Sunrise

Sunrise Communications Group AG

Q2 2018 financial results – 23 August 2018

Agenda

1 Summary & operational update — O. Swantee (CEO)
2 Financials — A. Krause (CFO)
3 Conclusion — O. Swantee (CEO)
4 Q & A

Summary
Q2 confirms strong start to the year – raising FY'18 guidance

- **Customer** growth momentum in key focus areas continued
  - Strong growth in mobile postpaid (+7.7% YoY), internet (+11.0% YoY) and TV (+22.3%)
  - Supported by continued B2B customer wins (Q2: McDonald's, BERNMOBIL and Sympany) and continuation of solid go-to-market in Consumers
- **Revenue** up +2.0% [1] YoY; Service revenue up +2.9% [1] with customer growth momentum more than offsetting lower ARPUs
- **Gross profit** growth of +2.2% [1] YoY; B2B transition on-track with GP stabilization confirmed
- Adj. **EBITDA** down -3.0% [1]; up +2.8% when excl. higher network service fees after tower disposal
  - Maintained Q1 run rate (+2.7% excl. tower), with gross profit growth continuously being partly reinvested into operational momentum
- Raising and tightening adj. EBITDA **guidance** to CHF 595-605m, supported by strong start to the year and incorporation of IFRS 15
- Renewed **landline access** agreement with Swisscom
- Q2'18 in this presentation is based on numbers excl. **IFRS 15** impact, except where indicated differently; IFRS 15 impact is CHF +0.2m (CHF +1.8m) on Q2'18 revenue (adj. EBITDA)

[1] Incl. IFRS 15: Q2 revenue +2.1%, service revenue +2.8%; GP +1.9%, adj EBITDA -1.8%, adj. EBITDA (excl. tower) +4.0% YoY

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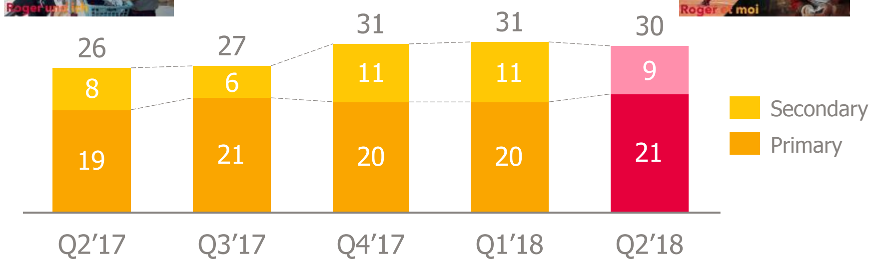
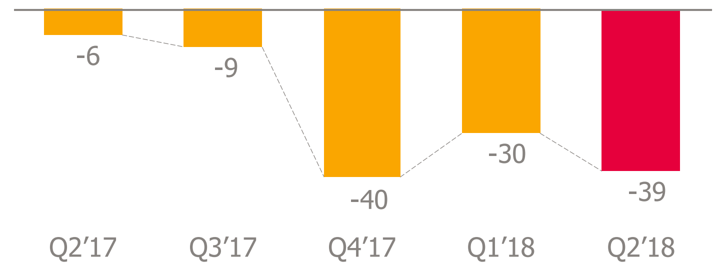
Strong postpaid customer growth continues

Postpaid mobile net adds ('000)



Prepaid mobile net adds ('000)



- **Postpaid** driven by primary SIMs, leading to 1.66m total subscriptions (+7.7% YoY)
- Primary SIMs driven by B2B, Sunrise ONE, solid contribution of budget brand 'yallo' via online channel, strong network quality, broad product offering with attractive price performance ratio, and diversified distribution channels
- Secondary data SIMs supported by demand for mobile broadband and Apple watch

- **Prepaid** with ongoing pre- to postpaid migration, leading to 687k total subscriptions
- Steady development at Sunrise brand; Q2 impacted by ethnic segment where strengthened focus on value management was applied

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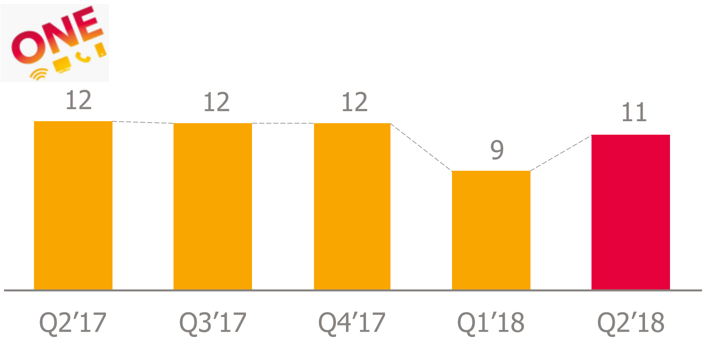
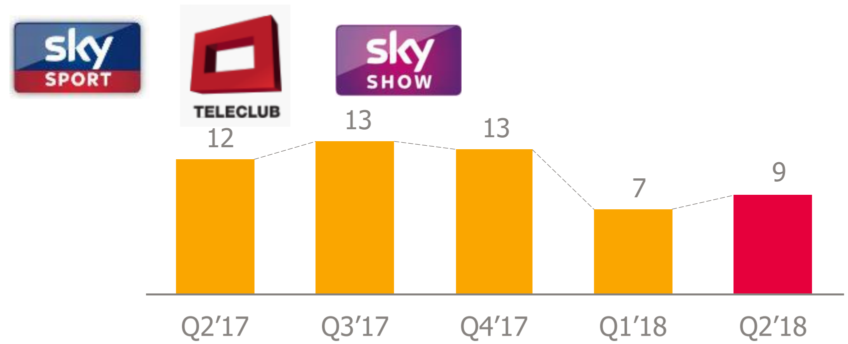
Growing internet and TV customer base

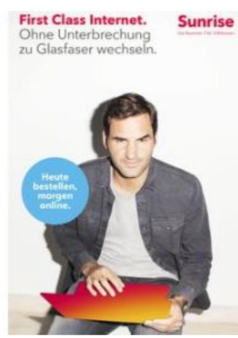
Internet net adds ('000)



TV net adds ('000)



- **Internet continues to grow customer base**: Sunrise now has 442k internet subscriptions
- Converged tariff 'Sunrise ONE' supported growth: 60k or 38% of billed 4P customer base already on Sunrise ONE (Q1: 54k or 36%)
- Q2 with dedicated fibre promotions and increase in fibre net adds
- Increased focus on service excellence including hassle-free switching
- 'More for more' move [1] in mid 2018



- **TV with solid growth**: Sunrise now has 229k TV subscriptions
- Supported by attractive Sunrise TV offering and improved TV sports content with Sky and Teleclub
- 28% YoY increase in 4P billed customer base

[1] Internet Start tariff moving from CHF45 (40Mbit/s) to CHF50 (50Mbit/s); Internet Comfort moving from CHF65 (100Mbit/s) to CHF70 (200Mbit/s); getting implemented for new (July) and existing (August) customers; customers can choose to opt-out at existing terms

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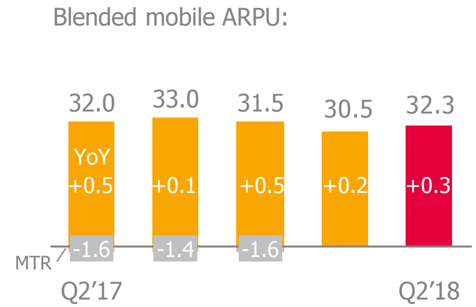
ARPU trends continuing

Incl. IFRS 15 [1)]

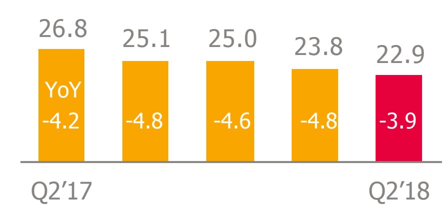
Blended mobile ARPU (CHF)

- **Blended mobile** ARPU up CHF +0.3 YoY due to growing postpaid subscribers, which have a higher ARPU than decreasing prepaid subscribers
- **Postpaid** CHF -0.8 YoY (Q1 CHF -1.0 YoY) mainly due to 2nd SIM dilution; Q1’18 tariff refresh ARPU neutral
- **Prepaid** decrease accelerated to CHF -1.6 (Q1: CHF -0.9 YoY): continued migration of high value prepaid customers to postpaid, increased OTT impact at ethnic brands and recent product launches (e.g. 24h unlimited offer)



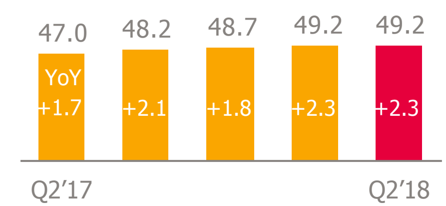
Landline voice ARPU (CHF)

- **Landline voice** down CHF -3.9 YoY due to migration to flat rate packages and fixed to mobile/OTT migration resulting in reduced voice usage



Blended internet & TV ARPU (CHF)

- **Blended internet & TV** up CHF +2.3 YoY driven by TV customer growth



[1)] Q2’18 ARPUs excl. IFRS 15: Blended mobile: CHF 32.3; landline voice CHF 22.9; blended internet & TV: CHF 49.2

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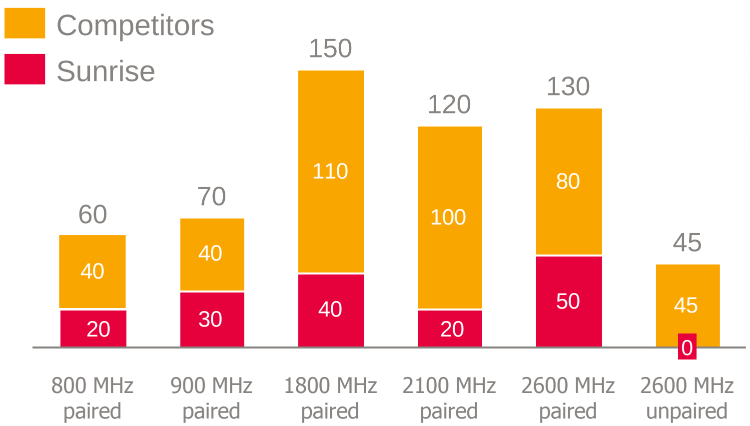
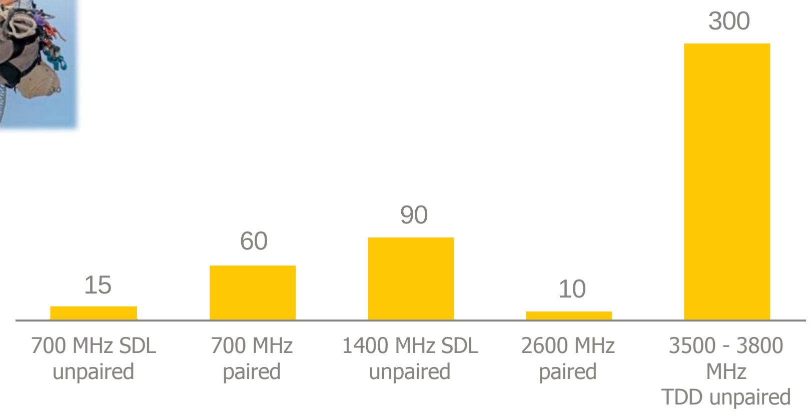
Spectrum auction scheduled for 2019

Spectrum in place (MHz)



Incremental spectrum to be allocated (MHz)



* Paired (FDD)	2xMHz (UL & DL)
Unpaired (TDD)	1xMHz (UL & DL)
SDL (supplementary DL)	1xMHz (DL)

- Acquired in 2012 - secured until 2028
- Sunrise's current spectrum provides an outstanding 2G to 4G+ coverage to Sunrise's 25% subscriber market share

- Auction expected in Jan 2019 based on clock auction format; 15 years duration; much spectrum within 3500 MHz while less within 700 MHz; spectrum important for 5G
- Reduced leverage after tower disposal gives flexibility for strategic investments
- 2018-20 dividend guidance of 4-6% annual dividend growth takes into account near-term cash flow volatility from spectrum

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Financials

A. Krause (CFO)

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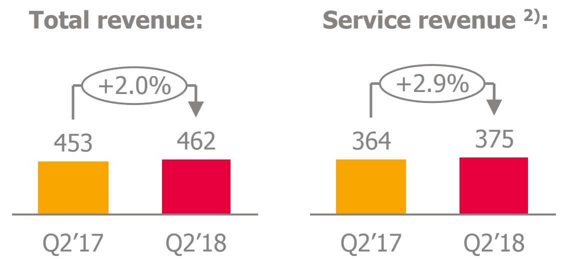
Financial Overview
excl. IFRS 15 [1)]

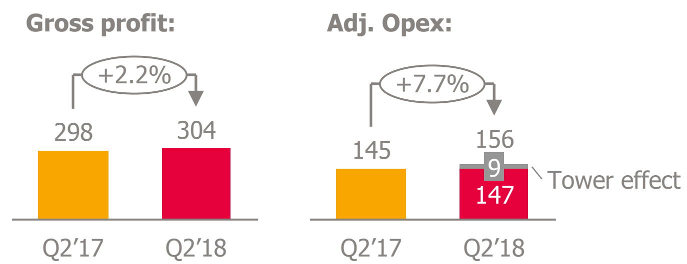
Revenue (CHFm)

- **Revenue up** +2.0% due to service revenue
- **Service revenue up** +2.9% driven by mobile postpaid and internet/TV; Q2 run rate roughly in-line with Q1 (+3.0%)



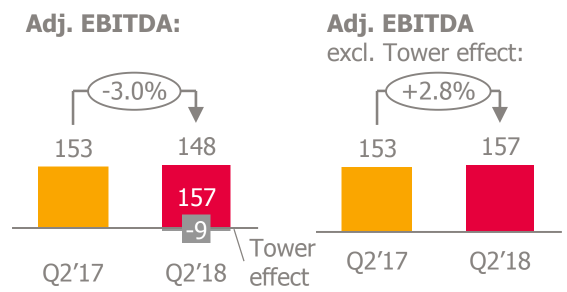
Gross profit & adj. Opex (CHFm)

- **Gross profit** growth of +2.2% (Q1: +2.9%), service gross margin slightly down due to mix effects
- Adj. Opex up +7.7% due to tower disposal in Aug 2017 leading to increased network service fees; adj. Opex excl. tower up +1.6% (Q1: +3.1%)



Adj. EBITDA (CHFm)

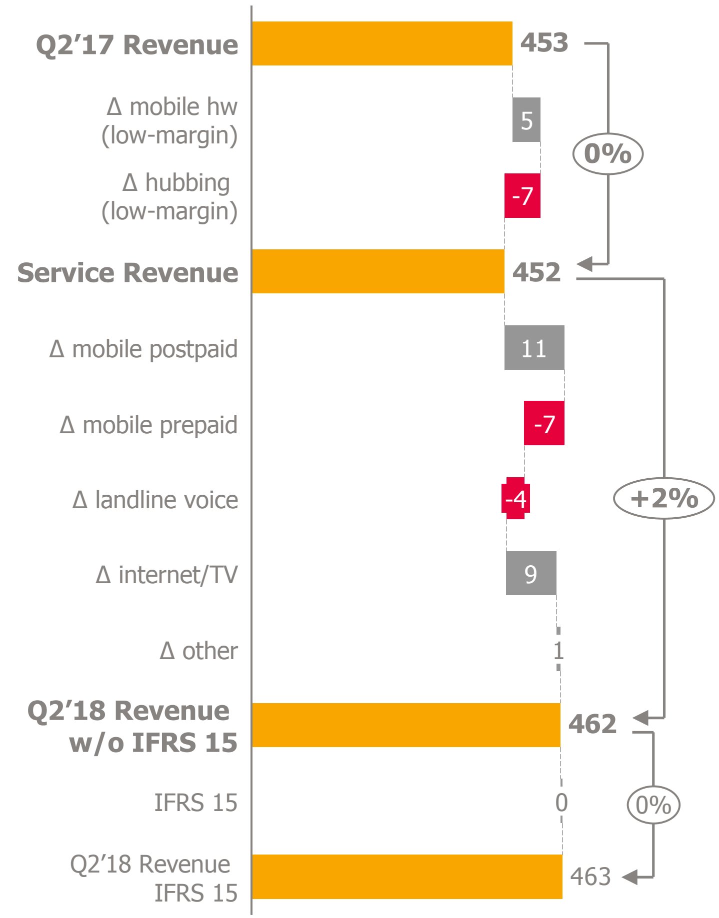
- **Adj. EBITDA down** -3.0%
- Adj. EBITDA up +2.8% (Q1: +2.7%) when excluding higher network service fees after tower sale, driven by service revenue growth



[1)] Incl. IFRS 15: Q2 revenue +2.1%, service revenue +2.8%; GP +1.9%, adj EBITDA -1.8%, adj. EBITDA (excl. tower) +4.0% YoY
[2)] Service revenue is total revenue excluding hubbing and mobile hardware revenues, which are low margin

Revenue driven by postpaid, internet and TV

Revenue bridge (CHFm)



- **Mobile hardware**: depends on handset innovation, launches and pricing; variations across quarters lead to revenue volatility
- **Hubbing**: international trading business which is volatile by nature
- **Postpaid**: strong customer growth driven by investments into quality, offsetting lower ARPU
- **Prepaid**: pre- to postpaid migration and shift to OTT; prepaid accounting for ~5% of total revenue
- **Landline voice**: fixed to mobile substitution, migration to flat rates, and OTT; landline voice accounting for~7% of total revenue
- **Internet/TV**: strong customer growth
- **Other:** includes lower-margin areas such as volatile B2B equipment sales and wholesale

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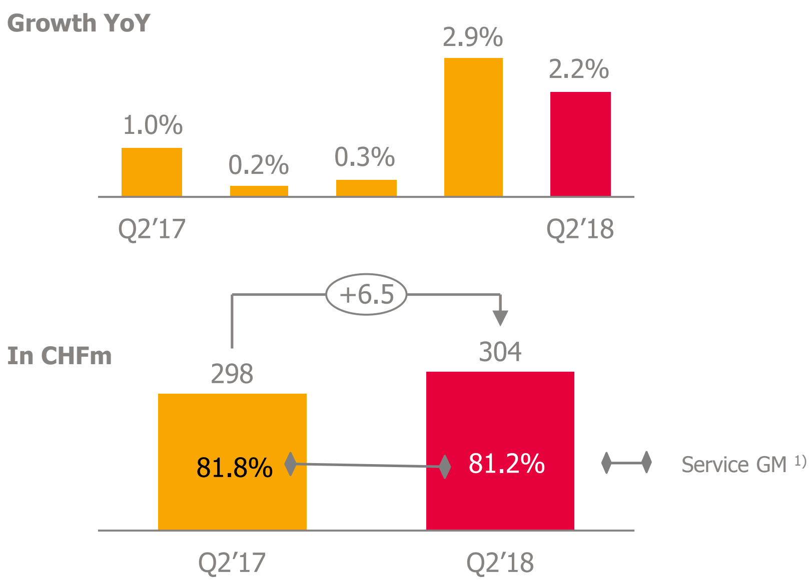
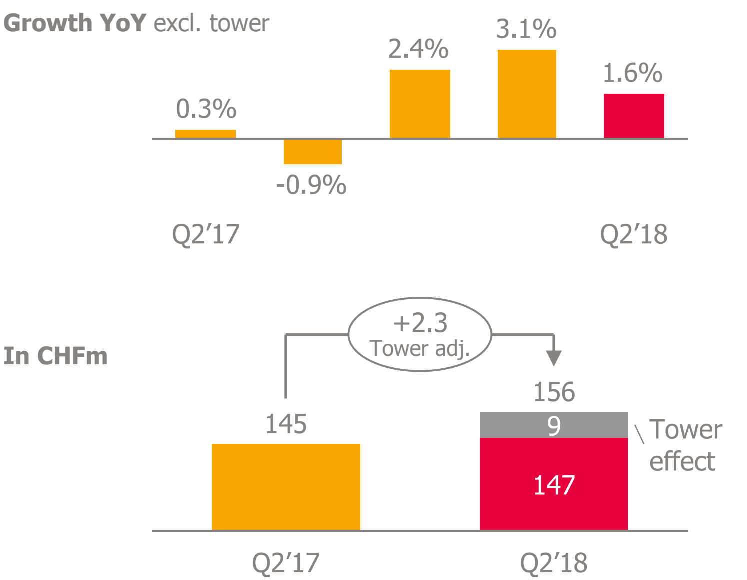
Gross profit growth partly reinvested into operational momentum

Gross profit



Adjusted Opex



- **Gross profit +2.2%** in Q2, driven by service revenue growth
- Service gross margin [1] slightly down: Positive impacts of MTR and utility access deals offset by revenue mix effects

- Adj. **Opex up** to CHF 156m, mainly due to tower deconsolidation, following disposal in Aug 2017, leading to higher network service fees (CHF 9m)
- Costs excl. tower up to CHF 147m: cost savings reinvested into operational momentum, such as commercial expenses and front line (e.g. shops, B2B staff, B2B support center)
- Q3'18 to be impacted by tougher Opex comps [2]

[1] Service gross margin is calculated as total gross profit divided by service revenue (i.e. revenue excluding low-margin hardware and hubbing revenue)
[2] Q3'17 had a slowdown in commercial expenses, which is not expected in Q3'18

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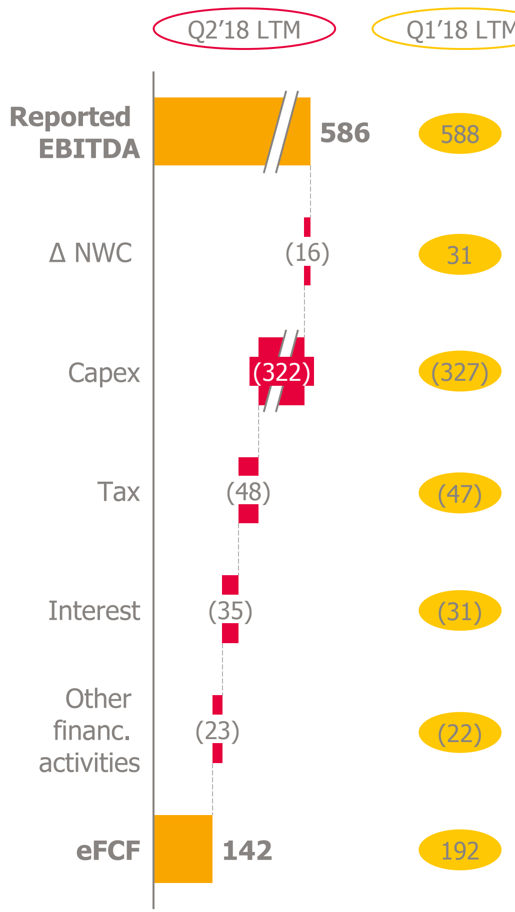
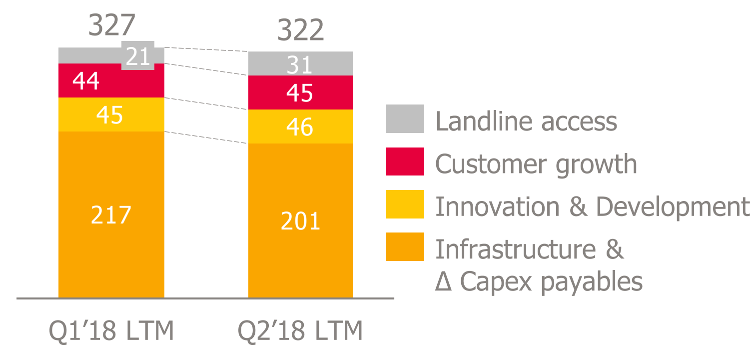
eFCF driven by NWC as expected

Equity Free Cash Flow (CHFm) 1)



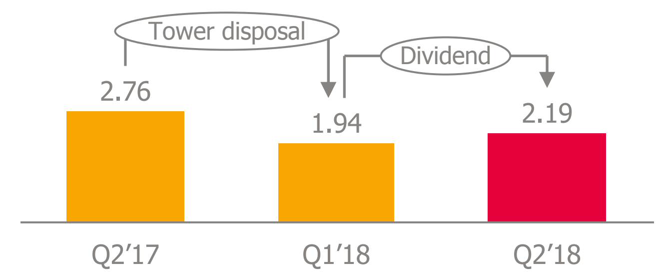
- **EBITDA** impacted by tower disposal, largely offset by underlying growth
- **NWC** impacted by settlement of accrued roaming discounts, as highlighted at Q4'17 results
- **Capex** in-line with company expectation
- **Interest** with different timing of payments
- **Other** including installment of 2014 Swisscom access deal payment

Capex (CHFm)



Leverage ratio 1)

Net debt/adj. EBITDA



- Leverage ratio slightly up due to dividend payment
- Reduced leverage after tower disposal gives flexibility for strategic investments e.g. into landline access and spectrum, while still paying progressive dividends

1) IFRS 15 has no impact on total eFCF as the impact on EBITDA is offset by the impact on NWC; eFCF chart: LTM EBITDA and ΔNWC are based on IFRS 15 for 2018 and are without IFRS 15 for 2017 quarters; Leverage ratio: LTM EBITDA is based on IFRS 15 for 2018 and without IFRS 15 for 2017 quarters; Leverage ratio is pro forma taking into account annualized network service fees related to tower disposal

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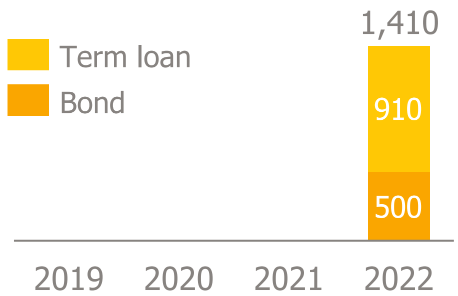
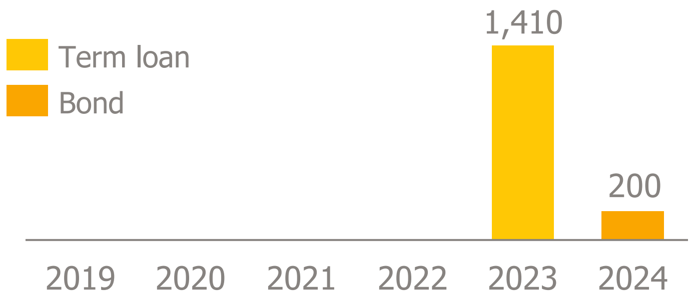
Successful debt refinancing in Q2

Maturity profile (CHFm) [1)]

As per 31 Mar 2018



As per 30 Jun 2018



- **Extended maturity** profile
- Weighted average **cost of debt reduced** from 1.9% to 1.5% based on leverage of 2.0-2.5x [2)]
- Expecting slightly lower underlying annual cash interest expenses; expecting CHF 35m in 2018
- Refinancing is **net debt neutral** (pre transaction costs)
- Increased gross debt used for general corporate purposes, including landline upfront investments and spectrum

[1)] Excluding CHF 200m undrawn revolving credit facility, where the maturity was extended from 2021 to 2023

[2)] Interest rate on Term Loan based on CHFLIBOR (capped at 0%) plus a leverage-dependent margin

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Renewed landline access agreement with Swisscom

Swisscom access renewal

Renewed commercial agreement for access to **FTTH** and **xDSL** at roughly similar economic terms:

- 3.5 years duration starting in Jan 2019
- Total **CHF 101m upfront** investment split over 2019 (CHF 61m) and 2020/21 (CHF 20m each)
- Upfront investment higher than in 2014 (CHF 74m) due to >40% higher volumes than 2014
- Annual low single digit **GP accretion** (CHFm)

Sunrise with diversified landline access

FTTH

swiss fibre net, SIG, ewz, iwb, swisscom

- Access via local utilities and Swisscom
- Expected **increasing share**, with Sunrise diversifying in urban areas to utility fibre

Copper/xDSL

swisscom, Sunrise

- Access via Swisscom; Sunrise LLU providing low speeds
- Expected **decreasing share** as customers migrate to FTTH or mobile broadband

MBB

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- Mid to long-term: **Increasingly apply** own mobile broadband (MBB) in rural/suburban areas, as speeds will increase (5G)

Customers per technology

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Conclusion

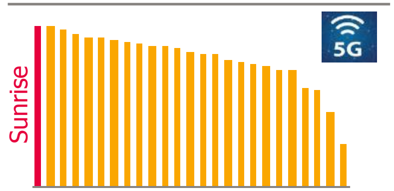
O. Swantee
CEO

Investing into 3 strategic growth priorities

connect OUTSTANDING

Network quality

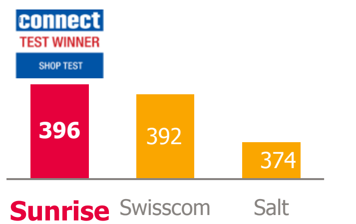
Leading European network quality [1]



- Outstanding mobile network with leading **dropped call ratios**, 30 Mbit/s average experienced **download speed**, and 99.9%/95.4% **LTE** population/geographic coverage covering 68% YoY data growth
- First **5G** antenna started live operations in mid 2018; spectrum auction in Jan 2019
- Landline access via FTTH, xDSL, and MBB; improved MBB proposition in Q2

Customer interface

Leading 'connect' shop test



- **No. 1** in 'connect' mobile **shop test** [2], supported by focus on NPS and ongoing shop refurbishment
- Targeted measures to improve propensity to call and customer onboarding journey in landline
- 'Melectronics' and 'Interdiscount' added to Yallo distribution channels; expanded Yallo in online

Innovative converged products

Drive convergence

- Q2 with solid demand for mobile tariffs, which were **refreshed** in Q1
- Internet tariffs with 'more for more' in mid 2018; further TV content improvement (e.g. Sky Show)
- **B2B** with launch of 'Cloud Mobile Device Management' (MDM); developed and further strengthened indirect sales organization in addition to own sales force; Q2 customer wins include McDonald's, BERNMOBIL and Sympany

[1] Source: P3 as per 24 November 2017; see FY'17 investor presentation for more details

[2] Source: Connect 07 2018

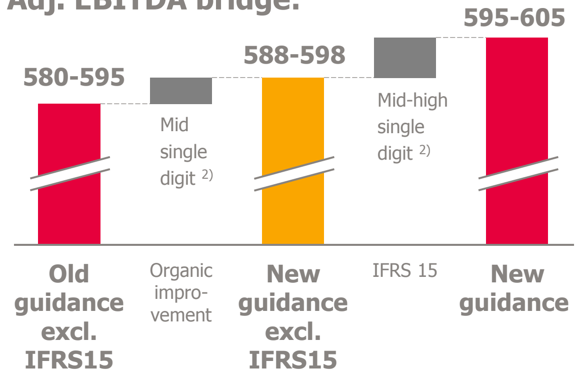
Q2 conclusion
Raising and tightening FY'18 EBITDA guidance

Customers	• Continued strong subscriber **growth** in mobile postpaid, internet and TV; supported by B2B
Revenue	• Service Revenue **growth** driven by customer momentum
Profitability	• Adj. EBITDA (excl. tower effect) **up** with GP growth partly reinvested into operational momentum; Q3 will be impacted by roaming promo and tougher Opex comps
Cash Flow	• Equity FCF as expected; reduced leverage after tower disposal gives **flexibility** for strategic investments

Revised FY'18 guidance

- Revenue: CHF 1,830-1,870m
- **New adj. EBITDA**: CHF 595-605m
- Capex [1]: CHF 283-323m
- Dividend: CHF 4.15-4.25

Adj. EBITDA bridge:



[1] Includes CHF 56m upfront investments for fibre access at SFN, IWB and SIG
[2] Based on mid-end of guidance range

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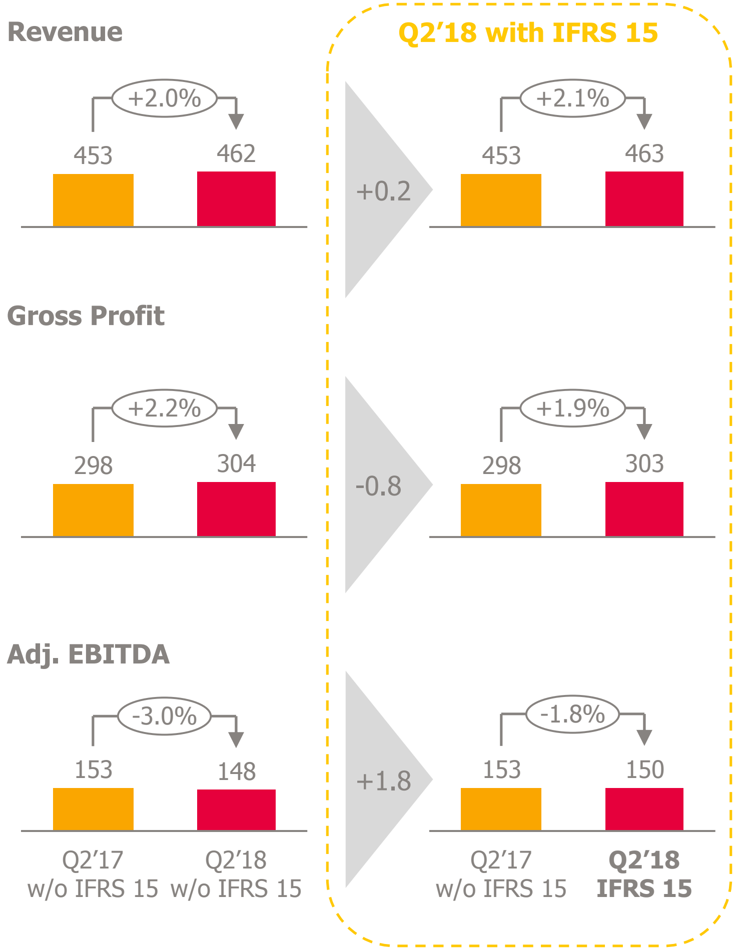
Q & A

Appendix

IFRS 15 update

Q2'18 without and with IFRS 15



Expected FY'18 impact

- At Sunrise, the 2018 impact of IFRS 15 is mainly related to the capitalization of costs to obtain a contract, resulting in a **positive Opex effect**
- The **2018 adj. EBITDA upside** from IFRS 15 is expected to be mid to high-single digit (CHFm); it will be offset by a low to mid single-digit YoY headwind in 2019 and 2020

IFRS 15 reporting at Sunrise

- **Q2'18** in this presentation is based on numbers **without IFRS 15**, except where indicated differently
- IFRS report focuses primarily on IFRS 15; complementary it provides Q2'18 numbers under IAS 18 in the 'operational and financial review'

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Income Statement

P&L (CHFm)	Q2 2018 incl. IFRS 15	Q2 2018 excl. IFRS 15	Q2 2017 excl. IFRS 15
Mobile services	**315**	**315**	**303**
thereof mobile postpaid	*203*	*203*	*192*
thereof mobile prepaid	*25*	*25*	*32*
thereof hardware	*65*	*65*	*60*
Landline services	**79**	**79**	**91**
thereof landline voice	*31*	*31*	*35*
thereof hubbing	*23*	*23*	*30*
Landline internet & TV	**69**	**69**	**60**
Total revenue	**463**	**462**	**453**
% YoY growth	*2.1%*	*2.0%*	*(3.9%)*
Service revenue (total excl. hubbing & hardware)	374	375	364
% YoY growth	*2.8%*	*2.9%*	*(3.4%)*
COGS	(159)	(158)	(156)
Gross profit	**303**	**304**	**298**
% YoY growth	*1.9%*	*2.2%*	*1.0%*
% margin	*65.6%*	*65.8%*	*65.7%*
Opex	(156)	(159)	(149)
EBITDA	**147**	**145**	**149**
% YoY growth	*(1.4%)*	*(2.6%)*	*0.7%*
Adjusted EBITDA	**150**	**148**	**153**
% YoY growth	*(1.8%)*	*(3.0%)*	*1.7%*
% margin	*32.4%*	*32.0%*	*33.7%*
% margin (excluding hubbing revenues)	*34.1%*	*33.7%*	*36.0%*
Depreciation and amortization	(108)	(108)	(102)
% YoY growth	*(5.5%)*	*(5.5%)*	*13.3%*
Operating income	**39**	**38**	**47**
Net financial items[1]	(4)	(4)	(12)
Income taxes	(11)	(11)	(8)
Net income	**24**	**22**	**27**
Thereof (before tax impact):			
PPA effect	(32)	(32)	(32)

[1] To comply with the IFRS 9 requirements regarding debt modification adjustment, a financial gain of CHF 14 million was recognized in Q2 2018; the gain is equal to the difference between the present value of the cash flows under the original and modified terms discounted by the original effective interest rate

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Cash Flow Statement

Cash Flow (CHFm)	Q2 2018 incl. IFRS 15	Q2 2018 excl. IFRS 15	Q2 2017 excl. IFRS 15
EBITDA	**147**	**145**	**149**
Change in net working capital	(15)	(13)	32
Movement in pension and provisions	1	1	0
Interest paid	(12)	(12)	(8)
Corporate income and withholding tax paid	(5)	(5)	(5)
Cash flow from operating activities	**115**	**115**	**169**
Capex	(82)	(82)	(86)
% Capex-to-revenue	*17.6%*	*17.7%*	*19.1%*
Sales of assets	0	0	0
Cash flow after investing activities	**34**	**34**	**83**
Repayment other financing items	(0)	(0)	(0)
Proceeds/(repayments) from debt, net	186	186	(3)
Payment of dividend	(180)	(180)	(150)
Total cash flow	**39**	**39**	**(71)**
Cash and cash equivalents as of BoP	281	281	242
Foreign currency impact on cash	0	0	0
Cash and cash equivalents as of June, 30	**320**	**320**	**172**

Equity Free Cash Flow CHF million	Q2 2018 incl. IFRS 15	Q2 2018 excl. IFRS 15	Q2 2017 excl. IFRS 15
EBITDA	**147**	**145**	**149**
Change in net working capital	(15)	(13)	32
Interest paid	(12)	(12)	(8)
Corporate income and withholding tax paid	(5)	(5)	(5)
Capex	(82)	(82)	(86)
Other financing activities	(0)	(0)	(0)
Equity free cash flow	**33**	**33**	**82**

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Q2 leverage up due to dividend payment

Net debt (CHFm)	June 30, 2018	March 31, 2018	December 31, 2017	June 30, 2017
Senior Secured Notes issued February 2015	-	500	500	500
Term loan B	1'410	910	910	1'360
Senior Secured Notes issued June 2018	200	-	-	-
Total cash-pay borrowings	**1'610**	**1'410**	**1'410**	**1'860**
Financial lease	7	8	9	12
Total debt	**1'617**	**1'418**	**1'419**	**1'872**
Cash & Cash Equivalents	(320)	(281)	(272)	(172)
Net debt	**1'297**	**1'137**	**1'147**	**1'700**
Net debt / pro forma adj. EBITDA [1)]	**2.2x**	**1.9x**	**2.0x**	**2.8x**

[1)] Based on pro forma view, taking into account annualized network service fees related to tower disposal

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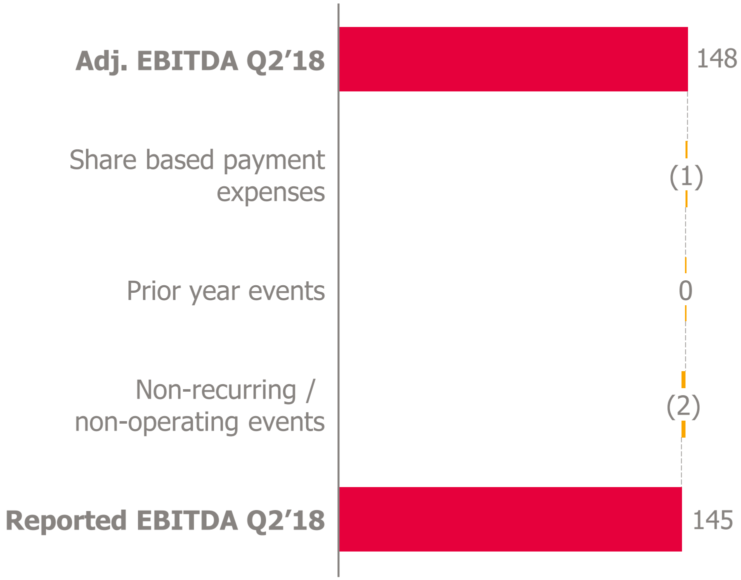
Bridge adjusted to reported EBITDA

Q2'18 EBITDA bridge



- Share-based payment provisions for multi-year compensation plans
- Prior year related events mainly include adjustments of provisions/accruals based on newly available information
- Non-recurring / non-operating events mainly represent costs for one-time expenses

Thank you

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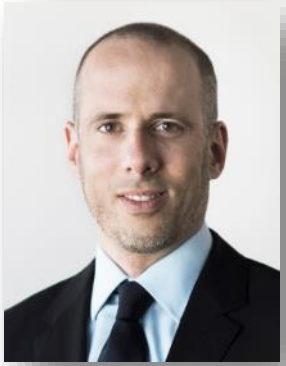

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