable energy from domestic sources, a move that constitutes a major step forward in terms of climate protection. The choice fell to Swiss hydropower which generates power with minimal CO_2 emissions compared to other types of energy. The electrical utility of the city of Zurich, ewz, has formed a partnership with Sunrise to guarantee a supply of 100% Swiss hydropower. Energy efficiency efforts at Sunrise were also aimed at the Company's fleet of vehicles. All standard models ordered in 2016 have an A rating, the very highest efficiency class offered.

Recycling

Take-back programs and subsequent refurbishment can greatly extend the useful life of electronic devices which, in turn, has a positive impact on the consumption of resources. In addition, Sunrise is actively involved in recycling. Following a successful six-month pilot phase, a take-back program for mobile phones and tablets was launched in the spring of 2015. In 2016, the Company again took back a large number of mobile phones and tablets. and either properly recycled them or had them refurbished.

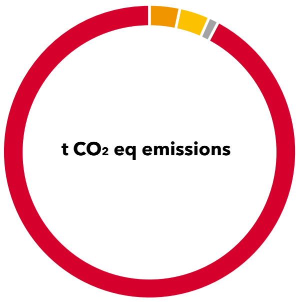
9.2 Ecological Footprint 2016 and Climate Protection

A company's ecological footprint is an important tool that can help determine what impact its business activities have on the climate. 2016 marked the first time Sunrise calculated its ecological footprint. Factors taken into consideration within the scope of this analysis include greenhouse gas emissions Sunrise has direct control over as well as the Company's power consumption (scopes 1 and 2, measured in CO_2 equivalents). Not included in the calculations were indirect emissions, referred to as scope 3 emissions that would, for instance, also take into consideration the environmental impact of mobile phone production. The heating fuels category of greenhouse gas emissions covers the generation of heat 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. Vehicle emissions include the Sunrise vehicle fleet. 135 vehicles traveled an average of 23,597 kilometers in 2016. The other emissions category mainly accounts for refrigerant losses in air conditioning systems installed at the Company's network sites. Electricity produces the lion's share of greenhouse gas emissions (scope 2).

t CO_2 eq emissions 2016

(Scopes 1 & 2)

	10,924 t	Electricity
	410 t	Combustibles
	407 t	Fuels
	127 t	Other emissions



9.3 Targets

By setting specific targets, Sunrise actively assumes responsibility for protecting the environment and, in doing so, contributes to a positive societal development. Sunrise has set the goal to save 9,000 tons of CO_2 emissions until 2017 by switching to 100% renewable electricity. The Company plans to achieve this goal primarily through even greater efficiency and the use of renewable energy sources.

10 Customers

A robust customer feedback system is in place to document customer needs. This information is then used to derive and implement improvements in many different areas. The protection of minors in the media environment was the main focus in the area of media competence in 2016.

10.1 Customer Needs and Robust Customer Feedback System

The Company's focus on customer needs and satisfaction is an integral part of its sustainable business strategy that is geared toward long-term customer retention. Sunrise has been using a robust customer feedback system to document customer needs for about four years now. The Company systematically evaluated feedback from some 400,000 customers in 2016. While it has addressed individual responses personally, it has also devised methodical solutions for analogous responses received from multiple customers. These efforts culminated in several awards, particularly those based on customer surveys (Bilanz rating) and others presented by specialty media providers (connect Hotline Test, connect Network Test, Comparis).

10.2 Media Competence and the Protection of Minors

The responsible use of new media (media competence) is a topic that is gaining importance in our increasingly networked, global society. In the area of media competence, Sunrise focuses its efforts on the protection of minors in the media environment. Sunrise joined other telecommunications companies in signing a new industry initiative for the protection of minors in the media environment on June 10, 2016. By being a signatory to this initiative, Sunrise is making an important contribution toward promoting the safe, responsible use of digital media. One main focus of this industry initiative is on the information provided to customers. An informational flyer prepared jointly by signatories to the initiative provides parents and guardians with information about how to address the subject of digital media and minors. One requirement of this industry agreement is the appointment of a youth protection representative responsible for advocating for the topic both internally and externally.

11 Community

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

11.1 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.

11.2 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 Schweizer Sporthilfe sponsorship program through the support it provides to the Roger Federer Foundation. The Sports 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 athletes are usually somewhat older when they first enter competitive sports. Every year, around 400 talented young Swiss athletes receive individual or performance-based funding and are motivated through sponsorship arrangements or awards.

12 Major Events

12.1 Refinancing

On December 30, 2016, Sunrise successfully closed on a repricing transaction of its credit facilities. As a result of this transaction, Sunrise achieved a margin reduction of 25bps on its revolving credit facility (RCF) and a margin reduction of 50bps on its term loan B facility. Together with the repricing, the amendment of the senior facilities agreement includes an updated margin ratchet, as well as an extension of maturity on the RCF to August 2021 and on the term loan B facility to February 2022. Additionally, other technical and legal amendments have been implemented.

In connection with the repricing transaction the Group incurred a transaction cost in the amount of CHF 8.0 million which is capitalized as debt issuance cost on the consolidated statements of financial position.

12.2 Change in Mobile Termination Rates

Sunrise, Salt and Swisscom have negotiated lower mobile termination rates (MTR) with one another. These new rates will be effective as of January 1, 2017 (Sunrise MTR until December 31, 2016: Rp 7.35/min; 2017: Rp. 4.30/min; 2018: Rp. 3.90/min; 2019: Rp. 3.50/min). The lower national mobile termination rates should also aid in renegotiating international mobile termination rates.

Reductions in mobile termination rates have no direct impact on customer tariffs, since both the revenue and costs of mobile operators are reduced. Therefore, the effect of the decrease in mobile termination rates is largely offset at the gross profit level. On the revenue level, the reduced mobile termination rates will lead to an isolated effect of −2% to −3% on revenue.

13 Financial Review

2016 financial performance was in in-line with the guidance provided by Sunrise. Revenue decreased with strong subscriber momentum in mobile postpaid, Internet and TV being overcompensated by revenue headwinds (see section 13.1 Revenue for more details). Cost-saving measures focused on efficiency, simplification and digitization partly mitigated the revenue pressure, limiting the decrease in EBITDA. Equity free cash flow improved by 50% year over year, supported by reduced interest expenses and Capex – and is in line with guidance. Adjusted EBITDA came in mid-range of Sunrise guidance for the year.

13.1 Revenue

The Sunrise Group financial results for the twelve-month period ended December 31, 2016 showed a decrease in total revenue of 4.0% driven mainly by lower mobile and landline service revenue.

13.1.1 Mobile Services

Revenue from mobile services declined by 3.1% to CHF 1,264 million for the twelve-month period ended December 31, 2016. Excluding low-margin mobile hardware revenue, the decrease was 3.2%.

While the postpaid subscription base increased by 6.1% year-over-year, postpaid revenue decreased in 2016 due to lower average revenue per user (ARPU) (excluding handset installments).

The postpaid ARPU reduction (excl. handset installments) is partly attributable to the Freedom mobile handset unwind, i.e., customers migrating from older subsidized rate plans to the Freedom offering, which is effectively a SIM-only plan. Further negative ARPU impacts included value effects from changes to the rate plan mix and promotions, dilution from lower priced secondary SIM-cards and lower roaming prices. The postpaid subscription base totaled 1,485 thousand subscribers as of December 31, 2016 (December 31, 2015: 1,400 thousand). The base increase was driven by improved network quality and customer service as well as competitive flat-rate and mobile data plans, and prepaid to postpaid migration. The continuous growth of mobile data traffic is reflected in the increase of secondary subscriptions (such as secondary SIM-cards used for data) used by customers in addition to their primary subscriptions.

Mobile prepaid revenue declined year-over-year due to a decreasing subscription base and lower ARPU. The ARPU decrease of 8.8% (CHF 1.3) year-over-year is attributable to high-value prepaid customers migrating to postpaid offerings, increased use of prepaid options and ongoing usage cannibalization by OTT (Over The Top) services. The prepaid subscription base shrank year-over-year by 10.3% to 910 thousand subscribers as of December 31, 2016. Ongoing pre- to postpaid migrations are driven by the emergence of postpaid flat rate plans providing similar cost control such as prepaid, Freedom portfolio flexibility, and by demand for high value smartphone installment plans, which are not available in prepaid.

Hardware revenue decreased by 2.4% to CHF 253.3 million for the twelve-month period ended December 31, 2016. Hardware revenue depends on handset innovation and volatile sales to retailers.

13.1.2 Landline Services

Landline service revenue decreased by 11.3% to CHF 419 million during 2016, driven mainly by lower retail voice, integration and hubbing revenue.

The decrease of lower margin integration revenue is mainly related to a product transition phase, while hubbing revenue is generally volatile as it is a trading business.

Lower retail voice revenue is mainly impacted by an ARPU decrease of 12.1% and only partially compensated by a 5.7% increase in subscriptions to 417 thousand. Fixed-to-mobile substitution, increased penetration of product propositions, which include voice flat rates and increased use of OTT services, impacted the retail voice ARPU negatively.

13.1.3 Landline Internet and TV

Internet and TV revenue increased by 7.0% to CHF 214.4 million for the twelve-month period ended December 31, 2016.

The total Internet subscription base increased by 8.9% year-over-year to 372 thousand subscriptions. The main drivers for the increase include a competitive product offering with attractive pricing together with a strong IPTV product. The IPTV product can be purchased alongside Internet service and increased its customer base by 21.7% year-over-year to 163 thousand subscribers. The revenue increase was also supported by a stabilization of the Internet and IPTV ARPU.

13.2 Transmission Costs and Cost of Goods Sold

Transmission costs and cost of goods sold decreased proportionally to the revenue decline and totaled CHF 704 million for the twelve-month period ended December 31, 2016. While higher international termination rates had a negative impact on gross margins, their impact was offset by various mix effects resulting in a stable gross margin for Sunrise year over year.

13.3 Adjusted EBITDA

Adjusted EBITDA in 2016 amounted to CHF 611 million and was CHF 12 million higher than the reported EBITDA. This represents a decrease of CHF 15 million compared to adjusted EBITDA for the same period in 2015. The table below shows one-time adjustments from reported EBITDA to adjusted EBITDA for the years 2016 and 2015.

in CHF million January 1 – December 31	**2016**	2015
Reported EBITDA	**599**	**616**
Prior-year-related events	(3)	(1)
Non-recurring and/or non-operating events	14	7
Thereof restructuring effect, net	*7*	*4*
Costs related to share-based payment	2	4
Adjusted EBITDA	**611**	**627**

13.4 Reported EBITDA

The Group generated an EBITDA of CHF 599 million for the twelve-month period ended December 31, 2016, a year-over-year decrease of CHF 17 million, or 2.8%, from CHF 616 million for the twelve-month period ended December 31, 2015. EBITDA developed better year-over-year than revenue, which was supported by various savings including the organizational streamlining in September 2015.

13.4.1 Other Operating Expenses

In 2016 other operating expenses decreased by CHF 29 million, or 7.1%, from CHF 412 million to CHF 382 million year-over-year, primarily attributable to various cost efficiency measures, including year-over-year sourcing optimizations.

13.4.2 Wages, Salaries and Pension Costs

Wages, salaries and pension costs totaled CHF 221 million for the twelve-month period ended December 31, 2016. Even though the base salaries decreased by CHF 19 million compared to the prior year, total wages, salaries and pension costs increased by 6.4% (CHF 13 million). This is partially due to higher bonus expenses of CHF 8 million in 2016 as well as to the recording of a CHF 16 million gain related to the curtailment effect of IAS 19 due to the organizational streamlining in September 2015, which lowered the total expenses in 2015 significantly.

Although the pension fund of Sunrise Communications AG is overfunded by 20% as of December 31, 2016, according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 102 million in its condensed consolidated interim financial statements as of December 31, 2016. The different results are driven by differences in valuation methods; Swiss GAAP FER 26 prescribes a static valuation method whereas IFRS (IAS 19) requires the use of a dynamic valuation method. Therefore, the IFRS pension liability should not be considered a current cash liability based on current facts and circumstances.

The decrease of CHF 13 million in the pension liability from CHF 115 million as of December 31, 2015 to CHF 102 million is mainly due to the recording of an actuarial gain of CHF 18 million. The change in demographic assumptions and experience resulted in an actuarial gain of CHF 22 million which was partially offset by the decrease in the discount rate from 0.83% to 0.65% during 2016 (loss of CHF 8 million). The positive return on plan assets in the amount of CHF 5 million further increased the actuarial gain on the pension liability.

13.4.3 Other Income and Expenses, Net

Other income decreased by CHF 2 million in the full year 2016 compared to the same period in the prior year. This is mainly attributable to lower early termination fees in the amount of CHF 3 million.

Other expenses decreased in 2016 by CHF 19 million compared to the same period in the prior year mainly due to the recording of a provision related to restructuring expenses of CHF 20 million in September 2015.

13.5 Net Income

The Group reported a net income of CHF 87 million for the twelve-month period ended December 31, 2016, a year-over-year improvement of CHF 200 million from a net loss of CHF 113 million for the prior-year period. Lower financial expenses following the debt refinancing supported the net income in 2016, whereas in 2015 expenses related to the IPO and refinancing transactions of CHF 157 million led to a loss.

13.5.1 Depreciation and Amortization

Depreciation and amortization are CHF 13 million lower than in the prior period. As of December 31, 2016, depreciation and amortization totaled CHF 460 million, of which CHF 127 million related to the amortization of purchased intangibles (CHF 148 million in 2015). 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. Depreciation and impairment losses decreased slightly compared to the twelve-month period ended December 31, 2015.

13.5.2 Net Financial Items

Net financial items decreased by CHF 180 million to CHF 55 million for the twelve-month period as of December 31, 2016, and mainly consist of interest expenses and amortization of transaction costs related to the term loan B and senior secured notes. 2015 was negatively impacted by one-off costs related to switching to lower financing costs, IPO costs, early termination fees for bonds and EUR/CHF hedging instruments and certain other non-cash balance sheet items. Following the 2015 refinancing transaction, the weighted average cost of debt was reduced from 7.1% to 2.4% per annum. With the 2016 repricing transaction, the weighted average cost of debt will further be reduced to 2.0% per annum.

13.5.3 Income Taxes
For 2016 the net income tax benefit of CHF 3 million (2015: net income tax expense of CHF 22 million) consists of a CHF 23 million (2015: CHF 37 million) tax expense related to current income taxes and a tax benefit of CHF 27 million (2015: CHF 15 million) related to the change in deferred taxes. The lower current income tax expense is mainly related to a substantial tax deductible impairment of investments in 2016. The higher deferred tax benefit is mainly related to the change in temporary differences and a decrease in the deferred tax rate of Sunrise Communications AG.

13.6 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, Freedom receivables 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 2016 the net cash outflow reported in net working capital totaled CHF 68 million. The main outflows are attributable to a negative change in trade and other receivables (CHF 59 million) driven by the cancellation of the factoring agreement related to handset receivables. All outstanding amounts related to the factoring agreement were settled. The net cash impact for 2016 related to factoring of handset receivables was a net cash outflow of CHF 42 million.

13.7 Cash Flow
Cash and cash equivalents totaled CHF 214 million as of December 31, 2016, a decrease of CHF 30 million compared to the cash position held as of December 31, 2015. The decrease is mainly driven by the payment of the dividend of CHF 135 million to the shareholders of SCG for the financial year 2015 in April 2016, as well as the early payment of the third and final installment for the mobile license spectrum awarded by the Federal Communications Commission in the amount of CHF 108 million on July 20, 2016. In 2015 there was an increase in cash of CHF 124 million due to the positive impact of the IPO/debt refinancing on the cash flow from financing activities with no dividend payment in 2015 and a payment for the second installment for the mobile license of CHF 105 million.

13.7.1 Cash Flow from Operating Activities
The year-over-year decrease of CHF 4 million in 2016, is primarily attributable to a higher outflow from net working capital. Compared to prior year period,outflow from changes in trade and other receivables increased by CHF 44 million, mainly related to the settlement of outstanding factored handset receivables. This was partially offset by lower interest charges related to the IPO and refinancing transactions in Q1 2015.

13.7.2 Cash Flow Used in Investing Activities
Purchase of tangible and intangible assets for the twelve-month period ended December 31, 2016 amounted to CHF 213 million. This represents a decrease of CHF 79 million compared to the prior-year period. The Capex guidance for 2016 was CHF 220 to 230 million. The gap to the 2016 Capex guidance is due to a change in presentation, as movements in not-yet-paid Capex invoices are now considered within Capex (CHF −18 million in 2016), whereas in previous years these movements were part of Change in net working capital. A system development in 2016 made it possible for Sunrise to identify not-yet-paid Capex invoices and accruals.

This reclassification has no impact on equity free cash flow and total cash flow, since its impact on Capex is fully offset by the opposite impact on Change in net working capital.

The tables on the next page show an overview of the impact of the new presentation.

Cash flow used in investing activities	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016
Reported/guided cash flow used in investing activities	**(276,001)**	**(32,013)**	**(52,341)**	**(58,522)**	**(87,240)**	**(230,116)**
Thereof purchase of property, plant and equipment	*(196,164)*	*(19,097)*	*(35,530)*	*(39,218)*	*(58,715)*	*(152,560)*
Thereof purchase of intangible assets	*(79,896)*	*(12,916)*	*(16,839)*	*(19,329)*	*(28,592)*	*(77,676)*
Thereof sale of property, plant and equipment	*59*	*–*	*28*	*25*	*67*	*120*
Restated cash flows used in investing activities	**(291,859)**	**(69,305)**	**(62,166)**	**(37,818)**	**(43,189)**	**(212,478)**
Thereof purchase of property, plant and equipment	*(207,432)*	*(41,343)*	*(42,196)*	*(25,349)*	*(32,504)*	*(141,392)*
Thereof purchase of intangible assets	*(84,486)*	*(27,962)*	*(19,998)*	*(12,494)*	*(10,752)*	*(71,206)*
Thereof sale of property, plant and equipment	*59*	*–*	*28*	*25*	*67*	*120*
Movement in accounts payable related to purchase of property, plant and equipment and intangible assets	(15,858)	(37,292)	(9,825)	20,704	44,051	17,638

Change in net working capital	FY 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	FY 2016
Reported change in net working capital	**(45,008)**	**(101,200)**	**33,490**	**7,001**	**10,423**	**(50,286)**
Restated change in net working capital	**(29,150)**	**(63,908)**	**43,315**	**(13,703)**	**(33,628)**	**(67,924)**
Movement in accounts payable relating of purchase of property, plant and equipment and intangible assets	(15,858)	(37,292)	(9,825)	20,704	44,051	17,638

13.7.3 Cash Flow Used in Financing Activities

Following the IPO in February 2015, the cash flow used in financing activities in 2015 was primarily affected by the proceeds from the IPO and refinancing transactions, the redemption and settlement of all existing debt and derivative instruments as well as the payment of the second installment of the mobile license in the amount of CHF 105 million. This resulted in a negative cash flow of financing activities of CHF 36 million in 2015. In 2016 the payment of a CHF 135 million dividend to the shareholders of SCG, the payment of the third and final installment of the mobile license of CHF 108 million together with the repayment of capital leases, other financing activities and fees in connection with repricing and extension of the existing term loans of 22 million led to a negative cash flow from financing activities of CHF 265 million.

13.8 Net Debt

The Group's consolidated debt position – consisting of a term loan B facility, senior secured notes and capital leases – amounted to CHF 1,845 million (nominal value: CHF 1,860 million), of which CHF 8 million is expected to be paid within 12 months. Net debt at nominal value totaled CHF 1,663 million as of December 31, 2016, resulting in a net debt to EBITDA leverage ratio of 2.7× (December 31, 2015: 2.6×).

13.9 Dividend Proposal and Distribution Policy

The Board of Directors proposes allocating approximately CHF 150 million from the reserves from capital contributions to the dividend reserves to pay a dividend of CHF 3.33 per share totaling approximately CHF 150 million in 2017.

Sunrise reiterates its dividend policy of paying out at least 65% of equity free cash flows until the Company has reached its net debt/EBITDA leverage target of 2.5×. Once this threshold is reached, cash in excess of 65% will be used for dividends, share buybacks or further deleveraging, as appropriate at that time.

The accounting treatment of mobile hardware sales under the Freedom product proposition has a negative impact on net working capital as it increases the balance of trade receivables. In order to minimize this negative impact, Sunrise includes the cash flow generated by monetization of Freedom hardware receivables under the factoring agreement in the definition of equity free cash flow. Sunrise expects the negative impact on net working capital to cease during 2017 and therefore intends to exclude such cash flows from the definition of equity free cash flow beginning in 2017. With the cancellation of the factoring agreement, all outstanding amounts related to the factoring agreement were settled as of the balance sheet date.

14 Risks

14.1 Overview

Sunrise operates a centralized risk management system that distinguishes between strategic and operating risks. Competition, impairment of supply relationships and interruptions to network performance are the main risks and uncertainties the Group is facing. All identified risks are quantified (according to their realization probability and impact) and tracked on a risk schedule. This risk schedule is subject to an annually recurring detailed discussion process among the Sunrise group's Board of Directors, the last of which was performed on November 8, 2016. The key risks identified are as follows:

14.2 Market Competition

Price erosion and a further move by customers toward bundle plans that tend to offer more value for the same price could lead to a reduction in revenue. Additionally, aggressive promotional campaigns by Salt and other low-priced national flat rates as well as competition in roaming prices put pressure on mobile postpaid segment prices while over-the-top services are cannibalizing international call as well as roaming voice revenue and are impacting the IPTV growth potential which could also result from a potential entry of Salt into the Internet market. Sunrise actively monitors market developments and offers attractive bundles with flat rate components to cover customers' needs comprehensively.

14.3 Supplier Relationships

The fact that EU regulations do not apply to Swiss operators has led certain operators in the EU to increase the termination rates charged to Swiss operators for voice traffic originating in Switzerland, leading to a higher cost of goods sold for Sunrise. Pricing with EU operators is the subject of ongoing negotiations with providers of fiber- and copper-based access technologies for landline services of Sunrise that are undertaken to ensure continued cost-effective access.

14.4 Business Continuity and Information Security

Telecom services are becoming more and more complex and are thereby heavily dependent on highly sophisticated technological infrastructures. Software or hardware failure, human error, viruses or hacking can decrease service quality or, in the worst-case scenario, lead to system outages. The certification of the Sunrise Information Security Management System in accordance with the ISO 27001 standard, along with the Sunrise business continuity management plan, ensures that Sunrise services meet the standards that customers demand.

14.5 Financial Risks

The Group is exposed to a variety of financial risks, namely market risk, credit risk and liquidity risk. A detailed description of the financial risks is given in Note 26 to the Consolidated Financial Statements of the Group on page 128 et seq.

15 Additional Disclosures

15.1 Material Affiliate Transactions

15.1.1 Change in the Board of Directors of SCG

At the ordinary Annual General Meeting on April 15, 2016, Peter Kurer was elected as the new Chairman of the Board of Directors of SCG. Michael Krammer, Robin Bienenstock, Christoph Vilanek and Joachim Preisig, endorsed by the Shareholders of SCG, joined the Board of Directors. Daniel Pindur and Siddharth Patel resigned as members of the Board of Directors.

15.1.2 Change in the Management Board of SCG

As of May 9, 2016, Olaf Swantee replaced Libor Voncina as CEO of Sunrise.

SCG simplified its management structure through the formation of an Executive Leadership Team (ELT). Human Resources and the Administrative Office are newly represented in the ELT by Karin Schmidt and Dominik Rubli, respectively.

As of June 1, 2016 Françoise Clemes took over the Company's Customer Services unit from Massimiliano Nunziata, who will lead the newly created Business Customers unit.

15.1.3 Dividend Payment
At the Annual General Meeting on April 15, 2016, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 135.0 million (CHF 3 per share) in respect of the 2015 financial year was approved. The dividend payment was made on April 21, 2016.

15.1.4 Change in Major Shareholder of SCG
CVC Capital Partners, a major shareholder of SCG, sold 23.8% of its shares (approx. 10.7 million) to freenet AG. Christoph Vilanek, CEO and Joachim Preisig, CFO of freenet AG, joined the Board of Directors of Sunrise.

15.1.5 Change in Board of Directors of Subsidiaries in Luxembourg
As of August 2016, Dominik Rubli, Uwe Schiller and Claude Crauser replaced André Krause, Libor Voncina and Emanuela Brero as members of the Board of Directors of Mobile Challenger Intermediate Group S.A., Sunrise Communications International S.A. and Skylight S.à r.l. François Pfister continued as a member of the Board of Directors of the Luxembourg entities.

15.2 Material Contractual Arrangements
In January 2016, Sunrise extended its broad partnership agreement with Telefónica. This allows cooperation under the framework of the Telefónica Partners Program for the exchange of know-how and enables procurement of services, network equipment, IT and devices through TGS, Telefónica's global procurement services unit.

In February 2016, Sunrise and NFON AG expanded their collaboration on cloud telephone systems. Business cloud PBX "powered by NFON" defines the two partners' collaboration in the area of cloud-based phone system solutions for small, medium-sized, and large companies in conjunction with the services provided by Business Sunrise.

In September 2016, Sunrise and Huawei signed a five-year agreement under which Sunrise will outsource its IT operations to Huawei. The agreement covers all IT-based services. However, IT Strategy and Project Management and Development will remain in-house. As a result, 31 Sunrise employees joined Huawei as of November 2016. The Staff Committee and the syndicom union have been working closely with the project team to ensure that the interests of the employees involved are considered.

Furthermore, Sunrise and Huawei Technologies Switzerland AG have renewed their partnership in an effort to continuously update their network with the latest technologies and further strengthen the customer experience.

15.3 Certain Other Contractual Commitments
Total contractual and purchase commitments as of December 31, 2016 amounted to CHF 93 million, consisting of future investments in property, plant and equipment and intangible assets.

15.4 Credit Ratings
As of December 31, 2016, the corporate family rating for Sunrise Communications Holding S.A., 100% indirectly owned by Sunrise Communications Group AG, by the credit rating agencies Fitch, Moody's and Standard & Poor's (S&P) remains unchanged at BB+, Ba2 and BB+, respectively. In addition, the notes and term loan facilities are still rated BBB- by Fitch and Ba2 by Moody's. S&P revised its rating for the notes and term loan facilities from a BB+ to BBB-.

15.5 Acquisitions, Disposals and Recapitalization
No material acquisitions, disposals or recapitalization occurred in FY 2016.

15.6 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.

16 Outlook

16.1 2017 Guidance

2017 revenue is expected to range from CHF 1,820 million to CHF 1,860 million. Adjusted EBITDA is expected to be between CHF 595 million and CHF 610 million. Capex for 2017 is expected to be within a range of CHF 225 million to CHF 265 million. The range is widened as the change in Capex presentation mentioned under section 13.7.2 Cash Flow Used in Investing Activities on page 33 makes Capex and Change in net working capital more volatile due to timing of payments. Included in the Capex guidance is the expectation that the recently announced new convergent offering – Sunrise One – will drive further growth in the Internet and TV base, triggering increasing needs for capitalized routers and set-top boxes.

16.2 Dividend Policy of 65% eFCF Pay-Out Reiterated

Sunrise reiterates its dividend policy of paying out at least 65% of equity free cash flow. The Company confirms its net debt/EBITDA leverage target of 2.5×. Once this threshold is reached, cash in the excess of 65% will be used for dividend, share buyback or further deleveraging, as appropriate at that time. Upon meeting its 2017 guidance, Sunrise expects to propose a dividend to the Annual General Meeting for 2017 in the range of CHF 3.45 to CHF 3.55 per share to be paid from capital contribution reserves in 2018.

Corporate Governance

Corporate governance at Sunrise Communications Group AG is ensured through the activities of the Board of Directors, the Chief Executive Officer and the Executive Leadership Team in accordance with the Articles of Incorporation and the Organizational Regulations of Sunrise Communications Group AG. Sunrise Communications Group AG complies with all applicable legal requirements and discloses its corporate governance pursuant to the Directive on Information Relating to Corporate Governance of January 1, 2016, issued by the SIX Swiss Exchange.

Corporate Governance

1 Group Structure and Shareholders

1.1 Group Structure

Sunrise Communications Group AG is organized as a stock corporation with limited liability under Swiss corporate law. It was founded on January 13, 2015, and was registered on January 14, 2015 with the commercial register of the Canton of Zurich under company registration number CHE-343.774.206. The registered office of Sunrise Communications Group AG is located at Binzmühlestrasse 130, 8050 Zurich, Switzerland. Business operations are conducted through the Sunrise group of companies listed in Note 31 to the Consolidated Financial Statements on page 138.

The operational structure of the Sunrise group follows the segment reporting and reflects the different customer groups to which the Sunrise group provides its telecommunication products and services: Residential, Business, Wholesale, and Head Office which includes finance, IT and technology functions of the Sunrise group. For further details, please see Note 7 to the Consolidated Financial Statements on page 103 et seq.

Share capital and voting rights of all group companies are listed in Note 3.5 to the Statutory Financial Statements on page 155. Sunrise Communications Group AG is the group's holding company and directly or indirectly owns all Sunrise group companies. Sunrise Communications AG, based in Zurich, Switzerland, is the main operating entity of the group.

Sunrise Communications Group AG is the only listed group company within the Sunrise group. At December 30, 2016, Sunrise Communications Group AG had a market capitalization of CHF 3,015 million. For further information on the shares and the listing, please see section 2.5 Shares on the next page.

1.2 Significant Shareholders

As of December 31, 2016, Sunrise Communications Group AG was notified of the following shareholdings totaling 3% or more of the total share capital of Sunrise Communications Group AG:

Name of shareholder	In % of total share capital
freenet AG, Büdelsdorf	24.56%
Allianz SE, Munich	9.88%
Canada Pension Plan Investment Board, Toronto	5.03%
Hengistbury Investment Partners LLP, London	4.98%
UBS Fund Management (Switzerland) AG, Basel	3.06%

Disclosure notifications of significant shareholdings in Sunrise Communications Group AG that were filed in 2016 with Sunrise Communications Group AG and the SIX Swiss Exchange are available from the online publication platform of the SIX Swiss Exchange through the following database search page: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Sunrise Communications Group AG is not aware of any other person or institution which, as of December 31, 2016, directly or indirectly, on its own account or in concert with third parties, may have held 3% or more of the Sunrise Communications Group AG share capital.

1.3 Cross Shareholdings

As of December 31, 2016, Sunrise Communications Group AG had no cross shareholdings with any other company exceeding 5% of the capital shareholdings or voting rights.

2 Capital Structure

2.1 Capital

As of December 31, 2016, the share capital of Sunrise Communications Group AG amounted to CHF 45,000,000 divided into 45,000,000 fully paid-in, registered shares with a nominal value of CHF 1.00 per share.

2.2 Authorized Share Capital

Sunrise Communications Group AG has authorized share capital in an amount not to exceed CHF 350,000 through the issuance of up to 350,000 fully paid-in, registered shares with a nominal value of CHF 1.00 at any time until April 15, 2018. These registered shares are reserved exclusively for the purpose of the participation of employees as well as members of the Board of Directors and the executive management of Sunrise Communications Group AG or its subsidiaries pursuant to one or more regulations adopted by the Board of Directors. The shareholders' preemptive right is excluded. Increases in partial amounts are permitted. Further, an increase through initial subscription of the new shares by Sunrise Communications Group AG is permitted in accordance with Article 659 et seq. of the Swiss Code of Obligations. The Board of Directors determines the date of issue of new shares, their issue price, which may be below the market price, the type of contribution and the time of dividend entitlement. Any newly registered shares are subject to registration restrictions under Article 5 of the Articles of Incorporation (www.sunrise.ch/governance/principles) following their acquisition.

2.3 Conditional Share Capital

As of December 31, 2016, Sunrise Communications Group AG had no conditional share capital.

2.4 Changes in Share Capital

Sunrise Communications Group AG was founded on January 13, 2015, with an initial issued share capital of CHF 100,000 divided into 100,000 fully paid-in, registered shares with a nominal value of CHF 1.00 per share. On January 23, 2015, the share capital of Sunrise Communications Group AG was increased from CHF 100,000 to CHF 25,000,000. In the capital increase, Sunrise Communications Group AG received by way of a contribution in kind and by way of a contribution to the reserves from capital contributions all 134,553,661 A ordinary shares in Mobile Challenger Intermediate Group S.A., Luxembourg, Grand-Duchy of Luxembourg, with a nominal value of CHF 0.01 each pursuant to a contribution agreement dated January 23, 2015, against issuance of 24,900,000 registered shares of Sunrise Communications Group AG with a nominal value of CHF 1.00 per share. On February 5, 2015, the share capital of Sunrise Communications Group AG was increased from CHF 25,000,000 to CHF 45,000,000 in an ordinary capital increase of 20,000,000 registered shares of Sunrise Communications Group AG with a nominal value of CHF 1.00 per share against cash contributions in connection with the initial public offering of Sunrise Communications Group AG on February 6, 2015.

2.5 Shares

The shares of Sunrise Communications Group AG are registered shares with a nominal value of CHF 1.00 per share and are fully paid-in. All registered shares with the exception of treasury shares held by Sunrise Communications Group AG are eligible for a dividend. There are no preferential rights. The shares are listed and traded in the standard for equity securities, sub-standard International Reporting, of the SIX Swiss Exchange (Valor No. 26'729'122, ISIN CH0267291224, symbol: SRCG). The shares are issued as uncertificated securities (German: Wertrechte) within the meaning of Article 973c of the Swiss Code of Obligations and registered as intermediated securities (German: Bucheffekten) within the meaning of the Swiss Federal Intermediated Securities Act. Shareholders have no right to request the printing and delivery of share certificates or the conversion of the form in which shares are issued into another form. Shareholders may, however, at any time request from Sunrise Communications Group AG the delivery of an attestation certifying their current shareholdings.

2.6 Participation Certificates

As of December 31, 2016, Sunrise Communications Group AG had no participation certificates outstanding.

2.7 Profit-Sharing Certificates

As of December 31, 2016, Sunrise Communications Group AG had no profit-sharing certificates outstanding.

2.8 Limitations on Transferability and Nominee Registrations

For as long as the shares are in uncertificated form (German: Wertrechte) and registered as intermediated securities (German: Bucheffekten), any transfer and collateralization of shares must be made in accordance with the Swiss Federal Intermediated Securities Act. If uncertificated shares are transferred by assignment, Sunrise Communications Group AG must be notified of the transfer in order for it to be considered valid. Voting rights may be exercised only after a shareholder has been registered in the share register of Sunrise Communications Group AG (German: Aktienbuch) as a shareholder with voting rights. For further information on voting rights, please see section 6.1 Voting Rights on page 61 et seq. According to Article 5 (3) of the Articles of Incorporation (www.sunrise.ch/governance/principles) as well as Articles 4 and 5 of the Share Register Regulations (see section 6.1 Voting Rights on page 61 et seq.), the Board of Directors may register nominees as shareholders with voting rights in the share register for up to a maximum of 3% of the total share capital outstanding at the time. Nominees are persons who in their registration request do not explicitly declare that they hold the shares for their own account and with whom Sunrise Communications Group AG has entered into a respective agreement. The Board of Directors may register a nominee as a shareholder with voting rights in excess of such registration limitation provided the nominee discloses the names, addresses, nationalities and shareholdings of the persons for whom it holds 0.5% or more of the total share capital outstanding at the time. According to Article 10 (5) of the Articles of Incorporation, changes to the rules regarding limitations on transferability of shares are subject to a quorum of two-thirds of the votes represented at the meeting. For further information on statutory quorum requirements, please see section 6.4 Statutory Quorum Requirements on page 62.

As of December 31, 2016, the following nominees are registered in the share register of Sunrise Communications Group AG as shareholders with voting rights in excess of 3% of the total share capital outstanding at the time:

Name of nominee	Voting rights (percentage of total share capital outstanding)	Year of first registration
Chase Nominees Ltd.	More than 3%	2015

2.9 Convertible Bonds and Options

As of December 31, 2016, Sunrise Communications Group AG had no convertible bonds or options on its shares outstanding. With respect to share-based compensation (including the right to receive a portion of the short-term incentive in the form of shares and the right to receive Performance Shares) please consult the Compensation Report (section 5 Executive Leadership Team Compensation on page 76 et seq.).

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors currently consists of eight non-executive members. No board member is or has been a member of the management of Sunrise Communications Group AG or any of its subsidiaries throughout the last three financial years ending on December 31, 2016. There are no significant business relationships between any of the members of the Board of Directors and Sunrise Communications Group AG or any of its subsidiaries. The Board of Directors aims to nominate non-executive and independent members within the meaning of the Swiss Code of Best Practice for Corporate Governance to be elected by the Annual General Meeting as members of the Nomination and Compensation Committee. All members of the Board of Directors in 2016 qualify as non-executive and independent members in accordance with these rules. The Board of Directors may nominate members to be elected as members of the Nomination and Compensation Committee who are or represent significant shareholders of Sunrise Communications Group AG. Christoph Vilanek and Joachim Preisig represent freenet AG, which holds 24.56% of the total share capital outstanding of Sunrise Communications Group AG. According to Article 23 of the Articles of Incorporation (www.sunrise.ch/governance/principles) a member of the Board of Directors may hold no more than four additional mandates in listed companies and no more than eight mandates in non-listed companies. For the purposes of such provision, the following mandates shall be deemed one mandate outside of the Sunrise group:

- mandates which a member of the Board of Directors holds in legal entities outside of the Sunrise group that are under common control
- mandates held by a member of the Board of Directors in his or her capacity as a member of the supreme governing body or of the group management of a legal entity outside of the Sunrise group
- mandates held by a member of the Board of Directors upon instruction and on behalf of a legal entity outside of the Sunrise group or legal entities controlled by it.

The following mandates are not subject to these limitations:

- mandates in companies controlled by Sunrise Communications Group AG or which control Sunrise Communications Group AG
- mandates held at the request of Sunrise Communications Group AG or companies controlled by it, whereby no member of the Board of Directors may hold more than ten such mandates
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the Board of Directors may hold more than six such mandates.

“Mandates” within the meaning of Article 23 of the Articles of Incorporation (www.sunrise.ch/governance/principles) are mandates in the supreme governing body of any legal entity that is required to be entered into the commercial register or corresponding foreign register of companies.

No member of the Board of Directors exceeds any limits for additional mandates.

The composition of the Board of Directors of Sunrise Communications Group AG is designed to ensure effectiveness. The Board of Directors’ main task of supervising, challenging and supporting the CEO and the Executive Leadership Team is best assured when members of the Board of Directors collectively represent an extensive leadership experience as well as knowledge in all relevant areas which are necessary to lead a public company in the telecommunication area and the broader Swiss business environment, both of which are challenging. The most important skills sought for the Board of Directors of Sunrise Communications Group AG are industry knowledge and experience as well as general management background. Most of the members of the Board of Directors held, or still hold, important positions in the telecommunication industry in different countries or were involved in this industry as analysts or advisors. All of the members of the Board of Directors held positions in executive management or board positions inter alia in the telecommunication, finance, IT, sport, publishing or advertising industry. Required expert skills encompass a variety of different fields including financial literacy, banking and finance, financial and other communication, HR, legal and compliance, government and regulatory affairs, corporate responsibility and governance; they should also be integrated into the Swiss business environment. With a view to fostering diversity in opinion and business judgement, members of the Board of Directors should be recruited from different cultural, national and gender backgrounds. Also, members of the Board of Directors should be independent in thinking and willing to work in a team focusing exclusively on the interest of the Company and its principal stakeholders. The Board of Directors considers gender diversity an important governance aspect and will continue to take actions both at the executive and board level to foster gender diversity.

The composition of the Board of Directors during 2016 is set out on the following pages.

Peter Kurer

Title and function
Chairman of the Board of Directors (since April 15, 2016)

Member of the Nomination and Compensation Committee (since April 15, 2016)

Non-Executive Member

Year of birth
1949

Nationality
Swiss

Education
1980: Attorney at Law, admitted to the Zurich bar, Switzerland

1978: Dr. iur., University of Zurich, Switzerland

1976: LLM Law, University of Chicago, USA

1974: lic. iur., University of Zurich, Switzerland

Professional background
Since 2013: BLR & Partners AG, Thalwil, Switzerland (not listed), Partner and Executive Member of the Board of Directors

2001 – 2009: UBS, Zurich, Switzerland, Non-Executive Chairman of the Board of Directors; Group General Counsel and Member of the Group Executive Board

1987 – 2002: Non-Executive Member of the Board of Directors of various companies in Switzerland (Unisys Switzerland, Kraft Foods Switzerland Holding, Holcim, Netstal-Machinery, Danzas Holding among others)

1991 – 2001: Homburger, Zurich, Switzerland, Partner and Head of Corporate Transaction Group

1980 – 1990: Baker & McKenzie, Zurich, Switzerland, Partner; Associate

1977 – 1979: District Court of Zurich, Switzerland, Clerkship

Other activities and functions
Since 2014: Kein & Aber AG, Zurich, Switzerland (not listed), Non-Executive Chairman of the Board of Directors

Since 2013: SoftwareONE Holding AG, Stans, Switzerland (not listed), Non-Executive Member of the Board of Directors and Chairman of the Audit Committee

Since 2012: Accenture AG, Zurich, Switzerland, Member of the Advisory Board (not a supreme governing body)

Since 2010: Schönherr Rechtsanwälte GmbH, Vienna, Austria, Member of the Steering Committee (not a supreme governing body)

Since 2010: Spencer Stuart & Associates B.V., Zurich Branch, Switzerland, Chairman of the Advisory Board (not a supreme governing body)

Peter Schöpfer

Title and function
Vice-Chairman of the Board of Directors

Chairman of the Nomination and Compensation Committee

Non-Executive Member

Year of birth
1957

Nationality
Swiss

Education
2002: International MBA, University of Freiburg, Switzerland

Degree in Engineering and Information Technology, Bern University of Applied Sciences, Switzerland

Professional background
Since 2006: Avaloq Group AG, Freienbach, Switzerland (not listed), Group Chief Advisory Officer; Chief Marketing Officer

2000 – 2006: T-Systems, CEO and Country Manager, Brazil; CEO and Country Manager, Switzerland; CEO Multilink

1986 – 2000: Swisscom AG, Bern, Switzerland, Head of Operations, Swisscom International, several other positions

Other activities and functions
Since 2011: Avaloq Group AG, Freienbach, Switzerland (not listed), Executive Member of the Board of Directors

Robin Bienenstock

Title and function
Member of the Board of Directors (since April 15, 2016)

Member of the Audit Committee (since April 15, 2016)

Non-Executive Member

Year of birth
1968

Nationality
British, Canadian

Education
1998: MA International Relations, University of Toronto, Canada

1992: MA International Economics and Management, SDA Bocconi, Milan, Italy

1991: BA Politics, Philosophy, Economics, Trinity College, University of Oxford, UK

Professional background
Since 2016: RBMP Capital LLP, London, United Kingdom, Partner

2014–2016: Gladwyne Partners (advisor to Marlin Sams Fund), New York, USA, Partner

2007–2014: Sanford C. Bernstein Ltd, London, UK, Senior Analyst European and Latin American Telecommunications

2004–2006: O.S. Consulting, Italy, UK, Management Consultant

1999–2004: McKinsey & Co., Canada, France, UK, Associate Principal

1995–1996: European Union Administration of Mostar (Bosnia-Herzegovina), Loan Fund Manager

1993–1994: Bunting Warburg Inc., Canada, UK, Analyst

Other activities and functions
Since 2016: The Linden School, Toronto, Canada (not listed), Member of the Finance Committee

Since 2016: HotBlack Coffee, Toronto, Canada (not listed), Partner

Since 2015: Oi S.A., Rio de Janeiro, Brazil (listed), Non-Executive Member of the Board of Directors, Chair of the Risks and Contingencies Committee, Member of the Finance and Corporate Governance Committee

2014:–2016: Tele Columbus AG, Berlin, Germany (listed), Non-Executive Member of the Board of Directors, Member of the Audit Committee

Michael Krammer

Title and function
Member of the Board of Directors (since April 15, 2016)

Member of the Audit Committee (since April 15, 2016)

Non-Executive Member

Year of birth
1960

Nationality
Austrian

Education
1983: Master of Military Leadership, Theresian Military Academy, Vienna, Austria

Professional background
Since 2013: Ventocom GmbH, Vienna, Austria (not listed), Founder and Managing Partner

2007–2013: ONE GmbH/Orange Austria Telecommunication GmbH, Vienna, Austria, CEO

2009–2011: Invitel Holdings A/S, Budaörs, Hungary, Non-Executive Member of the Board of Directors

2006–2007: E-Plus Mobilfunk GmbH, Düsseldorf, Germany, CEO

2002–2006: tele.ring Telekom Service GmbH, Vienna, Austria, CEO; CCO (Marketing, Sales, Customer Service)

1998–2002: max.mobil Telekommunikation Service GmbH, Vienna, Austria, Executive Director Business Customers, Member of the Management Board; Director Customer Care

1991–1997: Austrian Automobile Association (ÖAMTC), Vienna, Austria, Director Emergency and Information Services

1983–1990: Austrian Army, Officer

Other activities and functions
Since 2013: Sportklub Rapid Wien, Vienna, Austria (not listed), President and Chairman of the Board of Directors

Jesper Ovesen

Title and function
Member of the Board of Directors

Member of the Nomination and Compensation Committee (until April 15, 2016)

Chairman of the Audit Committee

Non-Executive Member

Year of birth
1957

Nationality
Danish

Education:
1989: State Authorized Public Accountant, Denmark

1985: MSc in Finance, Copenhagen Business School, Denmark

Professional background
2011 – 2014: Nokia Siemens Network Group, Finland/Germany, Executive Chairman

2008 – 2011: TDC Group, Denmark, CFO

2007 – 2008: Kirkbi Group, investment company & owner of the Lego Group, Denmark/Switzerland, CEO

2004 – 2007: Lego Group, Denmark/Switzerland, CFO

1998 – 2004: Danske Bank Group, Denmark, CFO

1993 – 1998: Novo Nordisk Group, Denmark, Finance Director

1992 – 1993: Baltica Bank (under restructuring), Denmark, CEO

1988 – 1992: Baltica Holding, Insurance & Finance Group, Denmark, Finance Director

1982 – 1988: PwC, Denmark, Auditor

Other activities and functions
Since 2016: ConvaTec Group PLC, Reading, UK (listed), Independent Non-Executive Member of the Board of Directors, Chairman of the Audit and Risk Committee, Member of the Remuneration and Nomination Committees

Since 2015: Lundbeck A/S, Denmark (listed), Member of the Board of Directors and Chairman of the Audit Committee

Since 2004: Scandinavian Enskilda Bank, Sweden (listed), Vice-Chairman of the Board of Directors and Member of the Risk & Capital Committee

Siddharth Patel

Title and function
Member of the Board of Directors (until April 15, 2016)

Member of the Audit Committee (until April 15, 2016)

Non-Executive Member

Year of birth
1977

Nationality
British

Education
1998: MA, University of Oxford, UK

1995: BA in Philosophy, Politics & Economics, University of Oxford, UK

Professional background
Since 2010: CVC Capital Partners, London, UK (not listed), Senior Managing Director, TMT

2000 – 2010: Apax Partners, London, UK, Senior Principal

1998 – 2000: Monitor Company, London, UK, Consultant

Other activities and functions
Since 2014: Avast, Prague, Czech Republic (not listed), Member of the Board of Directors

Since 2011: Raet (Greenbird Holdings), Amersfoort, The Netherlands (not listed), Member of the Board of Directors

Daniel Pindur

Title and function
Member of the Board of Directors (until April 15, 2016)

Member of the Audit Committee (until April 15, 2016)

Non-Executive Member

Year of birth
1978

Nationality
German

Education
2006: Doctorate degree (Dr. rer. pol.) in Finance, University of Ulm, Germany

2002: Graduate in Business Administration (Diplom-Kaufmann), WHU Vallendar, Germany; Master in Finance, SSE Stockholm, Sweden; Diplôme de l'ESC, EM Lyon, France

Professional background
Since 2005: CVC Capital Partners, Frankfurt, Germany (not listed), Senior Managing Director

2002 – 2005: Goldman Sachs, Frankfurt, Germany, M&A

Other activities and functions
Since 2015: Douglas AG (not listed), Chairman of the Board of Directors

Joachim Preisig

Title and function
Member of the Board of Directors (since April 15, 2016)

Member of the Audit Committee (since April 15, 2016)

Non-Executive Member

Year of birth
1962

Nationality
Swiss

Education
1987: Business Economist, School of Economics and Business Administration HWV, Zurich, Switzerland

1983: Military Officer, Swiss Army

Professional background
Since 2010: freenet AG, Büdelsdorf, Germany, CFO

2008 – 2010: freenet AG, Büdelsdorf, Germany, Chief Operations & Integration Officer

2006 – 2008: debitel AG, Stuttgart, Germany, CFO

2003 – 2006: Deutsche Telekom AG, Bonn, Germany, Head of Central Group Controlling

2002 – 2003: T-Mobile Deutschland GmbH, Bonn, Germany, CFO

1996 – 2001: O_2 Germany GmbH & Co. KG, Munich, Germany, Managing Director Marketing & Sales, CFO

1992 – 1995: Steinbeck Global Logistics GmbH, Bremen, Germany, CFO

1991 – 1992: Steinbeck Holding AG, Zurich, Switzerland, Regional Controller Europe

1989 – 1990: Vinito AG, Zurich, Switzerland, Head of Finance & Controlling

1987 – 1989: PriceWaterhouse AG, Zurich, Switzerland, Assistant

Other activities and functions
Since 2012: William Prym Holding GmbH, Stollberg, Germany, Member of the Advisory Board (not a supreme governing body)

Since 2010: Commerzbank AG, Frankfurt, Germany, Member of the Regional Advisory Board North (not a supreme governing body)

Lorne Somerville

Title and function
Chairman of the Board of Directors (until April 15, 2016)

Member of the Board of Directors (since April 15, 2016)

Member of the Nomination and Compensation Committee

Non-Executive Member

Year of birth
1963

Nationality
British

Education
1995: MBA, International Institute for Management Development (IMD), Lausanne, Switzerland

1989: MA, Computer Science, University of Cambridge, UK

1986: BA, Computer Science, University of Cambridge, UK

Professional background
Since 2008: CVC Capital Partners, London, UK (not listed), Partner and Global Head of TMT

2001 – 2008: UBS Investment Bank, Joint Global Head of Telecommunications and Head of the European Communications Group

1997 – 2001: Swisscom AG, Head of Swisscom International, Head of International Strategy & Acquisitions

Other activities and functions
Since 2014: Avast, Prague, Czech Republic (not listed), Member of the Board of Directors, Member of the Nomination and Compensation Committee

Since 2011: PT Link Net Tbk, Jakarta, Indonesia (listed), Member of the Board of Directors

Christoph Vilanek

Title and function
Member of the Board of Directors (since April 15, 2016)

Member of the Nomination and Compensation Committee (since April 15, 2016)

Non-Executive Member

Year of birth
1968

Nationality
Austrian

Education
1991: Magister Business Administration, University of Innsbruck, Austria

Professional background
Since 2009: freenet AG, Büdelsdorf, Germany, CEO

2005 – 2008: debitel AG, Stuttgart, Germany, Vice President Customer Care, Customer Management

2004 – 2005: iPUBLISH GmbH, Munich, Germany, interim Managing Director

2001 – 2004: McKinsey & Co., Munich, Germany, Zagreb, Croatia, Engagement Manager

2000 – 2001: Ravensburger Interactive Media GmbH, Ravensburg, Germany, Managing Director

1999 – 2000: boo.com GmbH, Munich, Germany, Managing Director

1997 – 1998: Meister Verlag, Munich, Germany, Marketing Director

1995 – 1997: Gräfe und Unzer Verlag, Munich, Germany, Head of Electronic Publishing

1991 – 1995: Time-Life International GmbH, Munich, Germany, and London, UK, Director Business Development

Other activities and functions
Since 2015: EXARING AG, Munich, Germany (not listed), Chairman of the Board of Directors

Since 2015: gamigo AG, Hamburg, Germany (not listed), Member of the Board of Directors

Since 2013: Ströer SE, Cologne, Germany (listed), Non-Executive Chairman of the Board of Directors

Since 1999: Netzpiloten AG, Hamburg, Germany (not listed), Member of the Board of Directors

3.2 Election and Term of Office

	Year of first election	Year of most recent election	AGM year of end of term
Peter Kurer	2016	2016	2017
Peter Schöpfer	2015	2016	2017
Robin Bienenstock	2016	2016	2017
Michael Krammer	2016	2016	2017
Jesper Ovesen	2015	2016	2017
Siddharth Patel[1]	2015	2015	2016
Daniel Pindur[1]	2015	2015	2016
Joachim Preisig	2016	2016	2017
Lorne Somerville	2015	2016	2017
Christoph Vilanek	2016	2016	2017

[1] Siddharth Patel and Daniel Pindur did not stand for re-election to the Board of Directors at the Annual General Meeting 2016.

Article 12 of the Articles of Incorporation (www.sunrise.ch/governance/principles) provides for the Board of Directors to comprise at least four and no more than nine members, including the Chairman of the Board of Directors, and for the Nomination and Compensation Committee to comprise at least three members of the Board of Directors (Article 17 of the Articles of Incorporation). All members of the Board of Directors, the Chairman of the Board of Directors as well as the Chairman and all members of the Nomination and Compensation Committee are elected annually and individually by the Annual General Meeting (AGM) for a term of office of one year until the end of the next Annual General Meeting. Re-election is possible. If the post of Chairman of the Board of Directors or

Chairman of the Nomination and Compensation Committee is vacant, the Board of Directors shall appoint a new Chairman of the Board of Directors or Chairman of the Nomination and Compensation Committee for the remaining term of office. The terms of office of the members of the Board of Directors are set out in the table on the previous page.

3.3 Internal Organizational Structure

3.3.1 Allocation of Tasks within the Board of Directors

The Board of Directors has established a Nomination and Compensation Committee and an Audit Committee through the enactment of Organizational Regulations for the Board of Directors as well as Organizational Regulations for both the Nomination and Compensation Committee and the Audit Committee (www.sunrise.ch/governance/principles). In their respective areas, the Committees are responsible for establishing policies, periodically reviewing their implementation, supervising business activities and preparing and executing resolutions brought forth by the Board of Directors. Except for the election of the Chairman of the Board of Directors and the Chairman and members of the Nomination and Compensation Committee by the shareholders' meeting, the Board of Directors organizes itself. It appoints a Vice-Chairman of the Board of Directors, the Secretary and a Chairman as well as members of the Audit Committee following the Annual General Meeting for a term of office of one year until the end of the next Annual General Meeting. Reappointment is possible. Each committee appoints a secretary who needs not to be a member of the Board of Directors. If not determined otherwise by a committee, the Secretary of the Board of Directors acts as the secretary of a committee. The Audit Committee is composed of at least three members of the Board of Directors.

The Chairman of the Board of Directors chairs the shareholders' meetings and presides over the Board of Directors. The Chairman has the following duties and powers: calling meetings of the Board of Directors and setting the agenda; supervising, complying with and implementing the resolutions of the Board of Directors; immediately informing all members of the Board of Directors in case of extraordinary events; handling information requests from other members of the Board of Directors; ensuring that, in urgent business matters where a regular Board resolution cannot be reasonably passed within the required time frame, all measures are taken to safeguard the interests of the Sunrise group; interacting with the CEO and other members of the Executive Leadership Team outside of Board meetings; monitoring the implementation of measures decided by the Board of Directors; and representing the Board of Directors internally and externally. The Vice-Chairman assumes the powers and duties of the Chairman in the absence of the Chairman. The Chairman of the Nomination and Compensation Committee and the Chairman of the Audit Committee chair their respective Committees. The Chairs and the composition of the Committees of the Board of Directors during 2016 were as follows:

Chairman and Vice-Chairman	Nomination and Compensation Committee	Audit Committee
Peter Kurer (Chairman since April 15, 2016)	Peter Schöpfer (Chairman)	Jesper Ovesen (Chairman)
Lorne Somerville (Chairman until April 15, 2016)	Peter Kurer (Member since April 15, 2016)	Robin Bienenstock (Member since April 15, 2016)
Peter Schöpfer (Vice-Chairman)	Jesper Ovesen (Member until April 15, 2016)	Michael Krammer (Member since April 15, 2016)
	Lorne Somerville (Member)	Siddharth Patel (Member until April 15, 2016)
	Christoph Vilanek (Member since April 15, 2016	Daniel Pindur (Member until April 15, 2016)
		Joachim Preisig (Member since April 15, 2016

3.3.2 Tasks and Areas of Responsibility of Each Committee of the Board of Directors

The Nomination and Compensation Committee combines the functions of a nomination committee and a compensation committee and supports the Board of Directors in the fulfilment of its powers and duties as set forth by law, the Articles of Incorporation and the Organizational Regulations (www.sunrise.ch/governance/principles) with regard to the compensation and personnel policies of the Sunrise group. The Nomination and Compensation Committee prepares all relevant decisions made by the Board of Directors related to the nomination and compensation of and contracts for the members of the Board of Directors, the CEO and other members of the Executive Leadership Team and defines the compensation and personnel policies of the Sunrise group. In particular, the Nomination and Compensation Committee has the following powers and duties:

- succession planning, including planning and training for unforeseen and emergency situations
- determining the criteria for the selection of candidates for appointment to the Board of Directors, as Chairman of the Board of Directors or as Chairman or members of the Nomination and Compensation Committee by the shareholders' meeting, taking into account the criteria for the composition of the Board of Directors as set forth in the Swiss Code of Best Practice for Corporate Governance
- preparing the nomination of new members for the Board of Directors to be proposed to the shareholders' meeting for appointment, taking into account each proposed member's experience, independence, compatibility with other members, culture and other commitments in line with the policies for skill and diversity setting (see section 3.1 Members of the Board of Directors on page 42 et seq.)
- preparing the appointment of a Vice-Chairman of the Board of Directors, the Secretary and a Chairman as well as members of the Audit Committee by the Board of Directors following the Annual General Meeting
- evaluating candidates for the position of CEO and, together with the CEO, evaluating candidates for the Executive Leadership Team other than the CEO
- reviewing mandates held by members of the Board of Directors and the Executive Leadership Team outside of the Sunrise group
- annually reviewing the independence of the members of the Board of Directors and its Committees
- annually reviewing and evaluating the corporate governance and the performance of the Board of Directors
- submitting proposals, in line with the maximum aggregate compensation limits approved by the shareholders' meeting, for the individual compensation of the members of the Board of Directors based on their responsibilities and functions, of the CEO and, based on the CEO's proposal, of the other members of the Executive Leadership Team along with respective performance metrics for the CEO to the Board of Directors for approval
- on an annual basis, reviewing the performance of the CEO and assessing the performance of the other members of the Executive Leadership Team as proposed by the CEO and, based on the evaluation, submitting proposals for respective individual compensation to the Board of Directors for approval
- proposing, on an annual basis, the maximum aggregate compensation amount in relation to each of the members of the Board of Directors and the Executive Leadership Team to be proposed to the Annual General Meeting for approval
- establishing the Sunrise group's compensation and personnel policies and performance criteria related to compensation with the goal of finding, encouraging and retaining employees of the Sunrise group and, by so doing, ensuring the competitiveness and long-term success of the Sunrise group
- periodically reviewing the implementation of the compensation and personnel policies
- assessing the effectiveness, attractiveness and competitiveness of variable compensation, share compensation and pension plans and evaluating appropriate insurance plans for the members of the Board of Directors and the Executive Leadership Team at least every two years
- submitting compensation proposals for the Head of Internal Audit to the Board of Directors for approval
- reviewing the draft of the annual compensation report submitted by the Executive Leadership Team

The Audit Committee supports the Board of Directors and the Nomination and Compensation Committee in the fulfilment of its powers and duties as set forth by law, the Articles of Incorporation and the Organizational Regulations (www.sunrise.ch/governance/principles) with regard to financial controls (monitoring of financial reporting, supervision of internal and external auditing), as well as supervision of persons entrusted with the management of the Sunrise group (internal control system). The Audit Committee has the following powers and duties in particular:

- assessing and proposing to the Board of Directors the consolidated financial statements, statutory financial statements and management report of Sunrise Communications Group AG to be proposed to the Annual General Meeting for approval

- reviewing the integrity of the financial reporting processes
- reviewing significant financial risk exposures and measures taken by management to monitor, control and report such exposures
- determining the audit plan for a period of several years as well as the scope of the internal and external audits
- discussing audit reports with internal and external auditors and management and monitoring the implementation of the auditors' findings
- assessing the performance and collaboration of internal and external auditors
- preparing the nomination of external auditors to be proposed to the Annual General Meeting for election
- annually reviewing the fees and independence of external auditors
- reviewing the independence of the Internal Audit department from the Executive Leadership Team and the units to be audited
- reviewing and approving the guidelines, activities, budget, organizational structure and qualifications of the Internal Audit organization
- submitting proposals concerning the appointment, replacement and dismissal of the Head of Internal Audit to the Board of Directors for approval
- reviewing processes implemented by management to monitor significant risks and the respective reports on risk assessment and risk management submitted by management
- assessing and further developing the internal control system and the compliance functions

3.3.3 Working Methods of the Board of Directors and its Committees

According to the Organizational Regulations (www.sunrise.ch/governance/principles), the Board of Directors convenes upon invitation by the Chairman or, in his/her absence, by the Vice-Chairman whenever required by business, ordinarily seven to nine times per year. Meetings may also be called at the request of a member of the Board of Directors, the CEO or another member of the Executive Leadership Team accompanied by an explanation of the reason(s) for the request. The Board of Directors may pass resolutions if the majority of its members are in attendance. Attendance may also take place by telephone, video-conferencing or other electronic media. No quorum is required if only resolutions regarding the implementation of a capital increase and subsequent amendments to the Articles of Incorporation (www.sunrise.ch/governance/principles) are to be passed. Except as provided by the Organizational Regulations, the Board of Directors passes resolutions with the majority of the votes cast. In the event of a tie, the chairman of the meeting casts the deciding vote. Resolutions may also be passed by circular resolution, whether in writing, by facsimile or by e-mail, provided that no member requests deliberations in a meeting. Members of the Board of Directors abstain from voting on matters or transactions which affect their own interests or the interests of individuals or entities connected with or close to them. In order to enhance an open and diversity-oriented discussion and decision-making, the Board of Directors has agreed on internal guidelines assuring such things as proper presentations by the executive management, clear and meaningful documentation, a culture of open debate, crisp and swift decision-making and committee work which is both effective and transparent to all members of the Board of Directors.

The Board of Directors met and passed written resolutions in 2016 with the participation of individual board members as set out on the following page.

The Nomination and Compensation Committee meets whenever required by business, but at least three times per year. The Nomination and Compensation Committee met and passed written resolutions in 2016 with the participation of individual board members as set out on the following page.

The Audit Committee meets whenever required by business, but at least four times per year. The Audit Committee met and passed written resolutions in 2016 with the participation of individual board members as set out on the following page.

Meetings Board of Directors

	Meetings in attendance	Average duration	Meetings by phone	Average duration	Circular resolutions
Total number	**8**	**5.24 hours**	**4**	**0.67 hours**	**3**
Peter Kurer (since April 15, 2016)[1]	6		0		3
Peter Schöpfer	8		4		3
Robin Bienenstock (since April 15, 2016)	6		0		3
Michael Krammer (since April 15, 2016)	6		0		3
Jesper Ovesen	8		4		3
Siddharth Patel (until April 15, 2016)	2		4		0
Daniel Pindur (until April 15, 2016)	2		4		0
Joachim Preisig (since April 15, 2016)	6[1]		0		3
Lorne Somerville	8[1]		4		3
Christoph Vilanek (since April 15, 2016)	6		0		3

[1] Thereof one attendance by phone.

Meetings Nomination and Compensation Committee

	Meetings in attendance	Average duration	Meetings by phone	Average duration	Circular resolutions
Total number	**3**	**4.06 hours**	**4**	**0.85 hours**	**1**
Peter Schöpfer	3		4		1
Peter Kurer (since April 15, 2016)	2		2		1
Jesper Ovesen (until April 15, 2016)	1		2		0
Lorne Somerville	3[1]		4		1
Christoph Vilanek (since April 15, 2016)	2		2		1

[1] Thereof two attendances by phone.

Meetings Audit Committee

	Meetings in attendance	Average duration	Meetings by phone	Average duration	Circular resolutions
Total number	**5**	**3.65 hours**	**0**		**0**
Jesper Ovesen	5				
Robin Bienenstock (since April 15, 2016)	3[1]				
Michael Krammer (since April 15, 2016)	2[2]				
Siddharth Patel (until April 15, 2016)	2				
Daniel Pindur (until April 15, 2016)	2[1]				
Joachim Preisig (since April 15, 2016)	2[1]				

[1] Thereof one attendance by phone.
[2] Thereof two attendances by phone.

The meetings of the Nomination and Compensation Committee and the Audit Committee are called by the Chairman of the respective Committee or, in his/her absence, by the most senior member of the Committee. Meetings may also be called at the request of a member of the Committee with explanation of the reason(s) for the request. A Committee may pass resolutions if the majority of its members are in attendance. Attendance may also take place by telephone, video-conferencing or other electronic media. Resolutions are passed by a majority of the votes cast. In the event of a tie, the Chairman of the meeting casts the deciding vote. Resolutions may also be passed by circular resolution, whether in writing, by facsimile or by e-mail, provided that no member requests deliberations in a meeting.

The CEO, the CFO and other members of the Executive Leadership Team may be invited by the respective Chairman to participate in meetings of the Board of Directors, the Nomination and Compensation Committee and the Audit Committee on a consultative basis. However, the CEO and other members of the Executive Leadership Team must not be present when the Nomination and Compensation Committee reviews the compensation or other aspects of the employment of the respective person. The Chairman of the Board of Directors and the Chairman of the Nomination and Compensation Committee must not be present when the Nomination and Compensation Committee reviews the compensation of the respective person. The Audit Committee may hold meetings exclusively with representatives of the internal and external auditors.

The Nomination and Compensation Committee reports to the Board on its activities on a regular basis and submits the necessary proposals and recommendations to the Board of Directors. It assists the Board of Directors in conducting an annual review and evaluation of the performance of the Board of Directors and its Committees. The Audit Committee reports to the Board of Directors at each meeting of the Board of Directors on its activities and on matters that are within its area of responsibility and submits the necessary proposals and recommendations to the Board of Directors.

The Nomination and Compensation Committee reports to the Board of Directors at least once per year on succession planning, including planning and training for unforeseen and emergency situations, and on management development for members of the Executive Leadership Team.

Newly elected members of the Board of Directors receive orientation training appropriate to their functions. Existing members of the Board of Directors receive regular training with respect to their responsibilities as members of the Board of Directors and its Committees.

3.4 Definition of Areas of Responsibility between the Board of Directors and Executive Management

The Board of Directors has delegated the executive management of the Company, unless otherwise provided by law, the Articles of Incorporation and the Organizational Regulations (www.sunrise.ch/governance/principles), to the CEO. As part of the executive management duties delegated to the CEO pursuant to the Organizational Regulations, the CEO is responsible for the overall business and affairs of Sunrise Communications Group AG and has final authority in all management matters not reserved for the Board of Directors by law, the Articles of Incorporation and the Organizational Regulations. The CEO is responsible for implementing all resolutions of the Board of Directors and supervising all management levels in the Company. The CEO must ensure the successful long-term market- and value-oriented management and development of the Sunrise group. The CEO acts as the head of the other members of the Executive Leadership Team appointed and removed by the Board of Directors at the recommendation of the CEO and the Nomination and Compensation Committee. Within the Executive Leadership Team, the CEO is the contact person for the Chairman and the other members of the Board of Directors. He represents and coordinates the positions of the Executive Leadership Team vis-à-vis the Board of Directors. In matters requiring approval by the Board of Directors, the CEO submits corresponding proposals to the Board and ensures the implementation of the resolutions passed. The CEO provides information to the other members of the Executive Leadership Team concerning the resolutions, suggestions and wishes of the Board of Directors. The CEO represents the Sunrise group, both internally and externally. A table listing the allocation of powers and duties between the Board of Directors, the Committees and the CEO is set out in Article 4 of the Organizational Regulations (www.sunrise.ch/governance/principles).

3.5 Information and Control Instruments vis-à-vis the Executive Management

The Board of Directors ensures the continued contact with the CEO and the other members of the Executive Leadership Team in accordance with the Organizational Regulations (www.sunrise.ch/governance/principles) in order to be informed at all times about all important developments of the business and affairs of Sunrise Communications Group AG and its subsidiaries. In each meeting of the Board of Directors, the Board of Directors is informed by the CEO, the CFO and other members of the Executive Leadership Team of the current state of the business, financial results, material developments and important business transactions affecting the Company. This includes, but is not limited to, consolidated annual budgets, quarterly reports with budget comparison, profit and loss forecasts, quarterly financial projections, monthly key performance index reports and strategic risk management and compliance assessment reports (annually with quarterly updates to the Audit Committee). The Audit Committee receives, and the Board of Directors approves, the quarterly financial results. The Audit Committee receives quarterly compliance (including whistleblowing), legal, regulatory, information security and data privacy reports. Once a year, the Nomination and Compensation Committee receives information on the implementation of compensation and personnel policies by the Executive Leadership Team as well as information on personnel development and corresponding measures at management levels below the Executive Leadership Team. The Audit Committee has direct access to the Internal Audit department and may obtain information required by it within the Sunrise group and question the responsible employees. The Board carries out an annual review of the principles of compliance applicable to the Board of Directors, its Committees, the Executive Leadership Team and the Sunrise group to determine whether such principles are sufficiently well known and consistently followed.

3.6 Internal Audit

The Internal Audit department provides the Audit Committee in particular and the Board of Directors and Executive Leadership Team of Sunrise Communications Group AG in general with an independent review of the business processes and controls necessary to manage the risks of Sunrise Communications Group AG. It is an independent assurance function that examines and evaluates the adequacy and effectiveness of internal controls in line with the Internal Audit Charter approved by the Board of Directors. To ensure its independence, the Head of Internal Audit reports administratively to the Chief Financial Officer and functionally to the Chairman of the Audit Committee.

Internal Audit provides an objective and effective value-added internal audit service through a systematic and disciplined approach by assisting management in controlling risks, monitoring compliance and improving the efficiency and effectiveness of internal control systems and governance processes. As part of its duties, it prepares an annual plan approved by the Audit Committee, carries out all the necessary activities to ensure that audits are conducted in an effective and professional manner, and documents audit findings and monitors the implementation of corrective measures. Regular reports highlighting significant audit findings and recommendations as well as summarizing internal audit activities are provided to the management teams and Audit Committee meetings at least on a quarterly basis.

To achieve maximum assurance and avoid duplication of audit efforts, Internal Audit coordinates its annual audit plan and activities with those of the external auditors. External auditors have unrestricted access to the audit reports of Internal Audit.

Internal Audit adheres to standards of best professional practice such as the Standards of Professional Practice of Internal Auditing.

4 Executive Leadership Team

The composition of the Executive Leadership Team during 2016 is set out on the following pages.

The Executive Leadership Team conducts weekly meetings to decide on selling, general and administrative expenses as well as other operating expenses, to review and manage the sales, product marketing, customer service and network as well as financial performance. Alternating each week, key value drivers of the business are reviewed in detail. The Executive Leadership Team further reviews projects, work force, compliance, risk, regulatory as well as communication topics and decides on capital expenditures on a regular basis. The CEO and the CFO together with the responsible members of the Executive Leadership Team conduct additional weekly reviews of network, customer service and sales operations and monthly reviews of key business segments. On a quarterly basis, the performance development of each unit is reviewed by the CEO and CFO as part of the financial planning. A bi-weekly investment committee chaired by the CFO and CTO decides on the prioritization of projects for capital expenditures

No member of the Executive Leadership Team carried out any tasks for Sunrise Communications Group AG or any of its subsidiaries before having been appointed as a member of the Executive Leadership Team, except for Libor Voncina (CEO until May 9, 2016) who acted as advisor to the Board of Directors as of September 2012, before being appointed as CEO in January 2013 and except for previous employment of individual members of the Executive Leadership Team as set out in the respective curricula vitae.

According to Article 23 of the Articles of Incorporation (www.sunrise.ch/governance/principles), no member of the Executive Leadership Team may hold more than one additional mandate in a listed company and more than five mandates in non-listed companies.

For the purposes of such provision, the following mandates shall be deemed one mandate outside of the Sunrise group:

- mandates which a member of the Executive Leadership Team holds in legal entities outside of the Sunrise group that are under common control
- mandates held by a member of the Executive Leadership Team in his or her capacity as a member of the supreme governing body or of the group management of a legal entity outside of the Sunrise group
- mandates held by a member of the Executive Leadership Team upon instruction and on behalf of a legal entity outside of the Sunrise group or legal entities controlled by it.

The following mandates are not subject to these limitations:

- mandates in companies controlled by Sunrise Communications Group AG or which control Sunrise Communications Group AG
- mandates held at the request of Sunrise Communications Group AG or companies controlled by it, whereby no member of the Executive Leadership Team may hold more than ten such mandates and
- mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the Executive Leadership Team may hold more than six such mandates.

"Mandates" within the meaning of Article 23 of the Articles of Incorporation (www.sunrise.ch/governance/principles) are mandates in the supreme governing body of any legal entity that is required to be entered in the commercial register or corresponding foreign register of companies. Any mandate held by a member of the Executive Leadership Team in a legal entity outside of the Sunrise group is subject to prior approval by the Board of Directors of Sunrise Communications Group AG, or, if delegated to it, the Nomination and Compensation Committee.

No member of the Executive Leadership Team of Sunrise Communications Group AG exceeds any limits for additional mandates.

As of December 31, 2016, Sunrise Communications Group AG had not entered into any management contracts with companies (or natural persons) not belonging to the Sunrise group.

Olaf Swantee

Title and function
Chief Executive Officer (CEO) (since May 9, 2016)

Year of birth
1966

Nationality
Dutch, Swiss

Education
1990: European MBA, European School of Management, Paris, France

1987: 2 years Economics, University of Amsterdam (UvA), Netherlands

Professional background
2011 – 2016: EE Limited, Hatfield, UK, CEO

2010 – 2011: Orange-FT, Paris, France, Executive Vice President Europe and Purchasing WW, Member of the Global Management Committee

2007 – 2010: Orange-FT, Paris, France, Executive Vice President Europe and Mobile WW, Member of the Global Management Committee

2002 – 2007: Hewlett-Packard (Switzerland) LLC, Dubendorf, Switzerland, Senior Vice President Technology Solutions Group Sales and Software EMEA; Managing Director General Western Europe; Vice President Enterprise Sales Group EMEA, Vice President Network Storage Solutions EMEA

1998 – 2002: Compaq Computer (Switzerland) LLC, Dubendorf, Switzerland, Vice President Enterprise Storage Group EMEA; Director Sales and Marketing

1994 – 1998: Digital Equipment, Boston, USA, and Geneva, Switzerland, Executive Assistant to the Chairman and CEO of Digital Equipment; Marketing Director PC Business Europe; Manager Desktop Business Line

1990 – 1993: Compaq Computer EMA, Munich, Germany, District Sales Manager Export Markets; Product Manager Export Markets

Other activities and functions:
Since 2016: TeliaSonera AB, Stockholm, Sweden (listed), Non-Executive Member of the Board of Directors

2014 – May 28, 2016: Legal & General Group PLC, London, UK (listed), Non-Executive Member of the Board of Directors, Member of the Audit Committee and the Nominations Committee

Libor Voncina

Title and function
Chief Executive Officer (CEO) (until May 9, 2016)

Year of birth
1963

Nationality
Slovenian

Education
1993: MBA, International Institute for Management Development (IMD), Lausanne, Switzerland

1989: Bachelor of Electrical Engineering, University of Ljubljana, Slovenia

Professional background
2013 – 2015: Sunrise Communications AG, Zurich, Switzerland, CEO

2011 – 2013: Leaderman, Brussels, Belgium, Managing Director

2006 – 2011: KPN Group Belgium, Brussels, Belgium, CEO

2004 – 2006: Telekom Slovenije, Ljubljana, Slovenia, President of the Management Board

2000 – 2003: Avaya, Brussels, Belgium, Vice President of Services, EMEA, Vice President, Western Europe

1996 – 2000: Lucent Technologies Enterprise Networks EMEA, Vienna, Austria, and Brussels, Belgium

1994 – 1996: IBM Central Europe & Russia Inc., Vienna, Austria

1990 – 1993: ITS Intertrade (IBM General Marketing and Sales Representative), Ljubljana, Slovenia

1989 – 1990: Iskra Avtomatika, R&D Institute, Ljubljana, Slovenia

André Krause

Title and function
Chief Financial Officer (CFO)

Year of birth
1970

Nationality
German

Education
1996: BA in Economics, Bielefeld University, Germany

1992: Follmann GmbH & Co. KG, Minden, Germany, Industrial Management Training, SAP Implementation Project

Professional background
2011 – 2015: Sunrise Communications AG, Zurich, Switzerland, CFO

2006 – 2011: O2 Germany GmbH, Munich, Germany, CFO

2004 – 2006: O2 Germany GmbH, Munich, Germany, Vice President, Strategy & Consulting

1999 – 2004: McKinsey & Company, Inc., Düsseldorf, Germany, Associate Principal and member of the TIMe (Telecom, IT, Media) practice

1997 – 1999: Arthur Andersen, Düsseldorf, Germany, Assistant, Computer Risk Management and Auditing

Other activities and functions
Since 2014: Tele Columbus, Berlin, Germany (listed), Member of the Board of Directors and Chairman of the Audit Committee

Françoise Clemes

Title and function
Chief Services Officer (CSO) (since June 1, 2016)

Year of birth
1967

Nationality
French, Spanish

Education
1992: MA in Human Engineering/ Ergonomy, Paris Descartes University, France

1991: MA in Experimental Psychology/Information systems, Paris Descartes University, France

Professional background
2013 – 2016: EE Limited, Hatfield, UK Chief Customer Services

2011 – 2013: EE Limited, Hatfield, UK Chief of HR

2007 – 2011: Orange-FT, Paris, France, VP HR Orange Europe

1997 – 2007: Orange-FT, Paris, France, Deputy HR Director Orange Business Services; Deputy HR Director Paris/ East; Recruitment Business Division

1992 – 1997: Orange-FT, Paris, France, Corporate Sales, Network Security

Timm Degenhardt

Title and function
Chief Consumer Officer (CCO) (since May 12, 2016)

Year of birth
1969

Nationality
German, Swiss

Education
1997: MSc in Marketing Management, Nottingham Business School, UK

1995: Diploma in Marketing, Chartered Institute of Marketing, London, UK

Professional background
2015 – 2016: Sunrise Communications Group AG, Zurich, Switzerland, Chief Commercial Officer, Chief Marketing Officer

2013 – 2015: Sunrise Communications AG, Zurich, Switzerland, Chief Marketing Officer

2010 – 2011: Aizo Group AG, Schlieren, Switzerland, CEO

2007 – 2010: E.ON AG, Düsseldorf, Germany, Senior Vice President, Marketing & Sales

2004 – 2007: Orange Communications SA, Renens, Switzerland, Vice President, Marketing & Solutions, Vice President, Marketing & Communication

1995 – 2004: American Express Switzerland, Chief Marketing Officer Swisscard, Zurich, Switzerland; Director, Marketing & Advertising, Global Network Services, New York, USA; Senior Marketing Manager, Cardmember Acquisition Europe, London, UK

Other activities and functions
Since 2013: iMusician Digital AG, Zurich, Switzerland (not listed), Member of the Board of Directors

Since 2004: Tessaro AG, Kilchberg ZH, Switzerland (not listed), Member of the Board of Directors

Elmar Grasser

Title and function
Chief Technology Officer (CTO) (since May 12, 2016)

Year of birth
1965

Nationality
Italian

Education
1992: Graduate degree (Dipl. Ing.) in Computer Science, Vienna University of Technology, Austria

Professional background
2015 – 2016: Sunrise Communications Group AG, Zurich, Switzerland, COO

2013 – 2015: Sunrise Communications AG, Zurich, Switzerland, COO

2008 – 2013: Orange Austria Telecommunication GmbH, CTO

2006 – 2007: E-Plus Mobilfunk GmbH & Co. KG, Düsseldorf, Germany, KPN Mobile International, Brussels, Belgium, CTO

2004 – 2006: tele.ring Telekom Service GmbH, Vienna, Austria, CTO

2000 – 2004: O_2 Limited London/ O_2 Germany, Munich, Germany, Vice President, Product Development

1996 – 2000: Iridium Communications Germany, GmbH, Düsseldorf, Germany; Iridium Services Europe GmbH & Co. KG, Executive Director, Engineering

1995: European Telecommunication Standardization Institute, Sophia Antipolis, France, Technical Expert, ETSI GSM Standardization, Project Team 12

1993 – 1994: Siemens Stromberg Carlsson, Boca Raton, FL, USA, Siemens representative in the TIA (Telecommunications Industry Association) and ANSI (American National Standards Institute)

1992 – 1993: Siemens AG, Vienna, Austria, Program and Systems Engineering, GSM Mobile Division

Massimiliano Nunziata

Title and function
Chief Business Officer (CBO) (since May 12, 2016)

Year of birth
1969

Nationality
Italian

Education
1992: MSc in Electrotechnical Engineering with specialization in Telecommunications, Swiss Federal Institute of Technology (ETH), Zurich, Switzerland

Professional background
2015 – 2016: Sunrise Communications Group AG, Zurich, Switzerland, Chief Customer Experience Officer

2013 – 2015: Sunrise Communications AG, Zurich, Switzerland, Chief Customer Experience Officer

2013: Meridiana Fly, Milan, Italy, Chief Integration Officer

2005 – 2012: GE Capital, Milan, Italy, Managing Director, Equipment Financing & Fleet Services

2002 – 2005: GE Capital Equipment Financing, London, UK, Program Manager (Vendor Finance) – Europe

2000 – 2001: GE Capital Equipment Financing, London, UK, Director of Operations – Europe

1998 – 2000: GE Capital Equipment Financing, London, UK, Quality (Six Sigma) Leader – Europe

1996 – 1998: GE Capital, London, UK and Tokyo, Japan, Director of Business Development (M&A)

1995 – 1996: GE Corporate, Stamford, CT, USA, Associate Auditor, Corporate Audit Staff

1992 – 1995: Procter & Gamble, European Technical Center, Brussels, Belgium, Project Manager

Dominik Rubli

Title and function
Chief Administrative Officer (CAO) (since May 12, 2016)

Secretary of the Board of Directors

Year of birth
1971

Nationality
Swiss

Education
2009: Dr. iur., University of Zurich, Switzerland

2000: Attorney at law, admitted to the Zurich bar, Switzerland

1996: lic. iur., University of St. Gallen, Switzerland

Professional background
2010 – 2016: Sunrise Communications Group AG (since 2015), Sunrise Communications AG, Zurich, Switzerland, General Counsel, Head of Legal & Corporate Affairs/Regulatory, Corporate Security & Compliance, Secretary of the Board of Directors

2006 – 2010: Sunrise Communications AG, Zurich, Switzerland, Senior Legal Counsel

2002 – 2006: Korach Simonius Hayer, Zurich, Switzerland, Associate

2000 – 2001: Department of Business and Management, Zurich University of Applied Sciences Winterthur, Switzerland, Legal Research Associate

1998: District Court of Dielsdorf, Switzerland, Clerkship

1996 – 1997: Winterthur Rechtsschutzversicherungsgesellschaft, Winterthur, Switzerland, Legal Counsel

Other activities and functions
Since 2015: Dispute Resolution Net Neutrality, Zurich, Switzerland (not listed), Member of the Board of Directors

Since 2008: Swissstream, Zurich, Switzerland (not listed), Member of the Board of Directors

Karin Schmidt

Title and function
Chief Human Resources Officer (CHRO) (since May 12, 2016)

Year of birth
1973

Nationality
Swiss

Education
2016: CAS in HR Value Creation, University of St. Gallen, Switzerland

2014: Executive MBA ZFH General Management, HWZ University of Applied Sciences, Zurich, Switzerland

2002: Management Diploma AKAD-Senior Level, AKAD, Zurich, Switzerland

2001: Diploma in Business Administration, BVS Business School, Zurich, Switzerland

Professional background
2013 – 2016: Sunrise Communications AG, Zurich, Switzerland, Head HR Operations Commercial/Finance

2011 – 2012: Charles Voegele Switzerland, Pfaeffikon SZ, Switzerland, Group Head Human Resources

2008 – 2010: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Head Human Resources & Education CFO, Management Functions, Pension Funds UBS

1998 – 2007: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Deputy Head HR CFO, Management Functions; Senior HR Client Relationship Manager Credit Risk Control & Pension Fund UBS

1994 – 1998: UBS AG, Wealth Management & Swiss Bank, Zurich, Switzerland, Personal Assistant to Head Next Generation & Topic owner HR Administration

Other activities and functions
Since 2006: profawo, Zurich, Switzerland (not listed), Member of the Board of Directors

Markus Naef

Title and function
Chief Commercial Officer Business (CCB) (until May 11, 2016)

Year of birth
1969

Nationality
Swiss

Education
1997: Master of Law (lic. iur. HSG)
1995: MSc in Economics (lic. oec. HSG)

Professional background
2014 – 2015: Sunrise Communications AG, Zurich, Switzerland, Chief Commercial Officer Business

2012 – 2014: 20th Century Fox, Moscow, Russia, Country Manager/Managing Director

2009 – 2014: 20th Century Fox, Zurich, Switzerland, Country Manager/Managing Director

2000 – 2008: Orange Communications SA, different positions including: 2005 – 2008: Director of Marketing

2001 – 2008: Corporate Secretary

2002 – 2005: Deputy VP of Finance & Administration/Chief Financial Officer Orange

2001 – 2005: General Counsel

2000 – 2001: Senior Legal Counsel, Deputy General Counsel

1999 – 2000: Consultancy work in New York and Miami, co-founder of a start-up/joint venture with the Zurich Retail Association

1998 – 1999: Zürcher Blickenstorfer & Widmer, Attorneys at Law (Zurich), Legal Counsel

Other activities and functions
Since 2010: Zattoo Schweiz AG, Bäch, Switzerland (not listed), Member of the Advisory Board

Sebastian Prange

Title and function
Chief Sales Officer (CSO) (until May 11, 2016)

Year of birth
1973

Nationality
German

Education
2000: Master of Industrial Engineering, University of Karlsruhe (TU), Germany

1994: German Army, Lieutenant (Reserve Officer), Paratroopers, 3./251, Calw, Germany

Professional background
2013–2015: Sunrise Communications AG, Zurich, Switzerland, Chief Sales Officer

2011–2012: Orange Communications SA, Zurich/Lausanne, Switzerland, Vice President, Consumer Sales

2006–2011: Telefónica O2, Munich, Germany, Vice President, O2 Shops

2003–2006: Telefónica O2, Munich, Germany, Executive Assistant to the CEO of O2 Germany

2000–2003: Gemini Consulting/Cap Gemini Strategic Consulting, Munich, Germany/London, UK/Bratislava, Slovakia, Senior Consultant

1999: Precision Laboratories Inc., Chicago, IL, USA, Marketing Manager

1998: Bosch Braking Systems S.A., Paris, France, Freelancer/Consultant

5 Compensation, Shareholdings and Loans

For information regarding compensation, shareholdings and loans relating to members of the Board of Directors and the Executive Leadership Team, please consult the Compensation Report on page 74 et seq., page 76 et seq. and page 79.

6 Shareholders' Participation Rights

6.1 Voting Rights

Each share of Sunrise Communications Group AG carries one vote at a shareholders' meeting. Voting rights may be exercised only after a shareholder has been registered in the share register of Sunrise Communications Group AG (German: Aktienbuch) as a shareholder with voting rights. Acquirers of shares are, upon request and presentation of evidence of the transfer, registered as shareholders with voting rights in the share register only if they explicitly declare that they hold the shares in their own name and for their own account. For this purpose, Article 5 of the Articles of Incorporation (www.sunrise.ch/governance/principles) requires that Sunrise Communications Group AG maintain a share register listing the owners, usufructuaries and nominees of registered shares, including name, address and nationality (in the case of companies with registered offices). The Board of Directors has adopted Share Register Regulations concerning the registration of shareholders and maintenance of the share register of Sunrise Communications Group AG (www.sunrise.ch/governance/principles) in accordance with Article 5 (5) of the Articles of Incorporation. The regulations set out in detail the rules governing the recognition and registration of acquirers of shares and nominees as shareholders with voting rights, the powers and duties in relation to and the maintenance of the share register as well as the monitoring of the shareholdings registered in the share register. The persons listed in the share register are deemed to be shareholders, usufructuaries or nominees in relation to Sunrise Communications Group AG. Sunrise Communications Group AG recognizes only one proxy per share. The Board of Directors has the power to delete entries in the share register retroactively as of the date of the entry if the entry was made on the basis of false information. Before deleting an entry, it may give the shareholder or nominee in question the opportunity to argue against the deletion. The shareholder or nominee in question will be informed of the deletion without delay. As a rule, the share register is closed three trading days before the date of the Annual General Meeting, up to and including the day of the meeting. Nonetheless, deletions from the share register may be made during the period that the share register is closed. The Board of Directors may under certain circumstances register nominees as shareholders with voting rights in the share register. For further information regarding the registration of nominees, please see section 2.8 Limitations on Transferability and Nominee Registrations on page 41 et seq.

6.2 Convocation of the Meeting of Shareholders

Shareholders' meetings of Sunrise Communications Group AG are announced by the Board of Directors through official publication in the Swiss Official Gazette of Commerce (German: Schweizerisches Handelsamtsblatt) no less than twenty days prior to the date of the meeting. Notices may also be mailed to the shareholders listed in the share register. One or more shareholders of Sunrise Communications Group AG together representing at least 3% of the total share capital outstanding at the time may request an extraordinary shareholders' meeting in writing to the Board of Directors including indication of the agenda items and associated motions. Shareholders representing at least 1% of the total share capital outstanding at the time may request that items be included in the agenda. Such requests must be made at least 40 days prior to the meeting in writing and include a list of the items to be added to the agenda and the associated motions. The invitation to the shareholders' meeting states the day, time and place of the meeting, the agenda items as well as the motions made by the Board of Directors and the shareholders who requested the shareholders' meeting or the inclusion of an item in the agenda.

6.3 Representation at the Meeting of Shareholders

At shareholders' meetings of Sunrise Communications Group AG, shareholders may be represented by their statutory proxy, another shareholder with voting rights or the independent proxy elected by the Annual General Meeting. Shareholders may grant proxies electronically and instruct the independent proxy on both

- agenda items included in the invitation to the shareholders' meeting and
- new motions not disclosed in the invitation to the shareholders' meeting.

The independent proxy may only exercise the voting rights granted by the shareholder in accordance with the shareholder's instructions. Absent voting instructions, the independent proxy is required to abstain from voting. The independent proxy is elected annually by the Annual General Meeting for a term of office of one year until the end of the next Annual General Meeting.

6.4 Statutory Quorum Requirements

The shareholders' meeting passes resolutions and carries out elections by absolute majority of the votes cast, excluding any abstentions, blank or invalid votes. However, in accordance with the specific quorum requirements of the Swiss Code of Obligations and Article 10 (5) of the Articles of Incorporation (www.sunrise.ch/governance/principles), the following actions require the approval of shareholders holding at least two-thirds of the votes represented at such meetings:

- changes to the company's purpose
- creation of shares with privileged voting rights
- restriction to the transferability of registered shares
- authorized or conditional capital increases
- increase of capital out of equity (German: Kapitalerhöhung aus Eigenkapital), against contributions in kind (German: Sacheinlage) or for the purpose of acquiring assets (German: Sachübernahme) and granting special benefits (German: Gewährung besonderer Vorteile)
- limitation or withdrawal of preemptive rights
- a change of registered offices of the company and
- dissolution of the company

The Articles of Incorporation (www.sunrise.ch/governance/principles) do not provide for stronger majority requirements than envisioned by law.

7 Change of Control Provision

7.1 No Opting Out, no Opting Up

Pursuant to the applicable provisions of the Federal Act on Financial Market Infrastructure and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA), if a person acquires shares of a company listed on the SIX Swiss Exchange, whether directly or indirectly or acting in concert with third parties, which, when added to the shares already held by such person, exceed the threshold of one third of the voting rights (whether exercisable or not) of such company, that person must make a bid to acquire all of the listed shares of such company. A company's articles of incorporation may either eliminate this provision of the SESTA/FMIA or may raise the relevant threshold to 49% ("opting out" or "opting up", respectively). The Articles of Incorporation of Sunrise Communications Group AG (www.sunrise.ch/governance/principles) do not contain opting-out or opting-up provisions.

7.2 Change of Control

There are no change-of-control clauses benefiting members of the Board of Directors, members of the Executive Leadership Team or other members of the management of Sunrise Communications Group AG. Employment contracts given to members of the Executive Leadership Team do not provide notice periods exceeding 12 months, commissions for the acquisition or transfer of enterprises or severance payments.

8 Auditor

8.1 Duration of the Mandate and Term of Office of the Lead Auditor

The Sunrise group's financial statements for the fiscal year ended December 31, 2016, have been audited by Ernst & Young AG, Zurich (since the incorporation of Sunrise Communications Group AG in 2015). The auditor is elected annually by the Annual General Meeting of Sunrise Communications Group AG. The lead auditor has been Willy Hofstetter for the first time for the year ending December 31, 2016.

8.2 Audit Fees

The total audit fees for the fiscal year 2016 amount to CHF 753,000 (2015: CHF 796,000).

8.3 Additional Fees

The additional fees for audit-related services totaling CHF 21,500 (2015: CHF 582,000) primarily comprise services in connection with covenant reporting and the implementation of new IFRS standards. The additional fees for non-audit services totaling CHF 700,600 (2015: CHF 2,186,000) are related to tax services in connection with the Sunrise group structure as well as transaction advisory services.

8.4 Supervisory and Control Instruments Pertaining to Audits

The Board of Directors of Sunrise Communications Group AG meets with the auditor on a regular basis (at least four times a year) during the Audit Committee meetings. Once a year, the auditor presents to the Audit Committee a detailed report on the financial statement audit, including findings of significant financial accounting, reporting and internal control system issues. The auditor also confirms its independence from the Sunrise group in that report. Each year, the Audit Committee reviews the appropriateness of retaining Ernst & Young as the Sunrise group's auditor prior to proposing the re-election of Ernst & Young to the Annual General Meeting. Audit fees are ultimately approved by the Audit Committee. To ensure independence throughout the year, any additional and audit-related services provided by the auditor require the approval of the Audit Committee.

9 Information Policy

Sunrise Communications Group AG engages in transparent, open and regular communication with its shareholders, the capital market and the general public. Throughout the year, Sunrise Communications Group AG publishes its annual results and interim reports (semi-annually and quarterly) on the dates listed in the financial calendar published on the Sunrise Investor Relations website at www.sunrise.ch/ir. Press releases and ad-hoc publications containing potentially price-sensitive information are published regularly and in accordance with the rules of the SIX Swiss Exchange. All interim reports (www.sunrise.ch/reports), company press releases (www.sunrise.ch/press-releases) and ad-hoc publications (www.sunrise.ch/ad-hoc) are also available on the Sunrise website, as are push subscription services for all such publications (www.sunrise.ch/alert-service). Ad-hoc publications are distributed electronically to at least two electronic information systems widely used by professional market participants (inter alia Bloomberg, Reuters) and to at least two relevant Swiss newspapers of national importance (inter alia NZZ, Le Temps). Official publications of Sunrise Communications Group AG are made in the Swiss Official Gazette of Commerce (German: Schweizerisches Handelsamtsblatt). Notices to shareholders may also be made in writing to the addresses of the shareholders recorded in the share register. Printed annual reports are available upon request. For further information please contact the investor relations department by calling +41 58 777 96 86 or sending an e-mail to investor.relations@sunrise.net. For media enquiries please contact Corporate Communications by calling 0800 333 000 (+41 58 777 76 66 from outside of Switzerland) or sending an e-mail to media@sunrise.net. The registered office of Sunrise Communications Group AG is located at Binzmühlestrasse 130, 8050 Zurich, Switzerland.

Important dates for 2017

Publication of the 2016 annual financial results: March 2, 2017
Annual General Meeting: April 11, 2017
Publication of the 2017 half-year report: August 24, 2017

10 Subsequent Events after December 31, 2016

On January 28, 2017, Sunrise Communications Group AG filed with the SIX Swiss Exchange that Hengistbury Investment Partners LLP, London, had reduced its shareholding to 2.9% of the total share capital.

On February 3, 2017, Sunrise Communications Group AG announced the resignation of Timm Degenhardt, Chief Consumer Officer, effective at the end of February 2017.

On March 2, 2017, Sunrise Communications Group AG announced that the Board of Directors will propose to the Annual General Meeting on April 11, 2017, the re-election of all members of the Board of Directors, the Chairman of the Board of Directors as well as the members and the Chairman of the Nomination and Compensation Committee, except for Lorne Somerville who has declined to seek re-election to the Board of Directors. The Board of Directors proposes the election of Michael Krammer as new member of the Nomination and Compensation Committee.

Compensation Report

The Sunrise compensation framework is based on the company values of fairness, transparency and customer orientation and is aligned with the Company's strategy and financial goals. The Compensation Report is compliant with the Directive on Information Relating to Corporate Governance issued by SIX Swiss Exchange along with the Ordinance against Excessive Compensation in Public Companies and the Swiss Code of Best Practice for Corporate Governance.

Compensation Report

1 Introduction

The Sunrise compensation framework is based on the Sunrise values of fairness, transparency and customer orientation and is aligned with the Sunrise strategy and financial goals. It applies to all employees, including the Executive Leadership Team, and aims at attracting, motivating and retaining talent. It rewards short- and long-term success, both in terms of the performance of the Company as a whole as well as the individual's contributions to the business, thus fostering a culture of high performance. Compensation is subject to a formal annual performance management process with the purpose of aligning individual, team and organizational targets.

Under the leadership of a new CEO and Board of Directors, Sunrise has in the first half of 2016 simplified the executive management structure and ensured that all relevant revenue generating and corporate support functions are represented in the Executive Leadership Team in order to align the entire organization.

Sunrise is continuously focused on providing incentive programs that balance short- and long-term commitment and compensation while aligning the interests of management and employees, shareholders and other stakeholders. In order to extend the one-time IPO Management Long-Term Investment Program launched in 2015, a new management long-term investment program was implemented in 2016. The plan offers newly appointed Executive Leadership Team members the opportunity to invest private capital in shares as a way to participate in the long-term success of Sunrise. In addition, as of the first Annual General Meeting in April 2016, part of the Base Compensation of the members of the Board of Directors is paid out in the form of shares.

For the 2017 financial year, Sunrise decided to amend the company bonus plan by changing the weight of company versus individual targets based on job grades. For the members of the Executive Leadership Team there will be more weight on the achievement of company targets and less weight on individual targets. Sunrise also decided to continue the Management Long-Term Investment Program MLTIP on an amended basis (for more details on the amended MLTIP see section 3.2.3.4 Outlook 2017 on page 73 et seq.).

For the first time, this year's report allows a comparison between 2016 and 2015 compensation figures for members of the Board of Directors and the Executive Leadership Team.

The 2016 Compensation Report will be submitted for an advisory vote by the shareholders at the Annual General Meeting on April 11, 2017. Shareholders will thus have an opportunity to express their opinion on how the Board of Directors has determined actual payouts for the 2016 business year. While Sunrise believes that it has a well-balanced compensation system in place, the Company will carefully take into account any feedback received from shareholders as part of this advisory vote.

At the 2017 Annual General Meeting, shareholders will also be asked to approve the future compensation of the Board of Directors for the period prior to the 2018 Annual General Meeting as well as the maximum compensation amount for the Executive Leadership Team for the business year ending December 31, 2018.

Sunrise is committed to providing shareholders with a real say-on-pay. Therefore, shareholders determine compensation budgets for future years and can voice their opinions on the use of these budgets in an advisory capacity each year retroactively.

The Compensation Report is subject to and compliant with the Directive on Information Relating to Corporate Governance, its annex (Corporate Governance Directive) and the commentary issued by SIX Swiss Exchange, along with the Ordinance against Excessive Compensation in Public Companies (Compensation Ordinance) and the Swiss Code of Best Practice for Corporate Governance.

2 Compensation Governance

2.1 Rules regarding Compensation in the Articles of Incorporation

The Sunrise Articles of Incorporation (www.sunrise.ch/governance/principles) contain provisions regarding the approval of compensation by the General Meeting (Article 8), the powers and duties of the Nomination and Compensation Committee (Article 17), general principles of compensation (Article 20), approval of maximum compensation for the members of the Board of Directors and the Executive Leadership Team (Article 21), additional amounts for new members of the Executive Leadership Team (Article 22), agreements with members of the Board of Directors and the Executive Leadership Team (Article 24) and loans and credits to members of the Board of Directors and the Executive Leadership Team (Article 25).

2.2 Nomination and Compensation Committee

The Nomination and Compensation Committee (NCC) is entrusted with the supervision and governance of the Sunrise compensation programs and policies, compensation of the Executive Leadership Team as well as the evaluation of new Executive Leadership Team members as set out under section 3.3.2 Corporate Governance – Tasks and Areas of Responsibility of Each Committee of the Board of Directors on page 50 et seq.

The NCC consists of at least three members of the Board of Directors. The members of the NCC and the Chairman of the NCC are elected individually each year by the respective General Meeting in accordance with Swiss law and the Articles of Incorporation.

The powers and duties of the NCC related to compensation are outlined in the Organizational Regulations of the Board of Directors, section 4.6 (www.sunrise.ch/governance/principles), the Organizational Regulations of the NCC, section 2.2.4 (www.sunrise.ch/governance/principles), and are defined therein in accordance with the Articles of Incorporation, Article 17 (www.sunrise.ch/governance/principles).

According to the Organizational Regulations of the Board of Directors, section 4.6.3, decision-making powers regarding the compensation of the members of the Board of Directors and the Executive Leadership Team are outlined in the table below.

At the 2016 Annual General Meeting, Peter Kurer and Christoph Vilanek were elected as new members of the NCC while Peter Schöpfer was re-elected as Chairman of the NCC and Lorne Somerville was re-elected as member of the NCC. Jesper Ovesen continued as Chairman of the Audit Committee and did not stand for re-election as member of the NCC.

Subject	Nomination and Compensation Committee	Board of Directors	General Meeting
Compensation Report	A	E	E (consultative)
Compensation of the Board of Directors	A	A	E
Compensation of the Executive Leadership Team	A	A	E
Additional amounts for new members of the Executive Leadership Team	A	E	
Decision on individual compensation of the members of the Board of Directors (subject to approval of the total compensation amount by the General Meeting)	A	E	
Decision on individual compensation of the CEO and other members of the Executive Leadership Team (subject to approval of the total compensation amount by the General Meeting)	A	E	

Legend: A = Applicant, E = Decision

2.3 Process for Determining Compensation

In general, the NCC evaluates and prepares the compensation guidelines and applicable performance criteria for compensation and submits corresponding proposals to the Board of Directors. The NCC also regularly informs the Board of Directors of its activities. The NCC assesses the effectiveness, attractiveness and competitiveness of compensation plans at least every two years.

In accordance with these compensation guidelines, the NCC recommends remuneration for the Board of Directors for the period prior to the following year's Annual General Meeting and for the Executive Leadership Team for the following business year, in line with the maximum aggregate compensation and subject to approval by the General Meeting. Article 22 of the Articles of Incorporation (www.sunrise.ch/governance/principles) provides for additional amounts for compensating members of the Executive Leadership Team who are appointed after the maximum aggregate compensation is approved by the General Meeting.

Discussions and decisions by the Board of Directors or the NCC regarding the compensation of Executive Leadership Team members are resolved in the presence of the CEO and the Chief HR Officer, who do not have voting rights. However, the CEO and the Chief HR Officer may not be present when the Board of Directors or the NCC reviews their respective compensation. Likewise, the Chairman of the Board of Directors and the Chairman of the NCC are not present when the NCC reviews their compensation. The Chairman of the Board of Directors abstains from voting on his Base Compensation when the Board of Directors takes resolutions concerning the compensation of its members.

2.4 NCC Meetings

In 2016, the NCC undertook its activities to support the Board of Directors on reviewing and setting the individual compensation amounts and performance criteria related to compensation for the members of the Executive Leadership Team and the Board of Directors as required by law, the Articles of Incorporation and the Organizational Regulations (www.sunrise.ch/governance/principles) as detailed under section 3.3.2 Corporate Governance – Tasks and Areas of Responsibility of each Committee of the Board of Directors on page 50 et seq.). The NCC held three physical meetings as well as four telephone conferences and took one decision by circular resolution relating to compensation with the participation of its members as set out under section 3.3.3 Corporate Governance – Working Methods of the Board of Directors and its Committees on page 51). In a meeting on January 28, 2016, the NCC finalized its recommendation regarding the 2015 target achievement and the 2016 target setting as well as the maximum aggregate compensations for decision by the 2016 Annual General Meeting. In a conference call on February 16, 2016, the NCC reviewed the draft of the 2015 Compensation Report. In a conference call on February 17, 2016, the NCC decided on the proposal to the Board of Directors to introduce a Management Long-Term Investment Program for Executives (MLTIPE) starting in 2016 and on the proposal to the Board of Directors for the compensation of Olaf Swantee. In a conference call on May 10, 2016, the NCC decided on the proposal to the Board of Directors for the compensation of new members to the Executive Leadership Team and for eligible participants in the MLTIPE. With a circular resolution dated July 4, 2016, the NCC recommended an early partial payment of the target bonus for 2016 (except for members of the Executive Leadership Team) to the Board of Directors. In a conference call on August 2, 2016, the NCC reviewed the 2016 target achievement of Libor Voncina and the interim performance of the members of the Executive Leadership Team as well as revised 2016 target settings for the Executive Leadership Team. It also decided on proposals to the Board of Directors for changes to the compensation policy for lower management levels. In a meeting on October 25, 2016, the NCC reviewed the performance management framework and target setting as well as the proposal to the Board of Directors for a company-wide salary increase for 2017 and discussed revisions to the Management Long-Term Investment Program. It also decided to propose to the Board of Directors an amendment to the Organizational Regulations to delegate the target setting for other members of the Executive Leadership Team to the CEO. In a meeting of December 19, 2016, the NCC reviewed the preparation of company targets for 2017 and continued its discussion on revising the Management Long-Term Investment Program.

3 Compensation System

3.1 Principles

Sunrise benchmarks all its compensation regularly and uses for that purpose the median compensation of relevant comparison groups as target benchmark for compensation levels and structures.

In 2016, with regard to compensation for the Board of Directors and Executive Leadership Team, Sunrise obtained advice and benchmark data from PricewaterhouseCoopers (PwC) on companies in the Swiss Market Index SMIM (PwC also provides tax advice and accounting services to Sunrise). A subset of particularly relevant companies was selected from the SMIM. This subset of SMIM companies, along with a direct competitor in the Swiss telecom market (see list in the footnote), is considered most comparable to Sunrise in terms of size, complexity and labor market.[1]

[1] ams AG; Bâloise Holding AG; Georg Fischer AG; Logitech International AG; OC Oerlikon Corp AG; PSP Swiss Property AG; Sonova Holding AG; Straumann Holding AG; Swiss Prime Site AG; Temenos Group AG; Swisscom AG.

Sunrise is mindful of the fact that pay level comparisons must also take into account differences in compensation structure. While SMIM companies generally differ in terms of their compensation structures, Sunrise considered their pay structures similar enough to allow for meaningful pay level benchmarking.

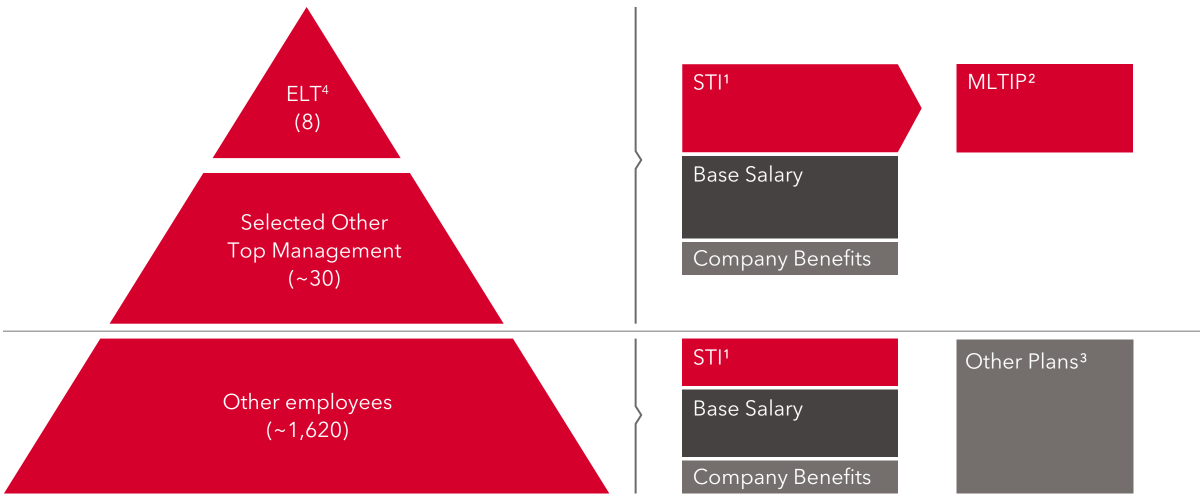
Compensation for staff below the Board of Directors and Executive Leadership Team level is benchmarked against the high-tech industry survey conducted by Willis Towers Watson (Willis Towers Watson also provides pension fund services to Sunrise).

3.2 Elements

General compensation principles for the Board of Directors and the Executive Leadership Team of Sunrise are described in the Articles of Incorporation (Article 20) (www.sunrise.ch/governance/principles).

As shown in the chart Compensation Framework below, the total compensation of Sunrise is based on:
– Fixed compensation – base salary
– Variable compensation – short- and long-term incentive plans
– Company benefit programs (company pension plans, insured benefits and other fringe benefits)

Compensation Framework



[1] Short-term incentive: annually, rewarding past performance.
[2] Management Long-Term Investment Program (MLTIP): linked to STI and participation on a voluntary basis.
[3] Plans for selected employee groups: Sales Plan and Customer Consultant Incentive Plan.
[4] One-time, voluntary opportunity for newly appointed members of the Executive Leadership Team (ELT) to make a private investment in order to align long-term interests of the ELT and shareholders (Investment and Performance Shares).rt

3.2.1 Total Compensation Overview 2016

	Chairman of the Board	Members of the Board	Executive Leadership Team (ELT)	Selected Other Top Management (OTM)	All regular employees	Remarks
Fixed compensation						
Fixed compensation	•	•	•	•	•	
Board of Directors Share Plan	•	•				
Variable compensation						
Short-Term Incentive (Company Bonus Plan)			•	•	•	Based on the achievement of company targets and individual targets, ELT and OTM members can opt to invest part of their Short-Term Incentive in the MLTIP
Management Long-Term Investment Program (MLTIP)			•	•		
Management Long-Term Investment Program for Executives (MLTIPE)			•			Only for newly appointed ELT members on a voluntary and one-time basis
Sales Plan				•	•	Only for Sales Employees, based on quotas
Customer Consultant Incentive Plan					•	Only for Employees in the Internal Contact Center
Company benefits						
(Base plus additional pension plan, base plus additional accident insurance, sick pay insurance, etc.)			•	•	•	1. Members of the Board of Directors are not in a pension plan 2. Bel-Etage Pension Plan for ELT members

3.2.2 Fixed Compensation Cash

Generally speaking, the fixed compensation is paid in cash on a monthly basis and takes into account size and scope of the position as well as external market data. Potential increases in base pay are evaluated on an annual basis.

3.2.2.1 Fixed Compensation: Board of Directors Share Plan

In order to ensure the independence of the Board of Directors in its supervisory role over the Executive Leadership Team, the members of the Board of Directors do not receive variable compensation linked to the performance of the Company. Base Compensation for Board of Directors membership consists of a cash component plus a payment in the form of Sunrise shares targeted at one third of Base Compensation for the Chairman and 50% of Base Compensation for all other members of the Board of Directors. These shares are subject to a blocking period of three years to ensure long-term interest. To avoid any conflicts of interest, no Performance Shares are granted in addition to these blocked Sunrise shares. The number of shares to be allocated is calculated based on the 10-day average of the closing prices prior to the Annual General Meeting. More detailed information in regards to the amounts and the actual payments in 2016 are described in section 4 Board of Directors Compensation on page 74 et seq.

3.2.3 Variable Compensation

Variable compensation comprises short- and long-term variable compensation components that reward specific and challenging financial as well as customer-related qualitative objectives. These annually defined objectives are linked to the key drivers behind the Sunrise strategy (see Operational and Financial Review – 2 Sunrise Strategy on page 12 et seq.). The level of target-based and actual variable compensation is determined by the scope of the position, its external market value, the Company's business success as well as individual performance.

From a principle point of view, for Executive Leadership Team members other than the CEO, the ratio of variable performance-related compensation (Short-Term Incentive and MLTIP) to fixed compensation (base salary, other benefits/cash allowances, social security and retirement benefits) ranges from 0% (no targets achieved) to 128% (maximum targets achieved). If targets are achieved at 100%, the ratio is 55%.

Applying the same calculation methodology to the CEO, the ratio of variable performance-related compensation to fixed compensation ranges from 0% (no targets achieved) to 145% (maximum targets achieved). If targets are achieved at 100%, the ratio is 75%.

3.2.3.1 Annual Short-Term Incentive (Company Bonus Plan)

The short-term incentive arrangement aims at rewarding all employees on an annual basis for their contribution to reaching the company targets that foster the success of Sunrise as well as for the achievement of individual targets. For that purpose, there is a defined target-setting process in place. Company targets and the individual targets of the Executive Leadership Team are subject to approval by the Board of Directors. Individual targets for each employee are defined using a top-down approach to ensure alignment within Sunrise and across the departments. To support the process and ensure transparency in line with Sunrise values, employees are informed on a quarterly basis of the status of the company target achievement in an indicative way. Financial company target achievement is assessed at the end of the year against the audited financial results. Final company target achievement and individual Executive Leadership Team target achievement are subject to approval by the Board of Directors.

The short-term incentive is accrued on a monthly basis assuming 100% target achievement. Any major deviations from the expected target achievement will be reflected in the accrual.

The key features of the Company Bonus Plan are outlined below:

– The target short-term incentive for members of the Executive Leadership Team is expressed as a percentage of base salary and amounts to 50%. For the CEO the target incentive is 60%. Overachievement is possible up to 200% of the target incentive, but in any case not higher than the base salary.
– The two target categories, company and individual targets, are weighted equally and additively and account for 50% each.
– Company targets for the Executive Leadership Team members consist of four target elements: adjusted EBITDA measuring annual, short-term financial success; Customer Base Growth impacting future business success; Customer Satisfaction Index using the Net Promoter Score, a customer engagement index expected to drive long-term business success and free cash flow.
– Individual targets consist of a maximum of three quantitative/qualitative targets for all employees in the Company Bonus Plan and a maximum of four quantitative/qualitative targets for managers including the Executive Leadership Team (for the CEO there were two individual targets – budget and discretionary – both weighted equally).
– Payout of the short-term cash bonus takes place in March of the year following the performance period and is subject to final sign-off by the Board of Directors for Executive Leadership Team members and by the CEO for all other employees. Variable compensation is paid in cash to all employees in the Company Bonus Plan. Executive Leadership Team and individually selected Other Top Management members can elect to receive a portion of their short-term incentive in shares (see next section 3.2.3.2 Management Long-Term Investment Program).

3.2.3.2 Management Long-Term Investment Program

The Management Long-Term Investment Program (MLTIP) was implemented in 2015 with the completion of the IPO. The purpose of this program is to provide the Executive Leadership Team and selected Other Top Management of Sunrise with the opportunity to participate in the future success of Sunrise, to align their interests with those of Sunrise shareholders and to reward leadership, innovation and performance. The MLTIP has a prospective and long-term view that is aligned with the overall business strategy of Sunrise. It is tied to equity performance, settled in shares, and vesting (of Performance Shares) is subject to service and company performance conditions. This plan is designed to generate an ownership interest among the Executive Leadership Team and selected Other Top Management.

A. Investment Shares

The MLTIP provides Executive Leadership Team and selected Other Top Management members with the opportunity to annually invest part of their short-term incentive in the plan. The key parameters of the MLTIP are as follows:

– Participation in the MLTIP is voluntary, as the program represents a personal investment by each Executive Leadership Team member and selected Other Top Management member. If there is no participation, the short-term incentive is fully paid out in cash.
– Executive Leadership Team members and selected Other Top Management members may elect to receive a portion of their actual annual short-term

incentive – between 25% and 50% – in the form of shares subject to a three-year blocking period (Investment Shares).
Per the plan rules, the relevant share price for the allocation of Investment Shares is based on the average closing price of the shares on the SIX Swiss Exchange in the ten trading days immediately preceding the payout date (as a rule March 25) of the corresponding short-term incentive.

B. Performance Shares

- At the end of the three-year vesting period, participants are entitled to receive, if any, a certain number of so-called Performance Shares based on the achievement of predefined targets.
- The number of Performance Shares depends on Sunrise total shareholder return (TSR) as compared to two peer groups, A and B, and ranges from 0 to 1.5 shares per Investment Share (peer groups and detailed payout mechanism are shown in the table below).
- Performance Shares will only be vested if the eligible MLTIP participant is still employed at the time Performance Shares have vested and has held the Investment Shares for at least three years.

Peer Group A

50% of the award will be based on Sunrise TSR relative to SMIM constituents. Performance Shares will be awarded in accordance with the table below.

Sunrise TSR performance compared to the median TSR of SMIM constituents	Number of Performance Shares awarded for each Investment Share held
Above 150% of median	0.75 shares
Between 50% and 150% of median	0.25 shares – 0.75 shares (straight line basis)
Below 50% of median	0 shares

Peer Group B

The remaining 50% of the award will be based on Sunrise TSR relative to a peer group of international telecom companies. This peer group includes Swisscom, O_2 Germany, Elisa and Tele2 Sweden. Performance Shares will be awarded in accordance with the table below:

Rank of Sunrise TSR compared to peers	Number of Performance Shares awarded for each Investment Share held
First	0.75 shares
Second	0.75 shares
Third	0.5 shares
Fourth	0.25 shares
Fifth	0 shares

3.2.3.3 Management Long-Term Investment Program for Executives

The Management Long-Term Investment Program for Executives (MLTIPE) was introduced in March 2016. The purpose of the MLTIPE is to provide newly appointed Executive Leadership Team members (with the exception of one selected Other Top Management member joining the plan in 2016) on a one-time basis only with the opportunity to participate in the future success of Sunrise, to align their interests with those of Sunrise shareholders and to reward leadership, innovation and performance. The MLTIPE has a prospective and long-term view that is aligned with the overall business strategy of Sunrise. It is tied to equity performance, settled in shares, and vesting of Performance Shares is subject to service and company performance conditions. This plan's objective is to generate an ownership interest among the newly appointed Executive Leadership Team members. Overall, the characteristics and mechanisms of the MLTIPE are similar to those of the MLTIP. TSR comparison to peer groups A and B, weighting and the method of calculating the amount of Performance Shares awarded are based on the same principles as the MLTIP described in the previous section. The following specifics apply to the MLTIPE:

A. Investment Shares

The MLTIPE provides newly appointed Executive Leadership Team members with the opportunity to make a private investment in the MLTIPE and to purchase Investment Shares. The key parameters of the MLTIPE are as follows:

- Participation in the MLTIPE is voluntary for the Executive Leadership Team members; however, members are given only one opportunity to join the program at the time of execution of the employment contract.
- The minimum and maximum amounts that newly appointed Executive Leadership Team members can invest in the plan are determined by the Board of Directors on a case-by-case basis.
- Purchased Investment Shares are subject to a three-year blocking period.
- Per the plan rules, the relevant share price for the purchase of Investment Shares is based on the average closing price of the shares on the SIX Swiss Exchange during the ten trading days beginning ten trading days after the public announcement of the participant's appointment to the Executive Leadership Team. There is no discount on the share purchase price.
- Upon termination of employment for any reason, the blocking period on the Investment Shares will lapse with immediate effect at the effective date of the termination.

B. Performance Shares

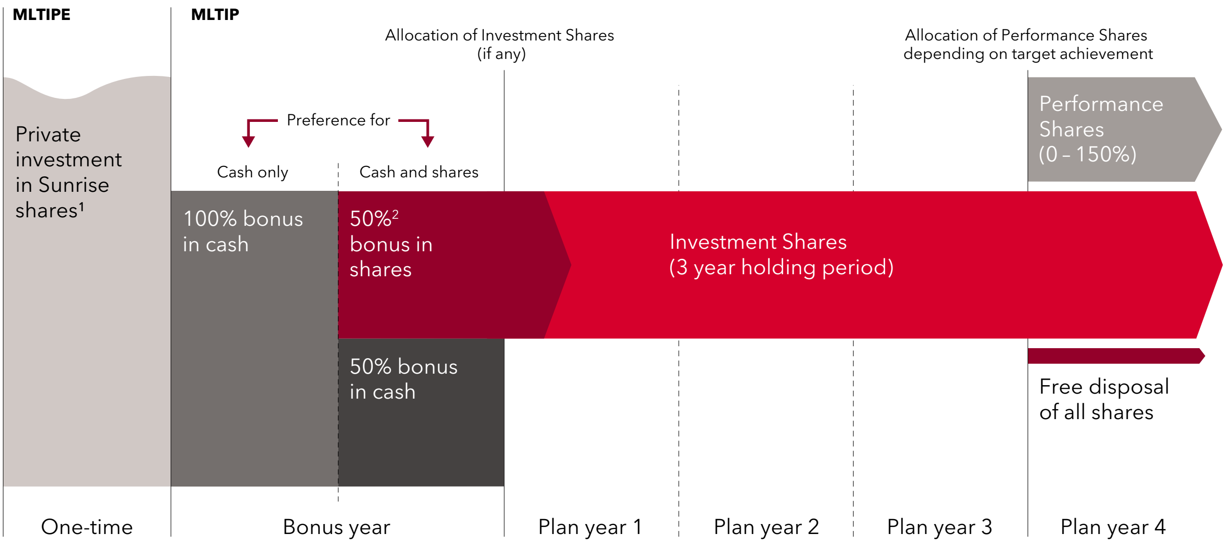
- At the end of the three-year vesting period, participants are entitled to receive, if any, a certain number of so-called Performance Shares based on the achievement of predefined targets.
- The number of Performance Shares depends on Sunrise total shareholder return (TSR) as compared to two peer groups, A and B, and ranges from 0 to 1.5 shares per Investment Share (peer groups and detailed payout mechanism are the same as for the MLTIP described in section 3.2.3.2 Management Long-Term Investment Program on page 71).
- Currently applicable to the CEO only:
  Upon termination of employment before the end of the blocking period and provided the participant is considered a "good leaver" by the Board of Directors under the terms of the employment agreement, Performance Shares shall be awarded on a pro-rata basis for the duration of employment until the effective date of termination. The participant shall be considered a "good leaver" if he/she: ceases to be employed as a result of his/her death; becomes permanently disabled for health reasons; is dismissed or removed from office without good cause; or resigns for good cause.

As stated before, all variable compensation at Sunrise is performance-related. While the short-term incentive rewards past performance throughout the year, the Management Long-Term Investment Programs are designed to provide a prospective incentive (Performance Shares) that is closely tied to the future success of the Company through its share price development (long-term value creation for Sunrise shareholders). Furthermore, as the Executive Leadership Team and selected Other Top Management members are encouraged to invest part of their short-term incentive in shares (Investment Shares), the plan offers immediate ownership interest ("skin in the game"). This not only serves to strengthen the managers' long-term commitment to Sunrise, it also promotes prudent risk management and reinforces their alignment with the shareholders.

3.2.3.4 Outlook 2017

For the year 2017, Sunrise has conducted a detailed review of the current MLTIP and has decided to continue the plan on an amended basis. In order to more strongly align the "MLTIP revised" with the overall business strategy of Sunrise and the interests of its shareholders, the vesting of the Performance Shares for the Executive Leadership Team will hereafter be linked to the performance metric of three-year cumulative Equity Free Cash Flow. Additionally, Performance Share vesting will be lowered to a maximum of 1.2 shares for each Investment

Variable Compensation for Executive Leadership Team



[1] Only for newly appointed members of the Executive Leadership Team (voluntary and one-time participation). The amount that can be invested in Investment Shares of the MLTIPE is determined by the Board of Directors on a case-by-case basis.
[2] Participant may choose a portion ranging from 25% to 50% to invest into shares.

Share acquired (a reduction of the current maximum of 1.5 shares for each Investment Share acquired). For an extended group of employees, the MLTIP revised will be offered with a match, i.e., one Matching Share for one Investment Share acquired. Matching Shares will be subject to three-year service conditions only (no performance conditions apply and no Performance Shares will be granted). Customary good and bad leaver provisions apply. The other key elements and terms of the MLTIP for the Executive Leadership Team and extended group will in principle remain unchanged.

The following only applies to 2017: The election window and the purchase of Investment Shares will take place in either March or May 2017 depending on share trading restrictions applicable to specific groups of participants. The relevant share price for the allocation of Investment Shares is based on the average closing price of the shares on the SIX Swiss Exchange in the ten trading days immediately preceding the payout date of the March or May 2017 salary (as a rule the 25th of the month).

3.2.4 Benefits

Sunrise offers a competitive benefits package including health management, retirement plans, disability and life insurance and other fringe benefits in line with market practices in the industry.

Executive Leadership Team members receive a monthly flat-rate expense allowance as well as a Bel-Etage Pension Plan. Contributions are fully paid by Sunrise. Members also receive either a company car or a monthly cash allowance for vehicle use.

4 Board of Directors Compensation

4.1 General

Compensation for members of the Board of Directors includes a fixed component for membership as well as additional amounts based on individual roles as shown in the following table. In order to ensure the independence of the Board of Directors in its supervisory role over the Executive Leadership Team, the members of the Board of Directors do not receive variable compensation linked to the performance of the Company.

Base Compensation consists of a cash component plus a payment in the form of Sunrise shares (targeted at ⅓ of base compensation for the Chairman and 50% of base compensation for all other members of the Board of Directors). These shares are subject to a blocking period of three years to ensure long-term interest. To avoid any conflict of interest, no Performance Shares will be granted in addition to these blocked Sunrise shares. Any additional amounts for the committee chairperson position or Committee Membership are paid solely in cash. The amounts below are gross values before deduction of employee social security and taxes. Board fees for the 2016 financial year were paid in cash in quarterly installments (payment months: April 2016, July 2016, October 2016 and January 2017) as well as in the form of shares (share allocation date: April 18, 2016)

Role	Amount in cash CHF	Amount in shares CHF
Base compensation		
Chairman of the Board	200,000	100,000
Member of the Board	50,000	50,000
Committee Membership fee		
Chairman of the AC	60,000	
Chairman of the NCC	50,000	
Member of Committee	30,000	

The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as members of the Sunrise Board of Directors.

4.2 Board of Directors Compensation in 2016

The compensation paid to individual members of the Board of Directors for the 2015 and 2016 financial years is shown at the end of this section. The footnotes contain explanatory information on the amounts indicated and specific compensation details for the Board of Directors. The accrual principle is applied.

For the 2016 financial year, members of the Board of Directors received total compensation of CHF 1.190 million in the form of cash and shares plus employer-paid social security contributions. The level of base compensation and committee membership fee did not change in 2016.

The increase in total compensation from CHF 0.511 million in 2015 to CHF 1.190 million in 2016 is due to the appointments of five new members to the Board of Directors and the fact that in 2015 only three members received Board of Directors compensation (all others signed board fee waiver agreements). In addition, in 2015 one member received Board of Directors compensation on a pro-rata basis (Dr. Dominik Köchlin until July 12, 2015).

Maximum Overall Compensation for the 2016/2017 Term of Office

The General Meeting approves the maximum aggregate compensation of the Board of Directors for its term of office, i.e., from the General Meeting (each April) until the next General Meeting (the following April). The present Compensation Report refers to the financial year and therefore takes December 31, 2016, as its cut-off date for all compensation information disclosed (see footnotes in the Compensation 2016 table for more details).

The 2016 General Meeting approved the maximum aggregate compensation of CHF 1.50 million for the members of the Board of Directors for the period until the next General Meeting in 2017. Calculated for the period mid-April to December 2016, the total compensation paid to the members of the Board of Directors amounts to CHF 1.09 million (cash, shares, employer-paid social security). This amount plus amounts yet to be paid in 2017 (January to mid-April 2017) are within the maximum aggregate compensation approved by the 2016 General Meeting.

The Compensation Report for the 2017 financial year will show the overall compensation paid to the members of the Board of Directors in the period from the 2016 General Meeting to the 2017 General Meeting.

Total Board of Directors Compensation 2016

	Base Compensation/ Committee Membership in cash	Base Compensation in shares	Employer-paid social security	**Total 2016**
Peter Kurer, Chairman[1] – new	162,917	100,000	15,691	**278,608**
Peter Schöpfer, Vice-Chairman[2]	114,167	50,000	8,986	**173,153**
Robin Bienenstock, Board Member[3] – new	56,667	50,000	7,970	**114,637**
Michael Krammer, Board Member[3] – new	56,667	50,000	0	**106,667**
Jesper Ovesen, Board Member[4]	132,806	50,000	4,591	**187,397**
Joachim Preisig, Board Member[3] – new	56,667	50,000	5,761	**112,428**
Lorne Somerville, Board Member/former Chairman[1]	92,083	0	13,095	**105,178**
Christoph Vilanek, Board Member[1] – new	56,667	50,000	5,761	**112,428**
Total Compensation paid to members of the Board of Directors	**728,641**	**400,000**	**61,855**	**1,190,496**
Siddharth Patel, Board Member	0	0	0	**0**
Daniel Pindur, Board Member	0	0	0	**0**
Total Compensation paid to members of the Board of Directors leaving the BoD in April 2016	**0**	**0**	**0**	**0**

– All Base Compensation, Committee Membership fees and shares are gross values before the deduction of applicable tax and employee social security. Sunrise cost for social security contributions is stated separately.
– Base Compensation/Committee Membership in cash for newly appointed members of the Board of Directors is reported on an 8.5-month basis. Base Compensation in shares is reported in its entirety at the time of allocation (12 months basis).
– Sunrise share purchase price as of April 18, 2016: CHF 64.48 per share.
– The following Board of Directors members have signed a board fee waiver agreement and did not receive any Board of Directors compensation in 2016: Siddharth Patel and Daniel Pindur; Lorne Somerville (only until the AGM in April 2016).
– Lorne Somerville donates his received Board of Directors compensation after the AGM in April 2016 and therefore no shares were purchased.
– For Peter Schöpfer, no social security contributions were paid until the AGM in April 2016 (payment through invoice).
– For Michael Krammer, there is no employer social security to be paid.
– Members of the Board of Directors are not on a Sunrise pension plan.
– According to the Articles of Incorporation (Art. 25) (www.sunrise.ch/governance/principles) no loans or credits are granted to the Board of Directors.

[1] Member of the Nomination and Compensation Committee (NCC).
[2] Chairman of the Nomination and Compensation Committee (NCC).
[3] Member of the Audit Committee.
[4] Chairman of the Audit Committee.

Total Board of Directors Compensation 2015

In CHF	Base Compensation/ Committee Membership fee	Employer-paid social security	Total 2015
Lorne Somerville, Chairman since July 12, 2015[4]			
Peter Schöpfer, Vice-Chairman[3]	150,000		150,000
Siddharth Patel, Board Member[2]			
Jesper Ovesen, Board Member[1, 4]	174,032	4,648	178,680
Daniel Pindur, Board Member[2]			
Dr. Dominik Koechlin, Chairman until July 12, 2015	170,806	11,968	182,774
Total Compensation paid to the members of the Board of Directors	**494,838**	**16,616**	**511,454**

– The compensation figures are disclosed for the entire calendar year 2015 (Company registration date: January 13, 2015).
– All Base Compensation and Committee Membership fees were paid in cash (shares will only be paid in 2016) and are gross values before the deduction of applicable tax and employee social security.
– Sunrise cost for social security contributions is stated separately.
– The compensation of Dr. Dominik Koechlin, Sunrise Chairman of the Board of Directors until July 12, 2015, was paid prorated for the time he served as Chairman in 2015.
– The following members of the Board of Directors have signed a board fee waiver agreement and therefore did not receive any Board of Directors compensation in 2015: Lorne Somerville, Siddharth Patel and Daniel Pindur.
– For Peter Schöpfer no social security contributions were paid (payment through invoice).
– For Jesper Ovesen social security was paid based on the social security system in Germany (€ 1 = CHF 1.0922).
– Members of the Board of Directors are not in a Sunrise pension plan.
– According to the Articles of Incorporation (Art. 25) (www.sunrise.ch/governance/principles) no loans or credits are granted to the members of the Board of Directors.

[1] Chairman Audit Committee.
[2] Member Audit Committee.
[3] Chairman Nomination and Compensation Committee.
[4] Member Nomination and Compensation Committee.

5 Executive Leadership Team Compensation

The general principles and elements of Executive Leadership Team compensation are described in the preceding sections of the Compensation Report.

Achievement of 2016 Company Targets and Short-Term Incentive Payout

Both business and individual performance impact the actual variable compensation paid to all employees including the members of the Executive Leadership Team.

In 2016, Sunrise achieved substantial customer base growth in the main focus areas of Postpaid, Internet and TV – both in absolute figures as well as compared to the competitive market. The Sunrise Net Promoter Score measuring customer satisfaction/loyalty increased as well.

As Sunrise aims for predictable performance, the financial accomplishments against the guidance given to its investors are strongly in focus. The Sunrise main financial key performance indicators (KPIs) performed within the guidance range announced in March 2016 are as follows:

Financial KPIs	Guidance 2016	Result 2016
EBITDA CHF million	600 – 620	611.2
Revenue CHF million	1,890 – 1,930	1,897
Dividend per share CHF	3.24 – 3.36	3.33 (proposed)

This resulted in an overall target achievement above 100%. The overall target achievement was 116.8% for the CEO and between 111% and 133% for the other Executive Leadership Team members.

Total Compensation

The table Total Executive Leadership Team Compensation 2016/2015 on page 78 shows the total compensation paid to the Executive Leadership Team for the 2016 and 2015 financial years, broken down into individual compensation elements, including the highest amount paid to one individual. The footnotes contain explanatory information on the amounts indicated. The accrual principle is applied to all compensation elements except Performance Shares, which were evaluated based on their fair value at the grant date according to IFRS2 (including grossed-up employer social security). In addition, the table shows the fair value of Other Benefits/ Cash allowances as well as Retirement benefits.

Compensation in 2016
The individual base salaries of the Executive Leadership Team members did not change in 2016.

The total short-term incentive totaled CHF 2.098 million for the Executive Leadership Team (of which CHF 0.384 million was for the CEO Olaf Swantee).

Performance Shares were granted under the MLTIP at a target value of CHF 0.439 million for the Executive Leadership Team (the CEO was not MLTIP-eligible in 2016).

As described in section 3.2.3.3 Management Long-Term Investment Program for Executives on page 72 et seq., newly appointed Executive Leadership Team members were offered the opportunity to invest private means in Sunrise shares on a one-time voluntary basis (MLTIPE). Such investments entitle Executive Leadership Team members to receive Performance Shares under the same performance and service conditions as the MLTIP (with the exception of the good leaver conditions in the MLTIPE). In relation to these private investments, a one-time grant of Performance Shares was made to newly appointed members of the Executive Leadership Team at a target value of CHF 2.445 million (thereof CHF 1.597 million for the CEO). All newly appointed members of the Executive Leadership Team opted to invest in the MLTIPE.

Taking into account other benefits/cash allowances, employer social security contributions and retirement benefits, total compensation of the Executive Leadership Team in 2016 totaled CHF 10.247 million (thereof CHF 2.842 million for Olaf Swantee as new CEO; the latter amount includes the value of Performance Shares of CHF 1.596 million, the basis of which is a private investment of CHF 1.500 million in Investment Shares when being appointed as new CEO). Including the compensation paid to the members stepping down from the Executive Leadership Team, the total compensation amounts to CHF 11.196 million.

Compensation in 2016 Compared to 2015
As a result of the overall target achievement in 2016, the individual short-term incentives paid to the members of the Executive Leadership Team increased from CHF 1.301 million in 2015 to CHF 2.098 million in 2016.

Compared to 2015, the total compensation paid to members of the Executive Leadership Team (in 2016 including compensation paid to individuals stepping down from the Executive Leadership Team) decreased from CHF 16.583 million to CHF 11.196 million. The main reasons for this were:
- More members invested significantly higher amounts in the 2015 one-time MLTIPZero (CHF 8.640 million) than in the 2016 MLTIPE (CHF 2.445 million). This is the main reason for the difference in compensation between 2016 and 2015.
- Overall base salaries decreased from CHF 3.728 million in 2015 to CHF 3.391 million in 2016 due to the slightly lower base salaries of new members joining the Executive Leadership Team in 2016 and pro-rata base salaries for members joining/stepping down from the Executive Leadership Team.
- In 2016 a smaller portion of the short-term incentive was invested in the MLTIP (from CHF 0.570 million in 2015 to CHF 0.439 million in 2016).

In addition and related to 2015: Out of the 2015 IPO MLTIPZero Performance Shares with a target value of CHF 8.640 million, a portion equal to CHF 3.946 million will not vest because of service conditions that will not be met. For the same reason, out of the MLTIP Performance Shares with a target value of CHF 0.570 million, a portion equal to CHF 0.205 million will not vest (forfeiture without compensation in both cases).

Maximum Overall Compensation for the 2016 Financial Year
The pre-IPO extraordinary shareholders' meeting on January 23, 2015, resolved that the maximum aggregate compensation of the Executive Leadership Team for the 2016 financial year will amount to CHF 17.5 million. At that time, this amount represented a best estimation for a compensation system yet to be finally designed. The total compensation of CHF 11.196 million paid to the members of the Executive Leadership Team for the 2016 financial year is within the maximum aggregate compensation resolved at the extraordinary shareholders' meeting on January 23, 2015.

Total Executive Leadership Team Compensation 2016/2015

In CHF	2016 Total Executive Leadership Team	2016 Thereof Olaf Swantee (CEO)	2015 Total Executive Leadership Team	2015 Thereof Libor Voncina (CEO)
Base Salary	3,390,941	548,387	3,728,333	850,000
Short-term Incentive (STI) to be paid in March of the following year	2,097,819	384,310	1,300,583	306,000
MLTIP: Performance Shares (relating to STI of the prior year)	439,033		569,787	182,767
Other Benefits/Cash allowances	352,152	24,742	313,248	85,140
Social security	480,604	70,947	456,498	105,457
Retirement benefits	868,858	103,590	962,304	159,765
Compensation 2016/2015:	*7,629,407*	*1,131,976*	*7,330,753*	*1,689,129*
One-time IPO MLTIPZero Performance Shares (vesting in 2018)			8,639,922	2,848,520
Social Security on IPO MLTIPZero			612,830	202,046
One-time MLTIPE Performance Shares	2,445,119	1,596,868		
Social security on MLTIPE	172,821	112,867		
Total compensation to members of the Executive Leadership Team[1]	**10,247,347**	**2,841,711**	**16,583,505**	**4,739,695**
Compensation paid to member(s) of the Executive Leadership Team after stepping down from the Executive Leadership Team in the current year[2]	629,053			
Compensation paid to former member(s) of the Executive Leadership Team after stepping down from the Executive Leadership Team in the previous year[3]	319,713			
Total compensation to members of the Executive Leadership Team plus compensation paid to those members stepping down from the Executive Leadership Team	**11,196,113**			
Ratio of performance-related variable compensation to fixed compensation (excluding the IPO MLTIPZero)			37.38%	44.64%
Ratio of performance-related variable compensation to fixed compensation (including the IPO MLTIPZero)			210.04%	304.80%
Ratio of performance-related variable compensation to fixed compensation (excluding the MLTIPE)	55.01%	56.79%		
Ratio of performance-related variable compensation to fixed compensation (including the MLTIPE)	108.02%	292.76%		

Footnotes refer to 2016 unless other years are indicated

– All base salary, short-term incentive and Performance Share amounts are gross values before deduction of applicable tax, employee social security and other statutory charges.
– Sunrise cost for social security and retirement benefit contributions is stated separately.
– For the MLTIPE and the MLTIP, the figures are based on 100% target achievement (1 Performance Share for 1 Investment Share).
– Performance Share valuation method: Monte Carlo.
– Grant Date Fair Value per Share in CHF for MLTIP PSU: 73.16.
– Grant Date Fair Value per Share in CHF for MLTIPE PSU: 69.55 (Olaf Swantee)/65.03 (all others).
– The ratio calculation does not include Social Security as this is essentially distributed proportionately between variable and fixed compensation; not all Executive Leadership Team (ELT) members opted to invest in the Management Long-Term Investment Program (MLTIP).
– In the 2015 footnotes it was mentioned that out of the short-term incentive paid in 2016 (CHF 1,300,583), an amount of CHF 363,000 will be invested in Investment Shares. The 2016 MLTIP Performance Shares show a higher amount of CHF 439,033 because of a) Performance Shares for an "Other Top Management" member who was a MLTIP participant before becoming an Executive Team Leadership (ELT) member in 2016 and b) the Grant Date Fair Value of the Performance Share according to Monte Carlo valuation, which is higher than the share purchase price of the Investment Share.

[1] Includes the compensation of the eight Executive Leadership Team (ELT) members plus the compensation of three ELT members stepping down from the ELT in 2016. The compensation paid to these three members amounts to CHF 1,550,613 and is paid for the period from January 1, 2016, until the day of release from the ELT. The amount includes the pro-rata company bonus consistent with the plan rules (note: of the 2016 MLTIP Performance Shares indicated (CHF 439,033), CHF 202,507 will not vest since service conditions will not be met). For 2015: Includes the compensation of the seven ELT members plus the compensation of one ELT member stepping down from the ELT in 2015 and one ELT member stepping down from the ELT in 2014.
[2] The amount includes compensation after the day of release from ELT duty up to the end of the reporting year including employer-paid social security, retirement benefits, cash allowances, etc. The amount includes the pro-rata company bonus consistent with the plan rules.
[3] The amount includes compensation from January 1, 2016, up to the end of the notice period in 2016 including employer-paid social security, retirement benefits, cash allowances, etc. The amount includes the pro-rata company bonus consistent with the plan rules.

Additional Information

No loans or credits are granted to the members of the Executive Leadership Team, and their maximum termination period is six months.

The table below illustrates the grant of Performance Shares at target under the new revised 2017 Long-Term Investment Program MLTIP. The assumptions are that all eight members of the Executive Leadership Team will opt to invest the maximum of 50% of their short-term incentive in Investment Shares in May 2017 (May is an exception in 2017 as described in section 3.2.3.4 Outlook 2017 on page 73) and that the total short-term incentive to be paid out in March 2017 amounts to CHF 1.749 million.

in CHF million	**2016 Short-Term Incentive in cash**	**2016 Short-term Incentive in Investment Shares**	Corresponding 2017 grant of Performance Shares at target
Total ELT	0.8745	0.8745	0.8745

6 Shareholdings of the Board of Directors and Executive Leadership Team

As of December 31, 2016, the members of the Board of Directors held the shares listed in the following table. No related parties held any shares.

Number of shares held by the members of the Board of Directors

	2016	2015
Peter Kurer, Chairman	5,150	–
Peter Schöpfer, Vice-Chairman	775	–
Robin Bienenstock, Board Member	775	–
Michael Krammer, Board Member	775	–
Jesper Ovesen, Board Member	775	–
Joachim Preisig, Board Member	775	–
Lorne Somerville, Board Member[1]	–	–
Christoph Vilanek, Board Member	775	–
Total	**9,800**	**-**

In 2015 the members of the Board of Directors were paid in cash only.

[1] In 2016 Lorne Somerville did not participate in the Board of Directors Share Plan since he donates the compensation earned as a member of the Board of Directors.

As of December 31, 2016, the members of the Executive Leadership Team held the shares listed in the following table. No related parties held any shares.

Number of shares held by the members of the Executive Leadership Team

	2016	2015
Olaf Swantee, CEO[1]	22,960	–
André Krause	59,385	96,194[2]
Timm Degenhardt	35,548	56,889[2]
Elmar Grasser	23,957	37,355[2]
Massimiliano Nunziata	13,380	20,231[2]
Françoise Clemes[1]	6,522	–
Dominik Rubli[1]	12,389	–
Karin Schmidt[1]	3,334	–
Total	**177,475**	**210,669**

[1] Members joining the Executive Leadership Team in 2016.
[2] Shares of Sunrise Communications Group AG and equivalent indirect economic interest held in MEP.

As of December 31, 2016, no member of the Executive Leadership Team held any indirect economic interest in Sunrise Communications Group AG through shares in New Dawn MEP Issuer Co S.A. as was the case under the pre-IPO Management Equity Program (MEP) disclosed in the 2015 Compensation Report because all remaining indirect economic interest was sold in October 2016 to the issuer of the MEP against shares of Sunrise Communications Group AG which continued to be subject to leaver and defaulter provisions until the expiration of the transfer restrictions two years after the completion of the IPO. The sale was caused by the dissolution of the corporate MEP structure by former shareholders.

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8005 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

To the Annual General Meeting of
Sunrise Communications Group AG, Zurich

Zurich, February 28, 2017

Report of the statutory auditor on the compensation report

We have audited the compensation report of Sunrise Communications Group AG for the year ended December 31, 2016.The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in section 4 Board of Directors Compensation and section 5 Executive Leadership Team Compensation on pages 74 to 79 of the compensation report.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility
Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the compensation report for the year ended December 31, 2016 of Sunrise Communications Group AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Willy Hofstetter
Licensed audit expert
(Auditor in charge)

André Schaub
Licensed audit expert

Consolidated Financial Statements

Sunrise Communications Group AG

Consolidated Statements of Income

CHFk January 1 – December 31	Note	2016	2015
Revenue	**7, 8**	**1,896,673**	**1,976,131**
Transmission costs and cost of goods sold		(703,974)	(732,527)
Other operating expenses		(382,198)	(411,589)
Wages, salaries and pension costs	9, 10	(221,353)	(207,954)
Other income	11	10,591	12,243
Other expenses	9, 11	(1,051)	(20,205)
Income before depreciation and amortization, net financial items and income taxes		**598,688**	**616,099**
Amortization	15	(252,266)	(260,484)
Depreciation and impairment losses	16	(207,302)	(211,972)
Operating income		**139,120**	**143,643**
Foreign currency gains, net		1,321	220,155
Financial income		2,124	99,155
Financial expenses		(58,708)	(554,297)
Net financial items	**12**	**(55,263)**	**(234,987)**
Income/(loss) before income taxes		**83,857**	**(91,344)**
Income taxes	13	3,236	(21,577)
Net income/(loss)		**87,093**	**(112,921)**
Net loss attributable to equity holders of the parent company		**87,093**	**(112,921)**
Basic and diluted earnings/(loss) per share (in CHF)	**14**	**1.93**	**(2.62)**

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

Consolidated Statements of Comprehensive Income

CHFk January 1 – December 31	2016	2015
Net income/(loss)	**87,093**	**(112,921)**
Actuarial gain/(losses) related to defined benefit pension plans	18,891	(30,786)
Income tax effect	(4,494)	6,465
Net other comprehensive income/(loss) not to be reclassified to profit and loss in subsequent periods	**14,397**	**(24,321)**
Cash flow hedge gains	–	8,357
Net other comprehensive income to be reclassified to profit and loss in subsequent periods	**-**	**8,357**
Other comprehensive income/(loss), net of tax	**14,397**	**(15,964)**
Total comprehensive income/(loss)	**101,490**	**(128,885)**
Comprehensive income/(loss) attributable to equity holders of the parent company	**101,490**	**(128,885)**

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

Consolidated Statements of Financial Position

Assets

CHFk	Note	December 31, 2016	December 31, 2015
Non-current assets			
Intangible assets	15	2,348,900	2,521,090
Property, plant and equipment	16	883,792	952,903
Non-current portion of trade and other receivables	17	55,830	44,873
Non-current portion of prepaid expenses	18	583	847
Deferred tax assets	13	433	823
Total non-current assets		**3,289,538**	**3,520,536**
Current assets			
Inventories	19	28,741	29,915
Current portion of trade and other receivables	17	393,856	346,994
Current portion of prepaid expenses	18	7,916	7,893
Cash and cash equivalents	20	214,175	244,388
Total current assets		**644,688**	**629,190**
Total assets		**3,934,226**	**4,149,726**

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

Equity and liabilities

CHFk	Note	**December 31, 2016**	December 31, 2015
Equity			
Common shares		45,000	45,000
Share premium		2,489,962	2,623,723
Other reserves		(776,143)	(776,143)
Valuation reserve		–	(23)
Accumulated deficit		(622,531)	(724,021)
Total equity	**21**	**1,136,288**	**1,168,536**
Non-current liabilities			
Non-current portion of loans and notes	24	1,828,327	1,831,128
Non-current portion of financial leases	24	9,236	16,331
Non-current portion of trade and other payables	27	16,043	33,496
Deferred tax liabilities	13	184,881	207,391
Non-current portion of provisions	28	118,222	135,560
Employee benefit obligations	23	102,234	115,369
Non-current portion of deferred income	29	10,409	11,690
Total non-current liabilities		**2,269,352**	**2,350,965**
Current liabilities			
Current portion of financial leases	24	7,597	6,769
Current portion of trade and other payables	27	476,271	553,655
Income tax payable	13	3,873	11,707
Current portion of provisions	28	6,146	14,445
Current portion of deferred income	29	33,710	42,895
Other current liabilities		989	754
Total current liabilities		**528,586**	**630,225**
Total liabilities		**2,797,938**	**2,981,190**
Total equity and liabilities		**3,934,226**	**4,149,726**

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

Consolidated Statements of Cash Flow

CHFk January 1 – December 31	Note	2016	2015 Restated[2]
Income/(loss) before income taxes		**83,857**	**(91,344)**
Amortization	15	252,266	260,484
Depreciation and impairment losses	16	207,302	211,972
Gain on disposal of property, plant and equipment		(84)	(59)
Movement in pension		4,670	(13,442)
Movement in provisions		(9,192)	7,688
Change in net working capital	30	(67,924)	(29,150)
Cash flow from operating activities before net financial items and tax		**470,895**	**346,149**
Financial income	12	(2,124)	(99,155)
Financial expense	12	58,708	554,297
Foreign currency gains, net		(1,321)	(220,597)
Interest received		45	89,217
Interest paid		(50,577)	(185,912)
Corporate income and withholding tax paid		(29,609)	(34,082)
Total cash flow from operating activities		**446,017**	**449,917**
Purchase of property, plant and equipment	16	(141,392)	(207,432)
Purchase of intangible assets	15	(71,206)	(84,486)
Sale of property, plant and equipment		120	59
Total cash flow used in investing activities		**(212,478)**	**(291,859)**
Incorporation of SCG	21	–	100
Issue of shares	21	–	20,000
Proceeds from the initial public offering		–	1,339,302
Fees in connection with the initial public offering[1]		–	(50,173)
Proceeds from long-term loans and notes		(240)	1,826,969
Repayments of long-term loans and notes		–	(2,625,066)
Fees in connection with repricing and extension of credit facilities		(7,640)	–
Settlement of derivatives		–	(328,134)
Cost of early debt redemption and derivative settlement		–	(96,118)
Repayments of capital leases	24	(6,266)	(6,759)
Payment of 2nd and 3rd installment of mobile spectrum license		(108,308)	(104,989)
Dividend payment		(135,000)	–
Other financing activities		(7,616)	(10,803)
Total cash flow used in financing activities		**(265,070)**	**(35,671)**
Total cash flow		**(31,531)**	**122,387**
Cash and cash equivalents as of January 1		244,388	120,185
Foreign currency impact on cash	12	1,318	1,816
Cash and cash equivalents as of December 31		**214,175**	**244,388**

[1] Of which CHFk 45,064 has been capitalized.
[2] See Note 3 on page 92.

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

Consolidated Statements of Changes in Equity

CHFk	Common shares	Share premium	Other reserves	Valuation reserve	Accumulated deficit	Total
Equity as of January 1, 2015	**–**	**–**	**397,812**	**(8,380)**	**(410,834)**	**(21,402)**
Net loss for the period	–	–	–	–	(112,921)	(112,921)
Other comprehensive income/(loss)	–	–	–	8,357	(24,321)	(15,964)
Total comprehensive income/(loss)	**–**	**–**	**–**	**8,357**	**(137,242)**	**(128,885)**
Incorporation of SCG	100	–	–	–	–	100
Effect of business restructuring	24,900	1,325,000	(1,173,955)	–	(175,945)	–
Issue of shares in initial public offering	20,000	1,339,302	–	–	–	1,359,302
Transaction costs	–	(45,064)	–	–	–	(45,064)
Share-based payment	–	4,485	–	–	–	4,485
Equity as of December 31, 2015	**45,000**	**2,623,723**	**(776,143)**	**(23)**	**(724,021)**	**1,168,536**
Equity as of January 1, 2016	**45,000**	**2,623,723**	**(776,143)**	**(23)**	**(724,021)**	**1,168,536**
Net income for the period	–	–	–	–	87,093	87,093
Other comprehensive income		–	–	–	14,397	14,397
Total comprehensive income	**–**	**–**	**–**	**–**	**101,490**	**101,490**
Share-based payment	–	1,239	–	–	–	1,239
Dividend payment	–	(135,000)	–	–	–	(135,000)
Other	–	–	–	23	–	23
Equity as of December 31, 2016	**45,000**	**2,489,962**	**(776,143)**	**–**	**(622,531)**	**1,136,288**

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

Notes to the Consolidated Financial Statements

NOTE

NOTE 1

General information

Sunrise Communications Group AG (SCG or the Company) was incorporated in Switzerland on January 13, 2015. The registered offices of the Company are located at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

The consolidated financial statements for the year ended December 31, 2016, comprise SCG and its subsidiaries (together referred to as the Group or Sunrise). The Group's principal operating company, Sunrise Communications AG, is the second-largest full-range telecommunications provider in Switzerland and offers mobile voice and data, landline services (retail and wholesale voice, business and integration services) and landline Internet including Internet Protocol Television (IPTV) services to both Residential and Business customers as well as to other operators. Sunrise has its own national backbone landline and IP network as well as its own mobile network based on GSM / EDGE, UMTS / HSDPA and 4G technologies. In connection with the services it provides, Sunrise also resells handsets manufactured by third party suppliers.

Following reorganizations on January 23, 2015, SCG became the ultimate holding company of the Group. From January 1, 2014, to January 23, 2015, Mobile Challenger Group S.à r.l. (MCG) was the ultimate shareholder of Mobile Challenger Intermediate Group S.A. (MCIG), parent to Sunrise Communications Holdings S.A. Subsequently, on February 6, 2015, SCG made an initial public offering in Switzerland and was listed on the SIX Swiss Exchange.

These consolidated financial statements were authorized for issue by the Group's Board of Directors on February 28, 2017, and are subject to shareholder approval at the Annual General Meeting to be held on April 11, 2017.

NOTE 2

Basis of preparation

The consolidated financial statements of the Group as of and for the year ended December 31, 2016, have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments measured at fair value. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures at the reporting date. The accounting estimates and judgments considered material to the preparation of the financial statements are summarized in Note 5 on page 99 et seq.

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

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

NOTE 3

Changes in presentation

In prior years Sunrise was not able to split Capex into paid and unpaid invoices. All investments in Capex were shown as cash additions to the cash flow used in investing activities in the statements of cash flow. A system upgrade in 2016 made it possible for Sunrise to identify not yet paid Capex invoices and accruals. The impact on the statements of cash flow as well as on the change in net working capital for 2015 is shown in the table below:

CHFk	**Reported**	Adjustment	**Restated**
Impact on 2015 figures			
Cash flow used in investing activities	(276,001)	(15,858)	(291,859)
Thereof purchase of property, plant and equipment	*(196,164)*	*(11,268)*	*(207,432)*
Thereof purchase of intangible assets	*(79,896)*	*(4,590)*	*(84,486)*
Thereof sale of property, plant and equipment	*59*	*–*	*59*
Change in net working capital	(45,008)	15,858	(29,150)

NOTE 4

Significant accounting policies

Principles of consolidation

Subsidiaries

Subsidiaries are all companies over which the Group has control. Control is achieved when the Group is exposed or has the right to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Gains and losses related to divestment of subsidiaries are recognized as the difference between the fair value of the proceeds (less divestment expenses) and the carrying value of net assets (including goodwill).

The balance sheet date for all consolidated subsidiaries is December 31, 2016.

Business combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit and loss.

Foreign currency translation
The financial statements are presented in Swiss francs, which is the functional currency of the parent company and each of its subsidiaries. The functional currency is the currency applied in the primary economic environment of each enterprise's operations. Transactions in currencies other than the functional currency are transactions in foreign currencies.

Such transactions are translated at the transaction-date exchange rates. Foreign exchange gains and losses arising from differences between transaction-date and settlement-date rates are recognized as net financial items in the statement of income. Cash, loans and other amounts receivable or payable in foreign currencies (monetary assets and liabilities), if any, are translated into the functional currency at the official exchange rates as quoted at the reporting date.

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

CURRENCY	BALANCE SHEET		INCOME STATEMENT AND CASH FLOW	
CHF	**December 31, 2016**	December 31, 2015	**January 1 – December 31, 2016**	January 1 – December 31, 2015
Euro	1.0721	1.0882	1.1020	1.0922
US Dollar	1.0190	1.0021	0.9932	0.9704

Revenue recognition
Revenue comprises goods and services provided during the year after deduction of VAT and rebates relating directly to sales. Significant sources of revenue are recognized in the statement of income as follows:
– Revenue from telephony is recognized at the time the call is made
– Revenue from the sale of prepaid services is deferred and revenue is recognized at the time of use
– Wholesale revenue from voice carrier services is recognized at the time of use
– Revenue from leased lines is recognized over the rental period
– Revenue from subscription and flat-rate service fees is recognized over the subscription period
– Revenue from non-refundable up-front connection fees is deferred and amortized over the agreed minimum contract term
– Revenue from the sale of handsets is recognized upon delivery
– Revenue from the maintenance of equipment is recognized over the contract period

Revenue is allocated to each component of multi-element arrangements, including undelivered elements and other performance conditions, based on fair value. The revenue related to each element is recorded in accordance with the accounting policies stated above.

Revenue is recognized gross when the Group acts as a principal in a transaction. For content-based services and the resale of services from content providers where the Group acts as an agent, revenue is recognized net of direct costs.

NOTE 4

Significant accounting policies

Other income and other expenses

Other income and other expenses primarily include significant amounts that cannot be attributed to the normal course of operations, such as net collectible fees raised from early termination of contracts, revenue from subleases and restructuring expenses, including any reversals of such items.

Intangible assets

Goodwill is recognized at cost less accumulated impairment losses. Goodwill is allocated from the acquisition date to cash-generating units for the purpose of impairment testing. The carrying value of goodwill is tested for impairment annually in the fourth quarter. If there is any indication during the year that goodwill may be impaired, the cash-generating unit is tested for impairment at that time. Goodwill is subsequently written down to the recoverable amount through the statement of income if the recoverable amount is exceeded by the carrying value. Impairment losses on goodwill are not reversed.

Brands, subscriber base, licenses, proprietary rights, patents, etc., are measured at cost less accumulated amortization and impairment losses and are amortized on a straight-line basis over their estimated useful lives.

Development projects, including costs of computer software purchased or developed for internal use, are recognized as intangible assets if the cost can be calculated reliably and if they are expected to generate future economic benefits. Costs of development projects include wages and external charges. Development projects that do not meet the criteria for recognition in the statement of financial position are expensed as incurred in the statement of income. Subscriber acquisition and retention costs are expensed in the statement of income.

The main amortization periods are as follows:

UMTS and spectrum licenses	6–16 years
Subscriber base	5–11 years
Brands	4–10 years
Other rights	2–10 years
Development projects/software	3 years

Development projects in process are tested for impairment at least annually and written down to their recoverable amount in the statement of income if their recoverable amount is exceeded by their carrying value.

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated write-down for impairment.

General borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such assets are substantially ready for their intended use or sale.

Property, plant and equipment
Property, plant and equipment are measured at cost less accumulated depreciation and write-down for impairment.

Cost comprises purchase price and costs directly attributable to the acquisition until the date on which the asset is ready for use, as well as the estimated costs of dismantling and restoring the site. The cost of self-constructed assets includes directly attributable payroll costs, materials, parts purchased and services rendered by sub-suppliers during the construction period. Cost also includes estimated asset retirement costs on a discounted basis if the related obligation meets the conditions for recognition as a provision.

The depreciation base is measured at cost less residual value and any write-downs. Depreciation is provided on a straight-line basis over the estimated useful life of the assets as follows:

Cable installations	20 years
Exchange installations and base stations	10–15 years
Leasehold improvements	10 years[1]
Other telecommunications installations	3–7 years
Computer equipment	3–5 years
Other installations	5–7 years
Customer premises equipment	3 years[1]

[1] Or shorter if the contract period is shorter.

Property, plant and equipment that have been disposed of or scrapped are eliminated from accumulated cost and accumulated depreciation. Gains and losses arising from the sale of property, plant and equipment are measured as the difference between the sales price less selling expenses and the carrying value at the time of sale. The resulting gain or loss is recognized in the statement of income under Other income and expenses.

Software that is an integral part of a tangible asset (e.g., telephone exchange installations) is presented together with the related tangible assets.

Leased property, plant and equipment that qualify as finance leases are recognized as assets acquired. The cost of finance leases is measured at the lower of the assets' fair value and the present value of future minimum lease payments. Lease payments on operating leases are accrued and expensed on a straight-line basis over the term of the lease.

If indications exist that the value of an asset may be impaired, the recoverable amount of the asset is determined. If the recoverable amount of the asset, which is the higher of the fair value less cost to sell and the value in use, is less than its carrying amount, the carrying amount is reduced to the recoverable amount.

NOTE 4

Significant accounting policies

Financial assets

Loans and receivables

Included in loans and receivables are interest-bearing term deposits held with financial institutions for periods of more than 3 months. They are included in current assets, except for deposits with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. After their initial recognition at amortized cost, loans and receivables are measured using the effective interest method. Foreign exchange gains and losses are recognized in the statement of income.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of merchandise includes purchase price and delivery costs. The cost of work in progress comprises direct costs of merchandise, direct labor, other direct costs and related production overheads. The costs of inventories are determined using the standard costing method. The difference between standard cost and the sale price of handsets sold as part of a subscriber arrangement is recognized as subscriber acquisition or retention costs and shown in Other operating expenses upon completion of the sale.

Trade receivables and other receivables

Receivables are measured at amortized cost net of an allowance for uncollectible amounts. An allowance is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Allowances for anticipated uncollectible amounts are based on individual assessments of major receivables and historically experienced losses on uniform groups of other receivables. This allowance is equal to the difference between the carrying amount and the present value of the amounts expected to be recovered. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income within Other operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against Other operating expenses in the statement of income.

Income taxes

Income taxes include all current and deferred taxes based on the taxable profits of the Group. Other taxes not based on income such as property or capital taxes are recorded as other operating expenses.

Current income tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred taxes
Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements at the reporting date, except for temporary differences arising from the initial recognition of goodwill and other items in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit. Deferred tax expenses are measured on the basis of tax rates enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which temporary differences or unused tax losses can be utilized.

Deferred tax is charged or credited in the statement of income, except when it relates to items recognized in other comprehensive income, in which case the deferred tax is treated accordingly.

Provisions
Provisions are recognized when – as a consequence of an event occurring before or on the reporting date – the Group has a present obligation (legal or constructive), it is probable that economic benefits will be sacrificed to settle the obligation, and the amount of the obligation can be estimated reliably.

Restructuring provisions are recognized when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected and a detailed estimate of the associated costs, and an appropriate timeline has been established. Furthermore, the affected employees must have been notified of the plan's main features.

An asset retirement obligation is recognized when the Group has a legal or constructive obligation to remove the asset and restore the site where the asset was used at the end of the lease term. The Group has estimated and capitalized the net present value of the obligations and increased the carrying amount of the asset by the respective amount. The estimated cash flows are discounted using a risk-adjusted interest rate and recognized as a provision. Subsequently, the unwinding of the discount is expensed in Net financial items. The capitalized amount is amortized over the expected lease period, including the potential extension option if this is expected to be exercised. Provisions are measured at management's best estimate of the amount at which the liability is expected to be settled. If the timing of the settlement has a significant impact on the measurement of the liability, such liability is discounted.

Pensions
The Group's pension plans comprise defined benefit plans established under Swiss pension legislation.

Obligations are determined quarterly by independent qualified actuaries using the Projected Unit Credit Method assuming that each year of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligations.

The Group recognizes in the statement of income a gain or loss on curtailment when a commitment is made to significantly reduce the number of employees, generally as a result of a restructuring or disposal/discontinuation of part of the business or the outsourcing of business activities. Gains or losses on curtailment or settlement of pension benefits are recognized in the statement of income when the curtailment or settlement occurs.

NOTE 4

Significant accounting policies

Differences between projected and realized changes in pension assets and pension obligations are referred to as actuarial gains and losses and are recognized in other comprehensive income when such gains and losses occur.

In case of changes in benefits relating to employees' previous service periods, a change in the estimated present value of the pension obligations will be immediately recognized.

The present value of the pension obligation is measured using a discount rate based on the interest rate on high quality corporate bonds where the currency and terms of the corporate bonds are consistent with the currency and estimated terms of the defined benefit obligation.

Financial liabilities

Interest-bearing loans issued by Sunrise are recognized initially at the proceeds received net of debt issuance expenses incurred. In subsequent periods, loans are measured at amortized cost using the effective interest method. Other financial liabilities are measured at amortized cost.

Deferred income

Deferred income comprises payments for services to be rendered in subsequent periods. Deferred income comprises, for example, deferred sales related to prepaid services and leased lines. See also Revenue recognition on page 93.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Statements of cash flow, cash and cash equivalents
Cash flow from operating activities is presented under the indirect method and is based on income before income taxes and adjusted for amortization, depreciation, non-cash operating items, cash-flow-related changes in net working capital, financial income and expenses, interest received and paid as well as income taxes paid.

Cash flow from investing activities comprises acquisition and divestment of subsidiaries; purchase and sale of intangible assets, property, plant and equipment as well as other non-current assets; and purchase and sale of securities that are not recognized as cash and cash equivalents. Cash flows from acquired subsidiaries are recognized from the time of acquisition, while cash flows from subsidiaries divested are recognized up to the time of divestment.

Cash flow from financing activities comprises repayments and proceeds from loans and notes, settlement of derivative instruments including related costs such as early redemption costs, repayments of capital leases and issuance and/or redemption of share capital.

Cash and cash equivalents are readily convertible into a known amount of cash within original maturities of three months or less. For the purpose of the statement of cash flow, cash and cash equivalents comprise cash at banks and in hand, deposits held on call with banks and other short-term highly liquid investments, net of bank overdrafts.

Share capital
Ordinary shares are classified as equity. The share premium consists of additional paid-in capital net of transaction costs that are incremental and directly attributable to the issuance of new shares and share-based payment.

NOTE 5

Critical accounting estimates and judgments

The preparation of the Group's consolidated financial statements requires management to make assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the fiscal period. These estimates are based on management's best knowledge of current events and actions that the Group may undertake in the future. However, actual results could differ from those estimates and judgments.

The following estimates and judgments are considered important when portraying the Group's financial position:

– Useful life of intangible assets and property, plant and equipment as shown in Note 4 on page 92 et seq. is assigned based on periodic studies of the actual useful life and intended use of those assets. Such studies are completed or updated whenever new events occur with the potential to impact the way the useful life of the asset is determined, such as events or circumstances that indicate that the carrying value of the asset may not be recoverable and should therefore be tested for impairment. Any change in the estimated useful life of these assets is recognized in the financial statements as soon as any such change is determined. For details, see Notes 15 and 16 on pages 112 et seq. and 115 et seq., respectively.
– Intangible assets comprise a significant portion of the Group's total assets. Impairment tests on goodwill are performed at least annually and, if necessary, whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. The measurement of intangibles is a complex process that requires significant management judgment in determining various assumptions, such as cash flow projections, discount rate and terminal growth rates. The sensitivity of the estimated measurement to

NOTE 5

Critical accounting estimates and judgments

these assumptions, combined or individually, can be significant. Furthermore, the use of different estimates or assumptions when determining the fair value of such assets may result in different values and could result in impairment charges. For details, see Note 15 on page 112 et seq.

- Net periodic pension cost for defined benefit plans is estimated based on certain actuarial assumptions, the most significant of which relate to discount rate and future salary increases. As shown in Note 23 on page 122 et seq., the assumed discount rate reflects changes in market conditions. The Group believes these assumptions illustrate current market conditions.
- Estimates of deferred taxes and significant items giving rise to the deferred assets and liabilities are shown in Note 13 on page 109 et seq. These reflect the assessment of future taxes to be paid on items in the financial statements, giving consideration to both the timing and probability of these estimates. In addition, such estimates reflect expectations about the amount of future taxable income and, where applicable, tax planning strategies. Actual income taxes and income for the period may vary from these estimates as a result of changes in expectations about future taxable income, future changes in income tax law or the final review of tax returns by tax authorities.
- Provisions for asset retirement obligations are made for costs incurred in connection with the future dismantling of mobile stations and restoration of property owned by third parties. These provisions are primarily based on estimates of future costs for dismantling and restoration and the timing of the dismantling. See Note 28 on page 136.
- Revenue, as shown in Note 8 on page 105, is recognized when realized or realizable and earned. Revenue from non-refundable up-front connection fees is deferred and recognized as income over the expected term of the related customer relationship. The term is estimated using historical customer churn rates. A change in management estimates may have a significant impact on the amount and timing of the revenue for any period.

NOTE 6

Standards issued but not yet effective

None of the amendments to existing International Financial Reporting Standards (IFRSs) and Interpretations effective as of January 1, 2016, are relevant to the Group. The amendments will not have any impact on the Group's result or financial position.

At the date of these consolidated Group financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. As a result these standards and interpretations do not impact these consolidated financial statements.

New or amended standards	Impact	Possible impact on consolidated financial statements
IFRS 9 – Financial Instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Group plans to adopt the new standard on the required effective date.	In 2016, the Group performed a high-level impact assessment of all three aspects of the transition to IFRS 9. This preliminary assessment is based on currently available information and is subject to changes arising from further detailed analyses or additional reasonable and supportable information that may be available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity. However, the Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine its extent as well as the effect on additional disclosures required by IFRS 9.

New or amended standards	Impact	Possible impact on consolidated financial statements
IFRS 15 – Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Group plans to adopt the new standard on the required effective date using the partial retrospective method.	According to IFRS 15 Revenue from Contracts with Customers, revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard provides for a single, principles-based, five-step model which is to be applied to all contracts with customers and where the transaction price is generally allocated to each separate performance obligation in proportion to the stand-alone selling prices. Also the revenue is recognized when the customer obtains control of the promised goods or services, whereas the current standard focuses on transfer of risks and rewards. In addition, incremental costs of obtaining and fulfilling a contract are capitalized under certain conditions. In order to help the users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, the new standard requires additional information to be disclosed in the Notes. In 2016, the Group began a detailed assessment of the impacts of IFRS 15 and decided to split the workstreams into 3 categories corresponding to the Residential (fixed and mobile), Business (fixed and mobile) and Wholesale segments. In the Residential segment, the Group expects to apply the Contract by Contract method. The most significant adjustments on revenue will relate to the timing of recognition (i.e., one-time fees), the amount of revenue to be recognized (uneven discounts) and its allocation to the various performance obligations. In the Business segment, the portfolio approach may be applied to a portion of business customers. In the last segment, Wholesale, the Group expects fewer significant adjustments to be recognized.

New or amended standards	Impact	Possible impact on consolidated financial statements
IFRS 16 – Leases	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted but only if IFRS 15 Revenue from Contracts with Customers is applied as well. The Group has not decided yet which transition method will be used to adopt the new standard on the required effective date.	IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. In 2016, the Group performed an initial assessment of the potential impacts of IFRS 16. The Group has several lease contracts for mobile sites and shops. A detailed analysis of the financial impact has not been performed. Lessor accounting remains similar to the current standard – under which lessors continue to classify leases as finance or operating leases – and is not expected to significantly impact the financial statements. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. In 2017, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:
- Disclosure Initiative (Amendments to IAS 7), effective as of January 1, 2017
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), effective as of January 1, 2017
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2), effective as of January 1, 2018
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), effective date to be determined

NOTE 7

Segment reporting

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

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

Business provides a full range of products and services, from fixed-line and mobile communications to Internet and data services as well as integration services to different business areas: Small Office and Home Office, Small and Medium Enterprises and large corporate clients.

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

NOTE 7
Segment reporting

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

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

Activities

	RESIDENTIAL		BUSINESS		WHOLESALE[1]		HEAD OFFICE ACTIVITIES		TOTAL	
CHFk January 1 – December 31	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Revenue										
External customers	1,337,192	1,385,618	284,249	313,540	239,292	245,542	35,940	31,431	1,896,673	1,976,131
Inter-segment revenue	–	–	–	–	40,528	48,989	–	–	40,528	48,989
Total	**1,337,192**	**1,385,618**	**284,249**	**313,540**	**279,820**	**294,531**	**35,940**	**31,431**	**1,937,201**	**2,025,120**
Transmission costs and cost of goods sold										
External customers	(428,383)	(424,497)	(91,700)	(107,071)	(183,486)	(200,966)	(405)	7	(703,974)	(732,527)
Inter-segment costs	(40,528)	(48,989)	–	–	–	–	–	–	(40,528)	(48,989)
Total	**(468,911)**	**(473,486)**	**(91,700)**	**(107,071)**	**(183,486)**	**(200,966)**	**(405)**	**7**	**(744,502)**	**(781,516)**
Other operating expenses	(134,918)	(136,881)	(15,248)	(20,936)	(4,565)	(3,721)	(227,467)	(250,051)	(382,198)	(411,589)
Wages, salaries and pension costs	(59,414)	(59,890)	(35,323)	(52,480)	(4,465)	(2,860)	(122,151)	(92,724)	(221,353)	(207,954)
Other income	51	93	–	–	–	–	10,540	12,150	10,591	12,243
Other expenses	(543)	–	–	–	–	–	(508)	(20,205)	(1,051)	(20,205)
EBITDA	**673,457**	**715,454**	**141,978**	**133,053**	**87,304**	**86,984**	**(304,051)**	**(319,392)**	**598,688**	**616,099**

[1] Including hubbing revenue of CHF 132.4 million generated as of December 31, 2016, and CHF 141.7 million generated as of December 31, 2015.

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

CHFk January 1 – December 31	**2016**	2015
EBITDA from reportable segments	**598,688**	**616,099**
Unallocated:		
– Amortization	(252,266)	(260,484)
– Depreciation	(207,302)	(211,972)
– Net financial items	(55,263)	(234,987)
Income/(loss) before income taxes	**83,857**	**(91,344)**

NOTE 8

Revenue

CHFk January 1 – December 31	**2016**	2015
Mobile services	1,263,727	1,303,867
Landline services	418,592	472,012
Thereof hubbing	*132,439*	*141,728*
Landline internet and TV	214,354	200,252
Total	**1,896,673**	**1,976,131**

CHFk January 1 – December 31	**2016**	2015
Sales of goods	302,606	324,644
Sales of services	1,594,067	1,651,487
Total	**1,896,673**	**1,976,131**

Mobile services include revenue from voice and data traffic, subscription and connection fees for mobile devices and interconnection traffic as well as roaming revenue from group subscribers traveling abroad.

Landline telephony includes revenue from traffic, subscription and connection for PSTN / ISDN and Voice over Internet Protocol and other revenue from services, which primarily relate to business services.

Internet services comprise revenue from subscription fees for xDSL, related traffic charges for Internet traffic and IPTV services.

Sales of goods include sales of mobile devices and distribution and sales of ICT and telecommunication products in the e-business sector as well as installation, operation and maintenance services for these products

NOTE 9

Restructuring

CHFk January 1 – December 31	**2016**	2015
Restructuring expenses	(7,480)	(19,985)
Thereof employee-related costs	*(3,530)*	*(16,709)*
Thereof other restructuring costs	*(3,950)*	*(3,276)*
IAS 19 curtailment effect	–	16,402
Net impact on statement of income	**(7,480)**	**(3,583)**

One-off restructuring costs amount to CHF 7.5 million (PY: CHF 20.0 million) and are related to the streamlining of management levels across Sunrise in September 2016 and the outsourcing of IT operations to the Company's managed service provider. In 2015, CHF 20.0 million were related to costs for employees affected by the 2015 release and were partially offset by the positive effect of the curtailment of the IAS 19 pension liability resulting in a gain of CHF 16.4 million.

NOTE 10

Wages, salaries and pension costs

CHFk January 1 – December 31	**2016**	2015
Wages and salaries	(201,499)	(208,266)
Pension expenses	(21,997)	(5,247)
Other social security costs	(16,947)	(16,343)
Total	**(240,443)**	**(229,856)**
Thereof capitalized as non-current assets	*19,090*	*21,902*
Total	**(221,353)**	**(207,954)**

The increase in wages, salaries and pension costs in 2016 is mainly impacted by the recording of the CHF 16.4 million gain related to the curtailment effect mentioned in Note 9 above, which significantly lowered these costs in 2015.

Remuneration for the Executive Leadership Team and the Board of Directors is shown below:

Remuneration for the Executive Leadership Team and the Board of Directors

	EXECUTIVE LEADERSHIP TEAM		**BOARD OF DIRECTORS**	
CHFk January 1 – December 31	**2016**	2015	**2016**	2015
Wages and salaries	(5,846)	(5,908)	(848)	(326)
Pension expenses	(905)	(957)	–	–
Other social security costs	(451)	(454)	(30)	(12)
Total	**(7,202)**	**(7,319)**	**(878)**	**(338)**

NOTE 11

Other income and other expenses

CHFk January 1 – December 31	**2016**	2015
Other income		
Early termination fees	1,925	4,948
Sub-leases	4,790	4,643
Reversal of provision and accruals	3,156	1,682
Other	720	970
Total	**10,591**	**12,243**

CHFk January 1 – December 31	**2016**	2015
Other expenses		
Non-deductible VAT	–	(964)
Restructuring expenses[1]	–	(19,985)
Reversal of accruals from prior periods	–	2,793
Provision related to managed service contract and onerous contracts	–	(1,532)
Litigation and claims	(543)	–
Other	(508)	(517)
Total	**(1,051)**	**(20,205)**

[1] See Note 9 on page 106.

NOTE 12

Net financial items

CHFk **January 1 – December 31, 2016**	Interest	Debt redemption and derivative settlement costs	Fair value adjustments	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income						
Cash and cash equivalents	–	–	–	–	1,318	1,318
Other	2,124	–	–	2,124	3	2,127
Total	**2,124**	**-**	**-**	**2,124**	**1,321**	**3,445**
Expenses						
Financial liabilities measured at amortized cost	(51,781)	–	–	(51,781)	–	(51,781)
Other	(6,927)	–	–	(6,927)	–	(6,927)
Total	**(58,708)**	**-**	**-**	**(58,708)**	**-**	**(58,708)**
Net financial items	**(56,584)**	**-**	**-**	**(56,584)**	**1,321**	**(55,263)**

CHFk January 1 – December 31, 2015	Interest	Debt redemption and derivative settlement costs	Fair value adjustments	**Total financial income/ (expenses) before foreign currency**	Net foreign currency gains/(losses)	**Total**
Income						
Cash and cash equivalents	6	–	–	6	1,816	1,822
Financial liabilities measured at amortized cost	–	–	–	–	218,587	218,587
Cash flow hedges and economic hedges	97,895	–	–	97,895	–	97,895
Other	1,254	–	–	1,254	–	1,254
Total	**99,155**	**-**	**-**	**99,155**	**220,403**	**319,558**
Expenses						
Financial liabilities measured at amortized cost	(70,061)	(81,064)	–	(151,125)	–	(151,125)
Amortization of existing debt transaction costs	–	(46,438)	–	(46,438)	–	(46,438)
Cash flow hedges and economic hedges	(104,130)	(19,849)	(178,471)	(302,450)	–	(302,450)
Embedded derivatives[1]	–	–	(38,140)	(38,140)	–	(38,140)
Other	(10,270)	(5,874)	–	(16,144)	(248)	(16,392)
Total	**(184,461)**	**(153,225)**	**(216,611)**	**(554,297)**	**(248)**	**(554,545)**
Net financial items	**(85,306)**	**(153,225)**	**(216,611)**	**(455,142)**	**220,155**	**(234,987)**

[1] Embedded derivatives represent early redemption options related to financial instruments issued by the Group.

NOTE 13

Income taxes

Analysis of income taxes

CHFk January 1 – December 31	**2016**	2015
Current income tax expense	(23,015)	(36,731)
Adjustments recognized for current tax of prior periods	(363)	(104)
Deferred tax income	26,614	15,258
Total income tax expense recognized in statement of income	**3,236**	**(21,577)**
Income/(loss) before income taxes	83,857	(91,344)
Expected tax (expense)/income at applicable tax rate of 20.9% (2015: 21.0%)[1]	(17,526)	19,182
Effect of income taxed at differing tax rates than 20.9% (2015: 21.0%)	973	(1,182)
Non-deductible items	(5,268)	(15,210)
Additional tax deductions[2]	20,218	3,528
Tax effects of unrecognized tax losses	(832)	(27,849)
Adjustments to deferred tax balances arising from tax rate changes	5,951	–
Adjustments recognized for current tax of prior periods	(363)	(104)
Other effects	83	58
Total income tax expense recognized in statement of income	**3,236**	**(21,577)**

[1] The applicable income tax rate of 20.9% corresponds to the applicable tax rate of the main operating company Sunrise Communications AG.
[2] Related to a substantial tax-deductible impairment of investments in 2016.

As of December 31, 2016, tax liabilities for income taxes totaling CHF 3.9 million (December 31, 2015: CHF 11.7 million) are recorded as Income tax payable.

Deferred tax assets and liabilities

Deferred tax assets are recognized in the statement of financial position in non-current assets. Deferred tax liabilities are recognized in the statement of financial position in non-current liabilities.

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to offset current tax assets and current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

NOTE 13

Income taxes

Analysis of deferred tax assets and liabilities

CHFk **December 31, 2016**	Assets	Liabilities	**Net amount**
Intangible assets	–	(211,659)	(211,659)
Property, plant and equipment	–	(2,849)	(2,849)
Customer acquisition costs	10,885	–	10,885
Carryforward tax loss	828	–	828
Deferred income	2,371	(748)	1,623
Employee benefit obligations	20,873	–	20,873
Transaction fees refinancing	–	(4,130)	(4,130)
Other	15	(34)	(19)
Total	**34,972**	**(219,420)**	**(184,448)**
Thereof deferred tax assets			*433*
Thereof deferred tax liabilities			*(184,881)*

CHFk December 31, 2015	Assets	Liabilities	**Net amount**
Intangible assets	–	(242,537)	(242,537)
Property, plant and equipment	–	(3,148)	(3,148)
Customer acquisition costs	15,697	–	15,697
Carryforward tax loss	823	–	823
Deferred income	2,929	(947)	1,982
Employee benefit obligations	24,228	–	24,228
Transaction fees refinancing	–	(3,639)	(3,639)
Other	26	–	26
Total	**43,703**	**(250,271)**	**(206,568)**
Thereof deferred tax assets			*823*
Thereof deferred tax liabilities			*(207,391)*

Deferred tax assets relating to tax loss carryforwards or temporary differences are recognized when it is probable that such tax deductions can be utilized in the future. As of December 31, 2016, the Group has unrecognized tax losses of CHF 730.2 million (2015: CHF 774.8 million). Thereof, CHF 726.9 million relate to holding and financing companies (2015: CHF 773.6 million) and CHF 3.3 million relate to operating companies (2015: CHF 1.2 million). CHF 3.3 million of these unrecognized tax losses expire in 2019 (2015: CHF 1.2 million), CHF nil million in 2022 (2015: CHF 48.1 million) and CHF 726.9 million have no expiry date (2015: CHF 725.5 million).

One Group company incurred a loss in the current period, and (net) deferred tax assets of CHF 0.4 million are recognized in this regard (2015: CHF nil million). The current year loss relates to an extraordinary event, whereas management expects the company to be profitable in future years.

Specification of deferred taxes

CHFk **2016**	**Deferred tax assets/ (liabilities) net, January 1**	Deferred tax (expense)/ income	Deferred tax through OCI	**Deferred tax assets/ (liabilities) net, December 31**
Intangible assets[1]	(242,537)	30,878	–	(211,659)
Property, plant and equipment	(3,148)	299	–	(2,849)
Customer acquisition costs	15,697	(4,812)	–	10,885
Carryforward tax loss	823	5	–	828
Deferred income	1,982	(359)	–	1,623
Employee benefit obligations	24,228	1,139	(4,494)	20,873
Transaction fees IPO	(3,639)	(491)	–	(4,130)
Other	26	(45)	–	(19)
Total	**(206,568)**	**26,614**	**(4,494)**	**(184,448)**

[1] This deferred tax liability arises primarily from intangible assets recognized during purchase price allocation (PPA) of Sunrise Communications AG, such as customer base and brands.

CHFk 2015	**Deferred tax assets/ (liabilities) net, January 1**	Deferred tax (expense)/ income	Deferred tax through OCI	**Deferred tax assets/ (liabilities) net, December 31**
Intangible assets[1]	(268,013)	25,476	–	(242,537)
Property, plant and equipment	(3,363)	215	–	(3,148)
Customer acquisition costs	20,892	(5,195)	–	15,697
Carryforward tax loss	1,249	(426)	–	823
Deferred income	2,293	(311)	–	1,982
Hedging instruments debt	361,866	(361,866)	–	–
Hedging instruments swap	(361,866)	361,866	–	–
Employee benefit obligations	20,338	(2,575)	6,465	24,228
Transaction fees IPO	–	(3,639)	–	(3,639)
Other	(1,687)	1,713	–	26
Total	**(228,291)**	**15,258**	**6,465**	**(206,568)**

[1] This deferred tax liability arises primarily from intangible assets recognized during PPA of Sunrise Communications AG, such as customer base and brands.

NOTE 14

Earnings per Share

Basic Earnings per Share is calculated by dividing net profit/(loss) for the period attributable to ordinary equity holders of the parent company by the weighted number of ordinary shares outstanding during the period. SCG was only incorporated on January 13, 2015, and the capital was increased via a contribution in kind on January 23, 2015, to 25,000,000 shares. For the consistency of the calculation for 2015 it was assumed that SCG had this number of shares outstanding from January 1, 2015, to February 6, 2015 (the date of the IPO).

January 1 – December 31	**2016**	2015
Basic earnings/(loss) per share		
Net income/(loss) attributable to equity holders of SCG (CHFk)	87,093	(112,921)
Weighted average number of shares outstanding	45,000,000	43,055,556
Basic earnings/(loss) per share (in CHF)	**1.93**	**(2.62)**
Diluted earnings/(loss) per share		
Net income/(loss) attributable to equity holders of SCG (CHFk)	87,093	(112,921)
Weighted average number of shares outstanding	45,106,386	43,055,556
Diluted earnings/(loss) per share (in CHF)	**1.93**	**(2.62)**

If the vesting conditions were fully met as of December 31, 2016, a maximum of 191,319 shares (December 31, 2015: 204,396) would have a dilutive effect.

NOTE 15

Intangible assets

CHFk **2016**	Goodwill	Subscriber base	Other rights, software, licenses and brands	Intangibles under development	**Total**
Cost as of January 1	1,147,769	1,218,683	1,124,663	39,606	3,530,721
Additions[1]	–	–	60,333	19,744	80,077
Transferred to/(from) other items	–	–	39,703	(39,703)	–
Assets disposed of or fully amortized during the period	–	–	(1,255)	–	(1,255)
Cost as of December 31	**1,147,769**	**1,218,683**	**1,223,444**	**19,647**	**3,609,543**
Accumulated amortization and write-downs as of January 1	–	(579,029)	(430,602)	–	(1,009,631)
Amortization for the period	–	(113,350)	(138,916)	–	(252,266)
Assets disposed of or fully amortized during the period	–	–	1,254	–	1,254
Accumulated amortization and write-downs as of December 31	**-**	**(692,379)**	**(568,264)**	**-**	**(1,260,643)**
Net carrying value as of December 31	**1,147,769**	**526,304**	**655,180**	**19,647**	**2,348,900**

[1] Thereof cash additions CHF 71.2 million.

CHFk 2015	Goodwill	Subscriber base	Other rights, software, licenses and brands	Intangibles under development	**Total**
Cost as of January 1	1,147,769	1,334,683	1,070,982	21,431	3,574,865
Additions[1]	–	–	15,972	71,397	87,369
Transferred to/(from) other items	–	–	53,222	(53,222)	–
Assets disposed of or fully amortized during the period	–	(116,000)	(15,513)	–	(131,513)
Cost as of December 31	**1,147,769**	**1,218,683**	**1,124,663**	**39,606**	**3,530,721**
Accumulated amortization and write-downs as of January 1	–	(560,600)	(320,060)	–	(880,660)
Amortization for the period	–	(134,429)	(126,055)	–	(260,484)
Assets disposed of or fully amortized during the period	–	116,000	15,513	–	131,513
Accumulated amortization and write-downs as of December 31	**-**	**(579,029)**	**(430,602)**	**-**	**(1,009,631)**
Net carrying value as of December 31	**1,147,769**	**639,654**	**694,061**	**39,606**	**2,521,090**

[1] Thereof cash additions CHF 84.5 million.

Subscriber base, which comprises both residential and business customers, is defined as total Sunrise business excluding prepaid mobile. Its useful life corresponds to the weighted average useful life of the different subscriber types of the Company.

Licenses, software, brands and other rights represent the various equipment required to operate the business, software developed or customized by Sunrise as well as the brands under which the Company markets its mobile voice and data services. Other rights include primarily Indefeasible Rights of Use (IRU) to transfer capacity from one point to another.

In 2016 and 2015 no write-downs for impairment of other rights, software, licenses and brands were recognized. In the year ended December 31, 2016, internal costs capitalized totaled CHF 12.8 million (2015: CHF 14.9 million). No interest was capitalized during the years ended December 31, 2016, and December 31, 2015.

Additions from third parties in 2016 and 2015 include software licenses, IRU, product development as well as investments in process digitalization.

The carrying value of intangible assets not yet amortized is CHF 19.6 million for the year ended December 31, 2016, and mainly comprises assets under construction (2015: CHF 39.6 million).

As of December 31, 2016, and December 31, 2015, the carrying value of intangible assets is not pledged.

NOTE 15

Intangible assets

Impairment tests for goodwill

Goodwill is allocated as of the acquisition date to the Group's cash-generating units (CGUs). The Group's CGUs consist of the Residential, Business and Wholesale operating segments, and the impairment test was carried out on these CGUs in the fourth quarter of 2016. An operating-segment-level summary of goodwill allocation is presented below:

Goodwill allocation

CHFk December 31	2016	2015
Residental	889,268	889,268
Business	190,029	190,029
Wholesale	68,472	68,472
Total	**1,147,769**	**1,147,769**

Goodwill has an indefinite useful life and is therefore analyzed for impairment on an annual basis. In 2016, there are no other recorded intangible assets with indefinite useful lives (2015: CHF nil). The recoverable amount of all CGUs has been determined based on its value-in-use using a discounted cash flow (DCF) method. The key assumptions used are listed below:

Key assumptions used for goodwill testing

CHFk December 31	2016	2015
Long-term growth rate	0.0%	0.8%
WACC (pre-tax)	5.7%	6.0%

The calculation basis for the DCF model is the Group's business plan as approved by the Board of Directors. The detailed planning horizon of the business plan covers three years. The free cash flows beyond the three-year planning period were extrapolated using a long-term growth rate. The discount rate is the weighted average cost of capital (WACC) before tax of the Group. Budgeted gross margin and growth rates are based on past performance and management's expectations of market development. As of the impairment test date, the recoverable amount for all CGUs was higher than the carrying amount.

Sensitivity analysis

Management performed sensitivity analyses, which
- increased the discount rate to 9.7% by stable other key assumptions
- set the long-term growth rate to −6.9% by stable other key assumptions
- combined the discount rate of 8.8% with a growth rate of 0%

The results of the sensitivity analyses demonstrated that the above changes in the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount for any of the three CGUs as of December 31, 2016.

NOTE 16

Property, plant and equipment

CHFk **2016**	Telecommunica-tions installations	Other installations	Property, plant and equipment under construction	**Total**
Cost as of January 1	1,624,184	117,022	93,910	1,835,116
Additions[1]	88,838	6,389	42,998	138,225
Transferred to/(from) other items	75,025	5,033	(80,058)	–
Assets disposed of during the period	(74,261)	(274)	–	(74,535)
Cost as of December 31	**1,713,786**	**128,170**	**56,850**	**1,898,806**
Accumulated depreciation and write-downs as of January 1	(803,149)	(79,064)	–	(882,213)
Depreciation for the period	(188,820)	(18,481)	–	(207,301)
Assets disposed of during the period	74,226	274	–	74,500
Accumulated depreciation and write-downs as of December 31	**(917,743)**	**(97,271)**	**-**	**(1,015,014)**
Net carrying value as of December 31	**796,043**	**30,899**	**56,850**	**883,792**
Carrying value of finance leases as of December 31	**9,929**	**-**	**-**	**9,929**

[1] Thereof cash additions CHF 141.4 million.

NOTE 16

Property, plant and equipment

CHFk 2015	Telecommunica-tions installations	Other installations	Property, plant and equipment under construction	**Total**
Cost as of January 1	1,483,545	107,274	77,978	1,668,797
Additions[1]	39,124	25	173,712	212,861
Transferred to/(from) other items	146,489	11,291	(157,780)	–
Assets disposed of during the period	(44,974)	(1,568)	–	(46,542)
Cost as of December 31	**1,624,184**	**117,022**	**93,910**	**1,835,116**
Accumulated depreciation and write-downs as of January 1	(655,808)	(60,974)	–	(716,782)
Depreciation for the period	(192,314)	(19,658)	–	(211,972)
Assets disposed of during the period	44,973	1,568	–	46,541
Accumulated depreciation and write-downs as of December 31	**(803,149)**	**(79,064)**	**-**	**(882,213)**
Net carrying value as of December 31	**821,035**	**37,958**	**93,910**	**952,903**
Carrying value of finance leases as of December 31	**14,416**	**-**	**-**	**14,416**

[1] Thereof cash additions CHF 207.4 million.

In 2016, the Group recognized CHF 7.7 million in write-downs (2015: CHF 14.5 million). These were primarily attributable to the replacement of the mobile network equipment.

In the period ended December 31, 2016, capitalized internal cost totaled CHF 6.3 million (2015: CHF 7.0 million). In 2016 and 2015 no interest was capitalized. Additions from third parties in 2016 include a decrease of CHF 14.3 million in asset retirement obligations without cash effect (2015: increase of CHF 16.7 million). The Group has recourse guarantee obligations for payment and performance in connection with lease contracts (see Note 33 on page 140).

NOTE 17

Trade and other receivables

CHFk December 31	2016	2015
Trade receivables	447,029	387,675
Other receivables	2,657	4,192
Total	**449,686**	**391,867**
Thereof current	*393,856*	*346,994*
Thereof non-current	*55,830*	*44,873*

CHFk December 31	2016	2015
Allowances for uncollectible amounts as of January 1	(87,881)	(71,621)
Addition of allowances for uncollectible amounts, net	856	(16,260)
Total allowances for uncollectible amounts	**(87,025)**	**(87,881)**

CHFk December 31	Days	2016	2015
Not impaired		**414,913**	**366,792**
Thereof receivables not due		*398,640*	*356,136*
Thereof receivables past due	*1–36*	*12,049*	*8,770*
Thereof receivables past due	*37–67*	*4,176*	*1,627*
Thereof receivables past due	*68–98*	*48*	*259*
Thereof receivables past due more than	*99*	*–*	*–*
Impaired		**34,773**	**25,075**
Thereof receivables not due		*16,594*	*124*
Thereof receivables past due	*1–36*	*6,517*	*11,573*
Thereof receivables past due	*37–67*	*1,553*	*3,482*
Thereof receivables past due	*68–98*	*1,719*	*1,854*
Thereof receivables past due more than	*99*	8,390	8,042
Total		**449,686**	**391,867**

The total net amount of trade receivables past due as of December 31, 2016, was CHF 34.5 million (2015: CHF 35.6 million). Other classes within receivables do not contain impaired assets. The carrying value of receivables was not pledged as of December 31, 2016, or as of December 31, 2015.

As of December 31, 2016, net receivables of CHF 16.3 million (2015: CHF 10.7 million) were past due but not impaired. These mainly relate to a number of independent Business, Wholesale and Residential customers with no recent history of default.

NOTE 18

Prepaid expenses

CHFk December 31	2016	2015
Prepaid lease payments	2,290	1,517
Other prepaid expenses	6,209	7,223
Total	**8,499**	**8,740**
Thereof current	*7,916*	*7,893*
Thereof non-current	*583*	*847*

NOTE 19

Inventories

CHFk December 31	2016	2015
Finished goods and merchandise	22,420	22,733
Work in progress	6,321	7,182
Total	**28,741**	**29,915**

Write-downs of inventories to the net realizable value totaled CHF 3.7 million in 2016 (2015: CHF 5.6 million). The carrying amount of inventories recognized as an expense in Transmission costs and cost of goods sold and Other operating expenses totaled CHF 197.6 million (2015: CHF 198.4 million). No inventories were expected to be sold after more than one year.

NOTE 20

Cash and cash equivalents

CHFk December 31	2016	2015
Cash and cash equivalents	214,175	244,388
Total	**214,175**	**244,388**

Sunrise cash and cash equivalents comprise primarily short-term bank deposits with mainly Swiss banks with a high credit rating. The Group does not hold any outstanding term deposits as of December 31, 2016 (December 31, 2015: CHF nil million).

Under the terms of the factoring agreement dated January 12, 2015, Sunrise Communications AG had pledged the cash balances of certain bank accounts. In December 2016 the Group decided to discontinue the use of the factoring facility for strategic and operational reasons. Therefore, as of December 31, 2016, no cash and cash equivalents of Sunrise Communications AG are pledged.

Under the senior facilities agreement and the senior secured notes indenture, the Group has no pledged cash and cash equivalents as of December 31, 2016 and December 31, 2015.

NOTE 21

Equity

CHFk December 31	2016	2015
Common shares	45,000	45,000
Share premium[1]	2,489,962	2,623,723
Other reserve	(776,143)	(776,143)
Valuation reserve	–	(23)
Accumulated deficit	(622,531)	(724,021)
Total equity	**1,136,288**	**1,168,536**

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

Share capital

As of December 31, 2016, the total number of authorized and issued ordinary shares comprised 45,000,000 shares with a nominal value of CHF 1 each. Holders of these shares are entitled to dividends and one vote per share at General Meetings of the Company.

Ordinary shares issued and fully paid

December 31	2016	2015
Number of shares as of January 1	45,000,000	–
Issued on January 13, 2015, for incorporation	–	100,000
Issued on January 23, 2015, for capital increase via contribution in kind	–	24,900,000
Issued on February 6, 2015, for initial public offering	–	20,000,000
Number of shares as of December 31	**45,000,000**	**45,000,000**
Nominal value per share in CHF	1	1
Total amount of common shares as of December 31 (CHFk)	**45,000**	**45,000**

On January 13, 2015, the holding company SCG was incorporated with a fully paid-in share capital of CHFk 100.

On January 23, 2015, SCG increased its existing share capital of CHFk 100 by CHF 24.9 million to CHF 25.0 million by issuing 24,900,000 registered shares with a nominal value of CHF 1 each, in exchange for the entire share capital of MCIG from its individual shareholders.

Subsequently, SCG made an IPO in Switzerland and was listed on the SIX Swiss Exchange on February 6, 2015. A total of 20,000,000 shares was issued at CHF 68 per share with a nominal value of CHF 1 each, amounting to CHF 1,360.0 million in gross proceeds. Transaction costs of CHF 45.1 million directly related to the share issuance were deducted from the share premium.

Other reserve

The change in other reserve represents the difference in the fair value of the contribution in kind and the book value of assets and liabilities as part of the business restructuring in 2015. Please see the 2015 financial report for more information.

NOTE 21

Equity

Accumulated deficit

Actuarial gains and losses, net of taxes, the impact of the business restructuring, the results for the current period and earnings or losses carried forward are recognized in accumulated deficit.

Dividend

CHFk	**2016**	2015
Cash dividends on ordinary shares declared and paid:		
Final dividend for 2015: CHF 3 per share (2014: CHF nil)	135,000	–
Proposed dividends on ordinary shares:		
Final cash dividend for 2016: CHF 3.33 per share (2015: CHF 3)	149,850	135,000

At the Annual General Meeting on April 15, 2016, the payment of an ordinary dividend from statutory reserves from capital contributions in the total amount of CHF 135.0 million (CHF 3 per share) in respect of the 2015 financial year was approved. The dividend payment was made on April 21, 2016.

The Board of Directors will propose a payment of an ordinary dividend of CHF 3.33 per share at the Annual General Meeting in respect of the 2016 financial year. This equates to a total dividend distribution of CHF 149.9 million. The dividend payment is foreseen on April 19, 2017. Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and are not recognized as a liability as of December 31, 2016.

NOTE 22

Share-based payment

CHFk December 31	2016	2015
Equity-settled share-based payment	1,851	4,804
Thereof Employee Share Purchase Program	*–*	*754*
Thereof MLTIPZero	*953*	*3,295*
Thereof MLTIP	*255*	*280*
Thereof MLTIPE	*643*	*–*
Thereof portion of short-term incentive paid in shares	*–*	*475*
Portion of short-term incentive settled in cash	875	1,162
Total expenses for share-based payment	**2,726**	**5,966**

The Company allocated shares to employees in the following employee incentive plans:

Employee Share Purchase Program (ESPP)
On the date of the IPO, Sunrise employees had a one-time opportunity to acquire shares at a discount of 30% off the IPO price of CHF 68. Purchasers of such shares are subject to a lock-up period of two years from the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for employees. Upon termination of employment, the lock-up period remains in effect. In 2015, a one-time expense of CHF 754,000 including social costs was recorded, corresponding to the 30% discount offered to employees.

Management Long-Term Investment Programs (MLTIPZero, MLTIP and MLTIPE)
Certain members of the Executive Leadership Team and selected Other Top Management members of Sunrise were offered the opportunity to take part in Management Long-Term Investment Programs. These plans grant a certain number of shares (Performance Shares) for each held Investment Share, depending on the performance of the Sunrise stock price in comparison to two specified peer groups. Sunrise determined the value at grant date of such Performance Shares for each of the two plans using a Monte Carlo simulation model. Performance Shares do not vest until the employees have completed a three-year period of service. The related expense is recognized over the service period and adjusted by the expected number of employees eligible for Performance Shares.

MLTIPZero
Participants in this program could purchase a certain number of Sunrise shares (Investment Shares) at the initial public offering price of CHF 68. Purchasers of such offered shares are subject to a lock-up period of three years from the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the lock-up period is subject to continued employment and satisfaction of certain performance targets. In 2016, 76,729 MLTIPZero Investment Shares (2015: 124,433) were eligible for Performance Shares with a value at grant date of CHF 80.24 per share.

NOTE 22

Share-based payment

MLTIP

Under this plan there is no allocation of shares from the initial public offering. However, eligible participants, including members of the Executive Leadership Team and selected Other Top Management members, may elect to receive a portion of their annual short-term incentive, capped at a maximum of 50% of said short-term incentive, in the form of shares (Investment Shares), which will then be blocked for a three-year period. There are no minimum service requirements for employees for Investment Shares; however, the number of shares awarded at the end of the blocking period is subject to continued employment and satisfaction of certain performance targets. The selected portion of the short-term incentive to be paid out in shares (equity-settled) is classified under equity as of December 31, 2016; the remaining portion (cash-settled) is shown under other payables. In 2016, 8,193 MLTIP Investment Shares (2015: 11,831) out of the 2015 short-term incentive were eligible for Performance Shares with a value at grant date of CHF 87.70 per share. 4,175 MLTIP Investment Shares (2015: nil) out of the 2016 short-term incentive are eligible for Performance Shares with a value at grant date of CHF 73.16 per share.

MLTIPE

Participants in this program could purchase a certain number of Sunrise shares (Investment Shares) at the share price on the date of purchase. Purchasers of such shares are subject to a lock-up period of three years from the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the lock-up period is subject to continued employment (except for the CEO) and satisfaction of certain performance targets. For the CEO only, upon termination of employment before the end of the blocking period and provided he is considered a "good leaver" by the Board of Directors under the terms of the employment agreement, Performance Shares shall be awarded on a pro-rata basis for the duration of employment until the effective date of termination. In 2016, 38,449 MLTIP Investment Shares (2015: nil) were eligible for Performance Shares with a value at grant date of CHF 69.55 for shares granted in April 2016 and CHF 65.03 per share for shares granted in June 2015.

In 2015 and 2016, the allocation and cost of share-based payments to the members of the Board of Directors and the Executive Leadership Team were as follows:

CHFk December 31	2016	2015
Members of the Board of Directors	108	–
Members of the Executive Leadership Team	2,537	2,969
Total	**2,645**	**2,969**

NOTE 23

Employee benefit obligations

The Group provides retirement benefits to its employees as required by Swiss law by means of a pension fund which is a separate legal entity. The Sunrise Pension Fund is a separate, semi-autonomous foundation governed by the Occupational Pensions and Foundations Office of the Canton of Zurich. Risks for invalidity and death are reinsured by Elips Life. The fixed assets of the Sunrise Pension Fund are managed by Credit Suisse Asset Management in Zurich in accordance with organizational guidelines and investment regulations. The Board of Trustees consists of an equal number of employer and employee representatives and is responsible for the management of the Foundation according to Swiss Law. In accordance with the Occupational Pensions Act, a temporary funding shortfall is permitted. The Board of Trustees must take appropriate measures in order to solve the shortfall within a reasonable timeframe. If those measures do not lead to the desired results, the Pension Fund may temporarily charge remedial contributions from the employers, insured persons and pensioners. The employer contribution must at least equal the aggregate contributions levied from the insured persons.

The pension fund operates a basic pension plan for all staff and a supplemental plan for employees having an insured annual salary of more than CHF 150,000. All Swiss plans qualify as defined benefit plans under IAS 19. Future pension benefits are based primarily on years of credited service and on contributions made by the employee and employer over the service period, which vary according to age as a percentage of insured salary. The rate of annual interest credited to employees' accounts on the balance representing the minimum amount required under pension law is defined by the Swiss government. In addition, the conversion factor used to convert the accumulated capital upon retirement into an annual pension is also defined by the Swiss government. In the case of overfunding it may be possible to a limited extent to reduce the level of contributions by both employer and employee. A distribution of excess funds from the pension fund to the Group is not possible. These defined benefit plans expose the Group to actuarial risks, such as currency risk, interest rate risk and market (investment) risk.

Pension (costs)/income resulting from defined benefit plans

CHFk December 31	**2016**	2015
Current service costs	(22,558)	(22,838)
Interest costs on benefit obligations	(855)	(910)
Past service costs[1]	–	17,274
Penison costs recognized in the statement of income	**(23,413)**	**(6,474)**

[1] Thereof CHFk 16,402 related to IAS 19 curtailment effect. Refer to Note 9 on page 106.

Assets and obligations

CHFk December 31	**2016**	2015
Fair value of plan assets	(296,878)	(301,415)
Defined benefit obligation	399,112	416,784
Employee benefit obligations recognized in the statement of financial position	**102,234**	**115,369**

NOTE 23

Employee benefit obligations

Movement in defined benefit obligations

CHFk	2016	2015
Balance as of January 1	416,784	378,312
Included in the statement of income		
– Current service costs	22,558	22,838
– Past service costs[1]	–	(17,274)
– Interest costs on defined benefit obligation	3,266	4,131
Included in other comprehensive income		
Actuarial (gain)/loss arising from:		
– Demographic assumptions	(14,675)	(179)
– Financial assumptions	7,999	22,187
– Experience adjustment	(7,295)	6,729
Other		
Employee contributions	11,105	12,683
Benefits paid/transferred	(40,630)	(12,643)
Total defined benefit obligations	**399,112**	**416,784**

[1] Thereof CHFk 16,402 related to the IAS 19 curtailment effect. Refer to Note 9 on page 106.

Movement in fair value of plan assets

CHFk	2016	2015
Balance as of January 1	(301,415)	(281,468)
Included in the statement of income		
Interest income	(2,411)	(3,221)
Included in other comprehensive income		
Return on plan assets excluding interest income	(4,920)	2,049
Other		
Company contributions	(17,657)	(18,735)
Employee contributions	(11,105)	(12,683)
Benefits paid	40,630	12,643
Total fair value of plan assets	**(296,878)**	**(301,415)**

Asset allocation of plan assets

	DECEMBER 31, 2016		DECEMBER 31, 2015	
CHFk	**Quoted prices**	**Unquoted prices**	Quoted prices	Unquoted prices
Cash and cash equivalents	(3,554)	–	(242)	–
Equity securities	–	110,915	–	108,750
Debt securities	–	128,392	–	136,472
Real estate	29	42,144	59	39,001
Other	–	18,952	–	17,375
Total	**(3,525)**	**300,403**	**(183)**	**301,598**

Plan assets do not include any property used by Group companies as of December 31, 2016. Furthermore, the defined benefit plans do not hold any shares of Sunrise Communications Group AG.

Periodically, an asset-liability matching study is performed by the pension fund's asset manager in which the consequences of the strategic investment policies are analyzed. The strategic investment policy of the pension fund can be summarized as follows: a strategic asset mix comprising 27.5% to 42.5% equity securities, 40.5% to 51.5% government bonds, 11% to 19% real estate and 0.8% to 7.2% other investments.

Principal actuarial assumptions

%	**2016**	2015
Discount rate	0.65	0.83
Future salary increases	2.00	2.00

As of December 31, 2016, the weighted average duration of the defined benefit obligation was 17.5 years (2015: 15.9 years). For 2017, the Group's projected contributions to its pension funds total CHF 15.5 million.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Sensitivity analysis

CHFk	Increase	Decrease
Effect on defined benefit obligation on December 31, 2016:		
– Discount rate (0.5 ppt movement)	(32,157)	37,804
– Future salary increases (1 ppt movement)	12,269	(11,254)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

NOTE 24 Borrowings

CHFk	Nominal value at inception	Capitalized debt issuance cost[1]	Debt repayments	**December 31, 2016**	December 31, 2015
Floating rate					
Term loan B – CHF[2]	1,360,000	(26,291)	–	1,333,709	1,337,504
Fixed rate					
Senior secured notes – CHF[3]	500,000	(5,382)	–	494,618	493,624
Total loans and notes	**1,860,000**	**(31,673)**	**-**	**1,828,327**	**1,831,128**
Other					
Debt relating to finance leases	–	–	(6,266)	16,833	23,100
Total borrowings				**1,845,160**	**1,854,228**
Thereof current				*7,597*	*6,769*
Thereof non-current				*1,837,563*	*1,847,459*

[1] At issuance of the borrowings.
[2] Issued February 13, 2015 (CHF 1,000.0 million) and February 18, 2015 (CHF 360.0 million).
[3] Issued February 18, 2015.

The Group's financial indebtedness is governed by financial covenants specified in the senior facilities agreement dated February 9, 2015. The main covenant is the leverage ratio. The Group performs covenant testing as of each half year date within the financial year of the Group. The last covenant testing, performed as of December 31, 2016, showed that the Group was in compliance with the applicable financial covenants.

Liabilities relating to finance leases are related primarily to lease agreements on fiber networks.

Repricing and amendment of Senior Facilities Agreement
On December 30, 2016, Sunrise successfully closed on a repricing transaction for its credit facilities. As a result of this transaction, Sunrise achieved a margin reduction of 25bps on its revolving credit facility and 50bps on its term loan B facility. In addition to the repricing, the amendment of the senior facilities agreement includes an updated margin ratchet as well as an extension of maturity on the revolving credit facility to August 2021 and on the term loan B facility to February 2022. Other technical and legal amendments were also implemented. In connection with the repricing transaction the Group incurred transaction costs in the amount of CHF 8.0 million which are capitalized as debt issuance cost on the consolidated statement of financial position.

NOTE 25

Derivatives

On February 13, 2015, the Group partially settled all existing cross-currency principal and interest rate swap agreements and terminated all remaining portions on February 18, 2015. At the balance sheet date of this report, the Group does not hold any derivative financial instrument contracts.

The fair values of existing derivative financial instruments were settled through the statement of income:

CHFk January 1 – December 31	**2016**	2015
The change in the fair value of derivatives in the period can be summarized as:		
Cash flow hedges – movement in hedge reserve	–	(135,947)
Economic hedges	–	(42,524)
Total impact of hedging derivatives in the statement of income (Note 12)	**-**	**(178,471)**
Impact of embedded derivatives in the statement of income (Note 12)	–	(38,140)
Total impact of derivatives in the statement of income (Note 12)	**-**	**(216,611)**

NOTE 26

Financial instruments

CHFk **December 31, 2016**	Loans and receivables	Financial liabilities measured at amortized cost	**Total**
Non-current financial assets			
Non-current portion of trade and other receivables	55,830	–	55,830
Total non-current financial assets	**55,830**	**-**	**55,830**
Current financial assets			
Current portion of trade and other receivables	393,856	–	393,856
Cash and cash equivalents	214,175	–	214,175
Total current financial assets	**608,031**	**-**	**608,031**
Total financial assets	**663,861**	**-**	**663,861**
Non-current financial liabilities			
Non-current portion of loans and notes	–	(1,828,327)	(1,828,327)
Non-current portion of financial leases	–	(9,236)	(9,236)
Non-current portion of trade payables and other payables	–	(16,043)	(16,043)
Total non-current financial liabilities	**-**	**(1,853,606)**	**(1,853,606)**
Current financial liabilities			
Current portion of financial leases	–	(7,597)	(7,597)
Current portion of trade payables and other payables	–	(465,589)	(465,589)
Other current liabilities	–	(989)	(989)
Total current financial liabilities	**-**	**(474,175)**	**(474,175)**
Total financial liabilities	**-**	**(2,327,781)**	**(2,327,781)**
Total	**663,861**	**(2,327,781)**	**(1,663,920)**

CHFk December 31, 2015	Loans and receivables	Financial liabilities measured at amortized cost	Total
Non-current financial assets			
Non-current portion of trade and other receivables	44,873	–	44,873
Total non-current financial assets	**44,873**	**-**	**44,873**
Current financial assets			
Current portion of trade and other receivables	344,286	–	344,286
Cash and cash equivalents	244,388	–	244,388
Total current financial assets	**588,674**	**-**	**588,674**
Total financial assets	**633,547**	**-**	**633,547**
Non-current financial liabilities			
Non-current portion of loans and notes	–	(1,831,128)	(1,831,128)
Non-current portion of financial leases	–	(16,331)	(16,331)
Non-current portion of trade payables and other payables	–	(33,496)	(33,496)
Total non-current financial liabilities	**-**	**(1,880,955)**	**(1,880,955)**
Current financial liabilities			
Current portion of loans and notes	–	–	–
Current portion of financial leases	–	(6,769)	(6,769)
Current portion of trade payables and other payables	–	(541,691)	(541,691)
Other current liabilities	–	(754)	(754)
Total current financial liabilities	**-**	**(549,214)**	**(549,214)**
Total financial liabilities	**-**	**(2,430,169)**	**(2,430,169)**
Total	**633,547**	**(2,430,169)**	**(1,796,622)**

NOTE 26
Financial instruments

The Group operates a centralized risk management system that distinguishes between strategic and operating risks. The Group's overall risk management program focuses on the unpredictability of financial market risks and seeks to minimize potential adverse effects on the Group's financial performance. All identified risks are quantified (according to their realization probability and impact) and noted on a risk schedule. This risk schedule is subject to an annual detailed review and discussion process by the Board of Directors.

The Group is exposed to a variety of financial risks, namely market risk, credit risk and liquidity risk. Financial risk management is governed by policies approved by key management personnel. These policies provide guidelines for overall risk management as well as specific areas such as interest rate risk.

A: Foreign-currency exposures
The Group is predominantly active in the domestic market. In February 2015, all existing debt instruments were fully repaid and replaced by debt instruments denominated in CHF only.

The following table shows the impact of a reasonably possible change in the euro against the Swiss franc, with all other variables held constant. The impact on the Group's profit before tax is mainly driven by foreign exchange gains/losses of euro-denominated cash and cash equivalents, trade and other receivables as well as trade and other payables. As of December 31, 2016, and December 31, 2015, the Group has no other material exposure to foreign currencies.

Foreign currency sensitivity

	NET EXPOSURE			EFFECT ON PROFIT BEFORE TAX	
CHFk	**December 31, 2016**	December 31, 2015	Change in %	**December 31, 2016**	December 31, 2015
EUR / CHF	(1,320)	5,933	+/−10%	(132)	593

B: Interest rate risk
The Group's interest rate risk mainly arises from third party borrowings. In February 2015, all existing debt instruments were fully repaid and replaced by fixed rate borrowings through senior secured notes and a term loan at a variable interest rate.

The following table shows the impact of a reasonably possible change in interest rates on the Group's borrowings. With all other variables held constant, the Group's profit before tax is affected by lower/higher interest rate expenses on floating rate notes.

Interest rate sensitivity

CHFk December 31	INCREASE / DECREASE IN BASIS POINTS	EFFECT ON PROFIT BEFORE TAX 2016	2015
CHF interest rates	+10%	(1,477)	(1,261)
CHF interest rates	−10%	–	51

Cash flow forecasting is performed by Group treasury. Group treasury performs rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs and to service its borrowings while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities. Cash forecasting takes into consideration the Group's debt financing plans and covenant compliance.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted cash flows. All interest payments and repayments of financial liabilities are based on contractual agreements. Interest payments on floating-rate instruments are determined using zero-coupon rates.

C: Maturity profiles

CHFk **December 31, 2016**	< 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	**Total**
Trade payables and other payables	(465,589)	(16,043)	–	–	(481,632)
Borrowings – notional	–	–	–	(1,828,327)	(1,828,327)
Borrowings – interest	(38,278)	(38,203)	(114,684)	(7,114)	(198,279)
Financial leases	(7,597)	(4,640)	(2,601)	(1,995)	(16,833)
Other current liabilities	(989)	–	–	–	(989)
Total financial liabilities	**(512,453)**	**(58,886)**	**(117,285)**	**(1,837,436)**	**(2,526,060)**

CHFk December 31, 2015	< 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	**Total**
Trade payables and other payables	(541,691)	(33,496)	–	–	(575,187)
Borrowings – notional	–	–	–	(1,831,128)	(1,831,128)
Borrowings – interest	(45,192)	(45,097)	(135,386)	(17,342)	(243,017)
Financial leases	(6,769)	(7,065)	(6,950)	(2,316)	(23,100)
Derivative liabilities	–	–	–	–	–
Other current liabilities	(754)	–	–	–	(754)
Total financial liabilities	**(594,406)**	**(85,658)**	**(142,336)**	**(1,850,786)**	**(2,673,186)**

D: Undrawn credit lines

The Group had the following undrawn borrowing facilities:

CHFk December 31	**2016**	2015
Revolving credit facility (RCF)	200,000	200,000
Thereof ancillary facility	*16,000*	*16,000*
Total RCF	**200,000**	**200,000**

In the senior facilities agreement dated February 9, 2015, a multi-currency revolving credit facility is made available with a total commitment equal to CHF 200 million. The committed and undrawn RCF bears a facility fee of 0.7% per annum. At the balance sheet date, any amount drawn under the RCF bears a margin of CHF LIBOR + 1.75% per annum. No utilization has been made under the revolving credit facility.

The ancillary facility of CHF 16 million (December 31, 2015: CHF 16 million) is currently undrawn and bears a facility fee of 0.2% per annum. The Group has CHF 13.7 million (2015: CHF 13.9 million) in guarantees outstanding under the ancillary facility, on which a fee of 1.2% per annum is charged.

E: Credit risk

Credit risk arises when a customer or counterparty may fail to perform its contractual obligations. The maximum exposure to credit risk is represented in the consolidated statement of financial position by the carrying value of each financial asset, including derivative financial instruments.

Credit risk arising from supplying telecommunication services is managed by assessing the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The Group periodically assesses the financial reliability of its customers and their credit limits.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's wide distribution of customers (see Note 17 on page 117 for detailed information on receivables).

During the reporting period, trade accounts receivable were sold on a non-recourse basis under the factoring agreement dated January 12, 2015. The group decided to discontinue the use of the factoring facility for strategic and operational reasons. On December 28, 2016, the remaining balances were settled.

The Group is exposed to credit risk in the event of non-performance by its counterparties on its interest rates and in prior years also to cross-currency interest rate swap contracts. Credit risk arising from financial transactions is managed through diversification. The Group does not expect any counterparties to fail to meet their obligations given their high credit rating. Market positions with each counterparty are monitored to ensure adequate risk diversification.

F: Capital management
The Group's objectives in managing capital are to secure its ongoing financial needs, to continue as going concern, to meet its growth targets, to provide returns to its shareholders and to maintain a cost-efficient and risk-optimized capital structure.

The Group's managed capital structure consists of equity (as disclosed in Note 21 on page 119 et seq.), current and non-current borrowings (see Note 24 on page 126) less cash and cash equivalents.

In order to maintain this capital structure, the Group manages its liquidity to ensure its ability to service its borrowings. The Group monitors its capital on an ongoing basis using the covenants defined by the senior facilities agreement.

Sunrise reiterates its dividend policy of paying out at least 65% of equity-free cash flows until the Company has reached its net debt/EBITDA leverage target of 2.5×. Once this threshold is reached, cash flow in excess of 65% of equity free cash flows will be used for dividends, share buybacks or further deleveraging, as appropriate at that time.

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

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:
- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Techniques that use inputs with a significant effect on the recorded fair value and that are not based on observable market data

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

There were no transfers between the different hierarchy levels in 2016 and 2015.

NOTE 26

Financial instruments

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

CHFk **December 31, 2016**	**CARRYING AMOUNT (BY MEASUREMENT BASIS)** Amortized cost	**Total**	Comparison Fair value[1]
Financial assets			
Cash	214,175	214,175	
Trade and other receivables	449,686	449,686	
Financial liabilities			
Trade payables and other payables	(481,632)	(481,632)	
Loans and notes	(1,828,327)	(1,828,327)	(1,869,500)
Financial leases	(16,833)	(16,833)	
Other current liabilities	(989)	(989)	

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

CHFk December 31, 2015	**CARRYING AMOUNT (BY MEASUREMENT BASIS)** Amortized cost	**Total**	Comparison Fair value[1]
Financial assets			
Cash	244,388	244,388	
Trade and other receivables	389,159	389,159	
Financial liabilities			
Trade payables and other payables	(575,187)	(575,187)	
Loans and notes	(1,831,128)	(1,831,128)	(1,819,350)
Financial leases	(23,100)	(23,100)	
Other current liabilities	(754)	(754)	

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

NOTE 27

Trade and other payables

CHFk December 31	**2016**	2015
Trade payables	427,363	536,835
Interest payable	3,653	3,431
Other payables and accruals	61,298	46,885
Total	**492,314**	**587,151**
Thereof current	*476,271*	*553,655*
Thereof non-current	*16,043*	*33,496*

On July 20, 2016, Sunrise paid the third and final installment plus accrued interest in the amount of CHF 108.3 million of the mobile license spectrum awarded by the Swiss Federal Communications Commission.

Non-current trade and other payables decreased mainly due to the reclassification of the second installment related to the investment in broadband connectivity services from Swisscom in the total amount of CHF 14.8 million due in January 2017 from the non-current to the current portion of trade and other payables. The third installment related to the investment into broadband connectivity services from Swisscom, which is due in January 2018, is still presented in the Non-current portion of trade and other payables as of December 31, 2016.

NOTE 28

Provisions

CHFk	Asset retirement obligations[1]	Restructuring obligations[2]	Other provisions	Total
Provisions as of January 1, 2016	137,514	10,342	2,149	150,005
Provisions made during the period	(14,335)	3,530	469	(10,336)
Change in present value	(2,079)	–	–	(2,079)
Provisions used during the period	(952)	(9,516)	(485)	(10,953)
Unused provisions reversed during the period	(1,398)	(856)	(15)	(2,269)
Provisions as of December 31, 2016	**118,750**	**3,500**	**2,118**	**124,368**
Thereof current	*528*	*3,500*	*2,118*	*6,146*
Thereof non-current	*118,222*	*–*	*–*	*118,222*
Provisions as of January 1, 2015	124,703	288	1,969	126,960
Provisions made during the period	16,696	17,417	1,681	35,794
Change in present value	(1,018)	–	–	(1,018)
Provisions used during the period	(1,185)	(6,458)	(766)	(8,409)
Unused provisions reversed during the period	(1,682)	(905)	(735)	(3,322)
Provisions as of December 31, 2015	**137,514**	**10,342**	**2,149**	**150,005**
Thereof current	*1,954*	*10,342*	*2,149*	*14,445*
Thereof non-current	*135,560*	*–*	*–*	*135,560*

[1] Movement in asset retirement obligations (ARO) is mainly related to change in ARO assumptions.
[2] See Note 9 on page 106 for further information on restructuring obligations.

Provisions for asset retirement obligations relate to the future dismantling of mobile stations and restoration of property owned by third parties. Those leases generally contain provisions that require the Group to remove the asset and restore the sites to their original condition at the end of the lease term. The uncertainties relate primarily to the timing of the related cash outflows. The majority of these obligations are not expected to result in cash outflow within a year.

Restructuring costs relate to the restructuring program announced in September 2015 and 2016.

Other provisions are related to warranties, litigations and legal claims.

NOTE 29

Deferred income

CHFk December 31	2016	2015
Deferred income from dark fibers	8,685	11,913
Deferred income from other telecommunication services	35,434	42,672
Total	**44,119**	**54,585**
Thereof current	*33,710*	*42,895*
Thereof non-current	*10,409*	*11,690*

NOTE 30

Change in net working capital

CHFk December 31	2016	2015
Change in inventories	1,174	3,868
Change in trade and other receivables	(59,422)	(15,874)
Change in trade and other payables	346	(12,258)
Change in other items, net	(10,022)	(4,886)
Total	**(67,924)**	**(29,150)**

Net working capital includes current assets and liabilities as well as non-current prepaid expenses, Freedom receivables and deferred income. Changes in trade and other payables related to the mobile license, and non-cash capital expenditures related to IRUs are excluded.

Sunrise entered into a factoring agreement dated January 12, 2015, with UBS AG under which Sunrise sold residential customer receivables from device plans to UBS AG. In December 2016 the group decided to discontinue the use of the factoring facility for strategic and operational reasons. On December 28, 2016, the remaining balances were settled. Therefore, at the balance sheet date, CHF nil million in receivables are derecognized (December 31, 2015: CHF 41.7 million). The net cash impact for 2016 related to factoring of handset receivables was a net cash outflow of CHF 41.7 million (2015: net cash inflow of CHF 41.7 million).

The negative change in net working capital of CHF 67.9 million during 2016 is primarily attributable to changes in trade and other receivables driven by the discontinued use of the factoring facility.

NOTE 31

Overview of Group companies

Company name	Operating purpose	Registered office	Currency	Voting rights	Consoli-dation method
Switzerland					
Sunrise Communications Group AG	Holding	Zurich			
Sunrise Communications AG	Telecommunications services	Zurich	CHF	100	Full
TelCommunication Services AG	Telecommunications services	Zurich	CHF	100	Full
YOL Communications GmbH	Telecommunications services	Zurich	CHF	100	Full
YOL Services AG	Telecommunications services	Zurich	CHF	100	Full
Luxembourg					
Mobile Challenger Intermediate Group S.A.	Subholding	Luxembourg	CHF	100	Full
Sunrise Communications Holdings S.A.	Subholding	Luxembourg	CHF	100	Full
Sunrise Communications International S.A.	Subholding	Luxembourg	CHF	100	Full
Skylight S.à r.l.	Subholding	Luxembourg	CHF	100	Full

NOTE 32

Related parties

Name of related party	Nature of relationship	Domicile
Pensionskasse Sunrise	Pension fund	Zurich

As described in Note 22 on page 121 et seq., certain managers and employees of Sunrise Communications AG participate in a management equity program and employee participation program involving Sunrise Communications Group AG.

The key management of Sunrise is composed of:

Sunrise Communications Group AG

Board of Directors

Peter Kurer (since April 2016)	Chairman
Peter Schöpfer	Vice-Chairman
Robin Bienenstock (since April 2016)	Member
Michael Krammer (since April 2016)	Member
Jesper Ovesen	Member
Joachim Preisig (since April 2016)	Member
Lorne Somerville[1]	Member
Christoph Vilanek (since April 2016)	Member

[1] Chairman until April 2016.

Sunrise Communications AG (main operating entity of the Group)

Board of Directors

Peter Schöpfer	Chairman
André Krause	Member
Olaf Swantee (since May 2016)	Member

Executive Leadership Team

Olaf Swantee (since May 2016)	Chief Executive Officer (CEO)
André Krause	Chief Financial Officer (CFO)
Françoise Clemes	Chief Services Officer (CSO)
Timm Degenhardt	Chief Consumer Officer (CCO)
Elmar Grasser	Chief Technology Officer (CTO)
Massimiliano Nunziata	Chief Business Officer (CBO)
Dominik Rubli	Chief Administrative Officer (CAO)
Karin Schmidt	Chief Human Resources Officer (CHRO)

Related party transactions in 2016 are limited to the payment of salaries and bonuses.

NOTE 33

Other financial commitments

CHFk December 31	2016	2015
Non-cancelable lease commitments for operating leases		
Rental expense relating to properties and mobile sites in the period of interminability	210,114	230,148
Lease commitments for machinery, equipment, computers and other equipment	29,423	31,578
Total	**239,537**	**261,726**
Broken down as follows:		
– Less than 6 months	48,159	49,047
– Between 6 and 12 months	46,272	47,186
– Between 1 and 2 years	45,733	49,192
– Between 2 and 5 years	62,303	81,020
– Over 5 years	37,070	35,281
Total	**239,537**	**261,726**
Total rental expense recognized for all operating leases		
Minimum lease payments	98,530	96,699
Sublease receipts	(4,761)	(4,643)
Total	**93,769**	**92,056**
Contractual and purchase commitments[1]	92,906	141,253

[1] Contractual and purchase commitments relate to investments in property, plant and equipment and intangible assets.

NOTE 34

Contingencies

The Sunrise Group is party to certain pending lawsuits and cases with public authorities and complaint boards. Based on a legal assessment of the possible outcome of each of these lawsuits and cases, management is of the opinion that these will have no significant adverse effect on the Sunrise Group's financial position.

Under the terms of the financing documents, certain entities of the Group are guarantors. For the financial years ending December 31, 2016, and December 31, 2015, the maximum guarantee totals the value of the shares, preferred equity certificates and intercompany receivables.

NOTE 35

Events after the balance sheet date

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

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Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8005 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

To the Annual General Meeting of
Sunrise Communications Group AG, Zurich

Zurich, February 28, 2017

Statutory auditor's report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sunrise Communications Group AG and its subsidiaries (the Group), which comprise the consolidated statements of income as at 31 December 2016 and consolidated statements of comprehensive income, consolidated statements of financial position, consolidated statements of cash flow, consolidated statements of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statement (pages 83 to 140) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Revenue Recognition

Area of focus	The Group's revenues amounted to CHF 1'897 million for the year ended 31 December 2016. Revenue is predominantly derived from services including mobile voice and data, landline voice and internet, and IPTV. Corresponding accounting policies are discussed in note 4 to the consolidated financial statements. Disclosures regarding sales and segmentation of revenues are included in notes 7 and 8 to the consolidated financial statements. Revenue recognition is highly complex given the large number of service offerings, the high volume of transactions and the frequent changes in product and service options. Therefore revenue recognition was an area of focus during our audit.
Our audit response	We identified the occurrence, completeness and cut-off of revenue as key focus areas of our audit. We evaluated the Company's internal controls over revenue recognition. As part of our procedures, we assessed the timing of revenue recognition, the accounting for transactions involving multiple elements and the accounting judgments associated with dealer and agency relationships (including the presentation of revenue on a net or gross basis and the treatment of discounts, incentives and commissions). We performed analytical procedures over sales developments and margins of separate revenue classes and revenue as a whole and tested individual transactions, accruals and contracts on a sample basis.

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Impairment Test for Goodwill

Area of focus	Goodwill represents 29% of the Group's total assets and 101% of the Group's total equity as at December 2016. As stated in note 4 to the consolidated financial statements, the carrying value of goodwill is tested annually for impairment. The Company performed its annual impairment test of goodwill in the fourth quarter of 2016 and determined that there was no impairment. Key assumptions concerning the impairment test are disclosed in note 15 to the consolidated financial statements. In determining the value in use of cash-generating units, the Company must apply judgment in estimating – amongst other factors – future revenues and margins, long-term growth and discount rates. Due to the significance of the carrying amount of goodwill and the judgment involved in performing the impairment test, this matter was considered significant to our audit.
Our audit response	We assessed the Company's internal controls over its annual impairment test and key assumptions applied. We involved valuation specialists to assist in examining the Company's valuation model and analyzing the underlying key assumptions, including future long-term growth and discount rates. We assessed the assumptions regarding future revenues and margins, historical accuracy of the Company's estimates and considered its ability to produce accurate long-term forecasts. We evaluated the sensitivity in the valuation resulting from changes to the key assumptions applied and compared these assumptions to market data, including analyst reports and data from competitors.

Capitalization of Property, Plant and Equipment

Risk	The Group's investments to property, plant and equipment amounted to CHF 138 million during the year ended 31 December 2016. Corresponding accounting policies are discussed in note 4 and amounts capitalized during the period in note 16 to the consolidated financial statements. There is a risk that items which are not eligible for capitalization are treated as additions to property, plant and equipment, therefore the capitalization process was significant to our audit.
Our audit response	We tested the effectiveness of the Company's internal controls over capitalization of fixed assets. As part of our procedures, we performed data analytics procedures on the capitalization process, evaluated the Company's guidelines for capitalization and tested additions to property, plant and equipment on a sample basis.

Internal Controls – Information Technology

Area of focus	For business continuity, the Company is dependent on a functioning IT infrastructure as its business and finance processes are highly automated. The Group continues to invest in this infrastructure and the underlying processes to meet clients' needs and business requirements. The general IT and automated controls are part of the Company's internal control systems and support the main business and finance processes. As the Company is strongly relying on its IT applications and related controls, we defined IT internal controls as an area of focus for our audit.
Our audit response	With the assistance of our IT audit specialists, we tested the design and operating effectiveness of IT general controls (change management, logical access, other ITGC's), application controls and electronic reports provided by the Company.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Willy Hofstetter Licensed audit expert (Auditor in charge)	André Schaub Licensed audit expert

Statutory Financial Statements

Sunrise Communications Group AG

Income Statement

CHFk	Notes	**January 1 – December 31, 2016**	January 13 – December 31, 2015
Dividend income	3.1	75,000	–
Interest income from investments		154	421
Total operating income		**75,154**	**421**
Other operating expenses		(3,500)	(2,506)
Operating income/(loss)		**71,654**	**(2,085)**
Extraordinary, non-recurring or prior period expenses	3.2	–	(50,210)
Income/(loss) for the period before tax		**71,654**	**(52,295)**
Direct taxes	3.3	(840)	(931)
Income/(loss) for the period		**70,814**	**(53,226)**

Balance Sheet

Assets

CHFk	Notes	December 31, 2016	December 31, 2015
Cash and cash equivalents		1,474	14,591
Other receivables			
due from third parties		*17*	*49*
due from investments	*3.4*	*79*	*50,500*
Prepayments and accrued income		175	220
Total current assets		**1,745**	**65,360**
Investments	3.5	2,593,630	2,593,630
Total non-current assets		**2,593,630**	**2,593,630**
Total assets		**2,595,375**	**2,658,990**

Liabilities and shareholders' equity

CHFk	Notes	December 31, 2016	December 31, 2015
Accruals and deferred income			
due from third parties		*152*	*1,821*
due from investments		*2,654*	*414*
Total short-term liabilities		**2,806**	**2,235**
Share capital	3.6	45,000	45,000
Legal capital reserves			
– Reserves from capital contributions	3.7	2,524,164	2,659,164
– Other capital reserves		5,817	5,817
Voluntary retained earnings			
– Available earnings			
– Loss carried forward		(53,226)	-
– Income/(loss) for the period		70,814	(53,226)
Total shareholders' equity		**2,592,569**	**2,656,755**
Total liabilities and shareholders' equity		**2,595,375**	**2,658,990**

Notes to the Statutory Financial Statements

NOTE

NOTE 1

General

Sunrise Communications Group AG (SCG or the Company) was incorporated on January 13, 2015. The registered offices of the Company are located at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland. On January 23, 2015, SCG became the parent entity of Mobile Challenger Intermediate Group S.A., the Company's only direct investment brought from its individual shareholders.

On February 6, 2015, SCG made an initial public offering (IPO) in Switzerland and was listed on the SIX Swiss Exchange.

NOTE 2

Principles

NOTE 2.1

General aspects

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law the significant accounting and valuation principles applied are described below.

NOTE 2.2

Share-based payment

The Company allocated shares to employees in the following employee incentive plans:

Employee Share Purchase Program (ESPP)

Shares are allocated to employees of Sunrise at a discount of 30% off the IPO price. Purchasers of such shares are subject to a blocking period of two years from the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for employees. Upon termination of employment (for any reason), the blocking period of shares remains in effect and the shares remain with the program administrator.

Management Long-Term Investment Program MLTIPZero

Shares are allocated to certain members of the Group Management Board and selected Other Top Management members of Sunrise at the initial public offer price. Purchasers of such offered shares (Investment Shares) will be subject to a blocking period of three years after the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for employee for the Investment Shares; however, the matching number of Performance Shares awarded at the end of the blocking period are subject to continued employment and satisfaction of certain performance targets.

Annual tranches of Long-Term Investment Program MLTIP

Under this plan there is no allocation of shares from the initial public offering. However, eligible participants, including members of the Executive Leadership Team and selected Other Top Management members, will have the opportunity to elect to receive a portion of their annual short-term incentive, capped at a maximum of 50% of such short-term incentive, in the form of shares, which will then be blocked for a three-year period (Investment Shares). There are no minimum service requirements for employees for the Investment Shares; however, the matching shares awarded at the end of the blocking period are subject to continued employment and satisfaction of certain performance targets.

Management Long-Term Investment Program for Executives MLTIPE
Participants in this program could purchase a certain number of Sunrise shares (Investment Shares) at the price of the shares at the date of purchase. Purchasers of such shares are subject to a blocking period of three years from the first day of trading, during which shares cannot be sold or otherwise disposed of. There are no minimum service requirements for employees for Investment Shares; however, the matching number of Performance Shares awarded at the end of the lock-up period is subject to continued employment (except for the CEO) and satisfaction of certain performance targets. For the CEO only, upon termination of employment before the end of the blocking period and provided he is considered a "good leaver" by the Board of Directors under the terms of the employment agreement, Performance Shares shall be awarded on a pro-rata basis for the duration of employment until the effective date of termination.

The respective shares for MLTIPE, MLTIPZero and MLTIP will either be bought back on the market or received via a capital increase. As SCG itself does not have any employees, a possible expense related to the buyback of shares at the market price will be charged to Sunrise Communications AG, the operative company indirectly held by SCG.

NOTE 2.3

Transaction costs

Transaction costs related to the issuance of new shares following the IPO on February 6, 2015, have been directly expensed as incurred.

NOTE 2.4

Foregoing a cash flow statement and additional disclosure in the Notes

As Sunrise Communications Group AG has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest-bearing liabilities and audit fees in the Notes as well as a cash flow statement in accordance with the law (Art. 961d Para. 1 CO).

NOTE 3

Information on balance sheet and income statement items

NOTE 3.1

Dividend income from investment

In the reporting year, SCG recorded a dividend income of CHF 75 million (2015: CHF nil million). The dividend from its direclty held investment, Mobile Challenger Intermediate Group S.A., was paid in cash on April 21, 2016.

NOTE 3.2

Extraordinary, non-recurring or prior period expenses

Recorded expenses in 2015 are related to the issuance cost of the IPO on February 6, 2015, and represent non-recurring cost.

NOTE 3.3

Direct taxes

Direct taxes are related to capital taxes. As the Company has tax loss carry-forwards from previous years and as the main income is related to generally exempt dividend income, there are no expenses related to income taxes.

NOTE 3.4

Other receivables due from investments

CHFk	**December 31, 2016**	December 31, 2015
Loan granted to indirectly held subsidiary	–	50,000
Accrued interest on loan granted	–	421
Other receivables due from investments	79	79
Total	**79**	**50,500**

On April 21, 2016 the loan granted to an indirectly held subsidiary of CHF 50 million including accrued interest of CHF 0.6 million was paid back.

NOTE 3.5

Investments

		CAPITAL IN CHFK		SHARE IN CAPITAL AND VOTING RIGHTS	
Company	Domicile	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015
Mobile Challenger Intermediate Group S.A.	Luxembourg	1,346	1,346	100%[1]	100%[1]
Sunrise Communications Holdings S.A.	Luxembourg	1,000	1,000	100%[2]	100%[2]
Sunrise Communications International S.A.	Luxembourg	1,000	1,000	100%[2]	100%[2]
Skylight S.à.r.l.	Luxembourg	1,500	1,500	100%[2]	100%[2]
Sunrise Communications AG	Zurich	50,000	50,000	100%[2]	100%[2]
YOL Communications GmbH	Zurich	21	21	100%[2]	100%[2]
YOL Services AG	Zurich	105	105	100%[2]	100%[2]
TelCommunication Services AG	Zurich	2,000	2,000	100%[2]	100%[2]

[1] Directly held.
[2] Indirectly held.

NOTE 3.6

Share capital

Share capital in the amount of CHF 45.0 million consists of 45,000,000 registered shares at a par value of CHF 1.00 each.

On January 13, 2015, SCG was incorporated with a fully paid-in share capital of CHF 0.1 million. On January 23, 2015, the existing share capital was increased by CHF 24.9 million to CHF 25.0 million by issuing 24,900,000 registered shares with a nominal value of CHF 1 in exchange for the entire share capital of Mobile Challenger Intermediate Group S.A. (MCIG) from its individual shareholders. Subsequently SCG made an IPO in Switzerland and was listed on the SIX Swiss Exchange on February 6, 2015. A total of 20,000,000 shares was issued with a nominal value of CHF 1.

NOTE 3.7

Reserves from capital contributions

The reserves from capital contributions consist of the following:

CHFk	**December 31, 2016**	December 31, 2015
Premium from share capital increase due to integration of MCIG	1,319,862	1,319,862
Premium from IPO proceeds	1,339,302	1,339,302
Dividend payment	(135,000)	–
Total	**2,524,164**	**2,659,164**

At the Annual General Meeting on April 15, 2016, the payment of an ordinary dividend from reserves from capital contributions in the total amount of CHF 135 million (CHF 3 per share) in respect of the 2015 financial year was approved. The dividend payment was made on April 21, 2016.

From a fiscal point of view, any distributions made from reserves from capital contributions are treated the same as a repayment of share capital. The Swiss Federal Tax Administration has confirmed that it will recognize disclosed reserves from capital contributions as a capital contribution as per Art. 5 Para. 1bis Withholding Tax Act.

NOTE 4

Other information

NOTE 4.1

Full-time equivalents

Sunrise Communications Group AG does not have any employees.

NOTE 4.2

Significant shareholders

The following shareholders owned more than 5% of voting rights as of December 31, 2016, and December 31, 2015:

Shareholder	Voting rights, December 31, 2016	Voting rights, December 31, 2015
freenet AG, Büdelsdorf	24.56%	–
Allianz SE, Munich	9.88%	5.80%
Represented by Hengistbury Investment Partners LLP	4.98%	5.22%
CVC Capital Partners SICAV-FIS S.A., Luxembourg	<3%	25.27%

CVC Capital Partners, a major shareholder of SCG, sold 23.8% of its shares (approx. 10.7 million) to freenet AG. Christoph Vilanek, CEO and Joachim Preisig, CFO of freenet AG, joined the Board of Directors of SCG as of April 2016.

NOTE 4.3

Shares held by the Executive Leadership Team and the Board of Directors, including any related parties

Since the board fees for 2015 were paid in cash only, none of the members of the Board of Directors held shares in Sunrise Communications Group AG as of December 31, 2015.
The members of the Board of Directors did not participate in any Long-Term Investment Programs or ESPP in 2015.

In 2016 the allocation of shares held by the Board of Directors is as follows:

Board of Directors	Numbers of shares, December 31, 2016
Peter Kurer (since April 2016)	5,150
Peter Schöpfer	775
Robin Bienenstock (since April 2016)	775
Michael Krammer (since April 2016)	775
Jesper Ovesen	775
Joachim Preisig (since April 2016)	775
Lorne Somerville[1]	–
Christoph Vilanek (since April 2016)	775

[1] In 2016 Lorne Somerville did not participate in the Board of Directors Share Plan since he donates the compensation earned as a member of the Board of Directors.

As of December 31, 2016 and 2015, the members of the Management Board held the shares listed in the following table, all of which were acquired under the Long-Term Investment Programs and/or the ESPP issued by Sunrise Communications Group AG at the time of the IPO. Investment Shares acquired under the Long-Term Investment Programs are subject to a blocking period of three years from the allocation date. Shares acquired under the ESPP are subject to a blocking period of two years from the allocation date.

Executive Leadership Team	**Numbers of shares, December 31, 2016**	Numbers of shares, December 31, 2015
Olaf Swantee (since May 2016), CEO	22,960	–
Libor Voncina (until April 2016), CEO	101,604	37,584
André Krause, CFO	59,385	22,576
Françoise Clemes (since July 2016), CSO	6,522	–
Timm Degenhardt, CCO	35,548	12,000
Elmar Grasser, CTO	23,957	9,299
Markus Naef (until May 2016), CCB	6,976	6,504
Massimiliano Nunziata, CBO	13,380	6,529
Sebastian Prange (until May 2016), CSO	35,863	12,473
Dominik Rubli (since May 2016), CAO	12,389	–
Karin Schmidt (since May 2016), CHRO	3,334	–

On May 9, 2016, Olaf Swantee replaced Libor Voncina as CEO of Sunrise. Sebastian Prange and Markus Naef continued their work with Sunrise outside the Executive Leadership Team, starting in June 2016. Karin Schmidt and Dominik Rubli representing Human Resources and the Administrative Office joined the Executive Leadership Team in May 2016.

None of the members of the Board of Directors or the Executive Leadership Team hold conversion or option rights.

NOTE 4.4

Indirect economic interest in shares for members of the former Management Board

In 2015 members of the Management Board held an indirect economic interest in Sunrise Communications Group AG through their shares in New Dawn MEP Issuer Co S.A. as part of a management investment program corresponding to the shares of Sunrise Communications Group AG listed in the following table. 50% of this indirect economic interest may be sold to the issuer of the program (at no cost to Sunrise Communications Group AG) one year after the completion of the IPO, and the remaining 50% may be sold two years after the completion of the IPO.

The allocation is as follows:

Management Board	**Numbers of shares, December 31, 2016**	Numbers of shares, December 31, 2015
Libor Voncina (until April 2016), CEO	–	123,446
André Krause, CFO	–	73,618
Timm Degenhardt, CCO	–	44,889
Sebastian Prange (until May 2016), CSO	–	44,889
Elmar Grasser, COO	–	28,056
Massimiliano Nunziata, CCE	–	13,702

In 2016 all shares held at New Dawn MEP Issuer Co S.A. were transferred to the members of the Management Board. There is no remaining indirect economic interest in shares held by members of the Executive Leadership Team as of December 31, 2016.

Appropriation of Available Earnings and Capital Reserves

The Board of Directors proposes to:

– carry forward the accumulated earnings
– allocate CHF 150 million from the reserves from capital contributions to the dividend reserves
– pay a dividend of CHF 3.33 per share (total of CHF 150 million) from the dividend reserves:

CHFk	**2016**	2015
Appropriation of available earnings		
Balance brought forward from previous years	(53,226)	–
Income/(loss) of the year	70,814	(53,226)
Total available earnings/(losses)	**17,588**	**(53,226)**
Allocation to general reserves	(879)	–
Accumulated earnings/(losses) to be carried forward	**16,709**	**(53,226)**
Reserves from capital contributions		
Reserves from capital contributions	2,524,164	2,659,164
Allocation to dividend reserves	(149,850)	(135,000)
Balance to be carried forward	**2,374,314**	**2,524,164**
Appropriation of dividend reserves		
Dividend reserves at the end of the year	–	–
Allocation of reserves from capital contributions	149,850	135,000
Distribution proposed by the Board of Directors	(149,850)	(135,000)
Dividend reserves to be carried forward	**-**	**-**

Ernst & Young Ltd
Maagplatz 1
P.O. Box
CH-8005 Zurich

Phone +41 58 286 31 11
Fax +41 58 286 30 04
www.ey.com/ch

To the Annual General Meeting of
Sunrise Communications Group AG, Zurich

Zurich, February 28, 2017

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Sunrise Communications Group AG, which comprise the the income statement, balance sheet, and notes (pages 149 to 158), for the year ended 31 December 2016.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Building a better working world

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings and capital reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Willy Hofstetter Licensed audit expert (Auditor in charge)	André Schaub Licensed audit expert

Legal Notice

Important dates 2017

April 11, 2017
Annual General Meeting

May 11, 2017
2017 first-quarter results

August 24, 2017
2016 second-quarter results and 2017 half-year report

November 9, 2017
2017 third-quarter results

Further information

Investor Relations
Phone: +41 58 777 96 86
E-mail: investor.relations@sunrise.net

Media Relations
Phone: 0800 333 000
Phone from outside of Switzerland: +41 58 777 76 66
E-mail: media@sunrise.net

www.sunrise.ch
www.sunrise.ch/ir

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Sunrise Communications Group AG
Binzmühlestrasse 130
8050 Zurich
www.sunrise.ch