

Verisure Midholding AB (publ)

Interim report January-June 2018



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

Key operating highlights for the second quarter ending June 30, 2018 and 2017

Verisure 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 2.7 million customers in 14 countries in Europe and Latin America. We have a strong track record of quality growth, primarily delivered organically by our differentiated business model with high share of recurring revenues and industry leading retention (>93%).

The group continued in the second quarter 2018 to experience strong growth in sales and profitability compared to 2017 with an increasing contribution from our growing customer portfolio and significant improvements in a number of key areas, ahead of our ambitious plan.

- Total reported revenues amounted to EUR 392.1 million for the second quarter 2018 which is an increase of 16.6% from EUR 336.3 million the same period last year. Adjusted for currency effects, total reported revenues grew by 18.6% in the quarter. Revenues, before SDI and IFRS 15 adjustment, amounted to EUR 397.9 million for the second quarter 2018, up from EUR 342.8 million in 2017, which is an increase of 16.1% as reported and 18.0% in constant currencies. For the first six months of 2018 total reported revenues increased by 16.5% to EUR 776.3 million compared to EUR 666.5 million in 2017. Adjusted for currency effect, total reported revenues grew by 18.7% for the first six months.
- Portfolio adjusted EBITDA improved to EUR 218.6 million from EUR 186.6 million in Q2 2017 corresponding to an increase of 17.1%. Adjusted for currency effects, portfolio adjusted EBITDA improved by 19.2% in the quarter. For the first six months portfolio adjusted EBITDA amounted to EUR 431.5 million which is an increase of 16.9% in actual currencies and 19.1% in constant currencies compared to 2017. Portfolio services adjusted EBITDA margin further strengthened to 66.9%, an increase of 120 basis points compared to same period in 2017.
- Total reported adjusted EBITDA increased by 18.5% to EUR 140.9 million in Q2 2018 from EUR 118.9 million in Q2 2017. Adjusted for currency effects, reported EBITDA grew by 21.1%. Total adjusted EBITDA, before SDI and excluding IFRS 15 adjustment, improved to EUR 152.1 million from EUR 136.3 million in Q2 2017, which is an increase of 13.9% adjusted for currency effects. For the first six months of 2018 total reported adjusted EBITDA increased by 13.8% to EUR 276.9 million compared to EUR 243.3 million in 2017. Adjusted for currency effect, total reported adjusted EBITDA grew by 16.4% for the first six months.
- Net subscriber growth was 88,169 in the quarter which is an acceleration from last year's level of 75,857. At the end of the quarter the portfolio had grown to 2,754,103 customers, up 13.2% from 2,432,256 the same period last year. Excluding acquisitions the annual growth was 12.9% year-on-year. This organic growth is an acceleration of the growth rate compared to previous periods.

During the second quarter in 2018 the group again broke a new record and reached its highest quarter ever with regards to new customer additions, 129,027, which is an increase of 15.3% from 111,991 in Q2 2017. For the first 6 months of 2018 the company has added over 250,000 new customers in the portfolio. Cancellations continued to be at a low level and the attrition was further reduced to 6.2%. Our performance on this metric is industry leading. Our customers are at the heart of our business and we aim to delight them.

Revenues increased by 16.6% in the quarter. ARPU improved to EUR 40.2 which is an increase of 3.3% adjusted for currency effects from last year. EPC accelerated further to EUR 26.9 for the quarter, corresponding to an increase of 5.3% adjusted for currency effects, driven by continued value improvements and good development in operational efficiency and cost control. Adjusted EBITDA from the portfolio segment improved to EUR 218.6 million in the quarter and EUR 431.5 million for the first six months of 2018, corresponding to an increase of 17% both in the quarter and for the first half year (and 19% in constant currencies). On an annualized basis our portfolio EBITDA is now over EUR 850 million. Cash flow from operating activities further improved to EUR 124.5 million for the quarter compared to EUR 109.4 million last year. For the first six months cash flow from operations increased to EUR 262.7 million from EUR 242.6 million in 2017.

We are further strengthening our sales organization across our geographies and continue to have success with expansion. We are very pleased with our progress in newer countries e.g. Italy and UK and the strong growth rates experienced in Latin America of more than 30% compared to the same period last year combined with solid improvements in operating profitability.

In summary, we continue to have a very strong development for the company with high levels of new customer additions, continued good trend on attrition and solid improvements on EBITDA. The company has a resilient business model with strong profit and cash generation from our growing portfolio which has proven to work well under different macro environments. The demand for our home security solutions and services is increasing and we are continuously innovating our product/service offerings, sales structure and portfolio management, to provide top quality service in every aspect of the customer experience in all markets where we operate to further expand our business.

Key figures

Key figures present non-IFRS financial and operating information

EUR thousand (if not otherwise stated)	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Portfolio services segment:				
Total subscribers (year-end), units	2,754,103	2,432,256	2,754,103	2,432,256
Cancellation, units	41,008	37,118	84,724	77,446
Attrition rate (LTM)	6.2%	6.5%	6.2%	6.5%
Net subscriber growth, units ¹	88,169	75,857	167,980	138,263
Subscriber growth rate, net	13.2%	14.7%	13.2%	14.7%
Average monthly revenue per user (ARPU), (in EUR)	40.2	39.6	40.3	39.9
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	26.9	26.0	27.0	26.1
Portfolio revenue	326,562	284,022	644,614	564,211
Portfolio adjusted EBITDA	218,595	186,625	431,516	369,233
Portfolio adjusted EBITDA margin	66.9%	65.7%	66.9%	65.4%
Customer acquisition segment:				
New subscribers added (gross)	129,072	111,991	252,599	214,892
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,171	1,147	1,170	1,161
Customer acquisition revenue	67,783	58,268	136,036	113,568
Customer acquisition adjusted EBITDA	(65,984)	(50,414)	(128,181)	(97,194)
Capital expenditures	85,141	78,013	167,412	152,217
Adjacencies segment:				
Adjacencies revenue	3,580	548	8,485	1,102
Adjacencies adjusted EBITDA	(468)	130	(1,896)	243
Consolidated:				
Payback period (in years)	3.6	3.7	3.6	3.7
Revenue	397,925	342,838	789,135	678,881
Organic revenue growth	18.2%	16.9%	18.4%	16.9%
Adjusted EBITDA	152,143	136,341	301,440	272,282
Adjusted EBITDA margin	38.2%	39.8%	38.2%	40.1%
Capital expenditures	117,749	101,426	232,236	197,679
Reported (including SDI and IFRS 15 adjustment)				
Revenue	392,057	336,293	776,279	666,459
Adjusted EBITDA	140,925	118,889	276,938	243,345

- 1) Differences in reconciliation with end of period subscriber data are primarily due to acquisitions and disposals of contract portfolios.

All amounts are before IFRS 15 adjustment (if not otherwise stated). Comparatives have been restated. Refer to note 2 for reconciliation.

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 recognized 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 amortization, excluding separately disclosed items (SDI) and IFRS 15 adjustment, is considered by management to give fairer view of the year-on-year comparison of financial performance. Separately disclosed items are costs or income that have been recognized 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. These are further explained later in this section.

Three months ending June 30, 2018 and 2017

Results excluding SDI and IFRS 15 adjustment

EUR million	Apr-Jun 2018	Apr-Jun 2017	Percentage change
Revenue	397.9	342.8	16.1%
Operating expenses	(247.5)	(208.3)	18.8%
Other income	1.7	1.8	(4.2%)
Adjusted EBITDA	152.1	136.3	11.6%
<i>Adjusted EBITDA margin, %</i>	<i>38.2%</i>	<i>39.8%</i>	
Depreciation and amortization	(42.9)	(35.5)	20.8%
Retirement of assets	(14.4)	(12.0)	20.3%
Operating profit	94.9	88.9	6.8%
<i>Operating profit margin, %</i>	<i>23.8%</i>	<i>25.9%</i>	
Interest income and cost	(45.1)	(40.4)	11.4%
Other financial items	(0.9)	(0.8)	15.5%
Result before taxes and SDI	49.0	47.6	2.7%

Revenue

The following tables show the split of our revenue by market segment:

EUR million	Apr-Jun 2018	Apr-Jun 2017	Percentage change
Revenue by segment			
Portfolio services	326.6	284.0	15.0%
Customer acquisition	67.8	58.3	16.3%
Adjacencies	3.6	0.5	553.0%
TOTAL	397.9	342.8	16.1%

Revenue in the second quarter 2018 increased by 16.1%, or EUR 55.1 million, to EUR 397.9 million, up from EUR 342.8 million in the prior period. Organic revenue growth was 18.2%, primarily due to the larger customer base and higher average monthly revenue per user. The customer base on June 30, 2018 was 2,754,103, an increase from 2,432,256 on June 30, 2017, reflecting continued success in new customer acquisition and low attrition.

Revenue for portfolio services in the second quarter 2018 increased by 15.0%, or EUR 42.5 million, to EUR 326.6 million, up from EUR 284.0 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 three months ending June 30, 2018, increased by 16.3%, or EUR 9.5 million, to EUR 67.8 million, up from EUR 58.3 million in the previous period. The increase was mainly due to higher number of new installations as well as higher upfront revenue compared to the same period last year.

Operating expenses

Operating expenses in the second quarter 2018, increased by 18.8%, or EUR 39.2 million, to EUR 247.5 million, up from EUR 208.3 million in the prior period. The increase was mainly due to the growth in the portfolio and the increase in new installations.

Adjusted EBITDA

Adjusted EBITDA in the three months ending June 30, 2018, increased by 11.6% or EUR 15.8 million to EUR 152.1 million, up from EUR 136.3 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.

Depreciation and amortization

Depreciation and amortization increased to EUR 42.9 million in the three months ending June 30, 2018, up from EUR 35.5 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization has increased mainly due to the increased number of customers and to some extent increased investments in R&D.

Retirement of assets

Retirements of assets increased to EUR 14.4 million in the second quarter of 2018, up from EUR 12.0 million in the prior period. The cost corresponds to the remaining balance for capitalized 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 0.1 million in the three months ending June 30, 2018, and 0.0 in the corresponding period prior year. Interest cost amounted to EUR 45.2 million up from EUR 40.4 million in the prior period mainly driven by higher indebtedness.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 0.9 million and EUR 0.8 million for the three months ended June 30, 2018 and 2017 respectively.

Reported consolidated income statement for the three months ending June 30, 2018 and 2017

EUR million	Apr-Jun 2018			Apr-Jun 2017		
	Result excluding SDI	SDI and IFRS 15 adjustment	Reported	Result excluding SDI	SDI and IFRS 15 adjustment	Reported
Revenue	397.9	(5.9)	392.1	342.8	(6.5)	336.3
Operating expenses	(247.5)	(5.4)	(252.9)	(208.3)	(10.9)	(219.2)
Other income	1.7	-	1.7	1.8	-	1.8
Adjusted EBITDA	152.1	(11.2)	140.9	136.3	(17.5)	118.9
Depreciation and amortization	(42.9)	(38.3)	(81.2)	(35.5)	(38.2)	(73.7)
Retirements of assets	(14.4)	-	(14.4)	(12.0)	-	(12.0)
Operating Profit	94.9	(49.5)	45.4	88.9	(55.7)	33.2
Interest income and cost	(45.1)	6.5	(38.6)	(40.4)	-	(40.4)
Other financial items	(0.9)	(62.3)	(63.2)	(0.8)	(17.1)	(17.9)
Result before tax	49.0	(105.4)	(56.4)	47.6	(72.8)	(25.1)
Income tax benefit and expense	-	-	(2.5)	-	-	25.3
Result for the period	-	-	(58.9)	-	-	0.2

Separately disclosed items (SDI)

IFRS 15 adjustment affecting revenue

IFRS 15's main effect on the Group is related to the allocation of standalone selling price to the performance obligations installation (recognized at point in time) and portfolio service (recognized over the contract period). Part of the installation revenue has been recognized at a later time than according to previous standards and has affected the revenue negative EUR 5.9 million and 6.5 in the prior period.

SDI affecting operating expenses

SDI affecting adjusted EBITDA includes costs related to various transition projects within the group. It also includes costs related to acquisitions of new businesses. For the first quarter 2018, the costs amounted to EUR 5.4 million and EUR 10.9 million in the same period last year.

SDI affecting depreciation and amortization

The market value of the acquisition-related intangible assets is amortized over the expected life. The main part of the total cost of EUR 38.3 million and EUR 38.2 million for the second quarter 2018 and 2017 respectively relates to amortization 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 6.5 million.

SDI affecting other financial items

SDI affecting other financial items was a cost of EUR 62.3 million and EUR 17.1 million for the second quarter 2018 and 2017 respectively. For the three months ending June 30, 2018, other financial items consist of a negative non-cash FX valuation of debt items and market revaluation of hedges, in total amounting to EUR 49.0 million (part of this, 56.2 MEUR, relates to the revaluation of the anticipated dividend within the group) and a cost related to amortization of both prepaid bank fees and IFRS 9 adjustment regarding modification of loan agreement of EUR 13.3 million. For the three months ending June 30, 2017, the corresponding amounts were a cost of EUR 12.5 million and a cost of EUR 4.6 million.

Income tax benefit and expense

Total tax cost was EUR 2.5 million in the quarter compared to a benefit of EUR 25.3 million last year. Current tax cost was EUR 9.6 million in Q2 2018 compared to EUR 6.8 million in 2017. The difference between the years is mainly due to higher profit in 2018 partly offset by lower tax rate in some countries.

The corresponding amounts for deferred tax were a benefit of EUR 7.2 million in Q2 2018 and EUR 32.1 million in 2017.

Cash flow

EUR million	Apr-Jun 2018	Apr-Jun 2017
Cash flow from operating activities before change in working capital	130.3	116.1
Change in working capital	(5.7)	(6.7)
Cash flow from operating activities¹	124.5	109.4
Cash flow from investing activities	(118.7)	(101.1)
Cash flow from financing activities ²	(8.6)	(54.4)
Cash flow for the period	(2.8)	(46.1)
Cash and cash equivalents at beginning of period	13.3	54.9
Translation differences on cash and cash equivalents	(0.0)	(0.1)
Cash and cash equivalents at end of period	10.5	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 124.5 million and EUR 109.4 million for the three months ending June 30, 2018 and 2017 respectively. The increase compared to corresponding period previous year is primarily due to the increase in profitability.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 118.7 million and EUR 101.1 million for the three months ending June 30, 2018 and 2017 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 8.6 million and EUR 54.4 million for the three months ending June 30, 2018 and 2017 respectively. The total included net paid interest of EUR 70.4 million, an increase in borrowings of EUR 79.4 million and paid other financial items totaling EUR 17.6 million. For the corresponding period last year the amounts were EUR 36.6 million of net paid interest, a decrease in borrowings of EUR 12.9 million and paid other financial items totaling EUR 4.8 million. Paid distribution of EUR 18.0 million relates to the November 2017 distribution.

Six months ending June 30, 2018 and 2017

Results excluding SDI and IFRS 15 adjustment

EUR million	Jan-Jun 2018	Jan-Jun 2017	Percentage change
Revenue	789.1	678.9	16.2%
Operating expenses	(491.2)	(410.3)	19.7%
Other income	3.5	3.7	(5.6%)
Adjusted EBITDA	301.4	272.3	10.7%
<i>Adjusted EBITDA margin, %</i>	<i>38.2%</i>	<i>40.1%</i>	
Depreciation and amortization	(84.3)	(69.7)	20.9%
Retirement of assets	(28.7)	(23.4)	22.3%
Operating profit	188.5	179.1	5.2%
<i>Operating profit margin, %</i>	<i>23.9%</i>	<i>26.4%</i>	
Interest income and cost	(90.5)	(83.1)	8.8%
Other financial items	(1.7)	(1.6)	5.7%
Result before taxes and SDI	96.3	94.3	2.1%

Revenue

The following tables show the split of our revenue by market segment:

EUR million	Apr-Jun 2018	Apr-Jun 2017	Percentage change
Revenue by segment			
Portfolio services	644.6	564.2	14.3%
Customer acquisition	136.0	113.6	19.8%
Adjacencies	8.5	1.1	669.9%
TOTAL	789.1	678.9	16.2%

Revenue in the six months ending June 30, 2018 increased by 16.2%, or EUR 110.3 million, to EUR 789.1 million, up from EUR 678.9 million in the prior period. Organic revenue growth was 18.4%, primarily due to the increasing customer base and

higher average monthly revenue per user. The customer base on June 30, 2018 was 2,754,103, an increase from 2,432,256 on June 30, 2017, reflecting continued success in new customer acquisition and low attrition.

Revenue for portfolio services in the six months ending June 30, 2018, increased by 14.3%, or EUR 80.4 million, to EUR 644.6 million, up from EUR 564.2 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 six months ending June 30, 2018, increased by 19.8%, or EUR 22.5 million, to EUR 136.0 million, up from EUR 113.6 million in the previous period. The increase was mainly due to higher number of new installations as well as higher upfront revenue compared to the same period last year.

Operating expenses

Operating expenses in the six months ending June 30, 2018, increased by 19.7%, or EUR 80.9 million, to EUR 491.2 million, up from EUR 410.3 million in the prior period. The increase was mainly due to the growth in the portfolio and the increase in new installations.

Adjusted EBITDA

Adjusted EBITDA in the six months ending June 30, 2018, increased by 10.7% or EUR 29.2 million to EUR 301.4 million, up from EUR 272.3 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.

Depreciation and amortization

Depreciation and amortization increased to EUR 84.3 million in the six months ending June 30, 2018, up from EUR 69.7 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization has increased mainly due to the increased number of customers and to some extent increased investments in R&D.

Retirement of assets

Retirements of assets increased to EUR 28.7 million in the six months ending June 30, 2018, up from EUR 23.4 million in the prior period. The cost corresponds to the remaining balance for capitalized 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 0.2 million in the six months ending June 30, 2018, and 0.1 in the corresponding period prior year. Interest cost amounted to EUR 90.6 million, up from EUR 83.2 million in the prior period mainly driven by higher indebtedness.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 1.7 million and EUR 1.6 million for the six months ended June 30, 2018 and 2017 respectively.

Reported consolidated income statement for the six months ending June 30, 2018 and 2017

EUR million	Jan-Jun 2018			Jan-Jun 2017		
	Result excluding SDI	SDI and IFRS 15 adjustment	Reported	Result excluding SDI	SDI and IFRS 15 adjustment	Reported
Revenue	789.1	(12.9)	776.3	678.9	(12.4)	666.5
Operating expenses	(491.2)	(11.6)	(502.8)	(410.3)	(16.5)	(426.8)
Other income	3.5	-	3.5	3.7	-	3.7
Adjusted EBITDA	301.4	(24.5)	276.9	272.3	(28.9)	243.3
Depreciation and amortization	(84.3)	(76.6)	(160.9)	(69.7)	(76.4)	(146.1)
Retirements of assets	(28.7)	-	(28.7)	(23.4)	-	(23.4)
Operating Profit	188.5	(101.1)	87.4	179.1	(105.4)	73.7
Interest income and cost	(90.5)	30.6	(59.9)	(83.1)	-	(83.1)
Other financial items	(1.7)	(44.3)	(46.0)	(1.6)	(26.1)	(27.7)
Result before tax	96.3	(114.9)	(18.6)	94.3	(131.4)	(37.1)
Income tax benefit and expense	-	-	(10.3)	-	-	20.7
Result for the period	-	-	(28.9)	-	-	(16.5)

Separately disclosed items (SDI)

IFRS 15 adjustment affecting revenue

IFRS 15's main effect on the Group is related to the allocation of standalone selling price to the performance obligations installation (recognized at point in time) and portfolio service (recognized over the contract period). Part of the installation revenue has been recognized at a later time than according to previous standards and has affected the revenue negative EUR 12.9 million and 12.4 in the prior period.

SDI affecting operating expenses

SDI affecting adjusted EBITDA includes costs related to various transition projects within the group. It also includes costs related to acquisitions of new businesses. For the six months ending June 2018, the costs amounted to EUR 11.6 million and EUR 16.5 million in the same period last year.

SDI affecting depreciation and amortization

The market value of the acquisition-related intangible assets is amortized over the expected life. The main part of the total cost of EUR 76.6 million and EUR 76.4 million for the six months ending June 30, 2018 and 2017 respectively, relates to amortization 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 and nil for the six months ending June 30, 2018 and 2017 respectively.

SDI affecting other financial items

SDI affecting other financial items was a cost of EUR 44.3 million and EUR 26.1 million for the first half of 2018 and 2017 respectively. For the six months ending June 30, 2018, the other financial items consist of a negative non-cash FX valuation of debt items and market revaluation of hedges, in total amounting to EUR 27.3 million (part of this, 56.2 MEUR, relates to the revaluation of the anticipated dividend within the group) and a cost related to amortization of both prepaid bank fees and IFRS 9 adjustment regarding modification of loan agreement of EUR 17 million. For the six months ending June 30, 2017, the corresponding amounts were a cost of EUR 16.3 million and a cost of EUR 7.7 million. In addition, the prior period was affected by a bond redemption fee of EUR 2.1 million.

Income tax benefit and expense

Total tax cost was EUR 10.3 million in the six months ending June 30, 2018, compared to a benefit of EUR 20.7 million last year. Current tax cost was EUR 19.1 million in the six months ending June 30, 2018, compared to EUR 15.4 million in 2017. The difference between the years is due to higher profit in 2018 partly offset by lower tax rate in some countries. The corresponding amounts for deferred tax were a benefit of EUR 8.8 million in the six months ending June 30, 2018, and EUR 36.0 million in 2017.

Cash flow

EUR million	Jan-Jun 2018	Jan-Jun 2017
Cash flow from operating activities before change in working capital	260.4	243.6
Change in working capital	2.3	(1.0)
Cash flow from operating activities¹	262.7	242.6
Cash flow from investing activities	(233.1)	(199.9)
Cash flow from financing activities ²	(33.2)	(40.0)
Cash flow for the period	(3.7)	2.7
Cash and cash equivalents at beginning of period	14.2	6.0
Translation differences on cash and cash equivalents	(0.1)	(0.1)
Cash and cash equivalents at end of period	10.5	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 262.7 million and EUR 242.6 million for the six months ending June 30, 2018 and 2017 respectively. The increase compared to corresponding period previous year is primarily due to the increase in profitability.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 233.1 million and EUR 199.9 million for the six months ending June 30, 2018 and 2017 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 33.2 million and EUR 40.0 million for the six months ending June 30, 2018 and 2017 respectively. The main elements in the current reporting period included net paid interest of EUR 91.9 million, paid debt related fees and other financial items totaling EUR 21.8 million and an increase in borrowings of EUR 80.5 million. The main elements for the same reporting period last year included net paid interest of EUR 87.0 million, paid debt related fees and other financial items totaling EUR 10.0 million and an increase in borrowings of EUR 57.0 million. Paid other financial items in current reporting period includes a distribution of EUR 18.0 million related to the November 2017 distribution.

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 and investments in R&D and IT. In accordance with IFRS, the costs of the alarm equipment installed in connection with newly acquired subscribers are capitalized as tangible fixed assets to the extent we retain ownership of the equipment. We also capitalize direct costs related to the acquisition of customer contracts as intangible fixed assets.

The following table shows a summary of our capital expenditures for the three months ending June 30, 2018 and 2017:

EUR million	Apr-Jun 2018	Apr-Jun 2017
Customer Acquisition capital expenditures, material	44.1	42.8
Customer Acquisition capital expenditures, direct costs	41.0	35.2
Portfolio capital expenditures	10.9	9.1
Adjacencies capital expenditures	1.7	-
Capital expenditures other	19.9	14.4
TOTAL	117.7	101.4

Capital expenditures were EUR 117.7 million for the three months ending June 30, 2018 and EUR 101.4 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

The following table shows a summary of our capital expenditures for the six months ending June 30, 2018 and 2017:

EUR million	Jan-Jun 2018	Jan-Jun 2017
Customer Acquisition capital expenditures, material	87.9	83.9
Customer Acquisition capital expenditures, direct costs	79.5	68.3
Portfolio capital expenditures	22.5	19.0
Adjacencies capital expenditures	5.3	-
Capital expenditures other	36.9	26.5
TOTAL	232.2	197.7

Capital expenditures were EUR 232.3 million for the six months ending June 30, 2018 and EUR 197.7 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

Liquidity, liabilities and financing agreements

The primary source 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 expenditures, taxes and amounts due on our debt obligations.

As of June 30, 2018, the group had a total of EUR 217.7 million of available funds compared to EUR 295.2 million as of June 30, 2017.

EUR million	Jun 2018	Jun 2017	Dec 2017
Revolver Credit Facility	300.0	300.0	300.0
Cash and cash equivalents	10.5	8.6	14.2
Drawn facility amount	(85.9)	(6.6)	(13.4)
Utilized letter of credit	(7.0)	(6.8)	(7.8)
Total available funds	217.7	295.2	293.0

The following table summarizes our total financial indebtedness on June 30, 2018 and 2017 and on December 31, 2017.

EUR million	Jun 2018	Jun 2017	Dec 2017
Senior Secured Notes	630.0	630.0	630.0
Term Loan B	2,380.0	1,690.0	2,380.0
Revolver Credit Facility	85.9	6.6	13.4
Private Unsecured Notes	-	692.2	-
Senior Unsecured Notes	1,137.8	-	1,147.6
Other liabilities	50.4	37.4	42.1
Finance leases liability	1.3	2.1	1.7
TOTAL	4,285.5	3,058.2	4,214.8

Risks and uncertainties

A detailed presentation of risks and a sensitivity analysis can be found in the Financial Risk Management section (note 20) and the Risk Factors section of the Verisure Midholding AB's annual report 2017.

Events during and after the reporting period

During the quarter a distribution to the Group's shareholders was made, by distributing the loan to related party which was issued during Q4 2017.

No events with a significant effect on the Group have incurred after the reporting period.

Key operating metrics

Our 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. These metrics include the following:

Adjusted EBITDA

Earnings before interests, taxes, depreciation and amortization, write offs and separately disclosed items and IFRS 15 adjustment.

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

Cancellation is the 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 expenditures 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 is 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 values of an asset that will no longer be used in the operations are recognized as a cost in the income statement.

Subscriber growth rate

Number of subscribers at end of period divided with number of subscribers twelve months ago.

CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements

EUR thousand	Note	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Revenue ²	2	392,057	336,293	776,279	666,459
Cost of sales	3	(208,310)	(180,758)	(414,974)	(357,340)
Gross profit²		183,747	155,535	361,305	309,119
Selling expenses	3	(52,297)	(41,730)	(104,833)	(81,756)
Administrative expenses ¹	3	(87,816)	(82,431)	(172,610)	(157,345)
Other income ²	3	1,729	1,804	3,495	3,702
Operating profit²		45,363	33,178	87,357	73,720
Finance income		6,488	47	30,710	90
Finance costs ²		(108,280)	(58,375)	(136,669)	(110,957)
Result before tax²		(56,429)	(25,150)	(18,602)	(37,147)
Income tax expense ²		(2,453)	25,332	(10,299)	20,655
Result for the period²		(58,882)	182	(28,901)	(16,492)
Whereof attributable to:					
- Parent company ²		(58,546)	389	(28,562)	(16,026)
- Non-controlling interest ²		(336)	(207)	(339)	(466)

- 1) Whereof EUR 38.3 (38.2) relates to amortization expense resulting from the amortization of intangible assets acquired in acquisitions.
2) The comparatives have been changed due to change in accounting policy. Refer to note 7 for more information.

Consolidated statements of comprehensive income

EUR thousand	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Result for the period	(58,882)	182	(28,901)	(16,492)
Other comprehensive income				
Items that subsequently may be reclassified to the income statement				
Currency translation differences on foreign operations	40,347	5,175	(15,709)	7,587
Other comprehensive income	40,347	5,175	(15,709)	7,587
Total comprehensive income for the period	(18,535)	5,357	(44,610)	(8,905)
Whereof attributable to:				
- Parent company	(18,199)	5,563	(44,271)	(8,440)
- Non-controlling interest	(336)	(207)	(339)	(466)

Consolidated statements of financial position

EUR thousand	Note	Jun 2018	Jun 2017	Dec 2017
ASSETS				
Non-current assets				
Property, plant and equipment		657,165	548,913	608,223
Goodwill		869,132	868,391	869,598
Customer portfolio		1,051,836	1,104,735	1,077,129
Other intangible assets		150,414	128,969	146,230
Deferred tax assets		24,340	21,850	24,420
Derivatives	4	22,656	-	6,062
Trade and other receivables	4	292,500	267,929	1,309,739
Total non-current assets		3,068,043	2,940,787	4,041,401
Current assets				
Inventories		95,871	81,301	74,911
Trade receivables	4	117,368	104,024	123,255
Current tax assets		14,909	13,948	13,561
Derivatives	4	-	1,173	-
Prepayments and accrued income		38,580	20,375	31,405
Other current receivables	4	8,175	21,523	28,286
Cash and cash equivalents	4	10,506	8,578	14,245
Total current assets		285,408	250,922	285,663
TOTAL ASSETS		3,353,452	3,191,709	4,327,064

Consolidated statements of financial position

EUR thousand	Note	Jun 2018	Jun 2017	Dec 2017
EQUITY AND LIABILITIES				
Equity				
Share capital		56	56	56
Other paid in capital		624,517	569,168	569,168
Other reserves		32,217	42,353	47,926
Retained earnings ²		(2,211,795)	(1,103,313)	(1,185,982)
Equity attributable to equity holders of the parent company		(1,555,005)	(491,735)	(568,832)
Non-controlling interest ²		(2,766)	(2,312)	(2,427)
Total equity		(1,557,771)	(494,047)	(571,259)
Non-current liabilities				
Long-term borrowings ²	4,5	4,074,713	2,956,100	4,112,790
Derivatives ²	4	-	967	-
Other non-current liabilities	4	42,321	15,107	41,795
Deferred tax liabilities ^{1, 2}		274,496	260,797	257,526
Other provisions		2,366	1,606	2,316
Total non-current liabilities		4,393,895	3,234,577	4,414,427
Current liabilities				
Trade payables	4	106,598	88,551	115,846
Current tax liabilities		20,864	17,440	16,747
Short-term borrowings	4,5	47,665	57,084	53,072
Derivatives	4	951	-	222
Accrued expenses and deferred income ²		313,126	257,927	265,712
Other current liabilities	4	28,124	30,177	32,297
Total current liabilities		517,328	451,179	483,896
TOTAL EQUITY AND LIABILITIES		3,353,452	3,191,709	4,327,064

- 1) The majority of the deferred tax liabilities relates to the acquisition of Securitas Direct AB in 2011.
- 2) The comparatives have been changed due to change in accounting policy. Refer to note 7 for more information.

Consolidated statement of changes in equity

EUR thousand	Attributable to equity holders of the parent company					Non-controlling interest	Total equity
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total		
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 ¹	-	-	-	(16,806)	(16,806)	(625)	(17,431)
Balance at January 1, 2018							
– As updated comparatives	56	569,168	47,926	(1,185,982)	(568,832)	(2,427)	(571,259)
Change in accounting principles, IFRS 9 ¹	-	-	-	99,226	99,226	-	99,226
Balance at January 1, 2018							
– Adjusted	56	569,168	47,926	(1,086,756)	(469,606)	(2,427)	(472,033)
Result for the period	-	-	-	(28,562)	(28,562)	(339)	(28,901)
Other comprehensive income	-	-	(15,709)	-	(15,709)	-	(15,709)
<i>Total comprehensive income for the period</i>	-	-	(15,709)	(28,562)	(44,271)	(339)	(44,610)
Shareholders contribution	-	55,349	-	-	55,349	-	55,349
Dividend	-	-	-	(1,095,493)	(1,095,493)	-	(1,095,493)
Transaction with non-controlling interest	-	-	-	(984)	(984)	-	(984)
Balance at June 30, 2018	56	624,517	32,217	(2,211,795)	(1,555,005)	(2,766)	(1,557,771)

1) For more information regarding change in accounting principles, refer to note 7.

EUR thousand	Attributable to equity holders of the parent company					Non-controlling interest	Total equity
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total		
Balance at January 1, 2017 –							
As reported	56	569,168	34,766	(1,090,386)	(486,396)	(1,846)	(488,242)
Change in accounting principles, Interest floors ¹	-	-	-	1,373	1,373	-	1,373
Balance at January 1, 2017 –							
As updated comparatives	56	569,168	34,766	(1,089,013)	(485,023)	(1,846)	(486,869)
Result for the period	-	-	-	(16,027)	(16,027)	(466)	(16,492)
Other comprehensive income	-	-	7,587	-	7,587	-	7,587
<i>Total comprehensive income for the period</i>	-	-	7,587	(16,027)	(8,440)	(466)	(8,906)
Group contribution	-	-	-	1,727	1,727	-	1,727
Balance at June 30, 2017	56	569,168	42,353	(1,103,313)	(491,735)	(2,312)	(494,047)

1) For more information regarding change in accounting principles, refer to note 7.

Consolidated statement of changes in equity

EUR thousand	Attributable to equity holders of the parent company					Non-controlling interest	Total equity
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total		
Balance at January 1, 2017 – As reported	56	569,168	34,766	(1,090,386)	(486,396)	(1,846)	(488,242)
Change in accounting principles, Interest floors ¹	-	-	-	1,373	1,373	-	1,373
Balance at January 1, 2017 – As updated comparatives	56	569,168	34,766	(1,089,013)	(485,023)	(1,846)	(486,869)
Result for the period ¹	-	-	-	(99,475)	(99,475)	(581)	(100,057)
Other comprehensive income	-	-	13,160	-	13,160	-	13,160
<i>Total comprehensive income for the period</i>	-	-	<i>13,160</i>	<i>(99,475)</i>	(86,315)	<i>(581)</i>	(86,897)
Group contribution	-	-	-	2,506	2,506	-	2,506
Balance at December 31, 2017	56	569,168	47,926	(1,185,982)	(568,832)	(2,427)	(571,259)

1) For more information regarding change in accounting principles, refer to note 7.

Consolidated statements of cash flows

EUR thousand	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Operating activities				
Operating profit	45,363	39,724	87,357	86,142
Reversal of depreciation and amortization	81,192	73,698	160,926	146,191
Other non-cash items	14,371	12,437	28,655	23,876
Paid taxes	(10,668)	(9,737)	(16,515)	(12,652)
Cash flow from operating activities before change in working capital	130,258	116,122	260,423	243,557
Change in working capital				
Change in inventories	(18,792)	(9,570)	(22,285)	(19,521)
Change in trade receivables	(7,196)	(7,932)	4,397	(10,637)
Change in other receivables	(4,678)	(8,996)	(19,189)	(10,691)
Change in trade payables	10,309	4,835	(7,242)	3,206
Change in other payables	14,615	14,922	46,570	36,661
<i>Cash flow from change in working capital</i>	<i>(5,742)</i>	<i>(6,741)</i>	<i>2,251</i>	<i>(982)</i>
Cash flow from operating activities	124,516	109,381	262,674	242,575
Investing activities				
Purchase of intangible assets	(59,115)	(46,968)	(115,161)	(89,338)
Purchase of property, plant and equipment	(58,947)	(54,457)	(117,352)	(108,369)
Settlement of deferred consideration	(598)	-	(598)	(2,500)
Disposal of subsidiaries	-	286	-	286
Cash flow from investing activities	(118,660)	(101,139)	(233,111)	(199,921)
Financing activities				
Change in revolver credit facility	79,366	(12,942)	80,514	(22,952)
Paid bank and advisory fees	1,875	(1,449)	(1,793)	(3,614)
New financing	-	-	-	80,000
Call cost redemption	-	-	-	(2,100)
Net interest paid	(70,395)	(36,596)	(91,888)	(87,024)
Paid distribution	(18,000)	-	(18,000)	-
Repayment of other non-current receivables	691	-	691	-
Acquisition of non-controlling interest	(3,248)	-	(3,248)	-
Other financial items	1,081	(3,404)	508	(4,262)
Cash flow from financing activities	(8,630)	(54,391)	(33,216)	(39,952)
Cash flow for the period	(2,774)	(46,149)	(3,653)	2,702
Cash and cash equivalents at start of period	13,316	54,854	14,245	5,985
Exchange difference on translating cash and cash equivalents	(36)	(127)	(86)	(109)
Cash and cash equivalents at end of period	10,506	8,578	10,506	8,578

Notes to the consolidated financial statements

Basis of presentation and accounting periods

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The report includes both the financial statements of Verisure Midholding Group and separate financial statements for the parent company.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The most important accounting principles under IFRS, which is the basis for the preparation of this interim report, can be found in note 1 in the annual report for 2017. The accounting policies are unchanged compared with those applied in 2017, except for changes stated in note 7 as well as the following:

Other than the segments Customer acquisition and Portfolio services stated in the accounting policy in the annual report 2017, one new segment has been identified as an operation segment. This segment is referred to as “Adjacencies” and includes revenue streams which is not part of the Group’s core business.

These consolidated financial statements should be read in conjunction with the annual report 2017.

These financial statements have not been audited by the Group auditor.

New standards and interpretations not yet adopted

IFRS 16 was issued in January 2016. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. The adoption of IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date. The Group is currently performing the analysis of the effect of IFRS 16.

Note 1 Critical accounting estimates and judgments

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 at the balance sheet date and the amounts of revenue and expenses recognized 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.

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 estimation uncertainty at 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.

Testing for impairment of goodwill and other assets

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived 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 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 expenditures
- change in working capital
- the selection of discount rates to reflect the risks involved.

The group prepares and approves long-term financial plans, 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 the mature markets
- a projected long-term compound annual growth rate for adjusted EBITDA in 5-10 years, estimated by management for developing countries.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect our impairment evaluation and hence results. The yearly impairment test of goodwill is normally performed in the third or fourth quarter.

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 judgment in respect of certain tax positions, the resolution for 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 our structure following our geographic expansion makes the degree of estimation and judgment more challenging. The resolution of issues is not always within the control of the company and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which 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 can be substantial differences between the tax charge in the consolidated income statement and tax payments. We also have exercised significant accounting judgment regarding net operating loss utilization.

The group also has exercised significant accounting judgment 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 realized. Where the temporary differences related to losses, the availability of the losses to offset against forecast taxable profits is also considered. Recognition therefore involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred tax assets have been recognized.

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

Measurement of provisions and allocation for accrued expenses

The group exercises judgment in connection with significant estimates in relation to staff-related costs and in measuring and recognizing 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. Judgment 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

The charge in respect of periodic depreciation for alarm equipment is derived after determining an estimate of expected useful life of alarm equipment and the expected residual value at the end of its life. Increasing expected life of an asset or its residual value results in a reduced depreciation charge recording in the consolidated income statement.

The useful lives and residual values of our assets are determined by management at the time of acquisition and reviewed annually for appropriateness. The lives are based primarily on historical experience in regard to the lifecycle of subscribers as well as anticipation of future events which may impact their life, such as changes in technology and macroeconomic factors.

Note 2 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 executive management group as its CODM and the group uses adjusted EBITDA to measure the profitability of each segment. As a result, adjusted EBITDA is the measure of segment profit or loss presented in the group's segment disclosures. In 2018 the Group added the segment adjacencies for non-core businesses to the previously reported segments: Customer acquisition and Portfolio services segments. The comparatives have been adjusted accordingly.

Apr-Jun 2018							
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI and IFRS 15 adj	SDI	IFRS 15 Adjustment	Group Total
Revenue	67,783	326,562	3,580	397,925	-	(5,868)	392,057
Adjusted EBITDA	(65,984)	218,595	(468)	152,143	(5,350)	(5,868)	140,925
Depreciation and amortization	-	-	-	(42,894)	(38,297)	-	(81,191)
Retirements of assets	-	-	-	(14,372)	-	-	(14,372)
Operating profit	-	-	-	94,878	(43,647)	(5,868)	45,363
Financial items	-	-	-	(45,890)	(55,901)	-	(101,791)
Profit before tax	-	-	-	48,988	(99,548)	(5,868)	(56,428)

Apr-Jun 2017							
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI and IFRS 15 adj	SDI	IFRS 15 Adjustment	Group Total
Revenue	58,268	284,022	548	342,838	-	(6,546)	336,293
Adjusted EBITDA	(50,414)	186,625	130	136,341	(10,906)	(6,546)	118,889
Depreciation and amortization	-	-	-	(35,465)	(38,233)	-	(73,698)
Retirements of assets	-	-	-	(12,013)	-	-	(12,013)
Operating profit	-	-	-	88,863	(49,139)	(6,546)	33,178
Financial items	-	-	-	(41,215)	(17,113)	-	(58,328)
Profit before tax	-	-	-	47,648	(66,252)	(6,546)	(25,150)

Jan-Jun 2018							
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI and IFRS 15 adj	SDI	IFRS 15 Adjustment	Group Total
Revenue	136,036	644,614	8,485	789,135	-	(12,856)	776,279
Adjusted EBITDA	(128,181)	431,516	(1,896)	301,440	(11,646)	(12,856)	276,938
Depreciation and amortization	-	-	-	(84,288)	(76,638)	-	(160,926)
Retirements of assets	-	-	-	(28,655)	-	-	(28,655)
Operating profit	-	-	-	188,497	(88,284)	(12,856)	87,357
Financial items	-	-	-	(92,194)	(13,765)	-	(105,959)
Profit before tax	-	-	-	96,302	(102,049)	(12,856)	(18,602)

Jan-Jun 2017							
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI and IFRS 15 adj	SDI	IFRS 15 Adjustment	Group Total
Revenue	113,568	564,211	1,102	678,881	-	(12,422)	666,459
Adjusted EBITDA	(97,194)	369,233	243	272,282	(16,515)	(12,422)	243,345
Depreciation and amortization	-	-	-	(69,746)	(76,445)	-	(146,191)
Retirements of assets	-	-	-	(23,434)	-	-	(23,434)
Operating profit	-	-	-	179,102	(92,960)	(12,422)	73,720
Financial items	-	-	-	(84,766)	(26,101)	-	(110,867)
Profit before tax	-	-	-	94,336	(119,061)	(12,422)	(37,147)

Note 3 Depreciation and amortization

EUR thousand	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Property, plant and equipment	22,747	20,372	44,377	40,005
Acquisition-related intangible assets	38,297	38,232	76,645	76,445
Other intangible assets	20,148	15,094	39,904	29,741
Total depreciation and amortization	81,192	73,698	160,926	146,191

Note 4 Financial risk management

Financial instruments by category and valuation level

EUR thousand	Jun 2018	Jun 2017	Dec 2017
Financial assets at fair value through profit or loss¹			
<i>Derivatives</i>			
Currency	22,656	1,173	6,062
Total	22,656	1,173	6,062
Financial liabilities at fair value through profit or loss¹			
<i>Derivatives</i>			
Currency	1,347	967	222
Total	1,347	967	222
Loans and receivables			
Trade and other receivables	410,726	267,929	1,309,739
Trade receivables ²	117,368	104,024	123,255
Other current receivables ²	8,175	21,523	28,286
Cash and cash equivalent	10,506	8,578	14,245
Other financial liabilities			
Long-term borrowings ³	4,192,939	2,956,100	4,112,790
Other non-current liabilities	42,321	15,107	41,795
Trade payables ²	106,598	88,551	115,846
Short-term borrowings ²	47,665	57,084	53,072
Other current liabilities ²	28,124	30,177	32,297

1) Part of the group's valuation techniques using observable market data.

2) 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.

3) Details of borrowings are presented in note 5.

Note 5 Borrowings

EUR thousand	Jun 2018			Jun 2017			Dec 2017		
	Principal amount	Adjustment amortized costs	Carrying amount	Principal amount	Adjustment amortized costs	Carrying amount	Principal amount	Adjustment amortized costs	Carrying amount
<i>Secured</i>									
Senior Secured Notes	630,000	(12,004)	617,996	630,000	(13,813)	616,187	630,000	(13,186)	616,814
Term Loan B ^{1, 2}	2,380,000	(157,034)	2,222,966	1,690,000	(39,610)	1,650,390	2,380,000	(40,413)	2,339,587
Revolver Credit Facility	85,853	(4,905)	80,948	6,634	(5,961)	673	13,437	(5,855)	7,582
<i>Unsecured</i>									
Private Unsecured Notes ²	-	-	-	692,164	(21,846)	670,318	-	-	-
Senior Unsecured Notes	1,137,849	(11,036)	1,126,813	-	-	-	1,147,618	(12,639)	1,134,979
Liabilities to other creditors	25,031	-	25,031	17,035	-	17,035	12,630	-	12,630
Finance lease liability	959	-	959	1,496	-	1,496	1,198	-	1,198
Long-term borrowings	4,259,692	(184,979)	4,074,713	3,037,329	(81,230)	2,956,099	4,184,883	(72,093)	4,112,790
Accrued interest expenses	21,896	-	21,896	36,175	-	36,175	23,195	-	23,195
Other liabilities	25,410	-	25,410	20,340	-	20,340	29,420	-	29,420
Finance leases liability	359	-	359	569	-	569	457	-	457
Short-term borrowings	47,665	-	47,665	57,084	-	57,084	53,072	-	53,072
Total borrowings	4,307,357	(184,979)	4,122,378	3,094,413	(81,230)	3,013,183	4,237,955	(72,093)	4,165,862

- 1) Of the total amount regarding adjustment amortized costs 2018, (118,226) relates to a non-cash adjustment derived from the modification of loan terms during the loans contract period calculated according to IFRS 9.
- 2) The comparatives have been changed due to change in accounting policy. Refer to note 7 for more information.

Net Debt Bridge

EUR thousand	Jun 2018	Jun 2017	Dec 2017
Total principal amount (as above)	4,307,357	3,094,413	4,237,955
Less accrued interest	(21,896)	(36,175)	(23,195)
Indebtness	4,285,461	3,058,238	4,214,760
Less financial receivable, non-current	-	(692)	(691)
Less cash and cash equivalents	(10,506)	(8,578)	(14,245)
Net debt	4,274,955	(3,048,967)	4,199,824

Note 6 Pledged assets and contingent liabilities

EUR thousand	Jun 2018	Jun 2017	Dec 2017
Pledge assets			
Endowment insurance	417	417	417
Shares in subsidiaries	1,724,243	1,783,769	1,734,614
Bank accounts	528	3,289	3,074
Trademark	55,833	60,833	58,333
Accounts receivables	72,426	57,012	72,589
Inventories	59,255	49,321	44,390
Motor vehicles	14	30	21
Contingent liabilities			
Guarantees	20,210	16,455	19,068

The group has pledged shares in subsidiaries, certain bank accounts, trade receivables, IP-rights, inventory assets, intra-group loans, intra-group equity certificates, rights under certain insurances, certain rights under the acquisition agreements regarding the purchase of the Securitas Direct group and certain rights under reports in relation to the acquisition of the Securitas Direct group as collateral for bank borrowings.

Note 7 Changes in accounting policy

Interest floors

During the fourth quarter 2017 the Group changed the view of interest floors as closely related embedded derivatives, following a clarification from IASB. For more information refer to the Annual report 2017, note 30 and the Interim report January-March 2018, note 7. The reporting has been changed retrospectively, and the comparatives in this report have been adjusted. The effects of this adjustment are summarized below.

IFRS 15

IFRS 15, 'Revenue from contracts with customers' have been adopted with start January 1, 2018 using the retrospective approach which means that the comparatives regarding 2017 have been restated. Refer to the Annual report 2017 note 31 and the Interim report January-March 2018 note 7 for information regarding the impact on the group. The effects related to the comparatives in this report is summarized below. The effects regarding the balance as of December 2017 is summarized in the Interim report January-March 2018, note 7.

Adjustment of comparatives

As stated above, the comparatives in this report have been changed compared to the Q2 report 2017 regarding interest floors and IFRS 15. These adjustments are summarized below.

Income statement

EUR thousand	Apr-Jun 2017 – As reported	Adjustment - interest floors	Adjustment – Timing of revenue recognition	Adjustment – Classification of revenue	Apr-Jun 2017 – Adjusted
Revenue	344,643	-	(6,546)	(1,804)	336,293
Cost of sales	(180,758)	-	-	-	(180,758)
Gross profit	163,885	-	(6,546)	(1,804)	155,535
Selling expenses	(41,730)	-	-	-	(41,730)
Administrative expenses	(82,431)	-	-	-	(82,431)
Other income	-	-	-	1,804	1,804
Operating profit	39,724	-	(6,546)	-	33,178
Finance income	47	-	-	-	47
Finance costs	(29,133)	(29,242)	-	-	(58,375)
Result before tax	10,638	(29,242)	(6,546)	-	(25,150)
Income tax expense	23,892	-	1,440	-	25,332
Result for the period	34,530	(29,242)	(5,106)	-	182

EUR thousand	Jan-Jun 2017 – As reported	Adjustment - interest floors	Adjustment – Timing of revenue recognition	Adjustment – Classification of revenue	Jan-Jun 2017 – Adjusted
Revenue	682,583	-	(12,422)	(3,702)	666,459
Cost of sales	(357,340)	-	-	-	(357,340)
Gross profit	325,243	-	(12,422)	(3,702)	309,119
Selling expenses	(81,756)	-	-	-	(81,756)
Administrative expenses	(157,345)	-	-	-	(157,345)
Other income	-	-	-	3,702	3,702
Operating profit	86,142	-	(12,422)	-	73,720
Finance income	90	-	-	-	90
Finance costs	(64,538)	(46,419)	-	-	(110,957)
Result before tax	21,694	(46,419)	(12,422)	-	(37,147)
Income tax expense	17,922	-	2,733	-	20,655
Result for the period	39,616	(46,419)	(9,689)	-	(16,492)

Balance sheet (showing only affected lines):

EUR thousand	30 Jun 2017 – As reported	Adjustment – interest floors	Adjustment – IFRS 15	30 Jun 2017 – Adjusted
Total non-current assets	2,940,787	-	-	2,940,787
Total current assets	250,922	-	-	250,922
Total assets	3,191,709	-	-	3,191,709
Retained earnings	(1,048,912)	(45,046)	(9,355)	(1,103,313)
Equity attributable to equity holders of the parent company	(437,335)	(45,046)	(9,355)	(491,736)
Non-controlling interest	(1,977)	-	(335)	(2,312)
Total equity	(439,312)	(45,046)	(9,689)	(494,047)
Liabilities to credit institutions	2,851,218	104,882	-	2,956,100
Derivatives	60,803	(59,836)	-	967
Deferred tax liabilities ¹	263,530	-	(2,733)	260,797
Total non-current liabilities	3,192,264	45,046	(2,733)	3,234,577
Accrued expenses and deferred income	245,505	-	12,422	257,927
Total current liabilities	438,757	-	12,422	451,179
Total equity and liabilities	3,191,709	-	-	3,191,709

IFRS 9

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The new standard has been adopted as of January 1, 2018. The Group has chosen to apply the reliefs in the standard and not restate prior periods. Refer to the Interim report January-March 2018 for information about the impact of IFRS 9 on the group.

Finalization of the implementation of IFRS 9 has led to an adjustment of the effects previously communicated and recorded in the Q1 report. The effects of the adjustments are the following, compared to what has previously been presented:

Effect on opening balance adjustment as of January 1, 2018	Previously presented in Q1	Revised amount	Adjustment
Retained earnings	119,819	99,226	(20,593)
Long term borrowings	(154,565)	(128,165)	26,400
Trade receivables (bad debt reserve)	(1,034)	(1,034)	-
Deferred tax liabilities	33,712	27,904	(5,808)

PARENT COMPANY FINANCIAL STATEMENTS

Parent company income statements

EUR thousand	Note	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Selling and administrative expenses		-	(1)	(7)	(1)
Operating profit		-	(1)	(7)	(1)
Interest income from group companies		10,639	14,390	21,279	28,775
Interest expense		(16,385)	(14,390)	(32,862)	(28,775)
Interest expense to group companies		(44)	-	(60)	-
Finance cost		(644)	-	(847)	-
Result before tax		(6,434)	(1)	(12,497)	(1)
Income tax expense and benefit		-	-	-	-
Result for the period		(6,434)	(1)	(12,497)	(1)

Parent company statements of financial position

EUR thousand	Note	Jun 2018	Jun 2017	Dec 2017
ASSETS				
Non-current assets				
<i>Long-term investments</i>				
Investments in subsidiaries		1,189,952	594,410	1,134,604
Receivables from group companies		567,150	692,164	576,919
Total non-current assets		1,757,102	1,286,574	1,711,523
Current assets				
Other receivables from group companies		-	-	1,095,492
Accrued income interest from group companies		3,389	9,359	8,656
Cash and cash equivalents		215	99	3,257
Total current assets		3,604	9,458	1,107,405
TOTAL ASSETS		1,760,706	1,296,032	2,818,928
EQUITY AND LIABILITIES				
Equity				
Share capital		56	56	56
Other paid in capital		569,170	569,170	569,170
Retained earnings		23,022	-870	1,075,664
Total equity		592,248	568,356	1,644,890
Non-current liabilities				
Long-term borrowings	1	1,130,070	692,164	1,137,262
Liabilities to group companies		33,119	26,153	26,153
Total non-current liabilities		1,163,189	718,317	1,163,415
Current liabilities				
Trade payables		-	-	3,992
Accrued interest expenses	1	5,269	9,359	6,626
Other current liabilities		-	-	5
Total current liabilities		5,269	9,359	10,623
TOTAL EQUITY AND LIABILITIES		1,760,706	1,296,032	2,818,928

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, 2018	56	569,170	1,075,664	1,644,890
Result for the period	-	-	(12,497)	(12,497)
Dividend	-	-	(1,095,493)	(1,095,493)
Shareholders contribution	-	-	55,348	55,348
Balance at June 30, 2018	56	569,170	23,022	592,248

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2017	56	569,170	(869)	568,357
Result for the period	-	-	(1)	(1)
Balance at June 30, 2017	56	569,170	(870)	568,356

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2017	56	569,170	(869)	568,357
Result for the period	-	-	1,076,533	1,076,533
Balance at December 31, 2017	56	569,170	1,075,664	1,644,890

Parent company statements of cash flows

EUR thousand	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017
Operating activities				
Operating profit	-	(1)	(7)	(1)
Cash flow from operating activities before change in working capital	-	(1)	(7)	(1)
Change in working capital				
Change in trade payables	(98)	-	(3,999)	-
<i>Cash flow from change in working capital</i>	(98)		(3,999)	
Cash flow from operating activities	(98)	(1)	(4,006)	(1)
Investing activities				
Cash flow from investing activities	-	-	-	-
Financing activities				
New loans from Group companies	5,906	-	6,906	-
Paid bank and advisory fees	2,783	-	1,730	-
Interest paid	(9,927)	-	(7,672)	-
Cash flow from financing activities	(1,238)	-	964	-
Cash flow for the period	(1,336)	(1)	(3,042)	(1)
Cash and cash equivalents at start of period	1,551	100	3,257	100
Exchange difference on translating cash and cash equivalents	-	-	-	-
Cash and cash equivalents at end of period	215	99	215	99

Note to the parent company financial statements

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 not 1 to the consolidated financial statements in the annual report. The accounting policies are unchanged compared with those applied in 2017, except for the implementation of the sections regarding IFRS 15 and IFRS 9 in RFR 2. The implementation has not had an effect on the financial position of the parent company.

These financial statements should be read in conjunction with the annual report 2017.

Note 1 Borrowings

EUR thousand	Jun 2018			Jun 2017		
	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
Unsecured						
Private Unsecured Notes	-	-	-	9,359	692,164	701,523
Senior Unsecured Notes	5,269	1,130,070	1,135,339	-	-	-
Total borrowings (carrying amount)	5,269	1,130,070	1,135,339	9,359	692,164	701,523

EUR thousand	Dec 2017		
	Current liabilities	Non-current liabilities	Total
Private Unsecured Notes	-	-	-
Senior Unsecured Notes	6,626	1,137,262	1,143,888
Total borrowings (carrying amount)	6,626	1,137,262	1,143,888

Quarterly summary

Quarterly summary presents non-IFRS financial and operating information

EUR thousand (if not otherwise stated)	Apr-Jun 2018	Jan-Mar 2018	Oct-Dec 2017	Jul-Sep 2017	Apr-Jun 2017
Portfolio services segment:					
Total subscribers (end of period), units	2,754,103	2,665,934	2,586,123	2,502,806	2,432,256
Cancellation, units	41,008	43,716	39,887	36,036	37,118
Attrition rate (LTM)	6.2%	6.3%	6.3%	6.4%	6.5%
Net subscriber growth, units ¹	88,169	79,811	83,317	70,550	75,857
Subscriber growth rate, net	13.2%	13.1%	12.7%	14.5%	14.7%
Average monthly revenue per user (ARPU), (in EUR)	40.2	40.4	39.4	39.5	39.6
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	26.9	27.1	25.7	26.3	26.0
Portfolio Revenue	326,562	318,052	300,932	292,953	284,022
Portfolio Adjusted EBITDA	218,595	212,921	196,005	194,685	186,602
Portfolio Adjusted EBITDA margin	66.9%	66.9%	65.1%	66.5%	65.7%
Customer acquisition segment:					
New subscribers added (gross)	129,072	123,527	115,885	108,910	111,991
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,171	1,170	1,184	1,162	1,147
Customer acquisition Revenue	67,783	68,253	64,784	56,126	58,268
Customer acquisition Adjusted EBITDA	(65,984)	(62,196)	(55,779)	(49,847)	(50,414)
Customer acquisition Capital expenditures	85,141	85,895	81,435	76,754	78,013
Adjacencies segment:					
Adjacencies revenue	3,580	4,904	493	588	548
Adjacencies adjusted EBITDA	(468)	(1,428)	77	144	130
Consolidated:					
<i>Excluding SDI and IFRS 15 adjustment</i>					
Payback period (in years)	3.6	3.6	3.8	3.7	3.7
Revenue	397,925	391,209	366,209	349,667	342,839
Adjusted EBITDA	152,143	149,297	140,305	144,966	136,341
Adjusted EBITDA margin	38.2%	38.2%	38.3%	41.5%	39.8%
Capital expenditures	117,749	114,486	130,294	101,078	101,426
<i>Reported (including SDI and IFRS 15 adjustment)</i>					
Revenue	392,052	384,221	360,190	345,760	336,293
Adjusted EBITDA	140,925	136,013	124,245	132,834	118,889

All amounts are before SDI and IFRS 15 adjustments, unless otherwise stated. Also comparatives have been restated. Refer to note 2 for reconciliation.

1) Differences in reconciliation with end of period subscriber data are primarily due to acquisitions of contract portfolios.

Malmö, August 29, 2018

Austin Lally
CEO

Stefan Götz

Adrien Motte

Cecilia Hultén
Chairman

Fredrik Östman