



VERISURE MIDHOLDING AB (PUBL)

INTERIM REPORT
JANUARY– DECEMBER 2020

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

Key operating highlights for the fourth quarter ending December 31, 2020 and 2019

Verisure Midholding Group, hereafter referred to as the Group, is the leading provider of professionally monitored alarm solutions for residential households and small businesses in Europe. We offer premium monitored alarm services to our portfolio of over 3.7 million customers and design, sell and install alarms with network connectivity across 16 countries in Europe and Latin America. We have a strong track record of profitable growth, primarily delivered organically by our differentiated business model with high share of recurring revenues (c.80%) and industry leading retention.

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

In the fourth quarter, the Group continued to deliver strong operational and financial performance, especially considering this external environment. Our customer portfolio continued to grow and passed the 3.7 million customer milestone, which represents an annual portfolio growth rate of 12.5% compared to 2019. Our subscription-based portfolio has continued to demonstrate its resilience and our attrition rates have not been materially impacted by the pandemic to date. The performance of our Portfolio Services segment continues to be very strong and consistent with past results, with Portfolio Services adjusted EBITDA increasing 18.2% in Q4 2020 compared to Q4 2019, and 19.6% in constant currencies. Total reported adjusted EBITDA in the quarter was also very strong, increasing 41.0% vs. Q4 2019, and for the full year 21.4% vs. 2019. A very strong development across the Group.

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

Summary of fourth quarter 2020 and full year 2020 financials:

- Total reported revenues amounted to EUR 582.2 million for the fourth quarter 2020, increasing 16.9% from EUR 498.1 million the same period last year. Adjusted for currency effects, total reported revenue grew by 18.3% in the quarter. Portfolio services revenues, representing 79% of total Group revenues in the quarter, grew by 13.2% to EUR 459.8 million. In constant currencies, portfolio services revenues grew by 14.6% in the quarter.

For the full year 2020 total reported revenues increased to EUR 2,138.9 million compared to EUR 1,900.7 million in 2019, representing an increase of 12.5% in actual currencies and 14.4% in constant currencies. Portfolio services revenues, representing 81% of total Group revenues for the full year, grew by 12.4% to EUR 1,740.6 million (14.3% in constant currencies).

- Total reported adjusted EBITDA increased 41.0% to EUR 226.8 million in Q4 2020 compared to EUR 160.8 million in Q4 2019. In constant currencies, total reported adjusted EBITDA grew by 41.6%. Total adjusted EBITDA, before SDI, improved to EUR 256.6 million from EUR 190.9 million in Q4 2019, which is an increase of 34.4% in actual currencies and 34.8% in constant currencies for the quarter.

For the full year 2020 total reported adjusted EBITDA improved to EUR 853.1 million compared to EUR 702.9 million in 2019, representing an increase of 21.4% (22.7% in constant currencies). Total adjusted EBITDA, before SDI, improved to EUR 919.6 million for the full year 2020 from EUR 761.1 million in 2019, which is an increase of 20.8% vs. 2019 (and 22.3% adjusted for currency effects).

- Portfolio adjusted EBITDA further improved to EUR 333.2 million from EUR 281.9 million in Q4 2019, corresponding to an increase of 18.2%. Adjusted for currency effects, portfolio adjusted EBITDA improved by 19.6% in the quarter. Portfolio services adjusted EBITDA margin strengthened to 72.5% from 69.4% in Q4 2019, an increase of more than three full percentage points. For the full year 2020 portfolio adjusted EBITDA increased to EUR 1,255.8 million compared to EUR 1,075.3 million in 2019, which is an increase of 16.8% in actual currencies and 18.7% in constant currencies compared to 2019.
- ARPU amounted to EUR 41.5 in the quarter, which is an increase of 2.1% adjusted for currency effects vs. prior year. EPC accelerated to EUR 30.1 in the quarter, representing an increase of 6.5% adjusted for currency effects, driven by continued value improvements and good development in operational efficiency and cost control. For the full year 2020, ARPU increased 1.8% and EPC improved 5.7% in constant currencies.
- Acquisition of new customers was very strong in the fourth quarter of the year (as was the case also in the third quarter of the year), coming back strongly after a soft Q2 impacted by the COVID-19 pandemic. In the fourth quarter we added almost 200,000 (198,601) new customers, which represents an increase of 23% compared to Q4 2019 and the strongest fourth

quarter ever for the Group. Accumulated for the full year 2020, new customer additions were close to 650,000 (646,932), which is higher than 2019 (611,321) and 25% higher than 2018. Q4 2020 CPA (cash cost per acquisition) was reduced 13% down to EUR 1,090 versus the same period last year. For the full year 2020, CPA was EUR 1,195 (vs. EUR 1,208 in 2019).

- Net subscriber growth was 140,921 in the quarter compared to 110,486 in Q4 2019, an increase of 28% year-on-year. The strong growth was driven both by strong additions of new customer and low cancellations. At the end of the quarter the portfolio had grown to 3,763,945 customers, up more than 400,000 customers or 12.5% year-on-year. This annual customer portfolio growth rate of 12.5% was all organic.

We consider ourselves fortunate to have a subscription-based portfolio that has shown very strong resilience to date. We have taken steps during the year to ensure positive operational and financial performance and flexibility in our Customer Acquisition segment. Our fourth quarter performance further supports this. Operating cash flow has been strong in the quarter and throughout the year. In Q4 cash flow from operations increased to EUR 256.3 million, an improvement of 52% vs. Q4 2019, and accumulated for the full year 2020 it amounted to 941.7 million, up 34% vs. 2019.

In April 2020, July 2020 and after year end 2020, in January 2021, the Group successfully accessed the debt capital markets to address its capital structure, increasing the average debt maturity to 6.3 years and securing an attractive cost of debt in historical terms for the upcoming years. Most of our debt now matures in 2026 or beyond.

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

Key figures

EUR thousand (if not otherwise stated)	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Portfolio services segment:				
<i>Unaudited operating data</i>				
Total subscribers (year-end), units	3,763,945	3,346,712	3,763,945	3,346,712
Cancellation, units	57,680	50,563	229,699	195,362
Attrition rate (LTM)	6.5%	6.2%	6.5%	6.2%
Net subscriber growth, units	140,921	110,486	417,233	415,959
Subscriber growth rate, net	12.5%	14.2%	12.5%	14.2%
Average monthly revenue per user (ARPU), (in EUR)	41.5	41.1	41.2	41.2
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	30.1	28.5	29.7	28.6
<i>Non-IFRS and IFRS financial data</i>				
Portfolio services revenue ¹	459,783	406,029	1,740,581	1,548,936
Portfolio services adjusted EBITDA	333,227	281,891	1,255,774	1,075,348
Portfolio services adjusted EBITDA margin	72.5%	69.4%	72.1%	69.4%
Customer acquisition segment:				
<i>Unaudited operating data</i>				
New subscribers added (gross)	198,601	161,049	646,932	611,321
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,090	1,258	1,195	1,208
<i>Non-IFRS and IFRS financial data</i>				
Customer acquisition revenue ¹	100,473	85,229	338,138	329,098
Customer acquisition adjusted EBITDA	(72,263)	(91,823)	(321,999)	(316,297)
Customer acquisition capital expenditures	144,351	110,741	451,374	422,445
Adjacencies segment:				
<i>Non-IFRS and IFRS financial data</i>				
Adjacencies revenue ¹	21,894	6,889	60,184	22,696
Adjacencies adjusted EBITDA	(4,405)	785	(14,206)	2,035
Consolidated:				
<i>Unaudited operating data</i>				
Payback period (in years)	3.0	3.7	3.3	3.5
<i>Non-IFRS and IFRS financial data</i>				
Revenue ¹	582,150	498,147	2,138,903	1,900,730
Organic revenue growth	18.1%	16.1%	14.4%	18.6%
Adjusted EBITDA	256,559	190,852	919,569	761,086
Adjusted EBITDA margin	44.1%	38.3%	43.0%	40.0%
Capital expenditures	207,750	173,436	634,980	592,909
Reported (including SDI)				
Reported revenue ¹	582,150	498,147	2,138,903	1,900,730
Reported operating profit ¹	88,793	36,411	324,226	237,480
Reported adjusted EBITDA	226,766	160,780	853,128	702,869

1) IFRS financial data.

Analysis of Operating Results

The information presented and discussed in this report includes a number of measures that are not defined or recognized under IFRS including CPA, ARPU, EPC and Adjusted EBITDA. These are considered to be key measures of the Group's financial performance and as such have been included here to enhance comparability and usefulness. The key measures are further described under the section Key Operating Metrics. CPA is the net investment to acquire a new customer. ARPU and EPC reflect the monthly revenues and adjusted EBITDA per customer in the portfolio segment. Adjusted EBITDA, being earnings before interest, tax, write-offs, depreciation and amortization, excluding separately disclosed items (SDI), is considered by management to give a fairer view of the year-on-year comparison of financial performance. SDI's are costs or income that have been recognized in the income statement which management believes, due to their nature or size, should be disclosed separately to give a more comparable view of the year-on-year financial performance. All SDIs are further explained later in this section.

Three months ending December 31, 2020 and 2019

Results excluding SDI

EUR million	Oct-Dec 2020	Oct-Dec 2019	Percentage change
Revenue	582.2	498.1	16.9%
Operating expenses	(326.9)	(309.1)	5.8%
Other income	1.3	1.8	(24.6)%
Adjusted EBITDA	256.6	190.9	34.4%
Adjusted EBITDA margin, %	44.1%	38.3%	-
Depreciation and amortization	(69.2)	(66.3)	4.4%
Retirement of assets	(29.0)	(19.9)	46.3%
Operating profit	158.3	104.7	51.2%
Operating profit margin, %	27.2%	21.0%	-
Interest income and cost	(61.3)	(49.7)	23.4%
Other financial items	(0.4)	(1.0)	(64.8)%
Result before taxes and SDI	96.6	54.0	79.0%

Revenue

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

Revenue by segment

EUR million	Oct-Dec 2020	Oct-Dec 2019	Percentage change
Revenue by segment			
Portfolio services	459.8	406.0	13.2%
Customer acquisition	100.5	85.2	17.9%
Adjacencies	21.9	6.9	217.8%
Total	582.2	498.1	16.9%

Total revenue in the fourth quarter 2020 increased by 16.9%, or EUR 84.1 million, to EUR 582.2 million, up from EUR 498.1 million in the prior period. Organic revenue growth was 18.1%, primarily due to the increasing customer base. The customer base on December 31, 2020 was 3,763,945, an increase of more than 400,000 customers or 12.5% from 3,346,712 on December 31, 2019.

Revenue for portfolio services in the fourth quarter 2020 increased by 13.2%, or EUR 53.8 million, to EUR 459.8 million, up from EUR 406.0 million in the previous period. The increase was primarily due to the increased number of customers in the portfolio and increased average monthly revenue per user (ARPU).

Revenue for customer acquisition in the three months ending December 31, 2020, amounted to EUR 100.5 million, which is an increase of 17.9%, or EUR 15.3 million, compared to EUR 85.2 million in the prior period. The increase was due to the higher number of new installations compared to the same period last year.

Operating expenses

Operating expenses in the fourth quarter 2020, increased by 5.8%, or EUR 17.8 million, to EUR 326.9 million, from EUR 309.1 million in the prior period. The increase was mainly due to the growth in the portfolio.

Adjusted EBITDA

Adjusted EBITDA in the three months ending December 31, 2020 increased by 34.4% or EUR 65.7 million to EUR 256.6 million, up from EUR 190.9 million in the prior period. The increase in adjusted EBITDA was driven by both the growth in the customer portfolio and higher earnings per customer, improving the Portfolio services adjusted EBITDA.

Depreciation and amortization

Depreciation and amortization increased to EUR 69.2 million in the three months ending December 31, 2020, up from EUR 66.3 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization have increased mainly due to the increased number of customers.

Retirement of assets

Retirements of assets increased to EUR 29.0 million in the fourth quarter of 2020, up from EUR 19.9 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 the three months ending December 31, 2020 compared to EUR 0.1 million in the same period prior year. Interest cost amounted to EUR 61.4 million, compared to EUR 49.8 million in the prior period, mainly driven by an increase in gross debt and a higher weighted average cost of debt as a consequence of the new EUR 200 million Floating Rate Note issued in April and July's refinancing.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility and charges for excess cash, amounted to a cost of EUR 0.4 million in Q4 2020, compared to 1.0 million in Q4 2020.

Reported consolidated income statement for the three months ending December 31, 2020 and 2019

EUR million	Oct-Dec 2020			Oct-Dec 2019		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	582.2	-	582.2	498.1	-	498.1
Operating expenses	(326.9)	(29.8)	(356.7)	(309.1)	(30.1)	(309.1)
Other income	1.3	-	1.3	1.8	-	1.8
Adjusted EBITDA	256.6	(29.8)	226.8	190.9	(30.1)	160.8
Depreciation and amortization	(69.2)	(39.7)	(108.9)	(66.3)	(38.3)	(104.5)
Retirements of assets	(29.0)	-	(29.0)	(19.9)	-	(19.9)
Operating profit	158.3	(69.5)	88.8	104.7	(68.3)	36.4
Interest income and cost	(61.3)	0.3	(61.0)	(49.7)	-	(49.7)
Other financial items	(0.4)	(2.0)	(2.3)	(1.0)	(6.8)	(7.9)
Result before tax	96.6	(71.2)	25.4	54.0	(75.1)	(21.2)
Income tax benefit and expense	-	-	(16.4)	-	-	(6.7)
Result for the period	-	-	9.0	-	-	(27.8)

Separately disclosed items (SDIs)

SDI affecting operating expenses

SDI affecting operating expenses includes one-off costs related to various transition projects within the Group, COVID-19 related exceptional costs and a provision related to the dispute with NCA.. For the fourth quarter 2020, the total costs for SDI's amounted to EUR 29.8 million and EUR 30.1 million in the same period last year.

SDI affecting depreciation and amortization

The market value of the acquisition-related intangible assets is amortized over the expected life. The main part of the total cost of EUR 39.7 million in 2020 and EUR 38.3 million in 2019 relates to amortization of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting interest income and cost and other financial items

SDI affecting interest income and cost and other financial items totalled a cost of EUR 1.7 million during the fourth quarter of 2020, compared to a cost of EUR 6.8 million during the same quarter of last year. For the three months ending December 31, 2020, other financial items consisted of a positive non-cash FX revaluation of debt items and hedges of EUR 6.0 million, and a cost related to the amortization and write-off of prepaid financing fees, including an IFRS 9 adjustment regarding modification of loan agreement, of EUR 7.3 million. For the three months ending December 31, 2019, other financial items consisted of a positive non-cash FX revaluation of debt items and hedges of EUR 3.3 million, and a cost related to the amortization and write-off of prepaid financing fees, including an IFRS 9 adjustment regarding modification of loan agreement, of EUR 10.1 million.

Income tax benefit and expense

Total tax cost was EUR 16.4 million in the quarter compared with EUR 6.7 million last year. Current tax expense was EUR 14.2 million in Q4 2020 compared with EUR 5.6 million in 2019. Deferred tax was an expense of EUR 2.2 million in Q4 2020 compared to an expense of EUR 1.1 million in 2019.

Cash Flow

The following table shows a summary of our cash flow on a historical basis for the three months ending December 31, 2020 and 2019.

EUR million	Oct-Dec 2020	Oct-Dec 2019
Cash flow from operating activities before change in working capital	238.1	149.3
Change in working capital	18.2	19.3
Cash flow from operating activities¹	256.3	168.6
Cash flow from investing activities	(207.9)	(223.6)
Cash flow from financing activities ²	(103.2)	20.8
Cash flow for the period	(54.8)	(34.2)
Cash and cash equivalents at beginning of period	152.5	47.0
Translation differences on cash and cash equivalents	0.2	-
Cash and cash equivalents at end of period	97.9	12.8

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 256.3 million and EUR 168.6 million for the three months ending December 31, 2020 and 2019, respectively. The increase is driven by a strong improvement in operating profit in the quarter.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 207.9 million and EUR 223.6 million for the three months ending December 31, 2020 and 2019 respectively. For the three months period ending December 31, 2019 the investing activities included EUR 50.2 million related to the acquisition of the Arlo business including a prepayment. The remaining part is related to investing in new customers and increased from EUR 173.4 million in 2019 to EUR 207.9 million in 2020. The increase mainly relates to the higher number of new installations.

Cash flow from financing activities

Cash flow from financing activities totalled an outflow of EUR 103.2 million and an inflow of EUR 20.8 million for the three months ending December 31, 2020 and 2019, respectively. Key components include net paid interest of EUR 85.5 million for the three months ending December 31, 2020 compared to EUR 69.9 million for the same period last year, and a net decrease in borrowings of EUR 4.6 million for the three months ending December 31, 2020, compared to a net increase of EUR 97.9 million during the same period last year.

Twelve months ending December 31, 2020 and 2019

Results excluding SDI

EUR million	Jan-Dec 2020	Jan-Dec 2019	Percentage change
Revenue	2,138.9	1,900.7	12.5%
Operating expenses	(1,224.4)	(1,145.6)	6.9%
Other income	5.1	6.0	(14.3)%
Adjusted EBITDA	919.6	761.1	20.8%
Adjusted EBITDA margin, %	43.0%	40.0%	
Depreciation and amortization	(274.2)	(235.5)	16.4%
Retirement of assets	(95.7)	(76.8)	24.6%
Operating profit	549.7	448.8	22.5%
Operating profit margin, %	25.7%	23.6%	
Interest income and cost	(232.0)	(205.5)	12.9%
Other financial items	(2.6)	(3.0)	(12.1)%
Result before taxes and SDI	315.0	240.3	31.1%

Revenue

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

Revenue by segment

EUR million	Jan-Dec 2020	Jan-Dec 2019	Percentage change
Revenue by segment			
Portfolio services	1,740.6	1,548.9	12.4%
Customer acquisition	338.1	329.1	2.7%
Adjacencies	60.2	22.7	165.2%
Total	2,138.9	1,900.7	12.5%

Total revenue during 2020 increased by 12.5%, or EUR 238.2 million, to EUR 2,138.9 million, up from EUR 1,900.7 million in the prior period. Organic revenue growth was 18.1%, primarily due to the increasing customer base. The customer base on December 31, 2020 was 3,763,945, an increase of more than 400,000 customers or 12.5% from 3,346,712 on December 31, 2019.

Revenue for portfolio services during 2020 increased by 12.4%, or EUR 191.7 million, to EUR 1,740.6 million, up from EUR 1,548.9 million in the previous period. The increase was primarily due to the increased number of customers.

Revenue for customer acquisition during 2020, amounted to EUR 338.1 million, which is an increase of 2.7%, or EUR 9.0 million, compared to EUR 329.1 million in the prior period. The increase was due to the higher number of new installations compared to the same period last year.

Operating expenses

Operating expenses during 2020, increased by 6.9%, or EUR 78.8 million, to EUR 1,224.4 million, up from EUR 1,145.6 million in the prior period. The increase was mainly due to the growth in the portfolio.

Adjusted EBITDA

Adjusted EBITDA in the twelve months ending December 31, 2020, increased by 20.8% or EUR 158.5 million to EUR 919.6 million, up from EUR 761.1 million in the prior period. The increase in adjusted EBITDA was mainly driven by the growth in the customer portfolio, improving the Portfolio services adjusted EBITDA.

Depreciation and amortization

Depreciation and amortization increased to EUR 274.2 million in the twelve months ending December 31, 2020, up from EUR 235.5 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalized direct cost related to the acquisition of customer contracts. The depreciation and amortization have increased mainly due to the increased number of customers and also capitalized R&D and IT development cost.

Retirement of assets

Retirements of assets increased to EUR 95.7 million in 2020, up from EUR 76.8 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 0.3 million in both the twelve months ending December 31, 2020 and 2019. Interest costs amounted to EUR 232.3 million, compared to EUR 205.8 million last year, mainly driven by an increase in gross debt and a higher weighted average cost of debt as a consequence of the new 200 million euros Floating Rate Note issued in April and July's refinancing.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility and charges for excess cash, amounted to a cost of EUR 2.6 million in the twelve months ended December 31, 2020, compared to EUR 3.0 million in the same period prior year.

Reported consolidated income statement for the twelve months ending December 31, 2020 and 2019

EUR million	Jan-Dec 2020			Jan-Dec 2019		
	Result excluding SDI	Separately disclosed items	Reported	Result excluding SDI	Separately disclosed items	Reported
Revenue	2,138.9	-	2,138.9	1,900.7	-	1,900.7
Operating expenses	(1,224.4)	(66.4)	1,290.9	(1,145.6)	(58.2)	(1,203.8)
Other income	5.1	-	5.1	6.0	-	6.0
Adjusted EBITDA	919.6	(66.4)	853.1	761.1	(58.2)	702.9
Depreciation and amortization	(274.2)	(159.0)	(433.2)	(235.5)	(153.1)	(388.6)
Retirements of assets	(95.7)	-	95.7	(76.8)	-	(76.8)
Operating profit	549.7	(225.4)	324.2	448.8	(211.3)	237.5
Interest income and cost	(232.0)	0.6	(231.4)	(205.5)	-	(205.5)
Other financial items	(2.6)	(137.8)	(140.5)	(3.0)	(43.5)	(46.5)
Result before tax	315.0	(362.7)	(47.6)	240.3	(254.8)	(14.5)
Income tax benefit and expense	-	-	(45.3)	-	-	(45.7)
Result for the period	-	-	(92.9)	-	-	(60.3)

Separately disclosed items (SDIs)

SDI affecting operating expenses

SDI affecting operating expenses includes one-off costs related to various transition projects within the Group. It also includes costs related to acquisitions of new businesses, COVID-19 related exceptional costs and a provision related to the dispute with NCA. For 2020, the total costs for SDI's amounted to EUR 66.4 million and EUR 58.2 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 159.0 million in 2020 and EUR 153.1 in 2019 relates to amortization of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting interest income and cost and other financial items

SDI affecting interest income and cost and other financial items totalled a cost of EUR 137.8 million for the twelve months ending December 31, 2020, compared to EUR 43.5 million for the same period last year. For the twelve months ending December 31, 2020, other financial items consisted of a negative non-cash FX revaluation of debt items and hedges of EUR 99.0 million and a cost related to the amortization and write-off of prepaid financing fees, including an IFRS 9 adjustment regarding a modification of a loan agreement, of EUR 71.7 million. On the other hand, realized hedges had a positive effect of EUR 33.9 million. For the twelve months ending December 31, 2019, other financial items consisted of a positive non-cash FX revaluation of debt items plus a negative market revaluation of hedges, which jointly accounted for a cost of EUR 3.5 million. In addition, the amortization and write-off of prepaid funding fees, including an IFRS 9 adjustment regarding a modification of a loan agreement, amounted to a cost EUR 39.9 million.

Income tax benefit and expense

Total tax cost was EUR 45.3 million for the twelve months compared with EUR 45.7 million last year. Current tax expense was EUR 58.1 million in 2020 compared with EUR 52.0 million in 2019. Deferred tax was a benefit of EUR 12.8 million for the twelve months of 2020 compared to EUR 6.2 million in 2019.

Cash Flow

The following table shows a summary of our cash flow on a historical basis for the twelve months ending December 31, 2020 and 2019.

EUR million	Jan-Dec 2020	Jan-Dec 2019
Cash flow from operating activities before change in working capital	843.5	654.3
Change in working capital	98.2	46.9
Cash flow from operating activities¹	941.7	701.2
Cash flow from investing activities	(637.6)	(688.0)
Cash flow from financing activities ²	(216.6)	(9.0)
Cash flow for the period	87.4	4.2
Cash and cash equivalents at beginning of period	12.8	8.6
Translation differences on cash and cash equivalents	(2.3)	0.0
Cash and cash equivalents at end of period	97.9	12.8

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 941.7 million and EUR 701.2 million for the twelve months ending December 31, 2020 and 2019, respectively. The increase is primarily driven by a strong improvement in operating profit in the twelve-month period.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 637.6 million and EUR 688.0 million for the twelve months ending December 31, 2020 and 2019 respectively. For the twelve months period ending December 31, 2019 the investing activities consisted of EUR 45.0 million of acquisition of non-controlling interest, EUR 50.1 million of acquisition of the Arlo business including a prepayment. The remaining part is related to investing in new customers and increased from EUR 592.9 million in 2019 to EUR 636.0 million in 2020. The increase mainly relates to the higher number of new installations.

Cash flow from financing activities

Cash flow from financing activities totalled an outflow of EUR 216.6 million and EUR 9.0 million for the twelve months ending December 31, 2020 and 2019, respectively. Key components include net paid interest of EUR 219.4 million for the twelve months ending December 31, 2020 compared with EUR 209.3 million for the same period last year, and a net increase in borrowings of EUR 20.8 million for the twelve months ending December 31, 2020, compared to a net increase of EUR 216.8 million during the same period last year.

Capital Expenditures

The Group's capital expenditures primarily consist of (i) customer acquisition capital expenditures, which include purchases of equipment for new customers, direct costs related to the acquisition of customer contracts, (ii) portfolio services capital expenditures which relates to new equipment for existing customers, (iii) adjacencies capital expenditures which includes direct costs related to the acquisition of a new customer contract, and (iv) capital expenditures relating to investments in R&D, IT and premises. In accordance with IFRS, the costs of the alarm equipment installed in connection with newly acquired subscribers are capitalized as tangible fixed assets to the extent we retain ownership of the equipment. The Group also capitalizes direct costs related to the acquisition of customer contracts as intangible fixed assets.

The following table shows a summary of our capital expenditures for the three months ending December 31, 2020 and 2019:

EUR million	Oct-Dec 2020	Oct-Dec 2019
Customer acquisition capital expenditures, material	74.2	61.2
Customer acquisition capital expenditures, direct costs	70.2	49.5
Portfolio capital expenditures	16.1	14.5
Adjacencies capital expenditures	3.5	2.6
Capital expenditures other	43.8	45.5
Total	207.8	173.4

Capital expenditures were EUR 207.8 million for the three months ending December 31, 2020 and EUR 173.4 million in the prior period. The increase in capital expenditure is mainly due to the growth in acquisition of new customers.

The following table shows a summary of our capital expenditures for the twelve months ending December 31, 2020 and 2019:

EUR million	Jan-Dec 2020	Jan-Dec 2019
Customer acquisition capital expenditures, material	246.5	230.5
Customer acquisition capital expenditures, direct costs	204.9	192.0
Portfolio capital expenditures	51.5	52.0
Adjacencies capital expenditures	7.8	8.3
Capital expenditures other	124.2	110.2
Total	635.0	592.9

Capital expenditures were EUR 635.0 million for the twelve months ending December 31, 2020 and EUR 592.9 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 interest due on our debt obligations.

As of December 31, 2020, the Group had a total of EUR 391.4 million of available funds.

EUR million	Dec 2020	Dec 2019
Revolving Credit Facility	300.0	300.0
Cash and cash equivalents	98.0	12.8
Drawn facility amount	-	(127.0)
Utilized letter of credit	(6.5)	(10.9)
Total available funds	391.4	174.9

The following table summarizes our total financial indebtedness on December 31, 2020 and 2019.

EUR million	Dec 2020	Dec 2019
Senior Secured Notes	1,500.0	500.0
Term Loan B	2,292.0	3,092.0
Revolving Credit Facility	-	127.0
Senior Unsecured Notes	1,244.4	1,237.9
Other liabilities	38.0	48.3
Lease liability (IFRS 16)	131.6	133.9
Total	5,206.0	5,139.1

Risks and uncertainties

A detailed presentation of risks and a sensitivity analysis can be found in the Financial Risk Management section (note 22) and the Risk Factors section of the Verisure Midholding AB's annual report 2019.

Events during the reporting period

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

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

As previously reported, in June 2017, the Norwegian Competition Authority (NCA) launched an investigation involving Verisure Norway. In June 2019, the Norwegian Competition Authority issued a statement of objections to Verisure Norway and Verisure Midholding AB with its preliminary findings. On November 25, 2020, the NCA issued a decision to fine Verisure Norway and Verisure Midholding a total amount of approx. EUR 69 million (NOK 766 million), for which the two companies would be jointly and severally liable. We disagree with the NCA's decision and will file an appeal with the Competition Appeals Board.

Events after the reporting period

In January 2021, we executed a refinancing of approximately EUR 4.5 billion to address the Group's capital structure following the new buyout of the Group in December 2020, led by our majority shareholder Hellman & Friedman. We raised EUR 1,150 million of Senior Secured Notes with maturity in 2027 as well as EUR 1,175 million and SEK 1,500 million in Senior Unsecured Notes with maturity in 2029. In addition, we also raised EUR 2,000 million of Floating rate Term Loan B with maturity in 2028. While the Senior Secured Notes and the Senior Unsecured Notes were settled in January 2021, the Floating rate Term Loan B will be settled in March 2021. As part of the refinancing exercise, we also put in place a new EUR 700 million Revolving Credit Facility, which will replace the existing EUR 300 million Revolving Credit Facility in March 2021.

The proceeds of the Senior Secured Notes and Senior Unsecured Bonds, net of fees and transaction costs, were used in January 2021 to repay in full outstanding Senior Unsecured Notes and approximately EUR 1.1 billion of the existing Term Loan B1E tranche with maturity in 2022. The proceeds of the new Floating rate Term Loan B, net of fees and transaction costs, will be used in March 2021 to repay remaining outstanding amounts of the Term Loan B1E tranche with maturity in 2022 and to finance a distribution to the Group's shareholders. Pro forma for this refinancing exercise, average maturity of our debt portfolio is extended to 6.3 years, and most of our debt now matures in 2026 or beyond.

Key Operating Metrics

The Group management uses a number of key operating metrics, in addition to IFRS financial measures, to evaluate, monitor and manage our business. The non-IFRS operational and statistical information related to the Group's operations included in this section is unaudited and has been derived from internal reporting systems. Although none of these metrics are measures of financial performance under IFRS, management believes that these metrics provide important insight into the operations and strength of the Group's business. These metrics may not be comparable to similar terms used by competitors or other companies, and from time to time the Group may change our definitions of these metrics. These metrics include the following:

Adjusted EBITDA

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

Attrition rate

The attrition rate is the number of terminated subscriptions to our monitoring service in the last 12 months, divided by the average number of subscribers for the last 12 months.

Average Revenue per user

Average monthly revenue per user ("ARPU") is our portfolio services segment revenue, consisting of monthly average subscription fees and sales of additional products and services divided by the monthly average number of subscribers during the relevant period.

Cancellations

Total number of cancelled subscriptions during the period including cancellations on acquired portfolios.

Cash acquisition cost per new subscriber

Cash acquisition cost per new subscriber ("CPA") is the net investment required to acquire a subscriber, including costs related to the marketing and sales process, installation of the alarm system, costs of alarm system products and overhead expenses for the customer acquisition process. The metric is calculated net of any revenues from installation fees charged to the subscriber and represents the sum of adjusted EBITDA plus capital expenditures in our customer acquisition segment on average for every subscriber acquired.

Monthly adjusted EBITDA per subscriber

Monthly adjusted EBITDA per subscriber ("EPC") is calculated by dividing the total monthly adjusted EBITDA from managing our existing subscriber portfolio (which is our adjusted EBITDA from portfolio services) by the monthly average number of subscribers.

Net Debt

The sum of financial indebtedness, defined as interest bearing debt from external counterparties, excluding accrued interest less the sum of available cash and financial receivables.

New subscriber added (gross)

Total number of new subscribers added.

Organic revenue growth

Revenue growth not affected by acquisitions or the impact of foreign exchange.

Payback period

Payback period represents the time in years required to recapture the initial capital investment made to acquire a new subscriber and is calculated as CPA divided by EPC, divided by 12.

Retirement of assets

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

Subscriber growth rate

Number of subscribers at end of period divided with number of subscribers 12 months ago.

Unaudited Consolidated Financial Statements

Consolidated income statements

EUR thousand	Note	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Revenue	3	582,150	498,147	2,138,903	1,900,730
Cost of sales		(301,190)	(276,569)	(1,094,978)	(1,007,095)
Gross profit		280,960	221,578	1,043,925	893,635
Selling expenses		(68,738)	(69,438)	(268,021)	(259,990)
Administrative expenses ¹		(124,764)	(117,500)	(456,806)	(402,150)
Other income		1,336	1,771	5,128	5,985
Operating profit		88,793	36,411	324,226	237,480
Finance income		390	70	911	260
Finance costs		(63,739)	(57,633)	(372,767)	(252,266)
Result before tax		25,444	(21,152)	(47,630)	(14,526)
Income tax expense		(16,390)	(6,676)	(45,313)	(45,740)
Result for the period		9,054	(27,828)	(92,943)	(60,266)
Whereof attributable to:					
- Parent company		9,054	(27,828)	(92,943)	(60,266)
- Non-controlling interest		-	-	-	-

Consolidated statements of comprehensive income

EUR thousand	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Result for the period	9,054	(27,828)	(92,943)	(60,266)
Other comprehensive income				
Items that subsequently may be reclassified to the income statement				
Hedging reserve	(4,362)	-	(7,865)	-
Re-measurement of defined benefit plan net of tax	(688)	(561)	(688)	(561)
Currency translation differences on foreign operations	(6,518)	(5,123)	7,783	(10,424)
Income tax related to other comprehensive items	1,699	-	1,699	-
Other comprehensive income	(9,869)	(5,684)	929	(10,985)
Total comprehensive income for the period	(815)	(33,512)	(92,015)	(71,251)
Whereof attributable to:				
- Parent company	(815)	(33,512)	(92,015)	(71,251)
- Non-controlling interest	-	-	-	-

EUR thousand	Note	Dec 2020	Dec 2019
Assets			
Non-current assets			
Property, plant and equipment		1,005,923	872,846
Right of use assets		129,112	132,899
Goodwill		866,819	884,261
Customer portfolio		990,060	1,016,865
Other intangible assets		265,154	239,176
Deferred tax assets		24,016	30,827
Derivatives	4	-	23,410
Trade and other receivables	4	315,147	310,179
Total non-current assets		3,596,231	3,510,463
Current assets			
Inventories		161,190	126,977
Trade receivables	4	161,147	154,075
Current tax assets		16,053	17,872
Derivatives	4	1,589	4,758
Prepayments and accrued income		77,325	62,948
Other current receivables	4	40,027	15,613
Cash and cash equivalents	4	97,941	12,770
Total current assets		555,272	395,014
Total assets		4,151,503	3,905,477

EUR thousand	Note	Dec 2020	Dec 2019
Equity and liabilities			
Equity			
Share capital		56	56
Other paid in capital		624,686	624,686
Other reserves		34,261	32,645
Retained earnings		(2,915,240)	(2,821,173)
Equity attributable to equity holders of the parent company		(2,256,237)	(2,163,786)
Non-controlling interest		-	-
Total equity		(2,256,237)	(2,163,786)
Non-current liabilities			
Long-term borrowings	4,5	5,073,558	4,948,800
Derivatives	4	45,509	17,720
Other non-current liabilities	4	105,102	114,571
Deferred tax liabilities ¹		219,250	250,295
Other provisions		53,892	25,141
Total non-current liabilities		5,497,311	5,356,527
Current liabilities			
Trade payables	4	183,115	139,086
Current tax liabilities		47,809	25,300
Short-term borrowings	4,5	102,238	91,726
Derivatives	4	7,865	75
Accrued expenses and deferred income		522,308	426,594
Other current liabilities	4	47,094	29,955
Total current liabilities		910,429	712,736
Total equity and liabilities		4,151,503	3,905,477

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

Consolidated statement of changes in equity

EUR thousand	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, 2020	56	624,686	32,645	(2,821,173)	(2,163,786)	-	(2,163,786)
Result for the period	-	-	-	(92,943)	(92,943)	-	(92,943)
Other comprehensive income	-	-	1,617	(688)	929	-	929
Total comprehensive income	-	-	1,616	(93,631)	(92,015)	-	(92,015)
Transactions with owners							
Repurchase of share options on behalf of parent company	-	-	-	(1,756)	(1,756)	-	(1,756)
Share based payment expense	-	-	-	1,244	1,245	-	1,245
Income tax on share base payments effects	-	-	-	76	75	-	75
Total transaction with owners	-	-	-	(436)	(436)	-	(436)
Balance at December 31, 2020	56	624,686	34,261	(2,915,240)	(2,256,237)	-	(2,256,237)

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	-	-	-	(60,266)	(60,266)	-	(60,266)
Other comprehensive income	-	-	(10,995)	-	(10,995)	-	(10,995)
Total comprehensive income for the period	-	-	(10,995)	(60,266)	(71,261)	-	(71,261)
Shareholder's contribution	-	169	-	-	109	-	109
Group contribution	-	-	-	10	10	-	10
Transaction with non-controlling interest	-	-	-	(46,666)	(46,666)	2,745	(43,921)
Balance at December 31, 2019	56	624,686	33,645	(2,821,173)	(2,163,786)	-	(2,163,786)

Consolidated statements of cash flows

EUR thousand	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Operating activities				
Operating profit	88,793	36,410	324,226	237,480
Reversal of depreciation and amortization	108,933	104,511	433,189	388,593
Other non-cash items	53,045	19,911	119,714	76,788
Paid taxes	(12,644)	(11,545)	(33,676)	(48,558)
Cash flow from operating activities before change in working capital	238,127	149,287	843,453	654,303
Change in working capital				
Change in inventories	(3,209)	13,866	(37,423)	(20,072)
Change in trade receivables	(13,188)	(9,998)	(7,124)	(11,816)
Change in other receivables	(33,600)	(24,122)	(19,416)	(41,743)
Change in trade payables	50,829	24,326	45,644	14,402
Change in other payables	17,388	15,264	116,563	106,135
<i>Cash flow from change in working capital</i>	<i>18,221</i>	<i>19,336</i>	<i>98,245</i>	<i>46,906</i>
Cash flow from operating activities	256,348	168,623	941,698	701,209
Investing activities				
Purchase of intangible assets	(110,978)	(88,175)	(327,194)	(295,785)
Purchase of property, plant and equipment	(96,910)	(85,274)	(308,797)	(297,138)
Settlement of deferred consideration	-	-	(1,630)	-
Acquisition of non-controlling interest	-	-	-	(45,000)
Acquisition of net assets	-	(48,304)	-	(48,304)
Prepayments of intangible assets	-	(1,798)	-	(1,798)
Cash flow from investing activities	(207,888)	(223,551)	(637,621)	(688,025)
Financing activities				
Paid bank and advisory fees	(235)	-	(20,973)	(6,397)
New financing	-	-	1,800,000	200,000
Repayment of debt	-	-	(1,600,000)	-
Other changes in borrowings	(4,615)	97,852	(179,218)	16,770
Premium from new financing	-	-	-	4,651
Loan to group companies	(10,093)	-	(25,152)	-
Net interest paid	(85,470)	(69,911)	(219,409)	(209,259)
Other financial items	(2,829)	(7,190)	28,123	14,796)
Cash flow from financing activities	(103,242)	20,751	(216,629)	(9,031)
Cash flow for the period	(54,782)	(34,177)	87,448	4,154
Cash and cash equivalents at start of period	152,494	46,957	12,770	8,613
Exchange difference on translating cash and cash equivalents	229	(10)	(2,277)	3
Cash and cash equivalents at end of period	97,941	12,770	97,941	12,770

Notes to the Unaudited Consolidated Financial Statements

Note 1 Accounting Policies

Basis of presentation and accounting periods

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

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The most important accounting principles under IFRS, which is the basis for the preparation of this interim report, can be found in note 1 in the annual report for 2019. The accounting policies are unchanged compared with those applied in 2019.

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

Note 2 Critical Accounting Estimates and Judgments

When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date, the disclosure of contingencies that existed at the balance sheet date and the amounts of revenue and expenses recognised during the accounting period. Such assumptions and estimates are based on factors such as historical experience, the observance of trends in the industries in which the Group operates and information available from the Group's customers and other outside sources.

Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates. An analysis of key areas of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year is discussed below.

Revenue recognition

Revenue recognition in the Group requires management to make judgments and estimates, mainly to determine fair values of the revenue. Determining whether revenues should be recognized immediately or be deferred require management to make judgments on the fair value of each deliverable. The fair value of the installation revenue is dependent of estimates regarding which parts refer to the installation service compared to the selling, and a margin based on a bench mark from other companies with similar installations.

Testing for impairment of goodwill and other assets

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When testing for impairment of goodwill and other assets, the carrying amount should be compared with the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use.

Impairment testing is an area involving management judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flow derived from such assets using cash flow projections which have been discounted at an appropriate rate. Since there are normally no quoted prices available to estimate the fair value less costs to sell an asset, the asset's value-in-use is usually the value against which the carrying amount is compared for impairment testing purposes and is measured on the basis of assumptions and estimates. In calculating the net present value of the future cash flow, certain assumptions are required to be made in respect of highly uncertain matters, including management's expectations of:

- long-term sales growth rates
- growth in adjusted EBITDA
- timing and quantum of future capital expenditures
- change in working capital
- the selection of discount rates to reflect the risks involved.

The Group prepares and approves formal long-term management plans for operations, which are used in value-in-use calculations. For the purposes of the calculation, a long-term growth rate into perpetuity has been determined as:

- an assumed 3% growth rate for the mature markets
- a projected long-term compound annual growth rate for adjusted EBITDA in 5-10 years, estimated by management for developing countries.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect our impairment evaluation and hence results. The yearly impairment test of goodwill is performed on the closing of the second quarter each year.

Measurement of deferred income tax assets and deferred income tax liabilities

The Group is liable to pay income taxes in various countries. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgment in respect of certain tax positions, the resolution for which is uncertain until an agreement has been reached with the relevant tax authority or, as appropriate, through a formal legal process. The final resolution of some of these items may give rise to material profits, losses and/or cash flows.

The complexity of our structure following our geographic expansion makes the degree of estimation and judgment more challenging. The resolution of issues is not always within the control of the company and it is often dependent on the efficiency of the legal processes in the relevant taxing jurisdictions in which we operate.

Issues can, and often do, take many years to resolve. Payments in respect of tax liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the tax charge in the consolidated income statement and tax payments. We also have exercised significant accounting judgment regarding net operating loss utilisation.

The Group also has exercised significant accounting judgment regarding the recognition of deferred tax assets. The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future against which the reversal of deductible temporary differences can be realised. Where the temporary differences related to losses, the availability of the losses to offset against forecast taxable profits is also considered. Recognition therefore involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred tax assets have been recognised.

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

Measurement of provisions and allocation for accrued expenses

The Group exercises judgment in connection with significant estimates in relation to staff-related costs and in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the financial settlement. Because of the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Depreciation period for alarm equipment

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

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

Estimate regarding leases

The Group performs several estimates when applying IFRS 16 in the accounting for leases. These mainly relates to the contract time. When the entity has the option to extend a lease, or end the lease before the contract end date, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term. The extension period has only been included in the present value calculation of future lease payments if it is deemed reasonably certain that the contract will be extended, and if it is deemed reasonably certain that an end option will be exercised this period have been excluded from the calculation.

Note 3 Segment Reporting

The Group's operating segments are identified by grouping together the business by revenue stream, as this is the basis on which information is provided to the chief operating decision maker (CODM) for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses. The Group has identified the management team as its CODM. The segments identified based on the Group's operating activities are customer acquisition, portfolio services and adjacencies. The customer acquisition segment develops, sources, purchases, provides and installs alarm systems for new customers in return for an installation fee. The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. The adjacency segment captures the sale of remote monitoring and assistance devices and services for senior citizens and, starting 2020, selling internet connected cameras under the Arlo brand.

Oct-Dec 2020						
EUR thousands	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	100,473	459,783	21,894	582,150	-	582,150
Adjusted EBITDA	(72,263)	333,227	(4,405)	256,559	(29,793)	226,766
Depreciation and amortization	-	-	-	(69,196)	(39,734)	(108,930)
Retirements of assets	-	-	-	(29,044)	-	(29,044)
Financial items	-	-	-	(61,685)	(1,664)	(63,349)
Result before tax	-	-	-	96,634	(71,191)	25,444

Oct-Dec 2019						
EUR thousands	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	85,229	406,029	6,889	498,147	-	498,147
Adjusted EBITDA	(91,823)	281,891	785	190,852	(30,073)	160,780
Depreciation and amortization	-	-	-	(66,260)	(38,251)	(104,511)
Retirements of assets	-	-	-	(19,857)	-	(19,857)
Financial items	-	-	-	(50,743)	(6,819)	(57,562)
Result before tax	-	-	-	53,992	(75,142)	(21,152)

Jan-Dec 2020						
EUR thousands	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	338,138	1,740,581	60,184	2,138,903	-	2,138,903
Adjusted EBITDA	(321,999)	1,255,774	(14,206)	919,569	(66,441)	853,128
Depreciation and amortization	-	-	-	(274,186)	(159,003)	(433,189)
Retirements of assets	-	-	-	(95,714)	-	(95,714)
Financial items	-	-	-	(234,636)	(137,220)	(371,856)
Result before tax	-	-	-	315,033	(362,663)	(47,630)

Jan-Dec 2019						
EUR thousands	Customer acquisition	Portfolio services	Adjacencies	Total Group – Excl SDI	SDI	Group Total
Revenue	329,098	1,548,936	22,696	1,900,730	-	1,900,730
Adjusted EBITDA	(316,297)	1,075,348	2,035	761,086	(58,217)	702,869
Depreciation and amortization	-	-	-	(235,512)	(153,081)	(388,593)
Retirements of assets	-	-	-	(76,765)	-	(76,795)
Financial items	-	-	-	(208,523)	(43,482)	(252,005)
Result before tax	-	-	-	240,256	(254,780)	(14,526)

Note 4 Financial Risk Management

Financial instruments by category and valuation level

EUR thousand	Dec 2020	Dec 2019
Financial assets at fair value through profit or loss¹		
<i>Derivatives</i>		
Currency	1,589	28,168
Total	1,589	28,168
Financial liabilities at fair value through profit or loss¹		
<i>Derivatives</i>		
Currency	35,226	75
Interest rate	18,149	17,720
Total	53,375	17,795
Loans and receivables at amortized cost		
Trade and other receivables	315,147	310,179
Trade receivables ²	161,147	154,075
Other current receivables ²	40,027	15,613
Cash and cash equivalent	97,941	12,770
Other financial liabilities at amortized cost		
Long-term borrowings ³	5,073,558	4,948,800
Other non-current liabilities	105,101	114,571
Trade payables ²	183,115	139,086
Short-term borrowings ^{2,3}	102,238	91,726
Other current liabilities ²	47,094	29,955

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

2) Due to the short-term nature of trade receivables, current receivables, trade payables, short-term borrowings and other current liabilities, their carrying amount is assumed to be the same as their fair value.

3) Details of borrowings are presented in note 5.

Note 5 Borrowings

EUR thousand	Dec 2020			Dec 2019		
	Principal amount	Adjustment amortized costs	Carrying amount	Principal amount	Adjustment amortised costs	Carrying amount
Non-current liabilities						
Secured						
Senior Secured Notes	1,500,000	(10,820)	1,489,180	500,000	(1,709)	498,291
Term Loan B ¹	2,292,000	(48,893)	2,243,107	3,092,000	(106,035)	2,985,965
Revolver Credit Facility	-	-	-	126,954	(2,815)	124,139
Unsecured						
Senior Unsecured Notes	1,244,436	(6,968)	1,237,468	1,237,942	(9,153)	1,228,789
Liabilities to other creditors	10,375	-	10,375	14,565	-	14,565
Lease liability	93,428	-	93,428	97,051	-	97,051
Long-term borrowings	5,140,239	(66,681)	5,073,558	5,068,511	(119,711)	4,948,800
Current liabilities						
Accrued interest expenses	36,390	-	36,390	21,159	-	21,159
Other liabilities	27,694	-	27,694	33,708	-	33,708
Lease liability	38,154	-	38,154	36,859	-	36,859
Short-term borrowings	102,238	-	102,238	91,729	-	91,729
Total	5,242,477	(66,681)	5,175,796	5,160,237	(119,711)	5,040,526

1) Of the total amount regarding adjustment amortized costs EUR (27,756) thousands in December 31, 2020 ((70,717) in December 31, 2019) relates to an adjustment derived from the modification of loan terms during the loans contract period calculated according to IFRS 9.

EUR thousand	Dec 2020	Dec 2019
Total principal amount (as above)	5,242,477	5,160,237
Less accrued interest	(36,390)	(21,159)
Indebtedness	5,206,087	5,139,078
Less financial receivable, current	(8)	(8)
Less cash and cash equivalents	(97,941)	(12,770)
Net debt including IFRS 16	5,108,138	5,126,300
Less lease liability	(131,582)	(133,910)
Net debt per SFA lender documentation	4,976,556	4,992,391

Note 6 Pledged Assets and Contingent Liabilities

EUR thousand	Dec 2020	Dec 2019
Endowment insurance	666	658
Shares in subsidiaries	2,054,531	2,100,193
Bank accounts	79,705	696
Trademark	43,333	48,333
Accounts receivables	96,092	93,684
Inventories	557	67,088
Motor vehicles	9	18

EUR thousand	Dec 2020	Dec 2019
Guarantees	24,001	29,645

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

Unaudited Parent Company Financial Statements

Parent company income statements

EUR thousand	Note	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Administrative expenses		(35,992)	(4)	(36,004)	(18)
Operating result		(35,992)	(4)	(36,004)	(18)
Financial income	2	14,315	13,060	50,182	48,360
Financial expenses	2	(19,043)	(18,723)	(75,743)	(74,284)
Dividend		1,433,928	-	1,433,928	-
Group contribution		-	3,027	-	3,027
Result before tax		1,393,209	(2,640)	1,372,363	(22,915)
Income tax expense and benefit		-	109	-	109
Result for the period		1,393,209	(2,531)	1,372,363	(22,806)

EUR thousand	Note	Dec 2020	Dec 2019
Assets			
Non-current assets			
<i>Long-term investments</i>			
Investments in subsidiaries		1,191,365	1,190,122
Receivables from Group companies		708,518	700,444
Total non-current assets		1,899,883	1,890,565
Current assets			
Other receivables from Group companies		1,433,928	-
Accrued income interest from Group companies		4,781	3,039
Cash and cash equivalents		396	119
Total current assets		1,439,105	3,158
Total assets		3,338,988	1,893,723
Equity and liabilities			
Equity			
Share capital		56	56
Other paid in capital		569,170	569,170
Retained earnings		1,392,508	18,901
Total equity		1,961,734	588,127
Provisions			
Other provisions	3	36,000	-
Total provisions		36,000	-
Non-current liabilities			
Long-term borrowings	4	1,237,468	1,228,788
Liabilities to Group companies		97,979	71,052
Total non-current liabilities		1,335,447	1,299,841
Current liabilities			
Accrued expenses and prepaid income	4	5,807	5,749
Accrued expense and prepaid income to Group companies		-	5
Total current liabilities		5,807	5,754
Total equity and liabilities		3,338,988	1,893,723

Parent Company Statements of Changes in Equity

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2020	56	569,170	18,901	588,127
Result for the period	-	-	1,372,363	1,372,363
Shareholders contribution	-	-	1,244	1,244
Balance at December 31, 2020	56	569,170	1,392,508	1,961,734

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2019	56	569,170	41,538	610,764
Result for the period	-	-	(22,806)	(22,806)
Shareholders contribution	-	-	169	169
Balance at December 31, 2019	56	569,170	18,901	588,127

Parent Company Statements of Cash Flows

EUR thousand	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Operating activities				
Operating result	(35,992)	(4)	(36,004)	(18)
Other non-cash items	36,000	-	36,000	-
Cash flow from operating activities before change in working capital	8	(4)	(4)	(18)
Change in working capital				
Cash flow from change in working capital	(9)	1	(1)	(3,246)
Cash flow from operating activities	(1)	(3)	(5)	(3,264)
Investing activities				
Cash flow from investing activities	-	-	-	-
Financing activities				
New loans from Group companies	14,162	8,661	26,953	26,782
Paid bank and advisory fees	(2)	(42)	(10)	(427)
Net interest received or paid	(14,353)	(8,759)	(26,661)	(23,224)
Cash flow from financing activities	(193)	(140)	282	3,131
Cash flow for the period	(194)	(143)	277	(133)
Cash and cash equivalents at start of period	590	262	119	252
Exchange difference on translating cash and cash equivalents	-	-	-	-
Cash and cash equivalents at end of period	396	119	396	119

Note to the Unaudited Parent Company Financial Statements

Note 1 Accounting Policies

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

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

Note 2 Financial income and expenses

EUR thousand	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Interest income from Group companies	12,249	12,169	48,570	48,360
Other financial income	2,066	890	1,612	-
Financial income	14,315	13,060	50,182	48,360
Interest expense	(17,850)	(17,795)	(71,416)	(71,179)
Interest expense to Group companies	(630)	(348)	(2,130)	(1,184)
Other financial cost	(563)	(546)	(2,197)	(1,921)
Financial expenses	(19,043)	(18,723)	(75,743)	(74,284)

Note 3 Provisions

The parent company reports a provision related to the Norwegian Competition Authority (the "NCA") case, refer to events during the reporting period for the Group on page 11 for more information.

Note 4 Borrowings

EUR thousand	Dec 2020			Dec 2019		
	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
Unsecured						
Senior Unsecured Notes	5,790	1,237,468	1,243,258	5,735	1,228,788	1,234,523
Total (carrying amount)	5,790	1,237,468	1,243,258	5,735	1,228,788	1,234,523

Quarterly summary

Key figures

EUR thousand (if not otherwise stated)	Oct-Dec 2020	Jul-Sept 2020	Apr-Jun 2020	Jan-Mar 2020	Oct-Dec 2019
Portfolio services segment:					
<i>Unaudited operating data</i>					
Total subscribers (end of period), units	3,763,945	3,623,024	3,467,795	3,430,058	3,346,712
Cancellation, units	57,680	55,777	57,707	58,535	50,563
Attrition rate (LTM)	6.5%	6.5%	6.5%	6.4%	6.2%
Net subscriber growth, units	140,921	155,229	37,737	83,346	110,486
Subscriber growth rate, net	12.5%	12.0%	10.8%	13.3%	14.2%
Average monthly revenue per user (ARPU), (in EUR)	41.5	41.2	40.9	41.4	41.1
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	30.1	29.9	30.0	29.0	28.5
<i>Non-IFRS and IFRS financial data</i>					
Portfolio services revenue	459,783	438,910	420,803	421,085	406,029
Portfolio services adjusted EBITDA	333,227	318,765	308,760	295,022	281,891
Portfolio services adjusted EBITDA margin	72.5%	72.6%	73.4%	70.1%	69.4%
Customer acquisition segment:					
<i>Unaudited operating data</i>					
New subscribers added (gross)	198,601	211,006	95,444	141,881	161,049
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,090	1,092	1,329	1,406	1,258
<i>Non-IFRS and IFRS financial data</i>					
Customer acquisition revenue	100,473	99,844	58,733	79,087	85,229
Customer acquisition adjusted EBITDA	(72,263)	(90,974)	(61,537)	(97,226)	(91,823)
Customer acquisition capital expenditures	144,351	139,411	65,339	102,273	110,741
Adjacencies segment:					
<i>Non-IFRS and IFRS financial data</i>					
Adjacencies revenue	21,894	17,807	9,693	10,790	6,889
Adjacencies adjusted EBITDA	(4,405)	(2,521)	(2,854)	(4,427)	785
Consolidated:					
<i>Unaudited operating data</i>					
Payback period (in years)	3.0	3.0	3.7	4.0	3.7
<i>Non-IFRS and IFRS financial data</i>					
Revenue	582,150	556,561	489,229	510,962	498,147
Organic revenue growth	18.1%	18.2%	6.8%	13.1%	16.1%
Adjusted EBITDA	256,559	225,270	244,369	193,370	190,852
Adjusted EBITDA margin	44.1%	40.5%	49.9%	37.8%	38.3%
Capital expenditures	207,750	177,977	105,130	144,124	173,436
Reported (including SDI)					
Revenue	582,150	556,561	489,229	510,962	498,147
Reported operating profit ¹	88,793	76,348	100,727	58,358	36,411
Reported adjusted EBITDA	226,766	209,015	231,855	185,491	160,780

All amounts are before SDI, unless otherwise stated.

Non-IFRS measures

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

Adjusted EBITDA

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

EUR thousands	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Operating profit according to consolidated income statement	88,793	36,411	324,226	237,480
Less depreciation and amortization	108,930	104,511	433,189	388,593
Less retirement of assets	29,044	19,857	97,714	76,795
Less separately disclosed items	29,793	30,073	66,441	58,217
Adjusted EBITDA	256,559	190,852	919,569	761,086
Whereof adjusted EBITDA customer acquisition	(72,263)	(91,823)	(321,999)	(316,297)
Whereof adjusted EBITDA portfolio services	333,227	281,891	1,255,774	1,075,348
Whereof adjusted EBITDA adjacencies	(4,405)	785	(14,206)	2,035

Average Revenue per user

Average monthly revenue per user ("ARPU") is our portfolio services segment revenue, consisting of monthly average subscription fees and sales of additional products and services divided by the monthly average number of subscribers during the relevant period.

Calculation of ARPU

EUR thousands	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Portfolio services segment revenue	459,783	406,029	1,740,581	1,548,936
Monthly average portfolio services segment revenue	153,261	135,343	145,048	129,078
Average monthly number of subscribers during the period	3,695,144	3,292,400	3,518,094	3,133,291
Monthly average portfolio services segment revenue (in EUR) divided with average monthly number of subscribers during the period – ARPU (In EUR)	41.5	41.1	41.2	41.2

Monthly adjusted EBITDA per subscriber

Monthly adjusted EBITDA per subscriber ("EPC") is calculated by dividing the total monthly adjusted EBITDA from managing our existing subscriber portfolio (which is our adjusted EBITDA from portfolio services) by the monthly average number of subscribers.

Calculation of EPC

EUR thousands	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Portfolio services segment adjusted EBITDA	333,227	281,891	1,255,774	1,075,348
Monthly average portfolio services segment adjusted EBITDA	111,076	93,964	104,648	89,612
Average monthly number of subscribers during the period	3,695,144	3,292,400	3,518,094	3,133,291
Monthly average portfolio services segment adjusted EBITDA (in EUR) divided with average monthly number of subscribers during the period – EPC (In EUR)	30.1	28.5	29.7	28.6

Cash acquisition cost per new subscriber

Cash acquisition cost per new subscriber ("CPA") is the net investment required to acquire a subscriber, including costs related to the marketing and sales process, installation of the alarm system, costs of alarm system products and overhead expenses for the customer acquisition process. The metric is calculated net of any revenues from installation fees charged to the subscriber and represents the sum of adjusted EBITDA plus capital expenditures in our customer acquisition segment on average for every subscriber acquired.

Calculation of CPA

EUR thousands	Oct-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Customer acquisition Adjusted EBITDA	(72,263)	(91,823)	(321,999)	(316,297)
Customer acquisition capital expenditure	(144,351)	(110,741)	(451,374)	(422,445)
Customer acquisition cost	(216,614)	(202,564)	(773,373)	(738,742)
New subscribers added (gross)	198,601	161,049	646,932	611,321
Customer acquisition cost (in EUR) divided by new subscribers added (gross) - CPA (in EUR)	1,090	1,258	1,195	1,208

Payback period

Payback period represents the time in years required to recapture the initial capital investment made to acquire a new subscriber and is calculated as CPA divided by EPC, divided by 12.

Calculation of Payback period

EUR thousands	Jan-Dec 2020	Oct-Dec 2019	Jan-Dec 2020	Jan-Dec 2019
Cash acquisition cost per new subscriber ("CPA")	1,090	1,258	1,195	1,208
Monthly adjusted EBITDA per subscriber ("EPC")	30.1	28.5	29.7	28.6
CPA divided by EPC divided by 12	3.0	3.7	3.3	3.5

Malmö, February 24, 2021

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CEO

Stefan Götz

Adrien Motte

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Chairman

Fredrik Östman