Sunrise Communications Holdings S.A.

Interim Financial Report for the nine-month period ended September 30, 2014

Facts & Figures

	January 1 - September 30, 2014	January 1 - September 30, 2013	July 1 - September 30, 2014	July 1 - September 30, 2013
Results of operations				
(in thousand CHF, except where indicated)				
Revenue				
Mobile	990'606	942'785	353'123	329'909
Landline services	383'078	414'746	127'461	140'391
thereof voice hubbing	*116'206*	*109'988*	40'044	41'459
Landline internet	153'471	146'846	50'891	49'748
Total revenue	1'527'155	1'504'377	531'475	520'047
Revenue (excluding hubbing)	*1'410'949*	*1'394'389*	*491'431*	*478'588*
EBITDA[1)]	472'570	462'482	181'217	170'450
EBITDA margin (%)	30.9%	30.7%	34.1%	32.8%
EBITDA margin (excluding voice hubbing) (%)	33.5%	33.2%	36.9%	35.6%
Subscriber base (end of period)				
(in thousand)				
Mobile subscriber base (excl. M2M)	2'496.4	2'494.2		
Landline voice subscriber base	401.0	447.2		
Landline internet subscriber base	325.9	354.3		
thereof XDSL	301.8	324.2		
thereof LLU	159.9	226.2		
thereof Sunrise TV	96.8	65.6		
ARPU				
(in CHF/month)				
Mobile services	35.8	40.8	37.0	39.6
Landline voice services	40.1	41.7	39.2	40.7
Landline internet services	39.5	37.0	39.9	37.7
Blended internet ARPU	46.3	40.6	47.2	42.1
Employees				
FTEs	1'851.6	1'664.2		
Apprentices	106.0	101.0		

[1)] EBITDA stands for: operating income before depreciation and amortization, net financial result and income tax expense.

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Business

Overview

Sunrise Communications Holdings S.A. (“Sunrise” or the “Group”) was incorporated under the laws of Luxembourg as of September 9, 2010. The main operating entity of the Group is Sunrise Communications AG based in Zurich, Switzerland which is the second largest telecommunications provider in Switzerland based on revenues for the nine-month period ended September 30, 2014. The integrated national mobile and landline network provides the Group with a strong competitive position. As an integrated service provider, Sunrise offers mobile voice and data, landline services (retail and wholesale voice, business services), landline internet and IPTV services to both residential and business customers as well as to other operators. Sunrise is the leading non-incumbent operator in both the mobile and landline retail voice markets, with 2'496.4 thousand and 401.0 thousand subscribers respectively, as of September 30, 2014. The Group is also the third-largest landline internet provider with 325.9 thousand subscribers, including 96.8 Sunrise TV subscribers, as of September 30, 2014. Sunrise provides landline services through its own national landline network and mobile services through its own mobile network based on GSM/GPRS/EDGE, UMTS/HSPA and LTE technologies.

Financial data

The financial data in this report covers the period from January 1 - September 30, 2014.

Comparative figures for the nine-month period ended September 30, 2014 are based on unaudited condensed consolidated interim financial statements of the Group for the nine-month period ended September 30, 2013.

Shareholders

Sunrise Communications Holdings S.A. is owned by Mobile Challenger Intermediate Group S.A., Luxembourg which itself is ultimately owned by Mobile Challenger Group S.à r.l.

Management’s discussion and analysis of financial condition and results of operations

Introduction of mobile portfolio “Freedom”
With the launch of the new mobile portfolio “Freedom”, available for residential customers and small business on April 7, 2014, Sunrise is the first Swiss provider who separates the cost for the subscription plans and the mobile handset. This results in more flexible and transparent offerings to end customers by eliminating fixed contractual durations for subscription plans relating to mobile services. In the previous mobile portfolios, mobile handset costs were always included in the basic monthly subscription fee.

Although the mobile portfolio “Freedom” is a new concept in the Swiss telecommunication market and revenue for the handset is fully recorded at the point of the sale and billed over the period of 24 months, Sunrise’s existing general accounting principles as outlined in the audited consolidated financial report as of December 31, 2013 are unchanged. Nevertheless, “Freedom” had an impact on the following financial information:

- Mobile ARPU definition (refer to MD&A section ‘Principal factors affecting mobile services revenues’)
- Shift of mobile device revenue from ‘sales of services’ to ‘sales of goods’ (refer to note 6)
- Shift of mobile device costs from ‘other operating expenses’ to ‘cost of goods sold’ as the costs of mobile handsets are no longer subsidized but recorded as cost of goods sold
- Trade receivables with a due date > 12 months related to handset sales are classified as long term
- Negative impact on change in the net working capital due to an increased trade receivable balance (refer to note 14)

Revenue
The Group’s total revenue increased year-over-year by 1.5% or CHF 22.8 million and amounted to CHF 1'527.2 million for the nine-month period ended September 30, 2014. The increase in revenue is primarily attributable to higher mobile revenue of CHF 47.8 million mainly related to the newly introduced mobile portfolio “Freedom” at the beginning of the second quarter as well as growth in internet service revenue of CHF 6.7 million. This growth was partially offset by the decrease in landline service revenue of CHF 31.6 million.

Mobile
Mobile revenue increased by 5.1% from CHF 942.8 million to CHF 990.6 million for the nine month period ended September 30, 2014 primarily driven by higher hardware revenues. This increase is attributable to the newly introduced mobile portfolio “Freedom” which separates handsets from the service rate plan as well as to higher prepaid revenues due to the integration of YOL Communications GmbH and YOL Services AG in Q3 2013.

Landline services
Landline services revenue decreased from CHF 414.7 million to CHF 383.1 million for the nine months ended September 30, 2014, a year-over-year decrease of CHF 31.6 million. Quarter-over-quarter, landline services revenue decreased from CHF 140.4 million to CHF 127.5 million or 9.2%.The decrease is primarily attributable to a decrease in customer base and declining retail voice revenues and could only be partially offset by higher hubbing revenues.

Landline internet
The Group reports a year-over-year growth of 4.6% in landline internet revenue from CHF 146.8 million to CHF 153.5 million, for the nine months ended September 30, 2014. For the period from July 1 to September 30, 2014 landline internet revenue increased by 2.4% or CHF 1.2 million from CHF 49.7 million to CHF 50.9 million, compared to the same period in 2013. The increase in landline internet revenue is primarily attributable to the growth of the IPTV customer base.

Transmission costs and cost of goods sold
Transmission costs and cost of goods sold amounted to CHF 534.5 million as of September 30, 2014, a year-over-year increase of CHF 51.9 million, or 10.8%, from CHF 482.6 million, which is mainly due to the newly introduced mobile portfolio “Freedom” which doesn’t subsidize handsets anymore but records the costs of the sales of handsets as part of cost of goods sold.

Other operating expenses
During the nine-month period ended September 30, 2014 other operating expenses decreased by CHF 49.1 million, or by 11.8%, from CHF 417.1 million to CHF 368.0 million. The decrease in other operating expenses is primarily attributable to the shift of expenses for subsidized handsets to cost of goods sold.

Wages, salaries and pension costs

Wages, salaries and pension costs amounted to CHF 168.6 million for the nine-month period ended September 30, 2014, a year-over-year increase of CHF 8.0 million, or 5.0%, from CHF 160.6 million which is primarily driven by an increase of FTE related to the insourcing of the engineering department from its managed service provider in March 2014.

Although the pension fund of Sunrise Communications AG is overfunded by 11.6% as of December 31, 2013 according to Swiss GAAP FER 26, the Group reports a net pension liability of CHF 76.4 million in its condensed consolidated interim financial statement as of September 30, 2014. 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 usage of a dynamic valuation method. Therefore, the IFRS pension liability should not be considered as a current cash liability based on current facts and circumstances.

Other income and expenses, net

Other income and expenses, net amounted to CHF 16.5 million for the period ended September 30, 2014, a decrease of CHF 1.9 million, from CHF 18.4 million as of September 30, 2013. The decrease in other income and expenses, net is primarily impacted by lower early termination fees in the amount of CHF 4.3 Please refer to note 7 for further information.

EBITDA

The Group generated an EBITDA of CHF 472.6 million for the nine months ended September 30, 2014, a year-over-year increase of CHF 10.1 million, or 2.2%, from CHF 462.5 million as of September 30, 2013. The EBITDA increase is primarily driven by higher sales and a 3.3% better gross profit including 'other operating expenses' and was only partially offset by higher wages, salaries and pension costs and lower other income and expenses.

Depreciation and amortization

Depreciation and amortization recorded during the nine-month period ended September 30, 2014 decreased from CHF 369.3 million to CHF 329.4 million, a year-over-year decrease of CHF 39.9 million, or 10.8%. The higher depreciation and amortization in the first nine months in 2013 was primarily driven by non-recurring write-offs of CHF 48.1 million related to the replacement of the radio network with multi standard radio equipment performed during 2013.

Net income

The Group reported a net income of CHF 40.6 million for the nine-month period ended September 30, 2014, a year-over-year increase of CHF 111.2 million from a net loss of CHF 70.6 million as of September 30, 2013. In addition to a higher EBITDA the increase of the net income is also due to lower depreciation and amortization in the amount of CHF 39.9 million in 2014 and a valuation of the embedded derivatives which impacted the result positively by CHF 57.8 million compared to the nine-month period ended as of September 30, 2013.

Change in net working capital

The change in net working capital shows a decrease of CHF 82.4 million as of September 30, 2014 compared to an increase of CHF 15.2 million reported in the prior period. The change in net working capital is primarily attributable to changes in trade and other receivables driven by the new Freedom device rate plan as well as to changes in trade and other payables due to an outflow of Capex spent in the second half of 2013. Please refer to note 14 for further information.

Liquidity and capital resources

The Group reported cash and cash equivalents amounting to CHF 125.2 million as of September 30, 2014, a decrease of CHF 24.0 million compared to the cash position held by the Group as of December 31, 2013. The decrease of the cash and cash equivalents is primarily attributable to the payment of interest on PECs for the PIK toggle note in the amount of CHF 55.5 million, the repayment of CHF 35.0 million of the revolving credit facility and capital expenditures of CHF 257.6 million. The decrease could only be partially compensated by operational cash flows generated by the Group of CHF 309.0 million as well as the proceeds from the revolving credit note of CHF 20.0 million.

The Group's consolidated debt position – consisting of floating rate notes, senior secured notes, senior notes, the drawn revolving credit facility and capital leases - amounted to CHF 2'218.7 million of which CHF 12.8 million are expected to be paid within 12 months (refer to note 11 for further details).

Certain other contractual commitments

As of September 30, 2014 other contractual commitments excluding those mentioned above amounted to CHF 43.0 million consisting mainly of operating lease agreements, outsourcing of network operations and maintenance and future network investments.

Purchase Price Allocation (PPA) & embedded derivatives

The acquisition of Sunrise Communications AG, which gave rise to a change of control, was accounted for using the acquisition method of accounting. As such, the cost of the acquisition is measured as the fair value of the assets transferred, liabilities incurred and the equity interests issued by the acquirer, including the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the acquirer's share of the identifiable net assets acquired is recorded as goodwill. The Group's valuation studies to allocate the purchase price to identifiable net assets were done in Q4'2010 and finalized in Q1'2011.

Following the refinancing transaction in July 2012, the Group recognized embedded derivatives in its financial statements. These embedded derivatives represent early redemption options related to financial instruments issued by the Group. The fair value of the embedded derivatives amounted to CHF 71.6 million as of September 30, 2014, an increase of CHF 48.9 million from CHF 22.7 million reported as of December 31, 2013. The change in fair value is reported in the financial statement caption 'net financial items' in the table below. For clarification of the underlying operational performance, the following table shows the condensed consolidated interim statements of income excluding the fair value adjustments made in relation with the acquisition of Sunrise Communications AG and embedded derivatives.

Effect of fair value adjustments resulting from the acquisition of Sunrise Communications AG & embedded derivatives on the condensed consolidated interim statements of income

	January 1 - September 30, 2014 Before FV adjustments & embedded derivatives	January 1 - September 30, 2014 Impact of FV adjustments & embedded derivatives	January 1 - September 30, 2014 Including FV adjustments & embedded derivatives
Revenue	**1'527'788**	**(633)**	**1'527'155**
Transmission costs and cost of goods sold	(534'531)	-	(534'531)
Other operating expenses	(367'962)	-	(367'962)
Wages, salaries and pension costs	(168'557)	-	(168'557)
Total operating expenses before other income and expenses, depreciation and amortization	**(1'071'050)**	-	**(1'071'050)**
Other income	17'172	-	17'172
Other expenses	(707)	-	(707)
Income before depreciation and amortization, net financial items and income taxes	**473'203**	**(633)**	**472'570**
Depreciation and amortization	(215'576)	(113'857)	(329'433)
Operating income	**257'627**	**(114'490)**	**143'137**
Fair value adjustments on embedded derivatives	-	48'865	48'865
Other net financial items	(133'575)	-	(133'575)
Total Net financial items	**(133'575)**	**48'865**	**(84'710)**
Income before income taxes	**124'052**	(65'625)	**58'427**
Income taxes	(25'624)	7'832	(17'792)
Net income	**98'428**	**(57'793)**	**40'635**

This table has been added for reasons of clarification on the operational performance of the Group.

Principal factors affecting mobile services revenues

Mobile subscriber base and ARPU

The table below sets forth selected subscriber data for the mobile business for the periods indicated, including an analysis by type of subscriber.

Mobile subscriber base		'000
	September 30, 2014	September 30, 2013
Subscribers at end of period[1]	2'496.4	2'494.2
Growth over prior period	*0.1%*	
Of which:		
Postpaid[1][2]	1'303.6	1'232.9
Primary[3]	1'104.2	1'052.7
Secondary[4]	199.4	180.2
Prepaid[1][5]	1'192.8	1'261.3

(1) Excludes MVNO subscribers and machine-to-machine SIM cards but includes reseller-originated and yallo subscribers.
(2) Postpaid mobile subscribers are counted as subscriber base as long as they have an active contract.
(3) Postpaid rate plans used as the main subscription
(4) Postpaid rate plans used in addition to the main subscription (e.g. multi –SIM or data-SIM)
(5) Prepaid mobile subscribers are counted as subscriber base if they have had an activity event, such as a usage or refill, within the last 91 days.

Mobile ARPU				CHF/month
	January 1 - September 30, 2014	January 1 - September 30, 2013	July 1 - September 30, 2014	July 1 - September 30, 2013
Mobile ARPU[1]	35.8	40.8	37.0	39.6
Decrease over prior period	*(12.3)%*		*(6.6)%*	

(1) The Group defines mobile ARPU as the total mobile revenue (see explanation below) in the period divided by the average number of mobile subscribers in the period, which is subsequently divided by the number of months in the period. The average number of mobile subscribers during a period is calculated by adding together the number of active mobile SIM cards at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

Change in ARPU definition as of April 1, 2014
With the introduction of the new mobile portfolio "Freedom", the Group changed the definition of the mobile ARPU as of April 1, 2014 to enable like-for-like comparison with previous period.

The Freedom portfolio decouples mobile devices from the subscription rate plan. As a result, the end customer has two contracts with Sunrise, one for the subscription rate plan and one for the installment plan for the mobile device. Revenue from the subscription rate plan is recognized as service revenue whereas revenue from sold mobile devices is recognized as hardware revenue.

In order to make the ARPUs comparable to previous periods (see table below), the revenue for the ARPU calculation is defined as total service and termination revenue plus total monthly installments for device plans in the period divided by the average number of mobile subscribers in the period.

Example of comparing old Sunrise Now Max with new Sunrise Now Freedom

Monthly mobile postpaid revenue in CHF	**Old [1]**	**New [2]**	
Service revenue	129.-	100.-	
Billed installments for hardware plan	0.-	29.-	
Revenue for ARPU calculation up to March 30, 2014	129.-	100.-	not comparable
Revenue for ARPU calculation as of April 1, 2014	129.-	129.-	like-for-like

[1] Sunrise Now Max with a susidized phone with a CHF 1 upfront payment
[2] Sunrise Freedom Max with a phone costing CHF 697 (CHF 1 upfront payment and 24 monthly installments of CHF 29)

Mobile subscriber base and ARPU development
The Group reports a year-over-year increase of the mobile subscriber base of 2.2 thousand from 2'494.2 thousand to 2'496.4 million as of September 30, 2014. The increase is primarily attributable to a growth of postpaid subscribers (70.7 thousand), partially offset by a decline of prepaid subscribers. Applying a 12-month activity rule on prepaid (as reported by Swisscom and Orange CH), Sunrise's prepaid subscriber base would be 1'935.9 million and the total mobile subscriber base would amount to 3'239.5 thousand as of September 30, 2014.

New year-over-year postpaid subscribers' activations of 70.7 thousand were primarily attributable to competitive flat rate and mobile data plans as well as the introduction of the new Freedom portfolio.

Mobile ARPU decreased by CHF 4.9, or 12.0%, to CHF 36.0 for the nine- month period ended September 30, 2014, from CHF 40.9 as of September 30, 2013. The decrease is primarily driven by the mobile price reductions introduced in 2012 resulting in new customers joining with lower ARPUs and existing customers migrating to the new competitive flat rate and mobile data plans and a higher prepaid subscriber share following the acquisition of YOL Communications GmbH and YOL Services AG.

Mobile churn

Sunrise's prepaid and postpaid blended mobile churn rate increased year-on-year from 30.7% to 33.8% for the nine-month period ended September 30, 2014, which is primarily attributable to an increased churn in the prepaid segment, partly due to a higher prepaid subscriber share following the acquisition of YOL Communications GmbH and YOL Services AG and pre- to postpaid migrations.

Mobile termination rates

The applicable mobile termination rates for the first six months of 2013 were CHF 0.07 per minute for mobile calls terminating on Swisscom's mobile network and CHF 0.0875 per minute for mobile calls terminating on either Orange's network or Sunrise's own network. From July 1, 2013 until June 30, 2014 the applicable mobile termination rates for calls terminating on Swisscom's mobile network amount to CHF 0.065 per minute and those for calls terminating on Orange's and Sunrise's own network amount to CHF 0.0825 per minute. Starting from July 1, 2014 the applicable mobile termination rates for calls terminating on Swisscom's mobile network amount to CHF 0.0625 per minute and those for calls terminating on Orange's and Sunrise's own network amount to CHF 0.0775 per minute.

Principal factors affecting landline services revenues

Subscriber base

The table below sets forth selected subscriber data for the landline retail voice subscribers.

Retail voice subscriber base [1]		‘000
	September 30, 2014	September 30, 2013
Retail voice	401.0	447.2
Decrease over prior period	*(10.3)%*	
Of which:		
LLU	159.9	226.2
Decrease over prior period	*(29.3)%*	

(1) In the retail voice business, subscribers are reported based on activity within the last month.

Compared to prior year's third quarter the total number of retail voice subscribers decreased by 46.2 thousand, or 10.3% , from 447.2 thousand to 401.0 thousand as of September 30, 2014. Sunrise attributes the decrease to the departure of retail voice-only CPS customers; including customers acquired as part of the acquisition of Tele2 Switzerland in 2008 as well as clients churning off the Sunrise retail voice network or are substituting their service with mobile services.

ARPU

The table below sets forth the retail voice ARPU for the periods indicated.

Landline services ARPU				CHF / month
	January 1 - September 30, 2014	January 1 - September 30, 2013	July 1 - September 30, 2014	July 1 - September 30, 2013
Retail voice ARPU [1]	40.1	41.7	39.2	40.7
Decrease over prior period	*(3.8)%*		*(3.7)%*	

(1) Sunrise defines landline retail voice ARPU as the total retail voice revenue in the period divided by the average number of retail voice subscribers in the period, which is subsequently divided by the number of months in the period. The average number of retail voice subscribers in a period is calculated by adding together the number of retail voice subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period.

Retail voice ARPU decreased year-over-year by CHF 1.6 or 3.8% from CHF 41.7 to CHF 40.1 for the nine month period ended September 30, 2014. The decrease is primarily attributable to the reduction in voice volumes.

Principal factors affecting landline internet revenues

Subscriber base

The table below sets forth selected subscriber data for the landline internet subscribers, including Sunrise TV subscribers.

Landline internet subscriber base(1) ‘000

	September 30, 2014	September 30, 2013
Landline internet(2)	325.9	354.3
Decrease over prior period	*(8.0)%*	
Of which:		
Broadband BBCS	141.9	98.0
Growth over prior period	*44.8%*	
Broadband LLU	159.9	226.2
Decrease over prior period	*(29.3)%*	
Sunrise TV (3)	96.8	65.6
Growth over prior period	*47.6%*	

(1) In the landline internet business, the Group reports Broadband Connectivity Services (BBCS) subscribers without ARB based on technical installations, while the Group reports BBCS subscribers with ARB and LLU subscribers based on the number of active contracts. Starting from July 1, 2014 Sunrise pays fees to Swisscom of CHF 13.50 per month (before CHF 15.60 per month) for each LLU line and CHF 28.00 per month for each BBCS line.
(2) Since January 24, 2014 the service for dial-up customers has been deactivated
(3) Sunrise TV was launched end of March 2012.

The total number of Sunrise's landline internet subscribers decreased by 28.4 thousand or 8.0%, from 354.3 thousand to 325.9 thousand as of September 30, 2014. The total number of broadband subscribers, including both LLU and BBCS services likewise declined year-over-year by 22.4 thousand or 6.9% from 324.2 to 301.8 as of September 30, 2014. The decline of LLU customers subscribing to ADSL products was only partially offset by an increase of BBCS customers using high-bandwidth VDSL products (i.e. TV customers bundling voice/internet and IPTV).

ARPU

The table below sets forth the landline internet, including Sunrise TV ARPU for the periods indicated.

Landline internet ARPU CHF / month

	January 1 - September 30, 2014	January 1 - September 30, 2013	July 1 - September 30, 2014	July 1 - September 30, 2013
Landline internet ARPU (1)	39.5	37.0	39.9	37.7
Growth over prior period	*6.8%*		*5.8%*	
Blended internet ARPU (2)	46.3	40.6	47.2	42.1
Growth over prior period	*14.0%*		*12.1%*	

(1) Landline internet ARPU is defined as the total landline internet ADSL revenue in the period divided by the average number of landline internet ADSL subscribers in the period, which is subsequently divided by the number of months in the period. The average number of landline internet ADSL subscribers in a period is calculated by adding together the number of landline internet ADSL subscribers at the beginning and end of each month during the period, dividing by two and then averaging the results from all months during the period. For purposes of calculating landline internet ARPU, landline internet revenue includes revenue generated from monthly subscription fees but does not include dial-up revenue and revenue from the sale of customer premises equipment, such as modems.
(2) The blended internet + TV ARPU is defined as the total landline ADSL revenue plus service revenue from the IPTV business divided by the average number of landline internet ADSL subscribers.

Landline internet ARPU increased year-over-year by CHF 2.5 or 6.8% from CHF 37.0 to CHF 39.5 as of September 30, 2014. Blended internet ARPU increased by CHF 5.5 or 13.5%, driven by an increasing TV customer base.

Material affiliate transactions
Sunrise Communications AG acts as a central counterparty to external financial institutions for all derivative instrument transactions of the Group (refer to note 12). When necessary, back-to-back agreements are in place between Sunrise Communications AG and the respective debt holding group entities, mirroring the external agreements with financial institutions.

Since September 1, 2014, Markus Naef has fulfilled the position of Chief Commercial Officer Business (CCO) as from September 1, 2014. Hans Jörg Denzler will fulfill the position of Chief Business Development Officer (CBDO) on the Management Board.

Material contractual arrangements
Sunrise and Swisscom have deepened their long-running partnership in the fixed broadband connectivity services. As part of a commercial agreement, Sunrise will undertake a one-time investment of CHF 74.0 million for the use of wholesale broadband connectivity services from Swisscom. The agreement strengthens the position of both companies in the fixed broadband internet market, especially in competition to the cable operators. The new agreement allows Sunrise to supply Broadband- and TV-Services technology independently.

Material debt instruments
On July 22, 2014 Sunrise utilized an additional CHF 20.0 million under the revolving credit facility to partially pay for an investment into broadband connectivity services from Swisscom.

Sunrise entered into a cross-currency swap transaction to extend the maturity of its hedge of foreign currency exposure related to senior secured floating rate notes issued in July 2012 until end of March 2015.

Credit ratings
There were no changes to the Group's credit rating in the 3rd quarter of the year ending September 30, 2014.

Material risk factors
Sunrise operates a centralized risk management system which distinguishes between strategic and operating risks. Competition, network performance and maintenance, changes in regulations, acceptance by the market of newly launched products 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 repeated detailed discussion process in the Group's board of directors which was performed in the 4th quarter 2013.

The development on the FX market and the strong Swiss franc do not have a material net effect on the Group, as Sunrise is predominantly active in the domestic market. The foreign currency risk arising from loans and notes denominated in Euros, has been fully hedged by the Group.

Material recent developments
With the launch of the loyalty program 'Sunrise rewards' in September 2014, Sunrise is the first telecommunication company offering a loyalty program to every existing postpaid customer after a year of subscription, independent of the generated revenue. The Group offers up to 30 options to choose from which allows the customers to profit from free or significantly lower priced options.

Since September 18, Sunrise offers to existing and new customers the possibility to recycle their old mobile phones in exchange for a credit up to CHF 360 on future subscriber invoice.

Acquisition, disposals and recapitalizations
No material acquisitions, disposals and recapitalizations occurred within the 3rd quarter ended September 30, 2014.

Sunrise Communications Holdings S.A.

Condensed consolidated interim financial statements for the nine-month period ended September 30, 2014 (unaudited)

Condensed consolidated interim statements of income CHFk

	Note	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Revenue	**5,6**	**1'527'155**	**1'504'377**	**531'475**	**520'047**
Transmission costs and cost of goods sold		(534'531)	(482'555)	(190'694)	(172'450)
Other operating expenses		(367'962)	(417'121)	(105'310)	(130'711)
Wages, salaries and pension costs		(168'557)	(160'594)	(58'275)	(54'152)
Total operating expenses before other income and expenses, depreciation and amortization		**(1'071'050)**	**(1'060'270)**	**(354'279)**	**(357'313)**
Other income	7	17'172	21'352	4'048	9'942
Other expenses	7	(707)	(2'977)	(27)	(2'226)
Income before depreciation and amortization, net financial items and income taxes		**472'570**	**462'482**	**181'217**	**170'450**
Amortization	8	(178'738)	(173'883)	(63'855)	(59'068)
Depreciation	8	(150'695)	(195'409)	(54'923)	(60'819)
Operating income		**143'137**	**93'190**	**62'439**	**50'563**
Foreign currency gains / (losses), net		27'129	(19'042)	10'508	5'705
Financial income		135'831	108'937	53'978	31'721
Financial expenses		(247'670)	(244'022)	(85'160)	(88'140)
Net financial items	**10**	**(84'710)**	**(154'127)**	**(20'674)**	**(50'714)**
Income / (loss) before income taxes		**58'427**	**(60'937)**	**41'765**	**(151)**
Income taxes		(17'792)	(9'619)	(10'909)	(3'949)
Net income / (loss)		**40'635**	**(70'556)**	**30'856**	**(4'100)**
Net income / (loss) attributable to equity holders of the parent company		**40'635**	**(70'556)**	**30'856**	**(4'100)**

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

Condensed consolidated interim statements of comprehensive income CHFk

	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Net income / (loss)	**40'635**	**(70'556)**	**30'856**	**(4'100)**
Actuarial (losses) / gains related to defined benefit pension plans	(18'324)	6'781	(4'809)	3'077
Income tax effect	3'848	(1'424)	1'010	(646)
Net other comprehensive (loss) / income not to be reclassified to profit and loss in subsquent periods	**(14'476)**	**5'357**	**(3'799)**	**2'431**
Cash flow hedge gains	7'047	12'915	2'610	674
Income tax effect	-	37	-	-
Net other comprehensive income to be reclassified to profit and loss in subsquent periods	**7'047**	**12'952**	**2'610**	**674**
Other comprehensive (loss)/ income, net of tax	**(7'429)**	**18'309**	**(1'189)**	**3'105**
Total comprehensive income / (loss)	**33'206**	**(52'247)**	**29'667**	**(995)**
Comprehensive income / (loss) attributable to equity holders of the parent company	**33'206**	**(52'247)**	**29'667**	**(995)**

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

Condensed consolidated interim statements of financial position

Assets CHFk

	Note	September 30, 2014 Unaudited	December 31, 2013 Unaudited
Non-current assets			
Intangible assets		2'733'998	2'788'969
Property, plant and equipment		934'297	916'427
Derivative financial assets	12	71'577	25'726
Non-current portion of trade and other receivables	16	32'820	-
Other non-current assets		153	200
Total non-current assets		**3'772'845**	**3'731'322**
Current assets			
Inventories		43'528	38'260
Current portion of trade and other receivables		335'894	279'674
Prepaid expenses		19'733	10'647
Cash and cash equivalents		125'200	149'198
Total current assets		**524'355**	**477'779**
Total assets		**4'297'200**	**4'209'101**

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

Condensed consolidated interim statements of financial position

Equity and liabilities CHFk

	Note	September 30, 2014 Unaudited	December 31, 2013 Unaudited
Equity			
Common shares, share premium and PECs	9	828'270	828'270
Valuation reserve		(5'649)	(12'696)
Accumulated deficit		(147'007)	(117'715)
Total equity		**675'614**	**697'859**
Non-current liabilities			
Non-current portion of loans and notes	11	2'181'182	2'186'644
Non-current portion of financial leases	11	24'760	29'454
Non-current portion of trade and other payables	16	136'303	207'420
Deferred tax liabilities		234'177	247'209
Provisions		116'239	114'101
Employee benefit obligations		76'419	57'409
Derivative financial liabilities	12	150'199	134'133
Deferred income		14'127	15'430
Total non-current liabilities		**2'933'406**	**2'991'800**
Current liabilities			
Current portion of loans and notes	11	6'502	35'000
Current portion of financial leases	11	6'260	5'991
Current portion of trade and other payables	16	575'845	399'257
Income tax payable		29'103	4'991
Deferred income		47'713	50'300
Provisions		21'293	22'198
Other current liabilities		1'464	1'705
Total current liabilities		**688'180**	**519'442**
Total liabilities		**3'621'586**	**3'511'242**
Total equity and liabilities		**4'297'200**	**4'209'101**

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

Condensed consolidated interim statements of cash flow CHFk

	Note	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Income / (loss) before income taxes		**58'427**	**(60'937)**	**41'765**	**(151)**
Amortization	8	178'738	173'883	63'855	59'068
Depreciation	8	150'695	195'409	54'923	60'819
Gain on disposal of property, plant and		(194)	(3)	-	-
Movement in pension		(612)	1'408	(553)	553
Movement in provisions		(652)	(8'455)	(136)	(1'595)
Change in net working capital	14	(82'357)	15'199	50'580	36'770
Cash flow from operating activities before net financial items and tax		**304'045**	**316'504**	**210'434**	**155'464**
Financial income	10	(135'831)	(108'937)	(53'978)	(31'721)
Financial expense	10	247'670	244'022	85'160	88'140
Foreign currency (losses) / gain, net		(26'799)	19'253	(10'299)	(4'697)
Interest received		104'686	61'007	2'604	2'498
Interest paid		(191'300)	(154'480)	(7'444)	(88'526)
Corporate income and withholding tax received / (paid)		6'491	(19'997)	1'496	(10'886)
Total cash flow from operating activities		**308'962**	**357'372**	**227'973**	**110'272**
Acquisition of a subsidiary, net of cash acquired	15	-	(95'662)	-	(95'662)
Purchase of property, plant and equipment		(176'226)	(155'796)	(86'691)	(70'949)
Purchase of intangible assets		(81'356)	(20'797)	(57'173)	(7'736)
Sale of property, plant and equipment		194	544	-	-
Total cash flow used in investing activities		**(257'388)**	**(271'711)**	**(143'864)**	**(174'347)**
Redemption of PECs incl. interest paid	9	(55'451)	(47'548)	(27'665)	(27'017)
Proceeds from long-term loans and notes	11	20'000	95'000	20'000	95'000
Repayments of long-term loans and notes	11	(35'000)	(175'000)	-	(175'000)
Repayments of capital leases	11	(4'425)	(3'439)	(2'365)	(1'603)
Proceeds from settlement of swaps		2'355	-	2'355	-
Other financing activities		(4'231)	-	(4'231)	-
Total cash flow used in financing activities		**(76'752)**	**(130'987)**	**(11'906)**	**(108'620)**
Total cash flow		**(25'178)**	**(45'326)**	**72'203**	**(172'695)**
Cash and cash equivalents as of January 1		149'198	170'601	-	-
Cash and cash equivalents as of July 1		-	-	52'657	298'763
Foreign currency impact on cash		1'180	508	340	(285)
Cash and cash equivalents as of September 30		**125'200**	**125'783**	**125'200**	**125'783**

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

Condensed consolidated interim statements of changes in equity

CHFk

	Common shares	Share premium	PECs	Valuation reserve	Accumulated deficit	Total
Equity as of January 1, 2014	**1'000**	**125'876**	**701'394**	**(12'696)**	**(117'715)**	**697'859**
Net income for the period	-	-	-	-	40'635	40'635
Other comprehensive income / (loss)	-	-	-	7'047	(14'476)	(7'429)
Total comprehensive income	**-**	**-**	**-**	**7'047**	**26'159**	**33'206**
Redemption of PECs	-	-	-	-	(55'451)	(55'451)
Equity attributable to the equity holders of the parent company as of September 30, 2014	**1'000**	**125'876**	**701'394**	**(5'649)**	**(147'007)**	**675'614**

	Common shares	Share premium	PECs	Valuation reserve	Accumulated deficit	Total
Equity as of January 1, 2013	**1'000**	**125'876**	**721'643**	**(27'858)**	**(27'505)**	**793'156**
Net loss for the period	-	-	-	-	(70'556)	(70'556)
Other comprehensive income	**-**	**-**	**-**	12'952	5'357	18'309
Total comprehensive income / (loss)	**-**	**-**	**-**	**12'952**	**(65'199)**	**(52'247)**
Prior year reclassification	**-**	**-**	**-**	-	407	407
Redemption of PECs	**-**	**-**	(20'249)	-	(27'299)	(47'548)
Equity attributable to the equity holders of the parent company as of September 30, 2013	**1'000**	**125'876**	**701'394**	**(14'906)**	**(119'596)**	**693'768**

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

Notes to condensed consolidated interim financial statements

Overview

Note 1 General information

Sunrise Communications Holdings S.A. (“Sunrise” or the “Group”) has its registered office at Avenue Monterey 20, L-2163 Luxembourg. Sunrise Communications Holdings S.A. holds indirectly 100% of its principal operating company, Sunrise Communications AG, which has its registered office at Binzmühlestrasse 130, CH-8050 Zurich, Switzerland.

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), landline internet including 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 LTE technologies. In connection with the provision of services Sunrise resells handsets manufactured by 3rd party suppliers.

These condensed consolidated interim financial statements were authorized for issue by the Group’s board of directors on November 5, 2014.

Note 2 Basis of preparation

These financial statements are the condensed consolidated interim financial statements of Sunrise Communication Holdings S.A. as of and for the nine months ended September 30, 2014. They have been prepared in accordance with IAS 34, “Interim financial reporting” – as adopted by the European Union. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2013.

Foreign currency translation
These condensed consolidated interim financial statements are presented in CHF which is the functional currency of the parent company and each of its subsidiaries.

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

Currency	Balance sheet		Income statement and cash flow	
	September 30, 2014	December 31, 2013	September 30, 2014	September 30, 2013
Euro	1.2063	1.2274	1.2329	1.2403
US Dollar	0.9551	0.8929	0.9029	0.9443

Note 3 Accounting estimates and judgments, changes in accounting estimates and presentation

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. Those estimates affect mainly provisions, goodwill impairment tests, employee benefit obligations, allowance for doubtful receivables, embedded derivatives and taxes. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the period ended December 31, 2013 except for the change disclosed below:

Note 3 Accounting estimates and judgments, changes in accounting estimates and presentation (continued)

Embedded Derivatives are bifurcated from the host instrument and carried at their fair value. The fair value is estimated using a binomial options pricing model. Credit Spreads are one of the assumptions used in the pricing model to estimate fair value. In Q3 management has changed the source from which the credit spread assumption is derived resulting in a CHF 14.2 million increase to the embedded derivative value as of 30 September 2014.

Note 4 New accounting standards

As of January 1, 2014 Sunrise has adopted various amendments to existing International Financial Reporting Standards (IFRSs) and Interpretations. The amendments will not have any impact on the Group's result or financial position.

Note 5 Segment reporting

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

Residential provides fixed line and mobile services to residential end customers. Through its investments in Local-Loop Unbundling (LLU) and IPTV, 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: Single Office and Home Office (SOHO), Small and Medium Enterprises (SME), 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 (MVNO's).

Head Office activities comprise support units such as network, IT and customer care as well as staff functions like finance, human resources and strategy. Furthermore certain fees and sundry revenues and payments of reminder fees are allocated to this operating segment.

The accounting policies applicable to the reportable segments are the same as the Group's accounting policies that are applied to the consolidated financial statements for the year ended as of December 31, 2013.

Performance is measured based on the 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 and income tax expenses. The EBITDA earned by each segment is considered to be 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 the development in net working capital on Group level.

Note 5 Segment reporting (continued)

Activities CHFk

	Residential		Business		Wholesale[1)]		Head Office activities		Total	
	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited
Revenue										
External customers	1'084'725	1'032'277	237'296	250'449	183'342	200'229	21'792	21'422	1'527'155	1'504'377
Inter-segment revenue	-	-	-	-	42'643	16'641	-	-	42'643	16'641
Total	**1'084'725**	**1'032'277**	**237'296**	**250'449**	**225'985**	**216'870**	**21'792**	**21'422**	**1'569'798**	**1'521'018**
Transmission costs and costs of goods sold										
External customers	(302'657)	(254'425)	(78'130)	(85'181)	(153'632)	(142'856)	(112)	(93)	(534'531)	(482'555)
Inter-segment costs	(42'643)	(16'641)	-	-	-	-	-	-	(42'643)	(16'641)
Total	**(345'300)**	**(271'066)**	**(78'130)**	**(85'181)**	**(153'632)**	**(142'856)**	**(112)**	**(93)**	**(577'174)**	**(499'196)**
Other operating expenses	(145'460)	(172'352)	(23'349)	(28'020)	(3'382)	(3'402)	(195'771)	(213'347)	(367'962)	(417'121)
Wages, salaries and pension costs	(44'224)	(36'179)	(41'782)	(42'740)	(2'077)	(2'386)	(80'474)	(79'289)	(168'557)	(160'594)
Other income	4	13	1	-	-	-	17'167	21'339	17'172	21'352
Other expenses	(445)	-	-	-	-	-	(262)	(2'977)	(707)	(2'977)
EBITDA	**549'300**	**552'693**	**94'036**	**94'508**	**66'894**	**68'226**	**(237'660)**	**(252'945)**	**472'570**	**462'482**

1) Including hubbing revenue of CHFk 116'206 generated as of September 30, 2014 and CHFk 109'988 generated as of September 30, 2013

Activities CHFk

	Residential		Business		Wholesale[1)]		Head Office activities		Total	
	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Revenue										
External customers	376'788	363'763	81'398	84'483	65'882	64'138	7'407	7'663	531'475	520'047
Inter-segment revenue	-	-	-	-	13'670	11'384	-	-	13'670	11'384
Total	**376'788**	**363'763**	**81'398**	**84'483**	**79'552**	**75'522**	**7'407**	**7'663**	**545'145**	**531'431**
Transmission costs and costs of goods sold										
External customers	(110'707)	(92'051)	(26'902)	(28'556)	(52'973)	(51'842)	(112)	(1)	(190'694)	(172'450)
Inter-segment costs	(13'670)	(11'384)	-	-	-	-	-	-	(13'670)	(11'384)
Total	**(124'377)**	**(103'435)**	**(26'902)**	**(28'556)**	**(52'973)**	**(51'842)**	**(112)**	**(1)**	**(204'364)**	**(183'834)**
Other operating expenses	(34'052)	(52'759)	(5'178)	(9'046)	(1'137)	(1'158)	(64'943)	(67'748)	(105'310)	(130'711)
Wages, salaries and pension costs	(15'034)	(14'093)	(13'727)	(14'034)	(704)	(803)	(28'810)	(25'222)	(58'275)	(54'152)
Other income	(230)	(1)	1	-	-	-	4'277	9'943	4'048	9'942
Other expenses	5	-	-	-	-	-	(32)	(2'226)	(27)	(2'226)
EBITDA	**203'100**	**193'475**	**35'592**	**32'847**	**24'738**	**21'719**	**(82'213)**	**(77'591)**	**181'217**	**170'450**

1) Including hubbing revenue of CHFk 40'044 generated in Q3 2014 and CHFk 41'459 generated in Q3 2013

Note 5 Segment reporting (continued)

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

	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
EBITDA from reportable segments	472'570	462'482	181'217	170'450
Unallocated:				
Amortization	(178'738)	(173'883)	(63'855)	(59'068)
Depreciation	(150'695)	(195'409)	(54'923)	(60'819)
Net financial items	(84'710)	(154'127)	(20'674)	(50'714)
Income / (loss) before income taxes	**58'427**	**(60'937)**	**41'765**	**(151)**

Note 6 Revenue CHFk

	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Mobile services	990'606	942'785	353'123	329'909
Landline services	383'078	414'746	127'461	140'391
thereof hubbing	*116'206*	*109'988*	*40'044*	*41'459*
Landline internet	153'471	146'846	50'891	49'748
Total	**1'527'155**	**1'504'377**	**531'475**	**520'047**

	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Sales of goods [1)]	201'218	107'288	83'590	36'086
Sales of services	1'325'937	1'397'089	447'885	483'961
Total	**1'527'155**	**1'504'377**	**531'475**	**520'047**

[1)] The increase in sales of goods is mainly attributable to the new Freedom hardware sales

Note 7 Other income and other expenses

CHFk

Other income	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Early termination fees	9'661	13'981	2'620	5'502
Sub-leases	3'498	4'090	1'281	1'722
Aperiodic settlements of charges for access services calculated using the prices of the Swiss regulator	2'295	-	-	-
Income related to the change of MSP	-	1'280	-	1'280
Reversal of provision for restructuring	-	1'600	-	1'600
Other	1'718	401	147	(162)
Total	**17'172**	**21'352**	**4'048**	**9'942**

CHFk

Other expenses	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Restructuring expenses	(80)	(1'726)	-	(1'186)
Aperiodic settlements of charges for access services calculated using the prices of the Swiss regulator	-	(1'008)	-	(1'008)
Other	(627)	(243)	(370)	(48)
Total	**(707)**	**(2'977)**	**(27)**	**(2'226)**

Note 8 Depreciation and amortization

Depreciation and amortization recorded during the nine-month period ending September 30, 2014 decreased year-over-year from CHF 369.3 million to CHF 329.4 million. The higher depreciation and amortization during the nine months in 2013 was primarily driven by non-recurring write-offs of CHF 48.1 million related to the replacement of the mobile radio network with multi standard radio equipment as of September 30, 2013.

Note 9 Equity CHFk

	Number of shares	Nominal value (CHF)	September 30, 2014 Unaudited	December 31, 2013 Unaudited
Class A shares	90'000'000	0.01	900	900
Class B shares	10'000'000	0.01	100	100
Share premium			125'876	125'876
Series A PECs *)	62'589'067'221	0.01	625'890	625'890
Series B PECs *)	7'550'384'405	0.01	75'504	75'504
Total common shares, share premium and PECs *)			**828'270**	**828'270**

*) Preferred Equity Certificates

Share capital
The total authorized and issued number of ordinary shares comprises 100'000'000 shares with a nominal value of CHF 0.01 each.

Series A and B PEC interest payments
In March 2014 Sunrise Communications Holdings S.A. paid accrued interest in the amount of CHF 27.8 million to Mobile Challenger Intermediate Group S.A. who subsequently used the above repayments to pay the EUR and CHF tranches of the accrued interest on the PIK toggle notes for the six-month period ended on March 17, 2014, amounting to EUR 12.0 million and CHF 13.1 million respectively.

In September 2014 the Group paid another accrued interest amount of CHF 27.8 million to Mobile Challenger Intermediate Group S.A. who subsequently used the above repayments to pay the EUR and CHF tranches of the accrued interest on the PIK toggle notes for the six-month period ended on September 15, 2014, amounting to EUR 12.0 million and CHF 13.1 million respectively.

Valuation reserve
Valuation reserve comprises fair value changes of derivative instruments that qualify as cash flow hedges. The fair value changes are recognized net of tax.

Accumulated deficit
Actuarial gains and losses, net of taxes, and the result for the current period and earnings or losses carried forward are recognized in accumulated deficit.

Note 10 Net financial items

CHFk

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	January 1 - September 30, 2014 Unaudited Total
Income					
Cash and cash equivalents	26	-	26	1'181	1'207
Financial liabilities measured at amortized cost	-	-	-	25'464	25'464
Cash flow hedges and economic hedges	83'927	-	83'927	-	83'927
Embedded derivatives [1)]	-	48'865	48'865	-	48'865
Other	3'013	-	3'013	484	3'497
Total income	**86'966**	**48'865**	**135'831**	**27'129**	**162'960**
Expenses					
Financial liabilities measured at amortized cost	(126'199)	-	(126'199)	-	(126'199)
Cash flow hedges and economic hedges	(85'154)	(26'126)	(111'280)	-	(111'280)
Other	(10'191)	-	(10'191)	-	(10'191)
Total expenses	**(221'544)**	**(26'126)**	**(247'670)**	**-**	**(247'670)**
Net financial items	**(134'578)**	**22'739**	**(111'839)**	**27'129**	**(84'710)**

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	January 1 - September 30, 2013 Unaudited Total
Income					
Cash and cash equivalents	355	-	355	510	865
Cash flow hedges and economic hedges	84'945	22'985	107'930	-	107'930
Interest rate derivatives	13	639	652	-	652
Total income	**85'313**	**23'624**	**108'937**	**510**	**109'447**
Expenses					
Financial liabilities measured at amortized cost	(136'912)	-	(136'912)	(19'361)	(156'273)
Cash flow hedges and economic hedges	(85'153)	-	(85'153)	-	(85'153)
Interest rate derivatives	(592)	-	(592)	-	(592)
Embedded derivatives	-	(8'934)	(8'934)	-	(8'934)
Other	(12'431)	-	(12'431)	(191)	(12'622)
Total expenses	**(235'088)**	**(8'934)**	**(244'022)**	**(19'552)**	**(263'574)**
Net financial items	**(149'775)**	**14'690**	**(135'085)**	**(19'042)**	**(154'127)**

[1)] Embedded derivatives represent early redemption options related to financial instruments issued by the Group (refer to note 3).

Note 10 Net financial items (continued) CHFk

July 1 - September 30, 2014 Unaudited	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
Income					
Cash and cash equivalents	16	-	16	341	357
Financial liabilities measured at amortized cost	-	-	-	9'681	9'681
Cash flow hedges and economic hedges	27'857	-	27'857	-	27'857
Embedded derivatives [1)]	-	23'750	23'750	-	23'750
Other	2'355	-	2'355	486	2'841
Total income	**30'228**	**23'750**	**53'978**	**10'508**	**64'486**
Expenses					
Financial liabilities measured at amortized cost	(41'883)	-	(41'883)	-	(41'883)
Cash flow hedges and economic hedges	(28'414)	(11'396)	(39'810)	-	(39'810)
Other	(3'467)	-	(3'467)	-	(3'467)
Total expenses	**(73'764)**	**(11'396)**	**(85'160)**	**-**	**(85'160)**
Net financial items	**(43'536)**	**12'354**	**(31'182)**	**10'508**	**(20'674)**

July 1 - September 30, 2013 Unaudited	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	Total
Income					
Cash and cash equivalents	36	-	36	-	36
Financial liabilities measured at amortized cost	-	-	-	6'204	6'204
Cash flow hedges and economic hedges	28'312	-	28'312	-	28'312
Interest rate derivatives	4	200	204	-	204
Embedded derivatives	-	3'169	3'169	-	3'169
Total income	**28'352**	**3'369**	**31'721**	**6'204**	**37'925**
Expenses					
Cash and cash equivalents	-	-	-	(283)	(283)
Financial liabilities measured at amortized cost	(47'643)	-	(47'643)	-	(47'643)
Cash flow hedges and economic hedges	(28'417)	(5'974)	(34'391)	-	(34'391)
Interest rate derivatives	(204)	-	(204)	-	(204)
Other	(5'902)	-	(5'902)	(216)	(6'118)
Total expenses	**(82'166)**	**(5'974)**	**(88'140)**	**(499)**	**(88'639)**
Net financial items	**(53'814)**	**(2'605)**	**(56'419)**	**5'705**	**(50'714)**

[1)] Embedded derivatives represent early redemption options related to financial instruments issued by the Group (refer to note 3).

Note 11 Borrowings

CHFk

	Nominal value at inception	Foreign exchange movement[1]	Capitalized debt issuance cost including discounts and premium[1]	Loan and finance lease proceeds/ (repayments), net	September 30, 2014 Carrying value Unaudited	December 31. 2013 Carrying value Unaudited
Floating rate						
Floating rate notes - EUR	200'570	875	(2'521)	-	198'924	201'877
Revolving credit facility - CHF [5]	95'000	-	-	(15'000)	80'000	95'000
Fixed rate						
Senior secured notes - CHF [2]	300'000	-	(6'618)	-	293'382	292'111
Senior secured notes - CHF [3]	370'000	-	(4'720)	-	365'280	364'317
Senior secured notes - EUR [4]	658'641	(60'336)	(6'655)	-	591'650	600'792
Senior notes - EUR	755'942	(79'230)	(18'264)	-	658'448	667'547
Total loans and notes	**2'380'153**	**(138'691)**	**(38'778)**	**(15'000)**	**2'187'684**	**2'221'644**
Other						
Debt relating to finance leases	-	-	-	(4'425)	31'020	35'445
Total borrowings					**2'218'704**	**2'257'089**
Of which current					12'762	40'991
Of which non-current					2'205'942	2'216'098

[1] Since issuance of the borrowings.

[2] Issued October 14, 2010.

[3] Issued July 19, 2012.

[4] Including a tap offering of EUR 125.0 million aggregate principal amount of its existing 7% fixed rates senior secured notes.

[5] Please refer to note 20 for further information

The Group's borrowings are governed by a number of financial covenants specified in the revolving credit facility. The main covenants consist of a leverage ratio and an interest cover ratio. The Group performs quarterly covenant testing. The last covenant testing, performed as of September 30, 2014, showed that the Group was in compliance with the applicable financial covenants. Refer also to event after balance sheet date note.

Liabilities relating to finance leases are related primarily to lease agreements of fiber networks.

Note 12 Derivatives

CHFk

Derivative financial instruments are reported in the condensed consolidated interim statement of financial position as follows:

	September 30, 2014 Notional amount	December 31, 2013 Notional amount	September 30, 2014 Fair value assets [4]	September 30, 2014 Fair value liabilities [4]	December 31, 2013 Fair value assets [4]	December 31, 2013 Fair value liabilities [4]
Cross currency interest rate swaps – fixed rate borrowings	1'256'198	1'256'198	-	(137'615)	-	(124'968)
Total cash flow hedges	**1'256'198**	**1'256'198**	**-**	**(137'615)**	**-**	**(124'968)**
Cross currency interest rate swaps – fixed rate borrowings [1]	161'878	161'878	-	(11'212)	-	(9'165)
Cross currency interest rate swaps – variable rate borrowings [2]	202'922	200'567	-	(1'372)	3'014	-
Total economic hedges	**364'800**	**362'445**	**-**	**(12'584)**	**3'014**	**(9'165)**
Interest rate swap[5]	-	100'000	-	-	-	-
Total interest rate derivatives	**-**	**100'000**	**-**	**-**	**-**	**-**
Embedded derivatives [3]	-	-	71'577	-	22'712	-
Total embedded derivatives	**-**	**-**	**71'577**	**-**	**22'712**	**-**
Total derivatives			**71'577**	**(150'199)**	**25'726**	**(134'133)**

[1] Cross currency interest rate swaps related to senior secured notes EUR 125 million
[2] Cross currency interest rate swap related to senior secured floating rate notes EUR 167 million (also refer to details provided below)
[3] Embedded derivatives represent early redemption options related to financial instruments issued by the Group
[4] For fair value estimation please refer to note 13
[5] Interest rate swap has matured as of December 31, 2013

The Group renewed an existing cross currency principal and interest rate swap agreement on EUR 167 million of notes payable, bearing interest at EURIBOR +4.75%, due December 2017. The Group pays CHF LIBOR +4.785%. The swap has a maturity date as of March 31, 2015. The Group did not apply hedge accounting to this instrument and classified the cross currency interest rate swap as held for trading. The fair value movements are recognized in the statement of income (refer to note 10 'net financial items').

	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
The change in the fair value of derivatives in the period can be summarized as:				
Cash flow hedges – movement in hedge reserve	(21'459)	18'489	(9'250)	(3'339)
Cash flow hedges – ineffectiveness	-	121	-	-
Economic hedges	(4'667)	4'375	(2'146)	(2'635)
Total impact of hedging derivatives in the statement of income (note 10)	**(26'126)**	**22'985**	**(11'396)**	**(5'974)**
Impact of interest rate derivatives in the statement of income (note 10)	-	639	-	200
Impact of embedded derivatives in the statement of income (note 10)	48'865	(8'934)	23'750	3'169
Total impact of derivatives in the statement of income (note 10)	**22'739**	**14'690**	**12'354**	**(2'605)**

Note 13 Fair value estimation

The fair value of current financial assets and liabilities at amortized cost are 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 that have a significant effect on the recorded fair value that are not based on observable market data

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

CHFk

	Measurement principle	September 30, 2014 Fair value	September 30, 2014 Carrying value	December 31, 2013 Fair value	December 31, 2013 Carrying value
Cash[1)]	Amortized cost	125'200	125'200	149'198	149'198
Trade and other receivables[1)]	Amortized cost	368'714	368'714	279'674	279'674
Other non-current assets[1)]	Amortized cost	153	153	200	200
Derivatives - held for trading	Fair value - Level 2	71'577	71'577	25'726	25'726
Total financial assets		**565'644**	**565'644**	**454'798**	**454'798**
Trade payables and other payables[1)]	Amortized cost	(712'148)	(712'148)	(606'677)	(606'677)
Loans and notes[2)]	Amortized cost	(2'231'815)	(2'181'182)	(2'308'037)	(2'186'644)
Financial leases[1)]	Amortized cost	(31'020)	(31'020)	(35'445)	(35'445)
Derivatives - held for trading	Fair value - Level 2	(12'584)	(12'584)	(9'165)	(9'165)
Derivatives - held for hedging	Fair value - Level 2	(137'615)	(137'615)	(124'968)	(124'968)
Other current liabilities[1)]	Amortized cost	(1'464)	(1'464)	(1'705)	(1'705)
Total financial liabilities		**(3'126'646)**	**(3'076'013)**	**(3'085'997)**	**(2'964'604)**

[1)] Carrying amount approximates the estimated fair value due to the short-term nature of the financial instruments.

[2)] The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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 fair value an instrument are observable, the instrument is included in level 2. There have been no transfers between the different hierarchy levels during the nine- month period ended September 30, 2014.

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Note 14 Change in net working capital

CHFk

	January 1 - September 30, 2014 Unaudited	January 1 - September 30, 2013 Unaudited	July 1 - September 30, 2014 Unaudited	July 1 - September 30, 2013 Unaudited
Change in inventories	(5'268)	877	2'759	5'900
Change in trade and other receivables	(44'531)	108	(11'359)	(8'164)
Change in trade and other payables	(27'834)	11'209	43'345	25'543
Change in other items, net	(4'724)	3'005	15'835	13'491
Total	**(82'357)**	**15'199**	**50'580**	**36'770**

The table above outlines cash relevant transactions which have been recognized in the caption 'change in net working capital' in the condensed consolidated interim statement of cash flow of the Group (see page 18).

Note 15 Business combination

On July 1, 2013, Sunrise Communications AG acquired 100% of the common shares of Lebara GmbH, Switzerland, a company focusing on mobile prepaid services with strong customer needs for low cost international tariffs for calls from Switzerland to abroad. The combination of the Lebara brand with yallo will significantly strengthen Sunrises customer focus for prepaid mobile services.

On July 18, 2013, Sunrise Communications AG also acquired 100 % of the common shares of Treternity Ortel Mobile AG, Switzerland, another company focusing on mobile prepaid services with strong customer needs for low cost international tariffs for calls from Switzerland to abroad. With this acquisition, Sunrise further strengthens its footprint in multicultural communities.

No adjustment has been made to the initial purchase price allocation as disclosed in note 29 of the consolidated financial statements for the year ended December 31, 2013.

Note 16 Other balance sheet items

Non-current trade and other payables
As of September 30, 2014 this financial statement item mainly consists of the 3rd installment (due in 2016) related to the acquisition of the spectrum licenses in 2012 in the amount of CHF 103.0 as well as the 2nd and 3rd installments related to the investment into broadband connectivity services from Swisscom in the total amount of CHF 29.7 million.

In June 2014, the 2nd installment of CHF 103.0 million was reclassified to current trade and other payables as the due date is on June 30, 2015.

Non-current trade and other receivables
This financial statement item consists of the non-current portion of the trade receivables related to the new Freedom device plan.

Note 17 Dividend distribution

No dividend resolutions have been taken by the board of directors of Sunrise Communications Holdings SA – the ultimate parent of the group – or any other entity of the Group during the period under review (during the nine-month period ended as of September 30, 2014)

Note 18 Contractual commitments

As of September 30, 2014 Sunrise Communications AG has entered into multiple supply contracts with a minimal financial commitment of CHF 43.0 million. As of June 30th 2014 the Group disclosed a commitment of CHF 74.0 million relating to a one-time investment for the use of wholesale broadband connectivity services from Swisscom. As of September 30th, 2014 this investment is included in the line item "intangible assets", a portion of this amount has been paid in cash in July, the remaining amount (CHF 29.7 million) is classified under "Non-current portion of trade and other payables".

Note 19 Financial risk management

We did not identify any material financial risks in Q3 2014. The strong Swiss franc does not have a material net effect on the Group, as Sunrise is predominantly active in the domestic market. The foreign currency risk arising from loans and notes denominated in Euros have been fully hedged.

Note 20 Events after the balance sheet date

Revolving credit facility
On October 2, 2014 Sunrise received consent from its lender to amend the revolving credit facility agreement (RCF) to, among other things:

- Reduce the RCF from CHF 250.0 million to CHF 230.9 million
- Re-price the margin applicable to the revolving credit facility from 4.25% p.a. to 3.75% p.a., with 25 basis point step-downs (to 2.75% p.a.) at the same leverage levels as applied prior to the amendments
- Extend the termination date of the revolving credit facility from 31 December 2016 to 31 December 2017
- Introduce a "springing" threshold for purposes of the leverage financial covenant, such that the leverage covenant is not tested unless the drawn amount of the revolving credit facility is greater than 40% of the relevant total commitments
- Replace the leverage covenant ratchet with a flat 5.50:1 leverage test
- Remove the interest cover ratio financial covenant

As part of the amendment, Sunrise repaid CHF 6.5 million to reduce the utilized RCF amount from CHF 80.0 million to CHF 73.5 million.