



Annual Report 2016

Verisure Midholding AB (publ)



verisure
SMART ALARMS



Table of contents

Quick facts	3
Letter from the CEO	4
Who we are	6
2016 in brief	9
Strategy	13
Business model	16
Organization & people	18
Group management	20
Corporate governance	23
Board of directors	24

FINANCIAL INFORMATION	
Directors' report	26
Consolidated financial statements	31
Note 1 Accounting policies	36
Note 2 Critical accounting estimates and judgements	43
Note 3 Segment reporting	44
Note 4 Business combinations	45
Note 5 Expenses by nature	47
Note 6 Audit fees	47
Note 7 Employee benefit expense	47
Note 8 Remuneration of directors and executive management	48
Note 9 Non-cash items	48
Note 10 Operating leases	48
Note 11 Depreciation and amortisation	48
Note 12 Finance income and costs	49
Note 13 Income tax expense and benefit	50
Note 14 Related party transactions	50
Note 15 Property, plant and equipment	51
Note 16 Goodwill	52
Note 17 Customer portfolio	53
Note 18 Other intangible assets	53
Note 19 Deferred tax	54
Note 20 Financial risk management	55
Note 21 Trade and other receivables	60
Note 22 Inventories	60
Note 23 Trade receivables	60
Note 24 Derivative financial instruments	61
Note 25 Share capital	61
Note 26 Borrowings	62
Note 27 Other provisions	64
Note 28 Accrued expenses and deferred income	64
Note 29 Pledged assets and contingent liabilities	64
Parent company financial statements	65
Note 1 Investments in subsidiaries	68
Note 2 Borrowings in the parent company	68
Note 3 Pledged assets and contingent liabilities in the parent company	68
Auditor's report	70
Five-year financial overview	72
Definitions	73
Risk factors	74



The European leader in the residential and small business segment of the broader security services market

Over 2.2
million
customers

€630
million
portfolio
EBITDA

Total revenue €1,184
million

10,000
employees

Operating in 14
countries in Europe
and Latin America

1 new customer
every 20 seconds

Letter from the CEO

We believe it is a human right to feel safe and secure. We exist to bring peace of mind to families and small business owners. This is a serious responsibility. Every team member in our Company deeply values the trust that our customers place in our service.

2016 was another record year for our Company.

Our portfolio grew to just under 2.3 million customers. We added almost 360 thousand new subscribers. We further improved our already industry-leading attrition rate to just 6.7%.

We grew in all the countries in which we we operate. We continue to lead the residential and small business segment of the broader security services market in Europe. We also celebrated an important milestone for our Latin American operations becoming the number one provider in Brazil.

Revenue grew by +17% compared to 2015. We also increased portfolio EBITDA by + 20%. This delivered a new high with portfolio adjusted EBITDA of EUR 630 million. Our business performance including cash flow and the demonstrated ability to deleverage through growth also earned us a credit rating upgrade.

It all comes down to the ability to execute our differentiated business model with excellence.

We focus on innovation, category creating marketing, sales excellence and a world class customer experience. For example, our two-way voice solution, enables more accurate verification of alarm incidents and a superior SOS service for customers. Our anti-jamming solution detects attempts to disrupt GSM connectivity on installa-

tions and alerts our monitoring stations via a secure ultra-narrow band network. We also continued to deliver new services, like Smart Scheduling, through our smart phone App.

We also see operational and cost excellence increasingly embedded in our culture. For example, we over-delivered on the commitments made in the Funding Our Growth programme communicated in 2015.

Everything depends on people. We focus on our distinctive DNA which binds us together. And, every day, our track record, winning strategy, future potential and inspiring purpose helps us to attract, develop and retain the very talented women and men we need to fulfil our vision.

I would like to thank our management team and all our employees and partners for their commitment and achievements during the past year. I also know they are excited about what is ahead.

We exist to bring peace of mind to families and small businesses. In 2017, we aim to continue strongly on that growth path. And for many years to come.

Regards,
Austin Lally, Group CEO
Malmö, April 2017



> It all comes down to the ability to execute our differentiated business model with excellence.

Our vision

We believe it's a human right to feel safe and secure.

We protect what really matters.

Our service will bring peace of mind to families and small business owners for generations to come.



Who we are

We are the European leader in the residential and small business segment of the broader security services market.

Peace of mind for families and small businesses

Our core business is subscription-based home security solutions, primarily professionally monitored intrusion and fire alarms delivered under our core Verisure and Securitas Direct brands. We also offer integrated smart home services in adjacent security and safety related applications, including access control and climate control. Our services are controlled and monitored through the Verisure mobile app. We are vertically integrated to ensure the right customer experience through every stage of our operations. We focus on innovation, category-creating marketing, sales excellence and a world class customer experience.

Leading provider with broad geographical footprint

We are the number one provider in Europe in the residential and small business segment of the broader security services market, operating in 11 countries. We have leading segment positions in four of our five biggest geographies, based on our strong track record of quality growth (+16% compounded annual growth rate from 2000 to 2016). In addition to our presence in 11 European countries, we also operate in key Latin American countries, including the number one position in Brazil. Our business is primarily driven by organic growth, delivered by our differentiated business model. We attract high quality customers. We work hard to ensure that our customers are happy. This contributes to a low level of attrition and a long customer lifetime.

Always innovating.

Innovation is core to our DNA. Differentiated technology is a major enabler of our offering. But, it is also the product of human expertise, accumulated over many years, drawn from closeness to the real experiences of our customers, sales people, technicians and operators. These insights are a source of advantage. We leverage these insights with significant investment into product and service innovation. All directed towards the best solution and creating true peace of mind.

Broad based growth

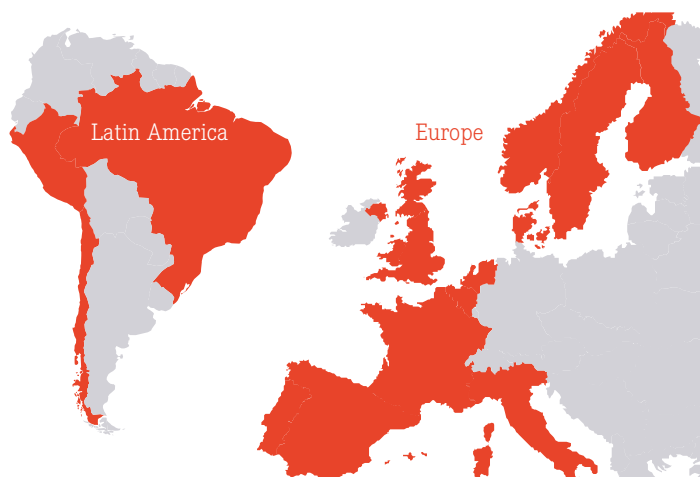
Our Group is present in 14 countries. We are the European leader in the residential and small business segment of the broader security services market. We are growing strongly in Latin America and have become #1 in Brazil.

A technology-enabled human services company

Our more than 10,000 employees and partners are at the foundation of our Company. Our business model is a combination of technology and personal expertise. We are a human services company. It comes down to people, not just hardware and software. But enabled by world class technology.

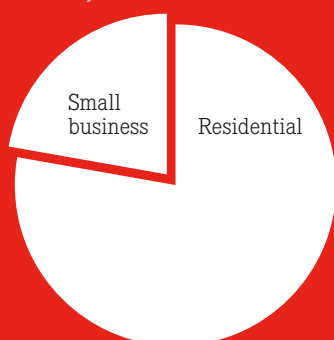
Our history

Operations started in 1988, as a division of Securitas AB. The business was initially focused on the Swedish residential home security segment, followed with the creation of a major division centered in Spain, today our largest portfolio. Our two iconic founders were Executives from the Securitas era, Dick Seger former CEO now retired from the Company and Luis Gil, who continues to play a significant leadership role today. Since then we have steadily grown both our geographic footprint and the penetration within existing countries. We were listed publicly in Stockholm in 2006. The Company became privately owned in an acquisition by EQT Holdings AB in 2008. We were then acquired in 2011 by Bain Capital and Hellman & Friedman. In late 2015, Hellman & Friedman acquired Bain Capital's interest placing it in a majority shareholder position alongside Company management.

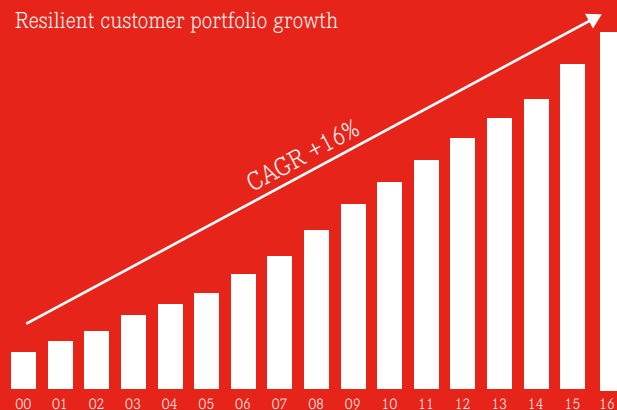


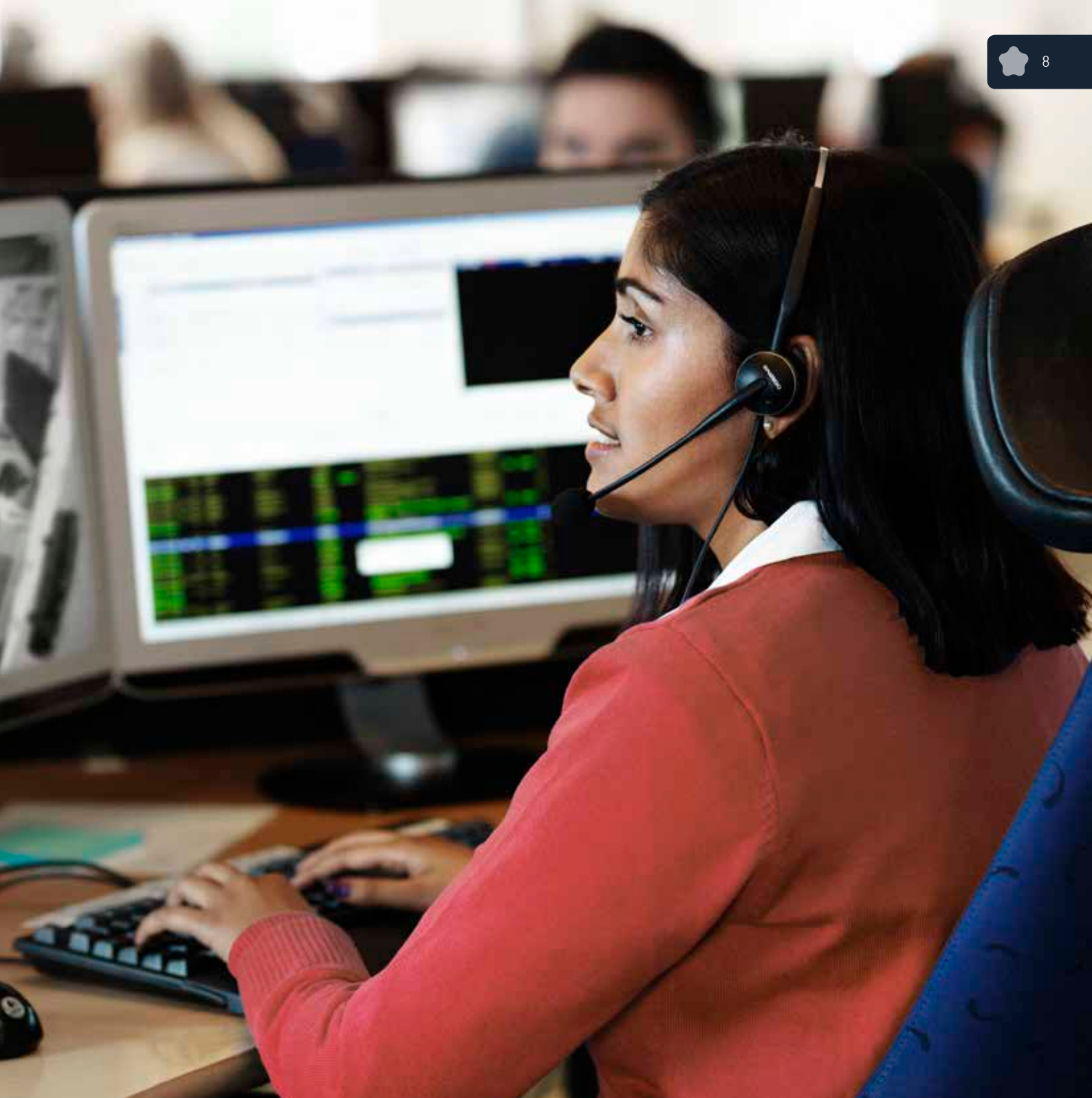
Protecting families and small businesses

Customer breakdown by consumer type, end of year 2016



Resilient customer portfolio growth





We take responsibility 24/7

Our camera solution allows our security agents to see and verify incidents in homes and small businesses.

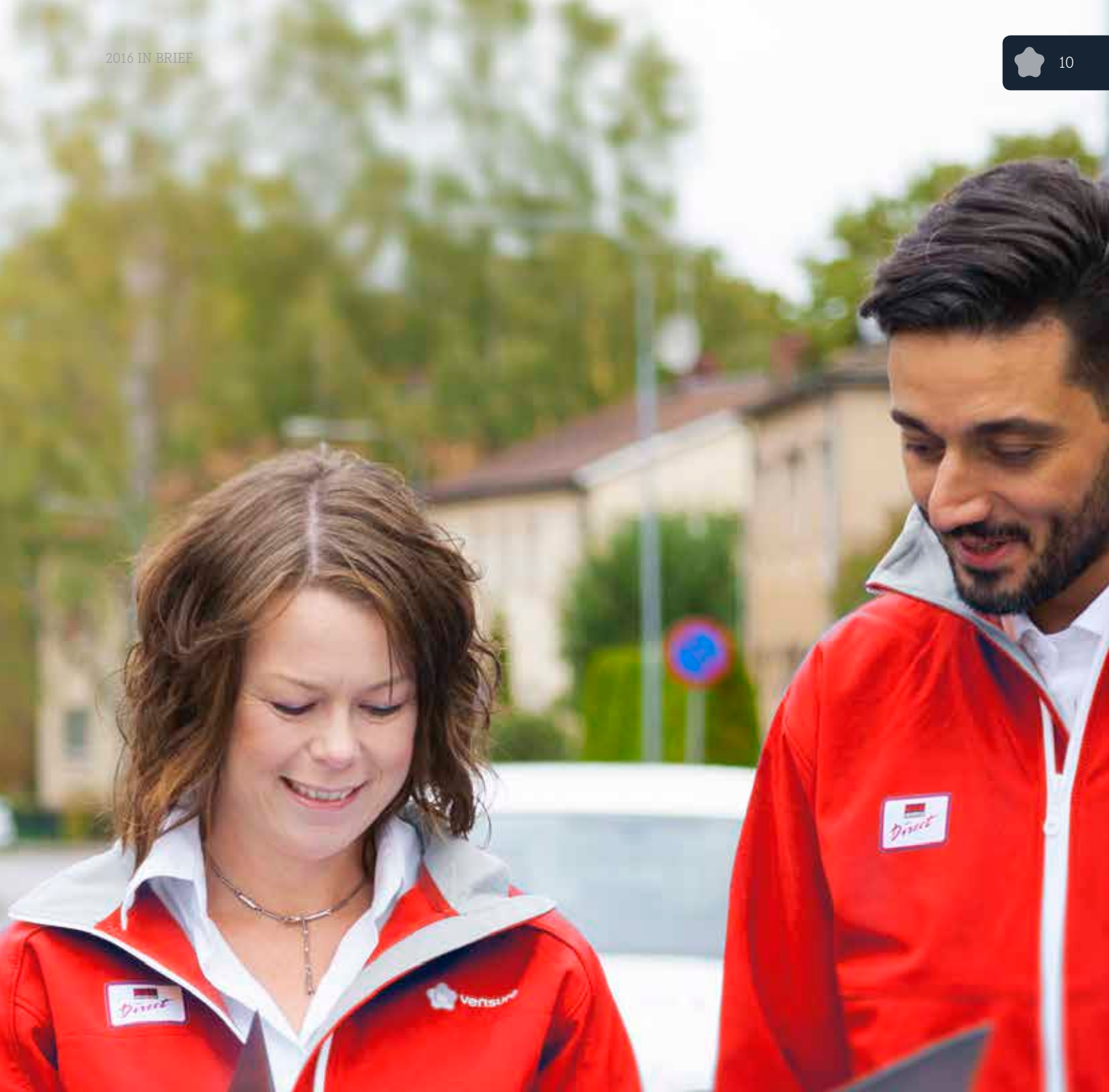


2016 in brief

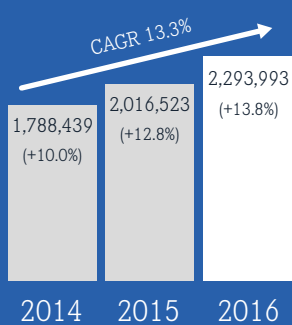
- Net subscriber growth for the year has accelerated to 227,470 customers, an increase of 21.7% compared to 2015, resulting in an annual portfolio growth of 13.8%. Excluding the acquisitions the annual organic portfolio growth was 10.8%.
- Revenues amounted to EUR 1,184.5 million (1011.8) which correspond to an increase of 17.1% compared to 2015. Adjusted for currency effects, revenues grew by 17.9%.
- Portfolio adjusted EBITDA for the Group improved to EUR 629.8 million (521.8) corresponding to an increase of 20.7% compared to 2015. Adjusted for currency effects, portfolio adjusted EBITDA improved by 21.4%. Portfolio EBITDA margin strengthened by 2.7 percentage points to 63.1% (60.4%).
- Total adjusted EBITDA increased to EUR 452.5 million (360.8) to an improvement of 25.4% compared to 2015. Adjusted for currency effects, EBITDA grew by 26.0%.
- Cash flow from operations was strong for the year with an improvement of 35.8% to EUR 430.4 million (316.9) driven by the increased profitability as well as improvements in working capital.
- We successfully grew in all geographies at improved levels of profitability per customer.
- Strong momentum continued for new customer intake resulting in over 350,000 new subscribers in 2016, an increase of 16.5% compared to 2015.
- The Group-wide focus on customer care and retention resulted in a further lowering of the attrition rate during 2016 from an already industry benchmark level. The attrition rate at year-end was 6.7%.
- We are building up our sales organisation across all our geographies and continue to have success with expansion. We are very pleased with our progress in newer geographies e.g. Italy and UK and the strong growth rates experienced in Latin America during the year.
- In addition to strong organic growth, the Group also made selective acquisitions during the year including Falck's alarm business in Denmark and Norway and NorAlarm AS, the former Lyse alarm company in Norway.
- During the year the company's credit rating was further improved. In October 2016, Standard & Poor's raised their long-term corporate rating from B to B+ and in December Moody's updated their rating to B2 with positive outlook.

Throughout this document numbers within paranthesis refer to comparable numbers from 2015.

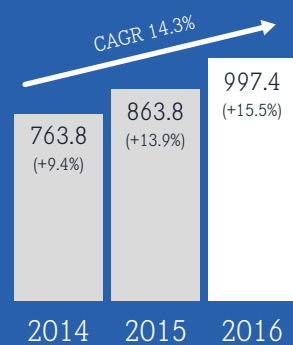
EUR million	2016	2015	Change
Total subscribers (year-end), units	2,293,993	2,016,523	13.8%
New subscribers added (gross), units	359,468	308,494	16.5%
Net subscriber growth, units	277,470	228,084	21.7%
Revenue, total	1,184.5	1,011.8	17.1%
Portfolio service adjusted EBITDA	629.8	521.8	20.7%
Portfolio service adjusted EBITDA margin	63.1%	60.4%	–
Adjusted EBITDA, total	452.5	360.8	25.4%
Cash flow from operating activities	430.4	316.9	35.8%
Capital expenditure, total	321.1	253.9	26.5%
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	24.6	23.0	7.0%
Average monthly revenue per user (ARPU), (in EUR)	38.9	38.1	2.1%



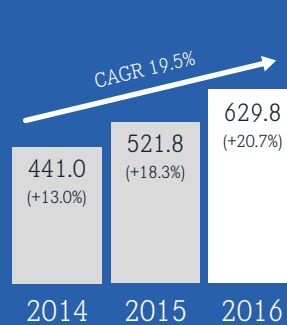
Total subscribers,
units



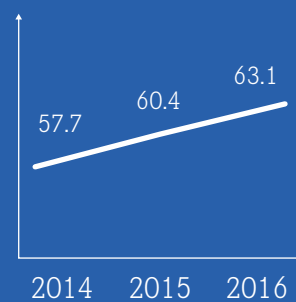
Portfolio revenue, EUR million



Portfolio service adjusted
EBITDA, EUR million



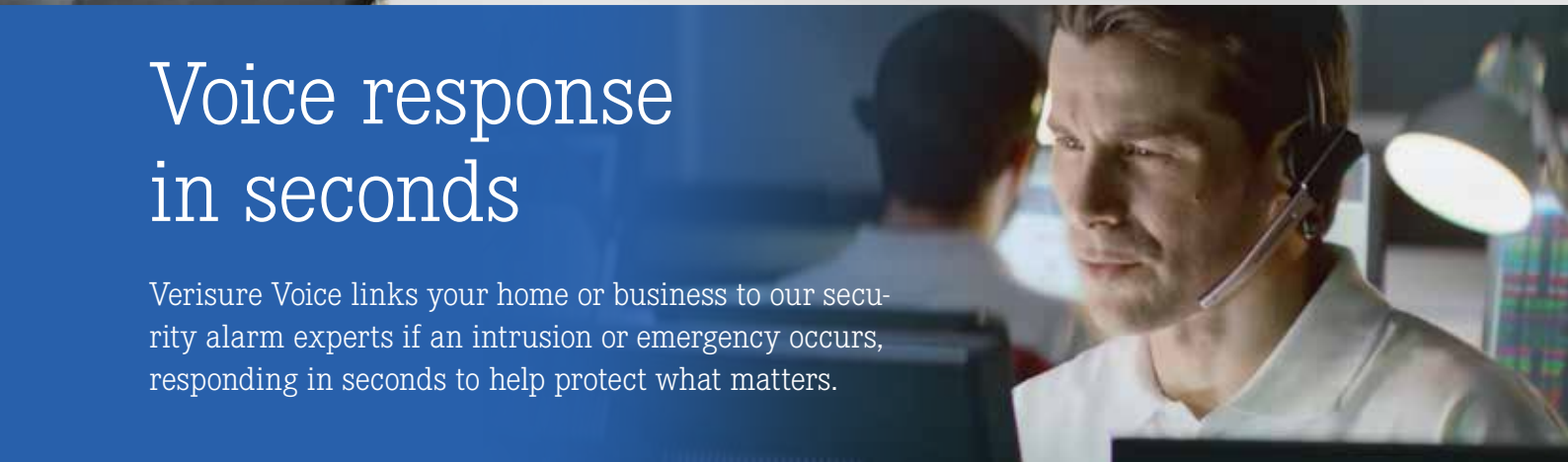
Portfolio service adjusted
EBITDA margin, %

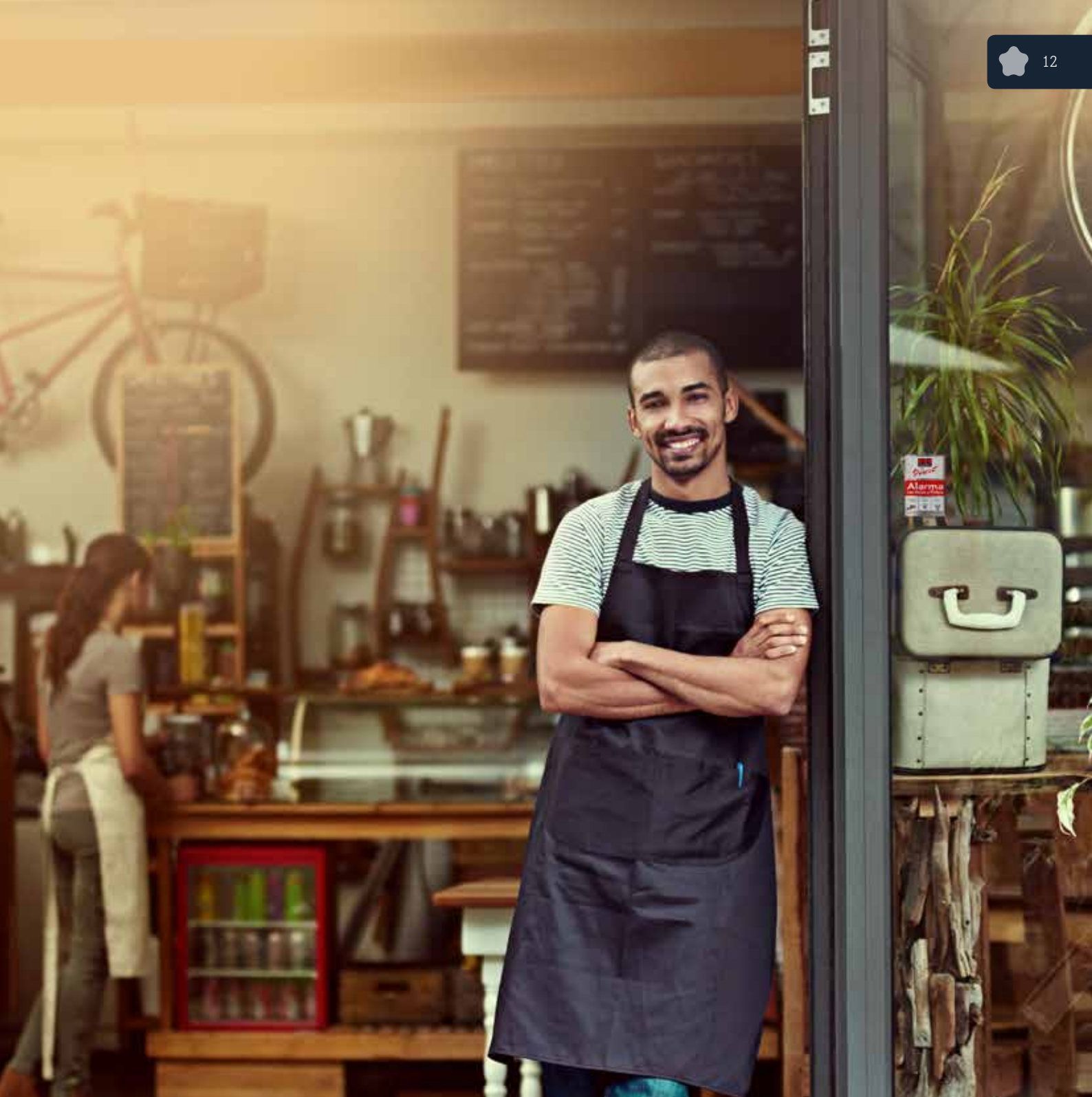




Voice response in seconds

Verisure Voice links your home or business to our security alarm experts if an intrusion or emergency occurs, responding in seconds to help protect what matters.





Smart solutions for small business owners

Small businesses are exposed to security threats. The Verisure business alarm creates a safe working environment in which employees, customers and assets are protected. Our alarms for businesses adapt to the needs of each company, whether they are at offices, warehouses or commercial premises.



Strategy = choices for leadership and profitable growth

Increase penetration of monitored alarms for residential and small business customers

Our strategy is a growth strategy. We are differentiated by growth. It is shown by our track record. And a path ahead illuminated by opportunity. This remains an under-penetrated industry. There are still significant growth opportunities in all the countries in Europe and Latin America. We aim to further grow our subscriber base by executing our differentiated business model: Innovation. Category-creating marketing. Sales excellence. World class customer experience. All aimed at high-quality potential customers. On top of organic growth, we continue to consider carefully selective local acquisitions to strengthen our portfolio further.

Provide the best security solution available and do our utmost to protect our customers

We have a strong, long-term track record on innovation. Our in-house development teams cooperate closely with our technology partners to design and deliver winning security products and services. This is driven by insights gained because we are vertically integrated across key stages of our value chain. We focus our investment choices where we can deliver clear differentiation to cus-

tomers. And we intend to continue investing in order to support our premium positioning and extend our leadership position.

Maintain the highest levels of customer satisfaction and loyalty in the industry

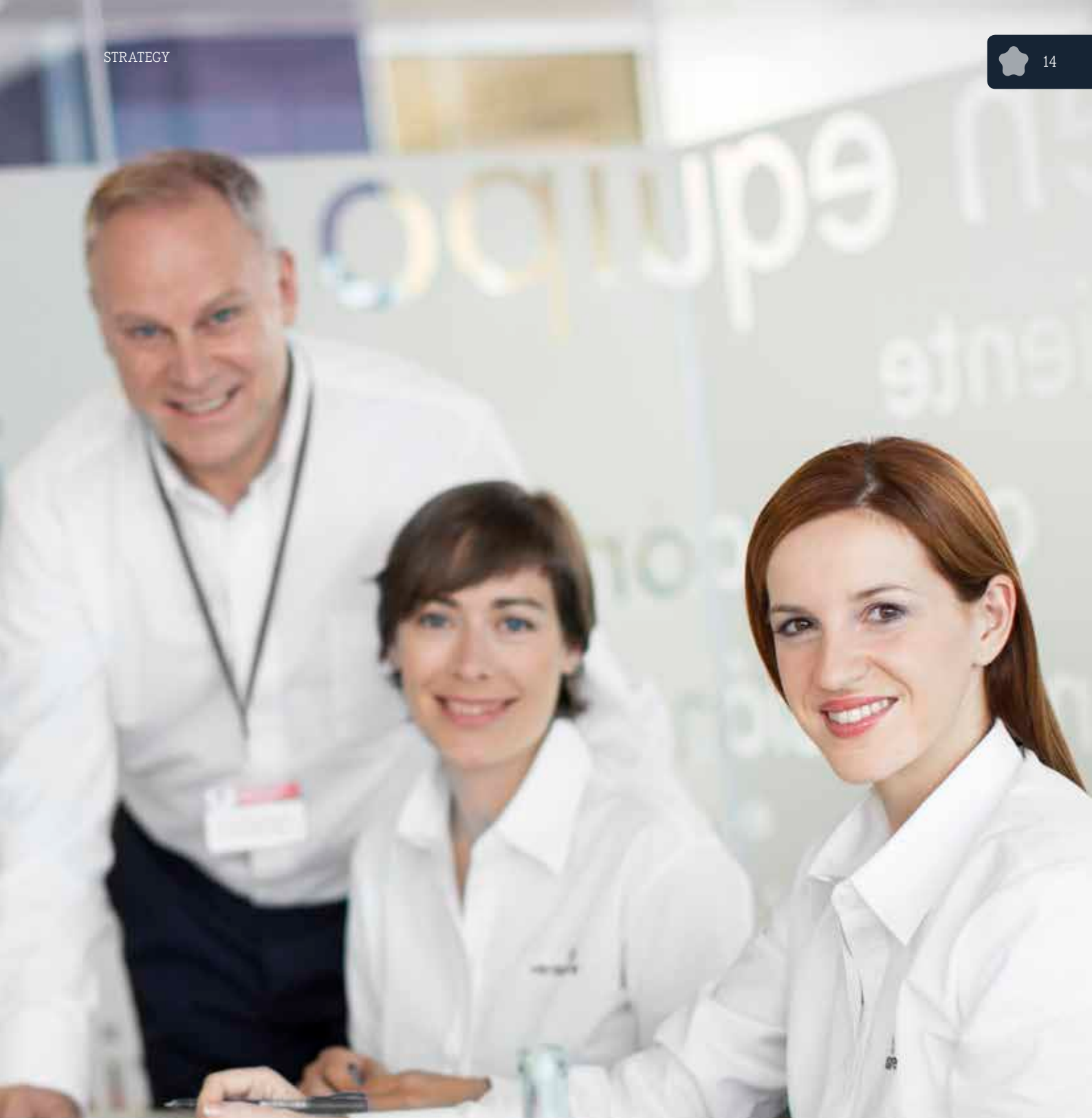
A world class customer experience drives loyalty. We want to have the happiest and most loyal portfolio of customers in the industry. This earns low levels of attrition. To achieve this, we analyze and improve customer satisfaction at all the "moments of truth" during sales, installation, service, monitoring and response.

Deliver industry-leading profitability by providing a premium proposition supported by excellence in operations and cost management

We believe that differentiated security products and services, coupled with excellence of execution are the foundation for sustained premium pricing. But, we also look to leverage our scale and innovate on process improvements so that we can enhance operational efficiency without compromising the world class customer experience. Quality and cost is not "or". It is "and". We believe in the power of "and".



We protect what matters most



Broad based growth

Our Group is present in 14 countries. We are the European leader in the residential and small business segment of the broader security services market. We are growing strongly in Latin America and have become #1 in Brazil





Superior protection against intruders

Verisure Anti-Jamming defends against the advanced jamming technologies some burglars now use.



Our business model delivers sustained quality growth

We operate a subscription-based service business, providing and installing alarm systems and monitoring them on an ongoing basis.

Our business model delivers resilient cash flow and high quality growth. We report our business in two operating segments. We look at the recurring cash flow from the portfolio of existing customers; and we look at the discretionary cash invested on new customers with high returns to grow the portfolio further.

Portfolio services

The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. We operate our own monitoring centres. We bring expertise to verification and response. We also provide customer service and professional technical support for all our installed systems. We have a diverse and high quality customer base with low attrition contributing to growing, predictable cash flows.

A majority of costs from the portfolio services segment are variable or semi-fixed. Some costs are fixed, e.g. facility rental, which together with the semi-fixed costs provide operating leverage as we grow. As a result, we are able to increase operating margins and cash flows as we add new customers to our existing operations.

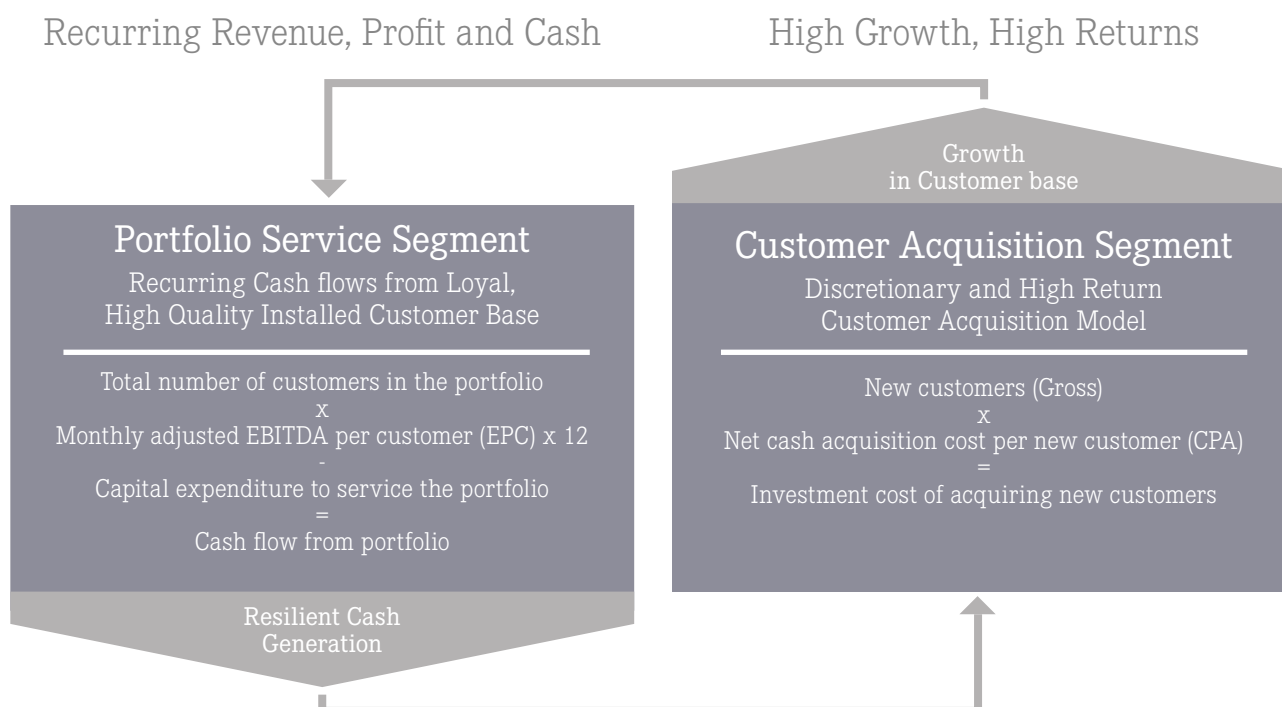
The recurring monthly fees in Portfolio services generate approximately 85% of Group revenue. As of December 31, 2016, we had over 2.2 million customers connected to our monitoring centres. In 2016 this segment generated EUR 997.4 million of revenue and EUR 629.8 million of adjusted EBITDA, representing a margin of 63.1% (60.4%), an increase of 20.7% compared to 2015.

Customer acquisition

Some of the cash from the (increasing) portfolio is reinvested into the business again to grow the customer base further by acquiring new, high quality customers. In this segment we look at the revenues and investments associated with alarm systems for those customers. We look at the long-term value and return on investment.

Acquisition of new customers is handled mainly by our own sales force and franchise partners. Our marketing activities and partnerships generate high-quality leads which are converted into sales.

Our business model is flexible on the pace of growth and customer acquisition, enabling us to balance growth targets and cash flow objectives.



Detection before an intrusion happens

Our new Early Detection solution with vibration detectors allow us to respond before an intrusion happens.



Verisure
Vibration Detector

Becoming a world-class organization

More than 10,000 passionate, innovative, committed, expert team mates.

Our people matter

We are a technology-enabled human services company. Technology is a major enabler of our service. But it is so much more powerful when combined with our human expertise. More than 85% of our employees interact with customers every day, in sales, installation, maintenance, monitoring and response. The most critical "moments of truth" include intrusion, fire emergencies or other SOS situations. Handling all of these moments with expertise and commitment is our responsibility. It is also the foundation of a lifetime relationship with our customers.

Strong culture as the basis of our differentiation

We pride ourselves on our strong DNA, which is brought to life every day across all our operating locations. We believe this is an important basis of differentiation. Our people are passionate in what they do, committed to making a difference and always innovating. When we win, we win as a team. We engage with both customers and team mates with trust. We also take individual responsi-

bility. We hire, develop and reward team mates based on their performance but also their contribution to the Company's vision. Values matter. We care about not just what gets delivered but also how it gets delivered.

A unique place to work and grow

Our company has grown fast. But, we work to stay agile and lean, responsive and close to customers. We combine a global leadership mindset with strong local accountability. This provides employees with great opportunities to grow and advance over long and exciting careers. Our growth, and the high accountability we have for our customers and our business, is a driver of personal development. Employees learn a lot and learn quickly. Our methods are also an effective combination of high level strategic choices, and strong attention to important detail. This includes detailed analysis of key performance indicators [KPIs] at every service level. We call this a KPI enabled culture of accountability.

Innovation is embedded in our culture

Our deep customer understanding and close monitoring of new trends in technology and market insights are the foundation of our game-changing product and service solutions. These solutions protect millions of families and businesses every day.



Passionate
in everything we do

Committed
to making a
difference

**Our
DNA**

Always
Innovating

Winning
as a team

with Trust &
Responsibility

A technology-enabled human services company

Our more than 10,000 employees and partners are at the foundation of our Company. While we bring the best technology to the market, the impact of this is amplified by our talented, passionate team that take care of our customers every day.

Group Management



Andrew
Wells
Group Chief Product
& Service Officer



Antonio
Anguita
President of Iberia &
Latin America



Austin Lally
Group Chief
Executive Officer



Benedict
O'Halloran
Group Chief Legal
Officer



Erwin
Wieffering
Group Chief
Marketing Officer



Luis Gil
President of Expansion,
Acquisitions and
Business Development,
Founder



Matthias
Hansen
Group Chief Information
Officer



Mattias
Ringqvist
General Manager
Sweden, Finland &
Denmark



Marta Panzano
Barbero
Group Chief Human
Resources Officer



Olivier
Allender
General Manager
France, Belgium &
Netherlands



Vincent
Litrico
Group Chief Financial
Officer
Deputy CEO

Andrew Wells joined the company as Chief Product & Services Officer, (CPSO) in February 2017. Mr. Wells joins us from Motorola, where he was most recently Vice-president of Engineering leading Motorola's modular computing platform and innovation pipeline across the USA, China, Australia, and the U.K. Mr. Wells holds a Bachelor and Master in Electrical Engineering from University of New South Wales as well as a Masters of Product Design and Development from Northwestern University.

Antonio Anguita joined the Company as Managing Director for Spain in 2013. Mr. Anguita was promoted to President of Iberia & Latin America in August 2014. Before joining the company, he was a partner and co-founder of Alana Partners, a start-up incubator and accelerator based in Madrid. Prior to this, Mr. Anguita was responsible for all the fixed line and internet services activities at Orange worldwide. He has also held various senior positions at France Telecom Spain, Hewlett Packard and McKinsey & Co. Mr. Anguita holds a Bachelor of Arts and Political Science from Brown University and a Masters of Business Administration from Harvard University.

Austin Lally joined the Company as Chief Executive Officer in August, 2014. Mr. Lally previously held senior leadership roles at Procter & Gamble, where he spent 25 years building and growing consumer businesses in Europe, the US and Asia. This included 7 years in China helping to build P&G's sizeable position in that market. Austin was also the VP responsible for Gillette marketing globally. Most recently, Mr. Lally was a Procter & Gamble Global President leading Braun and Appliances and a member of the company's Global Leadership Council. Mr. Lally holds a Bachelor of Science from the University of Glasgow. He is currently a member of the Adam Smith Business School Strategic Advisory Board.

Benedict O'Halloran joined the Company as Chief Legal Officer in 2015. Previously, Mr. O'Halloran was a partner in the Corporate/M&A practice of Jones Day in London. Prior to this he worked for 12 years with General Electric in Europe, ultimately as General Counsel for both European M&A and UK operations. In his early career, Ben worked at leading law firms in Toronto and London and as a business development executive in the media industry. He is a member of the Law Societies of England & Wales and of Upper Canada. And he holds a Bachelor's degree from Harvard University, a Master's degree in Law from Oxford University, an LL.B. from Canada's Dalhousie University and an MBA from INSEAD.

Erwin Wieffering joined the Company as Chief Marketing Officer in 2015. Previously, Mr. Wieffering spent 18 years with Gillette and Procter & Gamble specialising in marketing and commercial management. Mr. Wieffering holds a Bachelor's degree in Economics from the Haagsche Hoogeschool and a Master of Science in Business from Nijenrode University.

Luis Gil is a founder of the Company, joining in 1993. Mr. Gil has served as the President of Expansion, Acquisitions and Business Development since 2014. He established our Spanish business in 1993. He led the expansion efforts in Portugal, Brazil, Peru and Chile and most recently in Italy and the U.K. Prior to joining our company, he was the President of Esabe Ingeniería de Seguridad SA. Mr. Gil holds a Master's degree in Industrial Engineering.

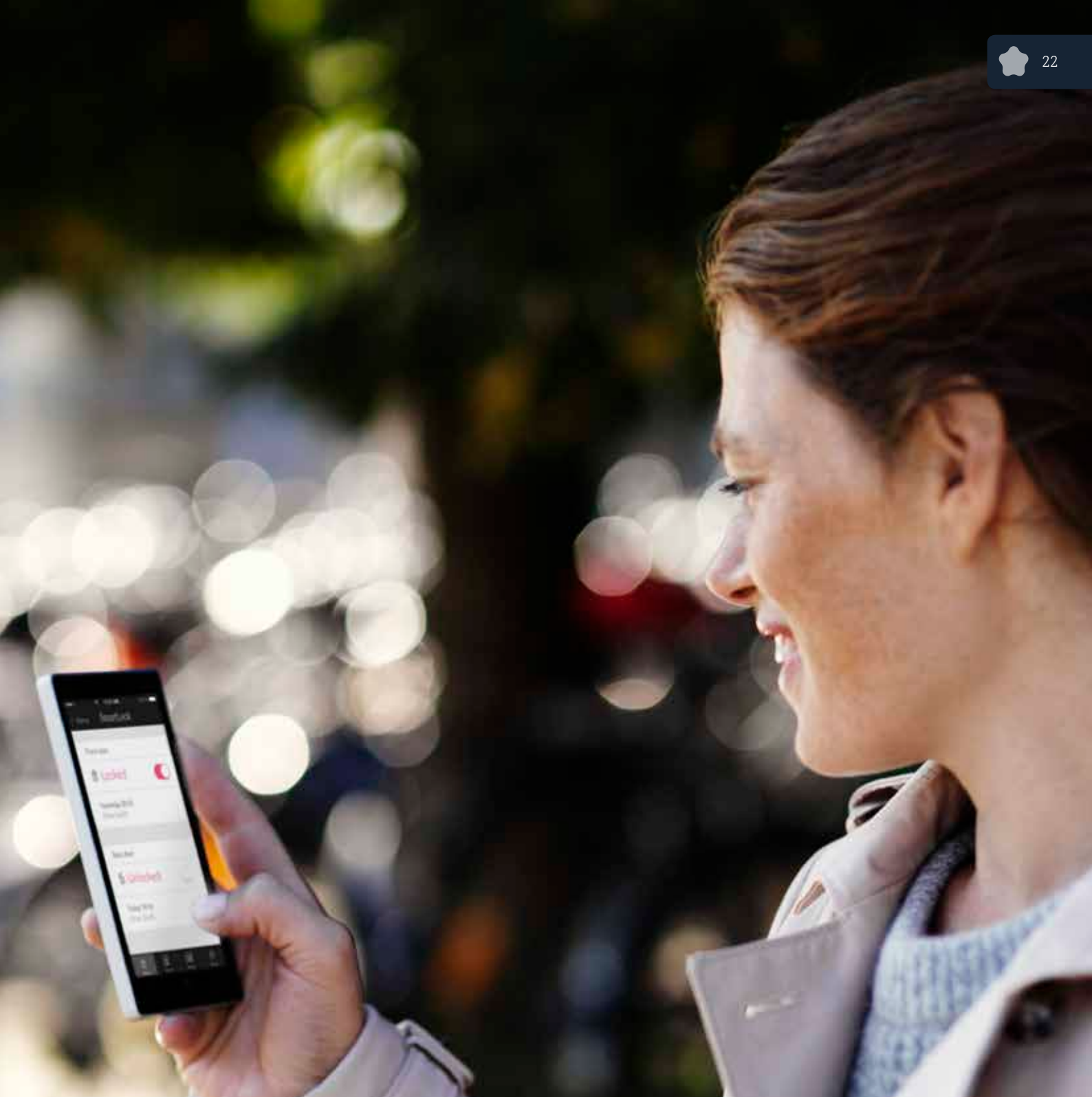
Matthias Hansen joined the company as Chief Information Officer, (CIO) in November 2016. Mr. Hansen joins us from Telstra Health, a division of Telstra Communications in Australia, where he was most recently the Chief Product & Technology Officer responsible for their technology and digital strategy. Before joining Telstra, Matthias held various positions across the IT function with Centrica Plc, T-Mobile, and Dell, working across Europe and globally. He holds a Bachelor in Chemistry from Kiel University.

Mattias Ringqvist joined the Company as Managing Director for the Swedish consumer business in 2013. Since then he has been promoted to lead our business in Sweden, Finland and Denmark. Prior to joining the Company, Mr. Ringqvist was the head of the consumer division at Telenor Denmark and the head of the mobile consumer business at Telenor Sweden in the period 2009-2013. Before that he spent 13 years at McKinsey & Co in Scandinavia and the US, and was promoted to partner in 2004. Mr. Ringqvist holds a Master of Science degree in Industrial Engineering and Management from Chalmers University of Technology, and has participated in the INSEAD Executive Management Course.

Marta Panzano joined the Company as Chief Human Resources Officer in 2014. Prior to joining the company, Ms. Panzano was the HR Director for Orange Spain. Previously, she worked for CEMEX, in Spain, Mexico and Australia among other geographies, where she led Human Resources for Europe, Middle East, Africa and Asia. Ms. Panzano has also held various positions within Finance and Strategy at BCG and Hewlett Packard. Ms. Panzano holds a Bachelor's degree in Business Administration and Economics from the Universidad Carlos III Madrid.

Olivier Allender joined the Company as Managing Director for France in 2012. Mr. Allender was promoted to General Manager for France, Belgium & Netherlands in January 2015. Prior to joining the company he was the Commercial Director at Cofidis France from 2007 to 2012. He has also acted as General Manager for CBB-Paris, a subsidiary of the L'Oréal Group, in the US and Japan and has held various senior positions in the direct marketing industry in France and Germany.

Vincent Litrico joined the Company as Group CFO in May 2016. Mr. Litrico joined us from The Estée Lauder Companies Inc. where he served as Vice President Finance, Strategy & Business Operations for Europe, Middle East, Africa and India. Before joining Estée Lauder, Mr. Litrico held positions in Finance with Procter & Gamble across the United States, Europe and the Middle East including CFO of the Global Braun and Appliances business unit. Mr. Litrico holds a MBA from the ESSEC Business School.



Putting our customers in control

With the Verisure Smart App, our customers can easily control, and personalise their alarm settings via their mobile phone.



Corporate governance

Verisure Midholding's corporate governance is based on external and internal regulatory frameworks, including the Articles of Association, the Swedish Companies Act, the Swedish Code of Corporate Governance, other applicable Swedish and foreign legislation and regulations, as well as internal codes, policies and guidelines.

Board of Directors

Composition of the Board

Verisure Midholding's Board of Directors shall consist of no fewer than three and no more than five members, with no more than three deputies, all of whom are elected by the AGM for a period of one year. The Board of Directors is responsible for the Group's organisation and administration in accordance with the Swedish Companies Act. The Board of Directors must regularly assess the Group's financial situation and ensure that the organisation is structured so that the accounting records, financial management and other financial aspects are satisfactorily overseen.

Rules of Procedure and written instructions

The Board has established rules of procedure that are reviewed once a year or when necessary. These rules involve the allocation of tasks between the Board and the CEO, and detailed instructions for the CEO. The Rules of Procedure for the board of Verisure Topholding AB stipulates at least five meetings during the year and also includes an agenda for the board meetings. Extraordinary meetings are to be held when necessary. If needed, matters are added to the agenda.

Board Committees

The Board, which for the purposes of this subsection refers to the board of Verisure Topholding AB, has established an Audit Committee and a Remuneration Committee. The members of the committees are appointed by the Board. The major tasks of these committees are preparatory and advisory, but the Board may on occasion delegate authorisation for the committees to determine in specific matters. All committee meetings must be recorded in minutes.

Audit Committee

The primary function of the Audit Committee is to monitor the company's financial reporting, internal controls and risk management. The Audit Committee is required to hold at least three meetings per year. The Audit Committee held five meetings during 2016, which were attended by the CFO, the CEO and the company's external auditors. The CLO also attended a majority of the Audit Committee meetings in 2016. The main focus of the meetings was the review of reports delivered by the company's external auditors as well as accounting, tax matters and internal controls.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board regarding the Group's framework for executive remuneration and the accompanying costs, reviewing and determining, on behalf of the Board, the remuneration and incentive packages of Group Management in order to ensure that they are appropriately rewarded for their individual contributions to the Group's overall performance. The Committee is also formulating the remuneration policy with respect to the strategic objectives and operational performance of the Group.

Executive Compensation

Our compensation philosophy, in support of a high-performance culture ensures that we pay competitively, we pay for performance and we design our compensation programs to support the business.

We aim to create executive compensation programs that are simple, clear and deliver against our goals of:

- attracting, rewarding and retaining the best leaders;
- enhancing a high-performance culture, linking executive compensation with individual and company performance and ensuring alignment between company strategy and individual objectives
- aligning executives' total reward with short-term and long-term value creation for our shareholders.
- Supporting accountability in the line organisations.

Our executive compensation packages include; (i) fixed compensation in the form of a base salary and benefits, and (ii) variable compensation based on the executive's performance and our financial performance, in the form of annual cash bonus awards and, in some cases, longer term incentives.

Board of directors (Verisure Midholding)

Name	Position
Austin Lally	Board Member and CEO
Adrien Motte	Board Member
Cecilia Hultén	Board Member and Chairman
Stefan Götz	Board Member
Vincent Litrico	Board Member and Deputy CEO

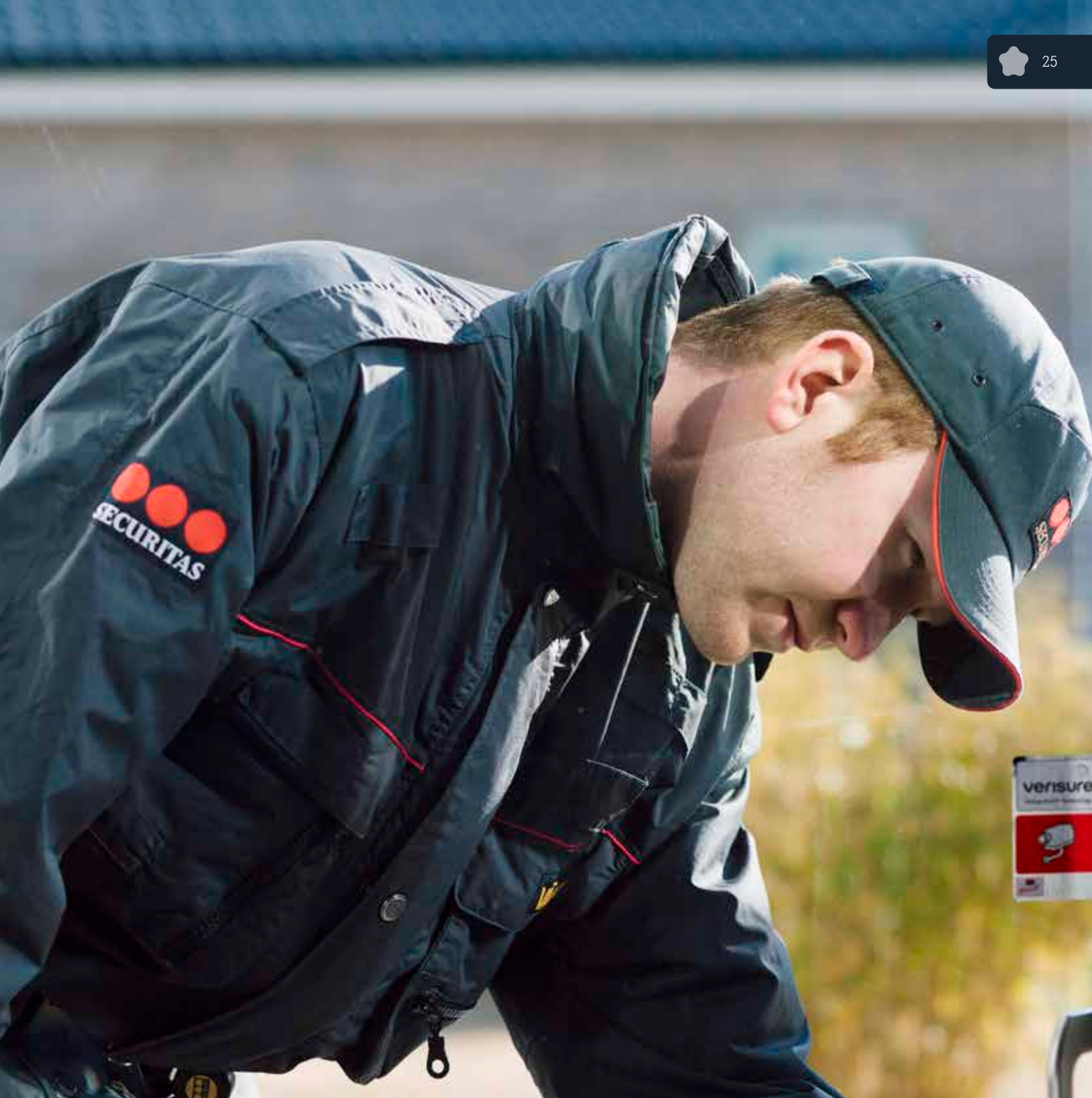
Austin Lally joined the Company as Chief Executive Officer in August, 2014. Mr. Lally previously held senior leadership roles at Procter & Gamble, where he spent 25 years building and growing consumer businesses in Europe, the US and Asia. This included 7 years in China helping to build P&G's sizeable position in that market. Austin was also the VP responsible for Gillette marketing globally. Most recently, Mr. Lally was a Procter & Gamble Global President leading Braun and Appliances and a member of the company's Global Leadership Council. Mr. Lally holds a Bachelor of Science from the University of Glasgow. He is currently a member of the Adam Smith Business School Strategic Advisory Board.

Adrien Motte replaced Philip Sternheimer as member of the Board of Directors in January 2017. Mr. Motte has been active in H&F's investment in our Company since August 2012. Prior to joining H&F in 2012, Adrien was employed by Park Square Capital. He holds a Bachelors and Masters in Engineering from the University of Cambridge.

Cecilia Hultén has served as Group Financial Controller since 2006. Prior to joining our company, Ms. Hultén served as an authorised public accountant at PricewaterhouseCoopers AB. Ms. Hultén holds a Bachelor of Science degree in Economics and Business Administration.

Stefan Götz has served as a director of our company since June 2011. Mr. Götz has been associated with H&F since April 2007 and has served as a Managing Director of H&F since July 2008. Prior to joining H&F, Mr. Götz served as an Executive Director in the Principal Investments Area of Goldman Sachs International in London from 2000 to 2007. Prior to that, he worked at McKinsey & Co. in Germany.

Vincent Litrico joined the Company as Group CFO in May 2016. Mr. Litrico joined us from The Estée Lauder Companies Inc. where he served as Vice President Finance, Strategy & Business Operations for Europe, Middle East, Africa and India. Before joining Estée Lauder, Mr. Litrico held positions in Finance with Procter & Gamble across the United States, Europe and the Middle East including CFO of the Global Braun and Appliances business unit. Mr. Litrico holds a MBA from the ESSEC Business School.



Fast response and intervention 24/7

Our monitoring centre agents verify alarms 24/7 and promptly activate appropriate responses, giving customers peace of mind.



Directors' report

Operations

We are Europe's number one provider of professionally monitored alarm systems for the residential and small business segment. We operate a subscription-based service business that consists of providing and installing alarm systems and monitoring these systems on an ongoing basis in return for an installation fee and recurring monthly fees. We conduct our business through two operating segments; portfolio services and customer acquisition.

Key figures

EUR thousand	2016	2015
Portfolio services segment:		
Unaudited operating data		
Total subscribers (year-end), units	2,293,993	2,016,523
Cancellations, units	142,708	129,174
Attrition rate	6.7%	6.8%
Net subscriber growth, units ¹	277,470	228,084
Subscriber growth rate, net	13.8%	12.8%
Average monthly revenue per user (ARPU), (in EUR) ²	38.9	38.1
Monthly adjusted EBITDA per subscriber (EPC), (in EUR) ²	24.6	23.0
Non-IFRS and IFRS financial data		
Revenue	997,421	863,762
Adjusted EBITDA	629,846	521,775
Adjusted EBITDA margin	63.1%	60.4%
Customer acquisition segment:		
Unaudited operating data		
New subscribers added (gross)	359,468	308,494
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,176	1,149
Non-IFRS and IFRS financial data		
Revenue	187,069	148,058
Adjusted EBITDA	-177,361	-160,933
Capital expenditure	245,338	193,425
Consolidated:		
Unaudited operating data		
Payback period (in years)	4.0	4.2
Non-IFRS and IFRS financial data		
Revenue	1,184,490	1,011,820
Organic revenue growth	15.7%	14.0%
Adjusted EBITDA	452,485	360,842
Adjusted EBITDA margin	38.2%	35.7%
Capital expenditure	321,064	253,892

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

2) In Q4 2016, calculation methodology for average portfolio moved from a yearly average to a monthly average calculation. The new methodology has been applied to historical numbers and resulted in ARPU increasing with 0.3 EUR and EPC with 0.2 EUR on a yearly basis both in 2016 and 2015.

Analysis of operating results

EUR million	Jan-Dec 2016	Jan-Dec 2015	Percent change
Revenue	1,184.5	1,011.8	17.1%
Operating expenses	-732	-651.0	12.4%
Adjusted EBITDA	452.5	360.8	25.4%
Adjusted EBITDA margin, %	38.2%	35.7%	-
Depreciation and amortisation (not acquisition-related)	-136.4	-111.5	22.3%
Retirement of assets	-39.8	-36.0	10.6%
Operating income before acquisition-related amortisation and items affecting comparability	276.3	213.3	29.5%
Operating margin before acquisition-related amortisation and items affecting comparability, %	23.3%	21.0%	-
Amortisation of acquisition-related intangibles	-149.5	-143.7	4.0%
Items affecting comparability	-28.7	-21.2	35.5%
Operating profit	98.1	48.5	102.4%
Interest income and cost	-173.8	-215.9	-
Other financial items	34.1	-149.0	-
Result before tax	-41.6	-316.4	-
Income tax expense and benefit	-14.6	5.0	-
Result for the period	-56.2	-311.4	-

Revenue

Revenue in the twelve months ending December 31, 2016 increased by 17.1%, or EUR 172.7 million, to EUR 1,184.5 million, up from EUR 1,011.8 million in the prior period. Organic revenue growth was 15.7%. The increase was primarily due to the increasing customer base and higher average monthly revenue per user. The customer base on December 31, 2016, stood at 2,293,993 (2,016,523).

Revenue for portfolio services in the twelve months ending December 31, 2016, increased by 15.5%, or EUR 133.6 million, to

EUR 997.4 million, up from EUR 863.8 million in the prior period. The increase was primarily due to an increased number of customers and higher average monthly revenue per user.

Revenue for customer acquisition in the twelve months ending December 31, 2016, increased by 26.4%, or EUR 39.1 million, to EUR 187.1 million, up from EUR 148.0 million in the prior 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.

The following table shows the split of our revenue by market segment:

EUR million	Jan-Dec 2016	Jan-Dec 2015	Percent change
Revenue by segment			
Portfolio services	997.4	863.8	15.5%
Customer acquisition	187.1	148.0	26.4%
Total	1,184.5	1,011.8	17.1%

Operating expenses

Operating expenses in the twelve months ended December 31, 2016, increased by 12.4%, or EUR 81.0 million, to EUR 732.0 million, up from EUR 651.0 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 twelve months ending December 31, 2016, increased by 25.4% or EUR 91.7 million to EUR 452.5 million, up from EUR 360.8 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 amortisation (not acquisition related)

Depreciation and amortisation increased to EUR 136.4 million in the twelve months ending December 31, 2016, up from EUR 111.5 million in the prior period. This is primarily related to the alarm equipment installed at our customers and the capitalised direct cost related to the acquisition of customer contracts. The depreciation and amortisation has increased mainly due to the increased number of customers and to some extent increased investments into R&D.

Retirement of assets

EUR 39.8 million (36.0) of assets have been written down during 2016, corresponding to the remaining balance for capitalised material and direct costs, when customers are leaving the portfolio.

Amortisation of acquisition-related intangibles

The market value of the acquisition-related contract portfolios are amortised over the expected life of the contract portfolios. The main part (EUR 141.2 million (141.2)) relates to amortisation expense resulting from the amortisation of intangible assets acquired in the acquisition of Securitas Direct.

Items affecting comparability

Items affecting comparability were EUR 28.7 million (21.2) in the twelve months ended December 31, 2016 and were mainly related to various transition projects.

Interest income and cost

Net interest expense amounted to EUR 173.8 million (215.9). The reduced interest expense compared to previous year is mainly due to improved interest terms.

Other financial items

Other financial items amounted to a positive EUR 34.1 million (negative 149.0). Total FX revaluation effects amounted to a positive EUR 47.8 million (negative 44.1) mainly related to the revaluation of SEK and NOK denominated debt. EUR 13.9 million (6.5) related to a positive non-cash revaluation effect of the interest rate floor included in the terms of the Term Loan B debt and the Private Unsecured Notes. Amortisation of prepaid bank fees amounted to EUR 24.4 million (14.0). The previous year was also affected by expenses of EUR 95.4 million directly related to the Group refinancing in conjunction with the H&F acquisition.

Income tax expense and benefit

Income tax expense in the twelve months ending December 31, 2016 was EUR 14.6 million (benefit 5.0). The increase in tax cost was driven primarily by increasing operating result in most markets.

Our two segments

We operate the business through two segments: portfolio services and customer acquisition.

Portfolio services

The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. We enter into monitoring services agreements with customers, usually at the time of alarm installation. The customer can generally terminate these agreements with one to three month notice. We provide monitoring services through dedicated monitoring centres. The centres filter and respond to customers' alarms. We also provide customer service and support for all our installed systems. Our relatively low attrition rate of 6.7% (6.8%) has historically allowed the segment to generate stable and recurring cash flow.

The substantial cash flow from the portfolio services segment allows us to fund expenditure required to grow the customer base. In 2016, the segment generated revenue of EUR 997.4 million (863.8), representing 84.2% (85.4%) of total revenue and

adjusted EBITDA of EUR 629.8 million (521.8), equivalent to a 63.1% (60.4%) EBITDA margin. As of December 31 2016, the Group had approximately 2.3 million (2.0) customers, all connected to our alarm monitoring centres.

The result and cash flow of the portfolio services segment during any period are primarily impacted by the average number of monitored alarm customers during that period, the average monthly subscription fee charged, and the capital expenditure and other costs incurred in connection with on-going monitoring services. The average number of customers within any period is primarily affected by attrition rates for existing customers and the number of new customers added during that period.

We have an attractive offer in the markets in which we operate both from a product and service standpoint. We normally increase subscription fees each year based on various consumer price indices combined with value improvements in our offerings in each market. We also increase subscription fees with respect to individual customers to the extent they add new services and features.

The costs incurred in the portfolio services segment primarily include labour costs associated with monitoring and customer service activities (such as monitoring centre operators and field technicians). Capital expenditure for portfolio services is generally low and primarily consists of purchases of upgraded customer equipment and computer servers and other hardware and software at the Group's monitoring centres. As a result, we are able to significantly improve our operating margins and cash flow as we add new customers to our existing operations.

To monitor performance in the portfolio services segment, management focuses on a number of key metrics, including average revenue per user (ARPU), monthly adjusted EBITDA per customer (EPC) and attrition rate. These metrics are described in more detail under "definitions".

Customer acquisition

The customer acquisition segment develops, sources, purchases, provides and installs alarm systems for new customers in return for an installation fee. This fee typically only covers a portion of the costs associated with purchasing, marketing, selling and installing each alarm system. As a result, the segment's operations represent an upfront investment in our business to acquire new customers, consequently driving revenue growth in the portfolio services segment. In 2016 the customer acquisition segment generated EUR 187.1 million (148.1) of revenue and negative adjusted EBITDA of EUR 177.4 million (negative 160.9).

The cost of acquiring a customer includes the cost of the alarm equipment installed at customer premises as well as marketing, sales, installation and other related activities. Our upfront investment (including the capital expenditure and other costs associated with originating a subscriber) is partially offset at the time of sale by the installation fee paid by a new subscriber. We seek subsequently to recapture the remainder of our upfront investment through the monthly subscription fees, net of on-going monitoring costs (or EPC), generated by the customer.

Our key operating metrics for the segment include the break-even or payback periods for the investments we make to originate new customers. We look at our CPA, which represents the net investment required to acquire a new subscriber, and is defined as the average total cost and capital expenditure we incur in acquiring a new subscriber, net of the upfront installation fees received on average per subscriber. By dividing CPA by adjusted EBITDA per subscriber (EPC) generated in the portfolio services segment, we can approximate the minimum period necessary to retain each subscriber in order to break even on our investment. Based on our results for the year 2016, a customer needed to remain a subscriber for 4.0 years (4.2) to enable us to recover our net investment in acquiring him or her. We currently estimate that the expected useful life is 5-8 years for small business customers and 5-16 years for residential customers.

A significant portion of costs in the customer acquisition segment are variable. They primarily include expenditures relating to our sales and installation operations and purchases of new alarm equipment from third-party manufacturers. As a result we have the flexibility to vary the timing and pace at which we spend to acquire new customers. Because the customer acquisition segment uses a significant amount of cash generated by the portfolio services segment, a reduction in customer acquisition activities and associated investments typically results in an increase in overall cash flow generated by us in the short-to-medium-term. The decision whether to invest in subscriber acquisition is based on a variety of factors, including our overall business plan, subscriber attrition rates, market opportunities, net subscriber growth goals and debt service obligations.

Cash flow

The following table shows a summary of our cash flow on a historical basis for the years ending December 31, 2016, and 2015:

EUR million	2016	2015
Cash flow from operating activities before change in working capital	398.1	307.4
Change in working capital	32.2	9.5
Cash flow from operating activities¹	430.4	316.9
Cash flow from investing activities	-387.9	-303.5
Cash flow from financing activities ²	-43.0	-13.6
Cash flow for the period	-0.5	-0.2
Cash and cash equivalents at beginning of the period	6.4	6.7
Translation differences on cash and cash equivalents	0.1	-0.1
Cash and cash equivalents at the end of the period	6.0	6.4

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 for the twelve months ending December 31, 2016 amounted to EUR 430.4 million (316.9). The increase compared to corresponding period previous year is due to an increase in profitability as well as improvements in working capital.

Cash flow from investing activities

Cash flow from investing activities for the twelve months ending December 31, 2016 amounted to negative EUR 387.9 million (303.5). The increase is mainly due to organic growth and also relates to the acquisition of NorAlarm AS, Falck Alarm (Denmark and Norway) but also relates to growth in acquisition of new customers.

Cash flow from financing activities

Cash flow from financing activities for the twelve months ending December 31, 2016 totalled a negative EUR 43.0 million (13.6). The main elements included paid interest of EUR 155.7 million (151.7) and paid dividend of EUR 110.0 million (nil), partially funded by an increase in borrowings of EUR 224.7 million (462.3).

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 and investments in R&D and IT. In accordance with IFRS, the costs of the alarm equipment purchased by us from our suppliers and installed in connection with newly acquired subscribers are capitalised as tangible fixed assets to the extent we retain ownership of the equipment. We also capitalise 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 years ending December 31, 2016, and 2015:

EUR million	2016	2015
Portfolio service capital expenditures	75.7	60.5
Customer acquisition capital expenditures, material	138.9	115.8
Customer acquisition capital expenditures, direct costs	106.5	77.6
Total	321.1	253.9

Capital expenditures were EUR 321.1 million for the twelve months ending December 31, 2016 and EUR 253.9 million in the prior period. Our portfolio service capital expenditures were EUR 75.7 million (60.5) during the twelve months ending December 31, 2016. The increase in capital expenditure is mainly due to the growth in acquisition of new customers, upgrades and development cost.

Liquidity, liabilities and financing agreements

The primary sources 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 expenditure and amounts due to our debt obligations. Our ability to generate cash from operations depends on future operating performance, which in turn depends on several factors including; general economic, competitive, legislative, regulatory. Several of the aforementioned factors are beyond our control. See the "risk factors" section for more details.

Credit arrangements

Below gives a description of Verisure Midholding's credit events leading to its current credit structure.

As of December 31, 2016, we had EUR 3,004.0 million (2,805.2) of indebtedness, consisting of Senior Secured Notes of EUR 700.0 million (700.0), Term Loan B of EUR 1,540.2 million (1,307.8), Private Unsecured Notes of EUR 694.8 million (708.3), EUR 23.7 million (51.1) in borrowings outstanding under a Revolving Credit Facility, EUR 2.2 million (2.6) of finance leases and EUR 43.1 million (35.4) of other debt. As of December 31, 2016, the Group had cash of EUR 6.0 million (6.4) and unutilised credit facilities of EUR 271.8 million (247.5) where the utilised amount consists of cash drawn on the RCF of EUR 23.7 million (51.1) and utilised letters of credit of EUR 4.5 million (1.4).

Employees

The Group had 10,834 (8,951 in 2015) full time equivalent (FTE) in 2016. The majority of the increase took place in sales as well as in research and development. Approximately 34% of the FTEs were women and 66% were men. This ratio was 33/67 in 2015.

Events during the reporting period

Matthias Hansen joined the company as Group Chief Information Officer effective November 14, 2016. Mr Hansen joined from Telstra, Australia's largest telecommunication and media company, where he was Chief Product & Technology Officer for the new division Telstra Health.

On December 9, 2016, the company entered into an amendment of the Senior Facilities Agreement where the total cost of funding for facility B1A (formerly B1) with a principal amount EUR 1,020 million was reduced by 75 basis points from 4.50% to 3.75%. In addition, the total funding cost of facility B1B with a principal amount of EUR 135 million was reduced by the same amount of percentage points but effective from January 19,

2017. At the same time the company received additional Senior Facility funding of EUR 110.0 million called facility B1C bearing a total funding cost of 3.75%, which was used for a dividend distribution executed on December 15, 2016.

On October 20, 2016, Standard & Poor's raised their long-term corporate rating on Verisure Holding AB and Verisure Midholding AB from 'B' to 'B+' with 'stable' outlook. At the same time the issue rating on the senior secured debt was raised to 'B+' from 'B' and the senior unsecured debt to 'B-' from 'CCC'. On December 5, 2016, Moody's also updated their Long Term Rating to B2 with a positive outlook.

On September 30, 2016, the Verisure Group acquired Falck's alarm business in Denmark and Norway. The acquisition of the Danish operations was finalised on September 30. The Norwegian acquisition was finalised on December 1, 2016.

On June 16, 2016, the company received additional Senior Facility commitments of EUR 135 million called facility B1B bearing an identical rate of interest as facility B1A. The additional facility is to be used for general corporate and working capital purposes was drawn by the company on July 15, 2016.

On June 10, 2016, the company entered into an amendment of the Senior Facilities Agreement where the total cost of funding for facility B1A (formerly B1) with a principal amount EUR 1,020 million was reduced by 75 basis points from 5.25% to 4.50%.

On May 19, 2016, the Group signed an agreement to acquire NorAlarm AS (former Lyse Alarm AS) in Norway. NorAlarm was consolidated into the Group from Q3 2016.

Vincent Litrico joined the company as Group CFO effective May 17, 2016. Mr. Litrico joins us from The Estée Lauder Companies Inc. where he was Vice President Finance, Strategy & Business Operations for Europe, Middle East, Africa and India. Before joining Estée Lauder, Mr. Litrico held positions in Finance with Procter & Gamble across the United States, Europe and the Middle East including CFO of the Global Braun and Appliances business unit.

Events after the reporting period

Andrew Wells joined the company as Group Chief Product & Services Officer effective February 6, 2017. Mr Wells joined from Motorola where he was the Vice President of Engineering. He brings over 17 years of experience in R&D and innovation leadership positions.

Consolidated financial statement

Consolidated income statement

EUR thousand	Note	2016	2015
Revenue		1,184,490	1,011,820
Cost of sales	3,5,7,9,11	-649,583	-573,462
Gross profit		534,907	438,358
Selling expenses	5,7,11	-145,882	-126,129
Administrative expenses	5,6,7,8,9,11	-290,957	-262,983
Operating profit		98,068	48,455
Finance income	12	423	825
Finance costs	12	-140,088	-365,665
Result before tax		-41,597	-316,385
Income tax expense and benefit	13	-14,599	4,960
Result for the period		-56,196	-311,425
Whereof attributable to:			
- Parent company		-55,080	-308,994
- Non-controlling interest		-1,116	-2,431

Consolidated statement of comprehensive income

EUR thousand	Note	2016	2015
Result for the year		-56,196	-311,425
Other comprehensive income			
Items that will not be reclassified to the income statement			
Re-measurements of defined benefit plans net of tax		220	8
Items that subsequently may be reclassified to the income statement			
Currency translation differences on foreign operations		-14,179	11,543
Other comprehensive income		-13,959	11,551
Total comprehensive income for the year		-70,155	-299,874
Whereof attributable to:			
- Parent company		-69,039	-297,443
- Non-controlling interest		-1,116	-2,431

Consolidated statement of financial position

EUR thousand	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	15	501,496	408,358
Goodwill	16	872,567	861,109
Customer portfolio	17	1,138,209	1,162,071
Other intangible assets	18	126,032	124,899
Deferred tax assets	19	5,715	5,779
Trade and other receivables	20,21	256,844	252,268
Total non-current assets		2,900,863	2,814,484
Current assets			
Inventories	22	62,585	59,868
Trade receivables	20,23	98,686	89,682
Current tax assets		12,961	11,302
Derivatives	20,24	-	210
Prepayments and accrued income		16,308	12,917
Other current receivables	20	20,972	17,992
Cash and cash equivalents	20	5,985	6,356
Total current assets		217,497	198,327
TOTAL ASSETS		3,118,360	3,012,811

Consolidated statement of financial position

EUR thousand	Note	2016	2015
EQUITY AND LIABILITIES			
Equity	25		
Share capital		56	56
Other paid in capital		569,168	569,168
Other reserves		34,766	48,726
Retained earnings		-1,090,386	-924,614
Equity attributable to equity holders of the parent company		-486,396	-306,664
Non-controlling interest		-1,846	-1,214
Total equity		-488,242	-307,878
Non-current liabilities			
Long-term borrowings	20,26	2,791,787	2,592,859
Derivatives	20,24	107,426	109,975
Other non-current liabilities	20	14,715	17,102
Deferred tax liabilities	19	282,579	280,617
Other provisions	27	1,558	4,000
Total non-current liabilities		3,198,065	3,004,553
Current liabilities			
Trade payables	20	86,005	69,176
Current tax payable		14,019	12,276
Short-term borrowings	20,26	61,394	40,843
Derivatives	20,24	2,275	4,160
Accrued expenses and deferred income	28	210,639	162,635
Other current liabilities	20	34,205	27,046
Total current liabilities		408,537	316,136
TOTAL EQUITY AND LIABILITIES		3,118,360	3,012,811

Consolidated statements of changes in equity

Attributable to equity holders of the parent company and non-controlling interest

EUR thousand	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 2016	56	569,168	48,726	-924,614	-306,664	-1,214	-307,878
Result for the year	-	-	-	-55,080	-55,080	-1,116	-56,196
Other comprehensive income for the year	-	-	-13,959	-	-13,959	-	-13,959
<i>Total comprehensive income for the year</i>	-	-	-13,959	-55,080	-69,039	-1,116	-70,155
Group contribution	-	-	-	2,791	2,791	-	2,791
Dividend	-	-	-	-110,000	-110,000	-	-110,000
<i>Total transactions with owners</i>	-	-	-	-107,209	-107,209	-	-107,209
<i>Transactions with non-controlling interest</i>	-	-	-	-3,484	-3,484	484	-3,000
Balance at December 2016	56	569,168	34,766	-1,090,386	-486,396	-1,846	-488,242

Attributable to equity holders of the parent company and non-controlling interest

EUR thousand	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 2015	56	569,168	37,175	-555,728	50,671	1,072	51,743
Result for the year	-	-	-	-308,996	-308,996	-2,431	-311,427
Other comprehensive income for the year	-	-	11,551	-	11,551	145	11,696
<i>Total comprehensive income for the year</i>	-	-	11,551	-308,996	-297,445	-2,286	-299,731
Shareholder's contribution	-	-	-	25,285	25,285	-	25,285
Group contribution	-	-	-	89,668	89,668	-	89,668
Dividend	-	-	-	-161,327	-161,327	-	-161,327
Other distribution to owners	-	-	-	-13,516	-13,516	-	-13,516
<i>Total transaction with owners</i>	-	-	-	-59,890	-59,890	-	-59,890
Balance at December 2015	56	569,168	48,726	-924,614	-306,664	-1,214	-307,878

Consolidated statement of cash flows

EUR thousand	Note	2016	2015
Operating activities			
Operating profit		98,070	48,455
Reversal of depreciation and amortisation	11	285,907	255,190
Other non-cash items	9	39,807	35,728
Income tax paid		-25,642	-32,013
Cash flow from operating activities before change in working capital		398,142	307,360
Change in working capital			
Change in inventories		-344	-5,135
Change in trade receivables		-9,858	-13,925
Change in other receivables		-16,013	863
Change in trade payables		13,457	6,428
Change in other payables		44,997	21,313
Cash flow from change in working capital		32,239	9,544
Cash flow from operating activities		430,381	316,904
Investing activities			
Purchase of property, plant and equipment	15	-181,391	-147,676
Purchase of intangible assets	17,18	-141,570	-107,306
Acquisition of subsidiaries	4	-58,141	-46,110
Settlement of deferred consideration		-3,781	-2,386
Acquisition of non-controlling interest		-3,000	-
Cash flow from investing activities		-387,883	-303,478
Financing activities			
Change in revolver credit facility		-20,284	-5,104
Paid bank and advisory fees, new financing		-10,480	-87,867
New financing		245,000	2,700,000
Repayment of old term debt		-	-1,508,428
Repayment of shareholder funding instrument		-	-724,157
Call cost old debt		-	-54,675
Interest received		409	876
Interest paid		-155,653	-151,662
Other financial items		-4,454	-8,868
Paid in capital from non-controlling interest		-	1,145
Received shareholders contribution		12,470	-
Paid distribution		-110,000	-161,327
Other distribution to owners		-	-13,516
Cash flow from financing activities		-42,992	-13,583
Cash flow for the period		-494	-157
Cash and cash equivalents at start of period		6,356	6,691
Exchange difference on translating cash and cash equivalents		123	-178
Cash and cash equivalents at end of period		5,985	6,356

Notes to the financial statements

Verisure Midholding AB (publ) ("the company") is an organised public limited liability company incorporated on May 26, 2011, in and under the laws of Sweden with the registration number 556854-1402 and with its registered office in Malmö. Verisure Midholding AB's address is Ångbåtsbron 1, Box 392, 201 23 Malmö.

The company's ultimate parent entity is Shield Luxco 1 S.a.r.l, which operates in and under the laws of Luxembourg. Shield Luxco 1 S.a.r.l is controlled by Hellman & Friedman a global private equity investment firm.

Nature of operations

We are the leading provider of monitored alarm solutions for residential households and small business in Europe. The Group operates in eleven European countries and in three countries in Latin America. The European countries are Finland, Sweden, Norway, Denmark, the Netherlands, Belgium, United Kingdom, Italy, France, Spain and Portugal. The Latin American countries are Chile, Peru and Brazil.

The Group is comprised of two business segments: customer acquisition and portfolio services. The customer acquisition segment 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.

Basis of presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as approved by the EU.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

These consolidated financial statements have been prepared on the assumption that the company is a going concern and will continue in operation for the foreseeable future. Management believes that the going concern assumption is appropriate for the company due to adequate liquidity, capital position, and continued improvement in operating results. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Note 1 Accounting policies

Summary of accounting policies

The most important accounting policies in the preparation of these consolidated financial statements are described below. These policies were applied consistently for all years presented, unless otherwise stated.

Verisure Midholding Group applies the International Financial Reporting Standards (IFRS) approved by the EU.

The parent company Verisure Midholding AB applies the Swedish Financial Reporting Board's recommendation "RFR 2".

Basis of consolidation

The consolidated financial statements include the results, cash flows and assets and liabilities of the Group and entities controlled, both unilaterally and jointly, by the Group.

A subsidiary is an entity controlled, either directly or indirectly, by the Group, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. The effect of potential voting rights that are currently exercisable or convertible is taken into account when determining whether the Group has a controlling influence on another entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date of acquisition and deconsolidated from the date that control ceases. The accounting principles used by subsidiaries are adjusted where necessary to ensure consistency with the principles applied by the Group.

All inter-company transactions, balances and unrealised gains and losses attributable to inter-company transactions are eliminated in the preparation of the consolidated financial statements.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in euro (EUR), which is the parent company's functional and presentation currency.

Transactions and balances

Transactions in foreign currency are translated into the functional currency in accordance with the exchange rates prevailing at the date of the transaction. Exchange differences on monetary items are recognised in the income statement when they arise. Exchange differences from operating items are recognised as either cost of sales or selling and administrative expenses, while exchange differences from financial items are recognised as financial income or financial expenses. When preparing the financial statements of individual companies, foreign currency denominated receivables and liabilities are translated to the functional currency of the individual company using the exchange rates prevailing at each balance sheet date.

Group companies

The results and financial position of all Group companies (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate on the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates.
- All resulting translation differences are recognised in other comprehensive income.

On consolidation, the assets and liabilities of entities with a functional currency other than euro are expressed in euro using exchange rates prevailing at the end of reporting period date. Income and expense items and cash flows are translated at the average exchange rates for the period and exchange differences arising are recognised in comprehensive income. When a foreign operation is sold or partially disposed of, translation differences that were recorded in equity are reclassified and recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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" and "portfolio services" and are explained further below:

Customer acquisition

This segment includes the part of the Group that provides and installs wireless and wired alarms and security solutions for homes and small businesses. Sales and installations can be performed both by our own employees and by external partners. Each new customer generates installation income that is recognised once installation of the alarm equipment has been completed. The company's costs for materials, installation, administration and marketing generally exceed the non-recurring income, resulting in negative cash flow for the segment.

Portfolio services

The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. We typically enter into self-renewing monitoring agreements with customers at the time of installation and the majority of customers pay via direct debit. We monitor our installed base of alarms through dedicated monitoring centres in order to verify alarms and initiate an appropriate response when an alarm is triggered. We also provide customer service and technical support for all our installed systems.

Business segments are recognised using the same accounting policies as applied by the Group.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax and discounts, and after eliminating sales within the Group, and is recognised only where there is persuasive evidence of a sales agreement, the delivery of goods or services has occurred and, where there are contractual acceptance provisions, the customer has accepted the goods (or the right to reject them has lapsed), the sale price is fixed or determinable and the collectability of revenue is reasonably assured.

More specifically income is recognised as follows:

Alarm monitoring

Income from alarm monitoring services is recognised during the period to which the service relates.

Installation fees

As part of alarm installation, customers pay an installation fee and, in certain cases, payment for products sold. This fee is recognised once the installation is completed.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration for the business combination is measured at fair value on the acquisition date, which is calculated as the sum on the acquisition date fair value of paid assets, liabilities that arise or are assumed and equity ownership issued in exchange for control of the acquired business. Acquisition-related costs are recognised in the income statement during the period in which they are incurred.

The consideration also includes fair value on the acquisition date of the assets or liabilities arising from an agreement concerning contingent consideration.

Changes to the fair value of a contingent consideration as a result of additional information, received post-acquisition, concerning facts and circumstances at the time on the acquisition date, qualify as adjustments during the assessment period and require retrospective restatement with corresponding adjustment of goodwill. All other changes to the fair value of an additional consideration that is classified as an asset or liability are recognised in accordance with the applicable standard. Contingent consideration that is classified as equity is not remeasured and the subsequent settlement is recognised in equity. The identifiable acquired assets, assumed liabilities and contingent assets are recognised at fair value as at the acquisition date.

Contingent liabilities assumed in a business combination are recognised as existing liabilities arising from events that have occurred, if their fair value can be reliably calculated.

In a business combination where the sum of the consideration, any non-controlling interests and the fair value on the acquisition date of previously-held equity interest exceeds the fair value on the acquisition date of identifiable acquired net assets, the difference is recognised as goodwill in the statement of financial position. If the difference is negative, the resulting gain on the acquisition is recognised as a bargain purchase in the income statement after review of the difference.

In the case of each business combination, previously held non-controlling interests in the acquired company are measured either at fair value or at the value of the proportionate share of the non-controlling interest of the acquired company's identifiable net assets.

Operating expenses

The company's business model involves sales and installation being carried out primarily by the same individuals. The costs of these activities are recognised in gross profit. This means that "cost of sales" includes some costs that are actually selling expenses but cannot be allocated to a specific function.

Employee benefit expense

The Group offers both defined contribution and defined benefit pension plans.

Defined contribution plans are post-employment benefit schemes under which the company pays fixed contributions into a separate legal entity and has no legal or constructive obligation to pay further contributions. Costs for defined contribution schemes are expensed in the period during which the employee carried out his or her work. Costs are in line with the payments made during the period.

Defined benefit plans are post-employment benefit schemes other than defined contribution plans. The pension calculations are based on actuarial assumptions.

The Group's contributions to defined contribution pension plans are charged to the income statement as they fall due.

All pension liabilities in Swedish units are classified as defined contribution plans, except for some employees covered by insurance premiums paid to Alecta. This is a defined benefit plan which covers multiple employees. For the financial year 2016, the Group did not have access to the information required to allow this plan to be reported as a defined benefit plan. The pension obligations are therefore recognised as a defined contribution plan.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Financing

To enhance the payment plan flexibility for customers some of the Group's entities offer to finance part of the upfront fee, i.e. the customer gets the opportunity to pay the financed amount in monthly instalments typically over a three year period. This offered service supports the Group's growth and profitability targets well and may be arranged in two alternative ways; external or internal financing.

External financing

With external financing the customer is first invoiced for all instalments relating to the amount of financed upfront fee. These invoices are then sold at a discount to a financial institution which assumes the credit risk but the collection process remains with Securitas Direct. Securitas Direct recognizes the received net amount as installation revenue.

Internal financing

With internal financing the customer is either invoiced for all instalments or on a month-by-month basis relating to the amount of financed upfront fee. In this case Securitas Direct assumes the credit risk. The net present value of the future instalment, discounted at an appropriate interest rate, is recognized as installation revenue

Income taxes

Income taxes include current and deferred tax. These taxes have been calculated at a nominal amount according to each country's tax provisions and the tax rates that have been defined or announced and are highly likely to become affected. Current tax is tax that is paid or received for the current year and includes any adjustments to current tax for prior years. In the case of items recognised directly in equity or other comprehensive income, any tax effect on equity or other comprehensive income is also recognised. Deferred income tax is recognised using the balance sheet method, which means that deferred income tax is calculated on all temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the amounts can be utilised.

Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and any cumulative impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is based on the asset's cost and is allocated using the straight-line method over the asset's estimated useful life, as follows:

Alarm equipment	5-16 years
Other machinery and equipment	3-10 years

Machinery and equipment are primarily alarm equipment installed on customers' premises.

An asset's residual value and value-in-use are reviewed, and adjusted if appropriate, annually on the reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the estimated recoverable amount. Gains and losses on disposals are recognised in the income statement as cost of sales.

Intangible assets

Goodwill

In a business combination where the sum of the acquisition price, any minority interest and fair value of any previously held equity interest on the acquisition date exceeds the fair value of identifiable acquired net assets on that date, the difference is recognised as goodwill. Goodwill is allocated to the lowest levels for which there are separately identifiable cash flows or cash-generating units (CGUs). Goodwill is not subject to amortisation and is tested for impairment annually, or as soon as there is an indication that the asset has declined in value, and carried at cost less accumulated impairment losses.

For the purpose of impairment testing, assets are grouped at the CGU level. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Impairment losses recognised for goodwill are not reversed in a subsequent period.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

The Group prepares and approves formal four-year management plans for its operations, which are used in the value-in-use calculations.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Customer portfolio

The customer portfolio includes contract portfolios and associated customer relationships. These are carried at cost less accumulated depreciation and amortisation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is based on the asset's cost and is on a straight-line basis over the estimated useful life.

Customer acquisition costs

The Group capitalises direct costs related to the acquisition of customer contracts as intangible assets, as they fulfil the requirement in IAS 38, intangible assets, of internally generated intangible assets.

Other intangible assets

Other intangible assets are primarily computer software, rental rights and trademark. Rental rights usually have a limited useful life and are recognised at cost less cumulative amortisation and any cumulative impairment loss. Acquired software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the asset's estimated useful life. Development costs for new identifiable and unique software products are capitalised if they are controlled by the Group and are likely to generate economic benefits. The capitalised amounts consist of direct costs and the capitalisable portion of indirect costs.

Costs associated with developing or maintaining computer software are expensed as incurred. Capitalised development costs have a definable useful life and are amortised on a straight-line basis from the date the software entered use.

Amortisation for all intangible assets is measured using the straight-line method during the useful life, as follows:

Customer portfolio	5–16 years
Computer software	3–10 years
Other intangible assets	3-18 years

Rental rights and similar rights are amortised over the same period as the underlying contract. An asset's residual value and value-in-use are reviewed, and adjusted if appropriate, annually on the reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the estimated recoverable amount.

Impairment of non-financial assets

Assets with an indefinite useful life are not subject to amortisation and are tested for impairment annually or as soon as an indication emerges that they have decreased in value. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the recoverable amount may fall short of the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

Value-in-use is the present value of estimated cash flows and is measured on the basis of assumptions and estimates. The most significant assumptions relate to organic sales growth, the operating margin, the extent of operating capital employed and the relevant pre-tax weighted average cost of capital (WACC), which is used to discount future cash flows. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

With the exception of impairment losses on goodwill, previously recognised impairment losses are reversed only if a change has occurred regarding the assumptions that formed the basis for determining the recoverable value when the impairment loss was recognised. If this is the case, the impairment loss is reversed in order to increase the carrying amount of the impaired asset to its recoverable amount. A reversal of a previous impairment loss is only recognised where the new carrying amount does not exceed what should have been the carrying amount (after depreciation and amortisation) had the impairment loss not been recognised in the first place. Impairment losses on goodwill are never reversed.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred income tax is recognised using the balance sheet method, which means that deferred income tax is calculated on all temporary differences between the tax bases

of assets and liabilities and their carrying amounts. Deferred tax liabilities are generally recognised for all taxable temporary differences. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profits nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets on losses carry forward are recognised to the extent it is probable that future taxable profits will be available against which the amounts can be utilised. The carrying amount of deferred tax assets is reviewed on each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

The Group classifies its financial instruments as:

- Financial assets at fair value through profit or loss
- Loans and trade receivables
- Liabilities at fair value through profit or loss
- Other financial liabilities

The classification depends on the purpose for which the financial assets were acquired. Management determines the designation of its financial instruments at initial recognition and re-evaluates this designation at each reporting date.

Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Gains and losses arising from changes in the fair value of "financial assets carried at fair value through profit or loss" are recognised as a financial item as incurred. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and are primarily derivative instruments.

Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current or non-current assets depending on purpose and management intention.

Derivative instruments

The Group's activities expose it to financial risk arising from changes in foreign exchange rates and interest rates. The use of financial derivatives is governed by the Group's treasury policy as approved by the board of directors. This policy provides written principles on the use of financial derivatives consistent with the Group's risk management strategy. The Group uses interest rate swaps to economically hedge cash flows due to interest rate risk on the Group's long-term debt. The Group has no derivatives that are designated for hedge accounting. The Group does not use derivative financial instruments for speculative purposes.

All derivative instruments are recognised initially either as assets or liabilities at fair value on the trade date in the consolidated balance sheet, and are subsequently revalued at fair value on each reporting date. The changes in value of derivatives that are not designated as hedges are recognised in the income statement under finance income or finance costs line items.

The components and fair values of the Group's derivative instruments are determined using the fair value measurements of significant other observable inputs, classified as level 2 of the fair value hierarchy. The company uses observable market inputs based on the type of derivative and the nature of the underlying instrument.

Loans and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides goods or services directly to a customer without any intention of trading the receivable that arises. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

Loans and trade receivables

Loans and trade receivables do not carry any interest and are stated at their nominal value less any provision for bad debts. There are no loans or trade receivables that are classified as available for sale or held for trading as a result of the fair value election. A provision for bad debts is made where there is objective evidence that the Group will not receive all amounts due. Estimated bad debt provision is based on the ageing of the receivable balances and historical experience. Individual trade receivables are written off when management deems them not to be collectible.

The provision is recognised under "cost of sales" in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term liquid investments with original maturities of three months or less.

Liabilities at fair value through profit or loss

This category solely includes financial liabilities held for trading and relates primarily to derivative instruments. Derivatives are classified as held for trading unless they are designated as hedges. Derivative instruments are classified as current or non-current liabilities depending on purpose and management intention.

Liabilities to credit institutions

Borrowings are recognised initially at fair value less transaction costs and thereafter at amortised cost. Any difference between the net amount received (less transaction costs) and the repaid amount is recognised in the income statement over the term of the loan using the effective interest method.

Trade payables

Trade payables are recognised at fair value.

Inventories

Inventories are recognised at the lower of cost and net realisable value. Cost is determined using the first-in-first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable direct selling expenses.

Provisions

A provision is a liability of uncertain timing or amount and is generally recognised when the Group has a present obligation as a result of a past event, it is probable that payment will be made to settle the obligation and the payment can be estimated reliably.

Leases

Leases in which the company substantially enjoys the financial benefits and carries the financial risks that pertain to them, known as finance leases, are recognised as non-current assets in the consolidated statements of financial position.

Changes in accounting policies and disclosures

New and amended standards adopted by the Group

There are no new or amended standards adopted by the Group as of January 1, 2016 that has had a material impact on the Group.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have an effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities introduces new rules for hedge accounting and a new impairment model for financial assets. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations.

The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The company's current preliminary opinion is that the existing accounting principles concerning revenue recognition will need some adjustments and will result in somewhat postpone revenue and EBITDA. The effects to the financial statements will be further analysed and presented in the interim reports before the new standard becomes effective.

IFRS 16 Leases. In January 2016, IASB issued a new lease standard that will replace IAS 17 Leases and the related interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities arising from all leases, with some exceptions, to be recognised on the balance sheet. This model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The accounting for lessors will in all material aspects be unchanged. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted. EU has not yet adopted the standard. IFRS 16 will most likely bring a large number of new assets and liabilities onto the balance sheet and will have an impact on, among others, EBITDA, finance cost, net debt and CAPEX. The effects to the financial statements will be further analysed and presented in the interim reports before the new standard becomes effective.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Note 2 Critical accounting estimates and judgements

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 on 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.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 estimates uncertainties on 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 (note 16)
- Measurement of deferred income tax assets and deferred income tax liabilities (note 19)
- Measurement of provisions and allocation for accrued expenses (note 27 and 28)
- Depreciation period for alarm equipment and amortisation period for customer portfolio (note 15 and 17)

Testing for impairment of goodwill and other assets

IFRS requires management to undertake an annual test for impairment of indefinite-life assets and, for finite-life 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 judgment, 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 on which 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 expenditure
- Change in working capital
- The selection of discount rates to reflect the risks involved

The Group prepares and approves formal four-year 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 mature markets
- A projected long-term compound annual growth rate for adjusted EBITDA in 5-10 years estimated by management for developing countries

The Group would not have any impairment issues if the weighted average cost of capital (WACC) used was 1% higher or if the compound annual growth rate was 1% lower.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect impairment evaluation and hence results.

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 of 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 the Group's structure following 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 may be substantial differences between the tax charge in the consolidated income statement and tax payments. The Group has also exercised significant accounting judgment regarding net operating loss utilisation.

Moreover, the Group has exercised significant accounting judgements 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 any 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 and amortisation period for customer portfolio

The charge in respect of periodic depreciation for alarm equipment as well as the amortisation of the customer portfolio, is derived after determining an estimate of expected useful life of alarm equipment established useful life of customers and the expected residual value at the end of life. A decrease in the expected life of an asset or its residual value results in an increase depreciation/amortisation charge being recorded in the consolidated income statement. See more details in the Sensitivity analysis in note 20.

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

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 executive management group as its CODM and the Group uses adjusted earnings before interest, tax, depreciation, amortisation, write-offs and items affecting comparability ("adjusted EBITDA") to measure the profitability of each segment. Adjusted EBITDA is, therefore, the measure of segment profit or loss presented in the Group's segment disclosures. The Group's on-going operating segments are "customer acquisition" and "portfolio services" and are described in note 1. Revenue between segments is carried at arm's length. Segment information for the Group's continuing operations is presented below.

EUR thousand	2016	2015	2016	2015	2016	2015
	Customer acquisition		Portfolio services		Group	
Revenue	187,069	148,058	997,421	863,762	1,184,490	1,011,820
Segment adjusted EBITDA	-177,361	-160,933	629,846	521,775	452,485	360,842
Depreciation and amortisation ¹	-	-	-	-	-285,907	-255,190
Retirements of assets	-	-	-	-	-39,811	-36,010
Items affecting comparability	-	-	-	-	-28,699	-21,186
Net finance items	-	-	-	-	-139,665	-364,841
Result before tax	-	-	-	-	-41,597	-316,385

1) Whereof EUR 149.5 million (143.7) relates to amortisation expense resulting from the amortisation of intangible assets acquired in acquisitions.

Note 4 Business combinations

NorAlarm AS

On July 1, 2016 the Group acquired 100% of the Norwegian company; NorAlarm AS. NorAlarm provides security services to residential customers in Norway. The purchase price amounted to NOK 92 million (approximately EUR 10.2 million). The company was consolidated in the Verisure Midholding Group as of July 1, 2016. The acquisition was strategic acquisition to strengthen our business in Norway.

At the date of finalisation of these consolidated financial statements, the initial accounting for this business combination had not been finalised; accordingly the Group reported the provisional amounts currently representing the Group's best estimate of the acquisition date values. Those provisional amounts will be underlying during the measurement period (not to exceed one year from the acquisition date), to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

For the reporting period, NorAlarm has contributed EUR 2.8 million to Group revenue and EUR 0.2 million to adjusted EBITDA. The acquisition would, if it had been consolidated from January 1, 2016, have contributed to total revenue with EUR 6.5 million and to adjusted EBITDA with EUR 0.0 million.

Transaction costs of EUR 0.6 million have been expensed and are included in administrative expenses. These costs are included in cash flow from operating activities in the statement of cash flows.

Financial effect of the acquisition of NorAlarm

Recognised amounts of identifiable assets acquired and liabilities assumed

EUR thousand	2016
Cash and cash equivalents	158
Property, plant and equipment	2,379
Customer portfolio	6,293
Inventories	449
Trade and other receivables	773
Trade and other liabilities	-1,238
Deferred tax liability	-1,253
Total identifiable net assets	7,561
Goodwill	2,609
Total	10,170

Net cash outflow from acquisition of subsidiaries

EUR thousand	2016
Consideration paid in cash	10,170
Less acquired cash	-158
Net cash outflow	10,012

Falck Alarm

On September 30, 2016 the Verisure Group entered into an agreement to acquire Falck Alarm's portfolios in Denmark and Norway. The agreement is part of a sales cooperation between the Verisure Group and Falck Alarm. The acquisition of the Danish entity was executed on September 30, 2016 and the acquisition of the Norwegian entity was executed on December 1, 2016.

Falck Alarm provides security systems to residential customers in Denmark and Norway. The purchase price amounted to EUR 48.1 million. The Danish company was consolidated in the Verisure Midholding Group as of September 30, 2016 and the Norwegian entity was consolidated as of December 1, 2016.

At the date of finalisation of these consolidated financial statements, the initial accounting for this business combination had not been finalised; accordingly the Group reported the provisional amounts currently representing the Group's best estimate of the acquisition date values. Those provisional amounts will be adjusted during the measurement period (not to exceed one year from the acquisition date), to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

For the reporting period, the Danish entity has contributed EUR 3.2 million to group revenue and EUR 1.1 million to adjusted EBITDA. The acquisition would, if it had been consolidated from January 1, 2016, have contributed to total revenue with EUR 12.3 million and to adjusted EBITDA with EUR 2.6 million.

Transaction costs of EUR 0.2 million have been expensed and are included in administrative expenses.

For the reporting period, the Norwegian entity has contributed EUR 0.6 million to group revenue and EUR -0.2 million to adjusted EBITDA. The acquisition would, if it had been consolidated from September 1, 2016, have contributed to total revenue with EUR 2.3 million and to adjusted EBITDA with EUR -0.2 million.

Transaction costs of EUR 0.2 million have been expensed and are included in administrative expenses. These costs are included in cash flow from operating activities in the statement of cash flows.

Financial effect of the acquisition

Recognised amounts of identifiable assets acquired and liabilities assumed

EUR thousand	2016
Cash and cash equivalents	3
Property, plant and equipment	14,879
Customer portfolio and other intangible assets	48,778
Inventories	1,489
Trade and other receivables	2,608
Trade and other liabilities	-12,461
Deferred tax liability	-12,230
Total identifiable net assets	43,066
Goodwill	5,067
Total	48,133

Net cash outflow from acquisition of subsidiaries

EUR thousand	2016
Consideration paid in cash	48,133
Less acquired cash	-3
Net cash outflow	48,130

Note 5 Expenses by nature

EUR thousand	2016	2015
Costs of materials	38,434	34,952
Employee benefit expense	419,434	346,712
Depreciation and amortisation expense	285,907	255,190
Retirements of assets	39,811	36,010
Guarding services	23,115	22,710
Office costs	25,891	23,153
Telecommunications costs	23,292	17,530
Marketing-related costs	75,426	62,764
Integration costs	28,699	21,186
Other operating expenses	126,413	143,158
Total operating expenses	1,086,422	963,365
EUR thousand	2016	2015
Currency translation differences included in operating profit	1,555	-380

Currency translation differences included in finance income and costs are shown in note 12.

Note 6 Audit fees

EUR thousand	2016	2015
PWC		
Audit assignments	1,016	922
Audit work apart from the audit assignment	151	72
Tax consultancy	3,773	1,053
Other services	368	441
Total PWC	5,308	2,488
Other auditors		
Audit assignments	7	36
Tax consultancy	15	-
Other services	2	22
Total other auditors	24	58
Total for the Group	5,332	2,546

Note 7 Employee benefit expense

EUR thousand	2016	2015
Wages and salaries including restructuring costs and other termination benefits	330,346	269,192
Social security costs	74,690	66,634
Pension costs	14,398	10,886
Total employee benefit expense	419,434	346,712

Note 8 Remuneration of directors and executive management

EUR thousand	2016	2015
Short-term employee benefits	6,899	7,378
Post-employment benefit	667	490
Total	7,566	7,868

The executive management has a 12 months notice period corresponding to an amount of EUR 4,432 thousand.

Note 9 Non-cash items

EUR thousand	2016	2015
Retirements of assets ¹	40,878	35,219
Write down of long term assets	-1,071	791
Other	-	-282
Total	39,807	35,728

1) Relates primarily to retirement of installed equipment due to cancellation of customer subscriptions.

Note 10 Operating leases

The Group leases offices, cars and various equipment under operating leases. Operating lease payments totalled EUR 28.3 million (26.9). The nominal value of future payments due under contracted future operating leases is as follows:

EUR thousand	2016	2015
Term to maturity < 1 year	28,019	24,398
Term to maturity 1–5 years	50,820	43,191
Term to maturity > 5 years	7,385	8,161

Note 11 Depreciation and amortisation

EUR thousand	2016	2015
Property, plant and equipment	80,487	68,531
Customer portfolio	174,086	160,631
Other intangible assets	31,334	26,028
Total depreciation and amortisation	285,907	255,190

Depreciation and amortisation is reflected in the income statement as follows

EUR thousand	2016	2015
Cost of sales	105,858	87,876
Selling and administrative expenses	180,049	167,314
Total depreciation and amortisation	285,907	255,190

Note 12 Finance income and costs

EUR thousand	2016	2015
Interest income on currency derivatives	279	686
Interest income on interest derivatives	-	2
Interest income, other	144	137
Finance income	423	825
Interest cost on borrowings	-170,399	-195,467
Interest cost, other	-3,585	-14,015
Interest cost on interest rate swaps	-	-7,000
Interest cost on currency derivatives	-37	-62
Fair value changes in currency derivatives	2,020	-2,191
Fair value changes in interest rate derivatives	13,857	7,203
Interest element of finance leases rentals	-131	-195
Net currency translation differences	45,767	-41,932
Bank charges ¹	-27,495	-112,006
Other items	-85	-
Finance costs	-140,088	-365,665
Finance income and costs	-139,665	-364,840

1) Amortisation of bank arrangement and facility fees incurred in relation to the borrowings are included in bank charges. Bank charges for 2015 has increased due to the refinancing of the Group in conjunction with the H&F acquisition. Bank charges for 2015 includes call cost for old debt of EUR 54.7 million and realised arrangement fees for old debt of EUR 45.4 million.

Details of borrowings are presented in note 26.

From time to time, interest rate swaps are used to manage the interest rate profile of the Group's borrowings. Net interest payable or receivable on such interest rate swaps is therefore included in interest expense.

Note 13 Income tax expense and benefit

EUR thousand	2016		2015	
Current tax	-25,489	61.3%	-23,025	-7.3%
Deferred tax	10,890	-26.2%	27,985	8.9%
Total income tax benefit	-14,599	35.1%	4,960	1.6%

The Swedish rate of corporate income tax was 22% in 2016 and in 2015.

Difference between Swedish tax rate and actual tax for the Group

EUR thousand	2016		2015	
Tax calculated at Swedish tax rate	9,151	22.0%	69,605	22.0%
Difference between tax rate in Sweden and weighted tax rates applicable to foreign subsidiaries	4,129	9.9%	-4,959	-1.6%
Non-recognised deferred tax assets on losses carried forward	-3,916	-9.4%	-30,682	-9.7%
Non-taxable/non-deductible income statement items, net	-33,595	-80.8%	-35,671	-11.3%
Effect of tax rates changed	2,860	6.9%	3,167	1.0%
Other	6,772	16.3%	3,500	1.2%
Income tax benefit	-14,599	-35.1%	4,960	1.6%

Note 14 Related party transactions

Transactions between Group companies, which are related parties, have been eliminated on consolidation and, therefore, are not required to be disclosed in these financial statements. Details of transactions between the Group and other related parties are disclosed below. All transactions with related parties are at market rates.

Transactions with Group companies

EUR thousand	2016	2015
Interest expense	-	63,515
Advisory fee	165	2,957
Other distribution to owners ¹	-	13,516
Group contribution	2,791	89,668
Dividend	110,000	161,327

1) Other distributions to owners relates to a payment to Bain Capital in accordance with the "Transaction Service Agreement" dated September, 2011.

Balances with Group companies

EUR thousand	2016	2015
Group contribution	228,005	237,684

Note 15 Property, plant and equipment

EUR thousand	2016		
	Alarm equipment	Other	Total
Cost at beginning of year	686,237	78,070	764,307
Acquisition via subsidiaries	17,258	-	17,258
Investments	171,698	9,709	181,407
Disposals/retirements of assets	-65,626	-1,387	-67,013
Translation differences	3,514	306	3,820
Cost at end of year	813,081	86,698	899,779
Amortisation at beginning of year	-300,360	-55,589	-355,949
Disposals/retirements of assets	38,889	801	39,690
Amortisation charge for the year	-72,627	-7,860	-80,487
Translation differences	-1,406	-131	-1,537
Accumulated amortisation at end of year	-335,504	-62,779	-398,283
Net book value at end of year	477,577	23,919	501,496

EUR thousand	2015		
	Alarm equipment	Other	Total
Cost at beginning of year	602,948	73,800	676,748
Acquisition via subsidiaries	1,572	269	1,841
Investments	141,756	5,920	147,676
Disposals/retirements of assets	-56,764	-1,598	-58,362
Translation differences	-3,275	-321	-3,596
Cost at end of year	686,237	78,070	764,307
Amortisation at beginning of year	-273,168	-49,266	-322,434
Disposals/retirements of assets	32,569	897	33,466
Amortisation charge for the year	-61,177	-7,354	-68,531
Translation differences	1,416	134	1,550
Accumulated amortisation at end of year	-300,360	-55,589	-355,949
Net book value at end of year	385,877	22,481	408,358

EUR 684 thousand (1,416) of this year's investment relates to finance leases. The carrying amount of finance leases at December 31 2016, was EUR 2,206 thousand (2,686) and related to property and IT equipment in Spain and France.

Depreciation is based on the asset's cost and is allocated using the straight-line method over its estimated useful life, as follows:

Alarm equipment	5-16 years
Other machinery and equipment	3-10 years

Note 16 Goodwill

EUR thousand	2016	2015
Cost at beginning of year	861,109	841,750
Acquisition via subsidiaries	7,676	25,661
Translation differences	3,782	-6,302
Cost at end of year	872,567	861,109

Impairment testing of goodwill

For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units), which in the Group's case is by country.

Goodwill is allocated to cash-generating units, as follows:

EUR thousand	2016	2015
Norway	257,503	249,462
Spain	233,126	233,126
Sweden	161,810	161,513
Finland	60,231	60,231
Portugal	46,265	46,265
France	50,616	50,616
Brazil	22,014	17,924
Chile	15,713	15,713
The Netherlands	14,038	14,038
Denmark	11,251	12,221
Total	872,567	861,109

Impairment tests

Goodwill and other intangible assets are tested for impairment annually and whenever there are indications that it may have suffered impairment. Goodwill is considered impaired where its carrying amount exceeds its recoverable amount, which is the higher of the value-in-use and the fair value less costs to sell of the CGU or group of CGUs to which it is allocated. No need for impairment was identified in the yearly impairment test of goodwill and other intangible assets in 2016. In each case, the recoverable amount of all items of goodwill was determined based on value-in-use calculations.

Management based the value-in-use calculations on cash flow forecasts derived from the most recent long-term financial plans approved by the board of the directors, in which the principal assumptions were those regarding sales growth rates, operating margin and change in operating capital employed. Applied pre-tax WACC varies between different countries in the Group. In 2016, the lowest rate was 8.1% in Sweden and Belgium (8.4 in Sweden) and the highest rate was 11.7% in Brazil (20.4 in Peru). The rate for 2016 was 8.2% (10.0) in Norway and 9.7% (13.1) in Spain. For the period, subsequent to the long-term plan, cash flows generated by the CGUs to which significant goodwill has been allocated have been extrapolated on the basis of a projected annual growth rate of 3% (3). It is not anticipated that this rate will exceed actual annual growth in the markets concerned. The assumptions regarding WACC are from internal judgement and benchmarking. The annual growth rates are based on historical experience.

Note 17 Customer portfolio

EUR thousand	2016	2015
Cost at beginning of year	1,797,651	1,683,462
Acquisition via subsidiaries	55,071	52,850
Investments	107,890	81,603
Disposals/retirements of assets	-20,049	-15,278
Translation differences	2,486	-4,986
Cost at end of year	1,943,049	1,797,651
Amortisation at beginning of year	-635,580	-480,642
Disposals/retirements of assets	6,055	4,562
Amortisation charge for the year	-174,086	-160,631
Translation differences	-1,229	1,131
Accumulated amortisation at end of year	-804,840	-635,580
Net book value at end of year	1,138,209	1,162,071

Intangible assets arising on acquisitions are principally represented by acquired customer relationships and have finite useful lives.

Management has assessed the recoverability of the carrying amount of the customer portfolio as of the acquisition date. The impairment tests are described in note 16.

Note 18 Other intangible assets

EUR thousand	2016	2015
Cost at beginning of year	223,223	194,301
Acquisition via subsidiaries	882	2,294
Investments	33,159	25,702
Disposals/retirements of assets	-	-1,012
Translation differences	-2,542	1,938
Cost at end of year	254,722	223,223
Amortisation at beginning of year	-98,324	-71,844
Disposals/retirements of assets	-	812
Amortisation charge for the year	-31,332	-26,028
Translation differences	966	-1,264
Accumulated amortisation at end of year	-128,690	-98,324
Net book value at end of year	126,032	124,899

Note 19 Deferred tax

Deferred tax assets, EUR thousand	2016	2015
Difference between depreciation in accounts and according to plan	3,884	5,177
Staff-related liabilities	2,835	1,455
Risk reserves	1,387	1,373
Tax loss carry-forwards	42,640	41,750
Acquisition-related intangible assets	5,778	128
Non-deductible interest	7,961	11,671
Other temporary differences	2,437	3,796
Total deferred tax assets	66,922	65,350
Netting ¹	-61,207	-59,571
Total deferred tax assets	5,715	5,779

Deferred tax liabilities, EUR thousand	2016	2015
Difference between depreciation in accounts and according to plan	29,050	27,061
Acquisition-related intangible assets ²	234,116	249,600
Customer acquisition costs	62,133	45,353
Other temporary differences	18,487	18,174
Total deferred tax liabilities	343,786	340,188
Netting ¹	-61,207	-59,571
Total deferred tax liabilities	282,579	280,617
Deferred net tax liabilities	-276,864	-274,838

1) The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right of offset existed.

2) Deferred tax has decreased due to amortisation of the acquisition-related intangible assets.

Deferred tax assets are recognised in respect of tax loss carry-forwards to the extent that the realisation of the related tax benefit through taxable profits is probable. On December 31, 2016, the Group had tax loss carried forward of EUR 594.0 million (493.7). As of December 31, 2016, tax loss carry forwards for which deferred tax assets had been recognised amounted to EUR 135.6 million (132.4) and deferred tax assets related to the tax loss amounted to EUR 42.6 million (41.8). A time limitation in respect of tax loss carry-forward utilisation exists in the Netherlands and in Norway. No such limitation exists in the other countries.

Note 20 Financial risk management

The Verisure Group's business activities create exposure to financial risks, such as credit risk, liquidity risk, financing risk, interest rate risk and foreign currency risk, as detailed in the sections below.

The Verisure Group treasury policy states how financial risks should be managed and controlled. Where appropriate and needed risk management is carried out using derivative financial instruments in accordance with the limitations set out in the treasury policy.

The treasury policy contains guidelines for the administration of operating risks that arise in the management of financial instruments. The guidelines include clear division of roles and responsibilities and the allocation of proxies. The management of financial risks has been centralised to the Group treasury department. Group treasury's responsibilities includes external banking relations, finance costs, interest-bearing liabilities and liquidity management.

Credit risk

Credit risk is the risk of loss if the counter party with which the Verisure Group has a claim, is unable to fulfil its obligations. These risks are apportioned between credit risk from trade receivables and credit risk from financial receivables. The company limits financial credit risk by only entering transactions with banks with a high credit rating. Investments of cash and cash equivalents are made only with banks with a minimum A rating according to Standard & Poor's.

Maximum credit exposure representing the value of the Verisure Group trade receivables at the end of December 2016 was EUR 98,686 thousand (89,682).

Credit risk from trade receivables

The Verisure Group has no significant concentrations of credit risk in relation to trade receivables. The Verisure Group's credit policy ensures that credit management includes use of credit ratings, credit limits, decision-making structures and management of doubtful claims. The policy's goal is to ensure that sales are made only to customers with an appropriate credit rating. While the trade receivables closely follow the geography of Group operations, there are no significant concentrations of credit risk by customer as the Verisure Group has a large number of customers in many countries that are not individually significant or related. Management believes that no further credit risk provision is required in excess of the normal provision for bad and doubtful receivables.

Financial credit risk

The Verisure Group applies principles that limit the size of its credit exposure to individual banks or counterparties. Cash and cash equivalents may only be invested in government bonds or deposited in banks with a minimum A rating according to Standard & Poor's.

EUR thousand	2016	2015
Trade receivables before provision for bad debts	131,789	110,510
Provision for bad debts	-33,103	-20,828
Total trade receivables	98,686	89,682

Financial instruments by category and valuation level

EUR thousand	2016	2015
Financial assets at fair value through profit or loss¹		
<i>Derivatives</i>		
Currency forwards	-	210
Financial liabilities at fair value through profit or loss¹		
<i>Derivatives</i>		
Interest rate swaps	-	-
Currency forwards	2,275	4,603
Interest floor ²	107,426	109,532
Total	109,701	114,135
Loans and receivables at amortised cost		
Trade and other receivables	256,844	252,268
Trade receivables ³	98,686	89,682
Other current receivables ³	20,972	17,992
Cash and cash equivalent	5,985	6,356
Other financial liabilities at amortised cost		
Long-term borrowings ⁴	2,791,787	2,592,859
Other non-current liabilities ³	14,715	17,102
Trade payables ³	86,005	69,176
Short-term borrowings ³	61,394	40,843
Other current liabilities ³	34,205	27,046

1) Part of the Verisure Group's external debt arrangement includes interest rate fixing terms which contain a Euribor/Libor/Stibor floor of 0.5% or 1% which has been accounted for as its fair value as per starting date. Successive fluctuations of the fair value of this derivative is reported as profit or loss. The valuation is executed through accepted valuation models and based on observed data which qualifies for level 2 classification.

2) All derivatives measured at fair value are classified in level 2. All significant inputs are observable. Currency forward are measured at fair value using the observed forward exchange rate for contracts with a corresponding term to maturity at the statement of financial position date.

3) Details of borrowings are presented in note 26.

4) Fair value for the listed bond amounts to EUR 763 million which is the quoted market price at the balance sheet day. Since it is a quoted market price in an active market it is classified as level 1.

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.

Interest bearing liabilities per currency

EUR thousand	2016	2015
Long-term borrowings (principal amount)		
EUR liabilities	2,413,170	2,190,304
SEK liabilities	570,012	596,064
Total	2,983,182	2,786,368
Short-term borrowings		
EUR liabilities	20,856	17,953
Other currencies	-	854
Total	20,856	18,807

Credit facilities as per December 31, 2016

Line of credit	Currency	Facility amount	Available amount	Maturity
Revolver Credit Facility (RCF)	Multicurrency (EUR)	300,000	271,829	2021
Term loan B	EUR	1,265,000	-	2022
Term loan B	SEK	2,628,640	-	2022
Bond	EUR	700,000	-	2022
Private Unsecured Notes (PUN)	EUR	400,000	-	2023
Private Unsecured Notes (PUN)	SEK	2,816,400	-	2023

Liquidity risk

Liquidity risk is the risk an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Verisure Group's borrowing facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. Management's policy is to reduce liquidity risk by diversifying the funding sources, securing ample funding is available and staggering the maturity of its borrowings.

Financing risk

Financing risk relates to encountering difficulty or incurring greater expense in refinancing its outstanding borrowings. The risk is minimised by analysing and monitoring the maturity structure of external loans.

The table below analyses the Verisure Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturity dates are essential for an understanding of the timings of future cash flows. The amounts presented in the table are the contractual and undiscounted cash flows.

Liquidity report

EUR thousand		2016		
	Less than 1 year	1-4 years	5 years or more	Total
Liabilities to credit institutions, principal amounts	-	-23,685	-2,935,010	-2,958,695
Interest payments ²	-163,109	-652,266	-188,434	-1,003,809
Other non-current liabilities	-14,715	-	-	-14,715
Trade payables	-86,005	-	-	-86,005
Short-term borrowings ³	-20,856	-	-	-20,856
Derivatives, currency forwards	-175,727	-	-	-175,727
Other current liabilities	-34,205	-	-	-34,205
Total outflow	-494,617	-675,951	-3,123,444	-4,294,012
Other non-current receivables	-	28,839	228,005	256,844
Trade receivables	98,686	-	-	98,686
Derivatives, currency forwards	176,926	-	-	176,926
Other current receivables	20,971	-	-	20,971
Total inflow	296,583	28,839	228,005	553,427
Net cash flow, total¹	-198,034	-647,112	-2,895,439	-3,740,585

EUR thousand		2015		
	Less than 1 year	1-4 years	5 years or more	Total
Liabilities to credit institutions, principal amounts	-	-	-2,767,213	-2,767,213
Interest payments ²	-171,011	-1,050,253	-537,221	-1,758,485
Other non-current liabilities	-17,102	-	-	-17,102
Trade payables	-69,176	-	-	-69,176
Short-term borrowings ³	-18,807	-	-	-18,807
Derivatives, currency forwards	-131,580	-	-	-131,580
Other current liabilities	-27,046	-	-	-27,046
Total outflow	-434,722	-1,050,253	-3,304,434	-4,789,409
Other non-current receivables	-	8,104	244,164	252,268
Trade receivables	89,682	-	-	89,682
Derivatives, currency forwards	135,030	-	-	135,030
Other current receivables	17,992	-	-	17,992
Total inflow	242,704	8,104	244,164	494,972
Net cash flow, total¹	-192,018	-1,042,149	-3,060,270	-4,294,437

1) All contractual cash flows per the balance sheet date are included, including future interest payments.

2) Including interest rate floor and interest rate swaps.

3) Accrued interest is included in interest payments in these tables.

Interest rate risk

The Verisure Group's interest rate risk arises in its long-term borrowings. Borrowings raised at variable interest rates expose the Verisure Group to interest rate risk. Borrowings raised at fixed interest rates expose the Verisure Group to fair value interest rate risk. During 2016 and 2015, the Verisure Group's borrowings at variable interest rate were denominated in the Swedish krona and the Euro.

At December 31, 2016, with current financing terms which partially include an interest floor of 0.5% or 1%, an increase of EURIBOR/STIBOR fixings of 100 basis points (1.0%) will impact the Verisure Group's total interest expenses by a negative EUR 3 million.

Foreign currency risk

The Verisure Group operates in 14 countries and is therefore exposed to foreign exchange risk arising from various currency exposures but primarily from SEK and NOK. Foreign exchange risk arises through business transactions, reported assets and liabilities and net investments in foreign currencies and affects the balance sheet as well as the income statement.

The Verisure Group's risk in business transactions is currently limited as the majority of all purchases and sales are executed in the respective entities' functional currencies. Consequently, the Verisure Group does not currently hedge any such transaction exposure.

The Verisure Group's net assets in foreign operations are exposed to foreign exchange risk. Such foreign exchange risk is mainly managed through borrowings raised in the foreign currencies in question. The Verisure Group does not apply hedge accounting to its net investments in foreign operations, for which reason the translation of borrowings in SEK impacts the income statement. Currency swaps are only used to minimise interest expenses charged by banks in the cash pool structures.

Sensitivity analysis

The Verisure Group's sales and results are subject to a variety of factors. The effect of changes in a number of key variables is shown below. Projections are based on the Verisure Group's operations in 2016 and should be viewed as an estimate of the effect of an isolated change in each variable.

Variable	Change	Effect
Depreciation and amortisation	+/- 10 percentage point	Decrease/increase of approximately EUR 29 (26) million in operating result.
Interest rate	+/- 1 percentage point	Decrease of approximately EUR 3 (3) million in net finance income and costs.
Currency rate EUR/SEK	+/- 10 percentage point	Increase/decrease of approximately EUR 21 (19) million in revenue. Increase/decrease of approximately EUR 7 (7) million in result for the period.
Currency rate EUR/NOK	+/- 10 percentage point	Increase/decrease of approximately EUR 11 (10) million in revenue. Increase/decrease of approximately EUR 4 (4) million in result for the period.

Capital structure

Asset management is aimed at ensuring that the Verisure Group's financial resources are used in an optimal way so as to guarantee future operations, provide security for lenders and generate a beneficial return for shareholders. Asset management additionally aims to ensure that the Verisure Group has sufficient funds to finance necessary investments for continued growth. This growth can be organic or via acquisition which means financial flexibility is required.

The credit facility includes covenants that must be fulfilled for the duration of the loans. The existing financial maintenance covenant applies only when outstandings under the RCF (the Revolver Credit Facility) exceed EUR 100 million. When this incurs the ratio of Net Debt over adjusted portfolio EBITDA cannot exceed 6.2x (as per Q4 2016). This covenant ratio will decrease successively for each quarter by 0.3x until it reaches 5.0x where it will remain.

EUR thousand	2016	2015
Long-term borrowings (principal amount)	2,983,182	2,786,368
Short-term borrowings	61,394	40,843
Less accrued interest	-40,538	-22,036
Less cash and cash equivalents	-5,985	-6,356
Net debt	2,998,053	2,798,819
Total assets	3,118,360	3,012,811
Adjusted EBITDA	452,485	360,842

Details of borrowings are presented in note 26. For covenant purposes other definitions apply.

Note 21 Trade and other receivables

EUR thousand	2016	2015
Group contribution claims	228,005	237,684
Trade receivables	15,939	4,003
Other receivables	12,900	10,581
Total	256,844	252,268

Note 22 Inventories

EUR thousand	2016	2015
Materials and consumables	62,585	59,868

Impairment for provision in inventories at year end totalled EUR 1,527 thousand (3,284). The cost of materials recognised as an expense and included in "cost of sales" was EUR 38,434 thousand (34,952) at December 31, 2016.

Note 23 Trade receivables

EUR thousand	2016	2015
Trade receivables before provision for bad debts	131,789	110,510
Provision for bad debts	-33,103	-20,828
Total trade receivables	98,686	89,682

Due dates for trade receivables

EUR thousand	2016	2015
Past due 0–3 months	10,756	11,061
Past due 3–6 months	5,062	4,657
Past due 6–9 months	4,703	3,684
Past due 9–12 months	4,184	2,916
Past due >12 months	24,951	13,594
Total past due dates trade receivables	49,656	35,912

Provisions for bad debts

EUR thousand	2016	2015
Balance at beginning of year	20,828	23,924
Provision for bad debt during the year	16,868	13,287
Receivables written off during the year as uncollectible	-1,727	-13,730
Unused amounts reversed	-2,866	-2,653
Balance at end of year	33,103	20,828

Customer credit losses recognised in the income statement totalled EUR 13.5 million (10.6) at December 31, 2016.

Note 24 Derivative financial instruments

Derivative financial instruments are held in relation to the Group's treasury policy. The Group does not hold or issue derivatives for speculative purposes. The Group's objective is to minimise the risk of adverse impact on the income statement due to interest rates rises. For this purpose, the Group will enter into interest rate derivatives to minimise this risk. The carrying amounts of derivative financial instruments held by the Group were as follows:

EUR thousand	2016			2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Hedging activities						
Currency forwards	-	2,275	2,275	210	4,603	4,393
Other items						
Interest floor	-	107,426	107,426	-	109,532	109,532
Total	-	109,701	109,701	210	114,135	113,925
Classified as						
Non-current	-	107,426	107,426	-	109,975	109,975
Current	-	2,275	2,275	210	4,160	3,950
Total	-	109,701	109,701	210	114,135	113,925

Currency derivatives

As at December 31, 2016, the notional principal amount of outstanding foreign exchange contracts used to manage the Group's cash pool was EUR 176 million (132). The Group has not designated any contracts for hedge accounting purposes. Accordingly, all gains and losses are recognised in the income statement in respect of currency derivatives outstanding. Such amounts are included in finance income and cost as disclosed in note 12.

Interest rate derivatives

The company has no outstanding interest rate derivatives as per December 31, 2016.

Note 25 Share capital

Verisure Midholding AB's (publ) share capital totalled EUR 56,104 at December 31, 2016 and December 31, 2015, distributed among 500,000 shares with a quotient value of EUR 0.1122. All shares are of the same class. All shares issued by the company were fully paid.

Change in number of shares

EUR thousand	2016	2015
Number of shares at beginning of year	500,000	500,000
Number of shares at end of year	500,000	500,000

Note 26 Borrowings

EUR thousand	2016		
	Principal amount	Adjustment amortised costs	Carrying amount
Non-current liabilities			
Secured			
Senior Secured Notes	700,000	-16,379	683,621
Term Loan B	1,540,178	-107,203	1,432,975
Revolver Credit Facility	23,685	-6,580	17,105
Unsecured			
Private Unsecured Notes	694,834	-61,233	633,601
Liabilities to other creditors	22,855	-	22,855
Finance lease liability	1,630	-	1,630
Total non-current liabilities	2,983,182	-191,395	2,791,787
Current liabilities			
Accrued interest expenses	40,538	-	40,538
Other liabilities	20,280	-	20,280
Finance lease liability	576	-	576
Total current liabilities	61,394	-	61,394
Total borrowings	3,044,576	-191,395	2,853,181

EUR thousand	2015		
	Principal amount	Adjustment amortised costs	Carrying amount
Secured			
Senior Secured Notes	700,000	-18,102	681,898
Term Loan B	1,307,755	-101,020	1,206,735
Revolver Credit Facility	51,149	-7,649	43,500
Unsecured			
Private Unsecured Notes	708,309	-66,738	641,571
Liabilities to other creditors	17,196	-	17,196
Finance lease liability	1,959	-	1,959
Total non-current liabilities	2,786,368	-193,509	2,592,859
Current liabilities			
Accrued interest expenses	22,036	-	22,036
Other liabilities	18,215	-	18,215
Finance lease liability	592	-	592
Total current liabilities	40,843	-	40,843
Total borrowings	2,827,211	-193,509	2,633,702

The bank arrangement and facility fees relate fully to the bank arrangement made in relation to the acquisition in 2015.

The Group's secured borrowings are jointly and severally, irrevocably and fully and unconditionally guaranteed by certain of the company's direct and indirect subsidiaries and secured by liens on substantially all of their assets. An analysis of the security given is presented in note 29.

Net Debt Bridge

EUR thousand	2016	2015
Total principal amount	3,044,576	2,827,211
Less accrued interest	-40,538	-22,036
Indebtness	3,004,038	2,805,175
Less cash and cash equivalents	-5,985	-6,356
Net debt	2,998,053	2,798,819

Borrowings, currency and interest rate profile

The currency and interest rate profile of outstanding borrowing principals, after taking into account the effect of the Group's currency and interest rate hedging activities, was as follows:

	Floating interest rate		Fixed interest rate			Total EUR thousand
	EUR thousand	Weighted average interest rate %	EUR thousand	Weighted average interest rate %	Weighted average period for which rate is fixed years	
2016						
EUR	1,688,690	4.9	700,000	6.0	5.8	2,388,690
SEK	570,010	6.8	-	-	-	570,010
Total	2,258,700		700,000			2,958,700

	Floating interest rate		Fixed interest rate			Total EUR thousand
	EUR thousand	Weighted average interest rate %	EUR thousand	Weighted average interest rate %	Weighted average period for which rate is fixed years	
2015						
EUR	1,471,150	6.0	700,000	6.0	6.8	2,171,150
SEK	596,060	6.8	-	-	-	596,060
Total	2,067,210		700,000			2,767,210

The majority of all borrowings with floating interest include a floor of 0.5% or 1% which means the applied interest fixing of Euribor and Stibor will equal 1% as long as the relevant period fixings of Euribor and Stibor are below 1%.

Obligations under finance leases

The nominal value of future payments due under contracted future finance leases is as follows:

EUR thousand	2016	2015
Term to maturity < 1 year	576	592
Term to maturity 1–5 years	1,630	1,959
Term to maturity > 5 years	-	-

The Group leases certain of its facilities and IT equipment in Spain and France under finance leases. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Note 27 Other provisions

EUR thousand	2016	2015
Balance at beginning of year	4,000	1,149
Additional provisions	532	3,119
Utilised provisions	-206	-268
Reversal of provision not used	-2,768	-
Balance at end of year	1,558	4,000

Breakdown

EUR thousand	2016	2015
Provision for staff-related costs	1,080	745
Other items	478	3,255
Total other provisions	1,558	4,000

Note 28 Accrued expenses and deferred income

EUR thousand	2016	2015
Subscription fees invoiced in advance	92,835	76,175
Staff-related costs	59,469	46,513
Marketing-related costs	6,125	5,145
Audit assignments and other services	2,258	1,112
Risk reserves	5,420	5,475
Other items	44,532	28,215
Total accrued expenses and deferred income	210,639	162,635

Note 29 Pledged assets and contingent liabilities

Pledged assets

EUR thousand	2016	2015
Endowment insurance	417	417
Shares in subsidiaries	1,873,332	1,968,024
Bank accounts	444	907
Trademark	63,333	68,333
Accounts receivables	67,886	61,577
Inventories	35,212	38,151
Motor vehicles	29	28

Contingent liabilities

EUR thousand	2016	2015
Guarantees	19,403	21,723

The Group has pledged shares in subsidiaries, certain bank accounts, certain trade receivables, certain IP rights, certain inventory assets, certain intra-group loans, intra-group equity certificates, rights under certain insurances, certain rights under the acquisition agreements regarding the purchase of the Verisure Group and certain rights under reports in relation to the acquisition of the Verisure Group as collateral for bank borrowings, as disclosed in note 26. Guarantees relate primarily to guarantees provided to suppliers.

Parent company financial statement

Parent company income statement

EUR thousand	Note	2016	2015
Operating profit		-	-
Dividend		110,000	161,327
Group contribution		-	-26,153
Interest income from Group companies		58,606	75,040
Interest expense		-58,606	-11,525
Interest expense to Group companies		-	-63,515
Result before tax		110,000	135,174
Income tax expense and benefit		-	-
Result for the period		110,000	135,174

Parent company statements of financial position

EUR thousand	Note	2016	2015
ASSETS			
Non-current assets			
Long-term investments			
Investments in subsidiaries	1	594,410	594,410
Receivables from Group companies		694,834	719,833
Total non-current assets		1,289,244	1,314,243
Current assets			
Other receivables from Group companies		-	12,470
Accrued interest income from Group companies		9,395	-
Cash and cash equivalents		100	100
Total current assets		9,495	12,570
TOTAL ASSETS		1,298,739	1,326,813

EUR thousand	Note	2016	2015
EQUITY AND LIABILITIES			
Equity	25		
Share capital		56	56
Other paid in capital		569,170	569,170
Retained earnings		-869	-869
Total equity		568,357	568,357
Non-current liabilities			
Long-term borrowings	2	694,834	708,309
Total non-current liabilities		694,834	708,309
Current liabilities			
Liabilities to Group companies		26,153	38,623
Accrued interest expenses	2	9,395	11,524
Total current liabilities		35,548	50,147
TOTAL EQUITY AND LIABILITIES		1,298,739	1,326,813

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 2016	56	569,170	-869	568,357
Result for the period	-	-	110,000	110,000
<i>Total comprehensive income for the period</i>	-	-	110,000	110,000
Dividend to Group company	-	-	-110,000	-110,000
<i>Total transactions with owners</i>	-	-	-110,000	-110,000
Balance at December 2016	56	569,170	-869	568,357

EUR thousand	Attributable to equity holders of the parent company			
	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 2015	56	569,170	-2	569,224
Result for the period	-	-	135,174	135,174
<i>Total comprehensive income for the period</i>	-	-	135,174	135,174
Shareholder's contribution	-	-	25,286	25,286
Dividend to Group company	-	-	-161,327	-161,327
<i>Total transactions with owners</i>	-	-	-136,041	-136,041
Balance at December 2015	56	569,170	-869	568,357

Parent company statement of cash flows

EUR thousand	2016	2015
Operating activities		
Operating profit	-	-
Cash flow from operating activities before change in working capital	-	-
Change in working capital	-	-
<i>Cash flow from change in working capital</i>	-	-
Cash flow from operating activities	-	-
Investing activities	-	-
Cash flow from investing activities	-	-
Financing activities	-	-
Cash flow from financing activities	-	-
Cash flow for the period	-	-
Cash and cash equivalents at start of period	100	100
Exchange difference on translating cash and cash equivalents	-	-
Cash and cash equivalents at end of period	100	100

Notes to the parent company financial statements

The parent company Verisure Midholding AB applies the Swedish Financial Reporting Board's recommendation "RFR 2". The parent company basically applies the same accounting policies for recognition and measurement as the Group. The accounting policies applied by the parent company deviate from the accounting policies set out in not 1 to the consolidated financial statements in the annual report. The accounting policies are unchanged compared with those applied in 2015.

Note 1 Investments in subsidiaries

EUR thousand					2016	2015
Opening acquisition value					594,410	569,124
Capital increase					-	25,286
Closing accumulated acquisition value					594,410	594,410

Subsidiary name	Reg. no	Reg. office	No. of shares	Share of share capital and voting rights	2016	2015
Verisure Holding AB	556854-1410	Stockholm	500,000	100%	594,410	594,410
Total					594,410	594,410

Note 2 Borrowings in the parent company

EUR thousand	2016		
	Current liabilities	Non-current liabilities	Total
Unsecured			
Private Unsecured Notes	9,395	694,834	704,229
Total borrowings (carrying amount)	9,395	694,834	704,229

EUR thousand	2015		
	Current liabilities	Non-current liabilities	Total
Unsecured			
Private Unsecured Notes	11,524	708,309	719,833
Total borrowings (carrying amount)	11,524	708,309	719,833

Note 3 Pledged assets and contingent liabilities in the parent company

Pledged assets

EUR thousand	2016	2015
Shares in subsidiaries	594,410	594,410

There are no contingent liabilities in 2016 and 2015.

April 26 2017, Malmö

Austin Lally
CEO

Vincent Litrico

Stefan Götz

Cecilia Hultén
Chairman

Adrien Motte

Johan Rippe

Our auditor's report was issued on April 26 2017, Malmö
PricewaterhouseCoopers AB

Authorised Public Accountant

Auditor's report

To the Board of Directors in Verisure Midholding AB (publ)

Corporate identity number 556854-1402

Report on the annual financial statements and consolidated financial statements

We have audited the annual financial statements and the consolidated financial statements of Verisure Midholding AB (publ) for the financial year ended 31 December 2016. The annual financial statements and consolidated financial statements comprise the annual financial statements of the parent company and consolidated statement of financial position of Verisure Midholding AB (publ) and its subsidiaries ("the Group") as at December 31, 2016 and the related annual financial statements and consolidated statements of income, comprehensive income, changes in equity and cash flows for the period from January 1, 2016 through December 31, 2016 and a summary of significant accounting policies and other explanatory information. The financial statements of the parent company and the group are included in the printed version of this document on pages 26–69.

The annual financial statements of the parent company and consolidated financial statements have been prepared by the Board of Directors and the Managing Director with the purpose to present the operations of Verisure Midholding AB (publ) for the full year 2016.

Responsibilities of the Board of Directors and the Managing Director for the annual financial statements and consolidated financial statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual financial statements of the parent company in accordance with Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the EU ("IFRS"), and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual financial statements and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual financial statements of the parent company and consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual financial statements and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements and consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the annual financial statements and consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual financial statements and consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual financial statements of the parent company have been prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities.

The consolidated financial statements present fairly, in all material respects, the financial position of the group as at December 31, 2016, and the operations and cash flows for the period from January 1, 2016 through December 31, 2016, in accordance with International Financial Reporting Standards, as adopted by the EU.

Basis of Accounting and Use

Without modifying our opinion, we draw attention to the Notes of the annual financial statements of the parent company and consolidated financial statements, which describes the basis of preparation and accounting. The annual financial statements of the parent company and consolidated financial statements have been prepared by the Board of Directors and the Managing Director to present the operations of Verisure Midholding AB (publ) for the full year 2016, in order to fulfil the reporting requirements of the Euro MTF Market of the Luxembourg Stock Exchange. As a result, the annual financial statements and consolidated financial statements may not be suitable for other purposes.

Malmö, April 26, 2017
PricewaterhouseCoopers AB

Johan Rippe
Authorized Public Accountant

Five-year financial overview

EUR thousand	2016	2015	2014	2013	2012
Portfolio services segment: Unaudited operating data					
Total subscribers (year end) ¹ , units	2,293,993	2,016,523	1,788,439	1,625,993	1,524,621
Cancellations, units	142,708	129,174	125,296	147,125	131,481
Attrition rate	6.7%	6.8%	7.3%	9.4%	8.9%
Net subscriber growth, units ¹	277,470	228,084	162,446	101,372	86,756
Subscriber growth rate, net	13.8%	12.8%	10.0%	6.6%	6.0%
Average monthly revenue per user (ARPU), (in EUR) ²	38.9	38.1	37.3	36.9	35.8
Monthly adjusted EBITDA per subscriber (EPC), (in EUR) ²	24.6	23.0	21.6	20.6	19.1
Non-IFRS and IFRS financial data					
Revenue	997,421	863,762	763,842	697,967	637,211
Adjusted EBITDA	629,846	521,775	440,971	390,352	338,695
Adjusted EBITDA margin	63.1%	60.4%	57.7%	55.9%	53.2%
Customer acquisition segment: Unaudited operating data					
New subscribers added (gross)	359,468	308,494	264,801	237,353	217,063
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,176	1,149	1,103	1,040	1,029
Non-IFRS and IFRS financial data					
Revenue	187,069	148,058	120,237	114,270	121,004
Adjusted EBITDA	-177,361	-160,933	-137,202	-109,368	-92,471
Capital expenditures	245,338	193,425	154,984	137,465	130,950
Consolidated: Unaudited operating data					
Payback period (in years)	4.0	4.2	4.3	4.2	4.5
Non-IFRS and IFRS financial data					
Revenue	1,184,490	1,011,820	884,079	812,237	758,215
Organic revenue growth	15.7%	14.0%	9.8%	7.9%	11.5%
Adjusted EBITDA	452,485	360,842	303,769	280,984	246,224
Adjusted EBITDA margin	38.2%	35.7%	34.4%	34.6%	32.5%
Capital expenditures	321,064	253,892	211,867	178,412	160,575

The 2012 to 2013 numbers relates to Verisure Holding Group. 2014 to 2016 relates to Verisure Midholding Group. No significant differences.

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

2) In Q4 2016, calculation methodology for average portfolio moved from a yearly average to a monthly average calculation. The new methodology has been applied to historical numbers and resulted in ARPU increasing with 0.3 EUR and EPC with 0.2 EUR on a yearly basis both in 2016 and 2015.

Definitions

Key operating metrics

Management uses a number of key operating metrics, in addition to our IFRS financial measures, to evaluate, monitor and manage the 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 the 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. The metrics include the following:

Adjusted EBITDA

Earnings before interests, taxes, depreciation, amortisation, write-offs and items affecting comparability.

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 expenditure in our customer acquisition segment on average for every subscriber acquired.

Items affecting comparability

Costs related to various transition and reorganisation projects.

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, including accrued interest less the sum of available cash.

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 value of an asset that will no longer be used in the operations are recognised as a cost in the income statement.

Subscriber growth rate

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

Risk factors

Any of the following risks may have a material adverse effect on our business, financial condition or results of operations, and as a result investors may lose all or part of their original investment. The risks described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our business, financial condition or results of operations.

Risks Related to Our Business and Industry

We operate in a highly competitive industry and our results may be adversely affected by this competition.

We face significant competition from both established and new competitors. In some instances, we compete against companies with greater scale, easier access to financing, greater personnel resources, greater brand name recognition and experience or longer-established relationships with customers.

The residential home and small business security segment (the "RHSB segment") in Europe and Latin America is highly fragmented and subject to significant competition and pricing pressures. As a result, within our industry, we must compete against a variety of players who use various different strategies. For example, our largest competitor in Sweden and Norway, Sector Alarm, focuses on a particular region (the Nordic area), while our largest competitor in France, EPS, offers different monthly fees depending on the type of residence (apartments and houses). Likewise, any of our existing competitors may expand their current product and service offerings more rapidly, adapt to new or emerging technologies more quickly, take advantage of acquisitions or devote greater resources to the marketing and sale of their products and services, than we do. Our competitors may also price their products and services more aggressively in an effort to increase their customer base and win market share. Consumers may find the lower installation fees of our competitors attractive, which could have a significant effect on our ability to maintain or grow our customer base. Likewise, if our competitors charge lower ongoing monitoring fees than we do, we may have to reduce our monitoring fees or risk losing our existing customers. These competitive actions could impact our ability to attract new customers, subject us to pricing pressure or erode our existing customer portfolio, each of which could have a material adverse effect on our business, financial condition and results of operations.

We also face continually evolving competition from established do-it-yourself ("DIY") self-monitoring systems, which, through the internet, text messages, emails or similar communications, enable consumers to monitor and control their home environment through devices that they install without third-party involvement. Continued pricing pressure or improvements in technology, as well as increased smart phone penetration, and shifts in consumer preferences towards DIY and self-monitoring could adversely impact our customer base or pricing structure

and have a material adverse effect on our business, financial condition, results of operations and cash flows.

With respect to competition from potential new entrants, we believe that players operating in the connected home segment and telecommunications segment are best situated to move into the security and safety industry. While within the connected home segment, security and safety is the largest growing area, the connected home segment itself is growing quickly and covers many different products and services in areas such as utility management, entertainment, wellness management and smart appliances. If competitors in these alternative areas move into the security and safety area of the connected home segment, such action could have a material adverse effect on our business, financial condition and results of operations. Additionally, large players in other industries, such as Google have launched smart home platforms. Such players could leverage their well-known brand names to enter the security and safety area of the connected home segment. Such actions could impact our ability to attract new customers, subject us to pricing pressure or erode our existing customer portfolio, each of which could have a material adverse effect on our business, financial condition and results of operations. Telecommunications players have already shown interest in entering the security and safety segment. Comcast and others have already done so in the United States. Given the extensive customer base of larger telecommunications players, if they are able to successfully deliver a high quality security service, they may be able to leverage their existing customer contacts to grow this segment of their business.

The success of our business depends, in part, on our ability to respond to the rapid changes in our industry and provide customers with enhanced services that meet their expectations.

Our success and competitive position depend, in large part, on our ability to develop and supply innovative products and keep pace with technological developments in the security alarm industry. Whether developed by us or otherwise, our offering of enhanced services can have a significant impact on a customer's initial decision to choose our products. Likewise, the quality of our monitoring services, which depends on the technology used in our security alarm systems, as well as accumulated expertise plays a large role in our ability to attract new customers and retain existing customers. Accordingly, the success of our business depends, in part, on our ability to continue to enhance our existing products and services and anticipate changing customer requirements and industry standards.

We may not be able to develop or partner with third-party suppliers to gain access to technical advances before our competitors, match technological innovations made by our competitors or design systems that meet customers' requirements. Alternatively, we may not have the financial resources required to successfully develop or implement such new technologies. If we are

unable, for technological, legal, financial or other reasons, to adapt to changing market conditions or customer requirements in a timely manner, we could lose existing customers, encounter trouble recruiting new customers, or become subject to increased pricing pressures. Should we experience any of these technology related challenges, our business, financial condition and results of operations could be materially adversely affected.

We are susceptible through attrition to economic downturns, particularly those impacting the housing market or consumer spending.

Our financial performance depends primarily on residential consumers in single-family dwellings and, to a lesser extent, on small businesses. Periods of economic downturn, particularly those impacting the housing market or consumer discretionary spending, can increase our attrition rates among existing customers. For example, customer attrition rates increased across our business in 2009 compared to 2008, which coincided with the global economic crisis. In the residential segment, a proportion of customers discontinued our service in order to reduce their recurring costs, while others moved from their homes and did not re-subscribe to our service. In the small business segment, customers were particularly impacted by the economic downturn and sought to reduce their costs or were forced to close their businesses, and thus we had a more significant increase in attrition rates in our small business portfolio compared to our residential customers. Cancellations as a percentage of overall customers increased in both 2012 and 2013, which was primarily driven by enduring effects of the recession in Spain, where we have a larger proportion of small business customers compared to other countries. Small business subscriptions are more directly correlated to economic conditions. A renewed or future recession or period of economic uncertainty could lead to resumed increases in our attrition rate and could reduce the inflow of new customers purchasing our products. Periods of economic downturn, particularly those that affect Europe, can also negatively impact our ability to sell new alarm systems. The outlook for the world economy remains uncertain. General market volatility has resulted from political uncertainties and uncertainty about sovereign debt and fear of further downgrading of or defaults on sovereign debt. Any change in economic conditions in our markets that negatively impacts our customers could have a material adverse effect on our business, financial condition and results of operations.

Attrition of customer accounts or failure to continue to acquire new customers in a cost effective manner could adversely affect our operations.

We do not require our customers to enter into long-term contracts with punitive cancellation clauses. Thus, after any contractual notice period (typically one to three months), a customer may cancel a subscription without penalty. For residential customers, the main reasons for cancelling a subscription include factors such as moving to a new home, financial distress or dissatisfaction with our customer service or prices. For small businesses, cancellations are usually related to financial distress, the failure, closure or relocation of the business or dissatisfaction with our customer service or prices. Our attrition rates on a twelve-month trailing basis were 6.7%, 6.8%, 7.3%, 9.4%, and 8.9% in the years ending December 31, 2016, 2015, 2014, 2013 and 2012, respectively. As we continue to expand, including into new countries, our new customers may have different economic

and other characteristics from our current customers, which may lead to increased attrition rates.

Customer cancellations reduce our revenues from monthly subscription fees and, to the extent we decide to invest in replacing such customer cancellations with new customer contracts, such customer cancellations also increase our capital investment costs. Consequently, customer cancellations, particularly prior to the end of the payback period (the time it takes to recapture our upfront costs) have a negative effect on our business. If upfront capital investment costs increase, or if the installation fees or monthly subscription fees we charge decrease, the payback period will lengthen, only serving to increase the negative effects that any cancellations may have on our business, financial condition and results of operations.

Our ability to retain existing customers and acquire new customers in a cost effective manner may also be effected by our customers' selection of telecommunications services. Certain elements of our operating model rely on our customers' selection of telecommunications services (both wireless and wired), which we use to communicate with our monitoring operations. In order to continue to service our customers, our systems need to be able to interface with the technology existing in our customers' residences or businesses. Advances in technology may require customers to upgrade to alternative, and often more expensive, technologies to transmit alarm signals. Such higher costs may reduce the market for new customers, or cause existing customers to cancel their services with us. While we generally seek to upgrade customers on a rolling basis, if a substantial number of customers was to simultaneously seek to upgrade their services, we may not be able to efficiently or effectively accommodate such requests. Additionally, in the future we may not be able to successfully implement new technologies or adapt existing technologies to changing market demands, and in any event we may be required to incur significant additional costs to upgrade to improved technology. Continued shifts in technology or customers' preferences regarding telecommunications services could have a material adverse effect on our business, financial condition and results of operations. Our ability to offer our services to our customers depends on the performance of these telecommunications services. In particular, we rely on them to provide our customers' with constant connectivity to our monitoring operations so that we can be made aware of all actual intrusions. Such telecommunications services are, however, vulnerable to damage from a variety of sources, including power loss, malicious human acts and natural disasters. Moreover, these telecommunications services have the right to terminate their services under their agreements in certain circumstances and under certain conditions, some of which are outside our customers' control. The termination of such services could impact our ability to provide our customers' with the services they require, which would adversely affect the value of our business.

Our concentration of sales in Spain makes us sensitive to negative developments in Spain.

A significant portion of our customers are in Spain. At December 31, 2016, approximately 39% of our customers lived in Spain, and Spain accounted for 37% of our revenue for the year ending December 31, 2016. So, our business is particularly sensitive to developments that materially impact the Spanish economy or

otherwise affect our operations in Spain. Negative developments in, or the general weakness of, the Spanish economy may have a direct negative impact on the spending patterns of potential new customers, our current customers and the willingness of small businesses to make investments. In particular, growth in our customer base has been affected by higher cancellations among our small business customers, which may persist due to disruptive economic events in Spain. We have a higher percentage of small business customers in Spain than in other countries and such small business customers tend to be more sensitive to economic conditions. A recession, or public perception that economic conditions are deteriorating, could substantially decrease the demand for our products and adversely affect our business. While the impact of a continued economic slowdown or recession on our business in Spain is uncertain, it could result in a negative impact on our business which could have a material adverse effect on our financial condition and results.

Certain of our potential competitors may seek to expand their market share by bundling their existing offerings with additional products and services.

We may not be able to compete effectively with companies that integrate or bundle security offerings similar to ours with the other general services they provide. For example, home insurance companies (many of which offer reduced premiums for homes with security alarms) and telecommunications or utility companies (both of which may already have a relationship with our potential customers) may decide to expand into alarm monitoring services and bundle their existing offerings with monitored security services. The existing access to and relationship with customers that these companies have could give them a substantial advantage over us, especially if they are able to offer customers a lower price by bundling these services. These potential competitors may subject us to pricing pressure, slower growth in our customer base, higher costs and increased attrition rates among our customers. If we are unable to sufficiently respond to these competitors or otherwise meet these competitive challenges, we may lose customers or experience a decrease in demand for our products and services, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, in many locations, we work with guarding companies to respond to triggered alarms. If the guarding companies were to successfully expand into the alarm monitoring and installation segment, they would become direct competitors with us. This development would also force us to have to find alternative first responders in the affected regions, and such alternative first responders may not be available on a timely basis or on commercially attractive terms. The costs and difficulties associated with finding alternative providers, as well as any decrease in our market share in the relevant region, resulting from the presence of these new entrants, could have a material adverse effect on our business, financial condition and results of operations.

Privacy concerns, such as consumer identity theft and security breaches, could hurt our reputation and revenues.

As part of our operations, we collect a large amount of private information from our customers, including credit card information, images, voice recordings and other personal data. If we

were to experience a breach of our data security, we might find ourselves in a position where private information about our customers was at risk of exposure. To the extent that any such exposure leads to credit card fraud or identity theft, or the misuse or distribution of other personal data, including imagery taken by our surveillance equipment, we may experience a general decline in consumer confidence in our business, which may lead to an increase in our attrition rate or make it more difficult to attract new customers. In the past, when concerns were raised regarding data integrity, we proactively requested that customers change their passwords. However, if we are unable to identify such potential threats prior to a breach of our systems, customers may lose confidence in our ability to protect their personal information. If consumers become reluctant to use our services because of concerns over data privacy or credit card fraud, our ability to generate revenues would be impaired. In addition, if technology upgrades or other expenditures are required to prevent security breaches of our network, boost general consumer confidence in our business, or prevent credit card fraud and identity theft, we may be required to make unplanned capital expenditures or expend other resources. Further, as we expand the automation of our services and offer increasingly centralised access for consumers through features like "Connected Home," the potential risk associated with any form of cyberattack or data breach also increases, threatening to expose consumer data. Any such breach and associated loss of confidence in our business or additional capital expenditure requirement could have a material adverse effect on our business, financial condition and results of operations.

Moreover, in certain countries, the processing of personal data is subject to governmental regulation and legislation. Any failure to comply with such regulations or legislation could lead to governmental sanctions, including fines or the initiation of criminal or civil proceedings. Additionally, in Portugal and Spain, our customers and employees have the right to access, rectify, cancel or oppose the processing of their personal data. If we fail to comply with any regulations or legislation applicable to our collection and processing of personal data, we may be exposed to judicial proceedings or fines, any of which could have a material adverse effect on our business, financial condition and results of operations.

Potential competition or disputes with the owner of the Securitas brand name may negatively impact our results.

We do not own the "SECURITAS" brand name or trademark. Instead, we license the "SECURITAS" brand name and trademark from Securitas AB for most of our operating geographic locations. Securitas AB is our former parent company from whom we demerged in 2006. Historically, Securitas AB has primarily focused on the large enterprise segment of the security market, as opposed to the residential and small business segment in which we operate. However, in the future, Securitas AB may choose to compete directly against us, including using a form of the "SECURITAS" brand name in the segments in which we operate. In that case, consumers may become confused between our brand and their brand. Additionally, consumers may prefer the products or services that Securitas AB would offer over our products or services.

Our current license for the use of the "SECURITAS" brand name and trademark expires in December 2029. After that date, we may not be able to continue to license the "SECURITAS" brand

on commercially reasonable terms, if at all. Additionally, in accordance with the agreements granting our license, Securitas AB may terminate the agreement under certain circumstances, including if we are acquired by or enter into a joint venture with a competitor of Securitas AB. Our license does not provide exclusive use of the "SECURITAS" brand name or trademark even in the countries where we have operations. As a result, there could be significant brand confusion in countries where Securitas AB or its sub-licensees use the same trademark to sell alarm systems or provide other security services. Any resulting brand confusion among our customers could harm our reputation or reduce the value of our brand. In countries such as Latin America, Italy and UK we operate under the brand name Verisure. We have to obtain the consent of Securitas AB to use the "SECURITAS" brand name in any country in which we choose to commence operations if we would like to operate under that brand. Additionally, the license stipulates that the "SECURITAS" brand name may not be used alongside or in combination with other trademarks or business names without consent from Securitas AB. Securitas AB is under no obligation to grant consent of such use. Breaches under this license would allow Securitas AB to bring legal action against us for unauthorised use of its intellectual property, which could have a material adverse effect on our business, financial condition and results of operations. We currently use the "SECURITAS" brand name alongside and in combination with "VERISURE" and other trademarks in certain countries.

We have incurred and may continue to incur significant expenses in connection with developing our brands.

We make significant expenditures to market our brands and increase brand awareness among consumers. In addition, from time to time we seek to develop new brands, and often make significant investments to develop these brands. We have developed our "Verisure" brand. As we continue to build the "Verisure" brand name, there is some risk that the volume of new installations and our attrition rate could be adversely impacted, as potential customers and existing customers may not associate this new brand name with our historical reputation as a quality service provider. We may not be successful in achieving an acceptable level of recognition for our brands and, if so, this could have a material adverse effect on our business, financial condition and results of operations.

We regard the brand names as important to our long term success. Failure to protect our brand names or to prevent unauthorised use by third parties, or termination of the agreements granting our license, could harm our reputation, affect the ability of customers to associate our quality service with our company and cause us substantial difficulty in soliciting new customers, which could have a material adverse effect on our business, financial condition and results of operations.

We may face difficulties in increasing our customer base or our subscription fees or up-selling new products to our current customers, and these difficulties may cause our operating results to suffer.

We have experienced strong revenue growth recently. However, our future rate of growth may slow compared to the last several years. Our recent revenue growth is primarily due to the growth of our customer base and increases in our subscription fees (including certain increases beyond the increase in consumer

price indices). We may not be able to sustain the level of customer growth, and further increases in subscription fees may meet customer resistance and lead to increases in customer attrition rates. If we are unable to execute our business strategy, the RHSB segment does not continue to grow as we expect, or we encounter other unforeseen difficulties in acquiring new customers or selling additional products and services to existing customers, we may experience a material adverse effect on our business, financial condition and results of operations.

Additionally, we may be forced to spend additional capital to continue to acquire customers at our present rate or, during certain periods in the future, we may seek to increase the rate at which we acquire additional customers. Either such strategy would cause us to expend additional amounts to purchase inventory and to market our products. As a result of these increased investments, our profitability would decrease. In addition, we may evaluate complementary business opportunities, adding customer acquisition channels and forming new alliances with partners to market our alarm systems. Any of these new opportunities, customer acquisition channels or alliances could have higher cost structures than our current arrangements, which could reduce profit margins. Moreover, our customer base includes long-time legacy customers, and it is a challenge to sell additional services to such customers. Should we increase our efforts to up-sell new products and incur the additional costs, our business, financial condition and results of operations could be materially adversely affected.

We are subject to increasing operating costs and inflation risk which may adversely affect our earnings

We are subject to increasing operating costs. We are also impacted by inflationary increases in salaries, wages, benefits and other administrative costs. While we aim to increase our subscription rates to offset increases in operating costs, we may not be successful in doing so. Price increases are also associated with expenses, in particular, service costs. As a result, our operating costs may increase faster than our associated revenues, resulting in a material adverse effect on our business, financial condition and results of operations.

Although we expect to benefit from substantial cost savings and efficiencies in the years ahead, there can be no guarantee that such benefits will be realised or that additional costs will not be incurred. The success of the program is contingent on many factors, including the implementation of initiatives in daily operations, follow-ups by management, effective leverage of successful strategies across jurisdictions, assumptions regarding local and macroeconomic conditions, engagement with third parties (including contract counter parties), timely launch of various requests for proposals, foreign exchange rates, successful training with respect to customer care efficiency initiatives and effective rollout of automation of various systems some of which may not materialise in accordance with our expectations.

If the planned measures to increase efficiency and achieve cost savings fail in whole or in part or are not sustainable, we may not operate profitably or may experience less profitably than we expect to. All of the risks described above could materially adversely affect our business, results of operations and financial condition.

An increase in labor costs in the jurisdictions in which we operate, especially in Spain, may adversely affect our business and profitability.

Our business is labor intensive, with labor costs representing 39% of our total operating costs for the year ending December 31, 2016. Any increase in labor costs, particularly in Spain where 40% of our employees are located, could adversely affect our business and profitability. Most of our employees work under collective bargaining agreements. These existing collective bargaining agreements may not be able to be extended or renewed on their current terms, and we may be unable to negotiate collective bargaining agreements in a favorable and timely manner. We may also become subject to additional collective bargaining agreements in the future or our non-unionised workers may unionise, any of which may could have a material adverse effect on our costs, operations and business. Additionally, in certain circumstances we may have to pay severance or other payments to those who we work with in our partner model. In the event that we experience a significant or material increase in labor costs and are not able to pass some or all of those costs on to our customers, it could have a material adverse effect on our business, financial condition and results of operations.

Any significant or prolonged disruption of our monitoring centers could constrain our ability to effectively respond to alarms and serve our customers.

A disruption to one or more of our monitoring centers could constrain our ability to provide alarm monitoring services and serve our customers, which could have a material adverse effect on our business. Our alarm systems are linked to our monitoring centers by a variety of connection platforms (both wired and wireless). It is critical that the communication platforms supporting our monitoring activities function properly and allow us to provide our full range of security solutions. We are exposed to various risks ranging from outages and interruptions in the connections between our alarms and our monitoring centers as well as larger-scale power failures or other catastrophes with respect to our monitoring centers. In addition, because our customer service operators are often in the same location as our monitoring staff, damage or a protracted outage in telecommunication traffic in a specific area or a wide range of areas that affect more than one of our monitoring stations could significantly disrupt our sales and monitoring operations. For example, if any of our monitoring centers were to be affected by earthquake, flood, fire or other natural disaster, act of terrorism, cyber-attack, power loss or other catastrophe, our operations and customer relations could be, in turn, materially and adversely affected. We attempt to mitigate this risk by maintaining auxiliary facilities that can support full monitoring capabilities. Nevertheless, such facilities may not remain operational or we may not be able to transfer our monitoring function in a timely manner. In addition, an auxiliary facility typically does not have all the same capabilities and functionalities as the main center, such as invoicing. Any significant disruption to our operations could have a material adverse effect on our business, financial condition and results of operations.

Our reputation as a supplier and service provider of high quality security offerings may be adversely affected by product defects or shortfalls in our customer service.

Our business depends on our reputation and our ability to

maintain good relationships with our customers, suppliers, employees and local regulators. Our reputation may be harmed either through product defects, such as the failure of one or more of our alarm systems, or shortfalls in our customer service, such as a failure to provide reliable product maintenance. Any harm done to our reputation or business relationships as a result of our actions or the actions of third parties could have a significant negative effect on us. Our relationships with our customers are of particular importance. Customers generally judge our performance through their interactions with the staff at our monitoring centers, the reliability of our products and our maintenance performance for any products that require repair. Any failure to meet our customers' expectations in such customer service areas could have a material impact on our attrition rates or make it difficult to recruit new customers. Moreover, we may be exposed to product liability claims in the event that any of our products is alleged to contain a defect and we may incur liability costs for the entire damage or loss claimed. Any claims could divert resources from operating the business and may adversely affect our reputation with our customers as a provider of quality solutions. Any harm to our reputation caused by any of these or other factors could have a material adverse effect on our business, financial condition and results of operations.

We may face liability or damage to our reputation or brand for our failure to respond adequately to alarm activations.

The nature of the services we provide potentially exposes us to risks of liability for operational failures. If we fail to respond effectively to an alarm, our customers could be harmed, their items could be stolen or their property could be damaged. Our alarm monitoring agreements and other agreements pursuant to which we sell our products and services typically contain provisions limiting our liability to customers and third parties in the event that certain failures lead to a loss due to a system failure or an inadequate response to alarm activation. However, these provisions as well as our insurance policies may be inadequate to protect us from potential liability. In addition, if a claim is brought against us, these limitations may not be enforced or enforceable. Any significant or material claim related to the failure of our products or services could lead to significant litigation costs, including the payment of monetary damages, reputational damage and adverse publicity, which could have an adverse effect on our business, financial condition and results of operations.

Our business operates in a regulated industry, and noncompliance with regulations could expose us to fines, penalties and other liabilities and negative consequences.

Our operations and employees are subject to various laws and regulations. We are subject to EU and local laws, rules and regulations in the geographic regions in which we operate. These regulations govern our operations, from the sales and installation process through to the monitoring and alarm verification process. Many European countries have regulations governing consumer sales methods such as door-to-door, telemarketing and online sales, as well as regulations governing trial periods during which customers may request a refund if they change their mind about wanting to purchase a given product or service. In order to install an alarm system, we generally must be licensed in the country where we are installing the system. Addi-

tionally, we generally must obtain operating certificates or permits for our monitoring centers, and provide certain levels of training to our employees at those centers. We are also governed by regulations relating to when we can forward alarms to emergency providers, and are subject to certain consequences if we forward false alarms to such emergency providers. Any failure to comply with the laws, rules or regulations (local or otherwise) in which we operate may result in fines, penalties or a suspension or termination of our right to sell, install and monitor alarm systems in the relevant jurisdiction.

Additionally, changes in laws or regulations in the jurisdictions in which we operate or the introduction of EU regulation could cause us to incur significant costs and expenses to comply with such laws or regulations, or become unable to operate in the alarm sale, installation or monitoring segment within the localities in which such laws or regulations are implemented. Such changes may also result in delays in commencement or completion of services for our customers or the need to modify completed installations. Any limitation on our ability to operate our business due to legal or regulatory reasons could have a material adverse effect on our business, financial condition and results of operations.

Increased adoption of false alarm ordinances by local governments or other similar regulatory developments could adversely affect our business.

An increasing number of local governmental authorities have adopted, or are considering the adoption of, laws, regulations or policies aimed at reducing the perceived costs to them of responding to false alarm signals. These measures could include, among other things:

- requiring permits for the installation and operation of individual alarm systems and the revocation of such permits following a specified number of false alarms;
- imposing limitations on the number of times the police will respond to alarms at a particular location after a specified number of false alarms;
- requiring further verification of an alarm signal before the police will respond; and
- subjecting alarm monitoring companies to fines or penalties for transmitting false alarms.

Enactment of such measures could adversely affect our costs and our ability to conduct our activities. For example, concern over false alarms in localities adopting these ordinances could cause a decrease in the timeliness of emergency responders. As a result, consumers may be discouraged from purchasing or maintaining an alarm monitoring system. In addition, some local governments impose assessments, fines, penalties and limitations on either customers or the alarm companies for false alarms. Our alarm service contracts generally allow us to pass these charges on to customers. However, if more local governments impose assessments, fines or penalties, or if local governments increase existing requirements, our customers may find these additional charges prohibitive and be discouraged from using alarm monitoring services. If the adoption of such ordinances reduces the demand for our products or services or if we are unable to pass related assessments, fines and penalties on to our customers, we could experience a material adverse effect on our business, financial condition and results of operations.

We rely on third-party suppliers for our alarm systems and any failure or interruption in the provision of such products or failure by us to meet minimum purchase requirements could harm our ability to operate our business.

The alarm systems and other products that we install are manufactured by third party suppliers. Our suppliers' abilities to meet our needs are subject to various risks, including political and economic stability, natural calamities, interruptions in transportation systems, terrorism and labor issues. We are therefore susceptible to the interruption of supply or the receipt of faulty products from our suppliers. Difficulties encountered with suppliers may result in disruptions to our operations, loss of profitability and damage to our reputation, and in such instances our business, financial condition, results of operations and prospects could be adversely affected. For example, if suppliers for key components fail to deliver products or experience delays in delivery, such difficulties may prevent us from upgrading equipment, delivering products to our customer on time, or otherwise hinder our ability to install and upgrade systems and provide replacement parts. This could result in higher costs to us and a potential decline in confidence in our products and services among our customers. We are particularly vulnerable to any disruptions in supply of our legacy systems or replacement parts for these systems, as these products may become obsolete and may be out of production. In Spain and southern Europe, we rely on a single supplier to supply us with all our new alarm systems, which subjects us to a higher risk of interrupted supply. We also must meet minimum purchase commitments with certain suppliers, which may require us to hold inventory in excess of our requirements. For example, in 2008, as the economy slowed significantly, so did the demand for our products and we were required to purchase and hold excess inventory to meet our minimum purchase requirements.

We also often partner with key suppliers to develop proprietary technologies and products used in our business. We use these partnerships to supplement our own internal product development team. If these suppliers fail to keep pace with technological innovations in the RHSB segment, we may incur increased product development costs or lose customers to competitors with access to these technological innovations. Any interruption in supply, failure to produce quality products or inability to keep pace with technological innovation by a key supplier could adversely affect our operations, as it may be difficult for us to find alternatives on terms acceptable to us, which could have a material adverse effect on our business, financial condition and results of operations.

We may incur unexpectedly high costs as a result of meeting our warranty obligations.

Many of our customer agreements provide for warranties with longer coverage periods than the warranties offered to us from suppliers of our component parts. Therefore, we may be liable for defects in our suppliers' component parts that manifest after the term of the manufacturer's warranty expires. Further, our suppliers' warranties also have limitations on the extent of their liability for repairs or replacements. Additionally, we may encounter situations where we believe a product is defective, but the manufacturer may not honor the warranty either because they do not agree that the product is defective or because the manufacturer has financial difficulties. Any significant incurrence of warranty expense in excess of our estimates for which we are unable to receive reimbursement from the

supplier could have a material adverse effect on our business, financial condition and results of operations.

Our insurance policies may not fully protect us from significant liabilities.

We carry insurance of various types, including claims, general liability and professional liability insurance, in amounts management considers adequate and customary for our industry. Some of our insurance policies, and the laws of some of the jurisdictions in which we operate, may limit or prohibit insurance coverage for punitive or certain other types of damages, or liability arising from gross negligence. As such, our insurance policies may be inadequate to protect us against liability from the hazards and risks related to our business. Additionally, we may not be able to obtain adequate insurance coverage in the future at rates we consider reasonable. The occurrence of an event not fully covered by insurance, or an event that we did not carry adequate insurance for, could result in substantial losses and could have a material adverse effect on our business, financial condition and results of operations.

Unauthorised use of or disputes involving our proprietary technology and processes may adversely affect our business.

Our success and competitive position depends in part on a combination of trade secrets and proprietary know-how. We use our in-house development team to design proprietary products, including hardware and software protocols. We also cooperate with our network of manufacturing partners to jointly develop new proprietary products and solutions. In general, we have not sought or received patents covering such proprietary technologies and therefore the legal protections covering our proprietary technologies from infringement or other misuse may be inadequate. Likewise, the remedy for any breach of such protections may not be adequate to compensate us for the damages suffered. Any access to or use by competitors of our technology could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may be subject to claims of patent or other intellectual property rights infringement by third parties. In developing technologies and systems, we may not adequately identify third-party intellectual property rights or assess the scope and validity of these third-party rights. Accordingly, we may become subject to lawsuits alleging that we have infringed on the intellectual property rights of others and seeking that we cease to use the relevant technology. Intellectual property litigation could adversely affect the development or sale of the challenged product or technology or require us to pay damages or royalties to license proprietary rights from third parties. Licenses may not be available to us on commercially reasonable terms, if at all. Any such intellectual property litigation could represent a significant expense and divert our personnel's attention and efforts and could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to effectively manage our growth into new geographic areas or realise the intended benefits from our acquisitions.

Our growth plan includes expansion into new geographies, particularly in Latin America. Expanding into these new geographies involves significant expenditures on development of mon-

itoring and backup centers, hiring and training of personnel, and marketing efforts to introduce our brand to the new country. We may not accurately predict such costs or accurately anticipate operational difficulties caused by local conditions, and therefore may not achieve our financial and strategic objectives for our operations in the new geographies. Accordingly, we may incur losses as we expand our operations. Some examples of the risks encountered in entering new countries include:

- costs associated with signing up customers who may not prove as loyal as our current customer base, which would cause our attrition rate to increase;
- increased investment associated with understanding new countries and following trends in these countries in order to effectively compete;
- increased costs associated with adapting our products and services to different requirements in different countries, which may decrease our margins and profitability;
- challenges relating to developing appropriate risk management and internal control structures for operations in new markets and understanding and complying with new regulatory schemes;
- reduced ability to predict our performance because we will have less experience in the new countries than in the countries where we currently operate;
- trade barriers such as export requirements, which could cause us to experience inventory shortages or an inability to offer our full set of products;
- tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries;
- currency effects, such as future currency devaluations; and
- political, regulatory and other local risks.

When we enter into acquisitions, we expect such acquisitions will result in various benefits. However, achieving the anticipated benefits is subject to a number of uncertainties, including whether the business we acquire can be operated in the manner in which we intend. Failure to achieve these anticipated benefits and synergies could result in increased costs, decreases in the amount of revenues generated by the combined business and diversion of management's time and energy. In addition, in connection with any acquisitions, we cannot exclude that, in spite of the due diligence we perform, we will not inadvertently or unknowingly acquire actual or potential liabilities or defects, including legal claims, claims for breach of contract, employment-related claims, environmental liabilities, conditions or damage, hazardous materials or liability for hazardous materials or tax liabilities. We may also become subject to national or international antitrust investigations in connection with any acquisitions or otherwise.

Both our failure to accurately predict or manage costs or any operational difficulties we encounter in expanding into new geographies could have a material adverse effect on our business, financial condition and results of operations.

We are exposed to risks associated with foreign currency fluctuations as we translate our financial results into euro, and these risks would increase if individual currencies are reintroduced in the eurozone.

We present our consolidated financial statements in euro. As a result, we must translate the assets, liabilities, revenue and

expenses of all of our operations with a functional currency other than the euro into euro at then-applicable exchange rates. Consequently, increases or decreases in the value of certain other currencies (the Swedish Krona (SEK) and Norwegian krone (NOK) in particular) against the euro may affect the value of these items with respect to our non-euro businesses in our consolidated financial statements, even if their value has not changed in their original currency. Our primary exposure is to the SEK and NOK. For the year ending December 31, 2016, 65% (63%) of our revenue was denominated in euro, 18% (19%) of revenue was denominated in SEK, 9% (10%) of revenue was denominated in NOK and 8% (10%) of revenue was denominated in other currencies. Historically, the euro/SEK exchange rate fluctuated significantly, as it averaged SEK 8.6785 = EUR 1.0 in 2013 and SEK 9.1375 = EUR 1.0 in 2014, SEK 9.3248 = EUR 1.0 in 2015 and SEK 9.4648 = EUR 1.0 in 2016. Foreign exchange rate fluctuations can significantly affect the comparability of our results between financial periods and result in significant changes to the carrying value of our assets, liabilities and stockholders' equity. In addition, certain of our supply contracts in non-euro denominated countries contain clauses that reset the prices at which we buy our goods based on fluctuations in exchange rates, which can increase our costs if rates move in a manner that is unfavorable to us.

Where we are unable to match sales received in foreign currencies with costs paid in the same currency, our results of operations are impacted by currency exchange rate fluctuations and any unfavorable movement in currency exchange rates could have a material adverse effect on our business, financial condition and results of operations.

We may suffer future impairment losses, as a result of potential declines in the fair value of our assets.

We have a significant amount of goodwill. We evaluate goodwill for impairment annually and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is evaluated for impairment by computing the fair value of a cash-generating unit and comparing it with its carrying value. If the carrying value of the cash-generating unit exceeds its fair value, a goodwill impairment is recorded. Significant judgment is involved in estimating cash flows and fair value. Management's fair value estimates are based on historical and projected operating performance, recent market transactions and current industry trading multiples. We cannot assure you that significant impairment charges will not be required in the future, and such charges may have a material adverse effect on our business, results of operations and financial condition.

We are subject to risks from legal and arbitration proceedings, as well as tax audits, which could adversely affect our financial results and condition.

From time to time we are involved in legal and arbitration proceedings, the outcomes of which are difficult to predict. We could become involved in legal and arbitration disputes in the future which may involve substantial claims for damages or other payments. In the event of a negative outcome of any material legal or arbitration proceeding, whether based on a judgment or a settlement agreement, we could be obligated to make substantial payments, which could have a material adverse effect on our business, financial condition and results of operations. In

addition, the costs related to litigation and arbitration proceedings may be significant. Even in case of a positive outcome in such proceedings, we may still have to bear part or all of our advisory and other costs to the extent they are not reimbursed by the opponent, which could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on our experienced senior management team, who may be difficult to replace.

Our success and our growth strategy depend in large part on our ability to attract and retain key management, marketing, finance and operating personnel. In particular, we are dependent on a small group of experienced senior executives. There can be no assurance that we will continue to attract or retain the qualified personnel needed for our business. Competition for qualified senior managers, as well as research and development personnel, in our industry is intense and there is limited availability of persons with the requisite knowledge of our industry and the relevant experience. To the extent that the demand for qualified personnel exceeds supply, we could experience a delay or higher labor costs in order to attract and retain qualified managers and personnel from time to time. In addition, as new personnel join our management, particularly at the senior management level, we may face a number of challenges typically associated with the integration and assimilation of new managers and key personnel, such as changes in organisational and reporting structures, the need to recruit additional new personnel or the departure of existing personnel. We also depend upon our "sales- installer" model as a key sales strategy, which necessarily requires trained personnel. To the extent we are not able to retain individuals in these roles, we will incur additional costs to train new personnel to replace those who leave our business. Our failure to recruit and retain key personnel or qualified employees, or effectively integrate new managers and other key personnel, could have a material adverse effect on our business, financial condition and results of operations.

Market perceptions concerning the instability of the euro, the potential re-introduction of individual currencies within the eurozone, or the potential dissolution of the euro entirely, could have adverse consequences for us with respect to our outstanding euro-denominated debt obligations.

Recent developments in the eurozone have exacerbated the ongoing global economic uncertainty. Financial markets and the supply of credit may be negatively impacted by ongoing fears surrounding the sovereign debts and/or fiscal deficits of several countries in Europe (primarily Greece, Ireland, Italy, Portugal and Spain), the possibility of further downgrading of, or defaults on, sovereign debt, concerns about a slowdown in growth in certain economies and uncertainties regarding the overall stability of the euro and the sustainability of the euro as a single currency given the diverse economic and political circumstances in individual Member States. Governments and regulators have implemented austerity programs and other remedial measures to respond to the eurozone debt crisis and stabilise the financial system, but the actual impact of such programs and measures are difficult to predict.

If the eurozone debt crisis is not resolved, it is possible that one or more countries may default on their debt obligations and/or cease using the euro and re-establish their own national cur-

rency or that the eurozone may collapse. If such an event were to occur, it is possible that there would be significant, extended and generalised market dislocation, which may have a material adverse effect on our business, results of operations and financial condition, especially as our operations are primarily in Europe. In addition, the departure of one or more countries from the eurozone may lead to the imposition of, inter alia, exchange rate control laws.

For example, an anti-austerity party won the parliamentary elections in Greece on January 25, 2015 and subsequently formed a government with another anti-austerity party. The break down of negotiations between the Greek government and its creditors led to the closure of Greek banks and the imposition of capital controls in Greece. These events led to Greece's default under its national debt. Although an agreement with Greece's creditors was ultimately struck, future breakdowns of this nature could result in its exit from the eurozone, which could, in turn, undermine confidence in the overall stability of the euro. The rise of right-wing populism in certain part of Europe as well as political unrest surrounding the crisis in Ukraine, Russia, and Turkey, could also have a negative impact on the European economy. In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum, and on 29 March 2017, the United Kingdom formally delivered its Article 50 withdrawal notification, which starts a negotiation period that could last up to two years. These actions have created significant uncertainty about the future relationship between the United Kingdom and the European Union, and have given rise to calls for the governments of other European Union member states to consider withdrawal. The exit of the United Kingdom or any other member state from the European Union could lead to a reduction in market confidence and a weakening of the European economy. As a result, we cannot predict how long these challenging conditions will exist or the extent to which the countries in which we operate may further deteriorate. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States, or, in extraordinary circumstances, the possible dissolution of the euro entirely. These unfavorable economic conditions may impact a significant number of customers and, as a result, it may, among others, be more (i) difficult for us to attract new customers, (ii) likely that customers will downgrade or disconnect their services and (iii) difficult for us to maintain Average Revenue per User ("ARPU") at existing levels. Accordingly, our ability to increase, or, in certain cases, maintain, the revenue, ARPU, operating cash flow, operating cash flow margins and liquidity of our operating segments could be adversely affected if the macroeconomic environment remains uncertain or declines further. We are currently unable to predict the extent of any of these potential adverse effects.

Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations and for parties subject to other contractual provisions referencing the euro such as supply contracts would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues, could adversely affect our trading environment and the value of the Notes, and could have adverse consequences for us with respect to our outstanding euro-denominated debt obligations, which could adversely affect our financial condition.

Furthermore, the Senior Facilities Agreement, the Private Senior Notes Indenture and the Indenture contain or will contain covenants restricting our and our subsidiaries' corporate activities. See "—Risks Related to Our Financing Arrangements and the Notes—We are subject to restrictive debt covenants under our financing agreements that may limit our operations and financial flexibility". Certain of such covenants impose limitations based on euro amounts (e.g., the amount of additional indebtedness we or our subsidiaries may incur). As such, if the euro were to significantly decrease in value, the restrictions imposed by these covenants would become tighter, further restricting our ability to finance our operations and conduct our day-to-day business.

The interests of our ultimate principal shareholder may be inconsistent with your interests.

Our ultimate principal shareholder, H&F, indirectly owns almost all of our issued and outstanding shares through funds it advises. The interests of our principal shareholder could conflict with the interests of investors in the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. Our principal shareholder could cause us to pursue acquisitions or divestitures and other transactions or to make large dividend payments (subject to limitations in the Indenture) or other distributions or payments to it as the shareholder, even though such transactions may involve increased risk for the holders of the Notes. Furthermore, no assurance can be given that our principal shareholder will not sell all or any part of its shareholding at any time nor that it will not look to reduce its holding by means of a sale to a strategic investor, an equity offering or otherwise. Such divestitures may not trigger a "Change of Control" under the Indenture.

Risks Related to Our Financing Arrangements and the Notes

Certain of the Guarantors are holding companies with no operations of their own.

Certain of the Guarantors are holding companies with no independent business operations and no significant assets, other than the equity interests each of the companies holds in its subsidiaries. Each of these holding companies will be dependent upon the cash flow from its subsidiaries in the form of dividends or other distributions or payments to meet its obligations, including its obligations under the Notes and the Guarantees, respectively. The amounts of dividends and distributions available to each holding company will depend on the profitability and cash flows of its subsidiaries and the ability of its subsidiaries to issue dividends to it under applicable law. The subsidiaries of these Guarantors, however, may not be permitted to make distributions, move cash or advance upstream loans to the Guarantors to make payments in respect of their respective indebtedness, including the Notes and the Guarantees. Various regulations and agreements governing certain of our subsidiaries may restrict, and in some cases, actually prohibit the ability of these subsidiaries to move cash to the Guarantors. Applicable laws and regulations including tax laws may also limit the amounts that the subsidiaries of the Guarantors are permitted to pay as dividends or distributions. Any restrictions on distributions by such subsidiaries could adversely affect the ability of the Guarantor to make payment on the Notes or the Guarantees, as applicable. In addition, financial assistance or corporate benefit restrictions may prevent upstream loans being made to the Guarantors by their respective subsidiaries to enable the

Guarantors to service their respective obligations under the Notes or the Guarantees.

Our substantial debt could limit our flexibility to conduct our business, adversely affect our financial health and prevent us from fulfilling our obligations under the Notes.

We have a substantial amount of debt and significant debt service obligations. Our ability to fund capital expenditures and other expenses and to service our indebtedness will depend on our future operating performance and ability to generate sufficient cash. Additionally, the Private Senior Notes may be payable in kind for a limited number of periods and therefore the principal amount of debt payable on maturity increase accordingly.

Our substantial debt could have important negative consequences. For example, our substantial debt could:

- make it difficult for us to satisfy our obligations with respect to the Notes and our other debt, including servicing the interest on the Private Senior Notes;
- require us to dedicate a substantial portion of our cash flow from operations to making payments on our debt, thereby limiting the availability of funds for business opportunities and other general corporate purposes;
- increase our vulnerability to a downturn in our business or adverse general economic or industry conditions;
- limit our flexibility in reacting adequately to changes in our business or the industry in which we operate;
- place us at a competitive disadvantage compared to those of our competitors that have less debt than we do; or
- limit our ability to borrow additional funds in the future and increase the costs of any such additional capital.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

Despite our high level of indebtedness, we may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We may be able to incur substantial additional debt in the future. Although the Indenture, the Private Senior Notes Indenture and the Senior Facilities Agreement contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of significant qualifications and exceptions. Debt incurred in compliance with these restrictions, including debt that shares in the Collateral securing the Notes and Senior Credit Facilities on a pari passu basis, could be substantial. Incurring such additional debt could further increase the related risks we now face. In addition, the Indenture, the Private Senior Notes Indenture and the Senior Facilities Agreement will not prevent us from incurring obligations that do not constitute indebtedness under those agreements.

We are subject to restrictive covenants under our financing agreements that limit our operating and financial flexibility.

The Indenture, the Private Senior Notes Indenture and the Senior Facilities Agreement contain covenants that impose significant operating and financial restrictions on us. These agreements limit our ability to, among other things:

- incur or guarantee additional indebtedness;
- make certain restricted payments and investments;
- transfer or sell assets;
- enter into transactions with affiliates;
- create or incur certain liens;
- make certain loans, investments or acquisitions;
- issue or sell share capital of certain of our subsidiaries;
- issue or sell redeemable preferred shares;
- create or incur restrictions on the ability of our subsidiaries to pay dividends or to make other payments to us;
- do anything that would impair the security interests in the Collateral granted for the benefit of the holders of the Notes and Senior Credit Facilities; and
- merge, consolidate or transfer all or substantially all of our assets.

All of these limitations are or will be subject to significant exceptions and qualifications. The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

In addition, the Senior Facilities Agreement requires us to comply with certain affirmative and negative covenants and a financial ratio (as set out in the Senior Facilities Agreement) while certain amounts under the Senior Credit Facilities remain outstanding. Our ability to meet that financial ratio may be affected by events beyond our control, and we cannot assure you that we will meet such financial ratio. A breach of any of those covenants, ratio or restrictions could result in an event of default under the Senior Facilities Agreement. Upon the occurrence of any event of default that is continuing under the Senior Facilities Agreement, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the Senior Credit Facilities and elect to declare all amounts outstanding under the Senior Credit Facilities, together with accrued interest, immediately due and payable. In addition, a default under the Senior Facilities Agreement could lead to an event of default and acceleration under other debt instruments that contain cross default or cross acceleration provisions, including the Indenture and the Private Senior Notes Indenture. If our creditors, including the creditors under the Senior Facilities Agreement, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries that would be due and payable and to make payments to enable us to repay the Notes. In addition, if we are unable to repay those amounts, our creditors could proceed against any Collateral granted to them to secure repayment of those amounts.

We will require a significant amount of cash to service our debt and sustain our operations, which we may not be able to generate or raise.

Our ability to make principal or interest payments when due on our indebtedness, including the Senior Credit Facilities, the Notes and the Private Senior Notes Proceeds Loan, and to fund our ongoing operations or expansion plans, will depend on our future performance and ability to generate cash, which, to a certain extent, is subject to the success of our business strategy as well as general economic, financial, competitive, legislative, legal,

regulatory and other factors, as well as other factors discussed in these "Risk Factors," many of which are beyond our control.

We cannot assure you that our business will generate sufficient cash flows from operations, that currently anticipated growth, cost savings or synergies will be realised or that future debt financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs including the repayment at maturity of the then-outstanding amount under the Senior Credit Facilities. At the maturity of the Senior Credit Facilities (including the Revolving Credit Facility, which matures one year before the Notes), the Notes or any other debt that we may incur, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, we may be required to refinance or restructure our indebtedness.

If our future cash flows from operations and other capital resources are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

The type, timing and terms of any future financing, restructuring, asset sales or other capital raising transactions will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. In such an event, we may not have sufficient assets to repay all of our debt.

Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes, the Indenture, the Private Senior Notes Indenture and the Senior Facilities Agreement, limit or will limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations. There can be no assurances that any assets that we could be required to dispose of could be sold or that, if sold, the timing of such sale and the amount of proceeds realised from such sale would be acceptable. If we are unsuccessful in any of these efforts, we may not have sufficient cash to meet our obligations.

The Private Senior Notes, drawings under the Senior Credit Facilities and any other variable interest rate debt we incur in the future will bear interest at floating rates that could rise significantly, thereby increasing our costs and reducing our cash flow.

The Senior Credit Facilities and Private Senior Notes bear interest at floating rates of interest per annum equal to EURIBOR or STIBOR, as applicable, as adjusted periodically, plus a spread. These interest rates could rise significantly in the future. To the extent that interest rates or any drawings were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

Following allegations of manipulation of EURIBOR from a number of governments and the European Union, EURIBOR-EBF (the association setting the regulatory framework for the calculation of EURIBOR), other regulators or law enforcement agencies could effect changes to the manner in which EURIBOR is determined. Any such change, as well as manipulative practices or the cessation thereof, may result in a sudden or prolonged increase in reported EURIBOR, which could have an adverse impact on our ability to service debt that bears interest at floating rates of interest.

We may not be able to finance a change of control offer and the occurrence of certain important corporate events will not constitute a change of control.

Upon a change of control, as defined in the Indenture, we are required to make an offer to repurchase the Notes at 101% of their principal amount. Our ability to pay cash to the holders of the Notes following the occurrence of a change of control may be limited by our financial resources at that time. Sufficient funds may not be available when necessary to make any required repurchases. We expect that we would require third-party financing to make an offer to repurchase the Notes upon a change of control. We cannot assure you that we would be able to obtain such financing. Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Indenture, which would, in turn, constitute a default under the Senior Credit Facilities. In addition, a change of control could constitute a default under our other indebtedness. In addition, the occurrence of certain of the events that constitute a change of control would also require the Issuer to make a similar offer to the creditors of any indebtedness outstanding under the Senior Credit Facilities. Future indebtedness of the Issuer or its subsidiaries may also contain prohibitions of certain events that would constitute a change of control or require such Indebtedness to be repurchased or repaid upon a change of control.

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including reorganisations, restructurings, mergers or other similar transactions involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "change of control" as defined in the Indenture.

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