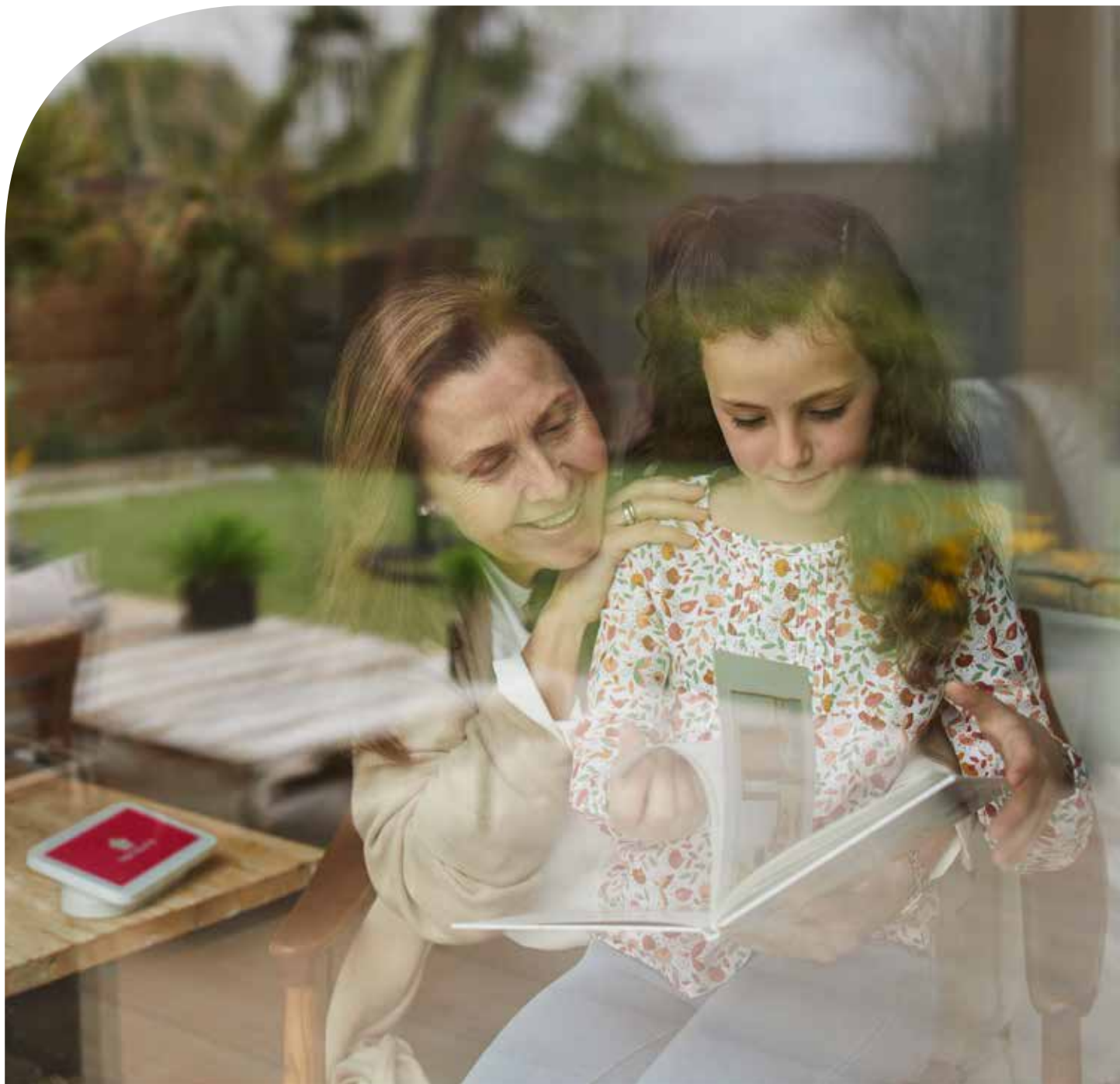


ANNUAL REPORT 2019

Proud to Protect



“We work hard to provide a service to our customers that they value, that exceeds their expectations and that leads the industry.”

Austin Lally, Group CEO



Table Of Contents



Business Overview

Quick Facts.....	3
Letter From The CEO	4
Who We Are.....	7
2019 In Brief.....	9
Strategy	12
Business Model	14
Organisation & People.....	18
Group Management.....	20
Corporate Governance	23
Board Of Directors.....	25

Financial Information

Directors' Report.....	27
Consolidated Financial Statements	34
Notes To The Consolidated Financial Statements	39
Parent Company Financial Statements	72
Notes To The Parent Company	75
Independent Auditors Report	78
Five-Year Financial Overview	80
Definitions.....	81
Risk Factors	82



**We are the leading provider
of professionally monitored
alarms in Europe and growing
in Latin America**

Over **3.3**
million customers

More than **18,000**
dedicated colleagues

€1,075
million portfolio
EBITDA
Total revenue €1,901 million

One new
customer every
12 seconds

Operating in **16**
countries in Europe
and Latin America

“Proud To Protect”

We believe it is a human right to feel safe and secure. We exist to bring peace of mind to families and small business owners. This is a serious responsibility. Every team member in our company deeply values the trust that our customers place in our service.

2019 was another record year for Verisure. We added more than 600 thousand new customers during the year and maintained our industry-leading attrition rate at 6.2%. Our portfolio passed the 3 million customer milestone in March 2019. We were already over 3.3 million customers by the end of 2019. Our revenue grew by 17.9% compared to 2018 to reach EUR 1,901 million and our portfolio EBITDA grew by 20.7% to a new high of 1,075 million.

We continue to lead the residential and small business segment of the broader security services market in Europe. We are in turn both the largest provider and also we have been the one adding the most customers in absolute. We are proud that we have driven the growth of the category in Europe so that more families and small business owners can be protected. And, we know there remains a very significant opportunity for increased penetration in every country given most European families do not have an existing security solution. That is both our social responsibility and business opportunity.

Our customers are at the heart of everything we do. We work hard to provide a service to our customers that they value, that exceeds their expectations, that leads the industry. To enable this, we focus on innovation and continuous improvement in the customer experience at all touch points. And we want to bring this to more customers. So we also prioritise category-creating marketing and go-to-market excellence. And, we continue every day to try to improve our methods and our performance. We know that tomorrow we can always do things better than today. This quest for improvement is strongly ingrained in our Company DNA.

In 2019, we formed a strategic partnership with Arlo, the world's leading innovator in the connected

camera category. Verisure acquired all commercial operations of Arlo in Europe. We will now be able to offer connected camera services alongside our professional security proposition. And Arlo's European retail and e-commerce presence will be fully complementary to our existing go-to-market structures.

“Our portfolio passed the 3 million customer milestone in March 2019”

Everything so far is because of Verisure people. Many thousands of talented, committed team mates across the world, sharing a common DNA. I am proud of all of them and humbled to lead them.

High-performance, engaged, accountable, focused, and never afraid to push boundaries. They lean in and every day try to learn more, contribute more and do things better. Our growth has been exciting and rewarding. It has obviously improved our ability to attract, develop and retain the talents we need to continue our Journey.

As I complete this letter, we are seeing the spread of the COVID-19 virus in Europe. These will therefore be difficult times for countries, families and people. In this situation, as Verisure, we will be fully focused on protecting our people and their families, protecting our customers and thinking about the long-term. But, we remain very optimistic about the future given our resilient business model and the future penetration opportunity.

Regards,
Austin Lally, Group CEO
Geneva, March 2020





Our Vision

“We believe it is a human right to feel safe and secure, so we provide the best protection to families and small businesses”



Committed To Our Mission

We take full responsibility to protect what matters most, offering safety and security for all.

We Are People Who Protect People

We are the leading provider of professionally monitored alarms for residential households and small businesses in Europe.

Peace of mind for families and small businesses

We believe it is a human right to feel safe and secure. We now protect more than 3.3 million families and small businesses. Our service includes 24/7 monitoring, expert verification and response, customer care, service and maintenance services, and professional technical support. As well as protecting against intrusion, we protect against fire, attack, theft, life-threatening emergencies and other hazards. Verisure people are dedicated and committed and provide what we believe is the best customer service in the industry.

Leading across a broad footprint

We are the leading provider of residential and small business monitored alarms in Europe. We operate in 16 countries across Europe and Latin America. Our business is driven by organic growth, based on our differentiated business model. We attract high quality customers. We work hard to ensure that our customers are happy. This contributes to an industry leading level of attrition and a long customer lifetime.

A technology-enabled human services company

Our 18,000 team-mates are the foundation of our company. Our business model combines technology and human expertise to protect people. We are a human services company. More than 80% of our colleagues interact with customers every day. This connection provides the insight that inspires our innovation. These insights are a source of advantage. We leverage these insights with the significant investment we make into product and service innovation. The close customer contact also fuels the pride which drives engagement.



30 years of experience – and many more to come

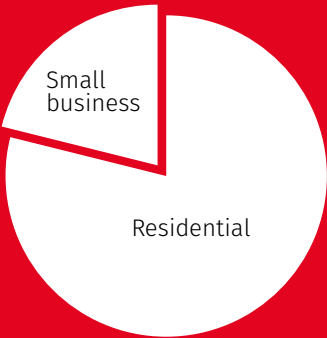
We have been protecting what matters most since 1988. Over that time, we have expanded beyond our roots in the Nordics and Spain. We now serve most of Europe and have also established a strong presence in Latin America. In 2017, to evolve our operating model, strategic innovation, operational excellence and access to talent, we opened our new Group headquarters in Geneva, Switzerland. In 2019, we formed a strategic partnership with Arlo, a world leader in connected cameras. Verisure acquired all rights to Arlo's European

business. This allows us to offer connected camera services in Europe as a complement to our professionally monitored security service. It also allows us to access new go-to-market opportunities in retail and e-commerce.

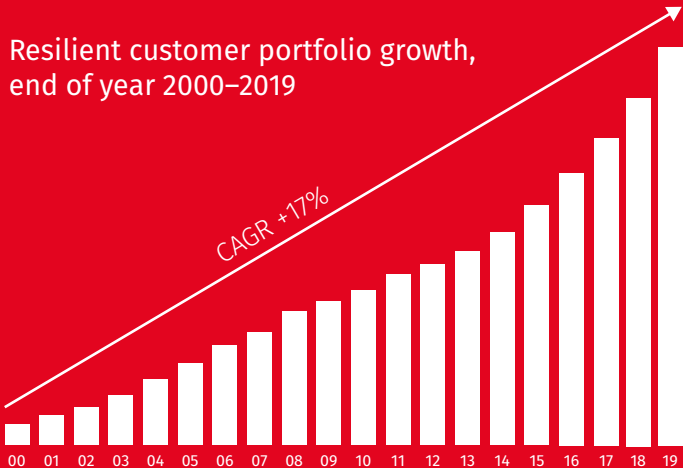


Protecting Families And Small Business

Customer breakdown by consumer type, end of year 2019



Resilient customer portfolio growth, end of year 2000–2019



Another Strong Year Of Accelerated Growth

- Both revenue and profitability grew strongly in 2019 compared to 2018. We performed ahead of our plan with an increasing contribution from our growing customer portfolio.
- We added 611,321 new customers in 2019. This was up 18.6% compared to 2018. It is also an acceleration in our new customer addition pace by 1.3% points. 2018 had grown 17.3% versus 2017. We passed the three million customer milestone in March 2019. We closed 2019 with 3,346,712 customers. This is 14.2% higher than end 2018. It is also an acceleration. We grew 13.3% in 2018 and 12.4% in 2017. All the growth was organic.
- Total revenue was EUR 1,900.7 million. This is up 17.9% versus 2018. Adjusted for currency effects, revenues grew by 18.7%. The revenue growth was driven by the larger portfolio, higher revenue per individual customer and by an increase in upfront revenue from new customers.
- Portfolio adjusted EBITDA for the Group is now over EUR 1 billion annually. It increased by 20.7% versus 2018 to EUR 1,075.3. Adjusted for currency effects, the increase was 21.6%. This is an acceleration from the 19.3% growth in 2018. Portfolio services adjusted EBITDA margin further strengthened to 69.4% for the year. This was an increase of 240 basis points versus 2018. Excluding the impact of IFRS 16, portfolio adjusted EBITDA increased by 19.4% compared to 2018, and by 20.2% in constant currencies.
- Total reported adjusted EBITDA for 2019 increased to EUR 702.9 million. This was an improvement of 20.4% versus 2018. Excluding the impact of SDI, adjusted EBITDA improved to EUR 761.1 million, an increase of 24.6%. Adjusted for currency effects and SDI, total adjusted EBITDA grew 25.3%.
- Cash flow from operations in 2019 was strong at EUR 701.2 million, up 26% (or > EUR 140 million) versus 2018.
- Customer loyalty is high. Our customers are at the heart of our business and we aim to delight them.
- Attrition remained low and we believe industry-leading at 6.2%, a similar level to 2018.
- We now operate in 16 countries across Europe and Latin America. We continued to grow both in geographies where we have years of experience and also in our newer markets. For example, we are pleased with our progress in newer countries such as Italy, UK and Brazil. We have also now started operations in Germany and Argentina.
- In 2019, Verisure entered a strategic partnership with Arlo, a global leader in the connected camera segment. We acquired all rights to the Arlo European business. We will now be able to offer connected camera services alongside our professional security proposition. And Arlo's European retail and e-commerce presence will be fully complementary to our existing go-to-market structures.

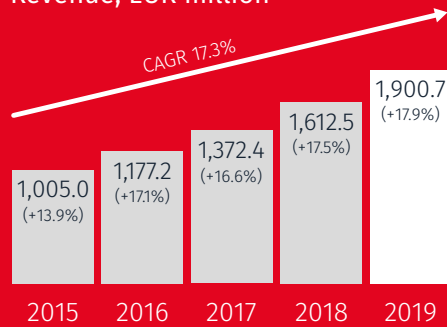
EUR million (if not otherwise stated)	2019	2018	Change
Total subscribers (year-end), units	3,346,712	2,930,753	14.2%
New subscribers added (gross), units	611,321	515,624	18.6%
Net subscriber growth, units	415,959	344,630	20.7%
Portfolio services adjusted EBITDA	1,075.3	890.7	20.7%
Portfolio services adjusted EBITDA margin	69.4%	67.0%	–
Reported revenue	1,900.7	1,612.5	17.9%
Reported adjusted EBITDA	702.9	583.5	20.4%
Cash flow from operating activities	701.2	557.7	25.7%
Capital expenditures	592.9	500.1	18.5%
Average monthly revenue per user (ARPU), (in EUR)	41.2	40.2	2.5% ¹
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	28.6	26.9	6.2% ¹

1) In constant currencies ARPU increased with 3.2% and EPC with 6.9%.

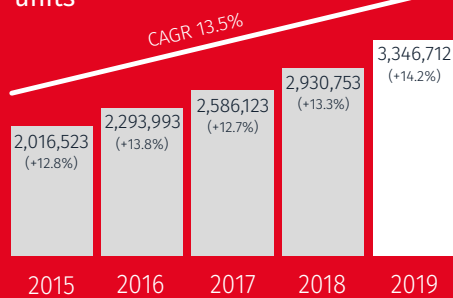


Strong Growth In Sales And Profitability

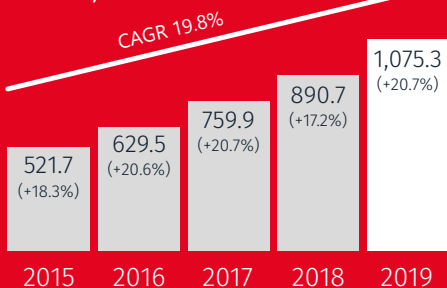
Revenue, EUR million



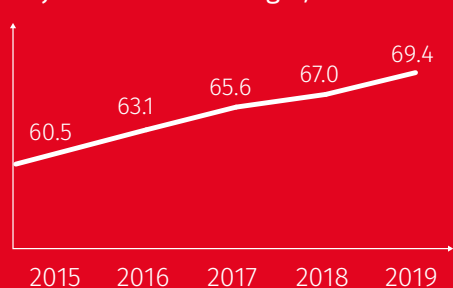
Number of customers, units



Portfolio service adjusted EBITDA, EUR million



Portfolio service adjusted EBITDA margin, %





Intruders Can't Steal What They Can't See

Our innovative ZeroVision product fills the room with dense fog, repelling intruders.

Starts From Clear Choices

Our Verisure strategy fits on a single piece of paper. We call it our “SOAP”. Strategy On A Page. We make clear choices in four areas. Our Vision for the Company where we articulate what we want to be. Where To Play and Where Not To Play. And finally How To Win. Here we will discuss four key themes.

Increase penetration for security services.

Our strategy is a customer-centred growth strategy. We have a demonstrated track record. We have grown strongly in the past and yet we still see major opportunities ahead. This remains a very under-penetrated service. There are still significant growth opportunities in all countries in Europe and Latin America. To further grow our subscriber base, we will continue to refine and execute our differentiated business model: innovation; category-creating marketing; go-to-market excellence, customer-centred service, superior verification and response. The strategic partnership with Arlo and the acquisition of their European operations now allows us to enter the connected camera segment.

This creates further opportunities to accelerate penetration growth.

Provide the best security products available and do our utmost to protect our customers.

We have a strong, long-term track record on innovation. Our in-house development teams cooperate closely with our technology partners to design and deliver award-winning security products and services. This is driven by insights gained because we are vertically integrated across key stages of our value chain. We focus our technology investment choices where we can deliver clear differentiation to customers. And we intend to continue investing to support our premium positioning and extend our leadership position.

Maintain the highest levels of customer satisfaction and loyalty in the industry.

We have a responsibility to do everything to keep our customers secure. This also creates a strong business. A world-class customer experience drives loyalty. And positive word of mouth from happy customers

leads to referrals. We want to have the happiest and most loyal portfolio of customers in the industry. To achieve this, we analyse how we perform at important “moments of truth” during sales, installation, service, monitoring and response. We continue every day to try to improve our methods and our performance. We know that tomorrow we can always do things better than today.

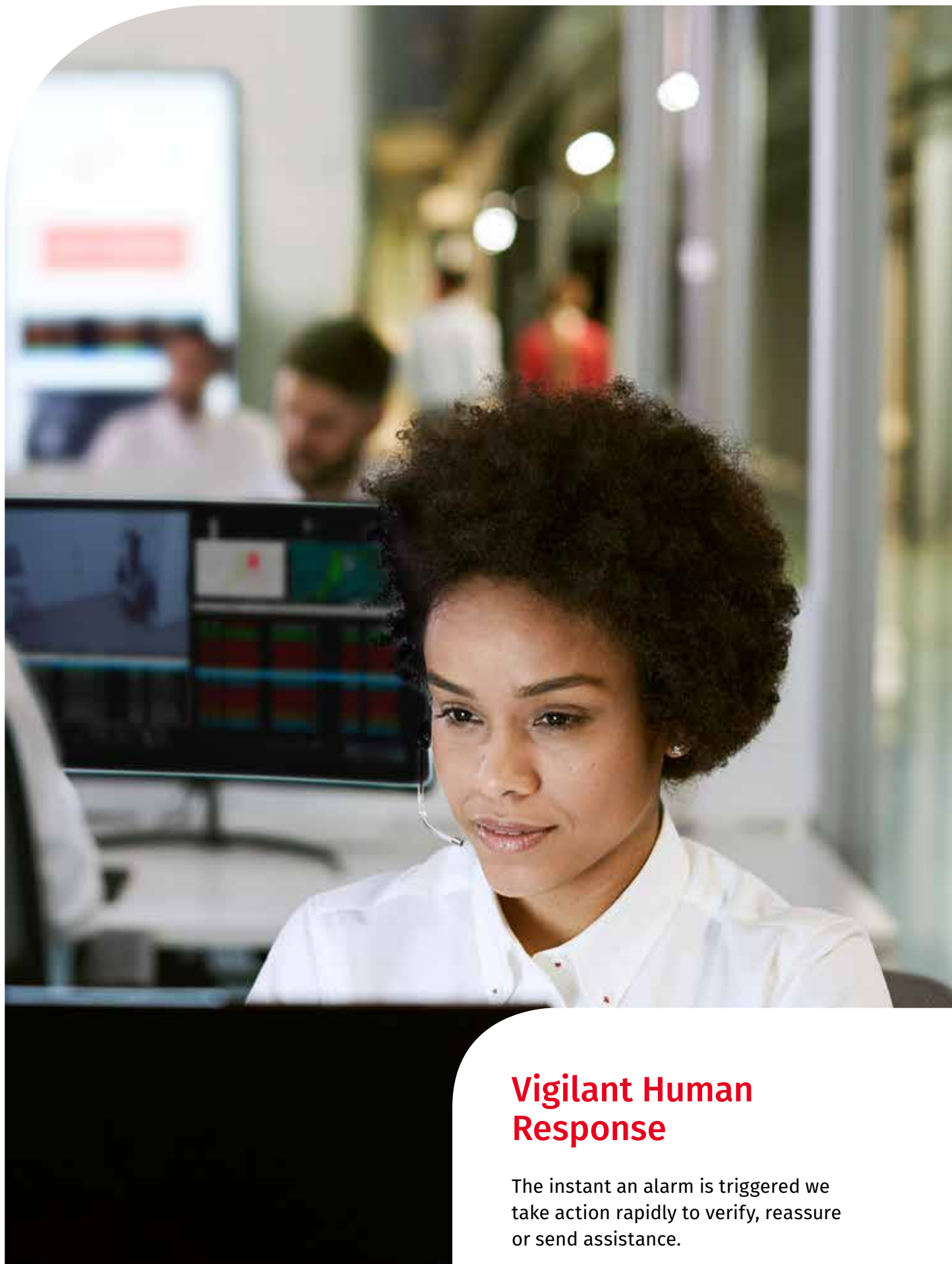
Create value for shareholders, customers and colleagues with excellence in innovation, service and operations.

Our investment in innovation to create differentiated security propositions allows us to offer premium solutions to customers which are seen as great value. And we aim to provide a service which delights customers, exceeds their expectations and leads the industry. This also builds pride in our people. We innovate on process improvements and leverage our scale to enhance operational efficiency without compromising the customer experience. This approach creates value for our shareholders, our customers and our people.



Protecting People Worldwide

We protect more than 3 million families and small businesses in 16 countries across Europe and Latin America.



Vigilant Human Response

The instant an alarm is triggered we take action rapidly to verify, reassure or send assistance.

A Business Model That Delivers Sustained Quality Growth

We operate a subscription-based security service business, designing, providing, installing and monitoring alarm systems to bring peace of mind to our customers.

Our business model combines growing, predictable cash flows, based on strong customer loyalty, with high quality subscriber growth. We are able to reinvest the cash flows from our subscriber portfolio into category-creating marketing and go-to-market excellence that in turn allow us to attract high quality new customers.

Portfolio services

The portfolio services segment provides a full security service to our customers for the monthly subscription fee. Our service includes 24/7 monitoring, expert verification and response, customer care, service and maintenance services and professional technical support to existing customers for a monthly subscription fee. We operate all our own monitoring centres. We have a diverse and high-quality subscriber base with low attrition which contributes to growing, predictable cash flows.

A majority of the costs in the portfolio services segment are either variable or partially variable in nature. We do have some fixed costs e.g. longer-term facility rentals. We gain operating leverage as we grow from our fixed costs and the partially variable costs mentioned earlier. As a result, we have been able to increase our portfolio operating margin and cash flows as we add new customers to our existing operations.

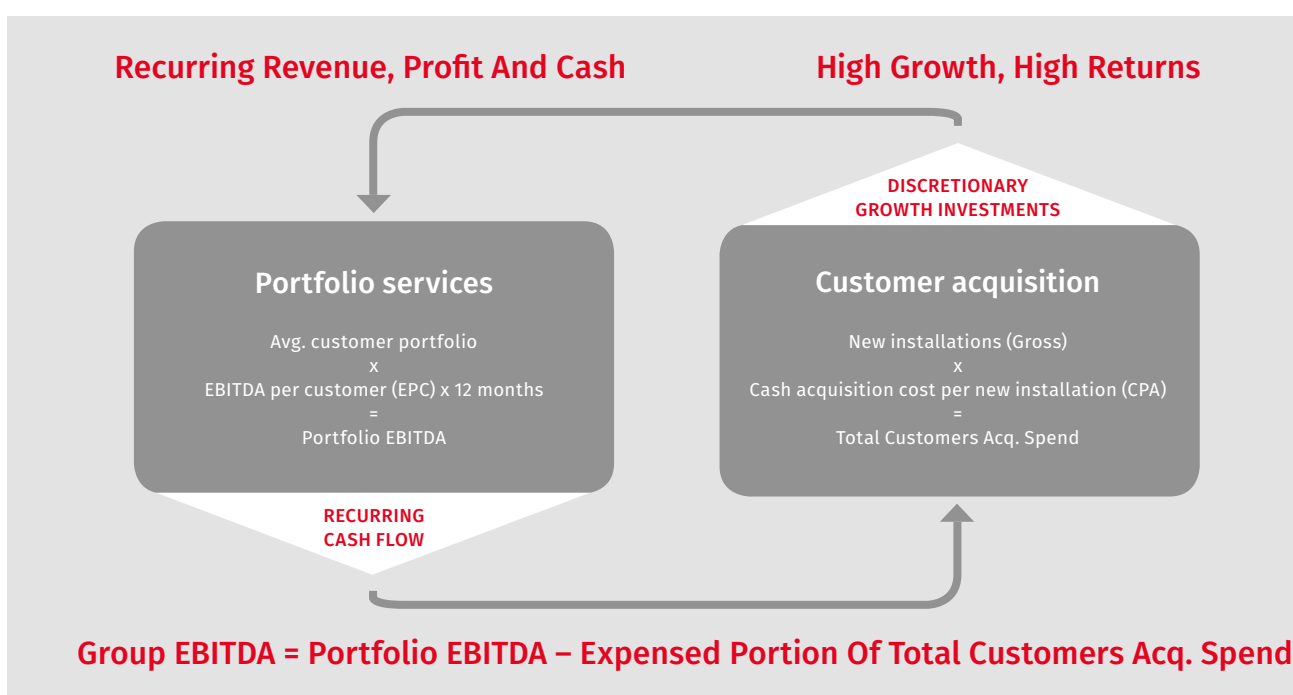
The recurring monthly fees in portfolio services represent approximately 81% of Group revenue. As of December 31, 2019, we had over 3.3 million connected subscribers. In 2019, this segment generated EUR 1,548.9 million of revenue and EUR 1,075.3 million of adjusted EBITDA. This was an increase of 20.7% compared to 2018. The portfolio EBITDA operating margin improved to 69.4%. This was up 2.4% margin points compared to the 67.0% in 2018.

Customer acquisition

We are able to use a portion of the cash generated from our growing subscriber base to continue the growth cycle. We invest into category-creating marketing and go-to-market excellence that in turn allow us to attract more, high quality, new customers. We pay careful attention to the long-term value and return on investment from these new customers. Given our investments in new customer acquisition are largely discretionary, we do have the ability to be flexible on the pace of growth and customer acquisition. We have the levers to manage both growth targets and cash flow objectives.

Adjacencies

Additionally, we classify certain non-core business under our adjacencies segment. This segment mainly represents the sale of remote monitoring and assistance devices and services for senior citizens.





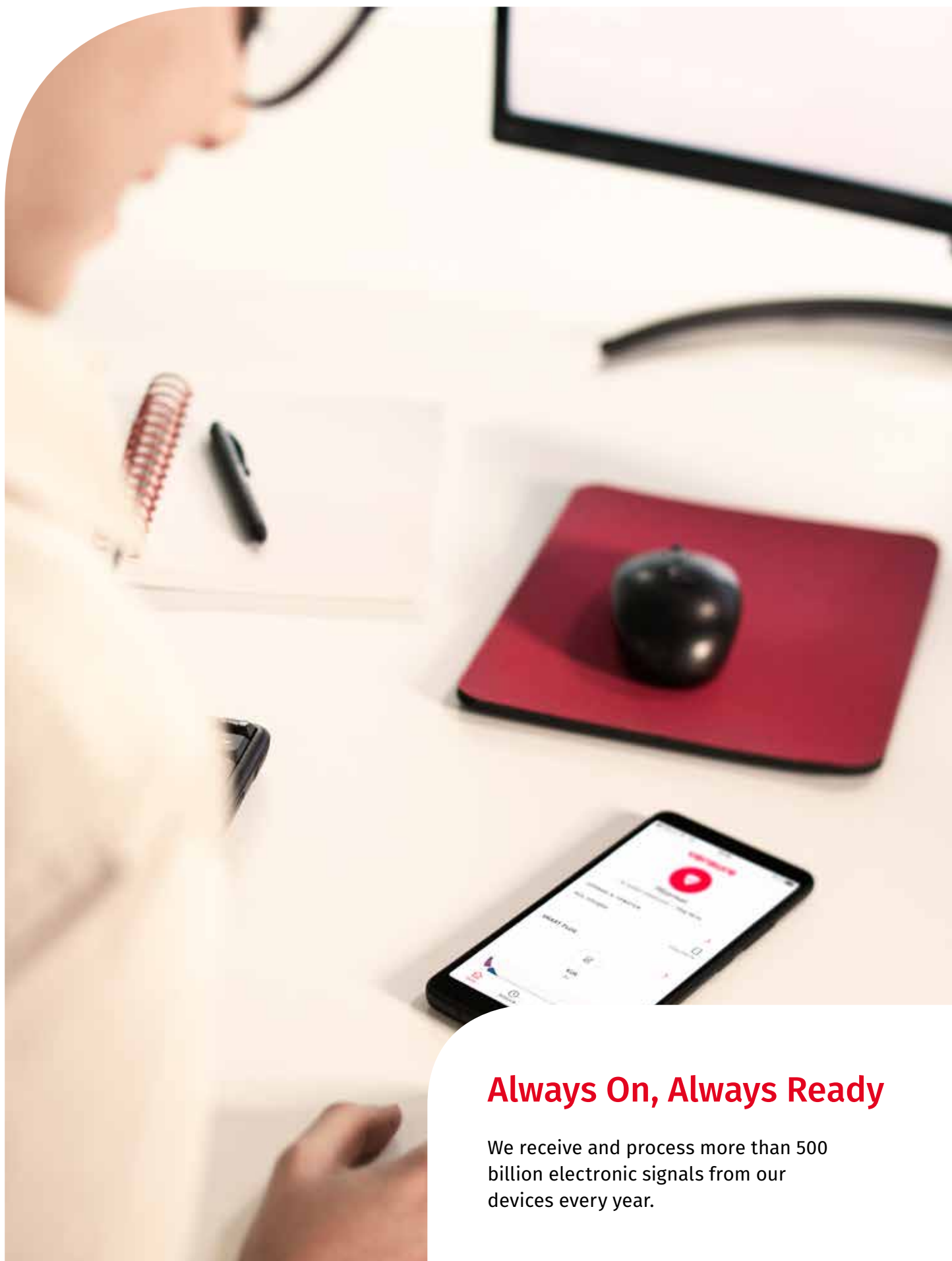
Smart Thinking For Small Business Owners

The Verisure business alarm creates a safe working environment in which employees, customers and assets are protected.



Our DNA Is At The Core Of Our Company

Everything we do is driven by our unique DNA – five deeply-held values which guide us all.



Always On, Always Ready

We receive and process more than 500 billion electronic signals from our devices every year.

A High-Performance Organisation

Our people are the foundation of our success

Verisure is a human-enabled technology company. Behind the innovative technology which shields our customers' homes and businesses, our people stand ready to respond in an instant to protect what matters most. Our people differentiate us. They are Verisure.

Talent and culture are core parts of our company strategy. We strive to build a high-performance, accountable, diverse and world-class organisation. That means more than 18,000 committed colleagues across 16 countries, living our DNA and aligned to our strategy.

Our DNA is unique. Its five integrated values are fundamental to everything we do. They direct our decision-making. They guide our recruitment. They underpin performance management. They define us. From the moment we welcome people who share our DNA to the company, they live and role-model it every day.

Investing in talent

We continue to invest in our people and to develop their full potential. Because people are fundamental to the service we provide, we focus intently on building the very best team.

As we grow, we offer our people the chance to develop their careers, both domestically and internationally. In the last few years, close to 75% of our leadership positions have been filled by internal candidates. Over the last 12 months, almost 40% of our key leaders have been offered a new or expanded role.

As a growing global company, many of our people take the opportunity to develop an international career. Our continued expansion is fuelled by exporting expertise from established countries to new ones. In the last three years, we have more than trebled the number of international moves and progressed from exporting talent from four countries to exporting it from ten. As we grow, we will be able to develop more of our people in this way, accelerating their careers. This knowledgeable, diverse talent base will drive our growth in the years to come.

To better align individual goal setting with our strategy, we have introduced our STAR performance management framework. This sets every individual's goals in the context of our strategy. Every colleague has an individual accelerated development plan. This integrated model creates a clear link between strategy and action, and between strategy alignment and reward.

Sustainable engagement

Every year we ask our people to tell us how they feel about working at Verisure in our global Sustainable Engagement survey. In 2019, over 90% of our people took part. Our overall engagement score was up on 2018, which was itself up on the previous year, with progress in all categories and across many of the areas most highly correlated with positive engagement. We ask our people about their professional growth and development, for their view on our company leadership, and about the tools and resources they need to do their jobs.

The Sustainable Engagement framework is designed to help us understand how engaged, energised and enabled our people are, and to measure these results for sustainability over time. Our goal is for our people to feel Verisure is the best place for them personally and professionally. We put detailed action plans in place across every area to address the feedback we receive in the survey and to drive engagement forward.

Overall in 2019, communications and company strategy were amongst the most positively rated themes. We analyse our people's likelihood to recommend Verisure as an employer and to recommend our products and services with a metric called 'Employee Net Promoter Score' (eNPS). Our eNPS score as an employer increased five points in 2019, and the overall company score for products and services rose by seven points.

A place for everyone

We want to be representative of the customers we protect and serve around the world. We define diversity broadly and our goal is for Verisure to be a place where everyone can bring their full selves to work. Our current focus is on improving gender diversity, recruiting people from a wide range of professional backgrounds and improving our representation of older workers.

In recent years, we have more than doubled the percentage of women in field sales roles and doubled the number of women in our wider management team, where around 25% of this group is female, with year-on-year improvements over the last five years.

We have carried out a holistic review of our HR processes to make sure they promote and enable diversity. For example, we have tailored our recruitment campaigns to be more appealing to women.

We create diverse teams by balancing different talent profiles, both in terms of the industries we recruit from as well as academic backgrounds and international experience. We have designed special recruitment campaigns to attract more seniors to Verisure, and we support them with tailored training programs.

In line with our commitment to ensure a diverse environment where every colleague can bring 100% of themselves to work, we are introducing a specific programme to support LGBTQ+ diversity. Already, we have delivered unconscious bias training to all interviewers leading to better candidate selection and leadership self-awareness.

Scores in our Sustainable Engagement survey related to ethics are improving as our people recognise and endorse the direction we are taking. We will continue to strengthen our focus in this area to create an ever more welcoming, diverse and effective organisation.



A Technology-Enabled Human Services Company

We protect what matters most by combining talented people and innovative technology.

Group Management



Austin Lally

Group Chief Executive
Officer



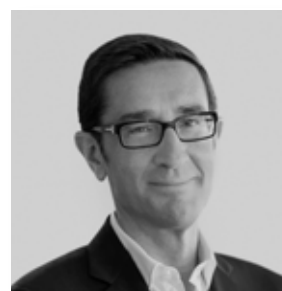
Andrew Wells

Group Chief Product &
Service Officer



Anthony Loizeau

Managing Director
Nordics



Antonio Anguita

President of Iberia &
Latin America



Cristina Rivas

Group Chief Technology
Officer



Hector Martinez

Group Chief
Marketing Officer



Luis Gil

President of Expansion,
Acquisitions and Business
Development



Marta Panzano

Group Chief Human
Resources Officer



Matthias Hansen

Group Chief
Information Officer



Nina Cronstedt

Group Chief Legal
Officer



Olivier Allender

General Manager France,
Belgium & Arlo Europe



Vincent Litrico

Group Chief
Financial Officer

Austin Lally joined the Company as Chief Executive Officer in 2014. He previously held senior leadership roles at The Procter & Gamble Company, where he spent 25 years building and growing consumer businesses in Europe, the US and Asia. This included seven years in China helping to build P&G's sizeable position in that market. Austin was also the VP responsible for Gillette marketing globally. Prior to joining Verisure, Austin was a Procter & Gamble Global President and a member of the company's Global Leadership Council. He holds a Bachelor of Science from the University of Glasgow where he was President of the Students Representative Council and won the World Debating Championship.

Andrew Wells joined Verisure as Chief Product & Services Officer in February 2017. Andrew joined us from Motorola, where he was Vice-President of Engineering, leading Motorola's modular computing platform and innovation pipeline across the USA, China, Australia, and the UK. He holds Bachelor's and Master's degrees in Electrical Engineering from the University of New South Wales as well as a Master's of Product Design and Development from Northwestern University.

Anthony Loizeau joined Verisure in 2012 as Managing Director for Latin America, developing our operations across the region and most recently opening our Argentina business. In 2020, Anthony was appointed to lead our Nordics Cluster. Before Verisure Anthony held several senior positions in a range of industries including CEO of Pages Jaunes and of Kompass across France, Iberia and Benelux. He was previously a VP of Orange in France and at Nestlé. Anthony holds an Executive MBA from HEC Business School in Paris.

Antonio Anguita joined Verisure as Managing Director for Spain in 2013. He was promoted to President of Iberia & Latin America in August 2014. Before joining the company, he was a partner and co-founder of Alana Partners, a start-up incubator and accelerator based in Madrid. Prior to this, Antonio was responsible for all fixed line and internet services activities at Orange worldwide. He has held various senior positions at France Telecom Spain, Hewlett Packard and McKinsey & Co. Antonio holds a Bachelor of Arts and Political Science from Brown University and a Master of Business Administration from Harvard University.

Cristina Rivas was appointed as Group Chief Technology Officer in February 2020. She joined Verisure as Technology Director for Iberia and Latin America in 2016 from Vodafone, where she was Head of Group Technology Strategy and Governance, having held several senior positions in Vodafone Spain in customer service, sales and marketing. Before Vodafone, Cristina worked on strategy, marketing and operational efficiency projects across telecommunications, banking and energy at McKinsey. Cristina holds a Master's degree in Telecommunications Engineering from the Universidad Politécnica in Madrid.

Hector Martinez joined Verisure in March 1998 as a marketing intern while pursuing his undergraduate studies at ESIC Marketing University in Madrid. He has been integral in growing and developing our approach to marketing. Hector also played an important role in starting up our operations in Portugal, France and across Latin America. Previously, he held the role of Marketing Director for Iberia until his appointment as Chief Marketing Officer in April 2018. Hector holds a Master's degree in Direct Marketing from IESE.

Luis Gil is a founder of the company, joining in 1993. He has served as the President of Expansion, Acquisitions and Business Development since 2014. He established our Spanish business in 1993. He also led our expansion efforts in Portugal, Brazil, Peru and Chile and most recently in Italy, the UK and the Netherlands. He was previously President of Esabe Ingeniería de Seguridad SA. Luis holds a Master's degree in Industrial Engineering.

Marta Panzano joined the Company as Chief Human Resources Officer in 2014. Prior to joining the company, Marta was HR Director for Orange Spain. Previously, she worked for CEMEX in Spain, Mexico and Australia among other geographies, holding progressively more senior positions culminating in her role as Vice-President for Human Resources across Europe, Middle East, Africa, Asia and Australia. Marta has also held various positions in Finance at Hewlett Packard and in strategic consultancy at BCG. She holds a Bachelor's degree in Business Administration and Economics from the Universidad Carlos III Madrid.

Matthias Hansen joined the Company as Chief Information Officer in November 2016. Matthias joined us from Telstra Health, a division of Telstra Communications in Australia, where he was Chief Product & Technology Officer, responsible for technology and digital strategy. Before joining Telstra, Matthias held various positions across the IT function with Centrica Plc, T-Mobile and Dell, working across Europe and globally. He holds a Bachelor's degree in Chemistry from Kiel University.

Nina Cronstedt joined Verisure as Chief Legal Officer in 2018 from Nestlé, where she was General Counsel and Vice President Legal, Compliance & Creating Shared Value for Cereal Partners Worldwide, a joint venture between Nestlé and General Mills. She was previously General Counsel Strategic Business Units and COE's for Nestlé. Prior to Nestlé, Nina worked for Philip Morris International, where she held positions of increasing responsibility, including Assistant General Counsel Brand Building and Assistant General Counsel EMEA Region. Nina studied law at Stockholm University, followed by a Master's in Commercial & European Law at the University of Cambridge.

Olivier Allender joined Verisure as Managing Director for France in 2012. He was promoted to General Manager for France, Belgium & Netherlands in January 2015. Prior to joining the company, he was the Commercial Director at Cofidis France from 2007 to 2012. He has also acted as General Manager for CBB-Paris, a subsidiary of the L'Oréal Group, in the US and Japan and has held various senior positions in the direct marketing industry in France and Germany. He was appointed to lead our Arlo Europe business in 2020.

Vincent Litrico joined Verisure as Chief Financial Officer in May 2016. Vincent joined us from The Estée Lauder Companies Inc. where he served as Vice President Finance, Strategy & Business Operations for Europe, Middle East, Africa and India. Before joining Estée Lauder, he held positions in Finance with Procter & Gamble across the United States, Europe and the Middle East, including CFO of the Global Braun and Appliances business unit. Vincent holds an MBA from ESSEC Business School.



What It Means To Wear The Star

You'll see the sentinel star on our uniforms. It shows we are Proud to Protect. We are the people behind the star. We deliver our promise: to protect what matters most.

Corporate Governance

Verisure Midholding AB's corporate governance is based on external and internal regulatory frameworks, including the Articles of Association, the Swedish Companies Act and other applicable country legislation and regulations, as well as internal codes, policies and guidelines.

Board of Directors

Composition of the Board

Verisure Midholding AB has a Board of Directors composed of five directors. The Board of Directors is responsible for the Company's organisation and administration. The Board of Directors is responsible for regularly assessing the Group's financial situation and ensuring that the organisation is structured so that the accounting records, financial management and other financial aspects are satisfactorily overseen.

Rules of Procedure

The Board, which for the purposes of this and the following subsections refers to the board of Verisure Topholding 2 AB, has established Rules of Procedure that are reviewed once a year or when necessary. These Rules set rules for the holding of Board meetings, the frequency of Board meetings and agenda items to cover. Extraordinary meetings are held when necessary. The Board held four meetings during 2019.

Board Committees

The Board has established an Audit Committee, a Remuneration Committee and a Valuation Committee. The members of the committees are appointed by the Board. The major tasks of these committees are preparatory and advisory, but the Board may on occasion delegate authorisation to the committees to determine in specific matters. All committee meetings must be recorded in minutes.

Audit Committee

The primary function of the Audit Committee is to monitor the Company's financial reporting, internal controls, compliance program and risk management. The Audit Committee is required to hold at least three meetings per year. The focus on the meetings is the review of reports delivered by the company's external auditors as well as accounting, tax matters, compliance reporting and internal controls. The members of the Audit Committee are Stefan Götz, Adrien Motte and Henry Ormond. Meetings are also attended by Austin Lally, Vincent Litrico and Nina Cronstedt.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's framework for executive remuneration and the accompanying costs. It reviews and determines, on behalf of the Board, the remuneration and incentive packages of management in order to ensure that they are appropriately rewarded for their individual contributions to the Group's overall performance.

The Remuneration Committee also formulates the remuneration policy with respect to the strategic objectives and operational performance of the Group. The members of the Remuneration Committee are Stefan Götz, Austin Lally, Marta Panzano, Adrien Motte and Henry Ormond.

Executive Compensation

Our executive compensation program has the following objectives:

- recruit and retain key leadership;
- link compensation to an executive's individual performance and our financial performance; and
- align compensation with our short and long-term financial objectives.

In furtherance of these objectives, the Group's executive compensation package includes (i) fixed compensation in the form of base salary and benefits and (ii) variable compensation based on the executive's performance and our financial performance, in the form of annual cash bonus awards and, in some cases, equity incentive awards.

Base Salary

We aim to pay base salaries consistent with the scope of each executive's responsibilities and such that base salaries reflect the fixed compensation necessary to recruit key leadership.

Benefits

We aim to provide our executives with a benefits package in line with those of other companies in our sector and appropriate for the respective jurisdictions.

Annual Cash Bonus Awards

Our executives are eligible to receive incentive compensation in the form of annual cash bonuses, which are determined based on performance objectives established on a periodic basis.

Valuation Committee

The Valuation Committee's primary responsibility is to assist the board in calculating the fair market valuation of the securities comprised in the Group's management equity plan on a quarterly basis. The members of the Valuation Committee are Francois Cornelis, Adrien Motte and Vincent Litrico.



Protecting Against More Than Just Intrusion

As well as intervening in burglaries, we monitor and respond to fires, medical emergencies as well as flooding events.

Board Of Directors

Verisure Midholding AB

Name	Position
Austin Lally	Director and Group Chief Executive Officer
Adrien Motte	Director
Cecilia Hultén	Director and Chairman
Fredrik Östman	Director and Deputy CEO
Stefan Götz	Director

Austin Lally joined the Company as Chief Executive Officer in 2014. He previously held senior leadership roles at The Procter & Gamble Company, where he spent 25 years building and growing consumer businesses in Europe, the US and Asia. This included seven years in China helping to build P&G's sizeable position in that market. Austin was also the VP responsible for Gillette marketing globally. Prior to joining Verisure, Austin was a Procter & Gamble Global President and a member of the company's Global Leadership Council. He holds a Bachelor of Science from the University of Glasgow where he was President of the Students Representative Council and won the World Debating Championship.

Adrien Motte has served as a Director since January 2017. Adrien has been active in H&F's investment in our Company since August 2012. Prior to joining H&F in 2012, he was employed by Park Square Capital. Adrien holds a Bachelor's and Master's in Engineering from the University of Cambridge.

Cecilia Hultén, Director, Group Financial Control, has been with the company since 2006. Prior to joining our company in 2006, Cecilia served as an authorised public accountant at PricewaterhouseCoopers AB. Cecilia holds a Bachelor of Science degree in Economics and Business Administration from Linnaeus University.

Fredrik Östman has served as Group Tax Director since 2017. Fredrik has been with the company since April 2012 in various senior finance leadership roles including as Interim CFO. Previously he was the Group CFO at Gunnebo and Gambro AB. He also worked for Husqvarna, Electrolux and ABB in a variety of finance leadership roles in Europe and the United States. Fredrik holds a Bachelor of Science from Handelshögskolan, Gothenburg University and a Master's in Accounting and Finance from the London School of Economics.

Stefan Götz has served as a Director of our company since June 2011. Stefan has been associated with H&F since April 2007 and has served as a Managing Director of H&F since July 2008. Prior to joining H&F, Stefan served as an Executive Director in the Principal Investments Area of Goldman Sachs International in London from 2000 to 2007. Prior to that, he worked at McKinsey & Co. in Germany.

Content

Directors' Report	27	Parent Company Financial Statement	
Consolidated Financial Statement		Parent Company Income Statement	72
Consolidated Income Statement	34	Parent Company Statements of Financial Position	73
Consolidated Statements of Comprehensive Income	34	Parent Company Statements of Changes in Equity	74
Consolidated Statements of Financial Position	35	Parent Company Statement of Cash Flows	74
Consolidated Statements of Changes in Equity	37	Notes to the Parent Company Financial Statements	
Consolidated Statement of Cash Flows	38	Note 1 Accounting Policies	75
Notes to the Consolidated Financial Statements		Note 2 Financial Income and Costs	75
Note 1 Accounting Policies	39	Note 3 Borrowings	75
Note 2 Critical Accounting Estimates and Judgements	46	Note 4 Investments in Subsidiaries	76
Note 3 Segment Reporting	48	Note 5 Pledged Assets and Contingent Liabilities	77
Note 4 Business Combinations	49	Independent Auditor's Report	78
Note 5 Expenses by Type of Costs	50	Five-Year Financial Overview	80
Note 6 Audit Fees	50	Definitions	81
Note 7 Employee Benefit Expense	51	Risk Factors	82
Note 8 Remuneration of Directors and Key Executive Management	51		
Note 9 Employee Option Plan	51		
Note 10 Non-Cash Items	51		
Note 11 Leases	52		
Note 12 Depreciation and Amortisation	53		
Note 13 Financial Income and Costs	53		
Note 14 Income Tax Expense and Benefit	54		
Note 15 Transaction with Related Parties	54		
Note 16 Property, Plant and Equipment	55		
Note 17 Right of Use Assets	56		
Note 18 Goodwill	56		
Note 19 Customer Portfolio	58		
Note 20 Other Intangible Assets	58		
Note 21 Deferred Tax	59		
Note 22 Financial Risk Management	60		
Note 23 Inventories	65		
Note 24 Trade Receivables	65		
Note 25 Derivative Financial Instrument	66		
Note 26 Share Capital	66		
Note 27 Borrowings	67		
Note 28 Other Provisions	69		
Note 29 Accrued Expenses and Deferred Income	70		
Note 30 Pledged Assets and Contingent Liabilities	70		
Note 31 Changes in Accounting Policy	71		

Directors' Report

The Group is the leading provider of monitored alarm solutions for residential households and small businesses in Europe. We offer premium alarm services to our portfolio of over 3.3

million customers in 16 countries in Europe and Latin America. We conduct our business through three segments, portfolio service, customer acquisition and adjacencies.

Key figures

EUR thousand (if not otherwise stated)

	2019	2018
Portfolio services segment:		
Unaudited operating data		
Total subscribers (year-end), units	3,346,712	2,930,753
Cancellations, units	195,362	171,099
Attrition rate (LTM)	6.2%	6.2%
Net subscriber growth, units ¹	415,959	344,630
Subscriber growth rate, net	14.2%	13.3%
Average monthly revenue per user (ARPU), (in EUR)	41.2	40.2
Monthly adjusted EBITDA per subscriber (EPC), (in EUR) ²	28.6	26.9
Non-IFRS and IFRS financial data		
Portfolio services revenue	1,548,936	1,329,536
Portfolio services adjusted EBITDA ³	1,075,348	890,704
Portfolio services adjusted EBITDA margin	69.4%	67.0%
Customer acquisition segment:		
Unaudited operating data		
New subscribers added (gross)	611,321	515,624
Cash acquisition cost per new subscriber (CPA), (in EUR) ⁴	1,208	1,220
Non-IFRS and IFRS financial data		
Customer acquisition revenue	329,098	266,823
Customer acquisition adjusted EBITDA ⁵	(316,297)	(277,768)
Customer acquisition capital expenditure	422,445	351,304
Adjacencies segment:		
Non-IFRS and IFRS financial data		
Adjacencies revenue	22,696	16,167
Adjacencies adjusted EBITDA	2,035	(2,322)
Consolidated:		
Unaudited operating data		
Payback period (in years) ⁶	3.5	3.7
Non-IFRS and IFRS financial data		
Revenue	1,900,730	1,612,525
Organic revenue growth	18.6%	19.4%
Adjusted EBITDA ⁷	761,086	610,614
Adjusted EBITDA margin	40.0%	37.9%
Capital expenditures	592,909	500,138
Reported (including SDI)		
Revenue	1,900,730	1,612,525
Adjusted EBITDA ⁷	702,869	583,549

1) Differences in reconciliation with end of period subscriber data are primary due to acquisition and disposal of contract portfolios.

2) Includes the effect from IFRS 16 of EUR 0.3 in 2019.

3) Includes the effect from IFRS 16 of EUR 11,929 thousand in 2019.

4) Includes the effect from IFRS 16 of EUR 48 in 2019.

5) Includes the effect from IFRS 16 of EUR 29,503 thousand in 2019.

6) Includes the effect from IFRS 16 of 0.1 years in 2019.

7) Includes the effect from IFRS 16 of EUR 41,431 thousand in 2019.

All amounts are including IFRS 15 with adjustments of 2018 comparatives. For further details see note 3.

2019 includes effects from adoption of IFRS 16 with no restatement of 2018 comparatives.

All negative amounts in this report are shown within parenthesis.

Analysis of operating results

The information presented and discussed in this report includes a number of measures that are not defined or recognised under IFRS including CPA, ARPU, EPC and adjusted EBITDA. These are considered to be key measures of the Group's financial performance and as such have been included here to enhance comparability and usefulness. CPA is the net investment to acquire a new customer. ARPU and EPC reflect the monthly revenues and adjusted EBITDA per customer in the portfolio segment. Adjusted EBITDA, being earnings before interest, tax, write offs, depreciation and amortisation,

excluding separately disclosed items (SDI), is considered by management to give a fairer view of the year-on-year comparison of financial performance. SDI's are costs or income that have been recognised in the income statement which management believes, due to their nature or size, should be disclosed separately to give a more comparable view of the year-on-year financial performance. All SDIs are further explained later in this section.

All amounts are including IFRS 15 with adjustments of 2018 comparatives. 2019 includes effects from adoption of IFRS 16 with no restatement of 2018 comparatives.

Results excluding SDI

EUR million	2019	2018	Percentage change
Revenue	1,900.7	1,612.5	17.9%
Operating expenses	(1,145.6)	(1,008.9)	13.6%
Other income	6.0	7.0	(14.2%)
Adjusted EBITDA	761.1	610.6	24.6%
Adjusted EBITDA margin, %	40.0%	37.9%	–
Depreciation and amortisation	(235.5)	(180.1)	30.8%
Retirement of assets	(76.8)	(60.3)	27.5%
Operating profit	448.8	370.3	21.2%
Operating profit margin, %	23.6%	23.0%	–
Interest income and cost	(205.5)	(184.2)	11.6%
Other financial items	(3.0)	(3.3)	(10.5%)
Result before taxes and SDI	240.3	182.7	31.5%

Revenue

The following table shows the split of our revenue by market segment:

EUR million	2019	2018	Percentage change
Revenue by segment			
Portfolio services	1,548.9	1,329.5	16.5%
Customer acquisition	329.1	266.8	23.3%
Adjacencies	22.7	16.2	40.4%
Total	1,900.7	1,612.5	17.9%

Total revenue during 2019 increased by 17.9%, or EUR 288.2 million, to EUR 1,900.7 million, up from EUR 1,612.5 million in the prior period. Organic revenue growth was 18.6%, primarily due to the increasing customer base and higher average monthly revenue per user.

Revenue for portfolio services during 2019 increased by 16.5%, or EUR 219.4 million, to EUR 1,548.9 million, up from EUR 1,329.5 million in the previous period. The increase was primarily due to the increased number of customers and higher average monthly revenue per user.

Revenue for customer acquisition in the twelve months ending December 31, 2019, increased by 23.3%, or EUR 62.3 million, to EUR 329.1 million, up from EUR 266.8 million in the previous period. The increase was mainly due to higher number of new installations, higher upfront revenue compared with the same period last year, reflecting also the impact of IFRS 15 which has been folded into our segment reporting (from SDI's previously).

Operating expenses

Operating expenses in 2019, increased by 13.6%, or EUR 136.7 million, to EUR 1,145.6 million, up from EUR 1,008.9 million in the prior period. The increase was mainly due to the growth in the portfolio and the increase in new installations. The increase was partly offset by the positive effect from IFRS 16 amounting to EUR 41.4 million.

Adjusted EBITDA

Adjusted EBITDA in the twelve months ending December 31, 2019, increased by 24.6% or EUR 138.1 million to EUR 761.1 million, up from EUR 610.6 million in the prior period. The increase in adjusted EBITDA was mainly driven by the increased customer base, higher average revenue per user and improved operational efficiency, as well as the effect of EUR 41.4 million from IFRS 16.

Depreciation and amortisation

Depreciation and amortisation increased to EUR 235.5 million in the twelve months ending December 31, 2019, up from EUR 180.1 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalised direct cost related to the acquisition of customer contracts. The depreciation and amortisation have increased mainly due to the increased number of customers but also affected by EUR 38.6 million related to IFRS 16.

Retirement of assets

Retirements of assets increased to EUR 76.8 million in 2019, up from EUR 60.3 million in the prior period. The cost corresponds mainly to the remaining balance for capitalised material and direct costs, when customers are leaving the portfolio or upgrading to our new platform.

Interest income and cost

Interest income amounted to EUR 0.3 million in both the twelve months ending December 31, 2019 and 2018. Interest cost amounted to EUR 205.8 million, up from EUR 184.5 million in the prior period driven by interest expenses relating to the adoption of IFRS 16, interest expenses in relation to alliance sales as well as higher indebtedness. The IFRS 16 interest expenses had a negative impact of EUR 4.6 million.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 3.0 million compared to EUR 3.3 million for the twelve months ended December 31, 2018.

Reported consolidated income statement

EUR million	2019			2018		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	1,900.7	–	1,900.7	1,612.5	–	1,612.5
Operating expenses	(1,145.6)	(58.2)	(1,203.8)	(1,008.9)	(27.1)	(1,036.0)
Other income	6.0	–	6.0	7.0	–	7.0
Adjusted EBITDA	761.1	(58.2)	702.9	610.6	(27.1)	583.5
Depreciation and amortisation	(235.5)	(153.1)	(388.6)	(180.1)	(153.2)	(333.3)
Retirements of assets	(76.8)	–	(76.8)	(60.3)	–	(60.3)
Operating Profit	448.8	(211.3)	237.5	370.3	(180.3)	190.0
Interest income and cost	(205.5)	–	(205.5)	(184.2)	30.6	(153.7)
Other financial items	(3.0)	(43.5)	(46.5)	(3.3)	(136.9)	(140.3)
Result before tax	240.3	(254.8)	(14.5)	182.7	(286.6)	(103.9)
Income tax benefit and expense	–	–	(45.7)	–	–	(25.4)
Result for the period	–	–	(60.3)	–	–	(129.3)

Separately disclosed

SDI affecting operating expenses

SDI affecting operating expenses includes costs related to various transition projects within the Group. It also includes costs related to acquisitions of new businesses. For 2019, the costs amounted to EUR 58.2 million and EUR 27.1 million in the same period last year.

SDI affecting depreciation and amortisation

The market value of the acquisition-related intangible assets is amortised over the expected life. The main part of the total cost of EUR 153.1 million, compared to EUR 153.2 million in 2018, relates to amortisation of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting interest income and cost

SDI affecting interest income and cost consists of interest income regarding a loan to related party totaling EUR 30.6 million for the twelve months ending December 31, 2018. SDI affecting other financial items SDI affecting other financial items for the twelve months was an expense of EUR 43.5 million compared to EUR 136.9 million for the corresponding period 2018. Other financial items consist of a positive non-cash FX valuation

of debt items plus a negative market revaluation of hedges in total amounting to a negative EUR 3.6 million, a cost related to amortisation of prepaid financing fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 39.9 million. For the twelve months ending December 31, 2018, other financial items consist of a negative non-cash FX valuation of debt items plus market revaluation of hedges in total amounting to EUR 63.0 million, a cost related to amortisation and write off of prepaid bank fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 55.0 million and a call cost of EUR 18.9 million for a secured bond repaid in full at the November 2018 refinancing.

Income tax benefit and expense

Total tax cost was EUR 45.7 million for the twelve months compared with EUR 25.4 million last year. Current tax cost was EUR 52.0 million for the twelve months 2019 compared with EUR 41.1 million in 2018. The difference between the years is mainly related to higher profit in 2019 and finalization of tax audits in various jurisdictions. Deferred tax was a benefit of EUR 6.2 million for the twelve months 2019 compared with a benefit of EUR 15.7 million in 2018.

Our segments

We operate a subscription-based business, which we conduct through three segments: portfolio services, customer acquisition and adjacencies.

Portfolio services

The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. We enter into self-renewing monitoring services agreements with our customers, usually at the time of installation and the majority of our customers pay via direct debit. We provide monitoring services through dedicated monitoring centres. The centres filter and respond to customers' alarms. We also provide customer service and support for all our installed systems. Our relatively low attrition rate of 6.2% in both 2019 and 2018 has historically allowed the segment to generate stable and recurring cash flow.

The substantial cash flow from the portfolio services segment allows us to fund expenditure required to grow the customer base. In 2019, the segment generated revenue of EUR 1,548.9 million (1,329.5 in 2018), representing 81.5% (82.5% in 2018) of total revenue and adjusted EBITDA of EUR 1,075.3 million (890.7 in 2018), equivalent to a 69.4% (67.0% in 2018) EBITDA margin. As of December 31, 2019, the Group had approximately 3.3 million (2.9 in 2018) customers, all connected to our alarm monitoring centres.

The result and cash flow of the portfolio services segment during any period are primarily impacted by the average number of monitored alarm customers during that period, the average monthly subscription fee charged, and the capital expenditure and other costs incurred in connection with on-going monitoring services. The average number of customers within any period is primarily affected by attrition rates for existing customers and the number of new customers added during that period.

We have an attractive offer in the markets in which we operate both from a product and service standpoint. We normally increase subscription fees each year based on various consumer price indices combined with value improvements in our offerings in each market. We also increase subscription fees with respect to individual customers to the extent they add new services and features.

The costs incurred in the portfolio services segment primarily include labour costs associated with monitoring and customer service activities (such as monitoring centre operators and field technicians). Capital expenditure for

portfolio services is generally low and primarily consists of purchases of upgraded customer equipment and computer servers and other hardware and software at the Group's monitoring centres. As a result, we are able to significantly improve our operating margins and cash flow as we add new customers to our existing operations.

To monitor performance in the portfolio services segment, management focuses on a number of key metrics, including average revenue per user (ARPU), monthly adjusted EBITDA per customer (EPC) and attrition rate. These metrics are described in more detail under "definitions".

Customer acquisition

The customer acquisition segment develops, sources, purchases, provides and installs alarm systems for new customers in return for an installation fee. This fee typically only covers a portion of the costs associated with purchasing, marketing, selling and installing each alarm system. As a result, the segment's operations represent an upfront investment in our business to acquire new customers, consequently driving revenue growth in the portfolio services segment. In 2019, the customer acquisition segment generated EUR 329.1 million (266.8 in 2018) of revenue and negative adjusted EBITDA of EUR 316.3 (277.8 in 2018).

The cost of acquiring a customer includes the cost of the alarm equipment installed at customer premises as well as marketing, sales, installation and other related activities. Our upfront investment (including the capital expenditure and other costs associated with originating a subscriber) is partially offset at the time of sale by the installation fee paid by a new subscriber. We seek subsequently to recapture the remainder of our upfront investment through the monthly subscription fees, net of on-going monitoring costs (or EPC), generated by the customer.

Adjacencies segment

The adjacency segment captures the sale of remote monitoring and assistance devices and services for senior citizens. As these sales are not considered a part of our core alarms business, they are reported under a separate reporting segment.

Cash flow

The following table shows a summary of our cash flow on a historical basis for the years ending December 31, 2019 and 2018:

EUR million	2019	2018
Cash flow from operating activities before change in working capital	654.3	543.3
Change in working capital	46.9	14.4
Cash flow from operating activities¹	701.2	557.7
Cash flow from investing activities	(688.0)	(508.3)
Cash flow from financing activities ²	(9.0)	(54.9)
Cash flow for the period	4.2	(5.5)
Cash and cash equivalents at beginning of the period	8.6	14.2
Translation differences on cash and cash equivalents	0.0	(0.1)
Cash and cash equivalents at the end of the period	12.8	8.6

1) Cash flow from operating activities is calculated after giving effect to income tax paid.

2) Cash flow from financing activities includes paid interest.

Cash flow from operating activities

Cash flow from operating activities amounted to EUR 701.2 million and EUR 557.7 million for the twelve months ending December 31, 2019 and 2018 respectively. The increase compared with corresponding period in the previous year is primarily driven by the decrease in working capital but also the increase in profitability as well as the impact from the IFRS 16 adoption.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 688.0 million and EUR 508.3 million for the twelve months ending December 31, 2019 and 2018 respectively. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

Cash flow from financing activities

Cash flow from financing activities totaled an outflow of EUR 9.0 million and EUR 54.9 million for the twelve months ending December 31, 2019 and 2018 respectively. The main elements included net paid interest of EUR 209.3 million, and EUR 194.2 million in the same period last year, a net increase in borrowings of EUR 216.8 million compared with EUR 550.3 million in the same

period of the previous year. Other financial items including paid debt related fees and received bond premium totaled a net outflow of EUR 16.5 million compared to EUR 40.4 million in the same period last year. In addition, the same period the previous year was affected by a paid distribution of EUR 370.5 million.

Capital Expenditures

Our capital expenditures primarily consist of (i) customer acquisition capital expenditures, which include purchases of equipment for new customers, direct costs related to the acquisition of customer contracts and (ii) portfolio services capital expenditures which relates to new equipment for existing customers (iii) adjacencies capital expenditure which includes direct costs related to the acquisition of a new customer contract, and (iv) capital expenditures relating to investments in R&D, IT and premises. In accordance with IFRS, the costs of the alarm equipment installed in connection with newly acquired subscribers are capitalised as tangible fixed assets to the extent we retain ownership of the equipment. We also capitalise direct costs related to the acquisition of customer contracts as intangible fixed assets.

The following table shows a summary of our capital expenditures on December 31, 2019 and 2018:

EUR million	2019	2018
Customer acquisition capital expenditures, material	230.5	184.7
Customer acquisition capital expenditures, direct costs	192.0	166.6
Portfolio capital expenditures	52.0	47.5
Adjacencies capital expenditures	8.3	8.6
Capital expenditures other	110.2	92.7
Total	592.9	500.1

The increase in capital expenditures is mainly due to the growth in acquisition of new customers and development cost.

Liquidity, liabilities and financing agreements

The primary sources of liquidity for our business is cash flow from operations, while our significant uses of cash and capital funding needs are purchases of new equipment, funding our customer acquisition operations, operating expenses, capital expenditure, taxes and amounts due to our debt obligations.

Our ability to generate cash from operations depends on future operating performance, which in turn depends on several factors including; general economic, competitive, legislative, regulatory. Several of the aforementioned factors are beyond our control, see the section Risk Factors on page 82 for more details.

Below gives a description of the Group's credit events leading to its current credit structure.

EUR million	2019	2018
Revolver Credit Facility	300.0	300.0
Cash and cash equivalents	12.8	8.6
Drawn facility amount	(127.0)	(73.0)
Utilised letter of credit	(10.9)	(7.7)
Total	174.9	227.9

The following table summarizes our total financial indebtedness on December 31, 2019 and on December 31, 2018.

EUR million	2019	2018
Senior Secured Notes	500.0	300.0
Term Loan B	3,092.0	3,092.0
Revolver Credit Facility	127.0	73.0
Senior Unsecured Notes	1,237.9	1,240.9
Other liabilities	48.3	51.4
Lease liability (IFRS 16)	133.9	-
Finance leases liability	-	1.1
Total	5,139.1	4,758.3

Employees

The Group had 17,144 (14,841 in 2018) full time equivalent (FTE) employees in 2019. Approximately 34% of the FTEs were women and 66% were men. This ratio was 33% respectively 67% in 2018. Approximately 36% of the employees were located in Spain and 16% in France. After Spain and France, the highest concentrations of employees were in Brazil, Sweden, UK, Italy and Portugal. In Sweden and, to a lesser extent, Norway, Finland and Denmark, we work closely with partners to sell and install our products instead of using our own employees.

Regulation and Legal Proceedings

Regulation

Our operations are subject to a variety of laws, regulations and licensing requirements in the countries in which we operate. Most of the laws and regulations specific to the industry are country or municipal-wide in scope. Legislation relating to consumer protection, fair competition, data privacy and other generally applicable areas are either EU or country-wide in scope.

Regulation both poses a threat and offers opportunity to the Group. The threats are described in the section "Risk Factors" on page 82. In terms of opportunities, regulation and voluntary standards in the area of security and safety services offer us the opportunity to set ourselves apart as a Group that is better equipped than other companies operating in the same segment to meet new requirements, to partner with law enforcers, insurance companies and other relevant stakeholders, and to market our services with certifications valued by consumers. We are actively pursuing opportunities to positively influence the regulatory environment.

Sales and Marketing

Some jurisdictions regulate sales methods by restricting door-to-door sales or direct mailing. We do not currently encounter these regulations in our largest countries, such as Spain, Sweden, France, Portugal and Norway. However, Denmark does prohibit door-to-door sales. In this jurisdiction, we have had to alter our sales approach to rely more on advertising our products in public forums. A similar restriction has now been introduced in Belgium. That said, a European Directive approved in December 2019 establishes that door-to-door sales cannot be banned "as is" but that limitations to this activity can be adopted by Member States, which have two years to transpose the Directive into law. If we continue to encounter these regulations, it may require us to change our sales approach with potential customers. See "Risk Factors — Risks Related to Our Business and Industry — Our business operates in a regulated industry, and noncompliance with regulations could expose us to fines, penalties and other liabilities and negative consequences." All of the countries in which we operate have regulations protecting consumers in their dealings with a company's sales force. Typically, these regulations may either provide a customer with a guaranteed trial period or limit the ability to lock a consumer into a contract with no right to terminate without a penalty.

Alarm Verification

We are subject to regulations covering the dispatching of emergency personnel and false alarms. An increasing number of local governmental authorities have adopted laws, regulations or policies aimed at reducing the perceived costs to them of responding to false alarm signals. For example, in France police will only respond to an alarm they have been forwarded once that alarm has been verified. Spain, our largest country, has regulated verification protocols requiring that alarms have to be verified either through video, audio or personal verification steps in order to be considered as "confirmed alarms". Otherwise, emergency personnel will not respond unless three sequential alarms are triggered within 30 minutes, or are verified by audio or video means. If emergency personnel are dispatched to a false alarm, some jurisdictions allow for penalties to be imposed on either the alarm owner or the alarm provider. In France, police are allowed to penalize the alarm provider for a false alarm that has been forwarded. Likewise, in Spain, emergency responders have discretion to impose penalties for frequent false alarms as high as EUR 30,000 per incident. These changes may cause alarm service providers to adopt additional measures to limit the risk of false alarms, such as the use of third-party guard services to verify alarms, install new monitoring equipment or upgrade existing equipment.

Monitoring

We have a monitoring center in each of the key geographies where we operate. In some countries these centers are regulated by either the police or insurance companies and require licenses or permits. For instance, Sweden and Norway consider monitoring centers in the same category as a guarding service, and require each center to obtain an equivalent license that they require of guarding services. In Spain, monitoring centers are subject to stringent approvals by the police. Many countries also impose minimum staffing requirements (normally at least two operators must be present) and minimum training standards for operators in monitoring centers.

Equipment and Installation

The monitoring products we install are regulated by EU and national laws, including on health, safety and environmental protection. The regulatory obligations on the Group and its suppliers depends on their respective roles and activities in a product's supply chain and the features of the relevant product.

In order to conduct installations of alarms, we generally must be registered for this purpose in the countries we operate in. We currently have all required registrations in each of our countries. Some markets impose regulations on the maintenance of our products. France and Spain require that we provide certified maintenance service as part of each contract we enter into with a customer. Additionally, some countries that do not currently regulate maintenance of residential alarms do regulate business alarms. Such regulations apply to our small business customers. In the future, these countries may expand such regulations to the residential marketplace.

Legal Proceedings

At any given time, we may be a party to regulatory proceedings or to litigation or be subject to non-litigated claims arising out of the normal operations of our businesses such as product liability, unfair trading and employment claims. We currently believe that our likely liability with respect to proceedings currently pending is not material to our financial position. The Norwegian Competition Authority (NCA) launched an investigation in June 2017 involving a company subsidiary in Norway ("Verisure Norway"), with which that company has fully cooperated. The NCA issued a statement of objections on June 17 2019 to Verisure Norway and the company with its preliminary findings. The statement included recommendations for a fine of NOK 784 million. The company disagrees with the preliminary findings and on November 18 2019 submitted its response to the statement of objections. We will continue cooperating with the NCA.

The Spanish tax authorities commenced an audit in 2017 into ESML SD Iberia Holding S.A. and Securitas Direct Espana S.A.U regarding the financial years 2012–2014. The audit was of a general nature. The audit was completed in June 2019 and the result from the audit was incorporated in the financial statements.

Covid-19

As we are issuing this report, the company is facing the spread of the COVID-19 virus in Europe and elsewhere with a rapidly changing situation. The company is currently focused on protecting its people and customers and thinking about the long-term. Our assessment of related threats, which is still ongoing, are described in the section "Risk Factors" on page 87.

Events during the reporting period

In March 2019, the Group acquired the remaining 15% minority stake in Verisure Italy S.r.l. Following the completion of the transaction, Verisure Italy is a wholly-owned subsidiary.

During April 2019, the owners of the Group sold ~7.5% minority interest in the Group to Corporación Financiera Alba (Alba). Alba is a part of the March Group, one of the leading Spanish private business and financial groups and is listed on the Madrid stock exchange.

On May 13, 2019, the Group raised EUR 200 million of Senior Secured Notes debt to repay outstanding amounts under the Revolving Credit Facility.

As previously reported, the Norwegian Competition Authority in June 2017 launched an investigation involving Verisure Norway. On June 17, 2019, the Norwegian Competition Authority issued a statement of objections to Verisure Norway and Verisure Midholding AB with its preliminary findings. According to the notification, the NCA is considering the imposition of a fine of approx. EUR 80 million (NOK 784 million) on Verisure Norway and Verisure Midholding, for which the two companies would be jointly and severally liable. We disagree with the NCA's preliminary findings and have responded in detail. At this stage, it is not possible to predict if and when a legally enforceable decision or ruling will be issued.

In November 2019, the Group entered into definitive agreements to create a strategic partnership with Arlo Technologies, Inc., the #1 internet connected camera brand, including the acquisition of Arlo's European business. The aim of the strategic partnership is to leverage both companies capabilities to create incremental scale to address the ever-growing demand for residential and commercial security. The transaction was closed on December 30 2019.

In November 2019, Anthony Loizeau was appointed as Managing Director for the Nordics Cluster. Anthony joined Verisure in 2012 as Managing Director for Latin America, developing our operations across the region and most recently opening our Argentina business. Before Verisure Anthony held several senior positions in a range of industries including CEO of Pages Jaunes and of Kompass across France, Iberia and Benelux. He was previously a VP of Orange in France and at Nestlé. Anthony holds an Executive MBA from HEC Business School in Paris.

Events after the reporting period

In Q1 2020, Cristina Rivas was appointed as Group Chief Technology Officer. Cristina joined Verisure as Technology Director for Iberia and Latin America in 2016 from Vodafone, where she was Head of Group Technology Strategy and Governance, having held several senior positions in Vodafone Spain in customer service, sales and marketing. Before Vodafone, Cristina worked on strategy, marketing and operational efficiency projects across telecommunications, banking and energy at McKinsey. Cristina holds a Master's degree in Telecommunications Engineering from the Universidad Politécnica in Madrid.

Consolidated Financial Statement

Consolidated Income Statement

EUR thousand	Note	2019	2018
Revenue	3,5	1,900,730	1,612,525
Cost of sales	5,7,10,11,12	(1,007,095)	(857,106)
Gross profit		893,635	755,419
Selling expenses	5,7,10,11,12	(259,990)	(216,107)
Administrative expenses	5,6,7,8,9,11,12	(402,150)	(356,279)
Other income	5	5,985	6,974
Operating profit		237,480	190,007
Finance income	13	260	30,885
Finance costs	13	(252,266)	(324,828)
Result before tax		(14,526)	(103,937)
Income tax expense and benefit	14	(45,740)	(25,392)
Result for the period		(60,266)	(129,328)
Whereof attributable to:			
– Parent company		(60,266)	(130,017)
– Non-controlling interest		–	689

Consolidated Statement of Comprehensive Income

EUR thousand	2019	2018
Result for the year	(60,266)	(129,328)
Other comprehensive income		
Items that will not be reclassified to the income statement		
Hedging reserve	–	–
Remeasurements of defined benefit plans net of tax	(561)	(348)
Currency translation differences on foreign operations	(10,434)	(4,286)
Other comprehensive income	(10,995)	(4,634)
Total comprehensive income for the period	(71,261)	(133,962)
Whereof attributable to:		
– Parent company	(71,261)	(134,651)
– Non-controlling interest	–	689

Consolidated Statement of Financial Position

EUR thousand	Note	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	16	872,846	720,960
Right of use assets	17	132,899	–
Goodwill	4,18	884,261	868,557
Customer portfolio	19	1,016,865	1,034,280
Other intangible assets	20	239,176	167,573
Deferred tax assets	21	30,827	28,867
Derivatives	22,25	23,410	17,603
Trade and other receivables	22,24	310,179	307,341
Total non-current assets		3,510,463	3,145,181
Current assets			
Inventories	23	126,977	102,488
Trade receivables	22,24	154,075	133,620
Current tax assets		17,872	15,101
Derivatives	22,25	4,758	–
Prepayments and accrued income		62,948	34,553
Other current receivables	22	15,613	10,938
Cash and cash equivalents	22	12,770	8,613
Total current assets		395,014	305,313
Total assets		3,905,477	3,450,494

Consolidated Statement of Financial Position

EUR thousand	Note	2019	2018
Equity and liabilities			
Equity	26		
Share capital		56	56
Other paid in capital		624,686	624,517
Other reserves		32,645	43,640
Retained earnings		(2,821,173)	(2,714,251)
Equity attributable to equity holders of the parent company		(2,163,786)	(2,046,038)
Non-controlling interest		–	(2,745)
Total equity		(2,163,786)	(2,048,783)
Non-current liabilities			
Long-term borrowings	22,27	4,948,800	4,573,202
Derivatives	22,25	17,720	6,398
Other non-current liabilities	22	114,571	120,310
Deferred tax liabilities ¹	21	250,295	254,451
Other provisions	28	25,141	3,278
Total non-current liabilities		5,356,527	4,957,640
Current liabilities			
Trade payables	22	139,086	125,237
Current tax payable		25,300	19,034
Short-term borrowings	22,27	91,726	47,913
Derivatives	22,25	75	3,746
Accrued expenses and deferred income	29	426,594	316,135
Other current liabilities	22	29,955	29,572
Total current liabilities		712,736	541,637
Total equity and liabilities		3,905,477	3,450,494

1) The majority of the deferred tax liabilities relates to the acquisition of Securitas Direct AB in 2011.

Consolidated Statements of Changes in Equity

EUR thousand	Attributable to equity holders of the parent company and non-controlling interest						
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2019	56	624,517	43,640	(2,714,251)	(2,046,038)	(2,745)	(2,048,783)
Result for the period	–	–	–	(60,266)	(60,266)	–	(60,266)
Other comprehensive income	–	–	(10,995)	–	(10,995)	–	(10,995)
<i>Total comprehensive income</i>	–	–	(10,995)	(60,266)	(71,261)	–	(71,261)
Shareholders contribution	–	169	–	–	169	–	169
Group contribution	–	–	–	10	10	–	10
Transaction with non-controlling interest	–	–	–	(46,666)	(46,666)	2,745	(43,921)
Balance at December 31, 2019	56	624,686	32,645	(2,821,173)	(2,163,786)	–	(2,163,786)

EUR thousand	Attributable to equity holders of the parent company and non-controlling interest						
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2018 – As reported	56	569,168	47,926	(1,169,176)	(552,026)	(1,802)	(553,828)
Change in accounting principles, IFRS 15	–	–	–	(65,956)	(65,956)	(1,632)	(67,588)
Balance at January 1, 2018 – As updated comparatives	56	569,168	47,926	(1,235,132)	(617,982)	(3,434)	(621,416)
Change in accounting principles, IFRS 9	–	–	–	99,226	99,226	–	99,226
Balance at January 1, 2018 – Adjusted	56	569,168	47,926	(1,135,906)	(518,756)	(3,434)	(522,190)
Result for the period	–	–	–	(130,017)	(130,017)	689	(129,328)
Other comprehensive income	–	–	(4,286)	(348)	(4,634)	–	(4,634)
<i>Total comprehensive income</i>	–	–	(4,286)	(130,365)	(134,651)	689	(133,962)
Shareholders contribution	–	55,349	–	–	55,349	–	55,349
Group contribution	–	–	–	1,066	1,066	–	1,066
Dividend	–	–	–	(1,448,025)	(1,448,025)	–	(1,448,025)
Transaction with non-controlling interest	–	–	–	(1,021)	(1,021)	–	(1,021)
Balance at December 31, 2018	56	624,517	43,640	(2,714,251)	(2,046,038)	(2,745)	(2,048,783)

Consolidated Statement of Cash Flows

EUR thousand	Note	2019	2018
Operating activities			
Operating profit		237,480	190,007
Reversal of depreciation and amortisation	12	388,593	333,292
Other non-cash items	10	76,788	60,251
Paid taxes		(48,558)	(40,255)
Cash flow from operating activities before change in working capital		654,303	543,295
Change in working capital			
Change in inventories		(20,072)	(28,757)
Change in trade receivables		(11,816)	(10,432)
Change in other receivables		(41,743)	(25,586)
Change in trade payables		14,402	11,041
Change in other payables		106,135	68,123
<i>Cash flow from change in working capital</i>		<i>46,906</i>	<i>14,390</i>
Cash flow from operating activities		701,209	557,684
Investing activities			
Purchase of intangible assets	19, 20	(295,785)	(247,042)
Purchase of property, plant and equipment	16	(297,138)	(253,374)
Settlement of deferred consideration		–	(4,685)
Acquisition of non-controlling interest		(45,000)	(3,248)
Acquisition of net assets		(48,304)	–
Prepayments of intangible assets		(1,798)	–
Cash flow from investing activities		(688,025)	(508,349)
Financing activities			
Paid bank and advisory fees		(6,397)	(12,608)
New financing		200,000	1,112,000
Repayment of debt		–	(630,000)
Other changes in borrowings		16,770	68,294
Call cost old debt		–	(18,900)
Premium from new financing		4,651	–
Net interest paid		(209,259)	(194,212)
Paid distribution		–	(370,528)
Repayment of other non-current receivables		–	691
Other financial items		(14,796)	(9,592)
Cash flow from financing activities		(9,031)	(54,854)
Cash flow for the period		4,154	(5,520)
Cash and cash equivalents at start of period		8,613	14,245
Exchange difference on translating cash and cash equivalents		3	(112)
Cash and cash equivalents at end of period		12,770	8,613

Notes to the Consolidated Financial Statements

Verisure Midholding AB (publ) ("the Company") is an organised public limited liability company incorporated on May 26, 2011, in and under the laws of Sweden with the registration number 556854-1402 and with its registered office in Malmö. Verisure Midholding AB's address is Box 392, 201 23 Malmö. The Group's headoffice is based in Geneva, Switzerland since June 2017.

Verisure Midholding AB (publ) is directly and wholly owned by Verisure Topholding 2 AB. The Company's ultimate parent entity is Shield Luxco 1 S.à r.l., which operates in and under the laws of Luxembourg. Shield Luxco 1 S.à r.l. is controlled by Hellman & Friedman, a global private equity investment firm.

Nature of operations

The Group is the leading provider of professionally monitored smart alarms for residential households and small business in Europe and growing in Latin America. The Group operates in twelve European countries and in four Latin American countries. The European countries are Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and United Kingdom. The Latin American countries are Argentina, Brazil, Chile and Peru.

The Group comprises of three segments: customer acquisition, portfolio services and adjacencies. The customer acquisition segment provides and installs alarm systems for new customers in return for an installation fee. The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. The adjacency segment captures the sale of remote monitoring and assistance devices and services for senior citizens.

Note 1 Accounting Policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as approved by the EU. The accounting policies are unchanged compared with those applied in 2018, except for changes of lease accounting and for hedge accounting.

The consolidated financial statements have been prepared on a historical cost basis, except where a fair value measurement is required according to IFRS (e.g for derivative financial instruments, which have been measured at fair value).

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. Management believes that the going concern assumption is appropriate for the Group due to adequate liquidity, capital position, and continued improvement in operating results. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

Summary of accounting policies

The most important accounting policies in the preparation of these consolidated financial statements are described below. These policies were applied consistently for all years presented, unless otherwise stated.

Basis of consolidation

The consolidated financial statements include the results, cash flows and assets and liabilities of the Group and all subsidiaries.

A subsidiary is an entity controlled, either directly or indirectly, by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The effect of potential voting rights that are currently exercisable or convertible is taken into account when determining whether the Group has a controlling influence on another entity.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Note 1 cont.

Subsidiaries are fully consolidated from the date of acquisition and deconsolidated from the date that control ceases. The accounting principles used by subsidiaries are adjusted where necessary to ensure consistency with the principles applied by the Group.

All inter-company transactions, balances and unrealised gains and losses attributable to inter-company transactions are eliminated in the preparation of the consolidated financial statements.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro (EUR), which is the parent company's functional and presentation currency.

Transactions and balances

Transactions in foreign currency are translated into the functional currency in accordance with the exchange rates prevailing at the date of the transaction. Exchange differences on monetary items are recognised in the income statement when they arise. Exchange differences from operating items are recognised as either cost of sales or selling or administrative expenses, while exchange differences from financial items are recognised as financial income or financial expenses. When preparing the financial statements of individual companies, foreign currency denominated receivables and liabilities are translated to the functional currency of the individual company using the exchange rates prevailing at each balance sheet date.

Group companies

The results and financial position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet item presented are translated at the closing rate on the closing date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting translation differences are recognised in other comprehensive income.

When a foreign operation is sold or partially disposed of, translation differences that were recorded in equity are reclassified and recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

One of the Group companies, operates in Argentina, which is considered to be a hyperinflationary economy. However, the effects are currently minimal. The Group continuously

evaluates the effects in order to adjust the valuation when relevant.

Segment reporting

The Group's operating segments are identified by grouping together the business by revenue stream, as this is the basis on which information is provided to the chief operating decision maker (CODM) for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. The Group has identified the management team as its CODM. The segments identified based on the Group's operating activities are customer acquisition, portfolio services and adjacencies which are explained further below.

Customer acquisition

This segment includes the part of the Group that provides and installs monitored alarms for homes and small businesses. Sales and installations can be performed both by our own employees and by external partners. Each new customer generates installation income that is recognised once installation of the alarm equipment has been completed. The Company's costs for materials, installation, administration and marketing generally exceed the non-recurring income, resulting in negative cash flow for the segment.

Portfolio services

The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. We typically enter into self-renewing monitoring agreements with customers at the time of installation and the majority of customers pay via direct debit. We monitor our installed base of alarms through dedicated monitoring centres in order to verify alarms and initiate an appropriate response when an alarm is triggered. We also provide customer service and technical support for all our installed systems.

Adjacencies

The adjacencies segment capture the sale of remote monitoring and assistance devices and services for senior citizens. As these sales are not considered a part of our core alarm business, these revenues are categorised as adjacencies.

Business segments are recognised using the same accounting policies as applied by the Group.

Revenue recognition

Revenues include alarm monitoring and installation fees. The revenues are recognised only where there is persuasive evidence of a sales agreement, the delivery of goods or services has occurred, the sale price is fixed or determinable and the collectability of revenue is reasonably assured. Revenues are recognised less discounts and value added tax and after eliminating sales within the Group.

For customer agreements containing multiple deliverables (installation and monitoring services) the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Note 1 cont.

More specifically income is recognised as follows:

Alarm monitoring

Income from alarm monitoring services is recognised over time during the period to which the service relates. The payments are made in advance or at delivery. When there is a difference in timing between the payment and the revenue recognised the difference is accounted for as subscription fees invoiced in advance.

Installation fees

Revenues from alarm installation is recognised once the installation is completed. The payments are made at the time of delivery or through monthly installments. For more information regarding payment, see section "Financing" below.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration for the business combination is measured at fair value on the acquisition date, which is calculated as the sum on the acquisition date fair value of paid assets, liabilities that arise or are assumed and equity ownership issued in exchange for control of the acquired business. Acquisition related costs are recognised in the income statement during the period in which they are incurred.

The consideration also includes fair value on the acquisition date of the assets or liabilities arising from an agreement concerning contingent consideration.

Changes to the fair value of a contingent consideration as a result of additional information, concerning facts and circumstances at the time on the acquisition date qualify as adjustments during the assessment period and require retrospective restatement with corresponding adjustment of goodwill. All other changes to the fair value of an additional consideration that is classified as an asset or liability are recognised in accordance with the applicable standard. Contingent consideration that is classified as equity is not remeasured and the subsequent settlement is recognised in equity.

The identifiable acquired assets assumed liabilities and contingent assets are recognised at fair value as at the acquisition date.

Contingent liabilities assumed in a business combination are recognised as existing liabilities arising from events that have occurred, if their fair value can be reliably calculated.

In a business combination where the sum of the consideration, any non-controlling interests and the fair value on the acquisition date of previously held equity interest exceeds the fair value of identifiable acquired net assets on the acquisition date, the difference is recognised as goodwill in the statement of financial position. If the difference is negative, the resulting gain on the acquisition is recognised as a bargain purchase in the income statement after review of the difference.

In the case of each business combination, previously held non-controlling interests in the acquired company are measured either at fair value or at the value of the proportionate share of the non-controlling interests of the acquired company's identifiable net assets.

Operating expenses

The Group's business model involves sales and installation being carried out primarily by the same individuals. The costs of these activities are recognised in gross profit. This means that "cost of sales" includes some costs that are actually selling expenses but cannot be allocated to a specific function.

Employee benefit expense

Our employees in Belgium, Denmark, France, the Netherlands, Norway, Sweden, Switzerland and UK have a pension plan, whereas our employees in Argentina, Brazil, Chile, Finland, Germany, Italy, Peru, Portugal and Spain do not. We offer both defined contribution and defined benefit pension plans. Defined contribution plans are post-employment benefit schemes under which we pay fixed contributions into a separate legal entity and have no legal or constructive obligation to pay further contributions. Costs for defined contribution schemes are expensed in the period during which the employee carried out his or her work. Costs are in line with the payments made during the period. Defined benefit plans are post-employment benefit schemes other than defined contribution plans, with the exception of a limited defined benefit plan in France and Switzerland. For these plans, amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings or years of service. All pension liabilities in Sweden are classified as defined contribution plans, except pensions for office-based staff which are through a national multi-employer pension plan, which is the same manner as a defined contribution plan. The level of contribution is dependent upon, among other things, the level of employee participation and salaries in each country.

Equity plan

A limited number of leaders of the Company also participate in an equity plan, which allows them to acquire shares at fair market value in Shield Luxco 2 S.à r.l. and/or Dream Luxco SCA (either directly or through a legal entity). As the investment is done at fair market value and with participants' out-of-pocket resources, there is no benefit for the employees.

Share option plan

Certain employees of the Group are granted share options in Shield Luxco 2 S.à r.l. The Share Option Plan is settled through equity and disclosed accordingly. Hence, the options are recognised as an employee benefits expenses, with a corresponding increase in equity during the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted. The fair value at grant date is determined using the Black-Scholes model.

Note 1 cont.

Interest income

Interest income is recognised using the effective interest method.

Financing

To enhance the payment plan flexibility for customers some of the Group's entities offer to finance part of the upfront fee, i.e. the customer gets the opportunity to pay the financed amount in monthly installments typically over a three-year period. This offered service supports the Group's growth and profitability targets well and may be arranged in two alternative ways; external or internal financing.

External financing

With external financing the customer is first invoiced for all installments relating to the amount of financed upfront fee. These invoices are then sold at a discount to a financial institution which assumes the credit risk, but the collection process remains with the Group. The Group recognises the received net amount as installation revenue.

Internal financing

With internal financing the customer is either invoiced for all installments or on a month-by-month basis relating to the amount of financed upfront fee. In this case the Group assumes the credit risk. The net present value of the future installments, discounted at an appropriate interest rate, is recognised as installation revenue.

Income taxes

Income taxes include current and deferred tax. These taxes have been calculated at a nominal amount according to each country's tax provisions and the tax rates that have been defined or announced and are highly likely to become affected. Current tax is tax that is paid or received for the current year and includes any adjustments to current tax for prior years. In the case of items recognised directly in equity or other comprehensive income, any tax effect on equity or other comprehensive income is also recognised. Deferred income tax is recognised using the balance sheet method, which means that deferred income tax is calculated on all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the amounts can be utilised.

Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and any cumulative impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic

benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is based on the asset's cost and is allocated using the straight-line method over the asset's estimated useful life, as follows:

Alarm equipment	5–15 years
Other machinery and equipment	3–10 years

The useful lives and residual values of Group assets are determined by management at the time of acquisition and are reviewed annually for appropriateness. The lives are based primarily on historical experience with regards to the lifecycle of customers, as well as anticipation of future events that may impact useful life, such as changes in technology and macro-economic factors.

Alarm equipment is primarily equipment installed in customers' premises. Other machinery and equipment is primarily IT-equipment and furniture.

An asset's residual value and value-in-use are reviewed, and adjusted if appropriate, annually on the reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the estimated recoverable amount. Gains and losses on disposals are recognised in the income statement as cost of sales.

Leases

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date. The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of the right of use assets are determined on the same basis as those of property, plant and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate. The incremental borrowing rate is specific for each of the Groups entities and is based on the calculation of cost of debt in the WACC calculation. It also considers what kind of asset that is leased as well as the

Note 1 cont.

contract period. Each quarter the Group evaluates the rates and updates them regarding any new contracts when necessary. When material changes are made in a contract, the Group also reevaluate the discount rate and change when necessary.

Lease payments included in the measurement of the lease liability comprises of fixed payments, variable lease payments that depend on an index or rate, and amounts expected to be payable under a residual value guarantee. Non-lease components are included in vehicle leases, but not in leases of buildings. The group does not lease any intangible assets.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset.

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

In the comparative period, the Group classifies leases that transfer substantially all of the risks and rewards of ownership as financial lease. When this was the case, an asset and liability was calculated to the present value of future minimum lease payments at the commencement date of the lease contract. The asset was depreciated over the contract time, and the lease liability was measured to amortised cost using the effective rate method. Leased assets classified as operating leases were not recognised in the balance sheet, but the payments were recognised in the income statement on a straight-line basis over the term of the lease.

Intangible assets

Goodwill

In a business combination where the sum of the acquisition price, any minority interest and fair value of any previously held equity interest on the acquisition date exceeds the fair value of identifiable acquired net assets on that date, the difference is recognised as goodwill. Goodwill is allocated to the lowest levels for which there are separately identifiable cash flows or cash generating units (CGUs). Goodwill is not subject to amortisation and is tested for impairment annually, or as soon as there is an indication that the asset has declined in value and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, assets are grouped at the CGU level. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill

allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not reversed in a subsequent period.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

The Group prepares and approves formal long term management plans for its operations, which are used in the value-in-use calculations.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Customer portfolio

The customer portfolio includes contract portfolios and customer acquisition costs. The customer acquisition costs are costs directly related to the acquisition of customer contracts and carried at cost less accumulated amortisation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Amortisation is based on the asset's cost and allocated on a straight-line basis over the estimated useful life.

Other intangible assets

Other intangible assets are primarily computer software, development costs and trademark. Acquired software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the asset's estimated useful life. Development costs for new identifiable and unique software products are capitalised if they are controlled by the Group and are likely to generate economic benefits. The capitalised amounts consist of direct costs and the capitalisable portion of indirect costs.

Costs associated with maintaining computer software are expensed as incurred. Capitalised development costs have a definable useful life and are amortised on a straight-line basis from the date the software entered use.

Amortisation for all intangible assets is measured using the straight-line method during the useful life, as follows:

Customer portfolio	5–24 years
Computer software	3–10 years
Other intangible assets	3–18 years

An asset's residual value and value-in-use are reviewed, and adjusted if appropriate, annually on the reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the estimated recoverable amount.

Note 1 cont.

Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested for impairment annually or as soon as an indication emerges that they have decreased in value. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the recoverable amount may fall short of the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

Value-in-use is the present value of estimated cash flows and is measured on the basis of assumptions and estimates. The most significant assumptions relate to organic sales growth, the operating margin, the extent of operating capital employed and the relevant pre-tax weighted average cost of capital (WACC), which is used to discount future cash flows. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

With the exception of impairment losses on goodwill, previously recognised impairment losses are reversed only if a change has occurred regarding the assumptions that formed the basis for determining the recoverable value when the impairment loss was recognised. If this is the case, the impairment loss is reversed in order to increase the carrying amount of the impaired asset to its recoverable amount. A reversal of a previous impairment loss is only recognised where the new carrying amount does not exceed what should have been the carrying amount (after depreciation and amortisation) had the impairment loss not been recognised in the first place. Impairment losses on goodwill are never reversed.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred income tax is recognised using the balance sheet method, which means that deferred income tax is calculated on all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are generally recognised for all taxable temporary differences. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profits nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited in other

comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets on losses carry forward are recognised to the extent it is probable that future taxable profits will be available against which the amounts can be utilised. The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

The Group classifies its financial instruments as:

- Financial assets at fair value through profit or loss.
- Financial assets at fair value through OCI.
- Financial assets at amortised cost.
- Financial liabilities at fair value through profit or loss.
- Financial liabilities at amortised cost.

The classification of financial assets depends on the business model for managing the portfolio in which the financial asset belongs and the characteristics of the cash flows. Financial assets that have cashflows that are solely payment of principal and interest (SPPI), and that are held in a business model that holds financial assets to collect contractual cashflows are classified as and measured at amortised cost. Financial assets that have cash flows that are SPPI but are held in a business model that receives its cashflows both from holding the financial assets to collect contractual cashflows and from sales of financial assets are classified as and measured at fair value through other comprehensive income. All other financial assets are classified as and measured at fair value with fair value changes in the income statement. Management determines the designation of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. Purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Gains and losses arising from changes in the fair value of "financial assets and liabilities carried at fair value through profit or loss" are recognised as a financial item as incurred. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and re-wards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held in a business model not intended to fully or partially collect contractual cashflows or financial assets that do not meet the SPPI criteria and are primarily derivative instruments. Derivatives are classified as fair value through profit or loss mandatorily unless they are designated as hedges in a hedge accounting relation. Assets in this category are classified as current or non-current assets depending on purpose and management intention.

Note 1 cont.

Derivative instruments

The Group's activities expose it to financial risk arising from changes in foreign exchange rates and interest rates. The use of financial derivatives is governed by the Group's treasury policy as approved by the board of directors. This policy provides written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group uses interest rate swaps to economically hedge cash flows due to interest rate risk on the Group's long-term debt. The Group does not use derivative financial instruments for speculative purposes. All derivative instruments are recognised initially either as assets or liabilities at fair value on the trade date in the consolidated balance sheet and are subsequently revalued at fair value on each reporting date. The changes in value of derivatives that are not designated as hedges are recognised in the income statement under finance income or finance costs line items.

The components and fair values of the Group's derivative instruments are determined using the fair value measurements of significant other observable inputs, classified as level 2 of the fair value hierarchy. The company uses observable market inputs based on the type of derivative and the nature of the underlying instrument.

Hedge accounting

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group does not use derivative financial instruments for speculative purposes.

Financial assets at amortised cost

Financial assets at amortised cost are primarily trade receivables and do not carry any interest and are stated at their nominal value less any provision for bad debts. A provision for bad debts is made for expected credit losses using the simplified approach for both current and non-current trade receivables. This means that lifetime expected credit losses are recognised for all trade receivables. Estimated bad debt provision is based on the ageing of the receivable balances and historical experience, historical loss rates and forward-looking information. Individual trade receivables are written off when management deems them not to be collectible. The provision is recognised under "cost of sales" in the income statement.

Financial assets at amortised cost are financial assets that have cash flows that are SPPI and are held in a business model to collect contractual cash flows. They arise when the Group provides goods or services directly to a customer without any intention of trading the receivable that arises. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of three months or less.

Financial liabilities at fair value through profit or loss

This category solely includes financial liabilities held for trading and relates primarily to derivative instruments. Derivatives are classified as held for trading unless they are designated as hedges. Derivative instruments are classified as current or non-current liabilities depending on purpose and management intention.

Financial liabilities to amortised cost

Liabilities to credit institutions

Borrowings are recognised initially at fair value less transaction costs and thereafter at amortised cost. Any difference between the net amount received (less transaction costs) and the repaid amount is recognised in the income statement over the term of the loan using the effective interest method.

Trade payables

Trade payables are initially recognised at fair value and thereafter at amortised cost which normally corresponds to the nominal amount as the maturity is short.

Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable direct selling expenses.

Provisions

A provision is a liability of uncertain timing or amount and is generally recognised when the Group has a present obligation as a result of a past event, it is probable that payment will be made to settle the obligation and the payment can be estimated reliably.

Changes in accounting policies and disclosures

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2019:

- IFRS 16 Leases.

The Group has decided to apply the simplified transition approach and thus not restated the comparative amounts for the year prior to first adoption. This is disclosed in note 31.

New standards and interpretations not yet adopted

No new accounting standards and interpretations have been published that are mandatory for December 31, 2019 reporting periods.

Note 2 Critical Accounting Estimates and Judgements

When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date, the disclosure of contingencies that existed on the balance sheet date and the amounts of revenue and expenses recognised during the accounting period. Such assumptions and estimates are based on factors such as historical experience, the observance of trends in the industries in which the Group operates and information available from the Group's customers and other outside sources. These assumptions and estimates are continuously evaluated by management.

Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates. An analysis of key areas of estimates uncertainties on the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year is discussed below.

- Revenue recognition (note 3).
- Testing for impairment of goodwill and other assets (note 18).
- Measurement of deferred income tax assets and deferred income tax liabilities (note 21).
- Measurement of provisions and allocation for accrued expenses (note 28 and 29).
- Depreciation period for alarm equipment and amortisation period for customer portfolio (note 16 and 19).
- Estimates regarding leases (note 11).

Revenue recognition

Revenue recognition in the Group requires management to make judgments and estimates, mainly to determine fair values of the revenue. Determining whether revenues should be recognized immediately or be deferred require management to make judgments on the fair value of each deliverable.

Testing for impairment of goodwill and other assets

IFRS requires management to undertake an annual test for impairment of indefinite life assets and for finite life assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When testing for impairment of goodwill and other assets, the carrying amount should be compared with the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flow derived from such assets using cash flow projections which have been discounted at an appropriate rate. Since there are normally no quoted prices available on which to estimate the fair value less costs to sell an asset, the asset's value-in-use is usually the value against which the carrying amount is compared for impairment testing purposes and is measured on the basis of assumptions and estimates.

In calculating the net present value of the future cash flow, certain assumptions are required to be made in respect of highly uncertain matters, including management's expectations of:

- Long-term sales growth rates.
- Growth in adjusted EBITDA.
- Timing and quantum of future capital expenditure.
- Change in working capital.
- The selection of discount rates to reflect the risks involved.

The Group prepares and approves formal long-term management plans for operations, which are used in value-in-use calculations. For the purposes of the calculation, a long-term growth rate into perpetuity has been determined as:

- An assumed 3% growth rate for mature markets.
- A projected long-term compound annual growth rate for adjusted EBITDA in 5–10 years estimated by management for developing countries. Since the Groups business is stable and includes recurring revenue it is deemed correct to include a longer period than five years.

The Group would not have any impairment issues if the weighted average cost of capital (WACC) used was 1% higher or if the compound annual growth rate was 1% lower.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect impairment evaluation and hence results. The yearly impairment test of goodwill is performed on the closing of the second quarter each year.

Measurement of deferred income tax assets and deferred income tax liabilities

The Group is liable to pay income taxes in various countries. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain tax positions, the resolution of which is uncertain until an agreement has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profits, losses and/or cash flows.

The complexity of the Group's structure following geographic expansion makes the degree of estimation and judgement more challenging. The resolution of issues is not always within the control of the Group and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in where we operate.

Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there may be substantial differences between the tax charge in the consolidated income statement and tax payments, including potential tax cash flow impact from future

Note 2 cont.

implementation of local accounting regulation. The Group has also exercised significant accounting judgement regarding net operating loss utilisation.

Moreover, the Group has exercised significant accounting judgements regarding the recognition of deferred tax assets. The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future against which the reversal of deductible temporary differences can be realised. Where the temporary differences related to losses, the availability of the losses to offset against forecast taxable profits is also considered. Recognition therefore involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax assets have been recognised.

The amounts recognised in the consolidated financial statements in respect of each matter are derived from the Group's best estimation and judgement as described above. However, the inherent uncertainty regarding the outcome of these items means any resolution could differ from the accounting estimates and therefore impact the Group's results and cash flow.

Measurement of provisions and allocation for accrued expenses

The Group exercises judgement in connection with significant estimates in relation to staff related costs and in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Depreciation period for alarm equipment and amortisation period for customer portfolio

The charge in respect of periodic depreciation for alarm equipment as well as the amortisation of the customer portfolio, is derived after determining an estimate of expected useful life of alarm equipment, established useful life of customers, and the expected residual value at the end of life. A decrease in the expected life of an asset or its residual value results in an increase depreciation/amortisation charge being recorded in the consolidated income statement. See more details in the sensitivity analysis in note 22.

The useful lives and residual values of Group assets are determined by management at the time of acquisition and are reviewed annually for appropriateness. The lives are based primarily on historical experience with regards to the lifecycle of customers, as well as anticipation of future events that may impact useful life, such as changes in technology and macro-economic factors.

Estimate regarding leases

The Group performs several estimates when applying IFRS 16 in the accounting for leases.

The discount rate used in the present value calculation of all future cash flows regarding leases is the incremental borrowing rate. The incremental borrowing rate depends on a number of factors including length of lease period and asset type and are specific for each country.

When the entity has the option to extend a lease, or end the lease before the contract end date, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. The extension period have only been included in the present value calculation of future lease payments if it is deemed reasonably certain that the contract will be extended, and if it is deemed reasonably certain that a end option will be exercised this period have been excluded from the calculation.

Note 3 Segment Reporting

The Group's operating segments are identified by grouping together the business by revenue stream, as this is the basis on which information is provided to the chief operating decision maker (CODM) for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. The Group has identified the management team as its CODM. The segments identified based on the Group's operating activities are customer acquisition, portfolio services and adjacencies.

The IFRS 15 related revenue recognition adjustment was reported under SDI during the financial year ending on December 31, 2018. Effective January 1, 2019, the Group has decided to remove this impact from SDI and fold it under its Customer Acquisition segment. 2018 comparatives have been adjusted accordingly.

2019						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Total Group
Revenue	329,098	1,548,936	22,696	1,900,730	–	1,900,730
Adjusted EBITDA	(316,297)	1,075,348	2,035	761,086	(58,217)	702,869
Depreciation and amortisation	–	–	–	(235,512)	(153,081)	(388,593)
Retirements of assets	–	–	–	(76,795)	–	(76,795)
Financial items	–	–	–	(208,523)	(43,482)	(252,005)
Profit before tax	–	–	–	240,256	(254,780)	(14,526)

2018						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Total Group
Revenue	279,147	1,329,536	16,167	1,624,849	(12,324)	1,612,525
IFRS 15	(12,324)	–	–	(12,324)	12,324	–
Revenue as adjusted	266,823	1,329,536	16,167	1,612,525	–	1,612,525
Adjusted EBITDA as reported	(265,444)	890,704	(2,322)	622,938	(39,389)	583,549
IFRS 15	(12,324)	–	–	(12,324)	12,324	–
Adjusted EBITDA as adjusted	(277,768)	890,704	(2,322)	610,614	(27,065)	583,549
Depreciation and amortisation	–	–	–	(180,083)	(153,209)	(333,292)
Retirements of assets	–	–	–	(60,251)	–	(60,251)
Financial items	–	–	–	(187,563)	(106,380)	(293,943)
Result before tax	–	–	–	182,717	(286,654)	(103,937)

Unsatisfied long-term customer contracts

Aggregate amount of the customer contracts revenue allocated to long-term customer contracts that are partially or fully unsatisfied as of December 31, 2019, amounts to EUR 675,558 thousand, compared to EUR 532,217 thousand as of December 31, 2018. As of December 31, 2019, the Group had non-cancellable customer contracts which resulted in partly unsatisfied performance obligations at year-end. Management expect that 55.3% of the transaction price allocated to the partly unsatisfied

contracts as of December 31, 2019 will be recognised as revenue during the year 2020, 32.7% is expected to be recognised during 2021 and 12.0% during 2022 or later. The Group does not include binding revenue with an outstanding contract period of 12 months or less. Since the Group does not include all contracts and has primarily cancellable subscriptions, the amount of the outstanding unsatisfied performance obligation does not amount to expected revenue for future periods.

Note 3 cont.

Liabilities related to contracts with customers

The Group has recognised the following liabilities related to contracts with customers

EUR thousands	2019	2018
Opening balance	251,936	210,042
Prepayments taken as income	(108,581)	(98,139)
New prepayments	153,759	127,709
Installation revenue accrued to future payments	73,332	121,828
Installation revenue from previous periods	(89,680)	(109,504)
Translation effect	(2,163)	–
Closing balance	278,603	251,936
Closing balance consists of:		
Non-current liabilities	88,353	97,574
Current liabilities	190,250	154,362
Total liabilities	278,603	251,936

Note 4 Business Combinations

On November 8, 2019, the Group entered into definitive agreements to create a strategic partnership with Arlo Technologies, Inc., the #1 internet connected camera brand. The aim of the strategic partnership is to leverage both companies' capabilities to create incremental scale to address the ever-growing demand for residential and commercial security. This transaction, which closed on December 30, 2019 involves the acquisition of the net assets constituting Arlo's European business, with the ambition to enable Verisure to accelerate adoption of security and surveillance services across Europe, as well as bolster Arlo's position as the industry leader in smart home security solutions. It also includes a supply partnership for Arlo cameras with intelligent cloud services.

The transaction price related to the acquisition of the net assets constituting Arlos European business amounted to USD 54 million (approximately EUR 48 million). The net assets were

included in the Verisure Midholding Group as of December 30, 2019.

The valuation of intangible asset is preliminary and will be finalised during 2020.

The full transaction also included the prepayment of future purchases of materials of USD 20 million (approximately EUR 18 million), reported as prepayment, as well as prepayment of R&D expenditure of USD 2 million (approximately EUR 1.8 million).

The transaction is structured as a net asset deal why information about what these operations would have contributed to the Groups Income Statement if it had been included from January 1, 2019 is not available. Transaction costs of EUR 6.1 million have been expensed and are included in administrative expenses. These costs are included in cash flow from operating activities in the statement of cash flows.

Financial effect of the acquisition**Recognised amounts of identifiable assets acquired and liabilities assumed**

EUR thousand	Dec 2019
Customer portfolio and other intangible fixed assets	44,959
Inventories	4,781
Trade and other receivables	985
Trade and other liabilities	(2,421)
Provision	(15,458)
Total identifiable net assets	32,846
Goodwill	15,458
Total	48,304

Note 4 cont.

Net cash outflow from acquisition

EUR thousand	Dec 2019
Consideration paid in cash	48,304
Less acquired cash	–
Net cash outflow	48,304

Note 5 Expenses by Type of Costs

The table below illustrates the consolidated income statement in summary classified according to type of cost.

EUR thousand	2019	2018
Revenue	1,900,730	1,612,525
Other income	5,985	6,974
Employee benefit expense	(738,564)	(662,390)
Depreciation and amortisation expense	(388,593)	(333,292)
Retirement of assets	(76,795)	(60,251)
Cost of materials	(57,620)	(50,093)
Marketing-related costs	(115,756)	(130,059)
Other cost	(291,907)	(193,407)
Total operating cost	(1,669,235)	(1,429,492)
Operating profit	237,480	190,007
EUR thousand	2019	2018
Currency translation differences included in operating profit	1,651	513

Currency translation differences included in finance income and costs are shown in note 13.

Note 6 Audit Fees

EUR thousand	2019	2018
PwC		
Audit assignments	1,413	1,132
Audit work apart from the audit assignment	243	189
Tax consultancy	334	620
Other services	225	455
Total PwC	2,215	2,396
Other auditors		
Audit assignments	16	28
Tax consultancy	–	29
Total other auditors	16	57
Total for the Group	2,231	2,453

Note 7 Employee Benefit Expense

EUR thousand	2019	2018
Wages and salaries including restructuring costs and other termination benefits	602,889	487,989
Social security costs	112,785	99,518
Pension costs	22,890	18,460
Total	738,564	605,967

Note 8 Remuneration of Directors and Key Executive Management

EUR thousand	2019	2018
Short-term employee benefits	4,989	10,108
Post-employment benefit	262	566
Total	5,251	10,675

The key executive management has 6 to 12 months notice period corresponding to an amount of EUR 5,041 thousand (8,353 in 2018). The definition of key executive management has been updated during 2019.

Note 9 Employee Option Plan

Certain employees of the Group participate in a management option plan and are granted options in Shield Luxco 2 S.à r.l as a part of their compensation. The options vests in installments over a period of maximum five years.

Set out below are summaries of options granted under the plan:

Number of options	2019
Opening balance	–
Granted during the year	335,292
Closing balance	335,292

No options are exercisable at December 31, 2019. No options expired during the periods covered by the above tables. Share options outstanding at the end of the year will expiry on the tenth anniversary of the grant date. They were all granted during 2019.

Fair value of options granted

The fair value of the options at grant date is determined using a Black-Scholes model that takes into account the exercise price, the term of the option, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Total expenses arising from options issued under employee option plan recognised during the period as part of were EUR 184 thousand for 2019.

Note 10 Non-Cash Items

EUR thousand	2019	2018
Retirements of assets ¹	76,795	60,251
Other	(7)	–
Total	76,788	60,251

¹Relates primarily to retirement of installed equipment due to cancellation of customer subscriptions.

Note 11 Leases

The Group leases offices, cars and various equipment under operating leases. From January 1, 2019, the Group has recognised right of use assets for these leases, except for short-term and low value leases, see below. Operating lease

payments totalled EUR 38.3 million in 2018. The nominal value of future payments due under contracted future operating leases was as follows as of December 31, 2018:

EUR thousand	2018
Term to maturity <1 year	38,917
Term to maturity 1–5 years	78,203
Term to maturity >5 years	33,729

The income statement shows the following amounts related to leases during 2019:

EUR thousand	2019
Depreciation charge of right of use assets	38,616
Interest expense (included in finance cost)	4,656
Expense relating to short-term leases (included in cost of sales, selling expenses and administrative expenses)	4,018
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	1,055
Total	48,345

Out of the total amount related to depreciation above, EUR 18,037 thousand related to leased buildings, EUR 20,086 thousands to leased vehicles and EUR 493 thousands to other leased assets.

EUR thousand	2019	
	Short-term leases	Low-value leases
Term to maturity <1 year	108	878
Term to maturity 1–5 years	–	727
Term to maturity >5 years	–	–

The total cash outflow for leases in 2019 was EUR 44.4 million. The maturity of the lease liability is shown in note 22, the changes during the year in the right of use assets is shown in note 17 and the effects of the transition to IFRS 16 is shown in note 31.

Note 12 Depreciation and Amortisation

EUR thousand	2019	2018
Property, plant and equipment	95,075	94,661
Customer portfolio	196,692	192,281
Other intangible assets	58,210	46,350
Right of use assets	38,616	–
Total	388,593	333,292

Depreciation and amortisation is reflected in the income statement as follows:

EUR thousand	2019	2018
Cost of sales	163,411	131,742
Selling and administrative expenses	225,182	201,550
Total	388,593	333,292

Note 13 Financial Income and Costs

EUR thousand	2019	2018
Interest income on other receivables	–	30,550
Interest income, other	260	335
Finance income	260	30,885
Interest cost on borrowings	(186,984)	(179,341)
Interest cost, leasing	(4,656)	–
Interest cost, other	(6,933)	(3,019)
Interest cost on interest rate swaps	(7,097)	(2,100)
Fair value changes in currency derivatives	14,227	8,017
Fair value changes in interest rate derivatives	(11,322)	(6,398)
Interest element of finance leases rentals	–	(90)
Net currency translation differences	(6,479)	(64,621)
Bank charges	(14,769)	(47,629)
Other items	(28,253)	(29,647)
Finance costs	(252,266)	(324,828)
Finance income and costs	(252,006)	(293,943)

Details of borrowings are presented in note 27.

From time to time, interest rate swaps are used to manage the interest rate profile of the Group's borrowings. Net interest payable or receivable on such interest rate swaps is therefore included in interest expense.

Note 14 Income Tax Expense and Benefit

EUR thousand	2019		2018	
Current tax	(51,982)	357.9%	(41,064)	39.5%
Deferred tax	6,242	(43.0%)	15,672	(15.1%)
Total	(45,740)	314.9%	(25,392)	24.4%

The Swedish rate of corporate income tax was 21.4% in 2019 and 22.0% in 2018.

Difference between Swedish tax rate and actual tax for the Group

EUR thousand	2019		2018	
Tax calculated at Swedish tax rate	3,109	(21.4%)	22,866	(22.0%)
Difference between tax rate in Sweden and weighted tax rates applicable to foreign subsidiaries	(3,649)	25.1%	(6,831)	6.6%
Non-recognised deferred tax assets on losses carried forward, new losses as well as utilised losses ¹	(7,756)	53.4%	(32,391)	31.2%
Non-taxable/non-deductible income statement items, net	(37,061)	255.1%	(4,697)	4.5%
Effect of tax rates changed	(337)	2.3%	2,537	(2.4%)
Other	(46)	0.3%	(6,876)	6.6%
Total	(45,740)	314.9%	(25,392)	24.4%

1) Whereof EUR 48,852 thousands (29,969 in 2018) is related to utilised tax losses carried forward not previously recognised as a deferred tax asset.

Note 15 Transaction with Related Parties

Transactions between Group companies, which are related parties, have been eliminated on consolidation and, therefore, are not required to be disclosed in these financial statements. Details of transactions between the Group and other related parties are disclosed below. All transactions with related parties are at market rates.

Transactions with related parties

EUR thousand	2019	2018
Interest income	5	30,550
Shareholders contribution	169	55,349
Group contribution	10	1,066
Dividend	–	(1,448,025)

Balances with related parties

EUR thousand	2019	2018
Group contribution	231,588	231,578
Financial receivable, non-current	160	–

Note 16 Property, Plant and Equipment

EUR thousand	2019		
	Alarm equipment	Other	Total
Cost at beginning of year	1,102,701	125,462	1,228,163
Investments	276,679	20,124	296,803
Disposals/retirements of assets	(84,871)	(741)	(85,612)
Translation differences	(3,053)	(264)	(3,317)
Cost at end of year	1,291,456	144,581	1,436,037
Amortisation at beginning of year	(425,997)	(81,206)	(507,203)
Disposals/retirements of assets	37,386	531	37,917
Amortisation charge for the year	(79,762)	(15,313)	(95,075)
Translation differences	1,067	103	1,170
Accumulated amortisation at end of year	(467,306)	(95,885)	(563,191)
Net book value at end of year	824,150	48,696	872,846

EUR thousand	2018		
	Alarm equipment	Other	Total
Cost at beginning of year	946,291	104,384	1,050,675
Investments	229,577	23,797	253,374
Disposals/retirements of assets	(62,975)	(982)	(63,957)
Translation differences	(10,192)	(1,737)	(11,929)
Cost at end of year	1,102,701	125,462	1,228,163
Amortisation at beginning of year	(372,279)	(70,173)	(442,452)
Disposals/retirements of assets	25,242	611	25,853
Amortisation charge for the year	(82,280)	(12,381)	(94,661)
Translation differences	3,320	737	4,057
Accumulated amortisation at end of year	(425,997)	(81,206)	(507,203)
Net book value at end of year	676,704	44,256	720,960

Starting in 2019, assets relating to all leases are classified as right of use asset. The carrying amount of finance leases at December 31, 2018, was EUR 1,787 thousand and related to property and IT equipment in Spain and France.

Depreciation is based on the asset's cost and is allocated using the straight-line method over its estimated useful life, as follows:

Alarm equipment	5–15 years
Other machinery and equipment	3–10 years

Note 17 Right of Use Assets

EUR thousand	2019			
	Buildings	Vehicles	Other assets	Total
Opening balance at date of transition January 1	95,406	34,486	1,546	131,438
New lease contracts	13,484	29,920	122	43,526
Terminations of lease contracts	(4,053)	(2,430)	–	(6,483)
Translation differences	28	(27)	4	5
Cost at end of year	104,865	61,949	1,672	168,486
Opening balance at date of transition January 1	–	–	–	–
Depreciation charge for the year	(18,037)	(20,086)	(493)	(38,616)
Terminations of lease contracts	2,497	519	–	3,016
Translation differences	10	2	1	13
Accumulated depreciations at end of year	(15,530)	(19,565)	(492)	(35,587)
Net book value at end of year	89,335	42,384	1,180	132,899

Note 18 Goodwill

EUR thousand	2019	2018
Cost at beginning of year	868,557	869,598
Investments	23	313
Acquisition via business combination	15,458	–
Adjustment of purchase price allocation	–	1,196
Translation differences	223	(2,550)
Cost at end of year	884,261	868,557

Impairment testing of goodwill

For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units), which in the Group's case is by country.

Note 18 cont.

Goodwill is allocated to cash-generating units, as follows:

EUR thousand	2019	2018
Brazil	20,991	21,277
Chile	15,713	15,713
Denmark	10,954	10,954
Finland	60,231	60,231
France	51,766	50,616
The Netherlands	14,038	14,038
Norway	260,537	254,588
Portugal	46,265	46,265
Spain	238,423	233,126
Sweden	165,343	161,749
Total	884,261	868,557

Impairment tests

Goodwill and other intangible assets are tested for impairment annually and whenever there are indications that it may have suffered impairment. Goodwill is considered impaired where its carrying amount exceeds its recoverable amount, which is the higher of the value-in-use and the fair value less costs to sell of the CGU or group of CGUs to which it is allocated. No need for impairment was identified in the yearly impairment test of goodwill and other intangible assets in 2019. In each case, the recoverable amount of all items of goodwill was determined based on value-in-use calculations.

Management based the value-in-use calculations on cash flow forecasts derived from the most recent long-term financial plans approved by the board of the directors. The principal assumptions in the value-in-use calculation were those regarding sales growth rates, operating margin. Applied pre-tax WACC varies between different countries in the Group. In 2019, the lowest rate was 9.4% (9.9% in 2018) in Sweden and the highest rate was 15.4% (15.9% in 2018) in Brazil. In Norway and Spain, the countries with the most significant Goodwill values, the WACC was 9.9% (10.4% in 2018) and 10.7% (10.9% in 2018) respectively. For the period, subsequent to the long-term plan, cash flows generated by the CGUs to which significant goodwill has been allocated have been extrapolated on the basis of a projected annual growth rate of 3% (3% in 2018). It is not anticipated that this rate will exceed actual annual growth in the markets concerned. The assumptions regarding WACC are from internal judgement and benchmarking. The annual growth rates are based on historical experience.

Note 19 Customer Portfolio

EUR thousand	2019	2018
Cost at beginning of year	2,189,218	2,051,023
Investments	206,044	178,148
Acquisition via business combinations	4,496	–
Disposals/retirements of assets	(40,505)	(31,438)
Translation differences	(2,397)	(8,515)
Cost at end of year	2,356,856	2,189,218
Amortisation at beginning of year	(1,154,938)	(973,894)
Disposals/retirements of assets	11,062	9,513
Amortisation charge for the year	(196,692)	(192,281)
Translation differences	577	1,724
Accumulated amortisation at end of year	(1,339,991)	(1,154,938)
Net book value at end of year	1,016,865	1,034,280

Intangible assets arising on acquisitions are principally represented by acquired customer relationships and have finite useful lives. Out of the total net book value, EUR 561,338 thousand (434,676 in 2018) relates to cost to obtain a contract.

Management has assessed the recoverability of the carrying amount of the customer portfolio as of the acquisition date. The impairment tests are described in note 18.

Note 20 Other Intangible Assets

EUR thousand	2019	2018
Cost at beginning of year	373,917	310,018
Investments	90,066	68,894
Acquisition via business combinations	40,014	–
Disposals/retirements of assets	(8)	(230)
Translation differences	(385)	(4,765)
Cost at end of year	503,604	373,917
Amortisation at beginning of year	(206,344)	(163,788)
Disposals/retirements of assets	–	261
Amortisation charge for the year	(58,210)	(46,349)
Translation differences	126	3,532
Accumulated amortisation at end of year	(264,428)	(206,344)
Net book value at end of year	239,176	167,573

Out of the total book value, EUR 134,236 thousand (99,406 in 2018) relates to internally developed intangible assets.

Note 21 Deferred Tax

EUR thousands	2019	2018
Temporary differences arising between the tax bases and carrying amounts	14,527	15,774
Staff-related liabilities	2,486	1,728
Risk reserves	1,408	1,162
Tax loss carry-forwards	35,394	39,136
Acquisition-related intangible assets	2,416	2,934
Other temporary differences	38,528	4,758
Total deferred tax assets	94,759	65,492
Netting ¹	(63,932)	(36,625)
Total	30,827	28,867

EUR thousands	2019	2018
Temporary differences arising between the tax bases and carrying amounts	45,677	38,050
Acquisition-related intangible assets ²	96,100	132,042
Customer acquisition costs	134,017	105,032
Adjustment on adoption of IFRS 15	–	(25,775)
Adjustment on adoption of IFRS 9	14,393	20,371
Other temporary differences	24,040	21,356
Total deferred tax liabilities	314,227	291,076
Netting ¹	(63,932)	(36,625)
Total	250,295	254,451
Net deferred tax liabilities	(219,468)	(225,584)

1) The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right to offset existed.

2) Deferred tax has decreased due to amortisation of the acquisition-related intangible assets.

Deferred tax assets are recognised in respect of tax loss carry-forwards to the extent that the realisation of the related tax benefit through taxable profits is probable. On December 31, 2019, the Group had tax loss carried forward of EUR 734.4 million (744.5 in 2018). As of December 31, 2019, tax loss carry-forwards for which deferred tax assets had been recognised

amounted to EUR 187.4 million (198.7 in 2018) and deferred tax assets related to the tax loss amounted to EUR 35.4 million (39.1 in 2018). A time limitation in respect of tax loss carry-forward utilisation exists in Argentina, the Netherlands, Norway and in Switzerland. No such limitation exists in the other countries.

Note 22 Financial Risk Management

The Group's business activities create exposure to financial risks, such as credit risk, liquidity risk, financing risk, interest rate risk and foreign currency risk, as detailed in the sections below.

The Group treasury policy states how financial risks should be managed and controlled. Where appropriate and needed risk management is carried out using derivative financial instruments in accordance with the limitations set out in the treasury policy.

The treasury policy contains guidelines for the administration of operating risks that arise in the management of financial instruments. The guidelines include clear division of roles and responsibilities and the allocation of proxies. The management of financial risks has been centralised to the Group treasury department. Group treasury's responsibilities includes external banking relations, finance costs, interest-bearing liabilities and liquidity management.

Credit risk

Credit risk is the risk of loss if the counter party with which the Group has a claim, is unable to fulfil its obligations. These risks are apportioned between credit risk from trade receivables and credit risk from financial receivables. The Company limits financial credit risk by only entering transactions with banks with a high credit rating. Investments of cash and cash equivalents are made only with banks with a minimum A rating according to Standard & Poor's.

Maximum credit exposure representing the value of the Group trade receivables at the end of December 2019 was EUR 208,843 thousand (187,006 in 2018).

Credit risk from trade receivables

The Group has no significant concentrations of credit risk in relation to trade receivables. The Group's credit policy ensures that credit management includes use of credit ratings, credit limits, decision-making structures and management of doubtful claims. The policy's goal is to ensure that sales are made only to customers with an appropriate credit rating. While the trade receivables closely follow the geography of Group operations, there are no significant concentrations of credit risk by customer as the Group has a large number of customers in many countries that are not individually significant or related. Management believes that no further credit risk provision is required in excess of the normal provision for bad and doubtful receivables. For more details, see note 24.

Financial credit risk

The Group applies principles that limit the size of its credit exposure to individual banks or counterparties. Cash and cash equivalents may only be invested in government bonds or deposited in banks with a minimum A rating according to Standard & Poor's.

Note 22 cont.

Financial instruments by category and valuation level

EUR thousand	2019	2018
Financial assets at fair value through profit or loss		
<i>Derivatives¹</i>		
Currency forwards	28,168	17,603
Financial liabilities at fair value through profit or loss		
<i>Derivatives¹</i>		
Currency forwards	75	3,746
Interest rate swaps	17,720	6,398
Total	10,373	7,459
Loans and receivables at amortised cost		
Trade and other receivables	310,179	307,341
Trade receivables	154,075	133,620
Other current receivables	15,613	10,938
Cash and cash equivalent	12,770	8,613
Other financial liabilities at amortised cost		
Long-term borrowings ^{2,3}	4,948,800	4,573,202
Other non-current liabilities	114,571	120,310
Trade payables ²	139,086	125,237
Short-term borrowings ²	91,726	47,913
Other current liabilities	29,955	29,572

1) All derivatives measured at fair value are classified in level 2. All significant inputs are observable. Currency forward are measured at fair value using the observed forward exchange rate for contracts with a corresponding term to maturity at the statement of financial position date.

2) Details of borrowings are presented in note 27.

3) Fair value for the listed bond amounts to EUR 1,787 million, which is the quoted market price at the balance sheet day. Since it is a quoted market price in an active market it is classified as level 1.

Due to the short-term nature of trade receivables, current receivables, trade payables, short-term borrowings and other current liabilities, their carrying amount is assumed to be the same as their fair value.

Interest bearing liabilities per currency

EUR thousand	2019	2018
Long-term borrowings (principal amount)		
EUR liabilities	4,882,319	4,570,182
SEK liabilities	168,358	160,900
Other currencies	17,834	–
Total	5,068,511	4,731,082
Short-term borrowings		
EUR liabilities	80,467	47,193
SEK liabilities	4,306	720
Other currencies	6,953	–
Total	91,726	47,913

Note 22 cont.

Credit facilities as per December 31, 2019

Line of credit	Currency	Facility amount	Available amount	Maturity
Revolver Credit Facility (RCF)	Multicurrency (EUR)	300,000	174,920	2022
Term loan B	EUR	3,092,000	–	2022
Bond	EUR	500,000	–	2023
Senior Unsecured Notes (SUN)	EUR	1,080,000	–	2023
Senior Unsecured Notes (SUN)	SEK	1,650,000	–	2023

Credit facilities as per December 31, 2018

Line of credit	Currency	Facility amount	Available amount	Maturity
Revolver Credit Facility (RCF)	Multicurrency (EUR)	300,000	227,940	2022
Term loan B	EUR	3,092,000	–	2022
Bond	EUR	300,000	–	2023
Senior Unsecured Notes (SUN)	EUR	1,080,000	–	2023
Senior Unsecured Notes (SUN)	SEK	1,650,000	–	2023

Liquidity risk

Liquidity risk is the risk an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's borrowing facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. Management's policy is to reduce liquidity risk by diversifying the funding sources, securing ample funding is available and staggering the maturity of its borrowings.

Financing risk

Financing risk relates to encountering difficulty or incurring greater expense in refinancing outstanding borrowings. The risk is minimised by analysing and monitoring the maturity structure of external loans.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturity dates are essential for an understanding of the timings of future cash flows. The amounts presented in the table are the contractual and undiscounted cash flows.

Note 22 cont.

Liquidity report

EUR thousand	2019			
	Less than 1 year	1–4 years	5 years or more	Total
Liabilities to credit institutions, principal amounts	(33,708)	(4,971,461)	–	(5,005,169)
Interest payments borrowings	(186,611)	(407,488)	–	(594,099)
Interest payments derivatives ²	(10,556)	(14,126)	–	(24,682)
Other non-current liabilities	–	(114,571)	–	(114,571)
Lease liabilities	(36,859)	(67,398)	(29,653)	(133,910)
Trade payables	(139,086)	–	–	(139,086)
Derivatives, currency forwards	(228,201)	–	–	(228,201)
Other current liabilities	(29,955)	–	–	(29,955)
Total outflow	(664,976)	(5,575,044)	(29,653)	(6,269,673)
Other non-current receivables	–	77,773	232,406	310,179
Trade receivables	154,075	–	–	154,075
Derivatives, currency forwards	232,883	–	–	232,883
Interest derivatives	2,681	306	–	2,987
Other current receivables	15,613	–	–	15,613
Total inflow	405,252	78,079	232,406	715,737
Net cash flow, total¹	(259,723)	(5,496,965)	202,753	(5,553,935)

EUR thousand	2018			
	Less than 1 year	1–4 years	5 years or more	Total
Liabilities to credit institutions, principal amounts	(27,213)	(4,731,082)	–	(4,758,295)
Interest payments borrowings	(184,372)	(579,506)	–	(763,878)
Interest payments derivatives ²	(3,100)	(11,805)	–	(14,905)
Other non-current liabilities	–	(120,310)	–	(120,310)
Trade payables	(125,237)	–	–	(125,237)
Derivatives, currency forwards	(8,250)	(10,000)	–	(18,250)
Other current liabilities	(29,572)	–	–	(29,572)
Total outflow	(377,744)	(5,452,703)	–	(5,830,447)
Other non-current receivables	–	64,134	243,207	307,341
Trade receivables	133,620	–	–	133,620
Derivatives, currency forwards	10,092	12,221	–	22,313
Interest derivatives	1,190	4,531	–	5,721
Other current receivables	10,938	–	–	10,938
Total inflow	155,840	80,886	243,207	479,933
Net cash flow, total¹	(221,904)	(5,371,817)	243,207	(5,350,514)

1) All contractual cash flows per the balance sheet date are included, including future interest payments.

2) Including interest rate swaps.

Interest rate risk

The Group's interest rate risk arises in its long-term borrowings. Borrowings raised at variable interest rates expose the Group to interest rate risk. Borrowings raised at fixed interest rates expose the Group to fair value interest rate risk. During 2019 and 2018, the Group's borrowings at variable interest rate were denominated in the Swedish krona and the Euro.

At December 31, 2019, with current financing terms which partially include an interest floor of 0%, an increase of EURIBOR/STIBOR fixings of 100 basis points (1.0%) will impact the Group's total interest expenses by a negative EUR 3 million. Part of the variable interest rate exposure has been hedged.

Foreign currency risk

The Group operates in 16 countries and is therefore exposed to foreign exchange risk arising from various currency exposures but primarily from SEK and NOK. Foreign exchange risk arises through business transactions, reported assets and liabilities and net investments in foreign currencies and affects the balance sheet as well as the income statement.

The Group's risk in business transactions primarily constitutes material purchases in US dollars. The exposure is continuously monitored and during 2019 the Group hedged a part of this exposure.

Note 22 cont.

The Group's net assets in foreign operations are exposed to foreign exchange risk. Such foreign exchange risk is mainly managed through borrowings raised in the foreign currencies in question. The Group does not apply hedge accounting to its net investments in foreign operations, for which reason the translation of borrowings in SEK impacts the income statement. Cross currency swaps are used to convert Euro denominated debt into Swedish krona debt exposure while plain currency swaps are used to minimise interest expenses charged by banks in the cash pool structures.

Sensitivity analysis

The Group's sales and results are subject to a variety of factors. The effect of changes in a number of key variables is shown below. Projections are based on the Group's operations in 2019 and should be viewed as an estimate of the effect of an isolated change in each variable.

Variable	Change	Effect
Depreciation and amortisation	+/- 10 percentage point	Decrease/increase of approximately EUR 39 (33 in 2018) million in operating result.
Interest rate	+/- 1 percentage point	Decrease of approximately EUR 3 (10 in 2018) million in net finance income and costs.
Currency rate EUR/SEK	+/- 10 percentage point	Increase/decrease of approximately EUR 24 (23 in 2018) million in revenue. Increase/decrease of approximately EUR 7 (9 in 2018) million in operating result.
Currency rate EUR/NOK	+/- 10 percentage point	Increase/decrease of approximately EUR 13 (13 in 2018) million in revenue. Increase/decrease of approximately EUR 6 (6 in 2018) million in operating result.

Capital structure

Asset management is aimed at ensuring that the Group's financial resources are used in an optimal way so as to guarantee future operations, provide security for lenders and generate a beneficial return for shareholders. Asset management additionally aims to ensure that the Group has sufficient funds to finance necessary investments for continued growth. This growth can be organic or via acquisition which means financial flexibility is required.

The credit facility includes covenants that must be fulfilled for the duration of the loans. The existing financial maintenance covenant applies only when outstanding under the RCF (the Revolver Credit Facility) exceed EUR 100 million. When this incurs the ratio of Net Debt over adjusted portfolio EBITDA during the last two quarters annualised cannot exceed 5.0x, (6.2x in 2018). As per end of year 2019 this ratio was 4.5x.

EUR thousand	2019	2018
Long-term borrowings (principal amount)	5,068,511	4,731,082
Short-term borrowings	91,726	47,913
Less accrued interest	(21,159)	(20,700)
Less cash and cash equivalents	(12,770)	(8,613)
Less financial receivable, current	(8)	–
Net debt	5,126,300	4,749,682
Less lease liability	(133,910)	–
Net debt per SFA lender documentation	4,992,391	4,749,682
Total assets	3,905,477	3,450,494
Adjusted EBITDA	702,869	583,549
Portfolio EBITDA	1,075,348	890,704

Details of borrowings are presented in note 27. For covenant purposes other definitions apply.

Note 23 Inventories

EUR thousand	2019	2018
Materials and consumables	126,977	102,488

Impairment for provision in inventories at year end totalled EUR 4,397 thousand (1,446 in 2018). The cost of materials recognised as an expense and included in "cost of sales" was EUR 57,620 thousand (50,093 in 2018) at December 31, 2019.

Not 24 Trade Receivables

Non-current

EUR thousand	2019	2018
Trade receivables before provision for bad debts	62,337	55,926
Provision for bad debts	(7,569)	(2,540)
Total	54,768	53,386

Current

EUR thousand	2019	2018
Trade receivables before provision for bad debts	207,421	180,314
Provision for bad debts	(53,346)	(46,694)
Total	154,075	133,620

Due dates for trade receivables

EUR thousand	2019	2018
Past due 0–3 months	19,188	13,369
Past due 3–6 months	10,217	5,884
Past due 6–9 months	7,090	4,894
Past due 9–12 months	6,634	3,941
Past due >12 months	44,403	31,053
Total	87,532	59,141

Provisions for bad debts

EUR thousand	2019	2018
Balance at beginning of year	49,234	41,325
Provision for bad debt during the year	25,073	13,573
Receivables written off during the year as uncollectible	(1,347)	(2,996)
Unused amounts reversed	(12,045)	(2,668)
Balance at end of year	60,915	49,234

Customer credit losses recognised in the income statement totalled EUR 28.4 million (20.1 in 2018) at December 31, 2019.

Note 25 Derivative Financial Instruments

Derivative financial instruments are held in relation to the Group's treasury policy. The Group does not hold or issue derivatives for speculative purposes. The Group's objective is to minimise the risk of adverse impact on the income statement due to interest rates rises. For this purpose, the Group will enter into interest rate derivatives to minimise this risk. The carrying amounts of derivative financial instruments held by the Group were as follows:

EUR thousand	2019			2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Hedging activities						
Currency forwards	28,168	75	28,093	17,603	3,746	13,857
Interest rate swaps	–	17,720	(17,720)	–	6,398	(6,398)
Total	28,168	17,795	10,373	17,603	10,144	7,459
Classified as						
Non-current	23,410	17,720	5,690	17,603	6,398	11,205
Current	4,758	75	4,683	–	3,746	(3,746)
Total	28,168	17,795	10,373	17,603	10,144	7,459

Currency derivatives

As at December 31, 2019, the notional principal amount of outstanding foreign exchange contracts used to manage the Group's cash pool was EUR 215.4 million (207.1 in 2018) and cross currency swaps was EUR 275.0 million (275.0 in 2018). The Group has no outstanding contracts designated for hedge accounting

purposes as of December 31, 2019. Accordingly, all gains and losses are recognised in the income statement in respect of currency derivatives outstanding. Such amounts are included in finance income and cost as disclosed in note 13.

Note 26 Share Capital

Verisure Midholding AB's (publ) share capital totalled EUR 56,104 at December 31, 2019 and December 31, 2018, distributed among 500,000 shares with a quotient value of EUR 0.11. All shares are of the same class. All shares issued by the company were fully paid.

Change in number of shares

EUR thousand	2019	2018
Number of shares at beginning of year	500,000	500,000
Number of shares at end of year	500,000	500,000

Note 27 Borrowings

EUR thousand	2019			2018		
	Principal amount	Adjustment amortised costs	Carrying amount	Principal amount	Adjustment amortised costs	Carrying amount
Non-current liabilities						
Secured						
Senior Secured Notes	500,000	(1,709)	498,291	300,000	(2,726)	297,274
Term Loan B ¹	3,092,000	(106,035)	2,985,965	3,092,000	(140,947)	2,951,053
Revolver Credit Facility	126,954	(2,815)	124,139	72,966	(4,260)	68,706
Unsecured						
Senior Unsecured Notes	1,237,942	(9,153)	1,228,789	1,240,900	(9,947)	1,230,953
Liabilities to other creditors	14,565	–	14,565	24,437	–	24,437
Lease liability	97,051	–	97,051	–	–	–
Finance lease liability	–	–	–	779	–	779
Long-term borrowings	5,068,511	(119,711)	4,948,800	4,731,082	(157,880)	4,573,202
Current liabilities						
Accrued interest expenses	21,159	–	21,159	20,700	–	20,700
Other liabilities	33,708	–	33,708	26,914	–	26,914
Lease liability	36,859	–	36,859	–	–	–
Finance lease liability	–	–	–	299	–	299
Short-term borrowings	91,726	–	91,726	47,913	–	47,913
Total	5,160,237	(119,711)	5,040,526	4,778,995	(157,880)	4,621,115

1) Of the total amount regarding adjustment amortised costs 2018, EUR (70,717) thousands, (98,652) in 2018, relates to a non-cash adjustment derived from the modification of loan terms during the loans contract period calculated according to IFRS 9.

The Group's secured borrowings are jointly and severally, irrevocably and fully and unconditionally guaranteed by certain of the Company's direct and indirect subsidiaries and secured by liens on substantially all of their assets. An analysis of the security given is presented in note 30.

Net Debt Bridge

EUR thousand	2019	2018
Total principal amount (as above)	5,160,237	4,778,995
Less accrued interest	(21,159)	(20,700)
Indebtness	5,139,078	4,758,295
Less financial receivable, current	(8)	–
Less cash and cash equivalents	(12,770)	(8,613)
Net debt	5,126,300	4,749,682
Less lease liability	(133,910)	–
Net debt per SFA lender documentation	4,992,391	4,749,682

Note 27 cont.

Borrowings, currency and interest rate profile

The currency and interest rate profile of outstanding borrowing principals, after taking into account the effect of the Group's currency and interest rate hedging activities, was as follows:

	Floating interest rate		Fixed interest rate			Total EUR thousand
	EUR thousand	Weighted average interest rate %	EUR thousand	Weighted average interest rate %	Weighted average period for which rate is fixed, years	
2019						
EUR	1,492,227	6.8%	3,080,000	2.6%	3.3	4,572,227
SEK	432,943	4.6%	–	–	–	432,943
Total	1,925,170		3,080,000			5,005,170

	Floating interest rate		Fixed interest rate			Total EUR thousand
	EUR thousand	Weighted average interest rate %	EUR thousand	Weighted average interest rate %	Weighted average period for which rate is fixed, years	
2018						
EUR	1,817,000	3.9%	2,380,000	3.1%	4.4	4,197,000
SEK	435,900	4.4%	–	–	–	435,900
Total	2,252,900		2,380,000			4,632,900

The majority of all borrowings with floating interest include a floor of 0% which means the applied interest fixing of Euribor and Stibor will equal 0% as long as the relevant period fixings of Euribor and Stibor are below 0%.

Obligations under finance leases

Starting January 2019 the Group reports all leases as a right of use asset and a lease liability. The maturity of the lease liability is included in the Liquidity report in note 22.

The nominal value of future payments due under contracted future finance leases was 2018 as follows:

EUR thousand	2018
Term to maturity < 1 year	299
Term to maturity 1–5 years	779
Term to maturity > 5 years	–

The Group leases certain of its facilities and IT equipment in Spain and France under finance leases. All these leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Note 27 cont.

Cash flows related to borrowings

EUR thousands	Carrying amount Jan 1, 2019	Cash flows	Non-Cash changes					Carrying amount Dec 31, 2019
			Change in adjustment amortised cost	New lease contracts	Lease contracts terminated in advance	Foreign exchange movement	New accrued interest	
Long-term borrowings	4,572,423	244,116	38,169	–	–	(2,959)	–	4,851,749
Short-term borrowings	26,914	6,794	–	–	–	–	–	33,708
Accrued interest	20,700	(20,700)	–	–	–	–	21 159	21,159
Financial lease	129,024	(34,589)	–	41,800	(3,716)	(139)	–	132,380
Total liabilities	4,749,061	195,621	38,169	41,800	(3,716)	(3,098)	21,159	5,038,996
Cash and cash equivalents	(8,613)	(4,154)	–	–	–	(3)	–	(12,770)
Total cash	(8,613)	(4,154)	–	–	–	(3)	–	(12,770)
Total	4,740,448	191,467	38,169	41,800	(3,716)	(3,101)	21,159	5,026,226

EUR thousands	Carrying amount Jan 1, 2018	Cash flows	Non-Cash changes			Carrying amount Dec 31, 2018
			Change in adjustment amortised cost	Foreign exchange movement	New accrued interest	
Long-term borrowings	4,111,592	553,377	(85,787)	(6,759)	–	4,572,423
Short-term borrowings	29,420	(2,506)	–	–	–	26,914
Accrued interest	23,195	(23,195)	–	–	20,700	20,700
Financial lease	1,655	(577)	–	–	–	1,078
Total liabilities	4,165,862	527,099	(85,787)	(6,759)	20,700	4,621,115
Cash and cash equivalents	(14,245)	5,520	–	112	–	(8,613)
Total cash	(14,245)	5,520	–	112	–	(8,613)
Total	4,151,617	532,619	(85,787)	(6,647)	20,700	4,612,502

Note 28 Other Provisions

EUR thousand	2019	2018
Balance at beginning of year	3,278	2,319
Additional provisions	23,882	1,646
Utilised provisions	(2,019)	(687)
Balance at end of year	25,141	3,278

Breakdown

EUR thousand	2019	2018
Provision for staff related costs	3,724	2,658
Provisions for marketing related costs	5,458	–
Provisions for service related costs	10,000	–
Other items	5,959	620
Total	25,141	3,278

Note 29 Accrued Expenses and Deferred Income

EUR thousand	2019	2018
Subscription fees invoiced in advance	190,250	154,362
Staff-related costs	105,836	87,612
Marketing-related costs	15,435	7,264
Goods received	14,493	7,901
Audit assignments and other services	1,239	1,260
Risk reserves	5,771	4,889
External services	30,694	22,281
Other items	57,483	30,566
Total	426,594	316,135

When the Group receives a payment but has not delivered the promised service a contract liability arise, which consist of deferred income for prepaid installation and services. A contract liability is accounted for until the performance obligation is performed or fall due for the customer to use, and is then reported as a revenue. Refer to note 3 for more information.

Note 30 Pledged Assets and Contingent Liabilities

Pledged assets

EUR thousand	2019	2018
Endowment insurance	658	664
Shares in subsidiaries	2,100,193	1,972,560
Bank accounts	696	503
Trademark	48,333	53,333
Accounts receivables	93,684	74,195
Inventories	67,088	61,816
Motor vehicles	18	10

Contingent liabilities

EUR thousand	2019	2018
Guarantees	29,645	25,068

The Group has pledged shares in subsidiaries, certain bank accounts, certain trade receivables, certain IP rights, certain inventory assets, certain intra-group loans, intra-group equity certificates, rights under certain insurances, certain rights under the acquisition agreements regarding the purchase of the Group and certain rights under reports in relation to the acquisition of the Group as collateral for bank borrowings, as disclosed in note 27. Guarantees relate primarily to guarantees provided to suppliers.

Note 31 Changes in Accounting Policy

On January 1, 2019 the Group changed the accounting principles for leases, by applying IFRS 16 Leases, which supersedes IAS 17 Leases. IFRS 16 was issued in January 2016 and the standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. In accordance with the new standard, the Group recognises a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease terms (i.e. the right of use asset).

The Group has decided to apply the simplified transition approach and therefore has not restated the comparative amounts for the year prior to first adoption.

IFRS 16 results in most leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The exceptions to this are short-term

and low-value leases which instead are reported as lease payments and as operating expenses in the income statement.

The Group's lease agreements are mainly attributable to buildings and vehicles. As from the transition to IFRS 16, they are accounted for as right of use assets and long-term and short-term lease liabilities (included in long-term borrowings and short-term borrowing) in the consolidated balance sheet. The lease liabilities on January 1, 2019 have been measured at the present value of the remaining lease payments, discounted by using the incremental borrowing rate. The incremental borrowing rate is dependent on a number of factors such as length of lease period and asset type and it is also specific for each country. Extension clauses are evaluated for each lease agreements and are applied based on our best estimate at each closing.

The effects on the consolidated income statement and the consolidated statements of financial position from the adoption of IFRS 16 are specified in the table below.

Effects on consolidated income statement

EUR thousand	2019
Adjusted EBITDA	41,431
Amortisation and write off	(38,367)
Operating profit	3,064
Financial items	(4,656)
Income before tax	(1,592)

Effects of consolidated statements of financial position

EUR thousand	Dec 31, 2018 – As reported	Adjustment – IFRS 16 – As of Jan 1, 2019	Jan 1, 2019 – Adjusted
Right of use assets	–	131,438	131,438
Total non-current assets	3,145,181	131,438	3,276,619
Prepayments and accrued income	34,553	(2,414)	32,139
Total current assets	305,313	(2,414)	302,899
Total assets	3,450,494	129,024	3,579,518
Total equity	(2,048,783)	–	(2,048,783)
Long-term borrowings	4,573,202	99,710	4,672,912
Total non-current liabilities	4,957,640	99,710	5,057,350
Short-term borrowings	47,913	29,314	77,227
Total current liabilities	541,637	29,314	570,951
Total equity and liabilities	3,450,494	129,024	3,579,518

Bridge between operating leases and lease liability under IFRS 16

EUR thousand	Jan 1, 2019
Assumption for operational leasing as of December 31, 2018	150,849
Liability for financing leases as of December 31, 2018	1,078
Short-term leases and low value leases	(8,805)
Adjustments due to other handling of options to extend or terminate agreements	179
Discounting with the Group's marginal borrowing rate (3.35% average)	(14,277)
Lease liability as of January 1, 2019	129,024

Parent Company Financial Statement

Parent Company Income Statement

EUR thousand	Note	2019	2018
Administrative expenses		(18)	(18)
Operating profit		(18)	(18)
Financial income	2	48,360	43,521
Financial cost	2	(74,284)	(69,803)
Dividend		–	353,694
Group contribution		3,027	31,266
Result before tax		(22,915)	358,660
Income tax expense and benefit		109	(109)
Result for the period		(22,806)	358,551

Parent Company Statements of Financial Position

EUR thousand	Note	2019	2018
ASSETS			
Non-current assets			
<i>Long-term investments</i>			
Investments in subsidiaries	4	1,190,122	1,189,952
Receivables from Group companies		700,444	701,094
Total non-current assets		1,890,565	1,891,046
Current assets			
Other receivables from Group companies		–	158
Accrued income and prepaid expenses		–	13
Accrued income and prepaid expenses from Group companies		3,039	4,005
Cash and cash equivalents		119	252
Total current assets		3,158	4,428
Total assets		1,893,723	1,895,474

EUR thousand	Note	2019	2018
Equity and liabilities			
Equity	26		
Share capital		56	56
Other paid in capital		569,170	569,170
Retained earnings		18,901	41,538
Total equity		588,127	610,764
Non-current liabilities			
Long-term borrowings	3	1,228,788	1,230,953
Liabilities to Group companies		71,052	44,270
Deferred tax liabilities		–	109
Total non-current liabilities		1,299,841	1,275,332
Current liabilities			
Accrued expenses and prepaid income	3	5,749	5,733
Accrued expenses and prepaid income to Group companies		5	228
Other current liabilities to Group companies		–	3,417
Total current liabilities		5,754	9,378
Total equity and liabilities		1,893,723	1,895,474

Parent Company Statements of Changes in Equity

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2019	56	569,170	41,538	610,764
Result for the period	–	–	(22,806)	(22,806)
Shareholders contribution	–	–	169	169
Balance at September 30, 2019	56	569,170	18,901	588,127

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2018	56	569,170	1,075,664	1,644,890
Result for the period	–	–	358,551	358,551
Dividend	–	–	(1,448,025)	(1,448,025)
Shareholders contribution	–	–	55,348	55,348
Balance at December 31, 2018	56	569,170	41,358	610,764

Parent Company Statement of Cash Flows

EUR thousand	2019	2018
Operating activities		
Operating profit	(18)	(18)
Cash flow from operating activities before change in working capital	(18)	(18)
Change in working capital		
Change in trade payables	(3,417)	(571)
Change in trade receivables	171	(171)
<i>Cash flow from change in working capital</i>	<i>(3,246)</i>	<i>(742)</i>
Cash flow from operating activities	(3,264)	(760)
Investing activities		
Cash flow from investing activities	–	–
Financing activities		
New loans to Group companies	26,782	(81,882)
Paid bank and advisory fees	(427)	(2,231)
Net interest paid	(23,224)	(19,294)
New financing	–	100,000
Dividend received	–	1,162
Cash flow from financing activities	3,131	(2,245)
Cash flow for the period	(133)	(3,005)
Cash and cash equivalents at start of period	252	3,257
Exchange difference on translating cash and cash equivalents	–	–
Cash and cash equivalents at end of period	119	252

Notes to the Parent Company Financial Statements

Note 1 Accounting Policies

The parent company Verisure Midholding AB applies the Swedish Financial Reporting Board's recommendation "RFR 2". The parent company basically applies the same accounting policies for recognition and measurement as the Group. The accounting policies applied by the parent company deviate

from the accounting policies set out in note 1 to the consolidated financial statements in the annual report. The accounting policies are unchanged compared with those applied in 2018.

Note 2 Financial Income and Costs

EUR thousand	2019	2018
Interest income from Group companies	48,360	43,521
Financial Income	48,360	43,521
Interest expense	(71,179)	(66,397)
Interest expense to Group companies	(1,184)	(393)
Other financial cost	(1,921)	(3,013)
Financial cost	(74,284)	(69,803)

Note 3 Borrowings

EUR thousand	2019		
	Current liabilities	Non-current liabilities	Total
Unsecured			
Senior Unsecured Notes	5,735	1,228,788	1,234,523
Total (carrying amount)	5,735	1,228,788	1,234,523

EUR thousand	2018		
	Current liabilities	Non-current liabilities	Total
Unsecured			
Senior Unsecured Notes	5,722	1,230,953	1,236,675
Total (carrying amount)	5,722	1,230,953	1,236,675

Note 4 Investments in Subsidiaries

EUR thousand	2019	2018
Opening acquisition value	1,189,952	1,134,604
Capital increase	169	55,348
Closing accumulated acquisition value	1,190,122	1,189,952

Subsidiary name	Reg. no	Reg. office	No. of shares	Share of share capital and voting rights	2019	2018
Verisure Holding AB	556854-1410	Malmö	500,000	100%	1,190,122	1,189,952
Total					1,190,122	1,189,952

Subsidiary name	Reg. no	Reg. office	Share of share capital and voting rights
Verisure Holding AB (publ)	556854-1410	Malmö, Sweden	100.00%
Securitas Direct AB (publ)	556222-9012	Malmö, Sweden	100.00%
Verisure Sales Sverige AB	556955-2978	Linköping, Sweden	100.00%
Verisure Sverige AB	556153-2176	Linköping, Sweden	100.00%
Alert Alarm AB	556674-8975	Solna, Sweden	100.00%
Securitas Direct Sverige AB	556893-9010	Linköping, Sweden	100.00%
Verisure Logistics AB	556702-0747	Linköping, Sweden	100.00%
Verisure Innovation AB	556723-5329	Malmö, Sweden	100.00%
Verisure International AB	559132-9569	Malmö, Sweden	100.00%
ESML SD Iberia Holding S.A.U.	A85537363	Madrid, Spain	100.00%
Securitas Direct España S.A.U	A26106013	Madrid, Spain	100.00%
Verisure Perú S.A.C	12880228	Santiago de Surco, Peru	100.00%
Verisure Italy S.R.L.	12454611000	Rome, Italy	100.00%
Verisure Brazil Monitoramento de Alarmes LTDA	11660106000138	São Paulo, Brazil	100.00%
Securitas Direct Portugal Unip. LDA	505760320	Lisbon, Portugal	100.00%
Verisure Chile SPA	76058647-1	Santiago, Chile	100.00%
Verisure Argentina Monitoreo de Alarmas S.A	24704	Buenos Aires, Argentina	100.00%
Securitas Direct S.A.S	34500602700188	Chatenay-Malabry, France	100.00%
Mediaveil S.A.S	418920120	Chatenay-Malabry, France	95.50%
Verisure Sàrl	CHE300209613	Versoir, Switzerland	100.00%
OPSEC International BV	KVK74814990	Amsterdam, The Netherlands	100.00%
Securitas Direct BV	KVK17158925	Amsterdam, The Netherlands	100.00%
Verisure Installation and Monitoring B.V.	KVK71133607	Amsterdam, The Netherlands	100.00%
Securitas Direct NV	KBO0459866904	Brussels, Belgium	100.00%
Securitas Direct Management BVBA	KBO0877035396	Brussels, Belgium	100.00%
Verisure Holding AS	997434366	Oslo, Norway	100.00%
Verisure AS	929120825	Oslo, Norway	100.00%
Falck Alarm by Verisure AS	918111638	Oslo, Norway	100.00%
Verisure A/S	25019202	Glostrup, Denmark	100.00%
Falck Alarm by Verisure A/S	38049380	Glostrup, Denmark	100.00%
Verisure Oy	1773522-2	Helsinki, Finland	100.00%
Verisure Services (UK) Limited	08840095	Brentford, United Kingdom	100.00%
Verisure Ireland DAC	658538	Dublin, Ireland	100.00%
Verisure Deutschland GmbH	HRB85120	Düsseldorf, Germany	100.00%

Note 5 Pledged Assets and Contingent Liabilities

Pledged assets

EUR thousand	2019	2018
Shares in subsidiaries	1,190,122	1,189,952

As previously stated, the Norwegian Competition Authority issued a statement of objections to Verisure Norway and Verisure Midholding AB. Verisure Midholding AB agreed to financially support Verisure AS in relation to any payment that may become due as a final outcome.

There are no other contingent liabilities in 2019 and 2018.

March 18, 2020, Malmö

Austin Lally
CEO

Fredrik Östman

Stefan Götz

Cecilia Hultén
Chairman

Adrien Motte

Our auditor's report was issued on March 20, 2020, Stockholm
PricewaterhouseCoopers AB

Johan Rippe
Authorised Public Accountant

Independent Auditor's Report

To the Board of Directors in Verisure Midholding AB (publ)

Corporate identity number 556854-1402

Opinions

We have audited the annual financial statements and the consolidated financial statements of Verisure Midholding AB (publ) for the financial year ended December 31 2019. The annual financial statements and consolidated financial statements comprise the annual financial statements of the parent company and consolidated statement of financial position of Verisure Midholding AB (publ) and its subsidiaries ("the Group") as at December 31, 2019 and the related annual financial statements and consolidated statements of income, comprehensive income, changes in equity and cash flows for the period from January 1, 2019 through December 31, 2019 and a summary of significant accounting policies. The financial statements of the parent company and the group are included in the printed version of this document on pages 34–77.

In our opinion, the accompanying annual financial statements of the parent company have been prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and present fairly, in all material respects, the financial position of the parent company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The consolidated financial statements present fairly, in all material respects, the financial position of the group as at December 31, 2019, and the operations and cash flows for the period from January 1, 2019 through December 31, 2019, in accordance with International Financial Reporting Standards, as adopted by the EU.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the parent company and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Use

We draw attention to the Notes of the annual financial statements of the parent company and consolidated financial statements, which describes the basis of preparation and accounting. The annual financial statements of the parent company and consolidated financial statements have been prepared to present the operations of Verisure Midholding AB (publ) for the full year 2019, in order to fulfil the reporting requirements of the Euro MTF Market of the Luxembourg Stock Exchange. As a result, the annual financial statements and consolidated financial statements may not be suitable for other purposes. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements of the parent company in accordance with Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Stockholm, March 20, 2020
PricewaterhouseCoopers AB

Johan Rippe
Authorized Public Accountant

Five-Year Financial Overview

EUR thousand (if not otherwise stated)	2019	2018	2017	2016	2015
Portfolio services segment:					
Unaudited operating data					
Total subscribers (year end), units	3,346,712	2,930,753	2,586,123	2,293,993	2,016,523
Cancellations, units	195,362	171,099	153,369	142,708	129,174
Attrition rate (LTM)	6.2%	6.2%	6.3%	6.7%	6.8%
Net subscriber growth, units ¹	415,959	344,630	292,130	277,470	228,084
Subscriber growth rate, net	14.2%	13.3%	12.7%	13.8%	12.8%
Average monthly revenue per user (ARPU), (in EUR)	41.2	40.2	39.7	38.9	38.1
Monthly adjusted EBITDA per subscriber (EPC), (in EUR) ²	28.6	26.9	26.0	24.6	23.0
Non-IFRS and IFRS financial data					
Portfolio services revenue	1,548,936	1,329,536	1,158,096	995,393	862,367
Portfolio services adjusted EBITDA ³	1,075,348	890,704	759,909	629,479	521,729
Portfolio services adjusted EBITDA margin	69.4%	67.0%	65.6%	63.1%	60.5%
Customer acquisition segment:					
Unaudited operating data					
New subscribers added (gross)	611,321	515,624	439,687	359,468	308,494
Cash acquisition cost per new subscriber (CPA), (in EUR) ⁴	1,208	1,220	1,218	1,176	1,149
Non-IFRS and IFRS financial data					
Customer acquisition revenue	329,098	266,823	212,130	179,784	141,211
Customer acquisition adjusted EBITDA ⁵	(316,297)	(277,768)	(225,167)	(177,361)	(160,933)
Capital expenditures	422,445	351,304	310,407	245,338	193,425
Adjacencies segment:					
Adjacencies revenue	22,696	16,167	2,183	2,027	1,395
Adjacencies adjusted EBITDA	2,035	(2,322)	464	371	43
Consolidated:					
Unaudited operating data					
Payback period (in years) ⁶	3.5	3.7	3.7	4.0	4.2
Non-IFRS and IFRS financial data					
Revenue	1,900,730	1,612,525	1,372,409	1,177,205	1,004,973
Organic revenue growth	18.6%	19.4%	17.4%	15.7%	14.0%
Adjusted EBITDA ⁷	761,086	610,614	535,206	452,489	360,839
Adjusted EBITDA margin	40.0%	37.9%	39.0%	38.4%	35.9%
Capital expenditures	592,909	500,138	429,075	321,064	253,892
Reported (including SDI)					
Revenue	1,900,730	1,612,525	1,372,409	1,177,205	1,004,973
Adjusted EBITDA ⁷	702,869	583,549	500,424	452,489	360,839

1) Differences in reconciliation with end of period subscriber data are primary due to acquisition and disposal of contract portfolios.

2) Includes the effect from IFRS 16 of EUR 0.3 in 2019.

3) Includes the effect from IFRS 16 of EUR 11,929 thousand in 2019.

4) Includes the effect from IFRS 16 of EUR 48 in 2019.

5) Includes the effect from IFRS 16 of EUR 29,503 thousand in 2019.

6) Includes the effect from IFRS 16 of 0.1 years in 2019.

7) Includes the effect from IFRS 16 of EUR 41,431 thousand in 2019.

Definitions

Key operating metrics

Management uses a number of key operating metrics, in addition to our IFRS financial measures, to evaluate, monitor and manage our business. The non-IFRS operational and statistical information related to our operations included in this section is unaudited and has been derived from internal reporting systems. Although none of these metrics are measures of financial performance under IFRS, we believe that these metrics provide important insight into the operations and strength of our business. These metrics may not be comparable to similar terms used by competitors or other companies, and from time to time we may change our definitions of these metrics. The metrics include the following:

Adjusted EBITDA

Earnings before interests, taxes, depreciation and amortisation, write-offs and separately disclosed items and IFRS 15 adjustments.

Attrition rate

The attrition rate is the number of terminated subscriptions to our monitoring service in the last 12 months, divided by the average number of subscribers for the last 12 months.

Average revenue per user

Average monthly revenue per user ("ARPU") is our portfolio services segment revenue, consisting of monthly average subscription fees and sales of additional products and services divided by the monthly average number of subscribers during the relevant period.

Cancellations

Total number of cancelled subscriptions during the period including cancellations on acquired portfolios.

Cash acquisition cost per new subscriber

Cash acquisition cost per new subscriber ("CPA") is the net investment required to acquire a subscriber, including costs related to the marketing and sales process, installation of the alarm system, costs of alarm system products and overhead expenses for the customer acquisition process. The metric is calculated net of any revenues from installation fees charged to the subscriber and represents the sum of adjusted EBITDA plus capital expenditure in our customer acquisition segment on average for every subscriber acquired.

Monthly adjusted EBITDA per subscriber

Monthly adjusted EBITDA per subscriber ("EPC") is calculated by dividing the total monthly adjusted EBITDA from managing our existing subscriber portfolio (which is our adjusted EBITDA from portfolio services) by the monthly average number of subscribers.

Net Debt

The sum of financial indebtedness, defined as interest bearing debt from external counterparties, excluding accrued interest less the sum of available cash and financial receivables.

New subscriber added (gross)

Total number of new subscribers added.

Organic revenue growth

Revenue growth not affected by acquisitions or the impact of foreign exchange.

Payback period

Payback period represents the time in years required to recapture the initial capital investment made to acquire a new subscriber and is calculated as CPA divided by EPC, divided by 12.

Retirement of assets

The residual value of an asset that will no longer be used in the operations are recognised as a cost in the income statement.

Separately disclosed items (SDI)

SDI's are costs or income that have been recognised in the income statement which management believes, due to their nature or size, should be disclosed separately to give a more comparable view of the year-on-year financial performance.

Subscriber growth rate

Number of subscribers at the end of period divided by the number of subscribers 12 months ago.

Risk Factors

Risks Related to Our Business and Industry

We operate in a highly competitive industry and our results may be adversely affected by this competition.

We face significant competition from both established and new competitors. In some instances, we compete against companies with greater scale, easier access to financing, greater personnel resources, greater brand name recognition and experience or longer-established relationships with customers.

The residential home and small business segment of the much larger security services market (the “RHSB segment”) in Europe and Latin America is fragmented and subject to significant competition and pricing pressures. As a result, within our segment, we must compete against a variety of players who use various strategies. For example, the majority of our competitors offer lower installation and lower recurring fees, generally reflecting the product quality and service levels. Likewise, existing competitors may expand their current product and service offerings more rapidly, adapt to new or emerging technologies more quickly, take advantage of acquisitions or devote greater resources to the marketing and sale of their products and services, than we do. Our competitors may use lower pricing to increase their customer base and win market share. Our higher installation fees as compared to our competitors could make our competitors’ offers appear more attractive to potential customers, which could have a significant effect on our ability to maintain or grow our customer base. Likewise, if our competitors charge lower ongoing monitoring fees than we do, we may have to reduce our monitoring fees or risk losing our existing customers. These competitive actions could impact our ability to attract new customers, subject us to pricing pressure or erode our existing customer portfolio, each of which could have a material adverse effect on our business, financial condition and results of operations.

We also face potential competition from improvements in do-it-yourself (“DIY”) self-monitored systems, which, through the internet, text messages, emails or similar communications, enable consumers to monitor and control their home environment through devices that they install and monitor without third-party involvement. Continued pricing pressure or improvements in technology, as well as increased smart phone penetration, and shifts in consumer preferences towards DIY and self-monitoring could adversely impact our customer base or pricing structure and have a material adverse effect on our business, financial condition and results of operations.

With respect to competition from potential new entrants, we believe that players operating in the connected home market and telecommunications market are best situated to move into the security and safety industry. While within the connected home market, security and safety is the largest growing segment, the connected home market itself is growing quickly and covers many different products and services in segments such as utility

management, entertainment, wellness management and smart appliances. If competitors in these alternative segments move into the security and safety segment of the connected home market, such action could have a material adverse effect on our business, financial condition and results of operations. Additionally, large players in adjacent or overlapping industries, such as Amazon, Google, Apple and Microsoft, have launched smart home platforms. Such players could leverage their well-known brand names and technological superiority to enter or further expand the security and safety segment of the connected home market. For example, Google acquired Dropcam (a manufacturer of security cameras) in June 2014, and merged it with Nest (a manufacturer of smart thermostats) and has subsequently launched a DIY home alarm platform on that basis. As another example, Amazon acquired Blink in December 2017 and Ring in February 2018, and subsequently proceeded to launch a Ring Alarm product suite. Such actions could impact our ability to attract new customers, subject us to pricing pressure or erode our existing customer portfolio, each of which could have a material adverse effect on our business, financial condition and results of operations. Telecommunications players have already shown significant interest in entering the security and safety market in Europe and Comcast has already done so successfully in the United States and Telefonica is in the process of doing so in Spain. Given the extensive customer base of larger telecommunications players, if they are able to successfully develop security monitoring capabilities, they may be able to leverage their existing customer contacts to rapidly grow this segment of their business.

The success of our business depends, in part, on our ability to respond to the rapid changes in our industry and provide customers with technological features that meet their expectations.

Our success and competitive position depend, in large part, on our ability to develop and supply innovative products and keep pace with technological developments in the security and safety services industry. Whether developed by us or otherwise, our offering of new product features can have a significant impact on a customer’s initial decision to choose our products. Likewise, the quality of our monitoring services, which heavily depend on the technology used in our security and safety systems, also plays a large role in our ability to attract new customers and retain existing customers. Accordingly, the success of our business depends, in part, on our ability to continue to enhance our existing products and services and anticipate changing customer requirements and industry standards.

We may not be able to develop or partner with third-party suppliers to gain access to technical advances before our competitors, match technological innovations made by our

competitors or design systems that meet customers' requirements. Alternatively, we may not have the financial resources required to successfully develop or implement such new technologies. If we are unable, for technological, legal, financial or other reasons, to adapt to changing market conditions or customer requirements in a timely manner, we could lose existing customers, encounter trouble recruiting new customers, or become subject to increased pricing pressures. Should we experience any of these technology related challenges, our business, financial condition and results of operations could be materially adversely affected.

We are susceptible to economic downturns, particularly those impacting the housing market or consumer spending.

Our financial performance depends primarily on residential consumers in single-family dwellings and, to a lesser extent, on small businesses. Periods of economic downturn, particularly those impacting the housing market or consumer discretionary spending, can increase our attrition rate among existing customers. For example, customer attrition rates increased across our business in 2009 compared to 2008, which coincided with the global economic crisis. In the residential segment, a proportion of customers discontinued our service in order to reduce their recurring costs, while others moved from their homes and did not re-subscribe to our service. In the small business segment, customers were particularly impacted by the economic downturn and sought to reduce their costs or were forced to close their businesses, and thus we had a more significant increase in attrition rate in our small business portfolio compared to our residential customers. Attrition as a percentage of overall customers increased in both 2012 and 2013, which was primarily driven by enduring effects of the recession in the Spanish economy, where we have a larger proportion of small business customers compared to the rest of our segments. Small business subscriptions are more directly correlated to economic conditions. A renewed or future recession or period of economic uncertainty could lead to increases in our attrition rate and could reduce the inflow of new customers purchasing our services. Periods of economic downturn, particularly those that affect Europe, can also negatively impact our ability to sell new alarm systems. The outlook for the world economy remains subject to uncertainty.

Spain, as mentioned above, was severely affected by the crisis of previous years but, at the moment, is recovering from the period of recession and austerity. However, the economy still suffers from relatively high levels of unemployment and debt. Furthermore, tensions in Catalonia relating to the sovereignty of the region are not abating and as a result the Spanish Government decreased its economic outlook for 2019, and the National Securities Market Commission (Comisión Nacional del Mercado de Valores) has mentioned the uncertainty derived from the political turmoil in Catalonia as a domestic risk.

Additionally, on March 29, 2017, the Prime Minister of the United Kingdom officially triggered Article 50 of the Treaty of Lisbon, signaling the start of a two-year period in which the United Kingdom will negotiate the terms of its exit ("Brexit") from the European Union. This withdrawal took effect on the effective date of the withdrawal agreement on January 31, 2020. The effects of Brexit are uncertain, including in relation to the

negotiation of a future agreement between the United Kingdom and the European Union to come into force at the end of the transition period under the withdrawal agreement, an extension of the transition period, a second referendum or any other unexpected development. While it is difficult to predict the effect of Brexit on the European and global economy, uncertainty regarding new or modified arrangements between the United Kingdom and the European Union could result in additional volatility in the markets, increased costs and a material adverse effect on the buying behavior of commercial and individual customers. The resulting political and economic uncertainty could also lead to further calls for other governments of other European Union Member States to consider withdrawal from the European Union or the abandonment of the euro as a currency. Additionally, if the United Kingdom and the European Union are unable to negotiate acceptable terms to apply following the end of the transition period or if other European Union member states pursue withdrawal, barrier free access between the United Kingdom and other European Union member states or among the European Economic Area overall could be diminished or eliminated. Such developments, or the perception that any such developments could occur, could have a material adverse effect on global economic conditions and the stability of the global economy.

Any deterioration of the current economic situation in the market segments in which we operate, or in the global economy as a whole could have a negative impact on the Group's revenues and increase the Group's financing costs, circumstances that could have a material adverse effect on the business, financial condition and results of operations of the Group.

Attrition of customer accounts or failure to continue to acquire new customers in a cost-effective manner could adversely affect our operations.

We contract with customers on standard terms within each country. In some countries, our customer contracts have minimum periods of duration—typically ranging from 12 to 36 months—during which cancellation fees or payments may be payable if the contract is terminated by the customer. Following the expiration of any initial minimum period, a customer may cancel a subscription on giving the requisite period of notice (typically one to three months) without payment of a cancellation fee. For residential customers, the main reasons for cancelling a subscription include factors such as moving to a new home, financial distress, or dissatisfaction with our service or prices. For small businesses, attrition is usually related to financial distress, the failure, closure or relocation of the business or dissatisfaction with our service or prices. Our overall attrition rates on a twelve-month trailing basis were 6.7% and 6.3% in the years ended December 31, 2016 and 2017, and 6.2% in both 2018 and 2019 respectively. As we continue to expand, including into new countries, our new customers may have different economic and other characteristics from our current customers, which may lead to increased attrition rates. For example, in our Latin America geographies, the attrition rates were higher than we typically experience in our European geographies.

Customer attrition reduces our revenues from monthly subscription fees and, to the extent we decide to invest in replacing such customers with new customers, customer attrition also increases our customer acquisition costs. Consequently, customer attrition, particularly prior to the end of the payback period (the time it takes to recapture our upfront costs) have a negative effect on our business. If upfront customer acquisition costs increase, or if the installation fees or monthly subscription fees we charge decrease, the payback period will lengthen, only serving to increase the negative effects that attrition may have on our business, financial condition and results of operations.

Our ability to retain existing customers and acquire new customers in a cost-effective manner may also be affected by our customers' selection of telecommunications services. Certain elements of our operating model rely on our customers' selection of telecommunications services (both wireless and wired), which we use to communicate with our monitoring operations. In order to continue to service our customers, our systems need to be able to interface with the technology existing in our customers' residences or businesses. Advances in technology may require customers to upgrade to alternative, and often more expensive, technologies to transmit alarm signals. Such higher costs may reduce the market for new customers, or cause existing customers to cancel their services with us. While we generally seek to upgrade customers on a rolling basis, if a substantial number of customers were to simultaneously seek to upgrade their services, we may not be able to efficiently or effectively accommodate such requests. Additionally, in the future we may not be able to successfully implement new technologies or adapt existing technologies to changing market demands, and in any event, we may be required to incur significant additional costs to upgrade to improved technology. Continued shifts in technology or customers' preferences regarding telecommunications services could have a material adverse effect on our business, financial condition and results of operations. Our ability to offer our services to our customers depends on the performance of these telecommunications services. In particular, we rely on them to provide our customers with constant connectivity to our monitoring operations so that we can be made aware of all actual intrusions. Such telecommunications services are, however, vulnerable to damage from a variety of sources, including power loss, malicious human acts and natural disasters. Moreover, these telecommunications services providers have the right to terminate their services under their agreements in certain circumstances and under certain conditions, some of which are outside our customers' control. The termination of such services could impact our ability to provide our customers with the services they require, which would adversely affect the value of our business.

Our substantial concentration of sales in Iberia (Spain and Portugal) makes us more vulnerable to negative developments in the region.

A significant portion of our operations occur in Iberia (Spain and Portugal). The Iberian segment accounted for 41% of our revenue for the year ended December 31, 2019. In light of this concentration, our business is particularly sensitive to

developments that materially impact the Iberian economy or otherwise affect our operations in Iberia. Negative developments in, or the general weakness of, the Iberian economy may have a direct negative impact on the spending patterns of potential new customers, our current customers and the willingness of small businesses to make investments. We have a higher percentage of small business customers in Iberia than in our other geographies and such small business customers tend to be more sensitive to economic conditions. A recession, or public perception that economic conditions are deteriorating, could substantially decrease the demand for our products and adversely affect our business. The tensions in Catalonia relating to the sovereignty of the region, or political instability in other regions in Iberia could lead to an economic slowdown in those regions. While the impact of an economic slowdown or recession on our business in Iberia is uncertain, it could result in a decline in our revenues which could have a material adverse effect on our business, financial condition and results of operations.

Certain of our potential competitors may seek to expand their market share by bundling their existing offerings with additional products and services.

We may not be able to compete effectively with companies that integrate or bundle security offerings similar to ours with the other general services they provide. For example, home insurance companies (many of which offer reduced premiums for homes with security alarms), telecommunications companies or utility companies (all of which may already have a relationship with our potential customers) may decide to expand into security and safety services and bundle their existing offerings with such services. The existing access to and relationship with customers that these companies have could give them a substantial advantage over us, especially if they are able to offer customers a lower price by bundling these services. These potential competitors may subject us to increased pricing pressure, slower growth in our customer base, higher costs and increased attrition rate among our customers. If we are unable to sufficiently respond to these competitors or otherwise meet these competitive challenges, we may lose customers or experience a decrease in demand for our products and services, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, in many locations, we work with guarding companies to respond to triggered alarms. In some cases, they are also competing to us for monitoring security and safety services. If these or other guarding companies were to successfully expand or further expand into the alarm monitoring and installation market segment, they would become direct and larger competitors with us. This development could also force us to find alternative first responders in the affected regions, and such alternative first responders may not be available on a timely basis or on commercially attractive terms. The costs and difficulties associated with finding alternative providers, as well as any decrease in our share of supply in the relevant region, resulting from the presence of these companies, could have a material adverse effect on our business, financial condition and results of operations.

Privacy concerns, such as consumer identity theft and security breaches, could hurt our reputation and revenues, and our failure to comply with regulations regarding the use of personal customer data could subject us to lawsuits or result in the loss of goodwill of our customers and adversely affect our business, financial condition and results of operations.

As part of our operations, we collect a large amount of private information from our customers, including name, address, bank details, credit card information, images, voice recordings and other personal data. If we were to experience a breach of our data security, we might find ourselves in a position where personal data about our customers was at risk of exposure. To the extent that any such exposure leads to credit card fraud or identity theft, or the misuse or distribution of other personal data, including images taken by our photo detectors and cameras, we may experience a general decline in consumer confidence in our business, which may lead to an increase in our attrition rate or make it more difficult to attract new customers. In addition, if technology upgrades or other expenditures are required to prevent security breaches of our network, boost general consumer confidence in our business, or prevent credit card fraud and identity theft, we may be required to make unplanned capital expenditures or expend other resources. Further, as we expand the automation of our services and offer increasingly centralised access for consumers through features like “Connected Home,” the potential risk associated with any form of cyberattack or data breach also increases, threatening to expose consumer data. Any such breach and associated loss of confidence in our business or additional capital expenditure requirement could have a material adverse effect on our business, financial condition and results of operations.

Moreover, in most of the countries in which we operate, the processing of personal data is subject to governmental regulation and legislation. Any failure to comply with such regulations or legislation could lead to governmental sanctions, including fines or the initiation of criminal or civil proceedings. Additionally, in most of the countries in which we operate, our customers and employees have the right to access, rectify, cancel or oppose the processing of their personal data.

Notwithstanding our efforts to protect personal data, we are exposed to the risk that data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by us or on our behalf. Additionally, if we fail to comply with any regulations or legislation applicable to our collection and processing of personal data, we may be exposed to judicial proceedings or fines, any of which could have a material adverse effect on our business, reputation, financial condition and results of operations.

Potential disputes over or other events relating to the brand name SECURITAS may negatively impact our results of operations.

The Group trades under two brands, SECURITAS DIRECT and VERISURE. We do not own the “SECURITAS” brand name or trademark. Instead, we license the “SECURITAS” brand name and trademark from Securitas AB (publ) for the relevant operating geographic locations. Securitas AB (publ) is our former parent company from whom we demerged in 2006. Although, historically, Securitas AB (publ) has primarily focused on the large enterprise

segment of the broader security services market, they do compete with us for monitoring services for the residential and small business segment in which we operate in some markets discussed below. In the future, Securitas AB (publ) may choose to change their focus and increase their presence in the residential and small business segment including use of the “SECURITAS” brand name in the geographies in which we operate. In that case, consumers may become confused between the two different companies. Additionally, once our current license for the use of the “SECURITAS” brand name and trademark expires, we may not be able to continue to license the “SECURITAS” brand on commercially reasonable terms, if at all, which could have a material adverse effect on our business, financial condition and results of operations.

We have incurred and may continue to incur significant expenses in connection with developing our brands.

We make significant expenditures to market our brands and increase brand awareness among consumers. In addition, from time to time we seek to develop new brands, and often make significant investments to develop these brands. Since 2009, we have developed our “VERISURE” brand for alarms alongside Securitas Direct. As we continue to build the “VERISURE” brand name, and roll it out in an increasing number of our countries, there is some risk that the volume of new installations and our attrition rate could be adversely impacted, as it may take time for potential customers and existing customers to associate this new brand name with our historical reputation as a quality service provider under the Securitas Direct brand and company name. We may not be successful in achieving an acceptable level of recognition for our brands and company and, if so, this could have a material adverse effect on our business, financial condition and results of operations.

We regard our brand names as critical to our success. Failure to protect our brand names or to prevent unauthorised use by third parties, or termination of the agreements granting our license, could harm our reputation, affect the ability of customers to associate our quality service with our company and cause us substantial difficulty in soliciting new customers, which could have a material adverse effect on our business, financial condition and results of operations.

We may face difficulties in increasing our customer base or our subscription fees or up-selling new products to our current customers, and these difficulties may cause our operating results to suffer.

We have experienced strong revenue growth over the past several years. However, our future rate of growth may slow compared to the past period. Our recent revenue growth is primarily due to the growth of our customer base and increases in our subscription fees (including some increases beyond the increase in consumer price indices, generally reflecting increased service levels). We may not be able to sustain the level of customer growth, and further increases in subscription fees may meet customer resistance and lead to increases in customer attrition rates. If we are unable to execute our business strategy, the RHSB segment does not continue to grow as we expect, or we encounter other unforeseen difficulties in acquiring new customers or selling additional products and

services to existing customers, we may experience a material adverse effect on our business, financial condition and results of operations.

Additionally, we may be forced to spend additional capital to continue to acquire customers at our present rate or, during certain periods in the future, we may seek to increase the rate at which we acquire additional customers. Either such strategy would cause us to expend additional amounts to purchase inventory and to market our products. As a result of these increased investments, our profitability would decrease. In addition, we may evaluate complementary business opportunities, adding customer acquisition channels and forming new alliances with partners to market our alarm systems. Any of these new opportunities, customer acquisition channels or alliances, such as the acquisition of Arlo Europe in 2019, could have higher cost structures than our current arrangements, which could reduce profit margins. Moreover, our customer base includes long-time legacy customers, and it is a challenge to sell additional services to such customers. Should we increase our efforts to up-sell new products and incur the additional costs, our business, financial condition and results of operations could be materially adversely affected.

We are subject to increasing operating costs and inflation risk which may adversely affect our earnings, and we may not be able to successfully implement our comprehensive cost savings program, FOG.

We are subject to increasing operating costs. We are also impacted by increases in salaries, wages, benefits and other administrative costs. While we aim to increase our subscription rates to offset increases in operating costs, we may not be successful in doing so. Price increases are also associated with expenses, in particular, service costs. As a result, our operating costs may increase faster than our associated revenues, resulting in a material adverse effect on our business, financial condition and results of operations.

In late 2014, we began implementing a group-wide operational improvement plan, FOG, with the aim of optimising our cost structure and improving productivity, which is still ongoing and now become part of our Company DNA. The program seeks to leverage our scale and share best practices across our global footprint in order to reduce costs and improve our margins. We have, since the program's implementation, monitored the obtained savings through implementation of a diligent bottom-up process with quarterly reporting to country and Group Management teams. The actual savings in 2019 are EUR €34 million, obtained through development and sharing of best practices in our alarm monitoring, customer care and maintenance departments as well as our Group wide procurement departments ability to leverage our size and negotiation power to obtain reduced prices across our main cost buckets.

We expect that our incremental cost savings for the period from January 1, 2020 to December 31, 2020 will be approximately EUR 18 million, which represents amounts in excess of what is already reflected in our Adjusted EBITDA for the year ended December 31, 2019. There can be no guarantee that such benefits will be realised or that additional costs will not be incurred. The continued success of the program is contingent of many factors, including the implementation of initiatives in

daily operations, follow-ups by management, effective leverage of successful strategies across jurisdictions, assumptions regarding local and macroeconomic conditions, engagement with third parties (including contract counterparties), timely launch of various request for proposals, foreign exchange rates, successful training with respect to customer care efficiency initiatives and effective rollout of automation of various systems, some of which may not materialise in accordance with our expectations.

If the planned measures to increase efficiency and achieve cost savings fail in whole or in part or are not sustainable, we may not operate profitably or may experience less profitably than we expect to. All of the risks described above could materially adversely affect our business, results of operations and financial condition.

An increase in labor costs in the jurisdictions in which we operate, especially in Spain, may adversely affect our business and profitability.

Our business is labor intensive, with labor costs representing 44% of our total operating costs for the year ended December 31, 2019. Any increase in labor costs, particularly in Spain where our largest number of employees are located, could adversely affect our business and profitability. Many of our employees work under collective bargaining agreements. These existing collective bargaining agreements may not be able to be extended or renewed on their current terms, and we may be unable to negotiate collective bargaining agreements in a favorable and timely manner. We may also become subject to additional collective bargaining agreements in the future or our non-unionized workers may unionize, any of which could have a material adverse effect on our costs, operations and business. In the event that we experience a significant or material increase in labor costs and are not able to pass some or all of those costs on to our customers, it could have a material adverse effect on our business, financial condition and results of operations.

Any significant or prolonged disruption of our monitoring centers could constrain our ability to effectively respond to alarms and serve our customers.

A disruption to one or more of our monitoring centers could constrain our ability to provide alarm monitoring services and serve our customers, which could have a material adverse effect on our business. Our alarm systems are linked to our monitoring centers by a variety of connection platforms (both wired and wireless). It is critical that the communication platforms supporting our monitoring activities function properly and allow us to provide our full range of security solutions. We are exposed to various risks ranging from outages and interruptions in the connections between our alarms and our monitoring centers as well as larger-scale power failures or other catastrophes with respect to our monitoring centers. In addition, because our customer service operators are often in the same location as our monitoring staff, damage or a protracted outage in telecommunication traffic in a specific area or a wide range of areas that affect more than one of our monitoring stations could significantly disrupt our sales and monitoring operations. For example, if any of our monitoring

centers were to be affected by earthquake, flood, fire or other natural disaster, act of terrorism, cyber-attack, power loss or other catastrophe, our operations and customer relations could be, in turn, materially and adversely affected. We attempt to mitigate this risk by maintaining auxiliary facilities that can support full monitoring capabilities. Nevertheless, such facilities may not remain operational or we may not be able to transfer our monitoring function in a timely manner. In addition, an auxiliary facility typically does not have all the same capabilities and functionalities as the main center, such as invoicing. Any significant disruption to our operations could have a material adverse effect on our business, financial condition and results of operations.

Any disruption to the communities in which we operate, or in which our suppliers operate, as a result of the impacts of Covid-19 could impact our ability to increase our customer base at the same rate, maintain the same low levels of attrition, deliver uninterrupted high quality services to our customers or source the products needed for our operations and may therefore adversely affect our business.

Where our sales activities are disrupted by restrictions imposed by governments to address the risk of transmission of Covid-19, or by changes in consumer behaviour, our future rate of growth may slow temporarily compared to the past period. The potential financial impact of any slower growth would be mitigated primarily by reducing cost spend until the situation normalises.

The general economic impacts of Covid-19 restrictions on the communities that we serve may result in customers not being able to continue to pay for the service we provide or deciding to cancel the service. This could result in an increase in bad debts and cancellations, which would impact our profitability and attrition rate negatively. This would be mitigated primarily by further cost efficiency measures and by strengthening customer acquisition investment after the situation normalises.

The disruptions and restrictions triggered by Covid-19 could constrain our ability to provide alarm monitoring and other customer services. We are mitigating this risk by enabling continued monitoring and customer services by for example use of segregated teams, use of back-up sites and remote working.

The disruptions triggered by Covid-19 in countries where our suppliers are located may result in a slow-down of their production activities. In addition, the flow of goods between countries may be impacted by the restrictions imposed on cross border trade. We have mitigated this risk by building stocks and are closely monitoring the production capacities of our suppliers. In the event of any potential impact to the supply of specific components, we have put in place where possible multi-supplier sourcing arrangements.

As the situation is rapidly evolving at the time of publication of this Annual Report, the above list of risks is not intended to be exhaustive or precise.

Our reputation as a supplier and service provider of high-quality security offerings may be adversely affected by product defects or shortfalls in our customer service.

Our business depends on our reputation and our ability to maintain good relationships with our customers, suppliers, employees and local regulators. Our reputation may be harmed either through product defects, such as the failure of one or more of our alarm systems, or shortfalls in our customer service, such as a failure to provide reliable product maintenance. Any harm done to our reputation or business relationships as a result of our actions or the actions of third parties could have a significant negative effect on us. Our relationships with our customers are of particular importance. Customers generally judge our performance through their interactions with the staff at our monitoring centers, the reliability of our products and our maintenance performance for any products that require repair. Any failure to meet our customers' expectations in such customer service areas could have a material impact on our attrition rate or make it difficult to recruit new customers. Moreover, we may be exposed to product liability claims in the event that any of our products is alleged to contain a defect and we may incur liability costs for the entire damage or loss claimed. Any claims could divert resources from operating the business and may adversely affect our reputation with our customers as a provider of quality solutions. Any harm to our reputation caused by any of these or other factors could have a material adverse effect on our business, financial condition and results of operations.

We may face liability or damage to our reputation or brand for our failure to respond adequately to alarm activations.

The nature of the services we provide potentially exposes us to risks of liability for operational failures. If we fail to respond effectively to an alarm, our customers could be harmed, their items could be stolen or their property could be damaged. Our customer contracts and other agreements pursuant to which we sell our products and services typically contain provisions limiting our liability to customers and third parties in the event that certain failures lead to a loss due to a system failure or an inadequate response to alarm activation. However, these provisions as well as our insurance policies may be inadequate to protect us from potential liability. In addition, if a claim is brought against us, these limitations may not be enforced or enforceable. Any significant or material claim related to the failure of our products or services could lead to significant litigation costs, including the payment of monetary damages, reputational damage and adverse publicity, which could have an adverse effect on our business, financial condition and results of operations.

Our business operates in a regulated industry, and noncompliance with regulations could expose us to fines, penalties and other liabilities and negative consequences.

Our operations and employees are subject to various laws and regulations. We are subject to EU and local laws, rules and regulations in the geographic regions in which we operate. These regulations govern our operations, from the sales and installation process through to the monitoring and alarm verification process. Relevant regulation for our operations

include such matters as consumer protection, fair trade, country-specific security industry regulation (including with respect to hardware requirements or operational requirements), data privacy, marketing and competition law. Many European countries have regulations governing consumer sales methods such as door-to-door, telemarketing and online sales or regulations governing trial periods during which customers may request a refund if they change their mind about wanting to purchase a given product or service. In order to install an alarm system, we generally must be licensed in the country where we are installing the system. Additionally, we generally must obtain operating certificates or permits for our alarm monitoring centers, and provide specified levels of training to our employees at those centers. We are also governed by regulations relating to when we can forward alarms to emergency providers, and may in certain countries be subject to consequences if we forward false alarms to such emergency providers. Any failure to comply with the laws, rules or regulations (local or otherwise) in jurisdictions in which we operate may result in fines, penalties or a suspension or termination of our right to sell, install and/or monitor alarm systems in the relevant jurisdiction.

Additionally, changes in laws or regulations in the jurisdictions in which we operate, or the introduction of new EU regulation could cause us to incur significant costs and expenses to comply with such laws or regulations, or become unable to operate in the alarm sale, installation or monitoring market segment within the localities in which such laws or regulations are implemented, or could impact our sales channels. Such changes may also result in delays in commencement or completion of services for our customers or the need to modify completed installations. For example, the New Deal for Consumers adopted by the European Parliament and the European Council on April 18, 2019 (the “EU Directive”) may result in national legislation restricting door to door sales practices and may require us to change our sales approach with potential customers. The implementation of the EU Directive is likely to vary across our countries of operation. Any limitation on our ability to operate our business due to legal or regulatory reasons could have a material adverse effect on our business, financial condition and results of operations.

Increased adoption of false alarm ordinances by local governments or other similar regulatory developments could adversely affect our business.

An increasing number of local governmental authorities have adopted, or are considering the adoption of, laws, regulations or policies aimed at reducing the perceived costs to them of responding to false alarm signals. These measures could include, among other things:

- requiring permits for the installation and monitoring of individual alarm systems and the revocation of such permits following a specified number of false alarms;
- imposing limitations on the number of times the police will respond to alarms at a particular location after a specified number of false alarms;
- requiring further verification of an alarm signal before the police will respond; and

- subjecting alarm monitoring companies to fines or penalties for transmitting false alarms.

Enactment of such measures could adversely affect our costs and our ability to conduct our activities. For example, concern over false alarms in localities adopting these ordinances could cause a decrease in the timeliness of emergency responders. As a result, consumers may be discouraged from purchasing or maintaining a monitored alarm system. In addition, some local governments impose fines, penalties and limitations on either customers or the alarm companies for false alarms. Our alarm service contracts generally allow us to pass these charges on to customers. However, if more local governments impose fines or penalties, or if local governments increase existing requirements, our customers may find these additional charges prohibitive and be discouraged from using monitored alarm services. If the adoption of such ordinances reduces the demand for our products or services or if we are unable to pass related assessments, fines and penalties on to our customers, we could experience a material adverse effect on our business, financial condition and results of operations.

We rely on third-party suppliers for our alarm systems and any failure or interruption in the provision of such products or failure by us to meet minimum purchase requirements could harm our ability to operate our business.

The alarm systems and other products that we install are manufactured by third party suppliers. Our suppliers’ abilities to meet our needs are subject to various risks, including political and economic stability, natural calamities, interruptions in transportation systems, terrorism and labor issues. We are therefore susceptible to the interruption of supply or the receipt of faulty products from our suppliers. Difficulties encountered with suppliers may result in disruptions to our operations, loss of profitability and damage to our reputation, and in such instances our business, financial condition, results of operations and prospects could be adversely affected. For example, if suppliers for key components fail to deliver products or experience delays in delivery, such difficulties may prevent us from upgrading equipment, delivering products to our customer on time, or otherwise hinder our ability to install and upgrade systems and provide replacement parts. This could result in higher costs to us and a potential decline in confidence in our products and services among our customers. We are particularly vulnerable to any disruptions in supply of our legacy systems or replacement parts for these systems, as these products may become obsolete and may be out of production. Across the Group, we have a number of critical components in our systems where we have a single supplier, which subjects us to a higher risk of interrupted supply. We also must meet minimum purchase commitments with certain suppliers, which may require us to hold inventory in excess of our requirements or to buy volumes beyond actual demand where demand falls below expectations. For example, in 2008, as the economy slowed significantly, so did the demand for our products and we were required to purchase and hold excess inventory to meet our minimum purchase requirements.

We also often partner with key suppliers to develop proprietary technologies and products used in our business.

We use these partnerships to supplement our own internal product development team. If these suppliers fail to keep pace with technological innovations in the RHSB segment, we may incur increased product development costs or lose customers to competitors with access to these technological innovations. Any interruption in supply, failure to produce quality products or inability to keep pace with technological innovation by a key supplier could adversely affect our operations, as it may be difficult for us to find alternatives on terms acceptable to us, which could have a material adverse effect on our business, financial condition and results of operations.

We may incur unexpectedly high costs as a result of meeting our warranty obligations.

Many of our customer agreements provide for warranties with longer coverage periods than the warranties offered to us from suppliers of our component parts. Therefore, we may be liable for defects in our suppliers' component parts that manifest after the term of the manufacturer's warranty expires. Further, our suppliers' warranties also have limitations on the extent of their liability for repairs or replacements. Additionally, we may encounter situations where we believe a product is defective, but the manufacturer may not honor the warranty either because they do not agree that the product is defective or because the manufacturer has financial difficulties. Any significant incurrence of warranty expense in excess of our estimates for which we are unable to receive reimbursement from the supplier could have a material adverse effect on our business, financial condition and results of operations.

Our insurance policies may not fully protect us from significant liabilities.

We carry insurance of various types, including claims, general liability and professional liability insurance, in amounts management considers adequate and customary for our industry. Some of our insurance policies, and the laws of some of the jurisdictions in which we operate, may limit or prohibit insurance coverage for punitive or certain other types of damages, or liability arising from gross negligence. As such, our insurance policies may be inadequate to protect us against liability from the hazards and risks related to our business. Additionally, we may not be able to obtain adequate insurance coverage in the future at rates we consider reasonable. The occurrence of an event not fully covered by insurance, or an event that we did not carry adequate insurance for, could result in substantial losses and could have a material adverse effect on our business, financial condition and results of operations.

Unauthorised use of or disputes involving our proprietary technology and processes may adversely affect our business.

Our success and competitive position depend in part on a combination of trade secrets and proprietary know-how. We use our in-house development team to design proprietary products, including hardware and software protocols. We also cooperate with our network of manufacturing partners to jointly develop new proprietary products and solutions. While we are increasingly seeking patent protection covering such proprietary technologies, the legal protections covering our proprietary technologies from infringement or other misuse

may be inadequate. Likewise, the remedy for any breach of such protections may not be adequate to compensate us for the damages suffered. Any access to or use by competitors of our technology could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may be subject to claims of patent or other intellectual property rights infringement by third parties. In developing technologies and systems, we may not adequately identify third-party intellectual property rights or assess the scope and validity of these third-party rights. Accordingly, we may become subject to lawsuits alleging that we have infringed on the intellectual property rights of others and seeking that we cease to use the relevant technology. Intellectual property litigation could adversely affect the development or sale of the challenged product or technology or require us to pay damages or royalties to license proprietary rights from third parties. Licenses may not be available to us on commercially reasonable terms, if at all. Any such intellectual property litigation could represent a significant expense and divert our personnel's attention and efforts and could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to effectively manage our growth into new geographies or realise the intended benefits from our acquisitions.

Our growth plan includes expansion into new or recently entered regions in Europe and Latin America. Expanding into these geographies involves significant expenditures, over a period of several years, on development of monitoring and backup centers, hiring and training of personnel, and marketing efforts to introduce our brand to the new geography. We may not accurately predict such costs or accurately anticipate operational difficulties caused by local conditions, and therefore may not achieve our financial and strategic objectives for our operations in the new geographies. Accordingly, we may incur losses as we expand our operations. Some examples of the risks encountered in entering new regions include:

- costs associated with signing up customers who may not prove as loyal as our current customer base, which would cause our attrition rate to increase;
- increased investment associated with understanding new geographies and following trends in these areas in order to effectively compete;
- increased costs associated with adapting our products and services to different requirements in the local markets areas, which may decrease our margins and profitability;
- challenges relating to developing and maintaining appropriate, and risk of non-compliance with, risk management and internal control structures for operations in new geographies and understanding and complying with new regulatory schemes;
- reduced ability to predict our performance because we will have less experience in the new geographies than in our existing geographies;
- trade barriers such as export requirements, which could cause us to experience inventory shortages or an inability to offer our full set of products;
- tariffs, taxes and other restrictions and expenses, which could

- increase the prices of our products and make us less competitive in some countries;
- currency effects, such as future currency devaluations; and
- political, regulatory and other local risks.

When we enter into acquisitions, such as the purchase of Arlo Europe in 2019, we expect such acquisitions will result in various benefits. However, achieving the anticipated benefits is subject to a number of uncertainties, including whether the business we acquire can be operated in the manner in which we intend. Failure to achieve these anticipated benefits and synergies could result in increased costs, decreases in the amount of revenues generated by the combined business and diversion of management's time and energy. In addition, in connection with any acquisitions, we cannot exclude that, in spite of the due diligence we perform, we will not inadvertently or unknowingly acquire actual or potential liabilities or defects, including legal claims, claims for breach of contract, employment-related claims, environmental liabilities, conditions or damage, hazardous materials or liability for hazardous materials or tax liabilities. We may also become subject to national or international antitrust investigations in connection with any acquisitions or otherwise.

Both our failure to accurately predict or manage costs or any operational difficulties we encounter in expanding into new geographies, and our failure to accurately anticipate or capture expected benefits from our add-on acquisitions, could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks associated with foreign currency fluctuations as we translate our financial results into euro, and these risks would increase if individual currencies are reintroduced in the Eurozone.

We present our consolidated financial statements in euro. As a result, we must translate the assets, liabilities, revenue and expenses of all of our operations with a functional currency other than the euro into euro at then-applicable exchange rates. Consequently, increases or decreases in the value of certain other currencies (the Swedish krona (SEK) and Norwegian krone (NOK) in particular) against the euro may affect the value of these items with respect to our non-euro businesses in our consolidated financial statements, even if their value has not changed in their original currency. Our primary exposure is to the SEK and NOK. For the year ended December 31, 2019, 68% of our revenue was denominated in euro, 20% was denominated in SEK and NOK and 12% of revenue was denominated in other currencies. Historically, the euro/SEK exchange rate fluctuated significantly, as it averaged SEK 9.3248 = EUR 1.0 in 2015, SEK 9.4648 = EUR 1.0 in 2016, SEK 9.6464 = EUR 1.0 in 2017, SEK 10.2937 = EUR 1.0 in 2018 and for the year ended December 31, 2019 the exchange rate averaged SEK 10.5824 = EUR 1.0.

Foreign exchange rate fluctuations can significantly affect the comparability of our results between financial periods and result in significant changes to the carrying value of our assets, liabilities and stockholders' equity. In addition, certain of our supply contracts in non-euro denominated countries contain clauses that reset the prices at which we buy our goods based on fluctuations in exchange rates, which can increase our costs if rates move in a manner that is unfavorable to us.

Where we are unable to match sales received in foreign currencies with costs paid in the same currency, our results of operations are impacted by currency exchange rate fluctuations and any unfavorable movement in currency exchange rates, including as a result of the devaluation of a currency in a particular country we operate in could have a material adverse effect on our business, financial condition and results of operations.

We may suffer future impairment losses, as a result of potential declines in the fair value of our assets.

We have a significant amount of goodwill. We evaluate goodwill for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is evaluated for impairment by computing the fair value of a cash-generating unit and comparing it with its carrying value. If the carrying value of the cash-generating unit exceeds its fair value, a goodwill impairment is recorded. Significant judgment is involved in estimating cash flows and fair value. Management's fair value estimates are based on historical and projected operating performance, recent market transactions and current industry trading multiples. We cannot assure you that significant impairment charges will not be required in the future, and such charges may have a material adverse effect on our business, results of operations and financial condition.

We are subject to risks from legal and arbitration proceedings, as well as tax audits, which could adversely affect our financial results and condition.

From time to time we are involved in legal and arbitration proceedings, the outcomes of which are difficult to predict. We could become involved in legal and arbitration disputes in the future which may involve substantial claims for damages or other payments. In the event of a negative outcome of any material legal or arbitration proceeding, whether based on a judgment or a settlement agreement, we could be obligated to make substantial payments, which could have a material adverse effect on our business, financial condition and results of operations. In addition, the costs related to litigation and arbitration proceedings may be significant. Even in case of a positive outcome in such proceedings, we may still have to bear part or all of our advisory and other costs to the extent they are not reimbursed by the opponent, which could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on our experienced senior management team, who may be difficult to replace.

Our success and our growth strategy are dependent on our ability to attract and retain key management, sales marketing, finance and operating personnel. In particular, we are dependent on a small group of experienced senior executives. There can be no assurance that we will continue to attract or retain the qualified personnel needed for our business. Competition for qualified senior managers, as well as research and development personnel, in our industry is intense and there is limited availability of persons with the relevant experience. To the extent that the demand for qualified personnel exceeds supply, we could experience a delay or

higher labor costs in order to attract and retain qualified managers and personnel from time to time. Also, our business model is specific and differentiated. So, we need to ensure new personnel have the time and training to become fully effective. We also are dependent on continuing to retain the very experienced managers across the Company who are experts in our specific and differentiated business model. We have had new personnel join our management every year from 2014 through to 2019, particularly at the senior management level. As such, we may face some of the challenges typically associated with the integration and assimilation of new managers and key personnel, such as changes in organisational and reporting structures, the need to recruit additional new personnel or the departure of existing personnel. For example, in 2014, we increased the size and responsibility of our management team and we hired a new Chief Executive Officer and Chief Human Resources Officer. In 2015, we hired a Chief

Marketing Officer and Chief Legal Officer. We continued to add new talent to our senior leadership in 2016 with the hiring of a new Chief Financial Officer and Chief Information Officer. In 2017, we hired a Chief Product and Services Officer to lead our Research & Development organisation, and in 2018 we replaced our Chief Marketing Officer and our Chief Legal Officer. In 2019, there was a change in the regional / country representation on the management team. We also continued to expand our “sales-installer” replicable business model as a key strategy, which necessarily requires trained personnel. To the extent we are not able to retain individuals in these roles, we will incur additional costs to train new personnel to replace those who leave our business. Our failure to recruit and retain key personnel or qualified employees, or effectively integrate new managers and other key personnel, could have a material adverse effect on our business, financial condition and results of operations.

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