VERISURE MIDHOLDING AB (PUBL)

INTERIM REPORT
JANUARY– JUNE 2020

Management’s Discussion and Analysis of Financial Condition and Results of Operations

Key operating highlights for the second quarter ending June 30, 2020 and 2019

Verisure Midholding Group, hereafter referred to as the Group, is the leading provider of professionally monitored smart alarms for residential households and small businesses in Europe. We offer premium alarm services to our portfolio of over 3.4 million customers in 16 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 (>80%) and industry leading retention.

Since the onset of the COVID-19 pandemic, we have been focused on protecting our employees and families, our customers and our business. While the pandemic has created and continues to create new challenges for our business, we have adapted rapidly to the new operating environment and have continued to evolve our approach as the situation further develops.

Verisure Group continued to deliver strong operational and financial performance in the second quarter, especially considering this external environment. Our customer portfolio continued to grow to close to 3.5 million customers, corresponding to an annual growth rate of 10.8%, compared to Q2 in 2019. Our subscription-based portfolio has remained resilient and our attrition rates have not been materially impacted by the pandemic to date. The performance of our Portfolio Services segment continues to be very strong and consistent with past years development, with Portfolio Services adjusted EBITDA increasing 17% in Q2 2020 compared to Q2 in 2019, and 19% in constant currencies. Total adjusted EBITDA in the quarter was also very strong, increasing 30% vs. Q2 in 2019.

Throughout this period we have continued to provide our services and protect our customers against intrusion, fire, life-threatening emergencies and other hazards without interruption and at performance levels we believe as high or higher than before the onset of the pandemic. In parallel the Group has continued to invest in product innovation to further position us for continued long-term growth.

Summary of second quarter 2020 financials:

- Total reported revenues amounted to EUR 489.2 million for the second quarter 2020 which is an increase of 4.8% from EUR 466.9 million the same period last year. Adjusted for currency effects, total reported revenue grew by 6.8% in the quarter. Portfolio services revenues, representing 86% of total Group revenues in the quarter, grew by 10.5% to EUR 420.8 million. In constant currencies portfolio services revenues grew by 12.8% in the quarter.

  For the first six months of 2020 total reported revenues increased to EUR 1,000.2 million compared to EUR 925.5 million in 2019, which is an increase of 8.1% in actual currencies and 10.2% in constant currencies. Portfolio services revenues grew by 12.1% to EUR 841.9 million for the first six months (14.4% in constant currencies).

- Total reported adjusted EBITDA increased 29.8% to EUR 231.9 million in Q2 2020 compared to EUR 178.6 million in Q2 2019. In constant currencies, total reported adjusted EBITDA grew by 32.0%. Total adjusted EBITDA, before SDI, improved to EUR 244.4 million from EUR 188.0 million in Q2 2019, which is an increase of 30.0% in actual currencies and 32.1% in constant currencies for the quarter.

  For the first six months of 2020 total reported adjusted EBITDA amounted to EUR 417.3 million compared to EUR 358.4 million in 2019, which is an increase of 16.5% (and 18.6% in constant currencies). Total adjusted EBITDA, before SDI, improved to EUR 437.7 million from EUR 373.6 million for the first six months in 2019, which is an increase of 17.2% compared to 2019 (and 19.3% adjusted for currency effects).

- Portfolio adjusted EBITDA further improved to EUR 308.8 million from EUR 264.7 million in Q2 2019, corresponding to an increase of 16.7%. Adjusted for currency effects, portfolio adjusted EBITDA improved by 18.9% in the quarter. Portfolio services adjusted EBITDA margin further strengthened to 73.4% from 69.5% in Q2 2019, an increase of 3.9 percentage points. For the first six months portfolio adjusted EBITDA amounted to EUR 603.8 million which is an increase of 16.5% in actual currencies and 18.8% in constant currencies compared to 2019. On an annualized basis our portfolio adjusted EBITDA is now over EUR 1.2 billion.
- ARPU amounted to EUR 40.9 which is an increase of 1.0% adjusted for currency effects vs. prior year. EPC accelerated further to EUR 30.0 for the quarter, corresponding to an increase of 6.5% adjusted for currency effects, driven by continued value improvements and good development in operational efficiency and cost control.
- Due to the government lockdowns in many countries in the second quarter, our additions of new customers were impacted. As a result, the growth in new customer addition decelerated to 95,444 new customers compared to 151,410 in Q2, 2019, which mechanically put short-term pressure on cash cost per acquisition (CPA). This situation on new sales improved throughout the second quarter with April and May most severely impacted. In June our new customer additions were back on a similar level as in 2019 (and CPA below 2019 level).

- Net subscriber growth was 37,737 in the quarter compared to 103,136 in Q2 2019, impacted by the lower new additions as mentioned above. At the end of the quarter the portfolio had grown to 3,467,795 customers, up more than 300,000 customers or 10.8% in a year. This annual customer portfolio growth rate of 10.8% was all organic portfolio growth.

We consider ourselves fortunate to have a subscription-based portfolio that has shown very strong resilience. We have taken steps to ensure operational and financial performance and flexibility in our Customer Acquisition segment. Our operating cash flow in the second quarter has been strong, with an improvement of 17% vs. 2019. In July 2020, as has been commented earlier, we successfully refinanced EUR 1.6 billion of our debt, and in April we also issued a EUR 200 million bond to repay our drawn RCF.

We remain optimistic for the medium and long term, even if the external environment will be challenging for a period. We have a business model that has shown very strong resilience, and the fundamental customer need for security and peace of mind is not expected to reduce. We believe that the need will continue to increase in the future, against the backdrop of low penetration of home security in our geographies.

Key figures

EUR thousand (if not otherwise stated)	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Portfolio services segment:				
Unaudited operating data				
Total subscribers (year-end), units	3,467,795	3,130,810	3,467,795	3,130,810
Cancellation, units	57,707	48,274	116,242	96,554
Attrition rate (LTM)	6.5%	6.2%	6.5%	6.2%
Net subscriber growth, units[1]	37,737	103,136	121,083	200,057
Subscriber growth rate, net	10.8%	13.7%	10.8%	13.7%
Average monthly revenue per user (ARPU), (in EUR)	40.9	41.3	41.1	41.4
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	30.0	28.7	29.5	28.6
Non-IFRS and IFRS financial data				
Portfolio services revenue[2]	420,803	380,739	841,888	750,915
Portfolio services adjusted EBITDA	308,760	264,689	603,782	518,416
Portfolio services adjusted EBITDA margin	73.4%	69.5%	71.7%	69.0%
Customer acquisition segment:				
Unaudited operating data				
New subscribers added (gross)	95,444	151,410	237,325	296,611
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,329	1,194	1,375	1,182
Non-IFRS and IFRS financial data				
Customer acquisition revenue[2]	58,733	80,813	137,820	164,074
Customer acquisition adjusted EBITDA	(61,537)	(77,140)	(158,762)	(145,654)
Customer acquisition capital expenditures	65,339	103,659	167,612	204,813
Adjacencies segment:				
Non-IFRS and IFRS financial data				
Adjacencies revenue[2]	9,693	5,392	20,483	10,522
Adjacencies adjusted EBITDA	(2,854)	432	(7,280)	868
Consolidated:				
Unaudited operating data				
Payback period (in years)	3.7	3.5	3.9	3.4
Non-IFRS and IFRS financial data				
Revenue[2]	489,229	466,944	1,000,191	925,511
Organic revenue growth	6.8%	19.7%	10.3%	20.0%
Adjusted EBITDA	244,369	187,981	437,739	373,630
Adjusted EBITDA margin	49.9%	40.3%	43.8%	40.4%
Capital expenditures	105,130	141,892	249,253	277,625
Reported (including SDI)				
Reported revenue[2]	489,229	466,944	1,000,191	925,511
Reported adjusted EBITDA	231,855	178,643	417,346	358,377

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

2) IFRS financial data.

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), 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 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. All SDIs are further explained later in this section.

Three months ending June 30, 2020 and 2019

Results excluding SDI

EUR million	Apr-Jun 2020	Apr-Jun 2019	Percentage change
Revenue	489.2	466.9	4.8%
Operating expenses	(246.1)	(280.3)	(12.2)%
Other income	1.2	1.4	(8.9)%
Adjusted EBITDA	**244.4**	**188.0**	**30.0%**
Adjusted EBITDA margin, %	*49.9%*	40.3%	-
Depreciation and amortization	(67.7)	(56.5)	19.7%
Retirement of assets	(23.7)	(20.2)	17.1%
Operating profit	**153.0**	**111.2**	**37.6%**
Operating profit margin, %	*31.3%*	23.8%	-
Interest income and cost	(56.0)	(52.0)	7.7%
Other financial items	(0.5)	(0.5)	13.2%
Result before taxes and SDI	**96.5**	**58.8**	**64.2%**

Revenue

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

Results excluding SDI

EUR million	Apr-Jun 2020	Apr-Jun 2019	Percentage change
Revenue by segment			
Portfolio services	420.8	380.7	10.5%
Customer acquisition	58.7	80.8	(27.3)%
Adjacencies	9.7	5.4	79.8%
Total	**489.2**	**466.9**	**4.8%**

Total revenue in the second quarter 2020 increased by 4.8%, or EUR 22.3 million, to EUR 489.2 million, up from EUR 466.9 million in the prior period. Organic revenue growth was 6.8%, primarily due to the increasing customer base. The customer base on June 30, 2020 was 3,467,795, an increase of more than 300,000 customers or 10.8% from 3,130,810 on June 30, 2019. Revenue for portfolio services in the second quarter 2020 increased by 10.5%, or EUR 40.1 million, to EUR 420.8 million, up from EUR 380.7 million in the previous period. The increase was primarily due to the increased number of customers. Revenue for customer acquisition in the three months ending June 30, 2020, amounted to EUR 58.7 million, which is a decrease of 27.3%, or EUR 22.1 million, compared to EUR 80.8 million in the prior period. The decrease was mainly due to lower number of new installations compared to the same period last year, relating to COVID-19 impacting many countries from mid-March.

Operating expenses

Operating expenses in the second quarter 2020, decreased by 12.2%, or EUR 34.2 million, to EUR 246.1 million, reduced from EUR 280.3 million in the prior period. The decrease was mainly due to lower numbers of new customer additions.

Adjusted EBITDA

Adjusted EBITDA in the three months ending June 30, 2020, increased by 30.0% or EUR 56.4 million to EUR 244.4 million, up from EUR 188.0 million in the prior period. The increase in adjusted EBITDA was driven by both the growth in the customer portfolio and higher earnings per customer, improving the Portfolio services adjusted EBTDA. Adjusted EBITDA was also positively impacted by lower numbers of new customer additions in the quarter.

Depreciation and amortization

Depreciation and amortization increased to EUR 67.7 million in the three months ending June 30, 2020, up from EUR 56.5 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 have increased mainly due to the increased number of customers.

Retirement of assets

Retirements of assets increased to EUR 23.7 million in the second quarter of 2020, up from EUR 20.2 million in the prior period. The cost corresponds mainly 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 both Q2, 2020 and 2019. Interest cost amounted to EUR 56.0 million, compared to EUR 52.0 million in the prior period, mainly driven by the increase in debt.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 0.5 million in Q2 in both 2020 and 2019.

Reported consolidated income statement for the three months ending June 30, 2020 and 2019

	Apr-Jun 2020			Apr-Jun 2019		
EUR million	**Result excluding SDI**	**Separately disclosed items**	**Reported**	**Result excluding SDI**	**Separately disclosed items**	**Reported**
Revenue	489.2	-	**489.2**	466.9	-	**466.9**
Operating expenses	(246.1)	(12.5)	**(258.6)**	(280.3)	(9.3)	**(289.7)**
Other income	1.2	-	**1.2**	1.4	-	**1.4**
Adjusted EBITDA	**244.4**	**(12.5)**	**231.9**	**188.0**	**(9.3)**	**178.6**
Depreciation and amortization	(67.7)	(39.7)	**(107.4)**	(56.5)	(38.3)	**(94.8)**
Retirements of assets	(23.7)	-	**(23.7)**	(20.2)	-	**(20.2)**
Operating profit	**153.0**	**(52.3)**	**100.7**	**111.2**	**(47.6)**	**63.6**
Interest income and cost	(56.0)	-	**(56.0)**	(52.0)	-	**(52.0)**
Other financial items	(0.5)	(10.8)	**(11.3)**	(0.5)	(15.8)	**(16.3)**
Result before tax	**96.5**	**(63.1)**	**33.5**	**58.8**	**(63.5)**	**(4.7)**
Income tax benefit and expense	-	-	**(16.8)**	-	-	**(13.1)**
Result for the period	**-**	**-**	**16.7**	**-**	**-**	**(17.9)**

Separately disclosed items (SDIs)

SDI affecting operating expenses

SDI affecting operating expenses includes one-off costs related to various transition projects within the Group and COVID-19 related exceptional costs. For the second quarter 2020, the total costs for SDI´s amounted to EUR 12.5 million and EUR 9.3 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 39.7 million in 2020 and EUR 38.3 in 2019 relates to amortization of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting other financial items

SDI affecting other financial items was a cost of EUR 10.8 million for the second quarter 2020, compared to a cost of 15.8 million for the same quarter 2019. For the three months ending June 30, 2020, the other financial items consist of a negative non-cash FX valuation of debt items and hedges amounting to EUR 0.2 million and a cost related to amortization of prepaid financing fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 10.6 million. For the three months ending June 30, 2019, other financial items consist of a negative non-cash FX valuation of debt items plus market revaluation of hedges in total amounting to EUR 7.0 million, a cost related to amortization and write off of prepaid funding fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 8.8 million.

Income tax benefit and expense

Total tax cost was EUR 16.8 million in the quarter compared with EUR 13.1 million last year. Current tax expense was EUR 19.1 million in Q2 2020 compared with EUR 14.9 million in 2019. Deferred tax was a benefit of EUR 2.3 million in Q2 2020 compared to a benefit of EUR 1.7 million in 2019.

Cash Flow

The following table shows a summary of our cash flow on a historical basis for the three months ending June 30, 2020 and 2019.

EUR million	Apr-Jun 2020	Apr-Jun 2019
Cash flow from operating activities before change in working capital	225.4	166.5
Change in working capital	(37.6)	(6.2)
Cash flow from operating activities[1]	**187.8**	**160.3**
Cash flow from investing activities	(105.2)	(141.9)
Cash flow from financing activities[2]	(86.2)	5.5
Cash flow for the period	**(3.6)**	**23.9**
Cash and cash equivalents at beginning of period	59.0	11.4
Translation differences on cash and cash equivalents	6.7	(0.1)
Cash and cash equivalents at end of period	**62.1**	**35.1**

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 187.8 million and EUR 160.3 million for the three months ending June 30, 2020 and 2019 respectively. The increase compared with corresponding period in the previous year is primarily driven by a strong improvement in operating profit offset by an increase in working capital which was affected by COVID-19 circumstances.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 105.2 million and EUR 141.9 million for the three months ending June 30, 2020 and 2019 respectively. The decrease mainly relates to the lower number of new installations.

Cash flow from financing activities

Cash flow from financing activities totaled an outflow of EUR 86.2million and an inflow of EUR 5.5 million for the three months ending June 30, 2020 and 2019 respectively. The main elements included net paid interest of EUR 73.7 million compared with EUR 71.7 million in the same period last year where the increase is mainly due to higher indebtedness, a net decrease in borrowings of EUR 2.6 million compared with an increase of EUR 70.0 million previous year. Other financial items including paid debt related fees totaled a negative EUR 9.9 million compared to a positive EUR 7.2 million in the same period last year.

Six months ending June 30, 2020 and 2019

Results excluding SDI

EUR million	Jan-Jun 2020	Jan-Jun 2019	Percentage change
Revenue	1,000.2	925.5	8.1%
Operating expenses	(565.0)	(555.0)	1.8%
Other income	2.5	3.1	(18.9)%
Adjusted EBITDA	**437.7**	**373.6**	**17.2%**
Adjusted EBITDA margin, %	*43.8%*	40.4%	-
Depreciation and amortization	(134.8)	(109.5)	23.1%
Retirement of assets	(43.9)	(38.3)	14.8%
Operating profit	**259.0**	**225.9**	**14.7%**
Operating profit margin, %	*25.9%*	24.4%	-
Interest income and cost	(111.2)	(103.9)	7.0%
Other financial items	(1.2)	(1.1)	5.7%
Result before taxes and SDI	**146.6**	**120.8**	**21.3%**

Revenue

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

Results excluding SDI

EUR million	Jan-Jun 2020	Jan-Jun 2019	Percentage change
Revenue by segment			
Portfolio services	841.9	750.9	12.1%
Customer acquisition	137.8	164.1	(16.0)%
Adjacencies	20.5	10.5	94.7%
Total	**1,000.2**	**925.5**	**8.1%**

Total revenue in the first six months of 2020 increased by 8.1%, or EUR 74.7 million, to EUR 1,000.2 million, up from EUR 925.5 million in the prior period. Organic revenue growth was 10.3%, primarily due to the increasing customer base. The customer base on June 30, 2020 was 3,467,795, an increase of more than 300,000 customers or 10.8% from 3,130,810 on June 30, 2019.
Revenue for portfolio services in the first six months of 2020 increased by 12.1%, or EUR 91.0 million, to EUR 841.9 million, up from EUR 750.9 million in the previous period. The increase was primarily due to the increased number of customers.
Revenue for customer acquisition in the six months ending June 30, 2020, amounted to EUR 137.8 million, which is a decrease of 16.0%, or EUR 26.3 million, compared to EUR 164.1 million in the prior period. The decrease was mainly due to lower number of new installations compared to the same period last year, relating to COVID-19 impacting many countries from mid-March.

Operating expenses

Operating expenses in the first six months of 2020, increased by 1.8%, or EUR 10.0 million, to EUR 565.0 million, up from EUR 555.0 million in the prior period. The increase was mainly due to the growth in the portfolio.

Adjusted EBITDA

Adjusted EBITDA in the six months ending June 30, 2020, increased by 17.2% or EUR 64.1 million to EUR 437.7 million, up from EUR 373.6 million in the prior period. The increase in adjusted EBITDA was driven by both the growth in the customer portfolio and higher earnings per customer, improving the Portfolio services adjusted EBTDA. Adjusted EBITDA was also positively impacted by lower numbers of new customer additions in the quarter.

Depreciation and amortization

Depreciation and amortization increased to EUR 134.8 million in the six months ending June 30, 2020, up from EUR 109.5 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 have increased mainly due to the increased number of customers.

Retirement of assets

Retirements of assets increased to EUR 43.9 million in the first six months of 2020, up from EUR 38.3 million in the prior period. The cost corresponds mainly 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, 2020 compared to EUR 0.1 million in the same period prior year. Interest cost amounted to EUR 111.3 million, compared to EUR 104.0 million in the prior period, mainly driven by the increase in debt.

Other financial items
Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 1.2 million in the six months ended June 30 in both 2020 compared to EUR 1.1 million in the same period prior year.

Reported consolidated income statement for the six months ending June 30, 2020 and 2019

	Jan-Jun 2020			Jan-Jun 2019		
EUR million	**Result excluding SDI**	**Separately disclosed items**	**Reported**	**Result excluding SDI**	**Separately disclosed items**	**Reported**
Revenue	1,000.2	-	**1,000.2**	925.5	-	**925.5**
Operating expenses	(565.0)	(20.4)	**(585.4)**	(555.0)	(15.3)	**(570.2)**
Other income	2.5	-	**2.5**	3.1	-	**3.1**
Adjusted EBITDA	**437.7**	**(20.4)**	**417.3**	**373.6**	**(15.3)**	**358.4**
Depreciation and amortization	(134.8)	(79.5)	**(214.4)**	(109.5)	(76.6)	**(186.1)**
Retirements of assets	(43.9)	-	**(43.9)**	(38.3)	-	**(38.3)**
Operating profit	**259.0**	**(99.9)**	**159.1**	**225.9**	**(91.8)**	**134.0**
Interest income and cost	(111.2)	-	**(111.2)**	(103.9)	-	**(103.9)**
Other financial items	(1.2)	(92.7)	**(93.9)**	(1.1)	(15.1)	**(16.3)**
Result before tax	**146.6**	**(192.6)**	**(46.0)**	**120.8**	**(107.0)**	**13.9**
Income tax benefit and expense	-	-	**(23.4)**	-	-	**(29.2)**
Result for the period	**-**	**-**	**(69.4)**	**-**	**-**	**(15.3)**

Separately disclosed items (SDIs)
SDI affecting operating expenses
SDI affecting operating expenses includes one-off costs related to various transition projects within the Group. It also includes costs related to acquisitions of new businesses, and COVID-19 related exceptional costs. For the first six months of 2020, the total costs for SDI´s amounted to EUR 20.4 million and EUR 15.3 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 79.5 million in 2020 and EUR 76.6 in 2019 relates to amortization of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting other financial items
SDI affecting other financial items was a cost of EUR 92.7 million for the first two quarters 2020, compared EUR 15.1 million for the same period 2019. For the six months ending June 30, 2020, the other financial items consist of a negative non-cash FX valuation of debt items and hedges amounting to EUR 103.7 million and a cost related to amortization of prepaid financing fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 22.9 million. Realized hedges was a positive EUR 33.9 million. For the three months ending June 30, 2019, other financial items consist of a positive non-cash FX valuation of debt items plus market revaluation of hedges in total amounting to EUR 4.6 million, a cost related to amortization and write off of prepaid funding fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 19.7 million.

Income tax benefit and expense
Total tax cost was EUR 23.4 million in the six months compared with EUR 29.2 million last year. Current tax expense was EUR 26.1 million in 2020 compared with EUR 27.6 million in 2019. Deferred tax was a benefit of EUR 2.7 million in the first two quarters in 2020 compared to an expense of EUR 1.6 million in 2019.

Cash Flow

The following table shows a summary of our cash flow on a historical basis for the six months ending June 30, 2020 and 2019.

EUR million	Jan-Jun 2020	Jan-Jun 2019
Cash flow from operating activities before change in working capital	407.0	341.7
Change in working capital	(32.8)	(9.6)
Cash flow from operating activities[1]	**374.2**	**332.1**
Cash flow from investing activities	(251.8)	(322.6)
Cash flow from financing activities[2]	(71.6)	17.0
Cash flow for the period	**50.8**	**26.5**
Cash and cash equivalents at beginning of period	12.8	8.6
Translation differences on cash and cash equivalents	(1.5)	0.0
Cash and cash equivalents at end of period	**62.1**	**35.1**

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 407.0 million and EUR 341.7 million for the six months ending June 30, 2020 and 2019 respectively. The increase compared with corresponding period in the previous year is primarily driven by a strong improvement in operating profit offset by an increase in working capital which was affected by COVID-19 circumstances.

Cash flow from investing activities
Cash flow from investing activities amounted to an outflow of EUR 251.2 million and EUR 322.6 million for the six months ending June 30, 2020 and 2019 respectively. The decrease mainly relates to the acquisition of non-controlling interest of EUR 45 million in Q1 2019 as well as lower number of new installations.

Cash flow from financing activities
Cash flow from financing activities totalled an outflow of EUR 71.6 million and an inflow of EUR 17.0 million for the six months ending June 30, 2020 and 2019 respectively. The main elements included net paid interest of EUR 110.8 million compared with EUR 104.7 million in the same period last year where the increase is mainly due to higher indebtedness, a net positive in borrowings of EUR 22.6 million compared with an increase of EUR 125.5 million in previous year. Other financial items including paid debt related fees totalled a positive EUR 16.6 million compared to a negative EUR 3.8 million in the same period last year. Current period was positively impacted by realized hedges amounting to EUR 33.9 million.

Capital Expenditures

The Group´s 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, (ii) portfolio services capital expenditures which relates to new equipment for existing customers, (iii) adjacencies capital expenditures 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 capitalized as tangible fixed assets to the extent we retain ownership of the equipment. The Group also capitalizes 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, 2020 and 2019:

EUR million	Apr-Jun 2020	Apr-Jun 2019
Customer acquisition capital expenditures, material	37.1	57.0
Customer acquisition capital expenditures, direct costs	28.2	46.6
Portfolio capital expenditures	9.0	12.4
Adjacencies capital expenditures	0.7	2.0
Capital expenditures other	30.0	23.9
Total	**105.1**	**141.9**

Capital expenditures were EUR 105.1 million for the three months ending June 30, 2020 and EUR 141.9 million in the prior period. The decrease is driven by the reduction in new customer addition and upselling of existing customers due to the COVID-19 situation, while the increase in capital expenditure other in capital expenditure is mainly due to the increased capitalisation of development cost.

The following table shows a summary of our capital expenditures for the six months ending June 30, 2020 and 2019:

EUR million	Jan-Jun 2020	Jan-Jun 2019
Customer acquisition capital expenditures, material	93.9	110.7
Customer acquisition capital expenditures, direct costs	73.7	94.1
Portfolio capital expenditures	21.8	24.8
Adjacencies capital expenditures	2.9	4.1
Capital expenditures other	57.0	43.9
Total	**249.3**	**277.6**

Capital expenditures were EUR 249.3 million for the six months ending June 30, 2020, down versus prior year due to the reduction in new customer additions.

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 interest due on our debt obligations.

As of June 30, 2020, the Group had a total of EUR 351.5 million of available funds.

EUR million	Jun 2020	Jun 2019	Dec 2019
Revolving Credit Facility	300.0	300.0	300.0
Cash and cash equivalents	62.1	35.1	12.8
Drawn facility amount	(3.7)	(16.8)	(127.0)
Utilized letter of credit	(6.9)	(7.9)	(10.9)
Total available funds	**351.5**	**310.4**	**174.9**

The following table summarizes our total financial indebtedness on June 30, 2020 and 2019.

EUR million	Jun 2020	Jun 2019	Dec 2019
Senior Secured Notes	700.0	500.0	500.0
Term Loan B	3,092.0	3,092.0	3,092.0
Revolving Credit Facility	3.7	16.8	127.0
Senior Unsecured Notes	1,237.2	1,236.2	1,237.9
Other liabilities	29.6	47.7	48.3
Lease liability (IFRS 16)	136.8	130.8	133.9
Total	**5,199.3**	**5,023.6**	**5,139.1**

Risks and uncertainties

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 responded in detail to these findings on November 18, 2019. At this stage, it is not possible to predict if and when a legally enforceable decision or ruling will be issued.

In addition to above, a detailed presentation of risks and a sensitivity analysis can be found in the Financial Risk Management section (note 22) and the Risk Factors section of the Verisure Midholding AB’s annual report 2019.

Events during the reporting period

On April 16, 2020, the Group raised EUR 200 million of Floating Rate Notes debt to repay outstanding amounts under the Revolver Credit Facility as well as to replenish the Group's cash balance.

Events after the reporting period

In July 2020, we executed a refinancing of EUR 1,600 million for the purpose of extending the maturity profile of our external debt portfolio. We raised EUR 800 million of Senior Secured Notes as well as EUR 800 million of Floating rate Term Loan B both with maturity in July 2026. The proceeds, net of fees and transaction costs, were used to repay in full outstanding amounts under the Term Loan B1F tranche as well as certain amounts under the Term Loan B1E tranche both with maturity in October 2022.

Key Operating Metrics

The Group management uses a number of key operating metrics, in addition to IFRS financial measures, to evaluate, monitor and manage our business. The non-IFRS operational and statistical information related to the Group´s 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, management believes that these metrics provide important insight into the operations and strength of the Group´s business. These metrics may not be comparable to similar terms used by competitors or other companies, and from time to time the Group 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.

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 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 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 12 months ago.

Unaudited Consolidated Financial Statements

Consolidated income statements

EUR thousand	Note	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Revenue	3	489,229	466,944	1,000,191	925,511
Cost of sales		(231,135)	(243,781)	(506,436)	(480,707)
Gross profit		**258,094**	**223,163**	**493,754**	**444,804**
Selling expenses		(59,122)	(63,314)	(130,410)	(125,936)
Administrative expenses[1]		(99,486)	(97,624)	(206,770)	(187,923)
Other income		1,241	1,362	2,511	3,097
Operating profit		**100,727**	**63,587**	**159,085**	**134,041**
Finance income		101	63	175	126
Finance costs		(67,366)	(68,369)	(205,242)	(120,304)
Result before tax		**33,462**	**(4,719)**	**(45,981)**	**13,864**
Income tax expense		(16,776)	(13,150)	(23,443)	(29,183)
Result for the period		**16,686**	**(17,869)**	**(69,424)**	**(15,319)**
Whereof attributable to:					
- Parent company		16,686	(17,869)	(69,424)	(15,319)
- Non-controlling interest		-	-	-	-

Consolidated statements of comprehensive income

EUR thousand	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Result for the period	**16,686**	**(17,869)**	**(69,424)**	**(15,319)**
Other comprehensive income				
Items that subsequently may be reclassified to the income statement				
Hedging reserve	(5,620)	-	182	-
Currency translation differences on foreign operations	(6,789)	1,771	13,518	(6,871)
Other comprehensive income	**(12,409)**	**1,771**	**13,700**	**(6,871)**
Total comprehensive income for the period	**4,277**	**(16,098)**	**(55,724)**	**(22,190)**
Whereof attributable to:				
- Parent company	4,277	(16,098)	(55,724)	(22,190)
- Non-controlling interest	-	-	-	-

Consolidated statements of financial position

EUR thousand	Note	Jun 2020	Jun 2019	Dec 2019
Assets				
Non-current assets				
Property, plant and equipment		895,919	790,908	872,846
Right of use assets		134,676	130,595	132,899
Goodwill		877,790	869,270	884,261
Customer portfolio		967,658	1,023,084	1,016,865
Other intangible assets		248,213	178,098	239,176
Deferred tax assets		28,583	34,088	30,827
Derivatives	4	-	26,133	23,410
Trade and other receivables	4	302,185	320,579	310,179
Total non-current assets		**3,455,024**	**3,372,756**	**3,510,463**
Current assets				
Inventories		164,878	125,845	126,977
Trade receivables	4	155,291	149,002	154,075
Current tax assets		17,696	14,970	17,872
Derivatives	4	1,359	2,270	4,758
Prepayments and accrued income		65,577	39,928	62,948
Other current receivables	4	24,874	13,955	15,613
Cash and cash equivalents	4	62,085	35,128	12,770
Total current assets		**491,760**	**381,097**	**395,014**
Total assets		**3,946,784**	**3,753,853**	**3,905,477**

EUR thousand	Note	Jun 2020	Jun 2019	Dec 2019
Equity and liabilities				
Equity				
Share capital		56	56	56
Other paid in capital		624,933	624,517	624,686
Other reserves		46,345	36,769	32,645
Retained earnings		(2,890,597)	(2,776,236)	(2,821,173)
Equity attributable to equity holders of the parent company		**(2,219,263)**	**(2,114,894)**	**(2,163,786)**
Non-controlling interest		-	-	-
Total equity		**(2,219,263)**	**(2,114,894)**	**(2,163,786)**
Non-current liabilities				
Long-term borrowings	4,5	5,042,536	4,820,782	4,948,800
Derivatives	4	33,815	29,837	17,720
Other non-current liabilities	4	101,062	73,808	114,571
Deferred tax liabilities[1]		244,394	260,426	250,295
Other provisions		18,389	3,411	25,141
Total non-current liabilities		**5,440,195**	**5,188,264**	**5,356,527**
Current liabilities				
Trade payables	4	106,623	112,222	139,086
Current tax liabilities		40,463	30,158	25,300
Short-term borrowings	4,5	79,861	81,604	91,726
Derivatives	4	149	-	75
Accrued expenses and deferred income		452,359	426,214	426,594
Other current liabilities	4	46,397	30,286	29,955
Total current liabilities		**725,852**	**680,484**	**712,736**
Total equity and liabilities		**3,946,784**	**3,753,853**	**3,905,477**

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

Consolidated statement of changes in equity

EUR thousand	Share capital	Other paid in capital	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent company and non-controlling interest						
Balance at January 1, 2020	**56**	**624,686**	**32,645**	**(2,821,173)**	**(2,163,786)**	**-**	**(2,163,786)**
Result for the period	-	-	-	(69,424)	**(69,424)**	-	**(69,424)**
Hedging reserve	-	-	182	-	**182**	-	**182**
Other comprehensive income	-	-	13,518	-	**13,518**	-	**13,518**
Total comprehensive income for the period	-	-	*13,700*	(69,424)	***(55,724)***	-	***(55,724)***
Shareholder´s contribution	-	247	-	-	**247**	-	**247**
Balance at June 30, 2020	**56**	**624,933**	**46,345**	**(2,890,597)**	**(2,219,263)**	**-**	**(2,219,263)**

EUR thousand	Share capital	Other paid in capital	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent company and non-controlling interest						
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	-	-	-	(15,319)	**(15,319)**	-	**(15,319)**
Other comprehensive income	-	-	(6,871)	-	**(6,871)**	-	**(6,871)**
Total comprehensive income for the period	-	-	*(6,871)*	*(15,319)*	***(22,190)***	-	***(22,190)***
Transaction with non-controlling interest	-	-	-	(46,666)	**(46,666)**	2,745	**(43,921)**
Balance at June 30, 2019	**56**	**624,517**	**36,769**	**(2,776,236)**	**(2,114,894)**	**-**	**(2,114,894)**

EUR thousand	Share capital	Other paid in capital	Other reserve	Retained earnings	Total	Non-controlling interest	Total equity
	Attributable to equity holders of the parent company and non-controlling interest						
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)**
Total comprehensive income for the period	-	-	*(10,995)*	(60,266)	***(71,261)***	-	***(71,261)***
Shareholder´s 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)**

Consolidated statements of cash flows

EUR thousand	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Operating activities				
Operating profit	100,727	63,587	159,085	134,041
Reversal of depreciation and amortization	107,437	94,823	214,360	186,088
Other non-cash items	23,672	19,852	43,901	38,060
Paid taxes	(6,402)	(11,779)	(10,344)	(16,532)
Cash flow from operating activities before change in working capital	**225,434**	**166,483**	**407,002**	**341,657**
Change in working capital				
Change in inventories	(7,792)	(13,784)	(42,080)	(23,625)
Change in trade receivables	772	(2,088)	1,355	(17,544)
Change in other receivables	3,257	(11,022)	1,434	(21,799)
Change in trade payables	(34,839)	5,858	(29,907)	(12,459)
Change in other payables	974	14,850	36,372	65,864
Cash flow from change in working capital	*(37,628)*	*(6,187)*	*(32,826)*	*(9,565)*
Cash flow from operating activities	**187,807**	**160,296**	**374,177**	**332,093**
Investing activities				
Purchase of intangible assets	(58,211)	(70,787)	(129,267)	(138,800)
Purchase of property, plant and equipment	(47,020)	(71,105)	(120,859)	(138,825)
Settlement of deferred consideration	-	-	(1,630)	-
Acquisition of non-controlling interest	-	-	-	(45,000)
Cash flow from investing activities	**(105,231)**	**(141,892)**	**(251,756)**	**(322,625)**
Financing activities				
Paid bank and advisory fees	(4,119)	(2,460)	(3,471)	(5,186)
New financing	200,000	200,000	200,000	200,000
Other changes in borrowings	(187,492)	(129,998)	(162,385)	(74,505)
Premium from new financing	-	4,651	-	4,651
Loan to group companies	(15,059)	-	(15,059)	-
Net interest paid	(73,724)	(71,720)	(110,800)	(104,722)
Other financial items	(5,789)	4,984	20,116	(3,196)
Cash flow from financing activities	**(86,182)**	**5,457**	**(71,599)**	**17,043**
Cash flow for the period	**(3,608)**	**23,860**	**50,821**	**26,510**
Cash and cash equivalents at start of period	59,011	11,351	12,770	8,613
Exchange difference on translating cash and cash equivalents	6,682	(83)	(1,506)	5
Cash and cash equivalents at end of period	**62,085**	**35,128**	**62,085**	**35,128**

Notes to the Unaudited Consolidated Financial Statements

Note 1 Accounting Policies

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 the 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 2019. The accounting policies are unchanged compared with those applied in 2019.

These consolidated financial statements should be read in conjunction with the annual report 2019. The consolidated interim financial statements have not been audited.

Note 2 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 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.

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 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 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 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 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 utilisation.
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 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 judgment 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 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 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. 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 with regards 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.

Estimate regarding leases

The Group performs several estimates when applying IFRS 16 in the accounting for leases. These mainly relates to:
Discount rate. 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.

Extension options and end options. 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 an 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 customer acquisition segment develops, sources, purchases, 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 and, starting 2020, selling internet connected cameras under the Arlo brand.

	Apr-Jun 2020					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**58,733**	**420,803**	**9,693**	**489,229**	**-**	**489,229**
Adjusted EBITDA	**(61,537)**	**308,760**	**(2,854)**	**244,369**	**(12,514)**	**231,855**
Depreciation and amortization	-	-	-	**(67,699)**	(39,737)	**(107,437)**
Retirements of assets	-	-	-	**(23,692)**	-	**(23,692)**
Financial items	-	-	-	**(56,453)**	(10,812)	**(67,265)**
Result before tax	-	-	-	**96,525**	**(63,063)**	**33,462**

	Apr-Jun 2019					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**80,813**	**380,739**	**5,392**	**466,944**	**-**	**466,944**
Adjusted EBITDA	**(77,140)**	**264,689**	**432**	**187,981**	**(9,337)**	**178,643**
Depreciation and amortization	-	-	-	**(56,547)**	(38,276)	**(94,823)**
Retirements of assets	-	-	-	**(20,233)**	-	**(20,233)**
Financial items	-	-	-	**(52,410)**	(15,896)	**(68,306)**
Result before tax	-	-	-	**58,789**	**(63,510)**	**(4,719)**

	Jan-Jun 2020					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**137,820**	**841,888**	**20,483**	**1,000,191**	**-**	**1,000,191**
Adjusted EBITDA	**(158,762)**	**603,782**	**(7,280)**	**437,739**	**(20,393)**	**417,346**
Depreciation and amortization	-	-	-	**(134,828)**	(79,532)	**(214,360)**
Retirements of assets	-	-	-	**(43,901)**	-	**(43,901)**
Financial items	-	-	-	**(112,390)**	(92,676)	**(205,066)**
Result before tax	-	-	-	**146,620**	**(192,601)**	**(45,981)**

	Jan-Jun 2019					
EUR thousands	**Customer acquisition**	**Portfolio services**	**Adjacencies**	**Total Group – Excl SDI**	**SDI**	**Group Total**
Revenue	**164,074**	**750,915**	**10,522**	**925,511**	**-**	**925,511**
Adjusted EBITDA	**(145,654)**	**518,416**	**868**	**373,630**	**(15,252)**	**358,377**
Depreciation and amortization	**-**	**-**	**-**	**(109,519)**	(76,569)	**(186,088)**
Retirements of assets	**-**	**-**	**-**	**(38,247)**	-	**(38,247)**
Financial items	**-**	**-**	**-**	**(105,017)**	(15,161)	**(120,178)**
Result before tax	**-**	**-**	**-**	**120,844**	**(106,982)**	**13,864**

Note 4 Financial Risk Management

Financial instruments by category and valuation level

EUR thousand	Jun 2020	Jun 2019	Dec 2019
Financial assets at fair value through profit or loss[1]			
Derivatives			
Currency	1,359	28,403	28,168
Total	**1,359**	**28,403**	**28,168**
Financial liabilities at fair value through profit or loss[1]			
Derivatives			
Currency	149	29,837	75
Interest rate	33,815	-	17,720
Total	**33,964**	**29,837**	**17,795**
Loans and receivables at amortized cost			
Trade and other receivables	302,185	320,579	310,179
Trade receivables[2]	155,291	149,002	154,075
Other current receivables[2]	24,874	13,955	15,613
Cash and cash equivalent	62,085	35,128	12,770
Other financial liabilities at amortized cost			
Long-term borrowings[3]	5,042,536	4,820,782	4,948,800
Other non-current liabilities	101,062	73,808	114,571
Trade payables[2]	106,623	112,222	139,086
Short-term borrowings[2,3]	79,861	81,604	91,726
Other current liabilities[2]	46,399	30,286	29,955

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 2020 Principal amount	Jun 2020 Adjustment amortized costs	Jun 2020 Carrying amount	Jun 2019 Principal amount	Jun 2019 Adjustment amortized costs	Jun 2019 Carrying amount	Dec 2019 Principal amount	Dec 2019 Adjustment amortised costs	Dec 2019 Carrying amount
Non-current liabilities									
Secured									
Senior Secured Notes	700,000	(4,994)	**695,006**	500,000	(5,483)	**494,517**	500,000	(1,709)	**498,291**
Term Loan B[1]	3,092,000	(85,002)	**3,006,998**	3,092,000	(124,289)	**2,967,711**	3,092,000	(106,035)	**2,985,965**
Revolver Credit Facility	3,687	(2,069)	**1,618**	16,832	(3,545)	**13,287**	126,954	(2,815)	**124,139**
Unsecured									
Senior Unsecured Notes	1,237,221	(8,077)	**1,229,144**	1,236,201	(10,053)	**1,226,148**	1,237,942	(9,153)	**1,228,789**
Liabilities to other creditors	10,201	-	**10,201**	22,404	-	**22,404**	14,565	-	**14,565**
Lease liability	99,569	-	**99,569**	96,714	-	**96,714**	97,051	-	**97,051**
Long-term borrowings	**5,142,678**	**(100,142)**	**5,042,536**	**4,964,151**	**(143,370)**	**4,820,782**	**5,068,511**	**(119,711)**	**4,948,800**
Current liabilities									
Accrued interest expenses	23,256	-	**23,256**	22,194	-	**22,194**	21,159	-	**21,159**
Other liabilities	19,378	-	**19,378**	25,306	-	**25,306**	33,708	-	**33,708**
Lease liability	37,226	-	**37,226**	34,104		**34,104**	36,859	-	**36,685**
Short-term borrowings	**79,861**	**-**	**79,861**	**81,604**	**-**	**81,604**	**91,726**	**-**	**91,726**
Total	**5,222,539**	**(100,142)**	**5,122,396**	**5,045,755**	**(143,370)**	**4,902,385**	**5,160,237**	**(119,711)**	**5,040,526**

1) Of the total amount regarding adjustment amortized costs 2020, EUR (57,315) thousands ((84,492) in June 30, 2019 and (70,717) in December 31, 2019) relates to an adjustment derived from the modification of loan terms during the loans contract period calculated according to IFRS 9.

Net Debt Bridge

EUR thousand	Jun 2020	Jun 2019	Dec 2019
Total principal amount (as above)	5,222,539	5,045,755	5,160,237
Less accrued interest	(23,256)	(22,194)	(21,159)
Indebtedness	**5,199,283**	**5,023,561**	**5,139,078**
Less financial receivable, current	(8)	(8)	(8)
Less cash and cash equivalents	(62,085)	(35,128)	(12,770)
Net debt including IFRS 16	**5,137,190**	**4,988,426**	**5,126,300**
Less lease liability	(136,796)	(130,818)	(133,910)
Net debt per SFA lender documentation	**5,000,394**	**4,857,608**	**4,992,391**

Note 6 Pledged Assets and Contingent Liabilities

Pledged assets

EUR thousand	Jun 2020	Jun 2019	Dec 2019
Endowment insurance	679	679	658
Shares in subsidiaries	2,190,446	2,068,325	2,100,193
Bank accounts	41,285	25,385	696
Trademark	45,833	50,833	48,333
Accounts receivables	92,192	89,752	93,684
Inventories	417	72,722	67,088
Motor vehicles	10	23	18

Contingent liabilities

EUR thousand	Jun 2020	Jun 2019	Dec 2019
Guarantees	24,741	24,928	29,645

The Group has pledged shares in subsidiaries, certain bank accounts, trade receivables, IP-rights, inventory assets, intra-group loans, 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. Guarantees relate primarily to guarantees provided to suppliers.

Unaudited Parent Company Financial Statements

Parent company income statements

EUR thousand	Note	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Administrative expenses		(4)	(6)	(8)	(4)
Operating result		**(4)**	**(6)**	**(8)**	**(4)**
Finance income	2	14,018	12,061	24,068	24,023
Finance costs	2	(18,824)	(19,235)	(37,776)	(37,320)
Result before tax		**(4,810)**	**(7,180)**	**(13,716)**	**(13,301)**
Income tax expense and benefit		-	-	-	-
Result for the period		**(4,810)**	**(7,180)**	**(13,716)**	**(13,301)**

Parent Company Statements of Financial Position

EUR thousand	Note	Jun 2020	Jun 2019	Dec 2019
Assets				
Non-current assets				
Long-term investments				
Investments in subsidiaries		1,190,368	1,189,952	1,190,122
Receivables from Group companies		699,548	695,253	700,444
Total non-current assets		**1,889,916**	**1,885,205**	**1,890,565**
Current assets				
Prepayments		-	5	-
Accrued income interest from Group companies		3,717	4,586	3,039
Cash and cash equivalents		671	77	119
Total current assets		**4,388**	**4,668**	**3,158**
Total assets		**1,894,304**	**1,889,873**	**1,893,723**
Equity and liabilities				
Equity				
Share capital		56	56	56
Other paid in capital		569,170	569,170	569,170
Retained earnings		5,432	28,238	18,901
Total equity		**574,659**	**597,464**	**588,127**
Non-current liabilities				
Long-term borrowings	3	1,229,144	1,226,148	1,228,788
Liabilities to Group companies		83,843	59,790	71,052
Deferred tax liabilities		-	109	-
Total non-current liabilities		**1,312,987**	**1,286,047**	**1,299,841**
Current liabilities				
Accrued expenses and prepaid income	3	5,742	5,683	5,749
Accrued expense and prepaid income to Group companies		916	679	5
Total current liabilities		**6,658**	**6,362**	**5,754**
Total equity and liabilities		**1,894,304**	**1,889,873**	**1,893,723**

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, 2020	**56**	**569,170**	**18,901**	**588,127**
Result for the period	-	-	(13,716)	**(13,716)**
Shareholders contribution	-	-	247	**247**
Balance at June 30, 2020	**56**	**569,170**	**5,432**	**574,659**

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	-	-	(13,301)	**(13,301)**
Balance at June 30, 2019	**56**	**569,170**	**28,238**	**597,464**

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 December 31, 2019	**56**	**569,170**	**18,901**	**588,127**

Parent Company Statements of Cash Flows

EUR thousand	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Operating activities				
Operating result	(4)	(6)	(8)	(4)
Cash flow from operating activities before change in working capital	**(4)**	**(6)**	**(8)**	**(4)**
Change in working capital				
Cash flow from change in working capital	-	(11)	-	(3,251)
Cash flow from operating activities	**(4)**	**(17)**	**(8)**	**(3,255)**
Investing activities				
Cash flow from investing activities	-	-	**-**	**-**
Financing activities				
New loans from Group companies	17,151	13,071	12,791	15,521
Paid bank and advisory fees	-	104	-	(45)
Net interest received or paid	(16,479)	(13,157)	(12,231)	(12,396)
Cash flow from financing activities	**672**	**18**	**560**	**3,080**
Cash flow for the period	**668**	**1**	**552**	**(175)**
Cash and cash equivalents at start of period	3	76	119	252
Exchange difference on translating cash and cash equivalents	-	**-**	-	-
Cash and cash equivalents at end of period	**671**	77	**671**	77

Note to the Unaudited Parent Company Financial Statements

Note 1 Accounting Policies

The parent company Verisure Midholding AB (publ) applies the Swedish Financial Reporting Board's recommendation "RFR 2". The accounting policies are unchanged compared with those applied in 2019.

These financial statements should be read in conjunction with the Annual Report 2019.

Note 2 Financial income and cost

EUR thousand	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Interest income from Group companies	12,104	12,061	24,068	24,023
Other financial income	1,914	-	-	-
Finance income	**14,018**	**12,061**	**24,068**	**24,023**
Interest expense	(17,819)	(17,989)	(35,614)	(35,788)
Interest expense to Group companies	(463)	(249)	(911)	(454)
Other financial cost	(542)	(997)	(1,251)	(1,078)
Finance costs	**(18,824)**	**(19,235)**	**(37,776)**	**(37,320)**

Note 3 Borrowings

	Jun 2020			Jun 2019		
EUR thousand	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
Unsecured						
Senior Unsecured Notes	5,723	1,229,144	1,234,867	5,683	1,226,148	**1,231,831**
Total (carrying amount)	**5,723**	**1,229,144**	**1,234,867**	**5,683**	**1,226,148**	**1,231,831**

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

Quarterly summary

Key figures

EUR thousand (if not otherwise stated)	Apr-Jun 2020	Jan-Mar 2020	Oct-Dec 2019	Jul-Sep 2019	Apr-Jun 2019
Portfolio services segment:					
Unaudited operating data					
Total subscribers (end of period), units	3,467,795	3,430,058	3,346,712	3,236,226	3,130,810
Cancellation, units	57,707	58,535	50,563	48,245	48,274
Attrition rate (LTM)	6.5%	6.4%	6.2%	6.3%	6.2%
Net subscriber growth, units[1]	37,737	83,346	110,486	105,416	103,136
Subscriber growth rate, net	10.8%	13.3%	14.2%	13.9%	13.7%
Average monthly revenue per user (ARPU), (in EUR)	40.9	41.4	41.1	41.0	41.3
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	30.0	29.0	28.5	28.7	28.7
Non-IFRS and IFRS financial data					
Portfolio services revenue	420,803	421,085	406,029	391,992	380,739
Portfolio services adjusted EBITDA	308,760	295,022	281,891	275,041	264,689
Portfolio services adjusted EBITDA margin	73.4%	70.1%	69.4%	70.2%	69.5%
Customer acquisition segment:					
Unaudited operating data					
New subscribers added (gross)	95,444	141,881	161,049	153,661	151,410
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,329	1,406	1,258	1,209	1,194
Non-IFRS and IFRS financial data					
Customer acquisition revenue	58,733	79,087	85,229	79,795	80,813
Customer acquisition adjusted EBITDA	(61,537)	(97,226)	(91,823)	(78,820)	(77,140)
Customer acquisition capital expenditures	65,339	102,273	110,741	106,891	103,659
Adjacencies segment:					
Non-IFRS and IFRS financial data					
Adjacencies revenue	9,693	10,790	6,889	5,285	5,392
Adjacencies adjusted EBITDA	(2,854)	(4,427)	785	382	432
Consolidated:					
Unaudited operating data					
Payback period (in years)	3.7	4.0	3.7	3.5	3.5
Non-IFRS and IFRS financial data					
Revenue	489,229	510,962	498,147	477,072	466,944
Organic revenue growth	6.8%	13.1%	16.1%	18.8%	19.7%
Adjusted EBITDA	244,369	193,370	190,852	196,603	187,981
Adjusted EBITDA margin	49.9%	37.8%	38.3%	41.2%	40.3%
Capital expenditures	105,130	144,124	173,436	141,849	141,892
Reported (including SDI)					
Revenue	489,229	510,962	498,147	477,072	466,944
Reported adjusted EBITDA	231,855	185,491	160,780	183,711	178,643

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

All amounts are before SDI, unless otherwise stated.

Non-IFRS measures

The Group uses some financial measures to assess the business which are not defined by IFRS. These measures are included in this report, not to be considered a substitute of the Groups financial statements but instead important complementary measures of operating performance.

Adjusted EBITDA

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

EUR thousands	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Operating profit according to consolidated income statement	100,727	63,587	159,085	134,041
Less depreciation and amortization	107,437	94,823	214,360	186,088
Less retirement of assets	23,692	20,233	43,901	38,247
Less separately disclosed items	12,514	9,337	20,393	15,252
Adjusted EBITDA	**244,369**	**187,981**	**437,739**	**373,630**
Whereof adjusted EBITDA customer acquisition	*(61,537)*	*(77,140)*	*(158,762)*	*(145,654)*
Whereof adjusted EBITDA portfolio services	*308,760*	*264,689*	*603,782*	*518,416*
Whereof adjusted EBITDA adjacencies	*(2,854)*	*432*	*(7,280)*	*868*

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.

Calculation of ARPU

EUR thousands	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Portfolio services segment revenue	420,803	380,739	841,888	750,915
Monthly average portfolio services segment revenue	140,268	126,913	140,315	125,153
Average monthly number of subscribers during the period	3,433,603	3,075,091	3,413,668	3,025,599
Monthly average portfolio services segment revenue (in EUR) divided with average monthly number of subscribers during the period – ARPU (In EUR)	40.9	41.3	41.1	41.4

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.

Calculation of EPC

EUR thousands	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Portfolio services segment adjusted EBITDA	308,760	264,689	603,782	518,416
Monthly average portfolio services segment adjusted EBITDA	102,920	88,230	100,630	86,403
Average monthly number of subscribers during the period	3,433,603	3,075,091	3,413,668	3,025,599
Monthly average portfolio services segment adjusted EBITDA (in EUR) divided with average monthly number of subscribers during the period – EPC (In EUR)	30.0	28.7	29.5	28.6

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.

Calculation of CPA

EUR thousands	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Customer acquisition Adjusted EBITDA	(61,537)	(77,140)	(158,762)	(145,654)
Customer acquisition capital expenditure	(65,339)	(103,659)	(167,612)	(204,813)
Customer acquisition cost	**(126,876)**	**(180,799)**	**(326,374)**	**(350,467)**
New subscribers added (gross)	95,444	151,410	237,325	296,611
Customer acquisition cost (in EUR) divided by new subscribers added (gross) - CPA (In EUR)	1,329	1,194	1,375	1,182

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.

Calculation of Payback period

EUR thousands	Apr-Jun 2020	Apr-Jun 2019	Jan-Jun 2020	Jan-Jun 2019
Cash acquisition cost per new subscriber ("CPA")	1,329	1,194	1,375	1,182
Monthly adjusted EBITDA per subscriber ("EPC")	30.0	28.7	29.5	28.6
CPA divided by EPC divided by 12	3.7	3.5	3.9	3.4

Malmö, August 25, 2020

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CEO

Stefan Götz

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