



verisure
SMART ALARMS



VERISURE MIDHOLDING AB (PUBL)

INTERIM REPORT
JANUARY– SEPTEMBER 2019

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

Key operating highlights for the third quarter ending September 30, 2019 and 2018

Verisure Midholding AB (publ) Group, hereafter referred to as the Group, is the leading provider of monitored smart alarms for residential households and small businesses in Europe. We offer premium alarm services to our portfolio of over 3.2 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 and industry leading retention (>93%).

The Group continued in the third quarter 2019 to experience strong growth in sales and profitability compared with the same period 2018 with an increasing contribution from our growing customer portfolio and significant improvements in a number of key areas, ahead of our ambitious plans.

- Total reported revenues amounted to EUR 477.1 million for the third quarter 2019 which is an increase of 18.1% from EUR 404.1 million the same period last year. Adjusted for currency effects, total reported revenues grew by 18.8% in the quarter. For the first nine months of 2019 total reported revenues increased by 18.8% to EUR 1,402.6 million compared to EUR 1,180.3 million in 2018. Adjusted for currency effect, total reported revenues grew by 19.6% for the first nine months.
- Portfolio adjusted EBITDA¹ improved to EUR 275.0 million from EUR 226.8 million in Q3 2018 corresponding to an increase of 21.3%. Adjusted for currency effects, portfolio adjusted EBITDA¹ improved by 22.1% in the quarter. Excluding impact from IFRS 16, portfolio adjusted EBITDA increased by 19.9% in actual currencies and 20.6% in constant currencies. Portfolio services adjusted EBITDA margin further strengthened to 70.2% from 67.4% in Q3 2018, an increase of 2.8 percentage points compared to same period in 2018. Excluding impact of IFRS 16, portfolio services adjusted EBITDA margin improved to 69.3% in Q3 2019. For the first nine months portfolio adjusted EBITDA amounted to EUR 793.5 million which is an increase of 20.5% in actual currencies and 21.3% in constant currencies compared to 2018. Portfolio services adjusted EBITDA margin strengthened to 69.4%, an increase of 2.3 percentage points compared to the first nine months in 2018. Excluding impact from IFRS 16, portfolio adjusted EBITDA increased by 19.1% in actual currencies and 19.9% in constant currencies for the first nine months.
- Total reported adjusted EBITDA¹ increased by 20.0% to EUR 183.7 million in Q3 2019 from EUR 153.1 million in Q3 2018. Total adjusted EBITDA¹, before SDI, improved to EUR 196.6 million from EUR 157.6 million in Q3 2018, which is an increase of 24.7% in actual currencies and 25.2% in constant currencies for the quarter. Excluding impact from IFRS 16 and SDI, total adjusted EBITDA improved by 17.5% in actual currencies and 17.9% in constant currencies. For the first nine months of 2019 total reported adjusted EBITDA increased by 26.1% to EUR 542.1 million compared to EUR 430.0 million in 2018. Total adjusted EBITDA¹, before SDI, improved to EUR 570.2 million from EUR 446.2 million for the first nine months in 2018, which is an increase of 28.4% adjusted for currency effects. Excluding impact from IFRS 16 and SDI, total adjusted EBITDA improved by 20.8% in actual currencies and 21.4% in constant currencies for the first nine months.
- Net subscriber growth was 105,416 in the quarter which is an acceleration from last year's level of 86,794. At the end of the quarter the portfolio had grown to 3,236,226 customers, up 13.9% from 2,840,897 the same period last year.

During the third quarter in 2019 the Group reached again its highest quarter ever with regards to new customer additions, 153,661 which is an increase of 19.7% from 128,333 in Q3 2018. Cancellations continued to be at a low level, resulting in an attrition of 6.3%. Our performance on this metric is industry leading. Our customers are at the heart of our business and we aim to delight them.

Total revenues increased by 18.1% in the quarter. ARPU improved to EUR 41.0 which is an increase of 3.1% adjusted for currency effects from last year. EPC accelerated further to EUR 28.7 for the quarter, corresponding to an increase of 7.2% adjusted for currency effects, driven by continued value improvements and good development in operational efficiency and cost control. Adjusted EBITDA¹ from the portfolio segment improved to EUR 275.0 million in Q3 2019, corresponding to an increase of 21.3% year-on-year (22.0% in constant currencies), with double digit growth in all key geographies. On an annualized basis our portfolio adjusted EBITDA is now over EUR 1 billion. Cash flow from operating activities amounted to EUR 200.5 million for the third quarter compared to EUR 137.9 million last year. For the first nine months cash flow from operations improved to 532.6 million compared to 400.6 million in 2018, which is an increase of 33.0% year-on-year.

We are further strengthening our sales organization across our geographies and continue to have success with expansion. We have just recently entered Germany and Argentina, and we are very pleased with our progress in newer countries such as Italy and UK. Our growth rates in Latin America are also very strong, more than 30% compared with the same period last year.

In summary, we continue to have a very strong development for the Group with high levels of new customer additions, continued good trend on attrition and solid improvements on EBITDA. The Group 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 market demand for our home security solutions and services is increasing and we are continuously innovating our product & service offerings, sales structure and portfolio management, to provide top quality service in every aspect of the customer experience in all markets where we operate to further expand our business.

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

Key figures

EUR thousand (if not otherwise stated)	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Portfolio services segment:				
<i>Unaudited operating data</i>				
Total subscribers (year-end), units	3,236,226	2,840,897	3,236,226	2,840,897
Cancellation, units	48,245	41,539	144,799	126,263
Attrition rate (LTM)	6.3%	6.2%	6.3%	6.2%
Net subscriber growth, units ¹	105,416	86,794	305,473	254,774
Subscriber growth rate, net	13.9%	13.5%	13.9%	13.5%
Average monthly revenue per user (ARPU), (in EUR)	41.0	40.0	41.2	40.2
Monthly adjusted EBITDA per subscriber (EPC), (in EUR) ²	28.7	27.0	28.6	27.0
<i>Non-IFRS and IFRS financial data</i>				
Portfolio services revenue	391,992	336,515	1,142,907	981,129
Portfolio services adjusted EBITDA ³	275,041	226,750	793,457	658,266
Portfolio services adjusted EBITDA margin	70.2%	67.4%	69.4%	67.1%
Customer acquisition segment:				
<i>Unaudited operating data</i>				
New subscribers added (gross)	153,661	128,333	450,272	380,932
Cash acquisition cost per new subscriber (CPA), (in EUR) ⁴	1,209	1,233	1,191	1,225
<i>Non-IFRS and IFRS financial data</i>				
Customer acquisition revenue	79,795	62,945	243,869	186,125
Customer acquisition adjusted EBITDA ⁵	(78,820)	(69,048)	(224,474)	(210,085)
Customer acquisition capital expenditures	106,891	89,156	311,704	256,568
Adjacencies segment:				
<i>Unaudited operating data</i>				
Adjacencies revenue	5,285	4,605	15,806	13,090
Adjacencies adjusted EBITDA	382	(84)	1,250	(1,980)
Consolidated:				
<i>Unaudited operating data</i>				
Payback period (in years) ⁶	3.5	3.8	3.5	3.8
<i>Non-IFRS and IFRS financial data</i>				
Revenue	477,072	404,065	1,402,583	1,180,343
Organic revenue growth	18.8%	19.1%	19.6%	18.7%
Adjusted EBITDA ⁷	196,603	157,618	570,233	446,201
Adjusted EBITDA margin	41.2%	39.0%	40.7%	37.8%
Capital expenditures	141,849	122,748	419,474	354,984
Reported (including SDI)				
Reported revenue	477,072	404,065	1,402,583	1,180,343
Reported adjusted EBITDA ⁷	183,711	153,083	542,089	430,021

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

2) Includes the effect from IFRS 16 of EUR 0.3 (QTD) and 0.3 (YTD).

3) Includes the effect from IFRS 16 of EUR 3,278 thousand (QTD) and 9,154 thousand (YTD).

4) Includes the effect from IFRS 16 of EUR 53 (QTD) and 49 (YTD).

5) Includes the effect from IFRS 16 of EUR 8,133 thousand QTD and 22,162 thousand (YTD).

6) Includes the effect from IFRS 16 of 0.2 years.

7) Includes the effect from IFRS 16 of EUR 11,411 thousand (QTD) and 31,315 thousand (YTD).

All amounts are including IFRS 15 with adjustments of 2018 comparatives. For further details see note 2. 2019 includes effects from adoption of IFRS 16 with no restatement of 2018 comparatives.

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.

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

Three months ending September 30, 2019 and 2018

Results excluding SDI

EUR million	Jul-Sep 2019	Jul-Sep 2018	Percentage change
Revenue	477.1	404.1	18.1%
Operating expenses	(281.6)	(248.0)	13.5%
Other income	1.1	1.6	(28.4%)
Adjusted EBITDA	196.6	157.6	24.7%
Adjusted EBITDA margin, %	41.2%	39.0%	-
Depreciation and amortization	(59.7)	(46.4)	28.8%
Retirement of assets	(18.7)	(15.4)	21.2%
Operating profit	118.2	95.8	23.3%
Operating profit margin, %	24.8%	23.7%	-
Interest income and cost	(52.0)	(46.3)	12.2%
Other financial items	(0.8)	(0.7)	3.1%
Result before taxes and SDI	65.4	48.7	34.3%

Revenue

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

Results excluding SDI

EUR million	Jul-Sep 2019	Jul-Sep 2018	Percentage change
Revenue by segment			
Portfolio services	392.0	336.5	16.5%
Customer acquisition	79.8	62.9	26.8%
Adjacencies	5.3	4.6	14.8%
Total	477.1	404.1	18.1%

Total revenue in the third quarter 2019 increased by 18.1%, or EUR 73.0 million, to EUR 477.1 million, up from EUR 404.1 million in the prior period. Organic revenue growth was 18.8%, primarily due to the increasing customer base and higher average monthly revenue per user. The customer base on September 30, 2019 was 3,236,226, an increase from 2,840,897 on September 30, 2018, reflecting continued success in new customer acquisition and low attrition.

Revenue for portfolio services in the third quarter 2019 increased by 16.5%, or EUR 55.5 million, to EUR 392.0 million, up from EUR 336.5 million in the previous period. The increase was primarily due to the increased number of customers and higher average monthly revenue per user.

Revenue for customer acquisition in the three months ending September 30, 2019, increased by 26.8%, or EUR 16.9 million, to EUR 79.8 million, up from EUR 62.9 million in the previous period. The increase was mainly due to higher number of new installations, higher upfront revenue compared to the same period last year, reflecting also the impact of IFRS 15 which has been folded into our segment reporting (from SDI's previously).

Operating expenses

Operating expenses in the third quarter 2019, increased by 13.5%, or EUR 33.6 million, to EUR 281.6 million, up from EUR 248.0 million in the prior period. The increase was mainly due to the growth in the portfolio and the increase in new installations. The increase was partly offset by the positive effect from IFRS 16 amounting to EUR 11.4 million.

Adjusted EBITDA

Adjusted EBITDA in the three months ending September 30, 2019, increased by 24.7% or EUR 39.0 million to EUR 196.6 million, up from EUR 157.6 million in the prior period. The increase in adjusted EBITDA was mainly driven by the increased customer base, higher average revenue per user and improved operational efficiency, as well as the effect of EUR 11.4 million from IFRS 16.

Depreciation and amortization

Depreciation and amortization increased to EUR 59.7 million in the three months ending September 30, 2019, up from EUR 46.4 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 but also affected by EUR 9.1 million related to IFRS 16.

Retirement of assets

Retirements of assets increased to EUR 18.7 million in the third quarter of 2019, up from EUR 15.4 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 Q3, 2019 and 2018. Interest cost amounted to EUR 52.0 million, compared to EUR 46.3 million in the prior period mainly driven by higher indebtedness. The adoption of IFRS 16 had a negative impact of EUR 1.2 million.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 0.7 which is equal to the three months ended September 30, 2018.

Reported consolidated income statement for the three months ending September 30, 2019 and 2018

EUR million	Jul-Sep 2019			Jul-Sep 2018		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	477.1	-	477.1	404.1	-	404.1
Operating expenses	(281.6)	(12.9)	(294.5)	(248.0)	(4.5)	(252.5)
Other income	1.1	-	1.1	1.6	-	1.6
Adjusted EBITDA	196.6	(12.9)	183.7	157.6	(4.5)	153.1
Depreciation and amortization	(59.7)	(38.3)	(98.0)	(46.4)	(38.3)	(84.7)
Retirements of assets	(18.7)	-	(18.7)	(15.4)	-	(15.4)
Operating profit	118.2	(51.2)	67.0	95.8	(42.8)	53.0
Interest income and cost	(52.0)	-	(52.0)	(46.3)	-	(46.3)
Other financial items	(0.8)	(21.5)	(22.3)	(0.7)	(18.3)	(19.0)
Result before tax	65.4	(72.7)	(7.2)	48.8	(61.0)	(12.3)
Income tax benefit and expense	-	-	(9.9)	-	-	(8.9)
Result for the period	-	-	(17.1)	-	-	(21.1)

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. For the third quarter 2019, the costs amounted to EUR 12.9 million and EUR 4.5 million in the same period last year.

SDI affecting depreciation and amortization

The market value of the acquisition-related intangible assets is amortized over the expected life. The main part of the total cost of EUR 38.3 million in both periods 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 21.5 million and EUR 18.3 million for the third quarter 2019 and 2018 respectively. For the three months ending September 30, 2019, the other financial items consist of a negative non-cash FX valuation of debt items and hedges amounting to EUR 11.5 million and a cost related to amortization of prepaid financing fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 10.1 million. 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.

Income tax benefit and expense

Total tax cost was EUR 9.9 million in the quarter compared with EUR 8.9 million last year. Current tax expense was EUR 18.8 million in Q3 2019 compared with EUR 9.6 million in 2018. Deferred tax was a benefit of EUR 8.9 million in Q3 2019 compared with EUR 0.7 million in 2018.

Cash Flow

The following table shows a summary of our cash flow on a historical basis for the three months ending September 30, 2019 and 2018.

EUR million	Jul-Sep 2019	Jul-Sep 2018
Cash flow from operating activities before change in working capital	163.4	143.8
Change in working capital	37.1	(5.9)
Cash flow from operating activities¹	200.5	137.9
Cash flow from investing activities	(141.8)	(125.7)
Cash flow from financing activities ²	(46.8)	(12.0)
Cash flow for the period	11.8	0.1
Cash and cash equivalents at beginning of period	35.1	10.5
Translation differences on cash and cash equivalents	-	(0.1)
Cash and cash equivalents at end of period	47.0	10.5

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 200.5 million and EUR 137.9 million for the three months ending September 30, 2019 and 2018 respectively. The increase compared with corresponding period in the previous year is primarily driven by the decrease in working capital but also the increase in profitability as well as the impact from the IFRS 16 adoption.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 141.8 million and EUR 125.7 million for the three months ending September 30, 2019 and 2018 respectively. The increase in capital expenditure is mainly due to the growth in acquisition of new customers.

Cash flow from financing activities

Cash flow from financing activities totaled an outflow of EUR 46.8 million and EUR 12.0 million for the three months ending September 30, 2019 and 2018 respectively. The main elements included net paid interest of EUR 34.6 million compared with EUR 22.2 million in the same period last year. The increase is mainly due to a change in timing of interest payment maturity. A net decrease in borrowings of EUR 6.6 million compared with an increase of EUR 15.9 million previous year. Other financial items including paid debt related fees totaled EUR 5.6 million compared EUR 5.7 million in the same period last year.

Nine months ending September 30, 2019 and 2018

Results excluding SDI

EUR million	Jan-Sep 2019	Jan-Sep 2018	Percentage change
Revenue	1,402.6	1,180.3	18.8%
Operating expenses	(836.6)	(739.2)	13.2%
Other income	4.2	5.1	(16.6)%
Adjusted EBITDA	570.2	446.2	27.8%
Adjusted EBITDA margin, %	40.7%	37.8%	-
Depreciation and amortization	(169.3)	(130.7)	29.5%
Retirement of assets	(56.9)	(44.1)	29.2%
Operating profit	344.0	271.5	26.7%
Operating profit margin, %	24.5%	23.0%	-
Interest income and cost	(155.8)	(136.8)	13.9%
Other financial items	(2.0)	(2.5)	(21.6)%
Result before taxes and SDI	186.3	132.2	40.9%

Revenue

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

Results excluding SDI

EUR million	Jan-Sep 2019	Jan-Sep 2018	Percentage change
Revenue by segment			
Portfolio services	1,142.9	981.1	16.5%
Customer acquisition	243.9	186.1	31.0%
Adjacencies	15.8	13.1	20.8%
Total	1,402.6	1,180.3	18.8%

Total revenue during the first nine months 2019 increased by 18.8%, or EUR 222.2 million, to EUR 1,402.6 million, up from EUR 1,180.3 million in the prior period. Organic revenue growth was 19.6%, primarily due to the increasing customer base and higher average monthly revenue per user.

Revenue for portfolio services during the first nine months increased by 20.7%, or EUR 161.8 million, to EUR 1,142.9 million, up from EUR 981.1 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, 2019, increased by 31.0%, or EUR 57.7 million, to EUR 243.9 million, up from EUR 186.1 million in the previous period. The increase was mainly due to higher number of new installations, higher upfront revenue compared with the same period last year, reflecting also the impact of IFRS 15 which has been folded into our segment reporting (from SDI's previously).

Operating expenses

Operating expenses in the first three quarters of 2019, increased by 13.2%, or EUR 97.4 million, to EUR 836.6 million, up from EUR 739.2 million in the prior period. The increase was mainly due to the growth in the portfolio and the increase in new installations. The increase was partly offset by the positive effect from IFRS 16 amounting to EUR 31.3 million.

Adjusted EBITDA

Adjusted EBITDA in the nine months ending September 30, 2019, increased by 27.8% or EUR 124.0 million to EUR 570.2 million, up from EUR 446.2 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, as well as the effect of EUR 31.3 million from IFRS 16.

Depreciation and amortization

Depreciation and amortization increased to EUR 169.3 million in the nine months ending September 30, 2019, up from EUR 130.7 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization have increased mainly due to the increased number of customers but also affected by EUR 27.5 million related to IFRS 16.

Retirement of assets

Retirements of assets increased to EUR 56.9 million in the first nine months of 2019, up from EUR 44.1 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 both the nine months ending September 30, 2019 and 2018. Interest cost amounted to EUR 156.0 million, up from EUR 137.1 million in the prior period mainly driven by higher indebtedness. The adoption of IFRS 16 had a negative impact of EUR 3.5 million.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 2.0 million compared to EUR 2.5 million for the nine months ended September 30, 2018.

Reported consolidated income statement for the nine months ending September 30, 2019 and 2018

EUR million	Jan-Sep 2019			Jan-Sep 2018		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	1,402.6	-	1,402.6	1,180.3	-	1,180.3
Operating expenses	(836.6)	(28.1)	(864.7)	(739.2)	(16.2)	(755.4)
Other income	4.2	-	4.2	5.1	-	5.1
Adjusted EBITDA	570.2	(28.1)	542.1	446.2	(16.2)	430.0
Depreciation and amortization	(169.3)	(114.8)	(284.1)	(130.7)	(114.9)	(245.6)
Retirements of assets	(56.9)	-	(56.9)	(44.1)	-	(44.1)
Operating profit	344.0	(143.0)	201.1	271.5	(131.1)	140.4
Interest income and cost	(155.8)	-	(155.8)	(136.8)	30.6	(106.3)
Other financial items	(2.0)	(36.7)	(38.6)	(2.5)	(62.5)	(65.0)
Result before tax	186.3	(179.7)	6.6	132.2	(163.1)	(30.9)
Income tax benefit and expense	-	-	(39.1)	-	-	(19.2)
Result for the period	-	-	(32.4)	-	-	(50.0)

Separately disclosed items (SDIs)

SDI affecting operating expenses

SDI affecting operating expenses includes costs related to various transition projects within the Group. It also includes costs related to acquisitions of new businesses. For the first nine months of 2019, the costs amounted to EUR 28.1 million and EUR 16.2 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 114.8 million (EUR 114.9 million in 2018) 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 for the nine months ending September 30, 2018.

SDI affecting other financial items

SDI affecting other financial items for the nine months was an expense of EUR 36.7 million compared to EUR 62.5 million for the corresponding period 2018. Other financial items consist of a positive non-cash FX valuation of debt items plus a negative market revaluation of hedges in total amounting to a negative EUR 6.9 million, a cost related to amortization of prepaid financing fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 29.8 million. For the nine months ending September 30, 2018, the other financial items consist of a negative non-cash 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.

Income tax benefit and expense

Total tax cost was EUR 39.1 million for the nine months compared with EUR 19.2 million last year. Current tax cost was EUR 46.4 million for the nine months 2019 compared with EUR 28.7 million in 2018. The difference between the years is mainly related to higher profit in 2019 and finalization of tax audits in various jurisdictions. Deferred tax was a benefit of EUR 7.3 million for the nine months 2019 compared with a benefit of EUR 9.5 million in 2018.

Cash flow

The following table shows a summary of our cash flow on a historical basis for the nine months ending September 30, 2019 and 2018.

EUR million	Jan-Sep 2019	Jan-Sep 2018
Cash flow from operating activities before change in working capital	505.0	404.2
Change in working capital	27.6	(3.7)
Cash flow from operating activities¹	532.6	400.6
Cash flow from investing activities	(464.5)	(362.1)
Cash flow from financing activities ²	(29.8)	(42.0)
Cash flow for the period	38.3	(3.5)
Cash and cash equivalents at beginning of period	8.6	14.2
Translation differences on cash and cash equivalents	0.1	(0.2)
Cash and cash equivalents at end of period	47.0	10.5

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 505.0 million and EUR 404.2 million for the nine months ending September 30, 2019 and 2018 respectively. The increase compared with corresponding period in the previous year is primarily driven by the decrease in working capital but also the increase in profitability as well as the impact from the IFRS 16 adoption.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 464.5 million and EUR 362.1 million for the nine months ending September 30, 2019 and 2018 respectively. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

Cash flow from financing activities

Cash flow from financing activities totaled an outflow of EUR 29.8 million and EUR 42.0 million for the nine months ending September 30, 2019 and 2018 respectively. The main elements included net paid interest of EUR 139.3 million, and EUR 114.1 million in the same period last year, a net increase in borrowings of EUR 118.9 million compared with EUR 96.4 million in the same period of the previous year. Other financial items including paid debt related fees and received bond premium totaled a net outflow of EUR 9.4 million compared to EUR 6.3 million in the same period last year. In addition, the same period the previous year was affected by a paid distribution of EUR 18.0 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 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, 2019 and 2018:

EUR million	Jul-Sep 2019	Jul-Sep 2018
Customer acquisition capital expenditures, material	58.6	46.1
Customer acquisition capital expenditures, direct costs	48.3	43.1
Portfolio capital expenditures	12.7	12.0
Adjacencies capital expenditures	1.6	2.2
Capital expenditures other	20.7	19.4
Total	141.8	122.7

Capital expenditures were EUR 141.8 million for the three months ending September 30, 2019 and EUR 122.7 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

The following table shows a summary of our capital expenditures for the nine months ending September 30, 2019 and 2018:

EUR million	Jan-Sep 2019	Jan-Sep 2018
Customer acquisition capital expenditures, material	169.3	133.9
Customer acquisition capital expenditures, direct costs	142.4	122.6
Portfolio capital expenditures	37.5	34.5
Adjacencies capital expenditures	5.6	7.5
Capital expenditures other	64.7	56.4
Total	419.5	355.0

Capital expenditures were EUR 419.5 million for the nine months ending September 30, 2019 and EUR 355.0 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

Liquidity, Liabilities and Financing agreements

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

As of September 30, 2019, the Group had a total of EUR 319.2 million of available funds.

EUR million	Sep 2019	Sep 2018	Dec 2018
Revolving Credit Facility	300.0	300.0	300.0
Cash and cash equivalents	47.0	10.5	8.6
Drawn facility amount	(17.4)	(102.6)	(73.0)
Utilized letter of credit	(10.3)	(7.7)	(7.7)
Total available funds	319.2	200.2	227.9

The following table summarizes our total financial indebtedness on September 30, 2019 and 2018 and on December 31, 2018.

EUR million	Sep 2019	Sep 2018	Dec 2018
Senior Secured Notes	500.0	630.0	300.0
Term Loan B	3,092.0	2,380.0	3,092.0
Revolving Credit Facility	17.4	102.6	73.0
Senior Unsecured Notes	1,234.3	1,140.1	1,240.9
Other liabilities	53.1	49.8	51.4
Lease liability (IFRS 16)	127.4	-	-
Finance leases liability	-	1.2	1.1
Total	5,024.2	4,303.7	4,758.3

Risks and uncertainties

A detailed presentation of risks and a sensitivity analysis can be found in the Financial Risk Management section (note 19) and the Risk Factors section of the Verisure Midholding AB's annual report 2018.

Events during the reporting period

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

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

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

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

Events after the reporting period

On November 8, 2019, the Group entered into definitive agreements to create a strategic partnership with Arlo Technologies, Inc., the #1 internet connected camera brand. The strategic partnership will leverage both companies' capabilities to create incremental scale to address the ever-growing demand for residential and commercial security. The transaction is subject to regulatory approvals and other closing conditions and is expected to close by Q1 2020.

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 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 12 months ago.

Unaudited Consolidated Financial Statements

Consolidated income statements

EUR thousand	Note	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Revenue	2	477,072	404,065	1,402,583	1,180,343
Cost of sales		(249,819)	(215,188)	(730,526)	(630,162)
Gross profit		227,252	188,877	672,056	550,182
Selling expenses		(64,615)	(53,568)	(190,551)	(158,402)
Administrative expenses		(96,726)	(83,854)	(284,650)	(256,464)
Other income		1,117	1,559	4,214	5,055
Operating profit		67,028	53,013	201,070	140,370
Finance income		63	122	189	30,832
Finance costs		(74,329)	(65,422)	(194,633)	(202,091)
Result before tax		(7,238)	(12,287)	6,626	(30,889)
Income tax expense		(9,880)	(8,853)	(39,064)	(19,152)
Result for the period		(17,119)	(21,139)	(32,437)	(50,041)
Whereof attributable to:					
- Parent company		(17,119)	(20,622)	(32,437)	(49,538)
- Non-controlling interest		-	(517)	-	(503)

Consolidated statements of comprehensive income

EUR thousand	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Result for the period	(17,119)	(21,139)	(32,437)	(50,041)
Other comprehensive income				
Items that subsequently may be reclassified to the income statement				
Hedging reserve	442	-	442	-
Currency translation differences on foreign operations	1,752	576	(5,119)	(15,133)
Other comprehensive income	2,194	576	(4,677)	(15,133)
Total comprehensive income for the period	(14,925)	(20,563)	(37,114)	(65,175)
Whereof attributable to:				
- Parent company	(14,925)	(20,046)	(37,114)	(64,671)
- Non-controlling interest	-	(517)	-	(503)

Consolidated statements of financial position

EUR thousand	Note	Sep 2019	Sep 2018	Dec 2018
Assets				
Non-current assets				
Property, plant and equipment		825,051	685,455	720,960
Right of use assets		126,796	-	-
Goodwill		868,092	868,664	868,557
Customer portfolio		1,014,681	1,044,414	1,034,280
Other intangible assets		180,570	154,333	167,573
Deferred tax assets ¹		34,840	42,568	28,867
Derivatives	3	29,239	21,565	17,603
Trade and other receivables	3	320,228	300,819	307,341
Total non-current assets		3,399,497	3,117,818	3,145,181
Current assets				
Inventories		135,654	108,832	102,488
Trade receivables	3	136,583	123,983	133,620
Current tax assets		21,234	16,927	15,101
Derivatives	3	442	5,352	-
Prepayments and accrued income		38,959	37,369	34,553
Other current receivables	3	12,855	7,408	10,938
Cash and cash equivalents	3	46,957	10,543	8,613
Total current assets		392,684	310,413	305,313
Total assets		3,792,181	3,428,231	3,450,494

1) The comparatives have been changed due to change in accounting policy. Refer to note 7 in the Q4 report 2018 for more information.

EUR thousand	Note	Sep 2019	Sep 2018	Dec 2018
Equity and liabilities				
Equity				
Share capital		56	56	56
Other paid in capital		624,517	624,517	624,517
Other reserves		38,963	32,793	43,640
Retained earnings ²		(2,793,245)	(2,281,921)	(2,714,251)
Equity attributable to equity holders of the parent company		(2,129,709)	(1,624,555)	(2,046,038)
Non-controlling interest ²		-	(3,937)	(2,745)
Total equity		(2,129,709)	(1,628,491)	(2,048,783)
Non-current liabilities				
Long-term borrowings	3,4	4,823,422	4,106,581	4,573,202
Derivatives	3	28,583	-	6,398
Other non-current liabilities ²	3	77,634	141,302	120,310
Deferred tax liabilities ¹		251,637	274,416	254,451
Other provisions		3,477	2,449	3,278
Total non-current liabilities		5,184,752	4,524,748	4,957,640
Current liabilities				
Trade payables	3	114,151	105,941	125,237
Current tax liabilities		34,557	23,193	19,034
Short-term borrowings	3,4	111,827	70,934	47,913
Derivatives	3	796	-	3,746
Accrued expenses and deferred income ²		443,274	302,294	316,135
Other current liabilities	3	32,533	29,616	29,572
Total current liabilities		737,137	531,978	541,637
Total equity and liabilities		3,792,181	3,428,231	3,450,494

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 in the Q4 report 2018 for more information.

Consolidated statement of changes in equity

EUR thousand	Attributable to equity holders of the parent company and non-controlling interest						Total equity
	Share capital	Other paid in capital	Other reserve	Retained earnings	Total	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	-	-	-	(32,437)	(32,437)	-	(32,437)
Hedging reserve	-	-	442	-	442	-	442
Other comprehensive income	-	-	(5,119)	-	(5,119)	-	(5,119)
<i>Total comprehensive income for the period</i>	-	-	(4,677)	(32,437)	(37,114)	-	(37,114)
Shareholder's contribution	-	-	-	109	109	-	109
Transaction with non-controlling interest	-	-	-	(46,666)	(46,666)	2,745	(43,921)
Balance at September 30, 2019	56	624,517	38,963	(2,793,245)	(2,129,709)	-	(2,129,709)

EUR thousand	Attributable to equity holders of the parent company and non-controlling interest						Total equity
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total	Non controlling interest	
Balance at January 1, 2018 – As reported	56	569,168	47,926	(1,169,176)	(552,026)	(1,802)	(553,828)
Change in accounting principles, IFRS 15	-	-	-	(65,956)	(65,956)	(1,632)	(67,588)
Balance at January 1, 2018 – As updated comparatives	56	569,168	47,926	(1,235,132)	(617,982)	(3,434)	(621,416)
Change in accounting principles, IFRS 9	-	-	-	99,226	99,226	-	99,226
Balance at January 1, 2018 – Adjusted	56	569,168	47,926	(1,135,906)	(518,756)	(3,434)	(522,190)
Result for the period	-	-	-	(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	(2,281,921)	(1,624,555)	(3,937)	(1,628,491)

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

Consolidated statements of cash flows

EUR thousand	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Operating activities				
Operating profit	67,028	53,013	201,070	140,370
Reversal of depreciation and amortization	97,998	84,651	284,082	245,577
Other non-cash items	18,815	15,428	56,877	44,083
Paid taxes	(20,482)	(9,274)	(37,013)	(25,789)
Cash flow from operating activities before change in working capital	163,359	143,818	505,016	404,241
Change in working capital				
Change in inventories	(10,313)	(12,915)	(33,938)	(35,200)
Change in trade receivables	15,727	(6,810)	(1,818)	(2,413)
Change in other receivables	4,179	(6,092)	(17,620)	(25,281)
Change in trade payables	2,535	(935)	(9,924)	(8,177)
Change in other payables	25,007	20,826	90,871	67,396
Cash flow from change in working capital	37,135	(5,925)	27,571	(3,674)
Cash flow from operating activities	200,494	137,893	532,587	400,567
Investing activities				
Purchase of intangible assets	(68,810)	(60,717)	(207,610)	(175,878)
Purchase of property, plant and equipment	(73,039)	(62,032)	(211,864)	(179,384)
Settlement of deferred consideration	-	(2,988)	-	(3,586)
Acquisition of non-controlling interest	-	-	(45,000)	(3,248)
Cash flow from investing activities	(141,849)	(125,737)	(464,474)	(362,096)
Financing activities				
Change in borrowings	(6,577)	15,921	(81,082)	96,435
Paid bank and advisory fees	(1,211)	-	(6,397)	(1,793)
New financing	-	-	200,000	-
Premium from new financing	-	-	4,651	-
Net interest paid	(34,627)	(22,229)	(139,348)	(114,117)
Paid distribution	-	-	-	(18,000)
Repayment of other non-current receivables	-	-	-	691
Other financial items	(4,410)	(5,741)	(7,606)	(5,233)
Cash flow from financing activities	(46,825)	(12,049)	(29,782)	(42,017)
Cash flow for the period	11,820	107	38,331	(3,546)
Cash and cash equivalents at start of period	35,129	10,506	8,613	14,245
Exchange difference on translating cash and cash equivalents	8	(70)	13	(156)
Cash and cash equivalents at end of period	46,957	10,543	46,957	10,543

Notes to the Unaudited 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 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 2018.

The accounting policies are unchanged compared with those applied in 2018, except for changes of lease accounting stated in note 6 and for hedge accounting applied from 1 July 2019.

These consolidated financial statements should be read in conjunction with the annual report 2018. These financial statements have not been audited by the Group auditor.

Share based payments

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

The fair value of options granted under Shield Luxco 2 S.à r.l 2018 Share Option Plan is recognised as an employee benefits expense, with a corresponding increase in equity during the vesting period. The total amount to be expensed is determined by reference to the fair value of the options granted. The fair value at grant date is independently determined using the Black-Scholes model.

Hedge accounting

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

In the third quarter the Group executed cashflow hedges pertaining to material purchased in USD to which the company applies hedge accounting. Additionally, interest rate swaps have previously been executed to economically hedge cash flows due to interest rate risk on the Group's long-term debt but for these the Group does not apply hedge accounting.

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

New standards and interpretations adopted

IFRS 16 came into force on January 1, 2019 and has been adopted by the Group as of that date. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognized on the balance sheet. The Group has decided to apply the simplified transition approach and thus not restated the comparative amounts for the year prior to first adoption. For further information regarding the adoption of IFRS 16 we refer to note 6 in this interim report.

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 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 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 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.

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 management team as its CODM. The segments identified based on the Group's operating activities are customer acquisition, portfolio services and adjacencies

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

EUR thousands	Jul-Sep 2019					Group Total
	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	
Revenue	79,795	391,992	5,285	477,072	-	477,072
Adjusted EBITDA	(78,820)	275,041	382	196,603	(12,892)	183,711
Depreciation and amortization	-	-	-	(59,736)	(38,262)	(97,998)
Retirements of assets	-	-	-	(18,686)	-	(18,686)
Financial items	-	-	-	(52,764)	(21,502)	(74,266)
Result before tax	-	-	-	65,418	(72,656)	(7,238)

EUR thousands	Jul-Sep 2018					Group Total
	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	
Revenue	65,982	336,515	4,605	407,103	(3,038)	404,065
IFRS 15	(3,038)	-	-	(3,038)	3,038	-
Revenue as adjusted	62,945	336,515	4,605	404,065	-	404,065
Adjusted EBITDA as reported	(66,010)	226,750	(84)	160,656	(7,573)	153,083
IFRS 15	(3,038)	-	-	(3,038)	3,038	-
Adjusted EBITDA as adjusted	(69,048)	226,750	(84)	157,618	(4,535)	153,083
Depreciation and amortization	-	-	-	(46,379)	(38,272)	(84,651)
Retirements of assets	-	-	-	(15,419)	-	(15,419)
Financial items	-	-	-	(47,002)	(18,298)	(65,300)
Result before tax	-	-	-	48,818	(61,105)	(12,287)

EUR thousands	Jan-Sep 2019					Group Total
	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	
Revenue	243,869	1,142,907	15,806	1,402,583	-	1,402,853
Adjusted EBITDA	(224,474)	793,457	1,250	570,233	(28,144)	542,089
Depreciation and amortization	-	-	-	(169,251)	(114,831)	(284,082)
Retirements of assets	-	-	-	(56,937)	-	(56,937)
Financial items	-	-	-	(157,781)	(36,663)	(194,444)
Result before tax	-	-	-	186,264	(179,638)	6,626

EUR thousands	Jan-Sep 2018					Group Total
	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	
Revenue	202,019	981,129	13,090	1,196,237	(15,894)	1,180,343
IFRS 15	(15,894)	-	-	(15,894)	15,894	-
Revenue as adjusted	186,125	981,129	13,090	1,180,343	-	1,180,343
Adjusted EBITDA as reported	(194,191)	658,266	(1,980)	462,095	(32,074)	430,021
IFRS 15	(15,894)	-	-	(15,894)	15,894	-
Adjusted EBITDA as adjusted	(210,085)	658,266	(1,980)	446,201	(16,180)	430,021
Depreciation and amortization	-	-	-	(130,667)	(114,910)	(245,577)
Retirements of assets	-	-	-	(44,074)	-	(44,074)
Financial items	-	-	-	(139,299)	(31,960)	(171,259)
Result before tax	-	-	-	132,161	(163,050)	(30,889)

Note 3 Financial Risk Management

Financial instruments by category and valuation level

EUR thousand	Sep 2019	Sep 2018	Dec 2018
Financial assets at fair value through profit or loss¹			
<i>Derivatives</i>			
Currency	29,681	26,917	17,603
Total	29,681	26,917	17,603
Financial liabilities at fair value through profit or loss¹			
<i>Derivatives</i>			
Currency	29,379	-	10,144
Total	29,379	-	10,144
Loans and receivables at amortized cost			
Trade and other receivables	320,228	300,819	307,341
Trade receivables ²	136,583	123,983	133,620
Other current receivables ²	12,855	7,408	10,938
Cash and cash equivalent	46,957	10,543	8,613
Other financial liabilities at amortized cost			
Long-term borrowings ³	4,823,422	4,106,581	4,573,202
Other non-current liabilities	77,634	141,302	120,310
Trade payables ²	114,151	105,941	125,237
Short-term borrowings ^{2,3}	111,827	70,934	47,913
Other current liabilities ²	32,533	29,616	29,572

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 4.

Note 4 Borrowings

EUR thousand	Sep 2019			Sep 2018			Dec 2018		
	Principal amount	Adjustment amortized costs	Carrying amount	Principal amount	Adjustment amortized costs	Carrying amount	Principal amount	Adjustment amortised costs	Carrying amount
Non-current liabilities									
Secured									
Senior Secured Notes	500,000	(1,827)	498,173	630,000	(11,399)	618,601	300,000	(2,726)	297,274
Term Loan B ¹	3,092,000	(115,125)	2,976,875	2,380,000	(145,134)	2,234,866	3,092,000	(140,947)	2,951,053
Revolver Credit Facility	17,439	(3,182)	14,256	102,649	(4,561)	98,088	72,966	(4,260)	68,706
Unsecured									
Senior Unsecured Notes	1,234,266	(9,680)	1,224,586	1,140,054	(10,593)	1,129,461	1,240,900	(9,947)	1,230,953
Liabilities to other creditors	17,259	-	17,259	24,702	-	24,702	24,437	-	24,437
Lease liability	92,271 ²	-	92,271	-	-	-	-	-	-
Finance lease liability	-	-	-	863	-	863	779	-	779
Long-term borrowings	4,953,236	(129,814)	4,823,422	4,278,268	(171,687)	4,106,581	4,731,082	(157,880)	4,573,202
Current liabilities									
Accrued interest expenses	40,882	-	40,882	45,514	-	45,514	20,700	-	20,700
Other liabilities	35,813	-	35,813	25,100	-	25,100	26,914	-	26,914
Lease liability	35,132 ²	-	35,132	-	-	-	-	-	-
Finance leases liability	-	-	-	320	-	320	299	-	299
Short-term borrowings	111,827	-	111,827	70,934	-	70,934	47,913	-	47,913
Total	5,065,063	(129,814)	4,935,249	4,349,202	(171,687)	4,177,515	4,778,995	(157,880)	4,621,115

1) Of the total amount regarding adjustment amortized costs 2019, EUR (77,557) thousands (108,389 in September 2018 and 98,652 in December 2018) relates to an adjustment derived from the modification of loan terms during the loans contract period calculated according to IFRS 9. This was booked as of January 1, 2018, at the time of the adoption of IFRS 9.

2) These amounts relate to liabilities from IFRS 16.

Net Debt Bridge

EUR thousand	Sep 2019	Sep 2018	Dec 2018
Total principal amount (as above)	5,065,063	4,349,202	4,778,995
Less accrued interest	(40,882)	(45,514)	(20,700)
Indebtness	5,024,181	4,303,688	4,758,295
Less financial receivable, current	(8)	-	-
Less cash and cash equivalents	(46,957)	(10,543)	(8,613)
Net debt	4,977,217	4,293,145	4,749,682
Less lease liability (IFRS 16)	(127,403)	-	-
Net debt per SFA lender documentation	4,849,814	4,293,145	4,749,682

Note 5 Pledged Assets and Contingent Liabilities

Pledged assets

EUR thousand	Sep 2019	Sep 2018	Dec 2018
Endowment insurance	687	417	664
Shares in subsidiaries	1,461,737	1,698,595	1,972,560
Bank accounts	26,279	469	503
Trademark	49,583	54,583	53,333
Accounts receivables	79,637	74,867	74,195
Inventories	78,246	67,852	61,816
Motor vehicles	20	12	10

Contingent liabilities

EUR thousand	Sep 2019	Sep 2018	Dec 2018
Guarantees	27,288	21,049	25,068

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.

Note 6 Adoption of IFRS 16 Leases

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

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

IFRS 16 results in most leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The exceptions to this are short-term and low-value leases which instead are reported as lease payments and as operating expenses in the income statement.

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

The effects on the consolidated income statement and the consolidated statements of financial position from the adoption of IFRS 16 are specified in the table below. The effects have changed from presented figures in the interim report for Q4 2018, as those figures were not fully finalized.

Effects on consolidated income statement

EUR thousand	Jul-Sep 2019	Jan-Sep 2019
Adjusted EBITDA	11,411	31,315
Amortization and write off	(9,074)	(27,524)
Operating profit	2,337	3,791
Financial items	(1,222)	(3,452)
Income before tax	1,115	339

Effects of consolidated statements of financial position

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

Bridge between operating leases and lease liability under IFRS 16

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

Unaudited Parent Company Financial Statements

Parent company income statements

EUR thousand	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Administrative expenses	(10)	-	(14)	(7)
Operating profit	(10)	-	(14)	(7)
Interest income from Group companies	12,167	10,692	36,190	31,971
Interest expense	(17,596)	(16,347)	(53,384)	(49,209)
Interest expense to Group companies	(348)	(71)	(802)	(130)
Finance cost	(1,187)	(783)	(2,265)	(1,630)
Result before tax	(6,974)	(6,507)	(20,275)	(19,004)
Income tax expense and benefit	-	-	-	-
Result for the period	(6,974)	(6,507)	(20,275)	(19,004)

Parent Company Statements of Financial Position

EUR thousand	Note	Sep 2019	Sep 2018	Dec 2018
Assets				
Non-current assets				
<i>Long-term investments</i>				
Investments in subsidiaries		1,189,952	1,189,952	1,189,952
Receivables from Group companies		692,847	568,936	701,094
Total non-current assets		1,882,799	1,758,888	1,891,046
Current assets				
Other receivables from Group companies		-	-	158
Prepayments		1	-	13
Accrued income interest from Group companies		16,747	11,756	4,005
Cash and cash equivalents		262	216	252
Total current assets		17,010	11,973	4,428
Total assets		1,899,809	1,770,861	1,895,474
Equity and liabilities				
Equity				
Share capital		56	56	56
Other paid in capital		569,170	569,170	569,170
Retained earnings		21,263	16,515	41,538
Total equity		590,490	585,741	610,764
Non-current liabilities				
Long-term borrowings	1	1,224,586	1,132,639	1,230,953
Liabilities to Group companies		62,390	33,190	44,270
Deferred tax liabilities		109	-	109
Total non-current liabilities		1,287,085	1,165,829	1,275,332
Current liabilities				
Accrued interest expenses	1	21,204	19,291	5,733
Accrued interest expense to Group companies		1,030	-	228
Other current liabilities to Group companies		-	-	3,417
Total current liabilities		22,234	19,291	9,378
Total equity and liabilities		1,899,809	1,770,861	1,895,474

Parent Company Statements of Changes in Equity

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2019	56	569,170	41,538	610,764
Result for the period	-	-	(20,275)	(20,275)
Balance at September 30, 2019	56	569,170	21,263	590,489

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, 2018	56	569,170	1,075,664	1,644,890
Result for the period	-	-	358,551	358,551
Dividend	-	-	(1,448,025)	(1,448,025)
Shareholders contribution	-	-	55,348	55,348
Balance at December 31, 2018	56	569,170	41,538	610,764

Parent Company Statements of Cash Flows

EUR thousand	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Operating activities				
Operating profit	(10)	-	(14)	(7)
Cash flow from operating activities before change in working capital				
	(10)	-	(14)	(7)
Change in working capital				
<i>Cash flow from change in working capital</i>	4	1	(3,247)	(3,999)
Cash flow from operating activities	(6)	1	(3,261)	(4,006)
Investing activities				
Cash flow from investing activities	-	-	-	-
Financing activities				
New loans from Group companies	2,600	-	18,121	6,906
Paid bank and advisory fees	(340)	-	(385)	1,730
Net interest paid	(2,069)	-	(14,465)	(7,673)
Cash flow from financing activities	191	-	3,271	963
Cash flow for the period	185	1	10	(3,043)
Cash and cash equivalents at start of period	77	215	252	3,257
Exchange difference on translating cash and cash equivalents	-	-	-	2
Cash and cash equivalents at end of period	262	216	262	216

Note to the Unaudited Parent Company Financial Statements

The parent company Verisure Midholding AB applies the Swedish Financial Reporting Board's recommendation "RFR 2". The accounting policies are unchanged compared with those applied in 2018.

These financial statements should be read in conjunction with the Annual Report 2018.

Note 1 Borrowings

EUR thousand	Sep 2019			Sep 2018		
	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
Unsecured						
Senior Unsecured Notes	21,194	1,224,586	1,245,780	19,291	1,132,639	1,151,930
Total (carrying amount)	21,194	1,224,586	1,245,780	19,291	1,132,639	1,151,930

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

Quarterly summary

Key figures

EUR thousand (if not otherwise stated)	Jul-Sep 2019	Apr-Jun 2019	Jan-Mar 2019	Oct-Dec 2018	Jul-Sep 2018
Portfolio services segment:					
<i>Unaudited operating data</i>					
Total subscribers (end of period), units	3,236,226	3,130,810	3,027,674	2,930,753	2,840,897
Cancellation, units	48,245	48,274	48,280	44,836	41,539
Attrition rate (LTM)	6.3%	6.2%	6.2%	6.2%	6.2%
Net subscriber growth, units ¹	105,416	103,136	96,921	89,856	86,794
Subscriber growth rate, net	13.9%	13.7%	13.6%	13.3%	13.5%
Average monthly revenue per user (ARPU), (in EUR)	41.0	41.3	41.5	40.2	40.0
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	28.7 ²	28.7	28.4	26.8	27.0
<i>Non-IFRS and IFRS financial data</i>					
Portfolio services revenue	391,992	380,739	370,176	348,407	336,515
Portfolio services adjusted EBITDA	275,041 ³	264,689	253,727	232,438	226,750
Portfolio services adjusted EBITDA margin	70.2%	69.5%	68.5%	66.7%	67.4%
Customer acquisition segment:					
<i>Unaudited operating data</i>					
New subscribers added (gross)	153,661	151,410	145,201	134,692	128,333
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,209 ⁴	1,194	1,169	1,206	1,233
<i>Non-IFRS and IFRS financial data</i>					
Customer acquisition revenue	79,795	80,813	83,261	80,698	62,945
Customer acquisition adjusted EBITDA	(78,820) ⁵	(77,140)	(68,515)	(67,683)	(69,048)
Customer acquisition capital expenditures	106,891	103,659	101,155	94,736	89,156
Adjacencies segment:					
<i>Unaudited operating data</i>					
Adjacencies revenue	5,285	5,392	5,130	3,077	4,605
Adjacencies adjusted EBITDA	382	432	436	(342)	(84)
Consolidated:					
<i>Unaudited operating data</i>					
Payback period (in years)	3.5 ⁶	3.5	3.4	3.8	3.8
<i>Non-IFRS and IFRS financial data</i>					
Revenue	477,072	466,944	458,567	432,182	404,065
Organic revenue growth	18.8%	19.7%	20.3%	21.3%	19.1%
Adjusted EBITDA	196,603 ⁷	187,981	185,648	164,413	157,618
Adjusted EBITDA margin	41.2%	40.3%	40.5%	38.0%	39.0%
Capital expenditures	141,849	141,892	135,733	145,154	122,748
Reported (including SDI)					
Revenue	477,072	466,944	458,567	432,182	404,065
Reported Adjusted EBITDA	183,711 ⁷	178,643	179,733	153,528	153,083

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

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

3) Includes the effect from IFRS 16 of EUR 3,278 thousand.

4) Includes the effect from IFRS 16 of EUR 53.

5) Includes the effect from IFRS 16 of EUR 8,133 thousand.

6) Includes the effect from IFRS 16 of 0.2 years.

7) Includes the effect from IFRS 16 of EUR 11,411 thousand.

All amounts are before SDI, unless otherwise stated, but include IFRS 15 with adjustment of 2018 comparatives. 2019 includes effects from adoption of IFRS 16 with no restatement of 2018 comparatives.

Malmö, November 18, 2019

Austin Lally
CEO

Stefan Götz

Adrien Motte

Cecilia Hultén
Chairman

Fredrik Östman