Active Ownership Corporation S.à r.l.
17 rue de Flaxweiler | L-6776 Grevenmacher

Active Ownership

Attn: Dr. Kurer, Mr. Swantee
Sunrise Communications AG
Thurgauerstrasse 101B / P.O. Box
8050 Zurich

Grevenmacher, 1 November, 2019

Dear Dr. Kurer, Mr. Swantee:

We are writing to you on behalf of the Active Ownership Fund SICAV-FIS SCS, managed by Active Ownership Corporation S.à r.l. ("*AOC*" or "*we*"). As you are aware, we are a significant shareholder of Sunrise Communications AG ("*Sunrise*" or the "*Company*").

Before investing in Sunrise, we carried out an extensive outside-in due diligence of the Company to fully understand its strength and weaknesses, the market dynamics and risks and opportunities from in-market consolidation. Following Sunrise's deal announcement regarding UPC Switzerland we extended our analyses to incorporate this transaction. As you know, we believe that the Swiss market is one of the most attractive telecommunication markets in Europe with Sunrise being excellently positioned as a strong #2 player. Over the last years you and your team have done an outstanding job of constantly gaining market share. As a result of our in-depth analysis, we hold the view that Sunrise's standalone potential has a superior risk/return profile compared to buying a business undergoing a deep and complex restructuring with negative structural growth trends. Following the controversies of the past months, it is now important that management and all employees leave the UPC transaction behind and fully focus on the future.

Whilst we are pleased the UPC transaction will not take place as planned by Management and the Board, we find it deeply troubling that the EGM was cancelled the day before it was scheduled, denying the shareholders a vote on the matter. Moreover, even though you had clear indications that the majority of shareholders voted, or expressed their firm intention to vote, against the proposed transaction, you amended the purchase agreement on the same day (22 October) allowing the seller Liberty Global to request another EGM until 11 November – to be held no later than 30 calendar days after receipt of such request. In other words: such new EGM would take place only weeks after the cancellation of the EGM convened for 23 October. This bold move leaves us speechless – in particular as – to our knowledge – you have not got anything in return from Liberty Global (such as a cancellation or reduction of the CHF 50m break fee). That members of the Board apparently continue to pursue the UPC transaction is a slap in the face of shareholders and anyone advocating or trusting in proper corporate governance. Just to confirm what we thought is by now common knowledge: Mr. Swantee's view (as expressed to

Bloomberg[1]) that the deal is dead is shared by us – and as we understand by a majority of the shareholders. The Board would now be well advised to restore confidence. A good start to overcome the alienation between the Board and the shareholder base would be to come to terms with the recent developments and work through it.

Public statements by Sunrise CFO André Krause approx. a week before the EGM alleging that almost all shareholders are in support of the deal[2] were apparently wrong and come, in our view, close to market manipulation. A question that needs to be raised now is why the Board realised only 24h before the EGM "*that the clear majority of shareholders who have registered their shares to vote at the EGM do not support the capital increase*".[3] Assuming investors did not change their opinion last minute, the Board has – deliberately – acted against the will of the shareholders in the period leading up to the EGM, resulting in significant broken deal costs to be borne by shareholders. We also question how the Board was able to conclude that "*motions for removal of Peter Kurer and Jens Jesper Ovesen will not be supported by a majority of shareholders who have registered their shares to vote at the EGM*".[4] From a governance perspective cancelling a shareholder's meeting for questionable reasons and at such short notice is simply not acceptable.

To remedy the current situation, AOC demands from the Board to immediately action the following items:

- **Sunrise is to terminate the SPA with UPC even if this triggers the pay-out of the break-up fee.**
- **Mr. Kurer is to resign from the Board immediately as he promised us to do in our last phone call.**
- **A detailed list of all costs incurred to date and associated with the transaction is to be published. This should encompass costs for roadshows, banking / financing / advisory fees, EGM set-up fees, other transaction specific payments and all costs in relation to preparing the post-merger integration.**
- **A strategic plan how to move Sunrise forward, accelerate growth and improve operations in a standalone scenario is to be created and shared. We would expect this plan needs to be at least as ambitious as the plan we outline below.**

Today, we are facing the ruins of a failed dialogue. The last eight months have damaged investors' trust as well as Sunrise's equity story – be reminded that the stand alone strategy was widely supported before the UPC deal announcement – severely and apparently depressed the share price.[5] In addition to an unconvincing transaction, both – Management and the Board – have openly expressed their lack of faith in, and commitment to, delivering a successful future for the standalone business. AOC is very concerned by this. From a shareholder's perspective, it is of utmost importance that Management refocuses its efforts on developing the standalone business, addresses the fallout from the transaction and takes measures to strengthen the core business – now.

1 https://www.bloomberg.com/news/articles/2019-10-22/malone-s-6-4-billion-upc-sale-unravels-as-sunrise-cancels-vote
2 cf. André Krause's interview published in 'Finanz und Wirtschaft' on 5 October 2019
3 https://www.sunrise.ch/content/dam/sunrise/corporate/documents/ir-reports-presentations/2019/20191022_PR%20EGM%20cancellation_EN.pdf
4 See footnote 3)
5 Share price as at 31 October 2019 of CHF 76.7 vs. pre announcement share price of CHF 80.9 on the 27 February 2019 and of CHF 83.9 for the three months' average share price for the period prior to announcement, share price # as per Sunrise investor relations section on the webpage

AOC believes that the standalone Company can capitalise on its unique market position that it has carved out over the last years (European top 3 player in network quality[6], attractive convergent product offering and customer centricity / leadership positions in Swiss client satisfaction[7]).

From this base – in light of the upcoming move towards 5G, the B2B potential, ongoing customer wins from both – mobile (Swisscom (high ARPU segment)) and fixed line (UPC and Swisscom), as well as lower ARPU segment net-adds, we believe Sunrise will be able to further grow market shares. The Company should also be able to grow increasingly from its existing customer base. After re-investing into more growth, we believe a substantial profit increase will be possible alongside an increased top-line growth rate. To date, Sunrise has an impressive track record of outperforming the market: Since its IPO, Sunrise has gained c. 6% mobile revenue market and more than 2% fixed subscriber share.

In the following, we would like to express our views as to what actions we recommend Management and Board to implement in order to restore shareholders' faith in the Company's standalone future, equity story and to drive shareholder value in the short, medium and long-run. Our plan has been developed together with industry experts and we firmly believe it to generate substantial value for customers, employees and shareholders of Sunrise:

I. **Optimize the capital structure** via a tax-efficient CHF 600m distribution to shareholders. Capital allocation is a key driver to create shareholder value in the years to come and the Company should make shareholders beneficiaries from Sunrise's growing revenue and cash flow profile and the high visibility on the upcoming years. The resulting increase in net debt levels from 2.5x (1H19) to 3.2x (FY19)[8] brings the capital structure more in line with peers, permits capitalising on the low interest environment and reflects the changed risk-profile. In addition, such a move would send a much required and meaningful message to shareholders about management's trust in the business performance ahead which was severely impaired over the past months.

II. **Introduce an ambitious mid-term growth plan** in which management commits to more aggressive growth targets (2.5% p.a. vs. 1.4% p.a. consensus forecast[9]). We believe the current consensus estimates for FY20 and thereafter are significantly too low. The plan should be openly communicated and form the basis of a new strategic growth plan for Sunrise.

III. **Implement a comprehensive efficiency program** that – in combination with increased growth targets and benefits from a strategic cooperation with UPC – should according to our calculations take the Company to EBITDA levels of CHF 750-800m by 2022.

IV. **Define a new leverage target of 3x net debt/EBITDA coupled with a 90% dividend pay-out ratio,** as the current 2x level[10] does in our view not reflect the stability, post-peak capex-, growth- and margin profile of the Company going forward. Based on the new EBITDA target, we would expect the dividend per share (DPS) to surpass CHF 6 in 2022.

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6 Based on the 'connect and P3' test 2018 in which Sunrise achieves top position of 32 European telecommunications providers as disclosed by Sunrise in its 2018 results presentation as of 28 February 2019

7 Based on the 'Bilanz Telekom-Rating 2019' as of 25 September 2019 (https://www.bilanz.ch/unternehmen/telekom-rating-2019-kleine-anbieter-ganz-gross)

8 1H19 based on Sunrise 1H19 presentation page 18. FY19 based on Bloomberg consensus / in line with using 2H guidance. For peer group see next page. Data on peers based on latest available reported numbers by the respective company. Vodafone # adj. for most recent acquisition

9 Based on Bloomberg forecast as at October 2019

10 In the 2018 annual report page 43, Sunrise confirmed its long-term dividend policy of paying out at least 65% of equity free cash flow and Sunrise confirmed its long-term dividend policy of paying out at least 65% of equity free cash flow and continues to target 85% if net debt/adjusted EBITDA leverage is below 2.0×

By implementing the aforementioned steps Management could ensure that Sunrise remains the most attractive company for shareholders in a – if not “the” – most attractive telecommunication markets globally. In brief summary, we believe, based on a 5% dividend yield that we observe across the European Telecommunication sector and an EBITDA of more than CHF 750m in 2022, the **Sunrise shares should trade for more than CHF120**.

We describe the individual measures of our value increase plan in more detail below.

1) Optimize the capital structure and distribute CHF 600m to shareholders in the most tax-efficient way

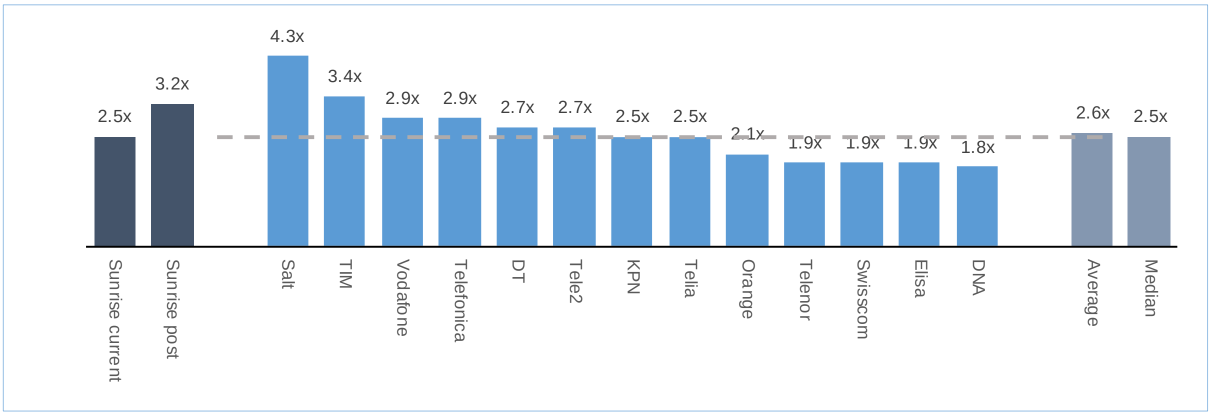
The current capital structure of the Company does, in our view, not give credit for the good progression of the business that took place within the 2015-2018 timeframe. The Company increased gross margins from 62.9% to 65.0% (up to 68.4% in 2Q19), operating margins rose from 7.3% to 9.4% and leverage was reduced from 3.4x to 1.9x.[11]

With a 1H19 leverage ratio of 2.2x (2.5x incl. IFRS16) and a FYE19 ratio of 2.3x (incl. IFRS16), which includes the recent one-time spectrum and capex payments, the Company’s current capital structure diverges from its peers (see below) who display an average net debt / EBITDA ratio of 2.6x but a ratio close to 3x for some relevant players in the universe, with Salt even at 4.3x.[12] When taking into account the growth-, post-peak capex profile, low Swiss 5G costs and low interest rate environment amongst others, we believe the Company’s leverage profile should be at the higher end (*see chart 1 below*).

The Company would have been levered at 3.6x post UPC transaction if all cost synergies would have materialised or 4.1x, without synergies[13]. This means Management was comfortable with higher leverage even in light of the uncertainty of the difficult UPC turnaround.

<u>We therefore propose a distribution to shareholders of CHF 600m which increases debt levels to c. 3.2x Net Debt / Adj. EBITDA (based on FY2019 numbers).</u>

Chart 1: Leverage ratios of European TelCo players



11 Based on Company filings for the respective years and ISS Special Situations Research report as at 9 October 2019

12 1H19 based on Sunrise 1H19 presentation, page 18. FY19 based on Bloomberg consensus / in line with using 2H guidance. Data on peers based on latest available reported numbers by the respective company. Vodafone # adj. for most recent transaction

13 Update presentation on UPC acquisition from Sunrise webpage as at 30 September 2019, page 8, incl. IFRS16 and full COTO impact

With a cost of debt for the Company of 2% for the Term Loan B (amended and extended in 2018), a 1.5% coupon for the recently issued (2018) bond[14], we have all reasons to believe the Company could finance the CHF 600m at attractive rates. Closest competitor Swisscom for example pays 0.9%[15] on its debt (the latest 25 year bond was refinanced at 0%) and the traded bond of Sunrise displays an implied current yield of 0.54%.[16] At a conservative cost of debt of 2%, the additional interest payments equate to only CHF 12m p.a.

With a FY19 guidance of CHF 660m-670m EBITDA, capex (excl. one-off spectrum payments but incl. one-of fibre payment of CHF 60m) of c. CHF 330m-CHF 370m and a target dividend of CHF 4.4 per share, the Company could easily support the additional interest burden already in 2019, but also the years to come, without jeopardizing growth and dividend pay-out capacity.

We base our analysis on Bloomberg consensus numbers – which are clearly more conservative than our own assumptions even without the identified value creation measures (*see point 2 and 3 below*). Table one highlights the company's ability to shoulder the additional interest, even based on the current consensus forecast.

Table 1: Consensus financials FY19-22 with additional interest payments[17]

	FY19	FY20	FY21	FY22	Commentary
EBITDA incl. IFRS16	665.5	672.0	686.0	699.0	*<< Bloomberg consensus for 2020+, 2019 as guidance mid-point*
EqFcF	176.0	224.0	228.0	213.5	*<< Bloomberg consensus for 2020+, 2019 as guidance mid-point*
Dividends	(190.0)	(198.3)	(207.8)	(216.3)	*<< Based on 5% p.a. DPS growth - in line with consensus*
Adj. for one-off	60.0			60.0	*<< Assumes 2022 at same price levels as 2019*
Net FcF for add. Interest	46.0	25.7	20.2	57.2	
Additional Interest		(12.0)	(12.0)	(12.0)	*<< based on 2% on CHF 600m*
Net FcF	**46.0**	**13.7**	**8.2**	**45.2**	

We believe this distribution is an important step in allocating capital in the most efficient manner and to strengthen the share price post the collapsed UPC deal. A distribution of CHF 600m equals a value of CHF 13.3 or 17.3% per share (based on a share price of CHF 77) and equates to more than 3x the most recent dividend paid.

Based on the CHF 600m and the new pay-out and operational targets (see below), the Company would be able to delever to below 3x by 2022 – our recommended new long-term target ratio – and shareholders would benefit significantly from the headline growth and declining capex profile on which the Company has high visibility for the years to come.

2) Management to set and communicate ambitious growth targets for the medium-term future

Despite the fear-mongering about Sunrise's standalone viability that was part of the orchestrated play by Management and the Board during the transaction attempt, we firmly believe the Company to hold a unique and defensible position. As outlined above, the Company has done a tremendous job in improving its market position since the IPO and is now presented with significant headline growth for the years to come. At the same time, we foresee a capex reduction across the industry, a trend underpinned by the particularly low prices for 5G licenses in

[14] Sunrise annual report 2018, page 142

[15] Based on Swisscom's reported average interest rate of debt as disclosed in its Q3-19 results on 31 October 2019

[16] Debt data based on Sunrise AR18 + 1H19 presentation. Implied yield based on YTM of Sunrise's existing CHF200m 1.5% '24 bond as of 30-10-2019

[17] Guidance based on Company communication mid-point, forecast from 2020 onwards based on Bloomberg consensus as at October 2019. 2019 excludes CHF 91m of Spectrum payments. For 2019 cash flow: assumes WC of CHF (5)m, tax of CHF (55)m, interest of CHF (30)m, IRU and other of CHF (10)m in addition to EBITDA and Capex guidance mid-points. One-off payments in 2019 and 2022 relate to upfront payment for landline access at Swisscom. Assumes that the forecast entails the same CHF 60m that were paid in 2019. Excluding tax implications from the additional interest i.e. 2% as effective rate

Switzerland. We expect to see this now translated into numbers. To achieve this, management is to formulate and distribute a new and ambitious mid-term plan to shareholders. This plan should encompass ambitious top-line but also profit improvement targets (*see point 3 below*).

In particular, we would foresee the headline growth at 2.5% p.a. and thereby to exceed the market's expectations (c. 1.4% p.a. (CAGR) growth between 2019 and 2022) (based on Bloomberg consensus). Based on the multiple growth vectors: (i) the 5G rollout, (ii) increasing B2B revenue, (iii) convergence benefits, and (iv) new revenue streams (such as video games, digital homes, cloud, big data etc., in addition to a more focused move to the cloud and partnership with large tech firms), the Company can, in our opinion, set the bar significantly higher.

As shareholders are all aware and have been reminded by Management before the transaction, the Company benefits from market share wins from Swisscom (high-end ARPU customers), fixed line customer wins (from UPC and Swisscom) as well as the low-end ARPU net-adds[18]. This is a unique opportunity – especially in the light of a weakened UPC.

Lastly, looking beyond a three to five-year horizon, we believe Management should develop a clear plan to remain at the forefront of new industry trends (such as network virtualisation, automation, digitisation, new revenue streams, cloud partnerships etc.). We firmly believe it will be this strategy in particular which goes beyond short-term numbers that will galvanize Sunrise's unique position for the years to come. Sunrise is to remain an innovator in the telecommunications space in one of – if not the – best telecommunications markets globally.

3) Management to introduce a comprehensive efficiency program as part of the new strategic plan that permits reaching CHF 750-800m EBITDA by 2022

In addition to investing into more growth, the Company should also increase its margins going forward. We believe a margin increase with a concurrent growth profile is very much possible. We also notice the margin gap to Swisscom and Salt.[19]

An operational efficiency programme targeting a minimum CHF 51m additional EBITDA by 2022, compared to consensus forecast is to be introduced. Whilst a large portion (c. CHF 20m) of the EBITDA increase will already be generated by the higher revenue we assume for 2022 (at constant gross margin), we expect the Company to also introduce a 3%+ p.a. OPEX reduction plan which would equate to c. CHF 20m p.a., based on the current cost structure. This would imply further savings of c. CHF 10m from scale, a higher margin offering and direct costs.

In a first step, we expect the OPEX levels to be benchmarked against its peers. This exercise should address G&A, wider digitisation, customer service, IT landscape, process optimization and HQ set-up amongst others. As part of this, an ambitious digitisation plan should be introduced and the benefits quantified. Other players estimate the addressable OPEX base from digitisation as high as 50%.[20] For example, there is significant potential from improvement of digital sales efforts by reducing marketing & customer handling costs, which should be especially beneficial for Swiss players due to high local salaries. We also see great potential from moving from <15% of online sales[21] to a more meaningful ratio.

On the network and IT side, we expect to see costs savings from switching off own DSL networks over time and replace usage of external fixed line networks with 5G technology, the field where Sunrise is the frontrunner. Sunrise should benefit over-proportionally from network migrations due to current use of expensive third party fixed lines. Lastly, the 5G fixed line penetration should

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18 Company presentations, 3Q18 Earnings call transcript
19 Swisscom 9M19 EBITDA at 39.7% vs. 35.8% for 6M19 for Sunrise, both based on latest results presentations
20 Telenor Q4 2017 results presentation page 32, as per Company webpage
21 Based on Industry Expert interviews

lead to lower installation and technical support costs. We also expect a review of outsourcing deals to find cost optimal solutions given the success at Salt.[22] We believe this can be achieved without compromising network quality.

Moreover, as the business is currently most likely overspending in the Business segment, based on scale we expect to see a meaningful contribution from this segment in the near-term.

As a last point, we request an explanation on how the benefits from a strategic cooperation with UPC – that were mentioned during the transaction roadshows – are being addressed. <u>From the large synergy goals that formed part of the transaction rationale, we believe a meaningful number must be able to be achieved via cooperation, especially as UPC is in need of additional profits and cash flows during its turnaround. We believe the benefits could be as high as CHF 50m in additional EBITDA.</u>

4) New leverage target to be increased from 2x to 3x net debt / EBITDA with a pay-out ratio of up to 90% EqFcF

With more growth and cash generation and in context of the CHF 600m distribution, the DPS pay-out threshold is to be lifted. <u>The Company should set a new target leverage ratio at 3x net debt / EBITDA with a pay-out ratio of up to 90% EqFcF</u>. The old 2x level stems from a time with more capex on the horizon and a less attractive growth and margin profile.

This is an important element in permitting shareholders to benefit from the higher growth we trust the Company will enjoy. At the same time, it sets a clear statement, that management believes in the new plans it has introduced and that these will convert into shareholder value.

Based on this logic, we think the dividend per share (DPS) can move to c. CHF 5 in 2021 and to > CHF 6 in 2022, whilst the Company de-levers to below 3x (based on our 2022 targets). Using an underlying 5% European TelCo div. yield, this should in our view result in a CHF >120 share price, on 2022 numbers.

Table two shows the potential dividend levels for the years to come.

Table 2: New pay-out thresholds translating opportunity to shareholder value[23]

	Excl. UPC coop.		Incl. UPC coop		
	FY21	FY22	FY21	FY22	Commentary
EBITDA incl. IFRS16	686.0	699.0	686.0	699.0	*<< Bloomberg consensus*
EBITDA target	720.0	750.0	720.0	750.0	*<< New targets - 1/3 p.a. phasing from 2020 onwards*
Improvement over consensus	**34.0**	**51.0**	**34.0**	**51.0**	
UPC cooperation potential			50.0	50.0	*<< Target EBITDA benefits from UPC cooperation*
Total Improvement	**34.0**	**51.0**	**84.0**	**101.0**	
Adj. EqFcF	250.0	312.5	300.0	362.5	*<< Bloomberg consensus + total improvements - add. interest + Swisscom one-off*
Payout Ratio	*90.0%*	*90.0%*	*90.0%*	*90.0%*	
Implied DPS	5.0	6.2	6.0	7.2	
Consensus DPS	4.8	5.1	4.8	5.1	*<< Bloomberg consensus*
Delta to Consensus	*4.0%*	*22.8%*	*24.8%*	*42.5%*	

	Excl. UPC coop.		Incl. UPC coop	
Calculated share price based on dividend yield levels	FY21	FY22	FY21	FY22
3% Dividend yield	166.4	208.0	199.7	241.3
4% Dividend yield	124.8	156.0	149.8	181.0
5% Dividend yield	99.8	124.8	119.8	144.8
6% Dividend yield	83.2	104.0	99.8	120.6

[22] Company earnings results 2017 as per company webpage
[23] Excluding tax impact from improvement items

Next steps

Today, Sunrise is at a pivotal inflection point. With the UPC transaction firmly behind, Sunrise should now place its emphasis on accelerating growth, improving operations and optimizing capital allocation to create value for customers, employees, shareholders and everyone who depends on this Company.

We want to personally thank you for considering our thoughts, and are looking forward to hearing yours as well. While this letter has necessarily been candid in its analysis of the recent past, we are at this point completely focused on Sunrise's future, building sustainable shareholder value and creating a stronger Sunrise. As a next step, we respectfully request a near-term meeting during the month of November to initiate the process of working together to pursue this opportunity.

Kind regards,

Florian Schuhbauer **Klaus Roehrig**