

Verisure Midholding AB (publ)

Interim report January-December 2018



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

Key operating highlights for the forth quarter ending December 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 2.9 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 fourth 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 432.2 million for the fourth quarter 2018 which is an increase of 20.0% from EUR 360.2 million the same period last year. Adjusted for currency effects, total reported revenues grew by 21.4% in the quarter. Revenues, before SDI adjustment, amounted to EUR 428.6 million for the fourth quarter 2018, up from EUR 366.2 million in 2017, which is an increase of 17.0% as reported and 18.4% in constant currencies. For the full year of 2018 total reported revenues increased by 17.5% to EUR 1,612.5 million compared to EUR 1,372.4 million in 2017. Adjusted for currency effect, total reported revenues grew by 19.6% for the full year. Revenues excluding SDI grew by 16.5 % to 1,624.8 million for the full year 2018. In constant currencies this corresponds to an annual revenue growth of 18.6%.
- Portfolio adjusted EBITDA improved to EUR 232.4 million from EUR 196.0 million in Q4 2017 corresponding to an increase of 18.6%. Adjusted for currency effects, portfolio adjusted EBITDA improved by 19.9% in the quarter. For the full year of 2018 portfolio adjusted EBITDA amounted to EUR 890.7 million, which is an increase of 17.2% in actual currencies and 19.3% in constant currencies compared to 2017. Portfolio services adjusted EBITDA margin strengthened to 67.0% for the full year, an increase of 140 basis points compared to same period in 2017.
- Total reported adjusted EBITDA increased by 23.6.% to EUR 153.5 million in Q4 2018 from EUR 124.2 million in Q4 2017. Total adjusted EBITDA, before SDI, improved to EUR 160.8 million from EUR 140.3 million in Q4 2017, which is an increase of 14.6% as reported and 16.3% adjusted for currency effects. For the full year 2018, total reported adjusted EBITDA amounted to EUR 583.5 million, which is an increase of 16.6% compared to EUR 500.4 million in 2017. Excluding impact of SDI, adjusted EBITDA improved to EUR 622.9 million for the year, an increase of 11.7%. Adjusted for currency effect and SDI, total adjusted EBITDA grew by 14.0% for 2018.
- Net subscriber growth was 89,856 in the quarter and 344,630 for the full year 2018 which is an acceleration from last year's level of 83,317 in Q4 and 292,130 for the full year of 2017. At the end of the quarter the portfolio had grown to 2,930,753 customers, up 13.3% from 2,586,123 the same period last year. This annual portfolio growth of 13.3% in 2018 was all organic growth and an acceleration of the growth rate compared to previous years (in 2017 the organic portfolio growth was 12.4% and in 2016 10.8%).

During the fourth quarter in 2018 the group reached its highest quarter ever with regards to new customer additions, 134,692, which is an increase of 16.2% from Q4 in 2017. For the full year 2018 the company added 515,624 new customers in the portfolio, which is an increase of 17.3% compared to 2018. Cancellations continued to be at a low level and the attrition was further reduced to 6.2% compared to 6.3% 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 17.0% in the quarter and 16.5% for the full year (excluding SDI). ARPU increased to EUR 40.2 in the quarter, which is an increase of 3.3 % adjusted for currency effects from last year. EPC accelerated to EUR 26.8 for the quarter, corresponding to an increase of 5.7% 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 232.4 million in the quarter and EUR 890.7 million for the full of 2018, corresponding to an increase of 18.6% in the quarter and 17.2% for the full year (19.9% and 19.3 % in constant currencies). On an annualized basis our portfolio EBITDA is now over EUR 900 million. Cash flow from operating activities amounted to EUR 557.7 million for the full year 2018, which is an increase from EUR 520.6 million in 2017.

We are further strengthening our sales organization across our geographies and continue to have success with expansion. We are very pleased with our progress in newer countries e.g. Italy and UK and the strong growth rates experienced in Latin America of more than 25% 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)	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Portfolio services segment:				
Total subscribers (year-end), units	2,930,753	2,586,123	2,930,753	2,586,123
Cancellation, units	44,836	39,887	171,099	153,369
Attrition rate (LTM)	6.2%	6.3%	6.2%	6.3%
Net subscriber growth, units ¹	89,856	83,317	344,630	292,130
Subscriber growth rate, net	13.3%	12.7%	13.3%	12.7%
Average monthly revenue per user (ARPU), (in EUR)	40.2	39.4	40.2	39.7
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	26.8	25.7	26.9	26.0
Portfolio revenue	348,407	300,932	1,329,536	1,158,096
Portfolio adjusted EBITDA	232,438	196,005	890,704	759,909
Portfolio adjusted EBITDA margin	66.7%	65.1%	67.0%	65.6%
Customer acquisition segment:				
New subscribers added (gross)	134,692	115,885	515,624	439,687
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,232	1,184	1,196	1,167
Customer acquisition revenue	77,128	64,784	279,147	234,478
Customer acquisition adjusted EBITDA	(71,253)	(55,779)	(265,444)	(202,819)
Capital expenditures	94,736	81,435	351,304	310,407
Adjacencies segment:				
Adjacencies revenue	3,077	493	16,167	2,183
Adjacencies adjusted EBITDA	(342)	77	(2,322)	464
Consolidated:				
Payback period (in years)	3.8	3.8	3.7	3.7
Revenue	428,612	366,209	1,624,849	1,394,757
Organic revenue growth	21.3%	15.0%	19.4%	17.4%
Adjusted EBITDA	160,843	140,305	622,938	557,554
Adjusted EBITDA margin	37.5%	38.3%	38.3%	40.0%
Capital expenditures	145,154	130,291	500,138	429,075
Reported (including SDI)				
Revenue	432,182	360,190	1,612,525	1,372,409
Adjusted EBITDA	153,528	124,245	583,549	500,424

- 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 December 31, 2018 and 2017

Results excluding SDI

EUR million	Oct-Dec 2018	Oct-Dec 2017	Percentage change
Revenue	428.6	366.2	17.0%
Operating expenses	(269.7)	(228.0)	18.3%
Other income	1.9	2.1	(6.8)%
Adjusted EBITDA	160.8	140.3	14.6%
<i>Adjusted EBITDA margin, %</i>	<i>37.5%</i>	<i>38.3%</i>	-
Depreciation and amortization	(49.4)	(37.9)	30.4%
Retirement of assets	(16.2)	(15.1)	6.8%
Operating profit	95.2	87.3	9.2%
<i>Operating profit margin, %</i>	<i>22.2%</i>	<i>23.8%</i>	-
Interest income and cost	(47.4)	(42.0)	12.8%
Other financial items	(0.9)	(0.8)	(45.8)%
Result before taxes and SDI	46.9	44.4	6.6%

Revenue

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

EUR million	Oct-Dec 2018	Oct-Dec 2017	Percentage change
Revenue by segment			
Portfolio services	348.4	300.9	15.8%
Customer acquisition	77.1	64.8	19.1%
Adjacencies	3.1	0.5	524.1%
TOTAL	428.6	366.2	17.0%

Revenue in the fourth quarter 2018 increased by 17.0%, or EUR 62.4 million, to EUR 428.6 million, up from EUR 366.2 million in the prior period. Organic revenue growth was 21.3%, primarily due to the larger customer base and higher average monthly revenue per user. The customer base on December 31, 2018 was 2,930,753, an increase from 2,586,123 on December 31, 2017, reflecting continued success in new customer acquisition and low attrition.

Revenue for portfolio services in the fourth quarter 2018 increased by 15.8%, or EUR 47.5 million, to EUR 348.4 million, up from EUR 300.9 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 December 31, 2018, increased by 19.1%, or EUR 12.3 million, to EUR 77.1 million, up from EUR 64.8 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 forth quarter 2018, increased by 18.3%, or EUR 41.7 million, to EUR 269.7 million, up from EUR 228.0 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 December 31, 2018, increased by 14.6% or EUR 20.5 million to EUR 160.8 million, up from EUR 140.3 million in the prior period. The increase in adjusted EBITDA was mainly driven by the increased customer base, higher average revenue per user and improved operational efficiency.

Depreciation and amortization

Depreciation and amortization increased to EUR 49.4 million in the three months ending December 31, 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 16.2 million in the forth quarter of 2018, up from EUR 15.1 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 December 31, 2018, and 0.1 in the corresponding period prior year. Interest cost amounted to EUR 47.5 million up from EUR 42.1 million in the prior period driven by higher indebtedness.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 0.9 million and EUR 0.8 million for the three months ended December 31, 2018 and 2017 respectively.

Reported consolidated income statement for the three months ending December 31, 2018 and 2017

EUR million	Oct-Dec 2018			Oct-Dec 2017		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	428.6	3.6	432.2	366.2	(6.0)	360.2
Operating expenses	(269.7)	(10.9)	(280.6)	(228.0)	(10.0)	(238.0)
Other income	1.9	-	1.9	2.1	-	2.1
Adjusted EBITDA	160.8	(7.3)	153.5	140.3	(16.0)	124.3
Depreciation and amortization	(49.4)	(38.3)	(87.7)	(37.9)	(38.3)	(76.2)
Retirements of assets	(16.2)	-	(16.2)	(15.1)	-	(15.1)
Operating Profit	95.2	(45.6)	49.6	87.3	(54.4)	32.9
Interest income and cost	(47.4)	-	(47.4)	(42.0)	9.3	(32.7)
Other financial items	(0.9)	(74.3)	(75.3)	(0.8)	(74.3)	(75.1)
Result before tax	46.9	(119.9)	(73.0)	44.4	(119.4)	(74.9)
Income tax benefit and expense	-	-	(6.2)	-	-	(8.8)
Result for the period	-	-	(79.3)	-	-	(83.8)

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 positive EUR 3.6 million and negative 6.0 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 fourth quarter 2018, the costs amounted to EUR 10.9 million and EUR 10.0 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 38.3 million for the fourth 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 for the fourth quarter was a cost of EUR 74.3 million compared to EUR 74.3 million for the same quarter 2017. Other financial items consist of a negative non-cash FX valuation of debt items plus market revaluation of hedges in total amounting to EUR 30.7 million, a cost related to amortization and write off of prepaid funding fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 24.7 million and a call cost of EUR 18.9 million for a secured bond repaid in full at the November 2018 refinancing. For the three months ending December 31, 2017, the corresponding respective amounts were a cost of EUR 6.1 million for non-cash revaluations, a cost of EUR 25.0 million of prepaid funding fee charges and a cost of 43.3m for call fees on repaid debt from November 2017 refinancing.

Income tax benefit and expense

Total tax cost was EUR 6.2 million in the quarter compared to a cost of EUR 8.8 million last year. Current tax cost was EUR 12.4 million in Q3 2018 compared to EUR 13.7 million in 2017. The corresponding amounts for deferred tax were a benefit of EUR 6.2 million in Q3 2018 and EUR 4.9 million in 2017.

Cash flow

EUR million	Oct-Dec 2018	Oct-Dec 2017
Cash flow from operating activities before change in working capital	139.1	112.8
Change in working capital	18.1	36.6
Cash flow from operating activities¹	157.1	149.3
Cash flow from investing activities	(146.3)	(135.7)
Cash flow from financing activities ²	(12.8)	(7.9)
Cash flow for the period	(2.0)	5.7
Cash and cash equivalents at beginning of period	10.5	8.6
Translation differences on cash and cash equivalents	-	(0.1)
Cash and cash equivalents at end of period	8.6	14.2

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 157.1 million and EUR 149.3 million for the three months ending December 31, 2018 and 2017 respectively. The increase compared to corresponding period previous year is mainly due to further improvements in profitability.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 146.3 million and EUR 135.7 million for the three months ending December 31, 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 12.8 million and EUR 7.9 million for the three months ending December 31, 2018 and 2017 respectively. The total included net paid interest of EUR 80.1 million, a net increase in borrowings of EUR 453.9 million, paid distribution of EUR 352.5 million and paid November 2018 funding fees including other financial items totaling EUR 34.1million. For the corresponding period last year the amounts were EUR 51.9 million of net paid interest, a net increase in borrowings of EUR 1,152.0 million, paid distribution of EUR 1,036.7 million and paid November 2017 funding fees including other financial items totaling EUR 71.3 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 2018 refinancing.

Twelve months ending December 31, 2018 and 2017

Results excluding SDI

EUR million	Jan-Dec 2018	Jan-Dec 2017	Percentage change
Revenue	1,624.8	1,394.8	16.5%
Operating expenses	(1,008.9)	(844.7)	19.4%
Other income	7.0	7.5	(6.9)%
Adjusted EBITDA	622.9	557.6	11.7%
<i>Adjusted EBITDA margin, %</i>	<i>38.3%</i>	<i>40.0%</i>	-
Depreciation and amortization	(180.1)	(145.5)	23.8%
Retirement of assets	(60.3)	(49.8)	21.0%
Operating profit	382.6	362.3	5.6%
<i>Operating profit margin, %</i>	<i>23.5%</i>	<i>26.0%</i>	-
Interest income and cost	(184.2)	(164.3)	12.2%
Other financial items	(3.3)	(3.2)	5.6%
Result before taxes and SDI	195.0	194.8	0.1%

Revenue

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

EUR million	Jan-Dec 2018	Jan-Dec 2017	Percentage change
Revenue by segment			
Portfolio services	1,329.5	1,158.1	14.8%
Customer acquisition	279.1	234.5	19.1%
Adjacencies	16.2	2.2	640.6%
TOTAL	1,624.8	1,394.8	16.5%

Revenue in the twelve months ending December 31, 2018 increased by 16.5%, or EUR 230.0 million, to EUR 1,624.8 million, up from EUR 1,394.8 million in the prior period. Organic revenue growth was 19.4%, primarily due to the increasing customer base and higher average monthly revenue per user. The customer base on December 31, 2018 was 2,930,753, an increase from 2,586,123 on December 31, 2017, reflecting continued success in new customer acquisition and low attrition.

Revenue for portfolio services in the twelve months ending December 31, 2018, increased by 14.8%, or EUR 171.4 million, to EUR 1,329.5 million, up from EUR 1,158.1 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 twelve months ending December 31, 2018, increased by 19.1%, or EUR 44.6 million, to EUR 279.1 million, up from EUR 234.5 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 twelve months ending December 31, 2018, increased by 19.4%, or EUR 164.2 million, to EUR 1,008.9 million, up from EUR 844.7 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 twelve months ending December 31, 2018, increased by 11.7% or EUR 65.3 million to EUR 622.9 million, up from EUR 557.6 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.

Depreciation and amortization

Depreciation and amortization increased to EUR 180.1 million in the twelve months ending December 31, 2018, up from EUR 145.5 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization has increased mainly due to the increased number of customers and to some extent increased investments in R&D.

Retirement of assets

Retirements of assets increased to EUR 60.3 million in the twelve months ending December 31, 2018, up from EUR 49.8 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 twelve months ending December 31, 2018, and 0.2 in the corresponding period prior year. Interest cost amounted to EUR 184.5 million, up from EUR 164.5 million in the prior period 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 3.3 million and EUR 3.2 million for the twelve months ended December 31, 2018 and 2017 respectively.

Reported consolidated income statement for the twelve months ending December 31, 2018 and 2017

EUR million	Jan-Dec 2018			Jan-Dec 2017		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	1,624.8	(12.3)	1,612.5	1,394.8	(22.3)	1,372.4
Operating expenses	(1,008.9)	(27.1)	(1,036.0)	(844.7)	(34.8)	(879.5)
Other income	7.0	-	7.0	7.5	-	7.5
Adjusted EBITDA	622.9	(39.4)	583.5	557.6	(57.1)	500.4
Depreciation and amortization	(180.1)	(153.2)	(333.3)	(145.5)	(153.0)	(298.5)
Retirements of assets	(60.3)	-	(60.3)	(49.8)	-	(49.8)
Operating Profit	382.6	(192.6)	190.0	362.3	(210.1)	152.1
Interest income and cost	(184.2)	30.6	(153.7)	(164.3)	9.3	(155.0)
Other financial items	(3.3)	(136.9)	(140.3)	(3.2)	(96.9)	(100.1)
Result before tax	195.0	(299.0)	(103.9)	194.8	(297.7)	(102.9)
Income tax benefit and expense	-	-	(25.4)	-	-	2.8
Result for the period	-	-	(129.3)	-	-	(100.1)

Separately disclosed items (SDI)

IFRS 15 adjustment affecting revenue

IFRS 15's main effect on the Group is related to the allocation of standalone selling price to the performance obligations installation (recognized at point in time) and portfolio service (recognized over the contract period). Part of the installation revenue has been recognized at a later time than according to previous standards and has affected the revenue negative EUR 12.3 million and 22.3 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 twelve months ending December 2018, the costs amounted to EUR 27.1 million and EUR 34.8 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 153.2 million and EUR 153.0 million for the twelve months ending December 31, 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 EUR 9.3 million for the twelve months ending December 31, 2018 and 2017 respectively.

SDI affecting other financial items

SDI affecting other financial items for the twelve months was a cost of EUR 136.9 million compared to EUR 96.9 million for the same period last year. Other financial items consist of a negative non-cash FX valuation of debt items plus market revaluation of hedges in total amounting to EUR 63.0 million, a cost related to amortization and write off of prepaid bank fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 55.0 million and a call cost of EUR 18.9 million for a secured bond repaid in full at the November 2018 refinancing. For the twelve months ending December 31, 2017, the corresponding respective amounts were a cost of EUR 15.0 million for non-cash revaluations, a cost of EUR 36.5 million of prepaid funding fee charges and a cost of 45.4m for call fees on repaid debt from November 2017 refinancing including March 2017 bond redemption.

Income tax benefit and expense

Total tax cost was EUR 25.4 million in the twelve months ending December 31, 2018, compared to a benefit of EUR 2.8 million last year. Current tax cost was EUR 41.1 million in the twelve months ending December 31, 2018, compared to EUR 39.4 million in 2017. The difference between the years is due to higher profit in 2018 partly offset by lower tax rate in some countries. The corresponding amounts for deferred tax were a benefit of EUR 15.7 million in the twelve months ending December 31, 2018, and EUR 42.2 million in 2017.

Cash flow

EUR million	Jan-Dec 2018	Jan-Dec 2017
Cash flow from operating activities before change in working capital	543.3	486.6
Change in working capital	14.4	34.1
Cash flow from operating activities¹	557.7	520.6
Cash flow from investing activities	(508.3)	(436.7)
Cash flow from financing activities ²	(54.9)	(75.4)
Cash flow for the period	(5.5)	8.5
Cash and cash equivalents at beginning of period	14.2	6.0
Translation differences on cash and cash equivalents	(0.1)	(0.2)
Cash and cash equivalents at end of period	8.6	14.2

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 557.7 million and EUR 520.6 million for the twelve months ending December 31, 2018 and 2017 respectively. The increase compared to corresponding period previous year is primarily due to the improvements in profitability.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 508.3 million and EUR 436.7 million for the twelve months ending December 31, 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 54.9 million and EUR 75.4 million for the twelve months ending December 31, 2018 and 2017 respectively. The total included net paid interest of EUR 194.2 million, a net increase in borrowings of EUR 551.0 million, paid distribution of EUR 370.5 million and paid November 2018 funding fees including other financial items totaling EUR 41.1million. For the corresponding period last year the amounts were EUR 181.4 million of net paid interest, a net increase in borrowings of EUR 1,216.6 million, paid distribution of EUR 1,036.7 million and paid November 2017 funding fees including other financial items totaling EUR 74.0 million. The change in net paid interest compared to previous year is mainly due to higher indebtedness.

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 December 31, 2018 and 2017:

EUR million	Oct-Dec 2018	Oct-Dec 2017
Customer Acquisition capital expenditures, material	50.8	44.0
Customer Acquisition capital expenditures, direct costs	43.9	37.4
Portfolio capital expenditures	13.0	11.8
Agencies capital expenditures	1.1	-
Capital expenditures other	36.4	37.1
Total	145.2	130.3

Capital expenditures were EUR 145.2 million for the three months ending December 31, 2018 and EUR 130.3 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 twelve months ending December 31, 2018 and 2017:

EUR million	Jan-Dec 2018	Jan-Dec 2017
Customer Acquisition capital expenditures, material	184.7	169.5
Customer Acquisition capital expenditures, direct costs	166.6	140.9
Portfolio capital expenditures	47.5	40.2
Agencies capital expenditures	8.6	-
Capital expenditures other	92.7	78.5
Total	500.1	429.1

Capital expenditures were EUR 500.1 million for the twelve months ending December 31, 2018 and EUR 429.1 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.

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 December 31, 2018, the group had a total of EUR 227.9 million of available funds compared to EUR 293.0 million as of December 31, 2017.

EUR million	Dec 2018	Dec 2017
Revolver Credit Facility	300.0	300.0
Cash and cash equivalents	8.6	14.2
Drawn facility amount	(73.0)	(13.4)
Utilized letter of credit	(7.7)	(7.8)
Total available funds	227.9	293.0

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

EUR million	Dec 2018	Dec 2017
Senior Secured Notes	300.0	630.0
Term Loan B	3,092.0	2,380.0
Revolver Credit Facility	73.0	13.4
Private Unsecured Notes	-	-
Senior Unsecured Notes	1,240.9	1,147.6
Other liabilities	51.4	42.1
Finance leases liability	1.1	1.7
TOTAL	4,758.3	4,214.8

Risks and uncertainties

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

Events during and after the reporting period

During Q4, the company sold another 12.5% minority interest in the Group to Eiffel, a nominated investment vehicle of GIC Special Investments Pte Ltd.

On November 1, Nina Cronstedt joined 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.

On November 16, 2018, the group executed a refinancing where Verisure Holding AB and Verisure Midholding AB in aggregate raised EUR 1,012 million of euro-denominated senior secured debt plus EUR 100 million of euro-denominated senior notes. The gross proceeds were used to redeem all of the outstanding 6% Senior Secured Notes due 2022, to repay outstanding amounts under the Revolving Credit Facility, to make a distribution to shareholders and to pay fees and expenses related to the refinancing.

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	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Revenue ¹	2	432,182	360,191	1,612,525	1,372,409
Cost of sales	3	(227,138)	(193,573)	(857,106)	(734,206)
Gross profit¹		205,044	166,618	755,419	638,203
Selling expenses	3	(57,705)	(44,602)	(216,107)	(167,159)
Administrative expenses	3	(99,621)	(91,185)	(356,279)	(326,411)
Other income ¹		1,919	2,059	6,974	7,493
Operating profit¹		49,637	32,890	190,007	152,126
Finance income		53	9,384	30,885	9,530
Finance costs ¹		(122,737)	(117,219)	(324,828)	(264,558)
Result before tax¹		(73,048)	(74,945)	(103,937)	(102,902)
Income tax expense ¹		(6,240)	(8,805)	(25,392)	2,846
Result for the period¹		(79,288)	(83,750)	(129,328)	(100,056)
Whereof attributable to:					
- Parent company ¹		(80,480)	(83,806)	(130,017)	(99,475)
- Non-controlling interest ¹		1,192	56	689	(581)

1) 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	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Result for the period	(79,288)	(83,750)	(129,328)	(100,056)
Other comprehensive income				
Items that will not be reclassified to the income statement				
Re-measurement of defined benefit plan net of tax	(348)	(651)	(348)	(651)
Items that subsequently may be reclassified to the income statement				
Currency translation differences on foreign operations	10,847	10,183	(4,286)	13,811
Other comprehensive income	10,499	9,532	(4,634)	13,160
Total comprehensive income for the period	(68,789)	(74,218)	(133,962)	(86,897)
Whereof attributable to:				
- Parent company	(69,981)	(74,274)	(134,651)	(86,315)
- Non-controlling interest	1,192	56	689	(581)

Consolidated statements of financial position

EUR thousand	Note	Dec 2018	Dec 2017
ASSETS			
Non-current assets			
Property, plant and equipment		720,960	608,223
Goodwill		868,557	869,598
Customer portfolio		1,034,280	1,077,129
Other intangible assets		167,573	146,230
Deferred tax assets		28,867	24,420
Derivatives	4	17,603	6,062
Trade and other receivables	4	307,341	1,309,739
Total non-current assets		3,145,181	4,041,401
Current assets			
Inventories		102,488	74,911
Trade receivables	4	133,620	123,255
Current tax assets		15,101	13,561
Prepayments and accrued income		34,553	31,405
Other current receivables	4	10,938	28,286
Cash and cash equivalents	4	8,613	14,245
Total current assets		305,313	285,663
TOTAL ASSETS		3,450,494	4,327,064

Consolidated statements of financial position

EUR thousand	Note	Dec 2018	Dec 2017
EQUITY AND LIABILITIES			
Equity			
Share capital		56	56
Other paid in capital		624,517	569,168
Other reserves		43,640	47,926
Retained earnings ²		(2,714,251)	(1,235,132)
Equity attributable to equity holders of the parent company		(2,046,038)	(617,982)
Non-controlling interest ²		(2,745)	(3,434)
Total equity		(2,048,783)	(621,416)
Non-current liabilities			
Long-term borrowings ²	4,5	4,573,202	4,112,790
Derivatives ²	4	6,398	-
Other non-current liabilities	4	120,310	84,838
Deferred tax liabilities ^{1, 2}		254,451	239,414
Other provisions		3,278	2,316
Total non-current liabilities		4,957,640	4,439,361
Current liabilities			
Trade payables	4	125,237	115,846
Current tax liabilities		19,034	16,747
Short-term borrowings	4,5	47,913	53,072
Derivatives	4	3,746	222
Accrued expenses and deferred income ²		316,135	290,935
Other current liabilities	4	29,572	32,297
Total current liabilities		541,637	509,119
TOTAL EQUITY AND LIABILITIES		3,450,494	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	-	-	-	(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 ¹	-	-	-	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)

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

Consolidated statement of changes in equity

EUR thousand	Attributable to equity holders of the parent company					Non-controlling interest	Total equity
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total		
Balance at January 1, 2017 – As reported	56	569,168	34,766	(1,090,386)	(486,396)	(1,846)	(488,242)
Change in accounting principles, Interest floors ¹	-	-	-	1,373	1,373	-	1,373
Balance at January 1, 2017 – As updated comparatives	56	569,168	34,766	(1,089,013)	(485,023)	(1,846)	(486,869)
Change in accounting principles, IFRS 15 ¹	-	-	-	(49,150)	(49,150)	(1,007)	(50,156)
Balance at January 1, 2017 – Adjusted ¹	56	569,168	34,766	(1,138,163)	(534,173)	(2,853)	(537,025)
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>	-	-	13,160	(99,475)	(86,315)	(581)	(86,897)
Group contribution	-	-	-	2,506	2,506	-	2,506
Balance at December 31, 2017 ¹	56	569,168	47,926	(1,235,132)	(617,982)	(3,434)	(621,416)

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

Consolidated statements of cash flows

EUR thousand	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Operating activities				
Operating profit	49,637	38,908	190,007	174,474
Reversal of depreciation and amortization	87,712	76,212	333,292	298,515
Other non-cash items	16,169	15,153	60,251	50,240
Paid taxes	(14,466)	(17,512)	(40,255)	(36,663)
Cash flow from operating activities before change in working capital	139,052	112,761	543,295	486,566
Change in working capital				
Change in inventories	6,442	11,114	(28,757)	(13,555)
Change in trade receivables	(8,019)	(19,936)	(10,432)	(33,195)
Change in other receivables	(305)	(7,715)	(25,586)	(20,352)
Change in trade payables	19,218	32,939	11,041	31,136
Change in other payables	727	20,149	68,123	70,040
<i>Cash flow from change in working capital</i>	<i>18,064</i>	<i>36,551</i>	<i>14,390</i>	<i>34,074</i>
Cash flow from operating activities	157,117	149,313	557,684	520,641
Investing activities				
Purchase of intangible assets	(71,164)	(63,548)	(247,042)	(200,338)
Purchase of property, plant and equipment	(73,990)	(66,743)	(253,374)	(228,737)
Settlement of deferred consideration	(1,099)	-	(4,685)	-
Acquisition of non-controlling interest	-	-	(3,248)	(2,500)
Acquisition/disposal of subsidiaries	-	(5,453)	-	(5,167)
Cash flow from investing activities	(146,253)	(135,745)	(508,349)	(436,743)
Financing activities				
Change in revolver credit facility	(28,141)	3,047	68,294	(12,288)
Paid bank and advisory fees	(10,856)	(19,061)	(12,608)	(23,277)
New financing	1,112,000	1,839,890	1,112,000	1,989,890
Repayment of debt	(630,000)	(690,980)	(630,000)	(760,980)
Call cost old debt	(18,900)	(43,217)	(18,900)	(45,317)
Loan to related party	-	(1,036,675)	-	(1,036,675)
Net interest paid	(80,095)	(51,869)	(194,212)	(181,419)
Paid distribution	(352,528)	-	(370,528)	-
Repayment of other non-current receivables	-	-	691	-
Other financial items	(4,318)	(9,041)	(9,592)	(5,377)
Cash flow from financing activities	(12,837)	(7,905)	(54,854)	(75,442)
Cash flow for the period	(1,974)	5,662	(5,520)	8,456
Cash and cash equivalents at start of period	10,543	8,636	14,245	5,985
Exchange difference on translating cash and cash equivalents	44	(54)	(112)	(195)
Cash and cash equivalents at end of period	8,613	14,245	8,613	14,245

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

For information regarding IFRS 16, refer to note 8.

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.

Oct-Dec 2018						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	77,128	348,407	3,077	428,612	3,570	432,182
Adjusted EBITDA	(71,253)	232,438	(342)	160,843	(7,315)	153,528
Depreciation and amortization	-	-	-	(49,421)	(38,291)	(87,712)
Retirements of assets	-	-	-	(16,177)	-	(16,177)
Operating profit	-	-	-	95,243	(45,606)	49,637
Financial items	-	-	-	(48,335)	(74,348)	(122,683)
Profit before tax	-	-	-	46,908	(119,954)	(73,048)

Oct-Dec 2017						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	64,783	300,932	493	366,208	(6,018)	360,191
Adjusted EBITDA	(55,779)	196,007	77	140,305	(16,060)	124,245
Depreciation and amortization	-	-	-	(37,902)	(38,310)	(76,212)
Retirements of assets	-	-	-	(15,144)	-	(15,144)
Operating profit	-	-	-	87,259	(54,370)	32,890
Financial items	-	-	-	(42,826)	(65,009)	(107,835)
Profit before tax	-	-	-	44,433	(119,379)	(74,945)

Jan-Dec 2018						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	279,147	1,329,536	16,167	1,624,849	(12,324)	1,612,525
Adjusted EBITDA	(265,444)	890,704	(2,322)	622,938	(39,389)	583,549
Depreciation and amortization	-	-	-	(180,083)	(153,209)	(333,292)
Retirements of assets	-	-	-	(60,251)	-	(60,251)
Operating profit	-	-	-	382,606	(192,599)	190,007
Financial items	-	-	-	(187,563)	(106,380)	(293,943)
Profit before tax	-	-	-	195,043	(298,979)	(103,937)

Jan-Dec 2017						
EUR thousand	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	234,478	1,158,096	2,183	1,394,757	(22,348)	1,372,409
Adjusted EBITDA	(202,819)	759,909	464	557,554	(57,130)	500,424
Depreciation and amortization	-	-	-	(145,517)	(152,999)	(298,516)
Retirements of assets	-	-	-	(49,782)	-	(49,782)
Operating profit	-	-	-	362,255	(210,129)	152,126
Financial items	-	-	-	(167,418)	(87,612)	(255,028)
Profit before tax	-	-	-	194,835	(297,740)	(102,902)

Note 3 Depreciation and amortization

EUR thousand	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Property, plant and equipment	25,664	20,144	94,661	81,053
Acquisition-related intangible assets	38,291	38,310	153,209	152,999
Other intangible assets	23,756	17,758	85,422	64,464
Total depreciation and amortization	87,712	76,212	333,292	298,516

Note 4 Financial risk management

Financial instruments by category and valuation level

EUR thousand	Dec 2018	Dec 2017
Currency	17,603	6,062
Total	17,603	6,062
Currency	10,144	222
Total	10,144	222
Trade and other receivables	307,341	1,309,739
Trade receivables ²	133,620	123,255
Other current receivables ²	10,938	28,286
Cash and cash equivalent	8,613	14,245
Long-term borrowings ³	4,573,202	4,112,790
Other non-current liabilities	120,310	83,870
Trade payables ²	125,237	115,846
Short-term borrowings ²	47,913	53,072
Other current liabilities ²	29,572	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	Dec 2018			Dec 2017		
	Principal amount	Adjustment amortized costs	Carrying amount	Principal amount	Adjustment amortized costs	Carrying amount
<i>Secured</i>						
Senior Secured Notes	300,000	(2,726)	297,274	630,000	(13,186)	616,814
Term Loan B ^{1, 2}	3,092,000	(140,947)	2,951,053	2,380,000	(40,413)	2,339,587
Revolver Credit Facility	72,966	(4,260)	68,706	13,437	(5,855)	7,582
<i>Unsecured</i>						
Senior Unsecured Notes	1,240,900	(9,947)	1,230,953	1,147,618	(12,639)	1,134,979
Liabilities to other creditors	24,437	-	24,437	12,630	-	12,630
Finance lease liability	779	-	779	1,198	-	1,198
Long-term borrowings	4,731,082	(157,880)	4,573,202	4,184,883	(72,093)	4,112,790
Accrued interest expenses	20,700	-	20,700	23,195	-	23,195
Other liabilities	26,914	-	26,914	29,420	-	29,420
Finance leases liability	299	-	299	457	-	457
Short-term borrowings	47,913	-	47,913	53,072	-	53,072
Total borrowings	4,778,995	(157,880)	4,621,115	4,237,955	(72,093)	4,165,862

- 1) Of the total amount regarding adjustment amortized costs 2018, (98,652) 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	Dec 2018	Dec 2017
Total principal amount (as above)	4,778,995	4,237,955
Less accrued interest	(20,700)	(23,195)
Indebtness	4,758,295	4,214,760
Less financial receivable, non-current	-	(691)
Less cash and cash equivalents	(8,613)	(14,245)
Net debt	4,749,682	4,199,824

Note 6 Pledged assets and contingent liabilities

EUR thousand	Dec 2018	Dec 2017
Endowment insurance	664	417
Shares in subsidiaries	1,972,560	1,734,614
Bank accounts	503	3,074
Trademark	53,333	58,333
Accounts receivables	74,195	72,589
Inventories	61,816	44,390
Motor vehicles	10	21
Guarantees	25,068	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

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. An update of the transition effect have been done during Q4, which have resulted in an adjusted amount on equity and the balance sheet items specified below, please see the effect as of January 1st 2017 as well as December 31st 2017 below. This change have no effect on the amounts in the income statement.

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 Q4 report 2017 IFRS 15. The adjustments related to the Income statement is summarized below.

EUR thousand	Oct-Dec 2017 – As reported	Adjustment – Timing of revenue recognition	Adjustment – Classification of revenue	Oct-Dec 2017 – Adjusted
Revenue	368,268	(6,018)	(2,059)	360,191
Cost of sales	(193,573)	-	-	(193,573)
Gross profit	174,695	(6,018)	(2,059)	166,618
Selling expenses	(44,602)	-	-	(44,602)
Administrative expenses	(91,185)	-	-	(91,185)
Other income	-	-	2,059	2,059
Operating profit	38,908	(6,018)	-	32,890
Finance income	9,384	-	-	9,384
Finance costs	(117,219)	-	-	(117,219)
Result before tax	(68,927)	(6,018)	-	(74,945)
Income tax expense	(10,129)	1,324	-	(8,805)
Result for the period	(79,056)	(4,694)	-	(83,750)

EUR thousand	Jan-Dec 2017 – As reported	Adjustment – Timing of revenue recognition	Adjustment – Classification of revenue	Jan-Dec 2017 – Adjusted
Revenue	1,402,250	(22,348)	(7,493)	1,372,409
Cost of sales	(734,206)	-	-	(734,206)
Gross profit	668,044	(22,348)	(7,493)	638,203
Selling expenses	(167,159)	-	-	(167,159)
Administrative expenses	(326,411)	-	-	(326,411)
Other income	-	-	7,493	7,493
Operating profit	174,474	(22,348)	-	152,126
Finance income	9,530	-	-	9,530
Finance costs	(264,558)	-	-	(264,558)
Result before tax	(80,554)	(22,348)	-	(102,902)
Income tax expense	(2,071)	4,917	-	2,846
Result for the period	(82,625)	(17,432)	-	(100,056)

EUR thousand	December 31 st 2016 ¹⁾	IFRS 15 effect as of January 1 st 2017	January 1 st 2017 - Adjusted
Total non-current assets	2,900,863	-	2,900,863
Total current assets	217,497	-	217,497
Total assets	3,118,360	-	3,118,360
Retained earnings	(1,089,014)	(49,150)	(1,138,164)
Equity attributable to equity holders of the parent company	(485,023)	(49,150)	(534,173)
Non-controlling interest	(1,846)	(1,007)	(2,853)
Total equity	(486,869)	(50,157)	(537,026)
Other non-current liabilities	14,715	30,915	45,630
Deferred tax liabilities ¹	282,579	(18,112)	264,467
Total non-current liabilities	3,196,692	12,803	3,209,495
Accrued expenses and deferred income	210,639	37,353	247,992
Total current liabilities	408,537	37,353	445,890
Total equity and liabilities	3,118,360	-	3,118,360

1) As presented as comparatives 2017 after adjustment of Interest floors

EUR thousand	December 31 st 2017 – As reported	Adjustment of IFRS 15, as previously presented	December 31 st 2017 – Previously presented new comparatives	Adjustment of IFRS 15 transition effect ¹⁾	December 31 st 2017 – New comparatives
Total non-current assets	4,041,401	-	4,041,401	-	4,041,401
Total current assets	285,663	-	285,663	-	285,663
Total assets	4,327,064	-	4,327,064	-	4,327,064
Retained earnings	(1,169,176)	(16,806)	(1,185,982)	(49,150)	(1,235,132)
Equity attributable to equity holders of the parent company	(552,026)	(16,806)	(568,832)	(49,150)	(617,982)
Non-controlling interest	(1,802)	(625)	(2,427)	(1,007)	(3,434)
Total equity	(553,828)	(17,431)	(571,259)	(50,157)	(621,416)
Other non-current liabilities	41,795	-	41,795	43,043	84,838
Deferred tax liabilities ¹	262,443	(4,917)	257,526	(18,112)	239,414
Total non-current liabilities	4,419,344	(4,917)	4,414,427	24,934	4,439,361
Accrued expenses and deferred income	243,364	22,348	265,712	25,223	290,935
Total current liabilities	461,548	22,348	483,896	25,223	509,119
Total equity and liabilities	4,327,064	-	4,327,064	-	4,327,064

1) Mostly the same adjustment as of January 1st 2017 as stated above, with some changes in the classification between Other non-current liabilities and Accrued expenses and deferred income, due to changes in timing.

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.

Note 8 New standards and interpretations not yet adopted

As of January 1, 2019, one new standard with effect on the Verisure Midholding Group is effective; IFRS 16.

IFRS 16 was issued in January 2016. It will result in almost all 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 only exceptions are short-term, including those contracts ending during the first 12 months after the transition, and low-value leases.

IFRS 16 must be applied for financial years commencing on or after 1 January 2019 and have been adopted by the group as of this date. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Non lease-components have been included regarding car leases, but excluded for all other asset types.

The Groups 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 (included in Property, Plant and Equipment) and long-term and short-term lease liabilities (included in long-term borrowing and short-term borrowings) in the consolidated balance sheet. The lease liabilities on January 1, 2019 have been measured at the present value of remaining lease payments, discounted by using the incremental borrowing rate. The incremental borrowing rate depends on a number of factors and are specific for each country. The effects as of January 1st 2019 are summarized below.

EUR thousand	31 Dec 2018 – As reported	Adjustment – IFRS 16 – As of 1 Jan 2019	1 Jan 2019 – Adjusted
Property, plant and equipment	720,960	147,986	868,946
Total non-current assets	3,145,181	147,986	3,293,167
Prepayments and accrued income	34,553	(2,414)	32,139
Total current assets	305,313	(2,414)	302,899
Total assets	3,450,494	145,572	3,596,066
Total equity			
	(2,048,783)	-	(2,048,783)
Long-term borrowings	4,573,202	116,258	4,689,460
Total non-current liabilities	4,957,640	116,258	5,073,898
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	145,572	3,596,066

PARENT COMPANY FINANCIAL STATEMENTS

Parent company income statements

EUR thousand	Note	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Administrative expenses		(11)	(24)	(18)	(25)
Operating profit		(11)	(24)	(18)	(25)
Interest income from group companies		11,550	13,808	43,521	57,233
Other financial income		46	1,032	-	1,032
Interest expense		(17,188)	(15,291)	(66,397)	(58,716)
Interest expense to group companies		(262)	-	(393)	-
Other financial costs		(1,428)	(27,784)	(3,013)	(27,784)
Dividend		353,694	1,095,492	353,694	1,095,492
Group contribution		31,266	9,301	31,266	9,301
Result before tax		337,667	1,076,534	358,660	1,076,533
Income tax expense and benefit		(109)	-	(109)	-
Result for the period		377,557	1,076,534	358,551	1,076,533

Parent company statements of financial position

EUR thousand	Note	Dec 2018	Dec 2017
ASSETS			
Non-current assets			
<i>Long-term investments</i>			
Investments in subsidiaries		1,189,952	1,134,604
Receivables from group companies		701,094	576,919
Total non-current assets		1,891,046	1,711,523
Current assets			
Other receivables from group companies		158	1,095,492
Prepayments		13	-
Accrued income interest from group companies		4,005	8,656
Cash and cash equivalents		252	3,257
Total current assets		4,428	1,107,405
TOTAL ASSETS		1,895,474	2,818,928
EQUITY AND LIABILITIES			
Equity			
Share capital		56	56
Other paid in capital		569,170	569,170
Retained earnings		41,538	1,075,664
Total equity		610,764	1,644,890
Non-current liabilities			
Long-term borrowings	1	1,230,953	1,137,262
Liabilities to group companies		44,270	-
Deferred tax liabilities		109	-
Total non-current liabilities		1,275,332	1,137,262
Current liabilities			
Trade payables		-	3,992
Accrued expenses	1	5,733	6,626
Accrued interest expense to group companies		228	-
Other current liabilities		-	5
Other current liabilities to group companies		3,417	26,153
Total current liabilities		9,378	36,776
TOTAL EQUITY AND LIABILITIES		1,895,474	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	-	-	358,551	358,551
Dividend	-	-	(1,448,025)	(1,448,025)
Shareholders contribution	-	-	55,348	55,348
Balance at December 31, 2018	56	569,170	41,358	610,764

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	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Operating activities		-		-
Operating profit	(11)	(24)	(18)	(25)
Cash flow from operating activities before change in working capital	(11)	(24)	(18)	(25)
Change in working capital				
Change in trade payables	3,428	3,992	(571)	3,992
Change in trade receivables	(171)	-	(171)	-
Change in other payables	-	7	-	7
<i>Cash flow from change in working capital</i>	<i>3,257</i>	<i>3,999</i>	<i>(742)</i>	<i>3,999</i>
Cash flow from operating activities	3,246	3,975	(760)	3,974
Investing activities				
Cash flow from investing activities	-	-	-	-
Financing activities				
New loans to group companies	(88,788)	-	(81,882)	-
Repayment of receivables from group companies	-	120,846	-	120,846
Paid bank and advisory fees	(3,961)	(38,638)	(2,231)	(38,638)
Interest paid	(11,621)	(7,491)	(19,294)	(7,491)
New financing	100,000	1,152,729	100,000	1,152,729
Repayment of debt	-	(688,068)	-	(688,068)
Dividend received	1,162	-	1,162	-
Paid shareholder contribution	-	(540,194)	-	(540,194)
Cash flow from financing activities	(3,208)	(817)	(2,245)	(817)
Cash flow for the period	38	3,158	(3,005)	3,157
Cash and cash equivalents at start of period	216	99	3,257	100
Exchange difference on translating cash and cash equivalents	-2	-	-	-
Cash and cash equivalents at end of period	252	3,257	252	3,257

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 note 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	Dec 2018			Dec 2017		
	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
Unsecured						
Senior Unsecured Notes	5,722	1,230,953	1,236,675	6,626	1,137,262	1,143,888
Total borrowings (carrying amount)	5,722	1,230,953	1,236,675	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)	Oct-Dec 2018	Jul-Sep 2018	Apr-Jun 2018	Jan-Mar 2018	Oct-Dec 2017
Portfolio services segment:					
Total subscribers (end of period), units	2,930,753	2,840,897	2,754,103	2,665,934	2,586,123
Cancellation, units	44,836	41,539	41,008	43,716	39,887
Attrition rate (LTM)	6.2%	6.2%	6.2%	6.3%	6.3%
Net subscriber growth, units ¹	89,856	86,794	88,169	79,811	83,317
Subscriber growth rate, net	13.3%	13.5%	13.2%	13.1%	12.7%
Average monthly revenue per user (ARPU), (in EUR)	40.2	40.0	40.2	40.4	39.4
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	26.8	27.0	26.9	27.1	25.7
Portfolio Revenue	348,407	336,515	326,562	318,052	300,932
Portfolio Adjusted EBITDA	232,438	226,750	218,595	212,921	196,005
Portfolio Adjusted EBITDA margin	66.7%	67.4%	66.9%	66.9%	65.1%
Customer acquisition segment:					
New subscribers added (gross)	134,692	128,333	129,072	123,527	115,885
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,232	1,209	1,171	1,170	1,184
Customer acquisition Revenue	77,128	65,982	67,783	68,253	64,784
Customer acquisition Adjusted EBITDA	(71,253)	(66,010)	(65,984)	(62,196)	(55,779)
Customer acquisition Capital expenditures	94,736	89,156	85,141	85,895	81,435
Adjacencies segment:					
Adjacencies revenue	3,077	4,605	3,580	4,904	493
Adjacencies adjusted EBITDA	(342)	(84)	(468)	(1,428)	77
Consolidated:					
<i>Excluding SDI and IFRS 15 adjustment</i>					
Payback period (in years)	3.8	3.7	3.6	3.6	3.8
Revenue	428,612	407,103	397,925	391,209	366,209
Adjusted EBITDA	160,843	160,656	152,143	149,297	140,305
Adjusted EBITDA margin	37.5%	39.5%	38.2%	38.2%	38.3%
Capital expenditures	145,154	122,748	117,749	114,486	130,291
<i>Reported (including SDI and IFRS 15 adjustment)</i>					
Revenue	432,182	404,065	392,057	384,221	360,190
Adjusted EBITDA	153,528	153,083	140,925	136,013	124,245

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, February 27, 2019

Austin Lally
CEO

Stefan Götz

Adrien Motte

Cecilia Hultén
Chairman

Fredrik Östman