

Verisure Midholding AB (publ)

Interim report January-September 2018



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

Key operating highlights for the third quarter ending September 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 2.8 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 third 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 404.1 million for the third quarter 2018 which is an increase of 16.9% from EUR 345.8 million the same period last year. Adjusted for currency effects, total reported revenues grew by 19.3% in the quarter. Revenues, before SDI and IFRS 15 adjustment, amounted to EUR 407.1 million for the third quarter 2018, up from EUR 349.7 million in 2017, which is an increase of 16.4% as reported and 18.9% in constant currencies. For the first nine months of 2018 total reported revenues increased by 16.6% to EUR 1,180.3 million compared to EUR 1,012.2 million in 2017. Adjusted for currency effect, total reported revenues grew by 18.9% for the first nine months.
- Portfolio adjusted EBITDA improved to EUR 226.8 million from EUR 194.7 million in Q3 2017 corresponding to an increase of 16.5%. Adjusted for currency effects, portfolio adjusted EBITDA improved by 19.0% in the quarter. For the nine months portfolio adjusted EBITDA amounted to EUR 658.3 million which is an increase of 16.7% in actual currencies and 19.1% in constant currencies compared to 2017. Portfolio services adjusted EBITDA margin further strengthened to 67.4%, an increase of 90 basis points compared to same period in 2017.
- Total reported adjusted EBITDA increased by 15.2% to EUR 153.1 million in Q3 2018 from EUR 132.8 million in Q3 2017. Adjusted for currency effects, reported EBITDA grew by 18.3%. Total adjusted EBITDA, before SDI, improved to EUR 160.7 million from EUR 145.0 million in Q3 2017, which is an increase of 13.6% adjusted for currency effects. For the first nine months of 2018 total reported adjusted EBITDA increased by 14.3% to EUR 430.0 million compared to EUR 376.2 million in 2017. Adjusted for currency effect, total reported adjusted EBITDA grew by 17.1% for the first nine months.
- Net subscriber growth was 86,794 in the quarter which is an acceleration from last year's level of 70,550. At the end of the quarter the portfolio had grown to 2,840,897 customers, up 13.5% from 2,502,806 the same period last year. Excluding acquisitions the annual growth was 13.2% year-on-year. This organic growth is an acceleration of the growth rate compared to previous periods.

During the third quarter in 2018 the group again broke a new record and reached its highest third quarter ever and second highest quarter overall with regards to new customer additions, 128,333, which is an increase of 17.8% from 108,910 in Q3 2017. For the first nine months of 2018 the company has added over 380,000 new customers in the portfolio. Cancellations continued to be at a low level and the attrition was reduced to 6.2% compared to 6.4% in 2017. 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 16.9% in the quarter. ARPU increased to EUR 40.0 which is an increase of 3.4% adjusted for currency effects from last year. EPC accelerated further to EUR 27.0 for the quarter, corresponding to an increase of 4.9% 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 226.8 million in the quarter and EUR 658.3 million for the first nine months of 2018, corresponding to an increase of 16% in the quarter and 17% for the first nine months (and 19% in constant currencies). On an annualized basis our portfolio EBITDA is now over EUR 900 million. Cash flow from operating activities further improved to EUR 137.9 million for the quarter compared to EUR 128.8 million last year. For the first nine months cash flow from operations increased to EUR 400.6 million from EUR 371.3 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 35% 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 geographies 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)	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Portfolio services segment:				
Total subscribers (year-end), units	2,840,897	2,502,806	2,840,897	2,502,806
Cancellation, units	41,539	36,036	126,263	113,482
Attrition rate (LTM)	6.2%	6.4%	6.2%	6.4%
Net subscriber growth, units ¹	86,794	70,550	254,774	208,813
Subscriber growth rate, net	13.5%	14.5%	13.5%	14.5%
Average monthly revenue per user (ARPU), (in EUR)	40.0	39.5	40.2	39.8
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	27.0	26.3	27.0	26.2
Portfolio revenue	336,515	292,953	981,129	857,164
Portfolio adjusted EBITDA	226,750	194,669	658,266	563,902
Portfolio adjusted EBITDA margin	67.4%	66.5%	67.1%	65.8%
Customer acquisition segment:				
New subscribers added (gross)	128,333	108,910	380,932	323,802
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,209	1,162	1,183	1,161
Customer acquisition revenue	65,982	56,127	202,019	169,695
Customer acquisition adjusted EBITDA	(66,010)	(49,847)	(194,191)	(147,041)
Capital expenditures	89,156	76,754	256,568	228,971
Adjacencies segment:				
Adjacencies revenue	4,605	588	13,090	1,690
Adjacencies adjusted EBITDA	(84)	144	(1,980)	387
Consolidated:				
Payback period (in years)	3.7	3.7	3.7	3.7
Revenue	407,103	349,668	1,196,237	1,028,548
Organic revenue growth	19.1%	16.8%	18.7%	18.4%
Adjusted EBITDA	160,656	144,966	462,095	417,248
Adjusted EBITDA margin	39.5%	41.5%	38.6%	40.6%
Capital expenditures	122,748	101,078	354,984	298,757
Reported (including SDI)				
Revenue	404,065	345,759	1,180,343	1,012,218
Adjusted EBITDA	153,083	132,834	430,021	376,179

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

All amounts are before SDI (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), 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. The separately disclosed items also contain an IFRS 15 adjustment affecting revenue. All SDIs are further explained later in this section.

Three months ending September 30, 2018 and 2017

Results excluding SDI

EUR million	Jul-Sep 2018	Jul-Sep 2017	Percentage change
Revenue	407.1	349.7	16.4%
Operating expenses	(248.0)	(206.4)	20.1%
Other income	1.6	1.7	(10.0)%
Adjusted EBITDA	160.7	145.0	10.8%
<i>Adjusted EBITDA margin, %</i>	<i>39.5%</i>	<i>41.5%</i>	
Depreciation and amortization	(46.4)	(37.9)	22.4%
Retirement of assets	(15.4)	(11.2)	37.9%
Operating profit	98.9	95.9	3.1%
<i>Operating profit margin, %</i>	<i>24.3%</i>	<i>27.4%</i>	
Interest income and cost	(46.3)	(39.1)	18.5%
Other financial items	(0.7)	(0.7)	(6.4)%
Result before taxes and SDI	51.9	56.1	(7.5)%

Revenue

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

EUR million	Jul-Sep 2018	Jul-Sep 2017	Percentage change
Revenue by segment			
Portfolio services	336.5	293.0	14.9%
Customer acquisition	66.0	56.1	17.6%
Adjacencies	4.6	0.6	683.7%
TOTAL	407.1	349.7	16.4%

Revenue in the third quarter 2018 increased by 16.4%, or EUR 57.4 million, to EUR 407.1 million, up from EUR 349.7 million in the prior period. Organic revenue growth was 19.1%, primarily due to the larger customer base and higher average monthly revenue per user. The customer base on September 30, 2018 was 2,840,897, an increase from 2,502,806 on September 30, 2017, reflecting continued success in new customer acquisition and low attrition.

Revenue for portfolio services in the third quarter 2018 increased by 14.9%, or EUR 43.6 million, to EUR 336.5 million, up from EUR 293.0 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 September 30, 2018, increased by 17.6%, or EUR 9.9 million, to EUR 66.0 million, up from EUR 56.1 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 third quarter 2018, increased by 20.1%, or EUR 41.6 million, to EUR 248.0 million, up from EUR 206.4 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 September 30, 2018, increased by 10.8% or EUR 15.7 million to EUR 160.7 million, up from EUR 145.0 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 46.4 million in the three months ending September 30, 2018, up from EUR 37.9 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 15.4 million in the third quarter of 2018, up from EUR 11.2 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 September 30, 2018, and 0.1 in the corresponding period prior year. Interest cost amounted to EUR 46.4 million up from EUR 39.2 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 0.7 million and EUR 0.7 million for the three months ended September 30, 2018 and 2017 respectively.

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

EUR million	Jul-Sep 2018			Jul-Sep 2017		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	407.1	(3.0)	404.1	349.7	(3.9)	345.8
Operating expenses	(248.0)	(4.5)	(252.5)	(206.4)	(8.2)	(214.7)
Other income	1.6	-	1.6	1.7	-	1.7
Adjusted EBITDA	160.7	(7.6)	153.1	145.0	(12.1)	132.8
Depreciation and amortization	(46.4)	(38.3)	(84.7)	(37.9)	(38.2)	(76.1)
Retirements of assets	(15.4)	-	(15.4)	(11.2)	-	(11.2)
Operating Profit	98.9	(45.8)	53.0	95.9	(50.4)	45.5
Interest income and cost	(46.3)	-	(46.3)	(39.1)	-	(39.1)
Other financial items	(0.7)	(18.3)	(19.0)	(0.7)	3.5	2.8
Result before tax	51.9	(64.1)	(12.3)	56.1	(46.9)	9.2
Income tax benefit and expense	-	-	(8.9)	-	-	(9.0)
Result for the period	-	-	(21.1)	-	-	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 3.0 million and 3.9 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 third quarter 2018, the costs amounted to EUR 4.5 million and EUR 8.2 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 third quarter 2018 and 2017 respectively 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 18.3 million and an income of EUR 3.5 million for the third quarter 2018 and 2017 respectively. For the three months ending September 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 4.9 million and a cost related to amortization of both prepaid bank fees and IFRS 9 adjustment regarding modification of loan agreement of EUR 13.4 million. For the three months ending September 30, 2017, the corresponding amounts were an income of EUR 7.3 million and a cost of EUR 3.8 million.

Income tax benefit and expense

Total tax cost was EUR 8.9 million in the quarter compared to a cost of EUR 9.0 million last year. Current tax cost was EUR 9.6 million in Q3 2018 compared to EUR 10.3 million in 2017. The corresponding amounts for deferred tax were a benefit of EUR 0.7 million in Q3 2018 and EUR 1.3 million in 2017.

Cash flow

EUR million	Jul-Sep 2018	Jul-Sep 2017
Cash flow from operating activities before change in working capital	143.8	130.2
Change in working capital	(5.9)	(1.5)
Cash flow from operating activities¹	137.9	128.8
Cash flow from investing activities	(125.7)	(101.1)
Cash flow from financing activities ²	(12.0)	(27.6)
Cash flow for the period	0.1	0.1
Cash and cash equivalents at beginning of period	10.5	8.6
Translation differences on cash and cash equivalents	(0.1)	(0.0)
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 137.9 million and EUR 128.8 million for the three months ending September 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 125.7 million and EUR 101.1 million for the three months ending September 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 12.0 million and EUR 27.6 million for the three months ending September 30, 2018 and 2017 respectively. The total included net paid interest of EUR 22.2 million, an increase in borrowings of EUR 15.9 million and paid other financial items totaling EUR 5.7 million. For the corresponding period last year the amounts were EUR 42.5 million of net paid interest, an increase in borrowings of EUR 7.6 million and received other financial items totaling EUR 7.3 million. The change in net paid interest compared to previous year was due to a change in the interest maturity schedule related to the November 2017 refinancing.

Nine months ending September 30, 2018 and 2017

Results excluding SDI

EUR million	Jan-Sep 2018	Jan-Sep 2017	Percentage change
Revenue	1,196.2	1,028.6	16.3%
Operating expenses	(739.2)	(616.7)	19.9%
Other income	5.1	5.4	(7.0)%
Adjusted EBITDA	462.1	417.2	10.8%
<i>Adjusted EBITDA margin, %</i>	38.6%	40.6%	
Depreciation and amortization	(130.7)	(107.6)	21.4%
Retirement of assets	(44.1)	(34.6)	27.3%
Operating profit	287.4	275.0	4.5%
<i>Operating profit margin, %</i>	24.0%	26.7%	
Interest income and cost	(136.8)	(122.2)	11.9%
Other financial items	(2.5)	(2.4)	5.5%
Result before taxes and SDI	148.1	150.4	(1.6)%

Revenue

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

EUR million	Jan-Sep 2018	Jan-Sep 2017	Percentage change
Revenue by segment			
Portfolio services	981.1	857.2	14.5%
Customer acquisition	202.0	169.7	19.0%
Adjacencies	13.1	1.7	674.7%
TOTAL	1,196.2	1,028.6	16.3%

Revenue in the nine months ending September 30, 2018 increased by 16.3%, or EUR 167.6 million, to EUR 1,196.2 million, up from EUR 1,028.6 million in the prior period. Organic revenue growth was 18.7%, primarily due to the increasing customer

base and higher average monthly revenue per user. The customer base on September 30, 2018 was 2,840,897, an increase from 2,502,806 on September 30, 2017, reflecting continued success in new customer acquisition and low attrition.

Revenue for portfolio services in the nine months ending September 30, 2018, increased by 14.5%, or EUR 124.0 million, to EUR 981.1 million, up from EUR 857.2 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 nine months ending September 30, 2018, increased by 19.0%, or EUR 32.3 million, to EUR 202.0 million, up from EUR 169.7 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 nine months ending September 30, 2018, increased by 19.9%, or EUR 122.5 million, to EUR 739.2 million, up from EUR 616.7 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 nine months ending September 30, 2018, increased by 10.8% or EUR 44.9 million to EUR 462.1 million, up from EUR 417.2 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 130.7 million in the nine months ending September 30, 2018, up from EUR 107.6 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 44.1 million in the nine months ending September 30, 2018, up from EUR 34.6 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 0.3 million in the nine months ending September 30, 2018, and 0.1 in the corresponding period prior year. Interest cost amounted to EUR 137.1 million, up from EUR 122.4 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 2.5 million and EUR 2.4 million for the nine months ended September 30, 2018 and 2017 respectively.

Reported consolidated income statement for the nine months ending September 30, 2018 and 2017

EUR million	Jan-Sep 2018			Jan-Sep 2017		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	1,196.2	(15.9)	1,180.3	1,028.6	(16.3)	1,012.2
Operating expenses	(739.2)	(16.2)	(755.4)	(616.7)	(24.7)	(641.5)
Other income	5.1	-	5.1	5.4	-	5.4
Adjusted EBITDA	462.1	(32.1)	430.0	417.2	(41.1)	376.2
Depreciation and amortization	(130.7)	(114.9)	(245.6)	(107.6)	(114.7)	(222.3)
Retirements of assets	(44.1)	-	(44.1)	(34.6)	-	(34.6)
Operating Profit	287.4	(147.0)	140.4	275.0	(155.7)	119.2
Interest income and cost	(136.8)	30.6	(106.3)	(122.2)	-	(122.2)
Other financial items	(2.5)	(62.5)	(65.0)	(2.4)	(22.6)	(24.9)
Result before tax	148.1	(178.9)	(30.9)	150.4	(178.4)	(28.0)
Income tax benefit and expense	-	-	(19.2)	-	-	11.7
Result for the period	-	-	(50.0)	-	-	(16.3)

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 15.9 million and 16.3 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 nine months ending September 2018, the costs amounted to EUR 16.2 million and EUR 24.7 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 114.9 million and EUR 114.7 million for the nine months ending September 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 nine months ending September 30, 2018 and 2017 respectively.

SDI affecting other financial items

SDI affecting other financial items was a cost of EUR 62.5 million and EUR 22.6 million for the first nine months of 2018 and 2017 respectively. For the nine months ending September 30, 2018, the other financial items consist of a negative FX revaluation related to the November 2017 distribution of EUR 56.2 million and a net positive non-cash FX valuation of debt items and market revaluation of hedges for a total of EUR 24.0 million. It also includes cost related to amortization of prepaid bank fees and IFRS 9 adjustment regarding modification of loan agreement of EUR 30.3 million. For the nine months ending September 30, 2017, the corresponding amounts were a cost of EUR 9.0 for non-cash FX valuation of debt items and market revaluation of hedges million, a cost of EUR 11.5 million for amortization of prepaid bank fees and a bond redemption fee of EUR 2.1 million.

Income tax benefit and expense

Total tax cost was EUR 19.2 million in the nine months ending September 30, 2018, compared to a benefit of EUR 11.7 million last year. Current tax cost was EUR 28.7 million in the nine months ending September 30, 2018, compared to EUR 25.7 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 9.5 million in the nine months ending September 30, 2018, and EUR 37.3 million in 2017.

Cash flow

EUR million	Jan-Sep 2018	Jan-Sep 2017
Cash flow from operating activities before change in working capital	404.2	373.8
Change in working capital	(3.7)	(2.5)
Cash flow from operating activities¹	400.6	371.3
Cash flow from investing activities	(362.1)	(301.0)
Cash flow from financing activities ²	(42.0)	(67.5)
Cash flow for the period	(3.5)	2.8
Cash and cash equivalents at beginning of period	14.2	6.0
Translation differences on cash and cash equivalents	(0.2)	(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 400.6 million and EUR 371.3 million for the nine months ending September 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 362.1 million and EUR 301.0 million for the nine months ending September 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 42.0 million and EUR 67.5 million for the nine months ending September 30, 2018 and 2017 respectively. The main elements in the current reporting period included net paid interest of EUR 114.1 million, paid debt related fees and other financial items totaling EUR 6.3 million, paid distribution of EUR 18.0 million and an increase in borrowings of EUR 96.4 million. The main elements for the same reporting period last year included net paid interest of EUR 129.6 million, paid debt related fees and other financial items totaling EUR 2.6 million and an increase in borrowings of EUR 64.7 million. The change in net paid interest compared to previous year was due to a change in the interest maturity schedule related to the November 2017 refinancing.

Capital Expenditures

Our capital expenditures primarily consist of (i) customer acquisition capital expenditures, which include purchases of equipment for new customers, direct costs related to the acquisition of customer contracts and (ii) portfolio services capital expenditures which relates to new equipment for existing customers (iii) agencies capital expenditure which includes direct costs related to the acquisition of a new customer contract, and (iv) capital expenditures relating to investments in R&D, IT and premises. In accordance with IFRS, the costs of the alarm equipment installed in connection with newly acquired subscribers are 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 September 30, 2018 and 2017:

EUR million	Jul-Sep 2018	Jul-Sep 2017
Customer Acquisition capital expenditures, material	46.1	41.6
Customer Acquisition capital expenditures, direct costs	43.1	35.2
Portfolio capital expenditures	12.0	9.4
Agencies capital expenditures	2.2	0.0
Capital expenditures other	19.4	15.0
Total	122.7	101.1

Capital expenditures were EUR 122.7 million for the three months ending September 30, 2018 and EUR 101.1 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers, upgrades on the existing portfolio and development cost.

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

EUR million	Jan-Sep 2018	Jan-Sep 2017
Customer Acquisition capital expenditures, material	133.9	125.5
Customer Acquisition capital expenditures, direct costs	122.6	103.5
Portfolio capital expenditures	34.5	28.2
Agencies capital expenditures	7.5	0.0
Capital expenditures other	56.4	41.7
Total	355.0	298.8

Capital expenditures were EUR 355.0 million for the nine months ending September 30, 2018 and EUR 298.8 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers, upgrades on the existing portfolio 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 September 30, 2018, the group had a total of EUR 200.2 million of available funds compared to EUR 281.3 million as of September 30, 2017.

EUR million	Sep 2018	Sep 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	(102.6)	(18.5)	(13.4)
Utilized letter of credit	(7.7)	(8.9)	(7.8)
Total available funds	200.2	281.3	293.0

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

EUR million	Sep 2018	Sep 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	102.6	18.5	13.4
Private Unsecured Notes	-	691.9	-
Senior Unsecured Notes	1,140.1	-	1,147.6
Other liabilities	49.8	33.4	42.1
Finance leases liability	1.2	1.8	1.7
TOTAL	4,303.7	3,065.6	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

On November 1 Nina Cronstedt will join as General Counsel and Group Chief Legal Officer. Nina joins us from Nestlé, where she most recently held the position of General Counsel and Vice President Legal, Compliance & Creating Shared Value for Cereal Partners Worldwide, a joint venture between Nestlé and General Mills. Prior to that role, she was the General Counsel Strategic Business Units and COE's for Nestlé, where she led a team of lawyers responsible for among other data privacy, legal aspects of marketing and sales (with a focus on digital marketing and eCommerce) and food law for the Nestlé Group. Prior to Nestlé, Nina worked for Philip Morris International, where she held positions of increasing responsibility, including Assistant General Counsel Brand Building and Assistant General Counsel EEMA Region. Her experience there is also very relevant to Verisure given it is a highly regulated business.

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	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Revenue ²	2	404,065	345,759	1,180,343	1,012,218
Cost of sales	3	(215,188)	(183,293)	(630,162)	(540,633)
Gross profit²		188,877	162,466	550,182	471,585
Selling expenses	3	(53,568)	(40,801)	(158,402)	(122,557)
Administrative expenses ¹	3	(83,854)	(77,881)	(256,464)	(235,226)
Other income ²	3	1,559	1,732	5,055	5,434
Operating profit²		53,013	45,516	140,370	119,236
Finance income		122	55	30,832	145
Finance costs ²		(65,422)	(36,383)	(202,091)	(147,340)
Result before tax²		(12,287)	9,188	(30,889)	(27,959)
Income tax expense ²		(8,853)	(9,005)	(19,152)	11,650
Result for the period²		(21,139)	183	(50,041)	(16,310)
Whereof attributable to:					
- Parent company ²		(20,622)	354	(49,538)	(15,673)
- Non-controlling interest ²		(517)	(171)	(503)	(637)

1) Whereof EUR 38.3 and 114.9 million respectively (38.2 and 114.7 regarding 2017) relates to amortisation expense resulting from the amortisation 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	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Result for the period	(21,139)	183	(50,041)	(16,310)
Other comprehensive income				
Items that subsequently may be reclassified to the income statement				
Currency translation differences on foreign operations	576	(3,959)	(15,133)	3,628
Other comprehensive income	576	(3,959)	(15,133)	3,628
Total comprehensive income for the period	(20,563)	(3,776)	(65,175)	(12,682)
Whereof attributable to:				
- Parent company	(20,046)	(3,605)	(64,671)	(12,045)
- Non-controlling interest	(517)	(171)	(503)	(637)

Consolidated statements of financial position

EUR thousand	Note	Sep 2018	Sep 2017	Dec 2017
ASSETS				
Non-current assets				
Property, plant and equipment		685,455	574,995	608,223
Goodwill		868,664	868,698	869,598
Customer portfolio		1,044,414	1,090,814	1,077,129
Other intangible assets		154,333	131,349	146,230
Deferred tax assets		26,402	21,709	24,420
Derivatives	4	21,565	-	6,062
Trade and other receivables	4	306,738	266,333	1,309,739
Total non-current assets		3,107,571	2,953,898	4,041,401
Current assets				
Inventories		108,832	86,447	74,911
Trade receivables	4	123,983	106,047	123,255
Current tax assets		16,927	18,520	13,561
Derivatives	4	5,352	-	-
Prepayments and accrued income		31,450	22,039	31,405
Other current receivables	4	7,408	22,457	28,286
Cash and cash equivalents	4	10,543	8,636	14,245
Total current assets		304,494	264,146	285,663
TOTAL ASSETS		3,412,065	3,218,044	4,327,064

Consolidated statements of financial position

EUR thousand	Note	Sep 2018	Sep 2017	Dec 2017
EQUITY AND LIABILITIES				
Equity				
Share capital		56	56	56
Other paid in capital		624,517	569,168	569,168
Other reserves		32,793	38,394	47,926
Retained earnings ²		(2,232,771)	(1,104,686)	(1,185,982)
Equity attributable to equity holders of the parent company		(1,575,405)	(497,068)	(568,832)
Non-controlling interest ²		(2,930)	(2,483)	(2,427)
Total equity		(1,578,335)	(499,551)	(571,259)
Non-current liabilities				
Long-term borrowings ²	4,5	4,106,581	2,966,652	4,112,790
Derivatives ²	4	-	-	-
Other non-current liabilities	4	84,521	15,810	41,795
Deferred tax liabilities ^{1, 2}		276,362	259,559	257,526
Other provisions		2,449	1,698	2,316
Total non-current liabilities		4,469,913	3,243,719	4,414,427
Current liabilities				
Trade payables	4	105,941	83,566	115,846
Current tax liabilities		23,193	25,934	16,747
Short-term borrowings	4,5	70,934	53,899	53,072
Derivatives	4	-	3,468	222
Accrued expenses and deferred income ²		290,803	274,461	265,712
Other current liabilities	4	29,616	32,547	32,297
Total current liabilities		520,487	473,875	483,896
TOTAL EQUITY AND LIABILITIES		3,412,065	3,218,044	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	-	-	-	(49,538)	(49,538)	(503)	(50,041)
Other comprehensive income	-	-	(15,133)	-	(15,133)	-	(15,133)
<i>Total comprehensive income for the period</i>	-	-	(15,133)	(49,538)	(64,671)	(503)	(65,174)
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 September 30, 2018	56	624,517	32,793	(2,232,771)	(1,575,405)	(2,930)	(1,578,335)

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	-	-	-	(15,673)	(15,673)	(637)	(16,310)
Other comprehensive income	-	-	3,628	-	3,628	-	3,628
<i>Total comprehensive income for the period</i>	-	-	3,628	(15,673)	(12,045)	(637)	(12,682)
Balance at September 30, 2017	56	569,168	38,394	(1,104,686)	(497,068)	(2,483)	(499,551)

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				Total	Non-controlling interest	Total equity
	Share capital	Other paid in capital	Translation reserve	Retained earnings			
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	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Operating activities				
Operating profit	53,013	49,424	140,370	135,566
Reversal of depreciation and amortization	84,651	76,112	245,577	222,303
Other non-cash items	15,428	11,210	44,083	35,086
Paid taxes	(9,274)	(6,499)	(25,789)	(19,151)
Cash flow from operating activities before change in working capital	143,818	130,247	404,241	373,804
Change in working capital				
Change in inventories	(12,915)	(5,148)	(35,200)	(24,669)
Change in trade receivables	(6,810)	(2,622)	(2,413)	(13,259)
Change in other receivables	(6,092)	(1,946)	(25,281)	(12,637)
Change in trade payables	(935)	(5,009)	(8,177)	(1,803)
Change in other payables	20,826	13,230	67,396	49,891
<i>Cash flow from change in working capital</i>	<i>(5,925)</i>	<i>(1,495)</i>	<i>(3,674)</i>	<i>(2,477)</i>
Cash flow from operating activities	137,893	128,752	400,567	371,327
Investing activities				
Purchase of intangible assets	(60,717)	(47,452)	(175,878)	(136,790)
Purchase of property, plant and equipment	(62,032)	(53,625)	(179,384)	(161,994)
Settlement of deferred consideration	(2,988)	-	(3,586)	(2,500)
Acquisition of non-controlling interest	-	-	(3,248)	-
Disposal of subsidiaries	-	-	-	286
Cash flow from investing activities	(125,737)	(101,077)	(362,096)	(300,998)
Financing activities				
Change in revolver credit facility	15,921	7,617	96,435	(15,335)
Paid bank and advisory fees	-	(602)	(1,793)	(4,216)
New financing	-	-	-	80,000
Call cost redemption	-	-	-	(2,100)
Net interest paid	(22,229)	(42,526)	(114,117)	(129,550)
Paid distribution	-	-	(18,000)	-
Repayment of other non-current receivables	-	-	691	-
Other financial items	(5,741)	7,926	(5,233)	3,664
Cash flow from financing activities	(12,049)	(27,585)	(42,017)	(67,537)
Cash flow for the period	107	90	(3,546)	2,792
Cash and cash equivalents at start of period	10,506	8,578	14,245	5,985
Exchange difference on translating cash and cash equivalents	(70)	(32)	(156)	(141)
Cash and cash equivalents at end of period	10,543	8,636	10,543	8,636

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.

Jul-Sep 2018						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	65,982	336,515	4,605	407,103	(3,038)	404,065
Adjusted EBITDA	(66,010)	226,750	(84)	160,656	(7,573)	153,083
Depreciation and amortization	-	-	-	(46,379)	(38,272)	(84,651)
Retirements of assets	-	-	-	(15,419)	-	(15,419)
Operating profit	-	-	-	98,858	(45,845)	53,013
Financial items	-	-	-	(47,002)	(18,298)	(65,300)
Profit before tax	-	-	-	51,856	(64,143)	(12,287)

Jul-Sep 2017						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	56,127	292,953	588	349,668	(3,908)	345,759
Adjusted EBITDA	(49,847)	194,669	144	144,966	(12,132)	132,834
Depreciation and amortization	-	-	-	(37,868)	(38,244)	(76,112)
Retirements of assets	-	-	-	(11,206)	-	(11,206)
Operating profit	-	-	-	95,892	(50,376)	45,516
Financial items	-	-	-	(39,826)	3,498	(36,328)
Profit before tax	-	-	-	56,066	(46,878)	9,188

Jan-Sep 2018						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	202,019	981,129	13,090	1,196,237	(15,894)	1,180,343
Adjusted EBITDA	(194,191)	658,266	(1,980)	462,095	(32,074)	430,021
Depreciation and amortization	-	-	-	(130,667)	(114,910)	(245,577)
Retirements of assets	-	-	-	(44,074)	-	(44,074)
Operating profit	-	-	-	287,355	(146,984)	140,370
Financial items	-	-	-	(139,299)	(31,960)	(171,259)
Profit before tax	-	-	-	148,055	(178,944)	(30,889)

EUR thousand	Jan-Sep 2017					
	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	169,695	857,164	1,690	1,028,548	(16,330)	1,012,218
Adjusted EBITDA	(147,041)	563,902	387	417,248	(41,069)	376,179
Depreciation and amortization	-	-	-	(107,614)	(114,689)	(222,303)
Retirements of assets	-	-	-	(34,640)	-	(34,640)
Operating profit	-	-	-	274,994	(155,758)	119,236
Financial items	-	-	-	(124,592)	(22,603)	(147,195)
Profit before tax	-	-	-	150,402	(178,361)	(27,959)

Note 3 Depreciation and amortization

EUR thousand	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Property, plant and equipment	24,619	20,907	68,997	60,910
Acquisition-related intangible assets	38,272	38,244	114,918	114,688
Other intangible assets	21,760	16,962	61,662	46,705
Total depreciation and amortization	84,651	76,112	245,577	222,303

Note 4 Financial risk management

Financial instruments by category and valuation level

EUR thousand	Sep 2018	Sep 2017	Dec 2017
Financial assets at fair value through profit or loss¹			
<i>Derivatives</i>			
Currency	26,917	0	6,062
Total	26,917	0	6,062
Financial liabilities at fair value through profit or loss¹			
<i>Derivatives</i>			
Currency	-	3,468	222
Total	-	3,468	222
Loans and receivables			
Trade and other receivables	306,738	266,333	1,309,739
Trade receivables ²	123,983	106,047	123,255
Other current receivables ²	7,408	22,457	28,286
Cash and cash equivalent	10,543	8,636	14,245
Other financial liabilities			
Long-term borrowings ³	4,106,581	2,966,652	4,112,790
Other non-current liabilities	84,521	15,810	41,795
Trade payables ²	105,941	83,566	115,846
Short-term borrowings ²	70,934	53,899	53,072
Other current liabilities ²	29,616	32,547	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	Sep 2018			Sep 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	(11,399)	618,601	630,000	(13,266)	616,734	630,000	(13,186)	616,814
Term Loan B ^{1,2}	2,380,000	(145,134)	2,234,866	1,690,000	(37,939)	1,652,061	2,380,000	(40,413)	2,339,587
Revolver Credit Facility	102,649	(4,561)	98,088	18,458	(5,646)	12,812	13,437	(5,855)	7,582
<i>Unsecured</i>									
Private Unsecured Notes ²	-	-	-	691,885	(21,173)	670,712	-	-	-
Senior Unsecured Notes	1,140,054	(10,593)	1,129,461	-	-	-	1,147,618	(12,639)	1,134,979
Liabilities to other creditors	24,702	-	24,702	12,999	-	12,999	12,630	-	12,630
Finance lease liability	863	-	863	1,333	-	1,333	1,198	-	1,198
Long-term borrowings	4,278,268	(171,687)	4,106,581	3,044,675	(78,024)	2,966,651	4,184,883	(72,093)	4,112,790
Accrued interest expenses	45,514	-	45,514	32,998	-	32,998	23,195	-	23,195
Other liabilities	25,100	-	25,100	20,374	-	20,374	29,420	-	29,420
Finance leases liability	320	-	320	527	-	527	457	-	457
Short-term borrowings	70,934	-	70,934	53,899	-	53,899	53,072	-	53,072
Total borrowings	4,349,202	(171,687)	4,177,515	3,098,574	(78,024)	3,020,550	4,237,955	(72,093)	4,165,862

- 1) Of the total amount regarding adjustment amortized costs 2018, (108,389) 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	Sep 2018	Sep 2017	Dec 2017
Total principal amount (as above)	4,349,202	3,098,574	4,237,955
Less accrued interest	(45,514)	(32,998)	(23,195)
Indebtness	4,303,688	3,065,576	4,214,760
Less financial receivable, non-current	-	(698)	(691)
Less cash and cash equivalents	(10,543)	(8,636)	(14,245)
Net debt	4,293,145	3,056,242	4,199,824

Note 6 Pledged assets and contingent liabilities

EUR thousand	Sep 2018	Sep 2017	Dec 2017
Pledge assets			
Endowment insurance	417	417	417
Shares in subsidiaries	1,698,595	1,758,894	1,734,614
Bank accounts	469	332	3,074
Trademark	54,583	59,853	58,333
Accounts receivables	74,867	58,211	72,589
Inventories	67,852	54,245	44,390
Motor vehicles	12	25	21
Contingent liabilities			
Guarantees	21,049	20,181	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.

During the implementation of IFRS 15, in order to better present the core business, we introduced a new segment "Adjacencies". In addition to the new segment, revenue not related to our core business was separated and reported as Other Income.

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 Q3 report 2017 regarding interest floors and IFRS 15. These adjustments are summarized below.

Income statement

EUR thousand	Jul-Sep 2017 – As reported	Adjustment - interest floors	Adjustment – Timing of revenue recognition	Adjustment – Classification of revenue	Jul-Sep 2017 – Adjusted
Revenue	351,399	-	(3,908)	(1,732)	345,759
Cost of sales	(183,293)	-	-	-	(183,293)
Gross profit	168,106	-	(3,908)	(1,732)	162,466
Selling expenses	(40,801)	-	-	-	(40,801)
Administrative expenses	(77,881)	-	-	-	(77,881)
Other income	-	-	-	1,732	1,732
Operating profit	49,424	-	(3,908)	-	45,516
Finance income	55	-	-	-	55
Finance costs	(39,567)	3,184	-	-	(36,383)
Result before tax	9,912	3,184	(3,908)	-	9,188
Income tax expense	(9,865)	-	860	-	(9,005)
Result for the period	47	3,184	(3,048)	-	183

EUR thousand	Jan-Sep 2017 – As reported	Adjustment - interest floors	Adjustment – Timing of revenue recognition	Adjustment – Classification of revenue	Jan-Sep 2017 – Adjusted
Revenue	1,033,982	-	(16,330)	(5,434)	1,012,218
Cost of sales	(540,633)	-	-	-	(540,633)
Gross profit	493,349	-	(16,330)	(5,434)	471,585
Selling expenses	(122,557)	-	-	-	(122,557)
Administrative expenses	(235,226)	-	-	-	(235,226)
Other income	-	-	-	5,434	5,434
Operating profit	135,566	-	(16,330)	-	119,236
Finance income	145	-	-	-	145
Finance costs	(104,105)	(43,235)	-	-	(147,340)
Result before tax	31,606	(43,235)	(16,330)	-	(27,959)
Income tax expense	8,057	-	3,593	-	11,650
Result for the period	39,663	(43,235)	(12,738)	-	(16,310)

Balance sheet (showing only affected lines):

EUR thousand	30 Sep 2017 – As reported	Adjustment – interest floors	Adjustment – IFRS 15	30 Sep 2017 – Adjusted
Total non-current assets	2,953,898	-	-	2,953,898
Total current assets	264,146	-	-	264,146
Total assets	3,218,044	-	-	3,218,044
Retained earnings	(1,050,556)	(41,862)	(12,268)	(1,104,686)
Equity attributable to equity holders of the parent company	(442,938)	(41,862)	(12,268)	(497,068)
Non-controlling interest	(2,013)	-	(470)	(2,483)
Total equity	(444,951)	(41,862)	(12,738)	(499,551)
Liabilities to credit institutions	2,870,536	96,116	-	2,966,652
Derivatives	54,254	(54,254)	-	-
Deferred tax liabilities ¹	263,152	-	(3,593)	259,559
Total non-current liabilities	3,205,450	41,862	(3,593)	3,243,719
Accrued expenses and deferred income	258,131	-	16,330	274,461
Total current liabilities	457,545	-	16,330	473,875
Total equity and liabilities	3,218,044	-	-	3,218,044

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 April - June 2018 for information about the impact of IFRS 9 on the group.

PARENT COMPANY FINANCIAL STATEMENTS

Parent company income statements

EUR thousand	Note	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Selling and administrative expenses		-	-	(7)	(1)
Operating profit		-	-	(7)	(1)
Interest income from group companies		10,692	14,650	31,971	43,425
Interest expense		(16,347)	(14,650)	(49,209)	(43,425)
Interest expense to group companies		(71)	-	(130)	-
Finance cost		(783)	-	(1,630)	-
Result before tax		(6,507)	-	(19,004)	(1)
Income tax expense and benefit		-	-	-	-
Result for the period		(6,507)	-	(19,004)	(1)

Parent company statements of financial position

EUR thousand	Note	Sep 2018	Sep 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		568,936	691,885	576,919
Total non-current assets		1,758,888	1,286,295	1,711,523
Current assets				
Other receivables from group companies		-	-	1,095,492
Accrued income interest from group companies		11,756	9,513	8,656
Cash and cash equivalents		216	99	3,257
Total current assets		11,973	9,612	1,107,405
TOTAL ASSETS		1,770,861	1,295,907	2,818,928
EQUITY AND LIABILITIES				
Equity				
Share capital		56	56	56
Other paid in capital		569,170	569,170	569,170
Retained earnings		16,515	(870)	1,075,664
Total equity		585,741	568,356	1,644,890
Non-current liabilities				
Long-term borrowings	1	1,132,639	691,885	1,137,262
Liabilities to group companies		33,190	26,153	26,153
Total non-current liabilities		1,165,829	718,038	1,163,415
Current liabilities				
Trade payables		-	-	3,992
Accrued interest expenses	1	19,291	9,513	6,626
Other current liabilities		-	-	5
Total current liabilities		19,291	9,513	10,623
TOTAL EQUITY AND LIABILITIES		1,770,861	1,295,907	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	-	-	(19,004)	(19,004)
Dividend	-	-	(1,095,493)	(1,095,493)
Shareholders contribution	-	-	55,348	55,348
Balance at September 30, 2018	56	569,170	16,515	585,741

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 September 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	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017
Operating activities		-		-
Operating profit	-	-	(7)	-1
Cash flow from operating activities before change in working capital	-	-	(7)	-1
Change in working capital				
Change in trade payables	1	-	(3,999)	-
<i>Cash flow from change in working capital</i>	1	-	(3,999)	-
Cash flow from operating activities	1	-	(4,006)	-1
Investing activities				
Cash flow from investing activities	-	-	-	-
Financing activities				
New loans from Group companies	-	-	6,906	-
Paid bank and advisory fees	-	-	1,730	-
Interest paid	-	-	(7,673)	-
Cash flow from financing activities	1	-	963	-
Cash flow for the period	1	-	(3,043)	-1
Cash and cash equivalents at start of period	215	99	3,257	100
Exchange difference on translating cash and cash equivalents	-	-	2	-
Cash and cash equivalents at end of period	216	99	216	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	Sep 2018			Sep 2017		
	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
Unsecured						
Private Unsecured Notes	-	-	-	9,513	691,885	701,398
Senior Unsecured Notes	19,291	1,132,639	1,151,930	-	-	-
Total borrowings (carrying amount)	19,291	1,132,639	1,151,930	9,513	691,885	701,398

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)	Jul-Sep 2018	Apr-Jun 2018	Jan-Mar 2018	Oct-Dec 2017	Jul-Sep 2017
Portfolio services segment:					
Total subscribers (end of period), units	2,840,897	2,754,103	2,665,934	2,586,123	2,502,806
Cancellation, units	41,539	41,008	43,716	39,887	36,036
Attrition rate (LTM)	6.2%	6.2%	6.3%	6.3%	6.4%
Net subscriber growth, units ¹	86,794	88,169	79,811	83,317	70,550
Subscriber growth rate, net	13.5%	13.2%	13.1%	12.7%	14.5%
Average monthly revenue per user (ARPU), (in EUR)	40.0	40.2	40.4	39.4	39.5
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	27.0	26.9	27.1	25.7	26.3
Portfolio Revenue	336,515	326,562	318,052	300,932	292,953
Portfolio Adjusted EBITDA	226,750	218,595	212,921	196,005	194,669
Portfolio Adjusted EBITDA margin	67.4%	66.9%	66.9%	65.1%	66.5%
Customer acquisition segment:					
New subscribers added (gross)	128,333	129,072	123,527	115,885	108,910
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,209	1,171	1,170	1,184	1,162
Customer acquisition Revenue	65,982	67,783	68,253	64,784	56,127
Customer acquisition Adjusted EBITDA	(66,010)	(65,984)	(62,196)	(55,779)	(49,847)
Customer acquisition Capital expenditures	89,156	85,141	85,895	81,435	76,754
Adjacencies segment:					
Adjacencies revenue	4,605	3,580	4,904	493	588
Adjacencies adjusted EBITDA	(84)	(468)	(1,428)	77	144
Consolidated:					
<i>Excluding SDI and IFRS 15 adjustment</i>					
Payback period (in years)	3.7	3.6	3.6	3.8	3.7
Revenue	407,103	397,925	391,209	366,209	349,668
Adjusted EBITDA	160,656	152,143	149,297	140,305	144,966
Adjusted EBITDA margin	39.5%	38.2%	38.2%	38.3%	41.5%
Capital expenditures	122,748	117,749	114,486	130,294	101,078
<i>Reported (including SDI and IFRS 15 adjustment)</i>					
Revenue	404,065	392,057	384,221	360,190	345,759
Adjusted EBITDA	153,083	140,925	136,013	124,245	132,834

All amounts are before SDI, 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, November 2, 2018

Austin Lally
CEO

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Chairman

Fredrik Östman