Sunrise Communications Holdings S.A.

Interim Financial Report for the six-month period ended June 30, 2014

Facts & Figures

	January 1 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2014	April 1 - June 30, 2013
Results of operations				
(in thousand CHF, except where indicated)				
Revenue				
Mobile	637'483	612'876	346'199	309'329
Landline services	255'617	274'355	128'070	139'336
thereof voice hubbing	*76'162*	*68'529*	39'092	36'159
Landline internet	102'580	97'099	51'232	49'138
Total revenue	995'680	984'330	525'501	497'803
Revenue (excluding hubbing)	*919'518*	*915'801*	*486'409*	*461'644*
EBITDA[1)]	291'353	292'032	159'374	150'789
EBITDA margin (%)	29.3%	29.7%	30.3%	30.3%
EBITDA margin (excluding voice hubbing) (%)	31.7%	31.9%	32.8%	32.7%
Subscriber base (end of period)				
(in thousand)				
Mobile subscriber base (excl. M2M)	2'487.3	2'141.7		
Landline voice subscriber base	413.4	456.7		
Landline internet subscriber base	330.4	360.6		
thereof XDSL	330.4	358.4		
thereof LLU	181.0	237.3		
thereof Sunrise TV	89.2	58.1		
ARPU				
(in CHF/month)				
Mobile services	35.3	41.5	35.7	41.9
Landline voice services	40.4	42.1	40.2	41.9
Landline internet services	39.7	36.8	40.1	37.4
Blended internet ARPU	46.2	40.2	46.8	41.1
Employees				
FTEs	1'832.8	1'684.3		
Apprentices	101.0	87.0		

[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 six-month period ended June 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 2'487.3 thousand and 413.4 thousand subscribers respectively, as of June 30, 2014. The Group is also the third-largest landline internet provider with 330.4 thousand subscribers, including Sunrise TV subscribers, as of June 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 - June 30, 2014.

Comparative figures for the six-month period ended June 30, 2014 are based on unaudited condensed consolidated interim financial statements of the Group for the six-month period ended June 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 subscriptions plan and the mobile handset. This results in more flexible and transparent offerings to end customers whilst 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 from 'sales of services' to 'sales of goods' (refer to note 6)
- Shift 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
- Part of the trade receivable balance related to the 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 1.2% or CHF 11.4 million and amounted to CHF 995.7 million for the six-month period ended June 30, 2014. The increase in revenue is primarily attributable to higher mobile revenue of CHF 24.6 million mainly related to the newly introduced mobile portfolio "Freedom" at the beginning of the second quarter as well as a growth in internet service revenue of CHF 5.5 million. This growth was partially offset by the decrease in landline service revenue of CHF 18.8 million.

During the second quarter of the year 2014, Sunrise generated net revenues in the amount of CHF 525.5 million, an increase of CHF 27.7 million or 5.6% compared to the same period in prior year.

Mobile
Mobile revenue increased by 4.0% from CHF 612.9 million to CHF 637.5 million for the six month period ended June 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.

For the three-month period ended June 30, 2014 mobile revenue increased from CHF 309.3 million to CHF 346.2 million – an increase of CHF 36.9 million or 11.9% compared to the same quarter in 2013.

Landline services
Landline services revenue decreased from CHF 274.4 million to CHF 255.6 million for the six months ended June 30, 2014, a year-over-year decrease of CHF 18.8 million. Quarter-over-quarter, landline services revenue decreased from CHF 139.3 million to CHF 128.1 million or 8.0%.The decrease is primarily attributable to a decrease in customer base and declining retail voice revenues and could only get partially offset by higher hubbing revenues.

Landline internet
The Group reports a year-over-year growth of 5.7% in landline internet revenue from CHF 97.1 million to CHF 102.6 million, for the six months ended June 30, 2014. For the period from April 1 to June 30, 2014 landline internet revenue increased by 4.3% or CHF 2.1 million from CHF 49.1 million to CHF 51.2 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 343.8 million as of June 30, 2014, a year-over-year increase of CHF 33.7 million, or 10.9%, from CHF 310.1 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 six-month period ended June 30, 2014 other operating expenses decreased by CHF 23.7 million, or by 8.3%, from CHF 286.4 million to CHF 262.7 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 110.3 million for the six-month period ended June 30, 2014, a year-over-year increase of CHF 3.9 million, or 3.7%, from CHF 106.4 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 111.6% as of December 31, 2013 according to Swiss GAAP FER 26 the Group reports a net pension liability of CHF 71.5 million in its condensed consolidated interim financial statement as of June 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) requests the usage of a dynamic valuation method. Therefore, the IFRS pension liability should not be considered as a cash liability based on current facts and circumstances.

Other income and expenses, net
Other income and expenses, net amounted to CHF 12.4 million for the period ended June 30, 2014, an increase of CHF 1.8 million, from CHF 10.6 million as of June 30, 2013. The increase in other income and expenses, net is primarily impacted by receiving an aperiodic settlement of charges for access services in the amount of 2.3 million. Please refer to note 7 for further information.

EBITDA
The Group generated an EBITDA of CHF 291.4 million for the six months ended June 30, 2014, a year-over-year decrease of CHF 0.6 million, or 0.2%, from CHF 292.0 million as of June 30, 2013. The slight EBITDA decrease is primarily driven by higher wages, salaries and pension costs which could not get fully offset by a higher other income and expenses, net and a slightly higher gross profit including 'other operating expenses'.

Depreciation and amortization
Depreciation and amortization recorded during the six-month period ended June 30, 2014 decreased from CHF 249.4 million to CHF 210.7 million, a year-over-year decrease of CHF 38.7 million, or 15.5%. The higher depreciation and amortization in the first six months in 2013 was primarily driven by non-recurring write-offs of CHF 39.2 million related to the replacement of the radio network with multi standard radio equipment performed during the half year of 2013.

Net income
The Group reported a net income of CHF 9.8 million for the half year ended June 30, 2014, a year-over-year increase of CHF 76.3 million from a net loss of CHF 66.5 million as of June 30, 2013. With a stable EBITDA the increase of the net income is mainly due to lower depreciation and amortization in the amount of CHF 38.7 million in 2014 and a favorable development on the FX market which impacted the result positively by CHF 41.3 million compared to the six-month period ended as of June 30, 2013.

Change in net working capital
The change in net working capital shows a decrease of CHF 132.9 million as of June 30, 2014 compared to a decrease of CHF 21.6 million reported in prior year's 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 a 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 52.7 million as of June 30, 2014, a decrease of CHF 96.5 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 27.8 million, the repayment of CHF 35.0 million of the revolving credit facility and capital expenditures of CHF 113.7 million. The decrease could only partially be compensated by operational cash flows generated by the Group of CHF 81.0 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 2'208.8 million of which CHF 6.2 million are expected to be paid within 12 months (refer to note 11 for further details).

Certain other contractual commitments
As of June 30, 2014 other contractual commitments excluding those mentioned above amounted to CHF 144.0 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 47.8 million as of June 30, 2014, an increase of CHF 25.1 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 - June 30, 2014 Before FV adjustments & embedded derivatives	January 1 - June 30, 2014 Impact of FV adjustments & embedded derivatives	January 1 - June 30, 2014 Including FV adjustments & embedded derivatives
Revenue	**996'102**	**(422)**	**995'680**
Transmission costs and cost of goods sold	(343'837)	-	(343'837)
Other operating expenses	(262'652)	-	(262'652)
Wages, salaries and pension costs	(110'282)	-	(110'282)
Total operating expenses before other income and expenses, depreciation and amortization	**(716'771)**	-	**(716'771)**
Other income	13'124	-	13'124
Other expenses	(680)	-	(680)
Income before depreciation and amortization, net financial items and income taxes	**291'775**	**(422)**	**291'353**
Depreciation and amortization	(134'750)	(75'905)	(210'655)
Operating income	**157'025**	**(76'327)**	**80'698**
Net financial items	**(89'150)**	**25'114**	**(64'036)**
Income before income taxes	**67'875**	(51'213)	**16'662**
Income taxes	(12'822)	5'939	(6'883)
Net income	**55'053**	**(45'274)**	**9'779**

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	
	June 30, 2014	June 30, 2013
Subscribers at end of period[1]	2'487.3	2'141.7
Growth over prior period	*16.1%*	
Of which:		
Postpaid[1][2]	1'288.3	1'216.9
Prepaid[1][3]	1'198.9	924.8

(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) 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 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2014	April 1 - June 30, 2013
Mobile ARPU[1]	35.3	41.5	35.7	41.9
Decrease over prior period	*(14.8)%*		*(14.8)%*	

(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 345.6 thousand from 2'141.7 thousand to 2'487.3 million as of June 30, 2014. The increase is primarily attributable to a growth of the prepaid subscribers driven by the acquisitions of YOL Communications GmbH and YOL Services AG. Applying a 12-month activity rule on prepaid (as reported by Swisscom and Orange CH), Sunrises prepaid subscriber base would be 1'964.6 million and the total mobile subscriber base would amount to 3'253.0 thousand as of June 30, 2014.

New year-over-year postpaid subscribers' activations of 71.4 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 6.3, or 14.8%, to CHF 35.3 for the six- month period ended June 30, 2014, from CHF 41.5 as of June 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 which contributed about 47% of the absolute year-over-year decline.

Mobile churn
Sunrise's prepaid and postpaid blended mobile churn rate increased year-on-year from 18.8% to 22.4% for the six-month period ended June 30, 2014, which is primarily attributable to an increased churn in the prepaid segment, partly due to pre- to postpaid migrations and a higher prepaid subscriber share following the acquisition of YOL Communications GmbH and YOL Services AG.

Mobile termination rates
The applicable mobile termination rates for the first three 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. Starting July 1, 2013 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.

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
	June 30, 2014	June 30, 2013
Retail voice	413.4	456.7
Decrease over prior period	*(9.5)%*	
Of which:		
LLU	181.0	237.3
Decrease over prior period	*(23.7)%*	

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

Compared to prior year's second quarter the total number of retail voice subscribers decreased by 43.3 thousand, or 9.5%, from 456.7 thousand to 413.4 thousand as of June 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 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2014	April 1 - June 30, 2013
Retail voice ARPU [(1)]	40.4	42.1	40.2	41.9
Decrease over prior period	*(3.9)%*		*(4.0)%*	

(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 1.7 or 3.9% from CHF 42.1 to CHF 40.4 for the six month period ended June 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
	June 30, 2014	June 30, 2013
Landline internet(2)	330.4	360.6
Decrease over prior period	*(8.4)%*	
Of which:		
Broadband BBCS	149.4	121.1
Growth over prior period	*23.4%*	
Broadband LLU	181.0	237.3
Decrease over prior period	*(23.7)%*	
Sunrise TV (3)	89.2	58.1
Growth over prior period	*53.5%*	

(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. Sunrise currently pays fees to Swisscom of 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 Sunrises landline internet subscribers declined by 30.2 thousand or 8.4%, from 360.6 thousand to 330.4 thousand as of June 30, 2014. The total number of broadband subscribers, including both LLU and BBCS services likewise decreased year-over-year by 28.0 thousand or 7.8% from 358.4 to 330.4 as of June 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 - June 30, 2014	January 1 - June 30, 2013	April 1 - June 30, 2014	April 1 - June 30, 2013
Landline internet ARPU (1)	39.7	36.8	40.1	37.4
Growth over prior period	*7.7%*		*7.1%*	
Blended internet ARPU (2)	46.2	40.2	46.8	41.1
Growth over prior period	*14.9%*		*13.8%*	

(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 2.9 or 7.7% from CHF 36.8 to CHF 39.7 as of June 30, 2014. Blended internet ARPU increased by CHF 6.0 or 14.9%, 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.

Material contractual arrangements
Sunrise entered into a cooperation agreement with ewz in order to extend its 4G-capacity in Zurich Stadt. In a first step 100 4G-antennas will be connected to the Sunrise network using the ewz fibre network.

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 74m 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
There were no material changes in debt instruments during the 2nd quarter ending June 30, 2014.

Credit ratings
On May 9th, 2014, Standard & Poor's Ratings Services revised the outlook of Sunrise Communications Holdings S.A. from negative to stable and affirmed the "B+" corporate credit rating.

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
On April 7, 2014 Sunrise launched a new mobile product "Freedom" available for residential customer and small businesses which separates the cost for the subscriptions plan and the mobile handset. For further information please refer to the preceding section.

In June 2014 Sunrise introduced the new offer for landline, internet and TV ('Sunrise home') which gives the customers the option to personalize their landline, internet and TV packages based on their needs and only pay for services they actually use.

Acquisition, disposals and recapitalizations
No material acquisitions, disposals and recapitalizations occurred within the 2nd quarter ended June 30, 2014.

Sunrise Communications Holdings S.A.

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

Condensed consolidated interim statements of income CHFk

	Note	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Revenue	**5,6**	**995'680**	**984'330**	**525'501**	**497'803**
Transmission costs and cost of goods sold		(343'837)	(310'105)	(194'111)	(159'891)
Other operating expenses		(262'652)	(286'410)	(121'465)	(138'196)
Wages, salaries and pension costs		(110'282)	(106'442)	(55'689)	(54'139)
Total operating expenses before other income and expenses, depreciation and amortization		**(716'771)**	**(702'957)**	**(371'265)**	**(352'226)**
Other income	7	13'124	11'410	5'738	5'423
Other expenses	7	(680)	(751)	(600)	(211)
Income before depreciation and amortization, net financial items and income taxes		**291'353**	**292'032**	**159'374**	**150'789**
Amortization	8	(114'883)	(114'815)	(57'879)	(58'168)
Depreciation	8	(95'772)	(134'590)	(49'510)	(74'559)
Operating income		**80'698**	**42'627**	**51'985**	**18'062**
Foreign currency gains / (losses), net		16'621	(24'747)	4'825	(13'273)
Financial income		81'853	86'424	39'531	45'415
Financial expenses		(162'510)	(165'090)	(78'005)	(85'307)
Net financial items	**10**	**(64'036)**	**(103'413)**	**(33'649)**	**(53'165)**
Income / (loss) before income taxes		**16'662**	**(60'786)**	**18'336**	**(35'103)**
Income taxes		(6'883)	(5'670)	(5'317)	(2'841)
Net income / (loss)		**9'779**	**(66'456)**	**13'019**	**(37'944)**
Net income / (loss) attributable to equity holders of the parent company		**9'779**	**(66'456)**	**13'019**	**(37'944)**

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

Condensed consolidated interim statements of comprehensive income

CHFk

	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Net income / (loss)	**9'779**	**(66'456)**	**13'019**	**(37'944)**
Actuarial (losses) / gains related to defined benefit pension plans	(13'515)	3'704	(2'967)	(5'821)
Income tax effect	2'838	(778)	623	1'222
Net other comprehensive income not to be reclassified to profit and loss in subsquent periods	**(10'677)**	**2'926**	**(2'344)**	**(4'599)**
Cash flow hedge gains	4'437	12'241	4'308	6'340
Income tax effect	-	37	-	137
Net other comprehensive income to be reclassified to profit and loss in subsquent periods	**4'437**	**12'278**	**4'308**	**6'477**
Other comprehensive income, net of tax	**(6'240)**	**15'204**	**1'964**	**1'878**
Total comprehensive income	**3'539**	**(51'252)**	**14'983**	**(36'066)**
Comprehensive income attributable to equity holders of the parent company	**3'539**	**(51'252)**	**14'983**	**(36'066)**

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

Condensed consolidated interim statements of financial position

Assets CHFk

	Note	June 30, 2014 Unaudited	December 31, 2013 Unaudited
Non-current assets			
Intangible assets		2'704'461	2'788'969
Property, plant and equipment		904'382	916'427
Derivative financial assets	12	49'592	25'726
Non-current portion of trade and other receivables	15	21'311	-
Other non-current assets		153	200
Total non-current assets		**3'679'899**	**3'731'322**
Current assets			
Inventories		46'287	38'260
Current portion of trade and other receivables		278'012	279'674
Prepaid expenses		32'570	10'647
Cash and cash equivalents		52'657	149'198
Total current assets		**409'526**	**477'779**
Total assets		**4'089'425**	**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	June 30, 2014 Unaudited	December 31, 2013 Unaudited
Equity			
Common shares, share premium and PECs	9	828'270	828'270
Valuation reserve		(8'259)	(12'696)
Accumulated deficit		(146'399)	(117'715)
Total equity		**673'612**	**697'859**
Non-current liabilities			
Non-current portion of loans and notes	11	2'175'395	2'186'644
Non-current portion of financial leases	11	27'213	29'454
Non-current portion of trade and other payables	15	108'379	207'420
Deferred tax liabilities		237'540	247'209
Provisions		115'505	114'101
Employee benefit obligations		71'492	57'409
Derivative financial liabilities	12	143'178	134'133
Deferred income		15'446	15'430
Total non-current liabilities		**2'894'148**	**2'991'800**
Current liabilities			
Current portion of loans and notes	11	-	35'000
Current portion of financial leases	11	6'172	5'991
Current portion of trade and other payables	15	439'208	399'257
Income tax payable		16'802	4'991
Deferred income		43'064	50'300
Provisions		14'394	22'198
Other current liabilities		2'025	1'705
Total current liabilities		**521'665**	**519'442**
Total liabilities		**3'415'813**	**3'511'242**
Total equity and liabilities		**4'089'425**	**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 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Income / (loss) before income taxes		**16'662**	**(60'786)**	**18'336**	**(35'103)**
Amortization		114'883	114'815	57'879	58'168
Depreciation		95'772	134'590	49'510	74'559
Gain on disposal of property, plant and		(194)	(3)	(195)	(3)
Movement in pension		(59)	855	(36)	475
Movement in provisions		(516)	(6'860)	(200)	(2'898)
Change in net working capital	14	(132'937)	(21'571)	(34'127)	(900)
Cash flow from operating activities before net financial items and tax		**93'611**	**161'040**	**91'167**	**94'298**
Financial income	10	(81'853)	(86'424)	(39'531)	(45'415)
Financial expense	10	162'510	165'090	78'005	85'307
Foreign currency (losses) / gain, net		(16'500)	23'950	(4'716)	13'514
Interest received		102'082	58'509	99'224	53'687
Interest paid		(183'856)	(65'954)	(175'422)	(60'987)
Corporate income and withholding tax paid		4'995	(9'111)	(1'555)	(7'055)
Total cash flow from operating activities		**80'989**	**247'100**	**47'172**	**133'349**
Purchase of property, plant and equipment		(89'535)	(84'847)	(43'896)	(51'752)
Purchase of intangible assets		(24'183)	(13'061)	(14'938)	(7'341)
Sale of property, plant and equipment		194	544	194	320
Total cash flow used in investing activities		**(113'524)**	**(97'364)**	**(58'640)**	**(58'773)**
Redemption of PECs		(27'786)	(20'531)	-	-
Repayments of long-term loans and notes		(35'000)	-	-	-
Repayments of capital leases		(2'060)	(1'836)	(716)	(357)
Total cash flow used in financing activities		**(64'846)**	**(22'367)**	**(716)**	**(357)**
Total cash flow		**(97'381)**	**127'369**	**(12'184)**	**74'219**
Cash and cash equivalents as of January 1		149'198	170'601	-	-
Cash and cash equivalents as of April 1		-	-	64'746	224'374
Foreign currency impact on cash		840	793	95	170
Cash and cash equivalents as of June 30		**52'657**	**298'763**	**52'657**	**298'763**

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	-	-	-	-	9'779	9'779
Other comprehensive income	-	-	-	4'437	(10'677)	(6'240)
Total comprehensive income	**-**	**-**	**-**	**4'437**	**(898)**	**3'539**
Redemption of PEC's	-	-	-	-	(27'786)	(27'786)
Equity attributable to the equity holders of the parent company as of June 30, 2014	**1'000**	**125'876**	**701'394**	**(8'259)**	**(146'399)**	**673'612**

	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	-	-	-	-	(66'456)	(66'456)
Other comprehensive income	-	-	-	12'278	2'926	15'204
Total comprehensive income	**-**	**-**	**-**	**12'278**	**(63'530)**	**(51'252)**
Prior year reclassification	-	-	-	-	407	407
Redemption of PEC's	-	-	(20'249)	-	(282)	(20'531)
Equity attributable to the equity holders of the parent company as of June 30, 2013	**1'000**	**125'876**	**701'394**	**(15'580)**	**(90'910)**	**721'780**

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 August 20, 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 six months ended June 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:

Currency	Balance sheet		Income statement and cash flow	
	June 30, 2014	December 31, 2013	June 30, 2014	June 30, 2013
Euro	1.2143	1.2274	1.2352	1.2367
US Dollar	0.8868	0.8929	0.9001	0.9427

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 changes disclosed in note 4.

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.

Activities CHFk

	Residential		Business		Wholesale[1)]		Head Office activities		Total	
	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited
Revenue										
External customers	707'937	668'514	155'898	165'966	117'460	136'091	14'385	13'759	995'680	984'330
Inter-segment revenue	-	-	-	-	28'973	5'257	-	-	28'973	5'257
Total	**707'937**	**668'514**	**155'898**	**165'966**	**146'433**	**141'348**	**14'385**	**13'759**	**1'024'653**	**989'587**
Transmission costs and costs of goods sold										
External customers	(191'950)	(162'374)	(51'228)	(56'625)	(100'659)	(91'014)	-	(92)	(343'837)	(310'105)
Inter-segment costs	(28'973)	(5'257)	-	-	-	-	-	-	(28'973)	(5'257)
Total	**(220'923)**	**(167'631)**	**(51'228)**	**(56'625)**	**(100'659)**	**(91'014)**	**-**	**(92)**	**(372'810)**	**(315'362)**
Other operating expenses	(111'408)	(119'593)	(18'171)	(18'974)	(2'245)	(2'244)	(130'828)	(145'599)	(262'652)	(286'410)
Wages, salaries and pension costs	(29'190)	(22'086)	(28'055)	(28'706)	(1'373)	(1'583)	(51'664)	(54'067)	(110'282)	(106'442)
Other income	234	14	-	-	-	-	12'890	11'396	13'124	11'410
Other expenses	(450)	-	-	-	-	-	(230)	(751)	(680)	(751)
EBITDA	**346'200**	**359'218**	**58'444**	**61'661**	**42'156**	**46'507**	**(155'447)**	**(175'354)**	**291'353**	**292'032**

[1)] Including hubbing revenue of CHFk 76'162 generated as of June 30, 2014 and CHFk 68'529 generated as of June 30, 2013

Activities CHFk

	Residential		Business		Wholesale[1]		Head Office activities		Total	
	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Revenue										
External customers	379'886	335'785	79'435	84'581	58'946	69'922	7'234	7'515	525'501	497'803
Inter-segment revenue	-	-	-	-	14'799	2'422	-	-	14'799	2'422
Total	**379'886**	**335'785**	**79'435**	**84'581**	**73'745**	**72'344**	**7'234**	**7'515**	**540'300**	**500'225**
Transmission costs and costs of goods sold										
External customers	(116'722)	(82'089)	(26'625)	(29'867)	(50'764)	(47'868)	-	(67)	(194'111)	(159'891)
Inter-segment costs	(14'799)	(2'422)	-	-	-	-	-	-	(14'799)	(2'422)
Total	**(131'521)**	**(84'511)**	**(26'625)**	**(29'867)**	**(50'764)**	**(47'868)**	**-**	**(67)**	**(208'910)**	**(162'313)**
Other operating expenses	(49'476)	(57'776)	(8'622)	(8'323)	(1'140)	(1'154)	(62'227)	(70'943)	(121'465)	(138'196)
Wages, salaries and pension costs	(14'419)	(11'302)	(14'280)	(14'256)	(691)	(791)	(26'299)	(27'790)	(55'689)	(54'139)
Other income	(19)	12	-	-	-	-	5'757	5'411	5'738	5'423
Other expenses	(450)	-	-	-	-	-	(150)	(211)	(600)	(211)
EBITDA	**184'001**	**182'208**	**29'908**	**32'135**	**21'150**	**22'531**	**(75'685)**	**(86'085)**	**159'374**	**150'789**

[1] Including hubbing revenue of CHFk 39'092 generated in Q2 2014 and CHFk 36'159 generated in Q2 2013

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

	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
EBITDA from reportable segments	291'353	292'032	159'374	150'789
Unallocated:				
Amortization	(114'883)	(114'815)	(57'879)	(58'168)
Depreciation	(95'772)	(134'590)	(49'510)	(74'559)
Net financial items	(64'036)	(103'413)	(33'649)	(53'165)
Loss before income taxes	**16'662**	**(60'786)**	**18'336**	**(35'103)**

Note 6 Revenue

CHFk

	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Mobile services	637'483	612'876	346'199	309'329
Landline services	255'617	274'355	128'070	139'336
thereof hubbing	*76'162*	*68'529*	*39'092*	*36'159*
Landline internet	102'580	97'099	51'232	49'138
Total	**995'680**	**984'330**	**525'501**	**497'803**

	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Sales of goods [1)]	117'628	71'202	83'640	34'343
Sales of services	878'052	913'128	441'861	463'460
Total	**995'680**	**984'330**	**525'501**	**497'803**

[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 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Early termination fees	7'041	8'479	3'511	3'787
Sub-leases	2'217	2'368	1'061	1'209
Aperiodic settlements of charges for access services calculated using the prices of the Swiss regulator	2'295	-	695	-
Other	1'571	563	471	427
Total	**13'124**	**11'410**	**5'738**	**5'423**

Other expenses	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Restructuring expenses	(80)	(540)	(80)	-
Non deductible Luxembourg VAT	(343)	(16)	(343)	(16)
Other	(257)	(195)	(177)	(195)
Total	**(680)**	**(751)**	**(600)**	**(211)**

Note 8 Depreciation and amortization

Depreciation and amortization recorded during the six-month period ending June 30, 2014 decreased year-over-year from CHF 249.4 million to CHF 210.7 million. The higher depreciation and amortization during the six-months in 2013 was primarily driven by non-recurring write-offs of CHF 39.2 million related to the replacement of the mobile radio network with multi standard radio equipment as of June 30, 2013.

Note 9 Equity

CHFk

	Number of shares	Nominal value (CHF)	June 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.

PIK toggle note interest payment

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..

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.

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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 - June 30, 2014 Unaudited Total
Income					
Cash and cash equivalents	10	-	10	840	850
Financial liabilities measured at amortized cost	-	-	-	15'783	15'783
Cash flow hedges and economic hedges	56'070	-	56'070	-	56'070
Embedded derivatives [1]	-	25'115	25'115	-	25'115
Other	658	-	658	-	658
Total income	**56'738**	**25'115**	**81'853**	**16'623**	**98'476**
Expenses					
Financial liabilities measured at amortized cost	(84'316)	-	(84'316)	-	(84'316)
Cash flow hedges and economic hedges	(56'740)	(14'730)	(71'470)	-	(71'470)
Other	(6'724)	-	(6'724)	(2)	(6'726)
Total expenses	**(147'780)**	**(14'730)**	**(162'510)**	**(2)**	**(162'512)**
Net financial items	**(91'042)**	**10'385**	**(80'657)**	**16'621**	**(64'036)**

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	January 1 - June 30, 2013 Unaudited Total
Income					
Cash and cash equivalents	319	-	319	793	1'112
Cash flow hedges and economic hedges	56'633	28'959	85'592	-	85'592
Interest rate derivatives	9	439	448	-	448
Embedded derivatives [1]	-	65	65	-	65
Other	-	-	-	25	25
Total income	**56'961**	**29'463**	**86'424**	**818**	**87'242**
Expenses					
Financial liabilities measured at amortized cost	(89'269)	-	(89'269)	(25'565)	(114'834)
Cash flow hedges and economic hedges	(56'736)	-	(56'736)	-	(56'736)
Interest rate derivatives	(388)	-	(388)	-	(388)
Embedded derivatives [1]	-	(12'168)	(12'168)	-	(12'168)
Other	(6'529)	-	(6'529)	-	(6'529)
Total expenses	**(152'922)**	**(12'168)**	**(165'090)**	**(25'565)**	**(190'655)**
Net financial items	**(95'961)**	**17'295**	**(78'666)**	**(24'747)**	**(103'413)**

[1] Embedded derivatives represent early redemption options related to financial instruments issued by the Group.

Net financial items (continued) CHFk

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	April 1 - June 30, 2014 Unaudited Total
Income					
Cash and cash equivalents	10	-	10	95	105
Financial liabilities measured at amortized cost	-	-	-	4'507	4'507
Cash flow hedges and economic hedges	28'025	-	28'025	-	28'025
Embedded derivatives [1)]	-	11'496	11'496	-	11'496
Other	-	-	-	-	-
Total income	**28'035**	**11'496**	**39'531**	**4'602**	**44'133**
Expenses					
Financial liabilities measured at amortized cost	(42'491)	-	(42'491)	-	(42'491)
Cash flow hedges and economic hedges	(28'386)	(3'643)	(32'029)	-	(32'029)
Other	(3'485)	-	(3'485)	223	(3'262)
Total expenses	**(74'362)**	**(3'643)**	**(78'005)**	**223**	**(77'782)**
Net financial items	**(46'327)**	**7'853**	**(38'474)**	**4'825**	**(33'649)**

	Interest	Fair value adjustments	Total financial income and (expenses) before foreign currency	Net foreign currency gains/(losses)	April 1 - June 30, 2013 Unaudited Total
Income					
Cash and cash equivalents	275	-	275	168	443
Cash flow hedges and economic hedges	28'363	16'479	44'842	-	44'842
Interest rate derivatives	6	227	233	-	233
Embedded derivatives [1)]	-	65	65	-	65
Other	-	-	-	25	25
Total income	**28'644**	**16'771**	**45'415**	**193**	**45'608**
Expenses					
Financial liabilities measured at amortized cost	(45'057)	-	(45'057)	(14'143)	(59'200)
Cash flow hedges and economic hedges	(28'387)	-	(28'387)	-	(28'387)
Interest rate derivatives	(199)	-	(199)	-	(199)
Embedded derivatives [1)]	-	(8'401)	(8'401)	-	(8'401)
Other	(3'263)	-	(3'263)	677	(2'586)
Total expenses	**(76'906)**	**(8'401)**	**(85'307)**	**(13'466)**	**(98'773)**
Net financial items	**(48'262)**	**8'370**	**(39'892)**	**(13'273)**	**(53'165)**

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

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 repayments	June 30, 2014 Carrying value Unaudited	December 31, 2013 Carrying value Unaudited
Floating rate						
Floating rate notes - EUR	200'570	2'216	(2'716)	-	200'070	201'877
Revolving credit facility - CHF	95'000	-	-	(35'000)	60'000	95'000
Fixed rate						
Senior secured notes - CHF [2]	300'000	-	(7'016)	-	292'984	292'111
Senior secured notes - CHF [3]	370'000	-	(5'020)	-	364'980	364'317
Senior secured notes - EUR [4]	658'641	(56'353)	(7'046)	-	595'242	600'792
Senior notes - EUR	755'942	(74'726)	(19'097)	-	662'119	667'547
Total loans and notes	**2'380'153**	**(128'863)**	**(40'895)**	**(35'000)**	**2'175'395**	**2'221'644**
Other						
Debt relating to finance leases	-	-	-	(2'060)	33'385	35'445
Total borrowings	**-**	**-**	**-**	**(37'060)**	**2'208'780**	**2'257'089**
Of which current					6'172	40'991
Of which non-current					2'202'608	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.

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 June 30, 2014, showed that the Group was in compliance with the applicable financial covenants.

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:

	June 30, 2014 Notional amount	December 31, 2013 Notional amount	June 30, 2014 Fair value assets [4]	June 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	-	(132'741)	-	(124'968)
Total cash flow hedges	**1'256'198**	**1'256'198**	**-**	**(132'741)**	**-**	**(124'968)**
Cross currency interest rate swaps – fixed rate borrowings [1]	161'878	161'878	-	(10'437)	-	(9'165)
Cross currency interest rate swaps – variable rate borrowings [2]	200'567	200'567	1'766	-	3'014	-
Total economic hedges	**362'445**	**362'445**	**1'766**	**(10'437)**	**3'014**	**(9'165)**
Interest rate swap[5]	-	100'000	-	-	-	-
Total interest rate derivatives	**-**	**100'000**	**-**	-	**-**	**-**
Embedded derivatives [3]	-	-	47'826	-	22'712	-
Total embedded derivatives	-	-	**47'826**	**-**	**22'712**	**-**
Total derivatives	**-**	**-**	**49'592**	**(143'178)**	**25'726**	**(134'133)**

[1] Cross currency interest rate swaps related to senior secured notes EUR 125 million
[2] Cross currency interest rate swaps related to senior secured floating rate notes EUR 167 million
[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

	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 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	(12'209)	21'828	(3'476)	11'670
Cash flow hedges – ineffectiveness	-	121	-	1
Economic hedges	(2'521)	7'010	(167)	4'808
Total impact of hedging derivatives in the statement of income (note 10)	**(14'730)**	**28'959**	**(3'643)**	**16'479**
Impact of interest rate derivatives in the statement of income (note 10)	-	439	-	227
Impact of embedded derivatives in the statement of income (note 10)	25'115	(12'103)	11'496	(8'336)
Total impact of derivatives in the statement of income (note 10)	**10'385**	**17'295**	**7'853**	**8'370**

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	June 30, 2014 Fair value	June 30, 2014 Carrying value	December 31, 2013 Fair value	December 31, 2013 Carrying value
Cash[1)]	Amortized cost	52'657	52'657	149'198	149'198
Trade and other receivables[1)]	Amortized cost	299'323	299'323	279'674	279'674
Other non-current assets[1)]	Amortized cost	153	153	200	200
Derivatives - held for trading[2)]	Fair value - Level 2	49'592	49'592	25'726	25'726
Total financial assets		**401'725**	**401'725**	**454'798**	**454'798**
Trade payables and other payables[1)]	Amortized cost	(547'587)	(547'587)	(606'677)	(606'677)
Loans and notes	Amortized cost	(2'266'646)	(2'175'395)	(2'308'037)	(2'186'644)
Financial leases[1)]	Amortized cost	(33'385)	(33'385)	(35'445)	(35'445)
Derivatives - held for trading[2)]	Fair value - Level 2	(10'437)	(10'437)	(9'165)	(9'165)
Derivatives - held for hedging[2)]	Fair value - Level 2	(132'741)	(132'741)	(124'968)	(124'968)
Other current liabilities[1)]	Amortized cost	(2'025)	(2'025)	(1'705)	(1'705)
Total financial liabilities		**(2'992'821)**	**(2'901'570)**	**(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 six- month period ended June 30, 2014.

Note 14 Change in net working capital

CHFk

	January 1 - June 30, 2014 Unaudited	January 1 - June 30, 2013 Unaudited	April 1 - June 30, 2014 Unaudited	April 1 - June 30, 2013 Unaudited
Change in inventories	(8'027)	(5'023)	4'355	(3'804)
Change in trade and other receivables	(33'172)	8'272	(16'701)	(1'246)
Change in trade and other payables	(71'179)	(14'334)	(35'263)	(1'192)
Change in other items, net	(20'559)	(10'486)	13'482	5'342
Total	**(132'937)**	**(21'571)**	**(34'127)**	**(900)**

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 17).

Note 15 Other balance sheet items

Non-current trade and other payables
This financial statement item is related to the acquisition of the spectrum licenses in 2012 and consists of the 3rd installments due in 2016. In June 2014, the 2nd installment of CHF 103 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 16 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 half year of 2014)

Note 17 Contractual commitments

As of June 30, 2014 Sunrise Communications AG has entered into multiple supply contracts with a minimal financial commitment of CHF 144.0 million.

Note 18 Financial risk management

We did not identify any material financial risks in Q2 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 19 Events after the balance sheet date

Revolving credit facility
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.

Cross-currency swap
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.

Change in Management Board of Sunrise Communications AG
On August 18th, 2014, Sunrise announced that Markus Naef has been appointed as Chief Commercial Officer Business (CCO) as from September 1st, 2014. Hans Jörg Denzler will fulfill the position of Chief Business Development Officer (CBDO) on the Management Board.