verisure
SMART ALARMS

ANNUAL REPORT 2018

We protect what matters most to families and small businesses

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The leading provider of professionally monitored smart alarms in Europe and growing in Latin America.

Over **2.9** million customers

16,000 colleagues

€891 million portfolio EBITDA
Total revenue €1,613 million

1 new customer every 14 seconds

Operating in **14** countries in Europe and Latin America

Another record year

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.

2018 was yet another record year for our Company.

Our portfolio continued growing every month of the past year, in every geography we operate in. We added slightly more than 500 thousand new customers during the year, and further improved our industry-leading attrition rate, down to 6.2%. Our portfolio passed the 2.9 million customers mark in November, and is still growing.

We continue to lead the residential and small business segment of the broader security services market in Europe, where we are both the largest provider and the one adding most customers. We drive the growth of the category in Europe. We estimate we capture close to double our fair share of the year-on-year increase in protected families and small businesses. Looking forward, we are confident there is significant space for further penetration in every one of our countries, where penetration levels remain on average less than half those of the U.S. for example.

"Our customers are at the heart of everything we do."

In 2018 our total Group revenue grew by +17.5% compared to previous year to reach EUR 1,612.5 million, and our portfolio EBITDA grew by +17.2% to a new high of EUR 890.7 million.

Our customers are at the heart of everything we do. We work hard to provide outstanding, continuous, industry-leading value to the families and small business owners we serve. We focus on innovation, category-creating marketing, go-to-market excellence and a world-class customer experience. We aim to lead the industry in service quality, and delight customers at all touchpoints. Customer satisfaction is paramount to us, as it directly drives both retention and referrals.

In 2018 we continued to launch new products and services. We introduced our ZeroVision intruder-expulsion device to France and the UK, and will continue making this an integral part of our proposition in other geographies. We also piloted a suite of remote monitoring and assistance services for senior citizens in Spain, which is meeting very promising demand.

As a business we continuously refine our differentiated business model. And we aim for flawless execution across our footprint.

None of what we accomplish would be possible without a great team, sharing a common DNA. Our people are high-performance, engaged, accountable, focused, and never afraid to push boundaries. We lean in. And with every day that goes by extending our track record, we improve our ability to attract, develop and retain the world-class women and men we need to fulfill our vision.

I would like to thank our investors, our management team and all our colleagues and partners for their engagement and achievements during the past year.
I know we are all excited about what is ahead.

Regards,
Austin Lally, Group CEO
Geneva, April 2019

Our vision

"It is a human right to feel safe and secure, so we provide the best protection to families and small businesses."

We are people who protect people

We are the leading provider of professionally monitored smart alarms for residential households and small businesses in Europe.

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 the 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 both through our home panels, and 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 leading provider of residential and small business monitored smart alarms in Europe. We are present in 14 countries across Europe and Latin America and are the leading provider of professionally monitored alarm services in nine of our top 10 geographies. 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 an industry-leading level of attrition and a long customer lifetime.

A technology-enabled human services company

Our more than 16,000 colleagues 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, enabled by world-class technology to protect others.

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, engineers and operators. These insights are a source of advantage. We leverage these insights with significant investment into product and service innovation, all to create true peace of mind for our customers.

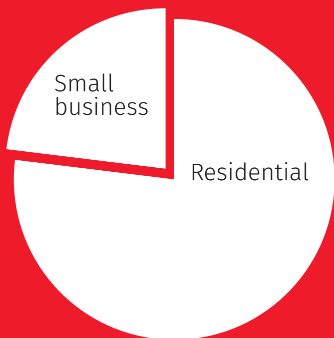
Our history

Our mission to protect people started in 1988, as a division of Securitas AB.

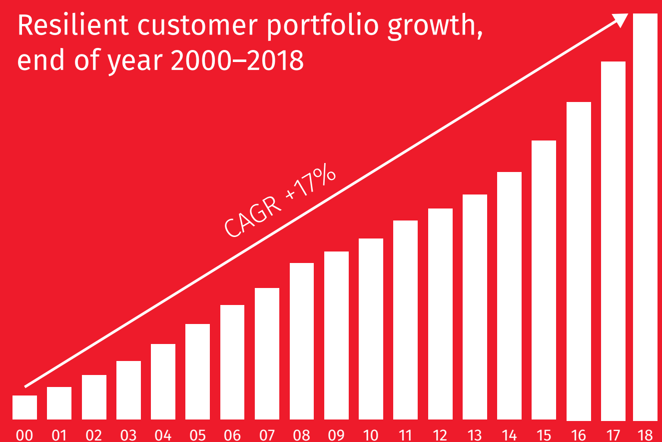
The business was initially focused on the Swedish residential home security segment, followed by the creation of a major division centered in Spain, today our largest portfolio. Since then we have steadily grown both our geographic footprint and the penetration within existing countries. In June 2017, to evolve our operating model, strategic innovation, operational integration and access to talent, we opened our new Group headquarters in Geneva, Switzerland.

Protecting families and small business

Customer breakdown by consumer type, end of year 2018



Resilient customer portfolio growth, end of year 2000–2018



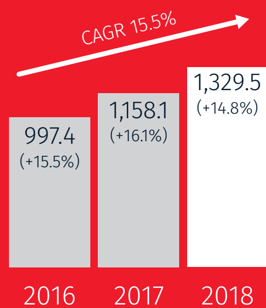
Another year of acceleration

- Sales and profitability grew strongly in 2018 compared to 2017, with an increasing contribution from our growing customer portfolio and significant improvements in a number of key areas, ahead of our ambitious plan.
- The Group is closing in on the three million customer milestone; at the end of the year we had 2,930,753 customers in the portfolio, equivalent to a portfolio growth of 13.3% compared to 2017.
- Total revenues including SDI amounted to EUR 1,612.5 million (1,372.4) which correspond to an increase of 17.5% compared to 2017. Adjusted for currency effects, revenues grew by 19.6%. The revenue growth was driven both by the larger portfolio and higher revenue per user as well as by the increase in upfront revenue that we have been able to earn from our new customers.
- Portfolio adjusted EBITDA for the Group improved to EUR 890.7 million (759.9) corresponding to an increase of 17.2% compared to 2017. Adjusted for currency effects, portfolio adjusted EBITDA improved by 19.3%. Portfolio services adjusted EBITDA margin strengthened to 67.0% for the full year, an increase of 140 basis points compared to same period in 2017.
- Total adjusted EBITDA increased to EUR 583.5 million to an improvement of 16.6% compared to EUR 500.4 million in 2017. Excluding impact of SDIs, adjusted EBITDA improved to EUR 622.9 million for the year, an increase of 11.7%. Adjusted for currency effects and SDIs, total adjusted EBITDA grew by 14.0% for 2018.
- Cash flow from operations is EUR 557.7 thousands, which is a strong performance considering the high growth and the the high comparative base.
- We have a strong track record of quality growth, primarily delivered organically by our differentiated business model with high share of recurring revenues and industry leading retention (>93%).
- Strong momentum continued for new customer intake resulting in 515,624 new subscribers in 2018, an increase of 17.3% compared to 2017.
- Cancellations continued to be at a low level and the attrition was further reduced to 6.2% compared to 6.3% in 2017. Our performance on this metric is industry-leading. Our customers are at the heart of our business and we aim to delight them.
- We are further strengthening our sales organization across our geographies and continue to have success with expansion. We are very pleased with our progress in newer countries e.g. Italy and the UK and the strong growth rates experienced in Latin America of more than 25% compared to the same period last year combined with solid improvements in operating profitability.
- In summary, we continue to grow strongly, with high levels of new customer additions, continued good trend on attrition and solid improvements on EBITDA.

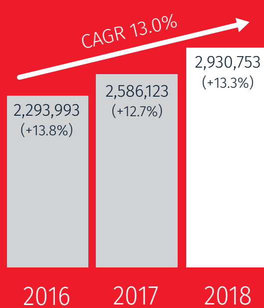
EUR million	2018	2017	Change
Total subscribers (year-end), units	2,930,753	2,586,123	13.3%
New subscribers added (gross), units	515,624	439,687	17.3%
Net subscriber growth, units	344,630	292,130	18.0%
Revenue, total (including SDI)	1,612.5	1,372.4	17.5%
Portfolio service adjusted EBITDA	890.7	759.9	17.2%
Portfolio service adjusted EBITDA margin	67.0%	65.6%	–
Adjusted EBITDA, total (including SDI)	583.5	500.4	16.6%
Cash flow from operating activities	557.7	520.6	7.1%
Capital expenditures, total	500.1	429.1	16.6%
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	26.9	26.0	3.5%
Average monthly revenue per user (ARPU), (in EUR)	40.2	39.7	1.3%

Strong growth in sales and profitability

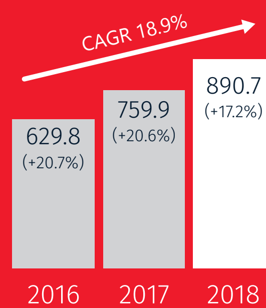
Portfolio revenue, EUR million



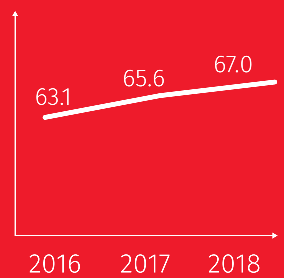
Total subscribers, units



Portfolio service adjusted EBITDA, EUR million



Portfolio service adjusted EBITDA margin, %



Detection before an intrusion happens

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

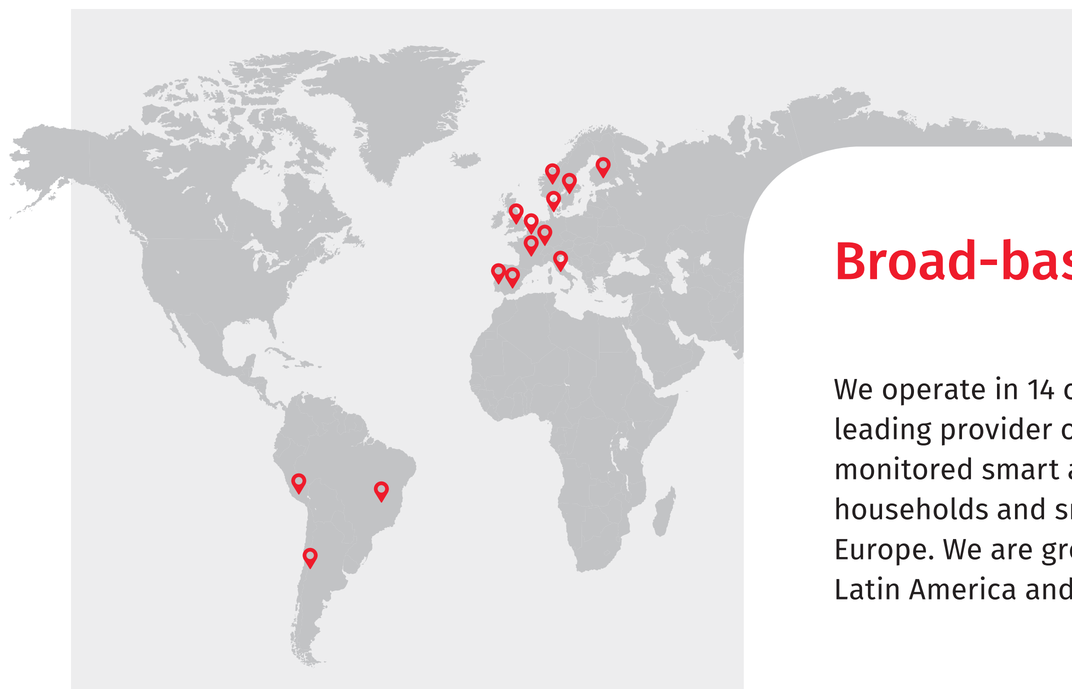
Strategy = choices for leadership and profitable growth

Increase penetration of monitored alarms for residential and small business customers
Our strategy is a growth strategy. It is reflected in our track record. And the path ahead is illuminated by opportunity. This remains a very under-penetrated service. There are still significant growth opportunities in all countries in Europe and Latin America, under our existing business model. We aim to further grow our subscriber base by continuing to execute 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 complement and strengthen our portfolio further.

Provide the best security products 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 award-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 customers. 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. And word of mouth drives referrals. 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. We do not say ‘quality OR cost’ – we say ‘quality AND cost.’ We believe in the power of ‘and’.



Broad-based growth

We operate in 14 countries. We are the leading provider of professionally monitored smart alarms for residential households and small businesses in Europe. We are growing strongly in Latin America and are #1 in Brazil.

We take responsibility 24/7

Our cameras and two-way voice technology allow our security agents to accurately verify incidents in homes and small businesses.

Our business model delivers sustained quality growth

We operate a subscription-based service business, providing and installing alarm systems and monitoring them continuously.

Our business model delivers resilient cash flow and high-quality growth. We look at the recurring cash flow from the portfolio of existing customers; and we look at the discretionary cash invested in 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, maintenance 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 78% of Group revenue. As of December 31, 2018, we had over 2.9 million customers connected to our monitoring centres. In 2018, this segment generated EUR 1,329.5 million of revenue and EUR 890.7 million of adjusted EBITDA, an increase of 17.2% compared to 2017. Portfolio EBITDA margin improved to 67.0% (65.6%).

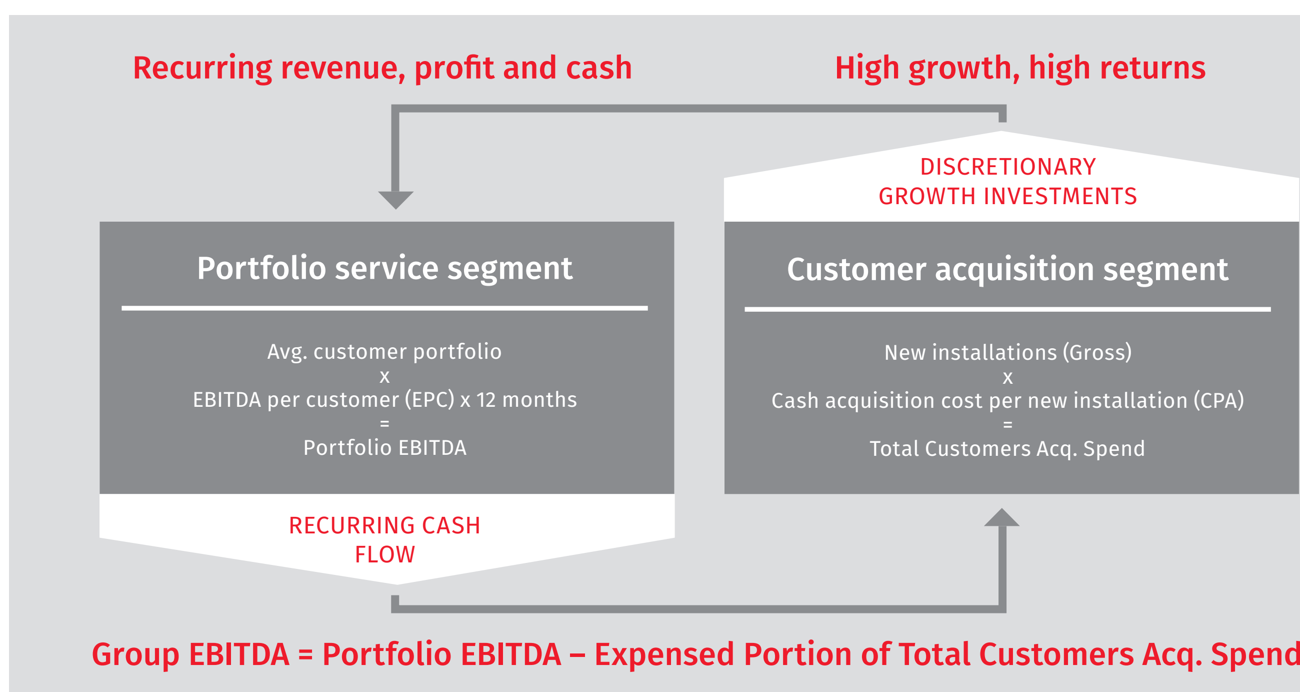
Customer acquisition

Part 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. 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.

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

Adjacencies

Additionally, we classify certain non-core business under our adjacencies segment, which mainly represents the sale of remote monitoring and assistance devices and services for senior citizens.



Smart thinking 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.

Voice response in seconds

Verisure Voice links our customers' homes or businesses to security experts in our monitoring centres, so that we can respond in seconds to protect what really matters.

One team: 16,000-strong

People who protect people

We exist to protect what matters most for our customers. That takes innovative technology and, above all, passionate people. People who are driven by our purpose. Every one of our 16,000 colleagues takes this responsibility to protect seriously. Every day, they demonstrate our DNA – the unique cultural imprint we look for, nurture and unleash in every member of our Verisure family.

Our DNA underpins everything we do – every decision, every action, everybody, everywhere. It is so powerful and so persistent because it was developed by our people. We ask them to own it individually, which means defining for themselves exactly what it means. By making it their own, it empowers rather than limits them. By embedding it in every process – from recruitment to goal setting to development – we strengthen it even further.

The best people, at their best

Our vision is to create a world-class organization. The most powerful enabler of that vision is talent. Only by attracting the best people can we deliver on our promise to our customers and accelerate our growth. We are constantly improving our recruitment processes and have a clearer and more compelling value proposition for candidates than ever before to attract the very best. There is a robust talent review process and active succession planning to give our people a roadmap to success. For many of our colleagues this has enabled exciting international moves, which is helping us harness the power of diversity and get new countries and operations off to the best possible start as we grow. We invest in high-quality, structured training for all our people, from every salesperson and operator in direct contact with our customers to the colleagues who support them in our functional teams. Our strong growth and expansion means we can offer our people fantastic career opportunities to challenge them and develop their skills.

We are investing in best-in-class tools in all our countries and across all our functions to help create a high-performing organization. Our people will be better equipped to deliver at their best. Alongside better tools, we are updating and improving many of our core HR processes and practices, laying the foundations to enable our growth for years to come.

Sustainable engagement, sustainable growth

Every year we ask our people about what really matters to them in our Sustainable Engagement survey. We want to make sure Verisure is the best choice for all our people, personally and professionally. In 2018, more colleagues took part than in any previous year. We use the information they give us to develop local and Group-level action plans to make Verisure an ever-better place to work. It is a fundamental priority for all our leaders to own and drive these plans in their areas. Our sustainable engagement score was up again in 2018, and our people are amongst the most highly engaged in our benchmark group.

Our people strategy is clear: to create the best, winning team. We do this by finding and attracting the very best talent; by growing and nurturing the talent we already have; and by engaging our people around our vision, our strategy and our DNA. And with more than 80% of our colleagues interacting with our customers every day, our people are energized and enabled to deliver our customer promise. In this way, we turn sustainable engagement into sustainable performance – and sustainable growth.

Passionate in everything we do

Committed to making a difference

Always Innovating

Winning as a Team

With Trust & Responsibility

A technology-enabled human services company

Our more than 16,000 colleagues are at the foundation of our Company. Our technology, combined with the best, highly talented team, amplifies our success.

Group Management

Austin Lally
Group Chief Executive Officer

Andrew Wells
Group Chief Product & Service Officer

Antonio Anguita
President of Iberia & Latin America

Hector Martinez
Group Chief Marketing Officer

Luis Gil
President of Expansion, Acquisitions and Business Development

Marta Panzano
Group Chief Human Resources Officer

Matthias Hansen
Group Chief Information Officer

Mattias Ringqvist
General Manager Sweden & Norway

Nina Cronstedt
Group Chief Legal Officer

Olivier Allender
General Manager France, Belgium & Netherlands

Vincent Litrico
Group Chief Financial Officer

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

Andrew Wells joined Verisure as Chief Product & Services Officer in February 2017. Andrew joined us from Motorola, where he was Vice-President of Engineering, leading Motorola's modular computing platform and innovation pipeline across the USA, China, Australia, and the UK. He holds Bachelor's and Master's degrees in Electrical Engineering from the University of New South Wales as well as a Master's of Product Design and Development from Northwestern University.

Antonio Anguita joined Verisure as Managing Director for Spain in 2013. He 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, Antonio was responsible for all fixed line and internet services activities at Orange worldwide. He has held various senior positions at France Telecom Spain, Hewlett Packard and McKinsey & Co. Antonio holds a Bachelor of Arts and Political Science from Brown University and a Master of Business Administration from Harvard University.

Hector Martinez joined Verisure in March 1998 as a marketing intern while pursuing his undergraduate studies at ESIC Marketing University in Madrid. He has been integral in growing and developing our approach to marketing. Hector also played an important role in starting up our operations in Portugal, France and across Latin America. Previously, he held the role of Marketing Director for Iberia until his appointment as Chief Marketing Officer in April 2018. Hector holds a Master's degree in Direct Marketing from IESE.

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

Marta Panzano joined the Company as Chief Human Resources Officer in 2014. Prior to joining the company, Marta was HR Director for Orange Spain. Previously, she worked for CEMEX in Spain, Mexico and Australia among other geographies, holding progressively more senior positions culminating in her role as Vice-President for Human Resources across Europe, Middle East, Africa, Asia and Australia. Marta has also held various positions in Finance at Hewlett Packard and in strategic consultancy at BCG. She holds a Bachelor's degree in Business Administration and Economics from the Universidad Carlos III Madrid.

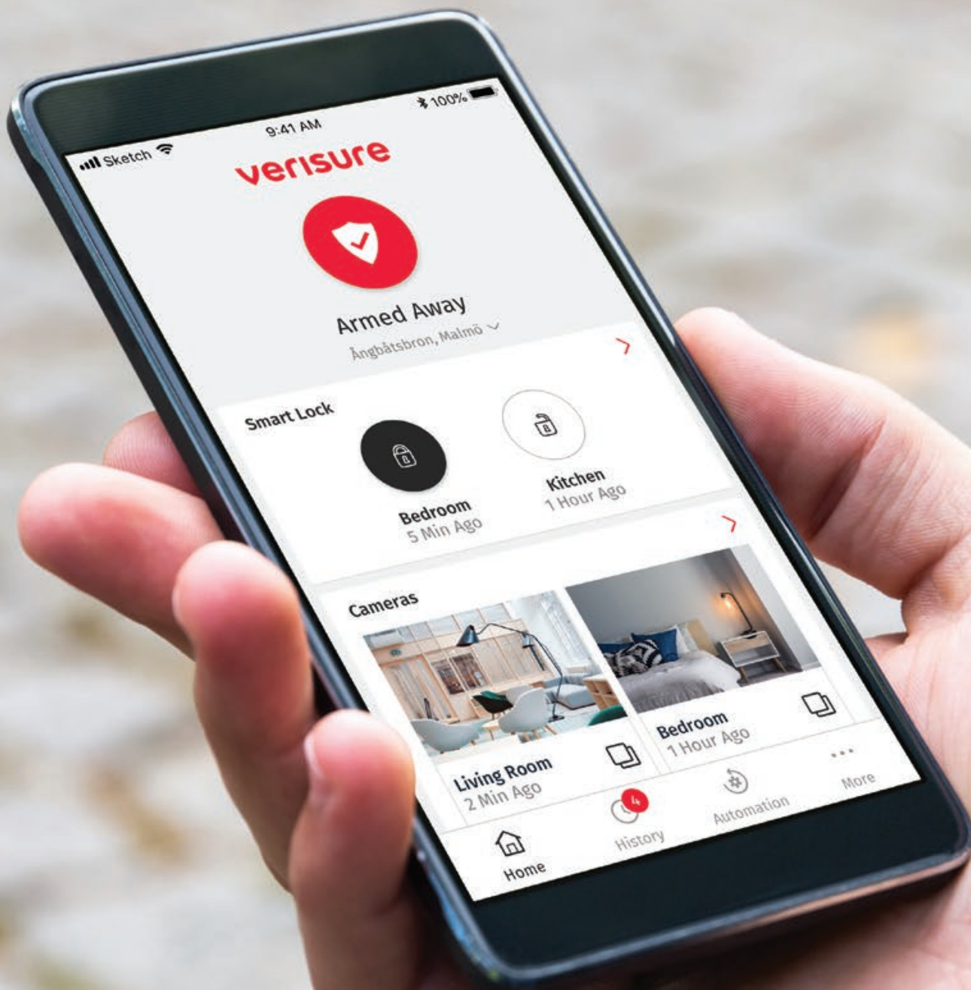
Matthias Hansen joined the Company as Chief Information Officer in November 2016. Matthias joined us from Telstra Health, a division of Telstra Communications in Australia, where he was Chief Product & Technology Officer, responsible for technology and digital strategy. Before joining Telstra, Matthias held various positions across the IT function with Centrica Plc, T-Mobile and Dell, working across Europe and globally. He holds a Bachelor's degree in Chemistry from Kiel University.

Mattias Ringqvist joined Verisure 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, and more recently to lead our Swedish and Norwegian businesses. Prior to joining Verisure, Mattias was head of the consumer division at Telenor Denmark and head of the mobile consumer business at Telenor Sweden from 2009 to 2013. Before that he spent 13 years at McKinsey & Co. in Scandinavia and the US, where was promoted to partner in 2004. Mattias 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.

Nina Cronstedt joined Verisure as Chief Legal Officer in 2018 from Nestlé, where she was General Counsel and Vice President Legal, Compliance & Creating Shared Value for Cereal Partners Worldwide, a joint venture between Nestlé and General Mills. She was previously General Counsel Strategic Business Units and COE's for Nestlé. Prior to Nestlé, Nina worked for Philip Morris International, where she held positions of increasing responsibility, including Assistant General Counsel Brand Building and Assistant General Counsel EMEA Region. Nina studied law at Stockholm University, followed by a Master's in Commercial & European Law at the University of Cambridge.

Olivier Allender joined Verisure as Managing Director for France in 2012. He was promoted to General Manager for France, Belgium & Netherlands in January 2015, and currently leads our French and Belgian businesses. 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 Verisure as Chief Financial Officer in May 2016. Vincent 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, he 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. Vincent holds an MBA from ESSEC Business School.



The Verisure app – peace of mind on the go

Our customers can check their homes or businesses anywhere, anytime, and manage their system remotely.

Corporate Governance

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

Board of Directors

Composition of the Board

Verisure Midholding AB has a Board of Directors composed of five directors. The Board of Directors is responsible for the Group's organization and administration. The Board of Directors is responsible for regularly assessing the Group's financial situation and ensuring that the organization is structured so that the accounting records, financial management and other financial aspects are satisfactorily overseen.

Rules of Procedure and written instructions

The Board, which for the purposes of this and the following subsections refers to the board of Verisure Topholding 2 AB, 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 set frequency of Board meetings and agenda items to cover. Extraordinary meetings are held when necessary.

Board Committees

The Board 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 authorization 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, compliance program and risk management. The Audit Committee is required to hold at least three meetings per year. The Audit Committee held three meetings during 2018. The focus on the meetings was the review of reports delivered by the company's external auditors as well as accounting, tax matters, compliance reporting and internal controls. The members of the Remuneration Committee are Stefan Götz, Austin Lally and Adrien Motte. Meetings are also attended by Marta Panzano.

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. It reviews and determines, on behalf of the Board, the remuneration and incentive packages of management in order to ensure that they are appropriately rewarded for their individual contributions to the Group's overall performance.

The Remuneration Committee also formulates the remuneration policy with respect to the strategic objectives and operational performance of the Group. The members of the Remuneration Committee are Stefan Götz, Austin Lally, Marta Panzano and Adrien Motte. Meetings are also attended by Henry Ormond.

Executive Compensation

Our executive compensation program has the following objectives:

- recruit and retain key leadership;
- link compensation to an executive's individual performance and our financial performance; and
- align compensation with our short and long-term financial objectives.

In furtherance of these objectives, we intend to have an executive compensation package that includes (i) fixed compensation in the form of 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, equity incentive awards.

Base Salary

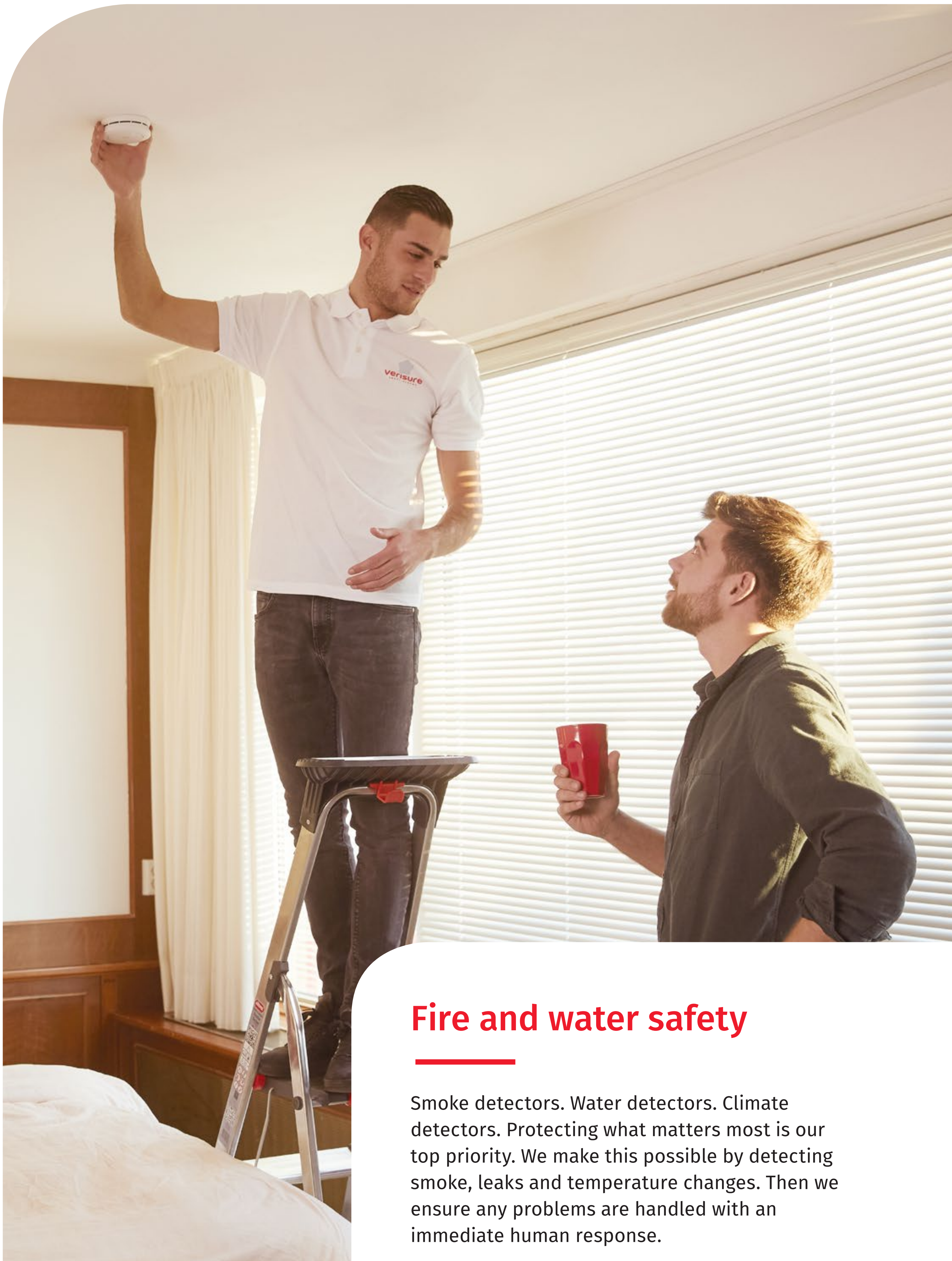
We intend to pay base salaries consistent with the scope of each executive's responsibilities and such that base salaries reflect the fixed compensation necessary to recruit key leadership.

Benefits

We intend to provide our executives with a benefits package in line with those of other companies in our sector and appropriate for the respective jurisdictions.

Annual Cash Bonus Awards

Our executives are eligible to receive incentive compensation in the form of annual cash bonuses, which are determined based on performance objectives established on a periodic basis.



Fire and water safety

Smoke detectors. Water detectors. Climate detectors. Protecting what matters most is our top priority. We make this possible by detecting smoke, leaks and temperature changes. Then we ensure any problems are handled with an immediate human response.

Board of Directors

Verisure Midholding AB

Name	Position
Austin Lally	Director and Group Chief Executive Officer
Adrien Motte	Director
Cecilia Hultén	Director and Chairman
Fredrik Östman	Director and Deputy CEO
Stefan Götz	Director

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

Adrien Motte has served as a Director since January 2017. Adrien has been active in H&F's investment in our Company since August 2012. Prior to joining H&F in 2012, he was employed by Park Square Capital. Adrien holds a Bachelor's and Master's in Engineering from the University of Cambridge.

Cecilia Hultén, Director, Group Financial Control, has been with the company since 2006. Prior to joining our company in 2006, Cecilia served as an authorised public accountant at PricewaterhouseCoopers AB. Cecilia holds a Bachelor of Science degree in Economics and Business Administration from Linnaeus University.

Fredrik Östman has served as Group Tax Director since 2017. Fredrik has been with the company since April 2012 in various senior finance leadership roles including as Interim CFO. Previously he was the Group CFO at Gunnebo and Gambro AB. He also worked for Husqvarna, Electrolux and ABB in a variety of finance leadership roles in Europe and the United States. Fredrik holds a Bachelor of Science from Handelshögskolan, Gothenburg University and a Master's in Accounting and Finance from the London School of Economics.

Stefan Götz has served as a Director of our company since June 2011. Stefan 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, Stefan 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.

Directors' Report

Operations

The Group is the leading provider of monitored alarm solutions for residential households and small businesses in Europe. We offer premium alarm services to our portfolio of over 2.9 million customers in 14 countries in Europe and Latin America. We conduct our business through three segments, portfolio service, customer acquisition and adjacencies.

Key figures

EUR thousand (if not otherwise stated)	2018	2017
Portfolio services segment: *Unaudited operating data*		
Total subscribers (year-end), units	2,930,753	2,586,123
Cancellations, units	171,099	153,369
Attrition rate (LTM)	*6.2%*	*6.3%*
Net subscriber growth, units[1]	344,630	292,130
Subscriber growth rate, net	*13.3%*	*12.7%*
Average monthly revenue per user (ARPU), (in EUR)	40.2	39.7
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)	26.9	26.0
Non-IFRS and IFRS financial data		
Portfolio services revenue	1,329,536	1,158,096
Portfolio services adjusted EBITDA	890,704	759,909
Portfolio services adjusted EBITDA margin	*67.0%*	*65.6%*
Customer acquisition segment: *Unaudited operating data*		
New subscribers added (gross)	515,624	439,687
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,196	1,167
Non-IFRS and IFRS financial data		
Customer acquisition revenue	279,147	234,478
Customer acquisition adjusted EBITDA	(265,444)	(202,819)
Customer acquisition capital expenditure	351,304	310,407
Adjacencies segment:		
Adjacencies revenue	16,167	2,183
Adjacencies adjusted EBITDA	(2,322)	464
Consolidated: *Unaudited operating data*		
Payback period (in years)	3.7	3.7
Non-IFRS and IFRS financial data		
Revenue	1,624,849	1,394,757
Organic revenue growth	*19.4%*	*17.4%*
Adjusted EBITDA	622,938	557,554
Adjusted EBITDA margin	*38.3%*	*40.0%*
Capital expenditures	500,138	429,075
Reported (including SDI)		
Revenue	1,612,525	1,372,409
Adjusted EBITDA	583,549	500,424

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

All amounts are before SDI (if not otherwise stated). Comparatives have been restated. Refer to note 3 for reconciliation. All negative amounts in this report are shown within parenthesis.

Analysis of operating results

The information presented and discussed in this report includes a number of measures that are not defined or recognized under IFRS including CPA, ARPU, EPC and adjusted EBITDA. These are considered to be key measures of the Group's financial performance and as such have been included here to enhance comparability and usefulness. CPA is the net investment to acquire a new customer. ARPU and EPC reflect the monthly revenues and adjusted EBITDA per customer in the portfolio segment. Adjusted EBITDA, being earnings before interest, tax, write offs, depreciation and amortization, excluding separately disclosed items (SDI), is considered by management to give fairer view of the year-on-year comparison of financial performance. Separately disclosed items are costs or income that have been recognized in the income statement which management believes, due to their nature or size, should be disclosed separately to give a more comparable view of the year-on-year financial performance. The separately disclosed items also contain an IFRS 15 adjustment affecting revenue. All SDIs are further explained later in this section.

Results excluding SDI

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

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

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

Revenue

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

Revenue for portfolio services in the twelve months ending December 31, 2018, increased by 14.8%, or EUR 171.4 million, to EUR 1,329.5 million, up from EUR 1,158.1 million in the previous period. The increase was primarily due to the increased number of customers and higher average monthly revenue per user. Revenue for customer acquisition in the twelve months ending December 31, 2018, increased by 19.1%, or EUR 44.6 million, to EUR 279.1 million, up from EUR 234.5 million in the previous period. The increase was mainly due to higher number of new installations as well as higher upfront revenue compared to the same period last year.

Operating expenses

Operating expenses in the twelve months ending December 31, 2018, increased by 19.4%, or EUR 164.2 million, to EUR 1,008.9 million, up from EUR 844.7 million in the prior period. The increase was mainly due to the growth in the portfolio and the increase in new installations.

Other income

Other income in the twelve months ending December 31, 2018, decreased with 6.9%, or EUR 0.5 million, to EUR 7.0 million, down from EUR 7.5 million in the prior period. This relates to non core revenues and was up until December 31, 2017 included in Revenue. The 2017 numbers has been restated to increase comparability.

Adjusted EBITDA

Adjusted EBITDA in the twelve months ending December 31, 2018, increased by 11.7% or EUR 65.3 million to EUR 622.9 million, up from EUR 557.6 million in the prior period. The increase in adjusted EBITDA was mainly driven by the increased customer base, higher average revenue per user and improved operational efficiency.

Depreciation and amortization

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

Retirement of assets

Retirements of assets increased to EUR 60.3 million in the twelve months ending December 31, 2018, up from EUR 49.8 million in the prior period. The cost corresponds to the remaining balance for capitalized material and direct costs, when customers are leaving the portfolio or upgrading to our new platform.

Interest income and cost

Interest income amounted to EUR 0.3 million in the twelve months ending December 31, 2018, and 0.2 in the corresponding period prior year. Interest cost amounted to EUR 184.5 million, up from EUR 164.5 million in the prior period driven by higher indebtedness.

Other financial items

Other financial items, mainly consisting of commitment fee for the Revolving Credit Facility, amounted to a cost of EUR 3.3 million and EUR 3.2 million for the twelve months ended December 31, 2018 and 2017 respectively.

Reported consolidated income statement

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

Separately disclosed items (SDIs)

IFRS 15 adjustment affecting revenue

IFRS 15's main effect on the Group is related to the allocation of standalone selling price to the performance obligations installation (recognized at point in time) and portfolio service (recognized over the contract period). Part of the installation revenue has been recognized at a later time than according to previous standards and has affected the revenue negative EUR 12.3 million and 22.3 in the prior period.

SDI affecting operating expenses

SDI affecting adjusted operating expenses includes costs related to various transition projects within the Group. It also includes costs related to acquisitions of new businesses. For the twelve months ending December 2018, the costs amounted to EUR 27.1 million and EUR 34.8 million in the same period last year.

SDI affecting depreciation and amortization

The market value of the acquisition-related intangible assets is amortized over the expected life. The main part of the total cost of EUR 153.2 million and EUR 153.0 million for the twelve months ending December 31, 2018 and 2017 respectively, relates to amortization of contract portfolio resulting from the acquisition of the Securitas Direct Group in 2011.

SDI affecting interest income and cost

SDI affecting interest income and cost consists of interest income regarding a loan to related party totaling EUR 30.6 million and EUR 9.3 million for the twelve months ending December 31, 2018 and 2017 respectively.

SDI affecting other financial items

SDI affecting other financial items for the twelve months was a cost of EUR 136.9 million compared to EUR 96.9 million for the same period last year. Other financial items consist of a negative non-cash FX valuation of debt items plus market revaluation of hedges in total amounting to EUR 63.0 million, a cost related to amortization and write off of prepaid bank fees including an IFRS 9 adjustment regarding modification of loan agreement of EUR 55.0 million and a call cost of EUR 18.9

million for a secured bond repaid in full at the November 2018 refinancing. For the twelve months ending December 31, 2017, the corresponding respective amounts were a cost of EUR 15.0 million for non-cash revaluations, a cost of EUR 36.5 million of prepaid funding fee charges and a cost of EUR 45.4 million for call fees on repaid debt from November 2017 refinancing including March 2017 bond redemption.

Income tax expense and benefit

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

Our segments

We operate a subscription-based business, which we conduct through three segments: portfolio services, customer acquisition and adjacencies.

Portfolio services

The portfolio services segment provides monitoring services to existing customers for a monthly subscription fee. We enter into self-renewing monitoring services agreements with our customers, usually at the time of installation and the majority of our custemers pay via direct debit. 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 6.2% (6.3% in 2017) 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 2018, the segment generated revenue of EUR 1,329.5 million (1,158.1 in 2017), representing 82.5% (84.4% in 2017) of total revenue and adjusted EBITDA of EUR 890.7 million (759.9 in 2017), equivalent to a 67.0% (65.6% in 2017) EBITDA margin. As of December 31, 2018, the Group had approximately 2.9 million (2.6 in 2017) 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 2018, the customer acquisition segment generated EUR 279.1 million (234.5 in 2017) of revenue and negative adjusted EBITDA of EUR 265.4 million (negative 202.8 in 2017).

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.

Adjacencies segment

Effective January 1, 2018, we introduced an adjacency segment capturing the sale of remote monitoring and assistance devices and services for senior citizens. As these sales are not considered a part of our core alarms business, we have decided to categorize these revenues under a new reporting segment. The effect of change in reporting is to reallocate certain revenues previously included in our portfolio services segment to the new adjacencies segment. In order to improve comparability, the comparative figures as of December 30, 2017 has been restated for the introduction of adjacencies as a new reporting segment.

Cash flow

The following table shows a summary of our cash flow on a historical basis for the years ending December 31, 2018 and 2017:

EUR million	2018	2017
Cash flow from operating activities before change in working capital	543.3	486.6
Change in working capital	14.4	34.1
Cash flow from operating activities[1]	**557.7**	**520.6**
Cash flow from investing activities	(508.3)	(436.7)
Cash flow from financing activities[2]	(54.9)	(75.4)
Cash flow for the period	**(5.5)**	**8.5**
Cash and cash equivalents at beginning of the period	14.2	6.0
Translation differences on cash and cash equivalents	(0.1)	(0.2)
Cash and cash equivalents at the end of the period	**8.6**	**14.2**

1) Cash flow from operating activities is calculated after giving effect to income tax paid.
2) Cash flow from financing activities includes paid interest.

Cash flow from operating activities

Cash flow from operating activities amounted to EUR 557.7 million and EUR 520.6 million for the twelve months ending December 31, 2018 and 2017 respectively. The increase compared to previous year is primarily due to the improvements in profitability.

Cash flow from investing activities

Cash flow from investing activities amounted to an outflow of EUR 508.3 million and EUR 436.7 million for the twelve months ending December 31, 2018 and 2017 respectively. The increase in capital expenditure is mainly due to the growth in acquisition of new customers and development cost.

Cash flow from financing activities

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

Capital Expenditures

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

The following table shows a summary of our capital expenditures on December 31, 2018 and 2017:

EUR million	2018	2017
Customer acquisition capital expenditures, material	184.7	169.5
Customer acquisition capital expenditures, direct costs	166.6	140.9
Portfolio capital expenditures	47.5	40.2
Adjacencies capital expenditures	8.6	–
Capital expenditures other	92.7	78.5
Total	**500.1**	**429.1**

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, taxes 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 section Risk Factors on page 78 for more details.

Below gives a description of the Group's credit events leading to its current credit structure.

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

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

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

Employees

The Group had 14,841 (13,405 in 2017) full time equivalent (FTE) employees in 2018. Approximately 33% of the FTEs were women and 67% were men. This ratio was the same in 2017. Approximately 38% of the employees were located in Spain and 16% in France. After Spain and France, the highest concentrations of employees were in Brazil, Sweden, Danmark and Portugal. In Sweden and, to a lesser extent, Norway, Finland and Denmark, we work closely with partners to sell and install our products instead of using our own employees.

Regulation and Other Matters

Our operations are subject to a variety of laws, regulations and licensing requirements in the counties in which we operate. Most of the laws and regulations specific to the industry are country or municipal-wide in scope. Legislation relating to consumer protection, fair competition, data privacy and other generally applicable areas are either EU or country-wide in scope.

Regulation both pose a threat and offers opportunity to the Group. The threats are described in "Risk Factors" on page 81. In terms of opportunities, regulation and voluntary standards in the area of alarm services could offer us the ability to set ourselves apart in that we will be better equipped to meet new requirements, to obtain preferential status in relation to law enforcers, insurance companies and other stakeholders or to market our services with certifications valued by consumers.

We are actively pursuing opportunities to positively influence the regulatory environment.

Sales and Marketing

Some jurisdictions regulate the method of retail sales by restricting door-to-door sales, cold-calls or direct mailing. With the exception of Swedish legislation regulating when unsolicited sales-based emails may be sent, we do not currently encounter these regulations in our largest countries, such as Spain, Sweden, France, Portugal and Norway. However, Denmark does prohibit door-to-door sales. In this jurisdiction, we have had to alter our sales approach to rely more on advertising our products in public forums. A similar restriction has now been introduced in Belgium. Additionally, other countries, such as Spain and Sweden, may in the future seek to introduce these sorts of regulations. If we continue to encounter these regulations, it may require us to change our sales approach with potential customers. See ''Risk Factors — Risks Related to Our Business and Industry — Our business operates in a regulated industry, and noncompliance with regulations could expose us to fines, penalties and other liabilities and negative consequences.'' All of the countries in which we operate have regulations protecting consumers in their dealings with a company's sales force. Typically these regulations may either provide a customer with a guaranteed trial period or limit the ability to lock a consumer into a contract with no right to terminate without a penalty.

Alarm Verification

We are subject to regulations covering the dispatching of emergency personnel and false alarms. An increasing number of local governmental authorities have adopted laws, regulations or policies aimed at reducing the perceived costs to them of responding to false alarm signals. For example, in France police will only respond to an alarm they have been forwarded once that alarm has been verified. Spain, our largest country, has recently enacted a ministerial order requiring that alarms be verified either through video, audio or personal verification steps. Otherwise, emergency personnel will not respond unless three sequential alarms are triggered within 30 minutes. If emergency personnel are dispatched to a false alarm, some jurisdictions allow for penalties to be imposed on either the alarm owner or the alarm provider. In France, police are allowed to penalize the alarm provider for a false alarm that has been forwarded. Likewise, in Spain, emergency responders have discretion to impose penalties for frequent false alarms as high as EUR 30,000 per incident. These changes may cause alarm service providers to adopt additional measures to limit the risk of false alarms, such as the use of third-party guard services to verify alarms, install new monitoring equipment or upgrade existing equipment.

Monitoring

We have a monitoring center in each of the key geographies where we operate. In some countries these centers are regulated by either the police or insurance companies and require licenses or permits. For instance, Sweden and Norway consider monitoring centers in the same category as a guarding service, and require each center to obtain an equivalent license that they require of guarding services. In Spain, monitoring centers are subject to stringent approvals by the police. Many countries also impose minimum staffing requirements (normally at least two operators must be present) and minimum training standards for operators in monitoring centers. In France, for example, 70 hours of basic training is required for each monitoring center employee.

Equipment and Installation

The equipment we install has, in general, not been formally regulated. However, certain of our countries, including Norway, have a voluntary certification process for security products that allows our customers to save on their insurance premiums. In order to install our alarm systems, we generally must be registered for this purpose in the countries we operate in. We currently have all required registrations in each of our countries. Some markets impose regulations on the maintenance of our products. France and Spain requires that we provide certified maintenance service as part of each contract we enter into with a customer. Additionally, some countries that do not currently regulate maintenance of residential alarms do regulate business alarms. Such regulations apply to our small business customers. In the future, these countries may expand such regulations to the residential marketplace.

Legal Proceedings

At any given time, we may be a party to regulatory proceedings or to litigation or be subject to non-litigated claims arising out of the normal operations of our businesses such as product liability, unfair trading and employment claims. We currently believe that our likely liability with respect to proceedings currently pending is not material to our financial position. There is an ongoing investigation from the Norwegian Competition Authority (NCA) into the Norwegian security systems industry, including our Norwegian business. The investigation is ongoing and we are cooperating fully with the NCA.

The Spanish tax authorities commenced an audit of the financial years 2012-2014 in 2017. The audit is of a general nature and is expected to be finalized before end of June 2019. Based on preliminary indication from the tax inspector in charge of the audit, there could be a challenge to the tax deductibility of interest incurred in ESML SD Iberia Holding S.A. during the financial years 2012-2014.

Events during the reporting period

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

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

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

Events after the reporting period

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

During Q1, 2019, the Company sold another ~7.5% minority interest in the Group to Corporación Financiera Alba (Alba). Alba is a part of the March Group, one of the leading Spanish private business and financial groups and is listed on the Madrid stock exchange.

Consolidated Financial Statement

Consolidated income statement

EUR thousand	Note	2018	2017
Revenue[1]	3	1,612,525	1,372,409
Cost of sales	4,6,8,10	(857,106)	(734,206)
Gross profit[1]		**755,419**	**638,203**
Selling expenses	4,8,10	(216,107)	(167,159)
Administrative expenses	4,5,6,7,10	(356,279)	(326,411)
Other income[1]		6,974	7,493
Operating profit[1]		**190,007**	**152,126**
Finance income	11	30,885	9,530
Finance costs	11	(324,828)	(264,558)
Result before tax[1]		**(103,937)**	**(102,902)**
Income tax expense and benefit[1]	12	(25,392)	2,846
Result for the period[1]		**(129,328)**	**(100,056)**
Whereof attributable to:			
– Parent company[1]		(130,017)	(99,475)
– Non-controlling interest[1]		689	(581)

1) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

Consolidated statement of comprehensive income

EUR thousand	Note	2018	2017
Result for the year		**(129,328)**	**(100,056)**
Other comprehensive income			
Items that will not be reclassified to the income statement			
Remeasurements of defined benefit plans net of tax		(348)	(651)
Items that subsequently may be reclassified to the income statement			
Currency translation differences on foreign operations		(4,286)	13,811
Other comprehensive income		**(4,634)**	**13,160**
Total comprehensive income for the year		**(133,962)**	**(86,897)**
Whereof attributable to:			
– Parent company		(134,651)	(86,315)
– Non-controlling interest		689	(581)

Consolidated statement of financial position

EUR thousand	Note	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	14	720,960	608,223
Goodwill	15	868,557	869,598
Customer portfolio	16	1,034,280	1,077,129
Other intangible assets	17	167,573	146,230
Deferred tax assets	18	28,867	24,420
Derivatives	19,23	17,603	6,062
Trade and other receivables	19,20	307,341	1,309,739
Total non-current assets		**3,145,181**	**4,041,401**
Current assets			
Inventories	21	102,488	74,911
Trade receivables	19,22	133,620	123,255
Current tax assets		15,101	13,561
Prepayments and accrued income		34,553	31,405
Other current receivables	19	10,938	28,286
Cash and cash equivalents	19	8,613	14,245
Total current assets		**305,313**	**285,663**
Total assets		**3,450,494**	**4,327,064**

Consolidated statement of financial position

EUR thousand	Note	2018	2017
Equity and liabilites			
Equity	24		
Share capital		56	56
Other paid in capital		624,517	569,168
Other reserves		43,640	47,926
Retained earnings[2]		(2,714,251)	(1,235,132)
Equity attributable to equity holders of the parent company[2]		**(2,046,038)**	**(617,982)**
Non-controlling interest[2]		(2,745)	(3,434)
Total equity[2]		**(2,048,783)**	**(621,416)**
Non-current liabilities			
Long-term borrowings[2]	19,25	4,573,202	4,112,790
Derivatives[2]	23	6,398	-
Other non-current liabilities[2]	19	120,310	84,838
Deferred tax liabilities[1, 2]	18	254,451	239,414
Other provisions	26	3,278	2,316
Total non-current liabilities[2]		**4,957,640**	**4,439,361**
Current liabilities			
Trade payables	19	125,237	115,846
Current tax payable		19,034	16,747
Short-term borrowings	19,25	47,913	53,072
Derivatives	19,23	3,746	222
Accrued expenses and deferred income[2]	27	316,135	290,935
Other current liabilities	19	29,572	32,297
Total current liabilities[2]		**541,637**	**509,119**
Total equity and liabilities		**3,450,494**	**4,327,064**

1) The majority of the deferred tax liabilities relates to the acquisition of Securitas Direct AB in 2011.
2) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

Consolidated statements of changes in equity

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

1) For more information regarding change in accounting principles, refer to note 29.

EUR thousand	Attributable to equity holders of the parent company and non-controlling interest						
	Share capital	Other paid in capital	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2017 – As reported	**56**	**569,168**	**34,766**	**(1,090,386)**	**(486,396)**	**(1,846)**	**(488,242)**
Change in accounting principles, Interest floors[1]	–	–	–	1,373	**1,373**	–	**1,373**
Balance at January 1, 2017 – As updated comparatives	**56**	**569,168**	**34,766**	**(1,089,013)**	**(485,023)**	**(1,846)**	**(486,869)**
Change in accounting principles, IFRS 15[1]	–	–	–	(49,150)	**(49,150)**	(1,007)	**(50,156)**
Balance at January 1, 2017 – Adjusted[1]	**56**	**569,168**	**34,766**	**(1,138,163)**	**(534,173)**	**(2,853)**	**(537,025)**
Result for the period[1]	–	–	–	(99,475)	**(99,475)**	(581)	**(100,057)**
Other comprehensive income	–	–	13,160	–	**13,160**	–	**13,160**
Total comprehensive income for the period	–	–	*13,160*	*(99,475)*	**(86,315)**	*(581)*	**(86,897)**
Group contribution	–	–	–	2,506	**2,506**	–	**2,506**
Balance at December 31, 2017[1]	**56**	**569,168**	**47,926**	**(1,235,132)**	**(617,982)**	**(3,434)**	**(621,416)**

1) For more information regarding change in accounting principles, refer to note 29.

Consolidated statement of cash flows

EUR thousand	Note	2018	2017
Operating activities			
Operating profit		190,007	174,474
Reversal of depreciation and amortization	10	333,292	298,515
Other non-cash items	8	60,251	50,240
Paid taxes		(40,255)	(36,663)
Cash flow from operating activities before change in working capital		**543,295**	**486,566**
Change in working capital			
Change in inventories		(28,757)	(13,555)
Change in trade receivables		(10,432)	(33,195)
Change in other receivables		(25,586)	(20,352)
Change in trade payables		11,041	31,136
Change in other payables		68,123	70,040
Cash flow from change in working capital		*14,390*	*34,074*
Cash flow from operating activities		**557,684**	**520,641**
Investing activities			
Purchase of intangible assets	16,17	(247,042)	(200,338)
Purchase of property, plant and equipment	14	(253,374)	(228,737)
Settlement of deferred consideration		(4,685)	–
Acquisition of non-controlling interest		(3,248)	(2,500)
Acquisition/disposal of subsidiaries		–	(5,167)
Cash flow from investing activities		**(508,349)**	**(436,743)**
Financing activities	25		
Change in revolver credit facility		68,294	(12,288)
Paid bank and advisory fees		(12,608)	(23,277)
New financing		1,112,000	1,989,890
Repayment of debt		(630,000)	(760,980)
Call cost old debt		(18,900)	(45,317)
Loan to related party		–	(1,036,675)
Net interest paid		(194,212)	(181,419)
Paid distribution		(370,528)	-
Repayment of other non-current receivables		691	-
Other financial items		(9,592)	(5,377)
Cash flow from financing activities		**(54,854)**	**(75,442)**
Cash flow for the period		**(5,520)**	**8,456**
Cash and cash equivalents at start of period		14,245	5,985
Exchange difference on translating cash and cash equivalents		(112)	(195)
Cash and cash equivalents at end of period		**8,613**	**14,245**

Notes to the Financial Statements

Verisure Midholding AB (publ) ("the Company") is an organized 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 Group's headoffice is based in Geneva, Switzerland since June 2017.

Verisure Midholding AB is directly and wholly owned by Verisure Topholding 2 AB (following the merger of Verisure Topholding AB with and into Verisure Topholding 2 AB on February 7, 2018). The Company's ultimate parent entity is Shield Luxco 1 S.à r.l., which operates in and under the laws of Luxembourg. Shield Luxco 1 S.à r.l. is controlled by Hellman & Friedman, a global private equity investment firm.

Nature of operations

The Group is 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 comprises of three segments: customer acquisition, portfolio services and adjacencies. 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. The adjacency segment captures the sale of remote monitoring and assistance devices and services for senior citizens.

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.

Note 1 cont.

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 or 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 item presented are translated at the closing rate on the closing 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.

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 from 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, portfolio services and adjacencies which 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.

Adjacencies
Effective January 1, 2018, we introduced an new reporting segment capturing the sale of remote monitoring and assistance devices and services for senior citizens. As these sales are not considered a part of our core alarms business, we have decided to categorize these revenues under a new reporting segment. The effect of change in reporting is to reallocate certain revenues previously included in our portfolio services segment to the new adjacencies segment. The year ended December 31, 2017 has been restated to give effect to the introduction of the adjacencies reporting segment as if it had occurred on January 1, 2017.

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

Revenue recognition
Revenues include alarm monitoring and installation fees. The revenues are recognized only where there is persuasive evidence of a sales agreement, the delivery of goods or services has occurred, the sale price is fixed or determinable and the collectability of revenue is reasonably assured. Revenues are recognized less discounts and value added tax and after eliminating sales within the Group.

For customer agreements containing multiple deliverables (installation and monitoring services) the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

More specifically income is recognised as follows:

Alarm monitoring
Income from alarm monitoring services is recognized over time during the period to which the service relates. The payments are made in advance or at delivery. When there is a difference in timing between the payment and the revenue recognized the difference is accounted for as subscription fees invoiced in advance.

Installation fees
Revenues from alarm installation is recognized once the installation is completed. The payments are made at the time of delivery or through monthly installments.

For more information regarding payment, see section "Financing" below.

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

Note 1 cont.

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 within 12 months from the time of the 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 of identifiable acquired net assets on the acquisition date, 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

Our employees in Norway, Denmark, Sweden, France, Belgium, UK, the Netherlands and Switzerland have a pension plan, whereas our employees in Chile, Brazil, Spain, Portugal, Italy, Finland and Peru do not. We offer both defined contribution and defined benefit pension plans. Defined contribution plans are post-employment benefit schemes under which we pay fixed contributions into a separate legal entity and have 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, with the exception of a limited defined benefit plan in France and Switzerland. For these plans, amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings or years of service. All pension plans in foreign units are classified as defined contribution plans. All pension liabilities in Sweden are classified as defined contribution plans, except pensions for office-based staff which are through a national multi-employer pension plan, which is funded in the same manner as a defined contribution plan. The level of contribution is dependent upon, among other things, the level of employee participation and salaries in each country.

Share based payment

Certain employees of the Group participate in a management equity program which allows them to acquire shares in Shield Luxco 2 S.à r.l. either directly or through a special purpose vehicle. This program is in accordance with IFRS 2 "Share based payment" classified as a share based payment with settlement through equity instrument and is disclosed accordingly.

As the managers have to buy the shares at their fair market value, there is no benefit at the grant date. Hence, there is at no moment an expenditure due to the management equity program and therefore there is no effect on either the balance sheet or on the income statement of the Group.

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 installments 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 installments 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 the Group. The Group recognizes the received net amount as installation revenue.

Internal financing

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

Note 1 cont.

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	7-15 years
Other machinery and equipment	3–10 years

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.

Alarm equipment is primarily equipment installed on customers' premises. Other machinery and equipment is primarily IT-equipment and furniture.

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 amortization 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 long term 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 amortization 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, development costs, rental rights and trademark. Rental rights usually have a limited useful life and are recognised at cost less cumulative amortization 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.

Note 1 cont.

Costs associated with 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.

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

Customer portfolio	4–19 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 amortization and are tested for impairment annually or as soon as an indication emerges that they have decreased in value. Assets that are subject to amortization 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 amortization) 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 has adopted the requirements of IFRS 9 Financial instruments, effective for annual periods beginning on January 1, 2018.

The Group has chosen to apply the reliefs in the standard and not restate prior periods, as a consequence, the accounting principles for financial instruments are presented according to IFRS 9 below as well as IAS 39 separately further below.

Accounting principles according to IFRS 9 adopted from January 1, 2018

Financial instruments

The Group classifies its financial instruments as:

- Financial assets at fair value through profit or loss
- Financial assets at amortized cost
- Liabilities at fair value through profit or loss
- Financial liabilities at amortized cost

The classification of financial assets depends on the business model for managing the portfolio in which the financial asset belongs and the characteristics of the cash flows. Financial

Note 1 cont.

assets that have cashflows that are solely payment of principal and interest (SPPI), and that are held in a business model that holds financial assets to collect contractual cashflows are classified as and measured at amortized cost. Financial assets that have cash flows that are SPPI but are held in a business model that receives its cashflows both from holding the financial assets to collect contractual cashflows and from sales of financial assets are classified as and measured at fair value through other comprehensive income. All other financial assets are classified as and measured at fair value with fair value changes in the income statement. 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 recognized 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 and liabilities carried at fair value through profit or loss" are recognized as a financial item as incurred. Financial assets are derecognized 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 in a business model not intended to fully or partially collect contractual cashflows or financial assets that do not meet the SPPI criteria and are primarily derivative instruments. Derivatives are classified as fair value through profit or loss mandatorily unless they are designated as hedges in a hedge accounting relation. 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 recognized 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 recognized 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.

Financial assets at amortized cost are financial assets that have cash flows that are SPPI and are held in a business model to collect contractual cash flows. 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.

Financial assets at amortized cost
Financial assets at amortized cost are primarily trade receivables and do not carry any interest and are stated at their nominal value less any provision for bad debts. A provision for bad debts is made for expected credit losses using the simplified approach for both current and non-current trade receivables. This means that lifetime expected credit losses are recognized for all trade receivables. Estimated bad debt provision is based on the ageing of the receivable balances and historical experience, historical loss rates and forward-looking information. Individual trade receivables are written off when management deems them not to be collectible.

The provision is recognized 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.

Financial liabilities to amortized cost
Liabilities to credit institutions
Borrowings are recognized initially at fair value less transaction costs and thereafter at amortized cost. Any difference between the net amount received (less transaction costs) and the repaid amount is recognized in the income statement over the term of the loan using the effective interest method.

Trade payables
Trade payables are initially recognized at fair value and thereafter at amortized cost which normally corresponds to the nominal amount as the maturity is short.

Note 1 cont.

Accounting principles according to IAS 39 applied until December 31, 2017

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 it 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

Changes in accounting policies and disclosures
New and amended standards adopted by the Group
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2018:
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. This is disclosed in note 29.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below and further described in note 30.

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term, including those contracts ending during the first 12 months after the transition, and low-value leases.

The Group has reviewed all the Group's leasing arrangements over the last year considering the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

The Group will apply the standard from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Non-lease-components have been included regarding car leases but excluded for all other asset types.

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 15).
- Measurement of deferred income tax assets and deferred income tax liabilities (note 18).
- Measurement of provisions and allocation for accrued expenses (note 26 and 27).
- Depreciation period for alarm equipment and amortization period for customer portfolio (note 14 and 16).

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 judgement, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flow derived from such assets using cash flow projections which have been discounted at an appropriate rate. Since there are normally no quoted prices available on which to estimate the fair value less costs to sell an asset, the asset's

Note 2 cont.

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

- An assumed 3% growth rate for 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 judgement 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 judgement 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 judgement 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 judgement 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 judgement 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 judgement 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. Judgement 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 amortization period for customer portfolio

The charge in respect of periodic depreciation for alarm equipment as well as the amortization 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/amortization charge being recorded in the consolidated income statement. See more details in the sensitivity analysis in note 19.

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 EBITDA to measure the profitability of each segment. As a result, adjusted EBITDA is the measure of segment profit or loss presented in the Group's segment disclosures. In 2018 the Group added the segment adjacencies for non-core businesses to the previously reported segments: customer acquisition and portfolio services segments. The comparatives have been adjusted accordingly.

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

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

1) For more information regarding SDI see page 26.

Unsatisfied long-term customer contracts

Aggregate amount of the customer contracts revenue allocated to long-term customer contracts that are partially or fully unsatisfied as at December 31, 2018, amounts to EUR 532,217 thousands.

As of December 31, 2018, the Group had non-cancellable customer contracts which resulted in partly unsatisfied performance obligations at year-end. Management expect that 53.4% of the transaction price allocated to the partly unsatisfied contracts as of December 31, 2018 will be recognized as revenue during the year 2019. The remaining 33.9% is expected to be recognized during 2020 and 12.7% during 2021 or later. The Group does not include binding revenue with an outstanding contract period of 12 months or less. Since the Group does not include all contracts and has primarily cancellable subscriptions, the amount of the outstanding unsatisfied performance obligation does not amount to expected revenue for future periods.

Liabilities related to contracts with customers

The Group has recognized the following liabilities related to contracts with customers:

EUR thousands	**2018**	**2017**
Non-current liabilities		
Contract liabilities	57,159	43,045
Current liabilities		
Contract liabilities	45,781	47,571

Note 4 Expenses by Nature

EUR thousand	2018	2017
Costs of materials	50,093	35,188
Employee benefit expense	662,390	523,185
Depreciation and amortization expense	333,292	298,516
Retirements of assets	60,251	49,782
Guarding services	24,116	24,103
Office costs	35,147	32,231
Telecommunications costs	32,192	31,042
Marketing-related costs	130,059	95,988
Consulting fees	57,693	67,831
Other operating expenses	44,259	69,910
Total	**1,429,492**	**1,227,776**

EUR thousand	2018	2017
Currency translation differences included in operating profit	513	651

Currency translation differences included in finance income and costs are shown in note 11.

Note 5 Audit Fees

EUR thousand	2018	2017
PwC		
Audit assignments	1,132	1,060
Audit work apart from the audit assignment	189	128
Tax consultancy	620	1,076
Other services	455	1,150
Total PwC	**2,396**	**3,414**
Other auditors		
Audit assignments	28	4
Tax consultancy	29	31
Total other auditors	**57**	**34**
Total	**2,453**	**3,449**

Note 6 Employee Benefit Expense

EUR thousand	2018	2017
Wages and salaries including restructuring costs and other termination benefits	487,989	411,581
Social security costs	99,518	89,525
Pension costs	18,460	15,450
Total	**605,967**	**516,556**

Note 7 Remuneration of Directors and Executive Management

EUR thousand	2018	2017
Short-term employee benefits	10,108	8,592
Post-employment benefit	566	662
Total	**10,675**	**9,254**

The executive management has 6 to 12 months notice period corresponding to an amount of EUR 7,993 thousands (4,909 in 2017).

Note 8 Non-cash Items

EUR thousand	2018	2017
Retirements of assets[1]	60,251	49,817
Other	–	423
Total	**60,251**	**50,240**

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

Note 9 Operating Leases

The Group leases offices, cars and various equipment under operating leases. Operating lease payments totalled EUR 38.3 million (32.6 in 2017). The nominal value of future payments due under contracted future operating leases is as follows:

EUR thousand	2018	2017
Term to maturity <1 year	38,917	29,859
Term to maturity 1–5 years	78,203	84,022
Term to maturity >5 years	33,729	23,704

Note 10 Depreciation and Amortization

EUR thousand	2018	2017
Property, plant and equipment	94,661	81,055
Customer portfolio	192,281	180,156
Other intangible assets	46,350	37,305
Total	**333,292**	**298,516**

Depreciation and amortization is reflected in the income statement as follows:

EUR thousand	2018	2017
Cost of sales	131,742	110,567
Selling and administrative expenses	201,550	187,949
Total	**333,292**	**298,516**

Note 11 Finance Income and Costs

EUR thousand	2018	2017
Interest income on other receivables	30,550	9,295
Interest income, other	335	235
Finance income	**30,885**	**9,530**
Interest cost on borrowings	(179,341)	(157,232)
Interest cost, other	(3,019)	(6,338)
Interest cost on interest rate swaps	(2,100)	(804)
Fair value changes in currency derivatives	1,619	8,114
Interest element of finance leases rentals	(90)	(109)
Net currency translation differences	(64,621)	(23,144)
Bank charges	(47,629)	(85,008)
Other items	(29,647)	(37)
Finance costs	**(324,828)**	**(264,558)**
Finance income and costs	**(293,943)**	**(255,028)**

Details of borrowings are presented in note 25.

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 12 Income Tax Expense and Benefit

EUR thousand	2018		2017	
Current tax	(41,064)	39.5%	(39,376)	38.3%
Deferred tax[1]	15,672	(15.1%)	42,222	(41.0%)
Total	**(25,392)**	**24.4%**	**2,846**	**(2.8%)**

1) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

The Swedish rate of corporate income tax was 22% in 2018 and in 2017.

Difference between Swedish tax rate and actual tax for the Group

EUR thousand	2018		2017[3]	
Tax calculated at Swedish tax rate	22,866	(22.0%)	22,638	(22.0%)
Difference between tax rate in Sweden and weighted tax rates applicable to foreign subsidiaries	(6,831)	6.6%	26,863[1]	(26.1%)
Non-recognised deferred tax assets on losses carried forward, new losses as well as utilized losses[2]	(32,391)	31.2%	(35,080)	34.1%
Non-taxable/non-deductible income statement items, net	(4,697)	4.5%	(8,186)	8.0%
Effect of tax rates changed	2,537	(2.4%)	(4,303)	4.2%
Other	(6,876)	6.6%	914	(0.9%)
Total	**(25,392)**	**24.4%**	**2,846**	**(2.8%)**

1) Whereof EUR 23,650 thousands is tax effect due to change in tax base.
2) Whereof EUR 29,969 thousands (37,512 in 2017) is related to utilized tax losses carried forward not previously recognized as a deferred tax asset.
3) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

Note 13 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	2018	2017
Interest income	30,550	9,295
Interest expense	–	1
Advisory fee	–	148
Shareholders contribution	55,349	–
Group contribution	1,066	2,506
Dividend	(1,448,025)	–

Balances with Group companies

EUR thousand	2018	2017
Group contribution	231,578	230,511
Loan to related party	–	1,036,675

No expected credit loss has been considered necessary during the term.

Note 14 Property, Plant and Equipment

	2018		
EUR thousand	Alarm equipment	Other	Total
Cost at beginning of year	946,291	104,384	1,050,675
Investments	229,577	23,797	253,374
Disposals/retirements of assets	(62,975)	(982)	(63,957)
Translation differences	(10,192)	(1,737)	(11,929)
Cost at end of year	**1,102,701**	**125,462**	**1,228,163**
Amortization at beginning of year	(372,279)	(70,173)	(442,452)
Disposals/retirements of assets	25,242	611	25,853
Amortization charge for the year	(82,280)	(12,381)	(94,661)
Translation differences	3,320	737	4,057
Accumulated amortization at end of year	**(425,997)**	**(81,206)**	**(507,203)**
Net book value at end of year	**676,704**	**44,256**	**720,960**

	2017		
EUR thousand	Alarm equipment	Other	Total
Cost at beginning of year	813,081	86,698	899,779
Acquisition via subsidiaries	3,184	164	3,348
Investments	209,133	19,875	229,008
Disposals/retirements of assets	(64,255)	(1,199)	(65,454)
Translation differences	(14,852)	(1,154)	(16,006)
Cost at end of year	**946,291**	**104,384**	**1,050,675**
Amortization at beginning of year	(335,504)	(62,779)	(398,283)
Disposals/retirements of assets	33,141	831	33,972
Acquisition via subsidiaries	(3,184)	–	(3,184)
Amortization charge for the year	(72,083)	(8,972)	(81,055)
Translation differences	5,351	747	6,098
Accumulated amortization at end of year	**(372,279)**	**(70,173)**	**(442,452)**
Net book value at end of year	**574,012**	**34,211**	**608,223**

There were no investments in finance leases in 2018 (EUR 932 thousands in 2017). The carrying amount of finance leases at December 31 2018, was EUR 1,787 thousand (3,655 in 2017) 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	7–15 years
Other machinery and equipment	3–10 years

Note 15 Goodwill

EUR thousand	2018	2017
Cost at beginning of year	869,598	872,567
Investments	313	–
Acquisition via subsidiaries	–	2,767
Adjustment of purchase price allocation	1,196	–
Translation differences	(2,550)	(5,736)
Cost at end of year	**868,557**	**869,598**

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	2018	2017
Norway	254,588	254,793
Spain	233,126	233,126
Sweden	161,749	161,646
Finland	60,231	60,231
France	50,616	50,616
Portugal	46,265	46,265
Brazil	21,277	22,220
Chile	15,713	15,713
The Netherlands	14,038	14,038
Denmark	10,954	10,950
Total	**868,557**	**869,598**

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 2018. 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 2018, the lowest rate was 9.9% in Sweden (10.5% in 2017) and the highets rate was 15.9% in Brazil (16.5% in 2017). The rate for 2018 was 10.4% in Norway (10.8% in 2017) and 10.9% in Spain (11.5% in 2017).

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 16 Customer Portfolio

EUR thousand	2018	2017
Cost at beginning of year	2,051,023	1,943,049
Acquisition via subsidiaries	–	4,462
Investments	178,148	141,469
Disposals/retirements of assets	(31,438)	(26,092)
Translation differences	(8,515)	(11,865)
Cost at end of year	**2,189,218**	**2,051,023**
Amortization at beginning of year	(973,894)	(804,840)
Disposals/retirements of assets	9,513	7,495
Amortization charge for the year	(192,281)	(180,156)
Translation differences	1,724	3,607
Accumulated amortization at end of year	**(1,154,938)**	**(973,894)**
Net book value at end of year	**1,034,280**	**1,077,129**

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 15.

Note 17 Other Intangible Assets

EUR thousand	2018	2017
Cost at beginning of year	310,018	254,722
Acquisition via subsidiaries	–	13
Investments	68,894	58,868
Disposals/retirements of assets	(230)	(189)
Translation differences	(4,765)	(3,396)
Cost at end of year	**373,917**	**310,018**
Amortization at beginning of year	(163,788)	(128,690)
Disposals/retirements of assets	261	187
Amortization charge for the year	(46,349)	(37,305)
Translation differences	3,532	2,020
Accumulated amortization at end of year	**(206,344)**	**(163,788)**
Net book value at end of year	**167,573**	**146,230**

Out of the total book value, EUR 99,406 thousand (72,781 in 2017) relates to internally developed intangible assets.

Note 18 Deferred Tax

EUR thousands	2018	2017
Temporary differences arising between the tax bases and carrying amounts	15,774	17,225
Staff-related liabilities	1,728	1,301
Risk reserves	1,162	1,505
Tax loss carry-forwards	39,136	37,805
Acquisition-related intangible assets	2,934	4,219
Non-deductible interest	–	3,151
Other temporary differences	4,758	5,988
Total deferred tax assets	**65,492**	**71,194**
Netting[1]	(36,625)	(46,774)
Total	**28,867**	**24,420**

EUR thousands	2018	2017
Temporary differences arising between the tax bases and carrying amounts	38,050	29,961
Acquisition-related intangible assets[2]	132,042	175,608
Customer acquisition costs	105,032	82,429
Adjustment on adoption of IFRS 15[3]	(25,775)	(23,028)
Adjustment on adoption of IFRS 9	20,371	–
Other temporary differences	21,356	21,218
Total deferred tax liabilities	**291,076**	**286,188**
Netting[1]	(36,625)	(46,774)
Total	**254,451**	**239,414**
Net deferred tax liabilities	**(225,584)**	**(214,994)**

1) The Group has offset deferred tax assets and liabilities on the consolidated statement of financial position where a right to offset existed.
2) Deferred tax has decreased due to amortization of the acquisition-related intangible assets.
3) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

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, 2018, the Group had tax loss carried forward of EUR 744.5 million (537.5 in 2017). As of December 31, 2018, tax loss carry-forwards for which deferred tax assets had been recognised amounted to EUR 198.7 million (122.0 in 2017) and deferred tax assets related to the tax loss amounted to EUR 39.1 million (37.8 in 2017). 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 19 Financial Risk Management

The 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 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 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 Group trade receivables at the end of December 2018 was EUR 133,620 thousand (123,255).

Credit risk from trade receivables

The Group has no significant concentrations of credit risk in relation to trade receivables. The 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 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 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	2018	2017
Trade receivables before provision for bad debts	182,854	164,580
Provision for bad debts	(49,234)	(41,325)
Total trade receivables	**133,620**	**123,255**

Note 19 cont.

Financial instruments by category and valuation level

EUR thousand	2018	2017
Financial assets at fair value through profit or loss		
Derivatives		
Currency forwards	17,603	4,449
Interest floor[1]	–	1,613
Financial liabilities at fair value through profit or loss		
Derivatives		
Currency forwards	3,746	222
Interest rate swaps	6,398	–
Total	**7,459**	**5,840**
Loans and receivables at amortised cost		
Trade and other receivables	307,341	1,309,739
Trade receivables[2]	133,620	123,255
Other current receivables[2]	10,938	28,286
Cash and cash equivalent	8,613	14,245
Other financial liabilities at amortised cost		
Long-term borrowings[3]	4,573,202	4,112,790
Other non-current liabilities[2,4]	120,310	84,838
Trade payables[2]	125,237	115,846
Short-term borrowings[2]	47,913	53,072
Other current liabilities[2]	29,572	32,297

1) 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.
2) Details of borrowings are presented in note 25.
3) Fair value for the listed bond amounts to EUR 1,494 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.
4) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

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	2018	2017
Long-term borrowings (principal amount)		
EUR liabilities	4,570,182	4,017,265
SEK liabilities	160,900	167,618
Total	**4,731,082**	**4,184,883**
Short-term borrowings		
EUR liabilities	27,213	29,596
Other currencies	–	281
Total	**27,213**	**29,877**

Note 19 cont.

Credit facilities as per December 31, 2018

Line of credit	Currency	Facility amount	Available amount	Maturity
Revolver Credit Facility (RCF)	Multicurrency (EUR)	300,000	227,940	2022
Term loan B	EUR	3,092,000	–	2022
Bond	EUR	300,000	–	2023
Senior Unsecured Notes (SUN)	EUR	1,080,000	–	2023
Senior Unsecured Notes (SUN)	SEK	1,650,000	–	2023

Credit facilities as per December 31, 2017

Line of credit	Currency	Facility amount	Available amount	Maturity
Revolver Credit Facility (RCF)	Multicurrency (EUR)	300,000	286,563	2021
Term loan B	EUR	2,380,000	-	2022
Bond	EUR	630,000	-	2022
Senior Unsecured Notes (SUN)	EUR	980,000	-	2023
Senior Unsecured Notes (SUN)	SEK	1,650,000	-	2023

Liquidity risk

Liquidity risk is the risk an entity will encounter difficulty in meeting obligations associated with financial liabilities. The 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 outstanding borrowings. The risk is minimised by analysing and monitoring the maturity structure of external loans.

The table below analyses the 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.

Note 19 cont.

Liquidity report

	2018			
EUR thousand	Less than 1 year	1–4 years	5 years or more	Total
Liabilities to credit institutions, principal amounts	–	(4,731,082)	–	**(4,731,082)**
Interest payments borrowings	(184,372)	(579,506)	–	**(763,878)**
Interest payments derivatives[2]	(3,100)	(11,805)	–	**(14,905)**
Other non-current liabilities	–	(120,310)	–	**(120,310)**
Trade payables	(125,237)	–	–	**(125,237)**
Short-term borrowings[3]	(27,213)	–	–	**(27,213)**
Derivatives, currency forwards	(8,250)	(10,000)	–	**(18,250)**
Other current liabilities	(29,572)	–	–	**(29,572)**
Total outflow	**(377,744)**	**(5,452,703)**	**–**	**(5,830,447)**
Other non-current receivables	–	64,134	243,207	**307,341**
Trade receivables	133,620	–	–	**133,620**
Derivatives, currency forwards	10,092	12,221	–	**22,313**
Interest derivatives	1,190	4,531	–	**5,721**
Other current receivables	10,938	–	–	**10,938**
Total inflow	**155,840**	**80,886**	**243,207**	**479,933**
Net cash flow, total[1]	**(221,904)**	**(5,371,817)**	**243,207**	**(5,350,514)**

	2017			
EUR thousand	Less than 1 year	1–4 years	5 years or more	Total
Liabilities to credit institutions, principal amounts	–	(13,437)	(4,171,446)	**(4,184,883)**
Interest payments borrowings	(175,692)	(757,030)	(35,038)	**(967,760)**
Interest payments derivatives[2]	(2,063)	(4,563)	–	**(6,626)**
Other non-current liabilities[4]	–	(84,838)	–	**(84,838)**
Trade payables	(115,846)	–	–	**(115,846)**
Short-term borrowings[3]	(29,877)	–	–	**(29,877)**
Derivatives, currency forwards	(196,950)	(267,072)	–	**(464,022)**
Other current liabilities	(32,297)	–	–	**(32,297)**
Total outflow	**(552,725)**	**(1,126,940)**	**(4,206,484)**	**(5,886,149)**
Other non-current receivables	–	1,079,228	230,511	**1,309,739**
Trade receivables	123,255	–	–	**123,255**
Derivatives, currency forwards	196,728	275,000	–	**471,728**
Other current receivables	28,286	–	–	**28,286**
Total inflow	**348,269**	**1,354,228**	**230,511**	**1,933,008**
Net cash flow, total[1]	**(204,456)**	**227,288**	**(3,975,973)**	**(3,953,141)**

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.
4) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

Note 19 cont.

Interest rate risk

The Group's interest rate risk arises in its long-term borrowings. Borrowings raised at variable interest rates expose the Group to interest rate risk. Borrowings raised at fixed interest rates expose the Group to fair value interest rate risk. During 2018 and 2017, the Group's borrowings at variable interest rate were denominated in the Swedish krona and the Euro.

At December 31, 2018, with current financing terms which partially include an interest floor of 0%, an increase of EURIBOR/STIBOR fixings of 100 basis points (1.0%) will impact the Group's total interest expenses by a negative EUR 10 million.

Foreign currency risk

The 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 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 Group does not currently hedge any such transaction exposure.

The 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 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. Cross currency swaps are used to convert Euro denominated debt into Swedish krona debt exposure while plain currency swaps are used to minimise interest expenses charged by banks in the cash pool structures.

Sensitivity analysis

The 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 Group's operations in 2018 and should be viewed as an estimate of the effect of an isolated change in each variable.

Variable	Change	Effect
Depreciation and amortization	+/- 10 percentage point	Decrease/increase of approximately EUR 33 (30 in 2017) million in operating result.
Interest rate	+/– 1 percentage point	Decrease of approximately EUR 10 (16 in 2017) million in net finance income and costs.
Currency rate EUR/SEK	+/– 10 percentage point	Increase/decrease of approximately EUR 23 (23 in 2017) million in revenue. Increase/decrease of approximately EUR 9 (8 in 2017) million in operating result.
Currency rate EUR/NOK	+/– 10 percentage point	Increase/decrease of approximately EUR 13 (12 in 2017) million in revenue. Increase/decrease of approximately EUR 6 (5 in 2017) million in operating result.

Capital structure

Asset management is aimed at ensuring that the 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 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 last quarter 2018). This covenant ratio will decrease successively for each quarter by 0.3x until it reaches 5.0x where it will remain. As per end of year 2018 this ratio was 5.1x.

EUR thousand	2018	2017
Long-term borrowings (principal amount)	4,731,082	4,184,883
Short-term borrowings	47,913	53,072
Less accrued interest	(20,700)	(23,195)
Less cash and cash equivalents	(8,613)	(14,245)
Less financial receivable, non-current	–	(691)
Net debt	**4,749,682**	**4,199,824**
Total assets	**3,450,494**	**4,327,064**
Adjusted EBITDA[1]	**583,549**	**500,424**
Portfolio EBITDA[1]	**890,704**	**759,909**

1) The comparatives have been changed due to change in acconting policy. Refer to note 29 for more information.

Details of borrowings are presented in note 25. For covenant purposes other definitions apply.

Note 20 Trade and Other Receivables

EUR thousand	2018	2017
Group contribution claims	231,578	230,511
Trade receivables	53,386	37,746
Other receivables	22,377	1,041,482
Total	**307,341**	**1,309,739**

Note 21 Inventories

EUR thousand	2018	2017
Materials and consumables	102,488	74,911

Impairment for provision in inventories at year end totalled EUR 1,446 thousand (2,253 in 2017). The cost of materials recognised as an expense and included in “cost of sales” was EUR 50,093 thousand (35,188 in 2017) at December 31, 2018.

Note 22 Trade Receivables

EUR thousand	2018	2017
Trade receivables before provision for bad debts	182,854	164,580
Provision for bad debts	(49,234)	(41,325)
Total	**133,620**	**123,255**

Due dates for trade receivables

EUR thousand	2018	2017
Past due 0–3 months	13,369	10,737
Past due 3–6 months	5,884	5,185
Past due 6–9 months	4,894	3,799
Past due 9–12 months	3,941	3,503
Past due >12 months	31,053	31,137
Total	**59,141**	**54,361**

Provisions for bad debts

EUR thousand	2018	2017
Balance at beginning of year	41,325	33,103
Provision for bad debt during the year	13,573	12,960
Receivables written off during the year as uncollectible	(2,996)	(2,065)
Unused amounts reversed	(2,668)	(2,673)
Balance at end of year	**49,234**	**41,325**

Customer credit losses recognised in the income statement totalled EUR 20.1 million (15.2 in 2017) at December 31, 2018.

Note 23 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:

	2018			2017		
EUR thousand	Assets	Liabilities	Net	Assets	Liabilities	Net
Hedging activities						
Currency forwards	17,603	3,746	13,857	4,449	222	4,227
Interest rate swaps		6,398	6,398	–	–	–
Interest floor	–	–	–	1,613	–	1,613
Total	**17,603**	**10,144**	**7,459**	**6,062**	**222**	**5,840**
Classified as						
Non-current	17,603	6,398	11,205	6,062	–	6,062
Current	–	3,746	3,746	–	222	222
Total	**17,603**	**10,144**	**7,459**	**6,062**	**222**	**5,840**

Currency derivatives

At December 31, 2018, the notional principal amount of outstanding foreign exchange contracts used to manage the Group's cash pool was EUR 207.1 million (197.0 in 2017) and cross currency swaps was EUR 275.0 million (275.0 in 2017). 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 11.

Note 24 Share Capital

Verisure Midholding AB's (publ) share capital totalled EUR 56,104 at December 31, 2018 and December 31, 2017, 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	2018	2017
Number of shares at beginning of year	500,000	500,000
Number of shares at end of year	**500,000**	**500,000**

Note 25 Borrowings

EUR thousand	2018 Principal amount	2018 Adjustment amortised costs	2018 Carrying amount	2017 Principal amount	2017 Adjustment amortised costs	2017 Carrying amount
Non-current liabilities						
Secured						
Senior Secured Notes	300,000	(2,726)	**297,274**	630,000	(13,186)	**616,814**
Term Loan B[1,2]	3,092,000	(140,947)	**2,951,053**	2,380,000	(40,413)	**2,339,587**
Revolver Credit Facility	72,966	(4,260)	**68,706**	13,437	(5,855)	**7,582**
Unsecured						
Senior Unsecure Notes	1,240,900	(9,947)	**1,230,953**	1,147,618	(12,639)	**1,134,979**
Liabilities to other creditors	24,437	–	**24,437**	12,630	–	**12,630**
Finance lease liability	779	–	**779**	1,198	–	**1,198**
Long-term borrowings	**4,731,082**	**(157,880)**	**4,573,202**	**4,184,883**	**(72,093)**	**4,112,790**
Current liabilities						
Accrued interest expenses	20,700	–	**20,700**	23,195	–	**23,195**
Other liabilities	26,914	–	**26,914**	29,420	–	**29,420**
Finance lease liability	299	–	**299**	457	–	**457**
Short-term borrowings	**47,913**	**–**	**47,913**	**53,072**	**–**	**53,072**
Total	**4,778,995**	**(157,880)**	**4,621,115**	**4,237,955**	**(72,093)**	**4,165,862**

1) Of the total amount regarding adjustment amortized costs 2018, EUR 98,652 thousands relates to a non-cash adjustment derived from the modification of loan terms during the loans contract period calculated according to IFRS 9.
2) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

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 28.

Net Debt Bridge

EUR thousand	2018	2017
Total principal amount (as above)	4,778,995	4,237,955
Less accrued interest	(20,700)	(23,195)
Indebtness	**4,758,295**	**4,214,760**
Less financial receivable, non-current	–	(691)
Less cash and cash equivilents	(8,613)	(14,245)
Net debt	**4,749,682**	**4,199,824**

Note 25 cont.

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			
2018	EUR thousand	Weighted average interest rate %	EUR thousand	Weighted average interest rate %	Weighted average period for which rate is fixed, years	Total EUR thousand
EUR	1,817,000	3.9	2,380,000	3.1	4.4	**4,197,000**
SEK	435,900	4.4	–	–	–	**435,900**
Total	**2,252,900**		**2,380,000**			**4,632,900**

	Floating interest rate		Fixed interest rate			
2017	EUR thousand	Weighted average interest rate %	EUR thousand	Weighted average interest rate %	Weighted average period for which rate is fixed, years	Total EUR thousand
EUR	2,118,440	3.0	1,610,000	5.8	4.6	**3,728,440**
SEK	442,618	4.5	–	–	–	**442,618**
Total	**2,561,058**		**1,610,000**			**4,171,058**

The majority of all borrowings with floating interest include a floor of 0% which means the applied interest fixing of Euribor and Stibor will equal 0% as long as the relevant period fixings of Euribor and Stibor are below 0%.

Obligations under finance leases

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

EUR thousand	2018	2017
Term to maturity < 1 year	299	613
Term to maturity 1–5 years	779	1,042
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 25 cont.

Cash flows related to borrowings

EUR thousands	Carrying amount Jan 1, 2018	Cash flows	Non-Cash changes: Change in adjustment amortised cost	Non-Cash changes: Foreign exchange movement	Non-Cash changes: New accrued interest	Carrying amount Dec 31, 2018
Long-term borrowings	4,111,592	553,377	(85,787)	(6,759)	–	**4,572,423**
Short-term borrowings	29,420	(2,506)	–	–	–	**26,914**
Accrued interest	23,195	(23,195)	–	–	20,700	**20,700**
Financial lease	1,655	(577)	–	–	–	**1,078**
	4,165,862	**527,099**	**(85,787)**	**(6,759)**	**20,700**	**4,621,115**
Cash and cash equivalents	14,245	(5,520)	–	(112)	–	**8,613**
	14,245	**(5,520)**	**–**	**(112)**	**–**	**8,613**
Total	**4,151,617**	**532,619**	**(85,787)**	**(6,647)**	**20,700**	**4,612,502**

EUR thousands	Carrying amount Jan 1, 2017	Cash flows	Non-Cash changes: Acquisition	Non-Cash changes: Change in adjustment amortised cost	Non-Cash changes: Foreign exchange movement	Non-Cash changes: New accrued interest	Carrying amount Dec 31, 2017
Long-term borrowings	2,790,157	1,208,326	111	119,302	(6,304)	-	4,111,592
Short-term borrowings	20,280	8,846	294	-	-	-	29,420
Accrued interest	40,538	(40,538)	-	-	-	23,195	23,195
Financial lease	2,206	(551)	-	-	-	-	1,655
	2,853,181	**1,176,083**	**405**	**119,302**	**(6 304)**	**23,195**	**4,165,862**
Cash and cash equivalents	5,985	8,455	-	-	(195)	-	14,245
	5,985	**8,455**	**-**	**-**	**(195)**	**-**	**14,245**
Total	**2,847,196**	**1,167,628**	**405**	**119,302**	**(6,109)**	**23,195**	**4,151,617**

Note 26 Other Provisions

EUR thousand	2018	2017
Balance at beginning of year	2,319	1,558
Additional provisions	1,646	936
Utilised provisions	(687)	(175)
Balance at end of year	**3,278**	**2,319**

Breakdown

EUR thousand	2018	2017
Provision for staff-related costs	2,658	1,634
Other items	620	685
Total	**3,278**	**2,319**

Note 27 Accrued Expenses and Deferred Income

EUR thousand	2018	2017
Subscription fees invoiced in advance[1]	154,362	145,710
Staff-related costs	87,612	72,953
Marketing-related costs	7,264	8,406
Audit assignments and other services	1,260	1,007
Risk reserves	4,889	5,729
External services	22,281	13,854
Other items	38,467	43,276
Total	**316,135**	**290,935**

1) The comparatives have been changed due to change in accounting policy. Refer to note 29 for more information.

When the Group receives a payment but has not delivered the promised service a contract liability arise, which consist of deferred income for prepaid installation and services. A contract liability is accounted for until the performance obligation is performed or fall due for the customer to use, and is then reported as a revenue.

EUR thousand	2018	2017
Revenue recognized included in the opening contract liability balance	145,710	92,835

Note 28 Pledged Assets and Contingent Liabilities

Pledged assets

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

Contingent liabilities

EUR thousand	2018	2017
Guarantees	25,068	19,068

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 Group and certain rights under reports in relation to the acquisition of the Group as collateral for bank borrowings, as disclosed in note 25. Guarantees relate primarily to guarantees provided to suppliers.

Note 29 Changes in Accounting Policy

As of January 1, 2018, two new standards with effect on the Group were effective:

IFRS 9 Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It also introduces new rules for hedge accounting and a new impairment model for financial assets. The new standard was adopted as of January 1, 2018. The Group has chosen to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption has been recognized in retained earnings as of January 1, 2018 and that comparatives have not been restated.

There is no impact on measurement from the new classification criteria for financial assets. This means that financial assets that were measured at amortized cost and fair value through profit or loss are measured and classified as amortized cost and fair value through profit or loss respectively under IFRS 9.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. IFRS 9 also impacts the Group with new rules regarding modifications of financial liabilities measures at amortized cost. According to IFRS 9 a modification should result in a gain or a loss in the income statement, based on the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. All previous modifications of financial liabilities still in the Group's balance sheet as of January 1, 2018 have been calculated as if IFRS 9 had always been applied and the result is a positive effect in equity of EUR 99 million after deduction of deferred tax, at the time of the transition.

The total impact on the group's retained earnings as at January 1, 2018 and January 1, 2017 is shown in the consolidated statement of changes in equity on page 34.

IFRS 15 - Revenue from contracts with customers

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. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. IFRS 15's main effect on the Group is related to the timing of the allocation of standalone selling price to the performance obligations installation (recognized at point in time) and portfolio service (recognized over the contract period). Part of the installation revenue will be recognized later than according to current standards.

The policy was adopted with start January 1, 2018, using the retrospective approach which means that the comparatives regarding 2017 have been restated. Refer to the Annual report 2017, note 31 and note 7 in the Interim report January–March 2018, for information regarding the impact on the Group. An update of the transition effect was done during Q4 2018, which have resulted in an adjusted amount on equity and the balance sheet items. Refer to updated numbers in the interim report January-December 2018 as well as tables below. This change had no effect in the income statement.

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

The effects related to the comparatives in this report is summarized below. The effects regarding the balance as of December 2017 is summarized in note 7 in the Interim report January–March 2018.

Adjustment of comparatives

As stated above, the comparatives in this report have been changed compared to the information regarding IFRS 15 presented in the interim report January–December 2017. The adjustments related to the Income statement is summarized below.

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

Note 29 cont.

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

1) As presented as comparatives 2017 after adjustment of interest floors.

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

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

Note 30 New Standards and Interpretations not yet adopted

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

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term, including those contracts ending during the first 12 months after the transition, and low-value leases.

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

The Group's lease agreements are mainly attributable to buildings and vehicles. As from the transition to IFRS 16, they are accounted for as right of use assets (included in Property, Plant and Equipment) and long-term and short-term lease liabilities (included in long-term borrowing and short-term borrowings) in the consolidated balance sheet. The lease liabilities on January 1, 2019 have been measured at the present value of remaining lease payments, discounted by using the incremental borrowing rate. The incremental borrowing rate depends on a number of factors including length of lease period and asset type and are specific for each country. The Group will apply the exceptions in IFRS 16 and exclude short-term leases (lease term 12 months or less at commencement date, and those contracts ending in 2019) as well as leases for which the underlying asset is of low value in the calculation of the lease liability and right-of-use asset in the transition. These will instead be reported as lease payments as current operating expenses in the income statement.

The effects as of January 1, 2019 are summarized below. The effects has changed from the presented figures in the 2018 Q4 report, as those figures were not fully finalized.

EUR thousand	Dec 31, 2018 – As reported	Adjustment – IFRS 16 – As of Jan 1, 2019	Jan 1, 2019 – Adjusted
Property, plant and equipment	720,960	131,438	852,398
Total non-current assets	**3,145,181**	**131,438**	**3,276,619**
Prepayments and accrued income	34,553	–2,414	32,139
Total current assets	**305,313**	**–2,414**	**302,899**
Total assets	**3,450,494**	**129,024**	**3,579,518**
Total equity	**–2,048,783**	**–**	**–2,048,783**
Long-term borrowings	4,573,202	99,710	4,672,912
Total non-current liabilities	**4,957,640**	**99,710**	**5,057,350**
Short-term borrowings	47,913	29,314	77,227
Total current liabilities	**541,637**	**29,314**	**570,951**
Total equity and liabilities	**3,450,494**	**129,024**	**3,579,518**

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

Parent Company Financial Statement

Parent Company Income Statement

EUR thousand	Note	2018	2017
Administrative expenses		(18)	(25)
Operating profit		**(18)**	**(25)**
Interest income from Group companies		43,521	57,233
Other financial income		–	1,032
Interest expense		(66,397)	(58,716)
Interest expense to Group companies		(393)	–
Other financial costs		(3,013)	(27,784)
Dividend		353,694	1,095,492
Group contribution		31,266	9,301
Result before tax		**358,660**	**1,076,533**
Income tax expense and benefit		(109)	–
Result for the period		**358,551**	**1,076,533**

Parent Company Statements of Financial Position

EUR thousand	Note	2018	2017
ASSETS			
Non-current assets			
Long-term investments			
Investments in subsidiaries	2	1,189,952	1,134,604
Receivables from Group companies		701,094	576,919
Total non-current assets		**1,891,046**	**1,711,523**
Current assets			
Other receivables from Group companies		158	1,095,492
Prepayments		13	–
Accrued interest income from Group companies		4,005	8,656
Cash and cash equivalents		252	3,257
Total current assets		**4,428**	**1,107,405**
TOTAL ASSETS		**1,895,474**	**2,818,928**

EUR thousand	Note	2018	2017
EQUITY AND LIABILITIES			
Equity	24		
Share capital		56	56
Other paid in capital		569,170	569,170
Retained earnings		41,538	1,075,664
Total equity		**610,764**	**1,644,890**
Non-current liabilities			
Long-term borrowings	1	1,230,953	1,137,262
Liabilities to Group companies		44,270	–
Deferred tax liabilities		109	–
Total non-current liabilities		**1,275,332**	**1,137,262**
Current liabilities			
Trade payables		–	3,992
Accrued expenses	1	5,733	6,626
Accrued interest expenses to Group companies		228	–
Other current liabilities		–	5
Other current liabilities to Group companies		3,417	26,153
Total current liabilities		**9,378**	**36,776**
TOTAL EQUITY AND LIABILITIES		**1,895,474**	**2,818,928**

Parent Company Statements of Changes in Equity

	Attributable to equity holders of the parent company			
EUR thousand	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2018	**56**	**569,170**	**1,075,664**	**1,644,890**
Result for the period	–	–	358,551	**358,551**
Total comprehensive income for the year	–	–	*358,551*	***358,551***
Dividend	–	–	*(1,448,025)*	***(1,448,025)***
Shareholders contribution	–	–	*55,348*	***55,348***
Total transactions with owners	–	–	*(1,392,677)*	***(1,392,677)***
Balance at December 31, 2018	**56**	**569,170**	**41,358**	**610,764**

	Attributable to equity holders of the parent company			
EUR thousand	Share capital	Other paid in capital	Retained earnings	Total
Balance at January 1, 2017	**56**	**569,170**	**(869)**	**568,357**
Result for the period	–	–	1,076,533	**1,076,533**
Total comprehensive income for the year	–	–	*1,076,533*	***1,076,533***
Balance at December 31, 2017	**56**	**569,170**	**1,075,664**	**1,644,890**

Parent Company Statement of Cash Flows

EUR thousand	2018	2017
Operating activities		
Operating profit	(18)	(25)
Cash flow from operating activities before change in working capital	**(18)**	**(25)**
Change in working capital		
Change in trade payables	(571)	3,992
Change in trade receivables	(171)	–
Change in other payables	–	7
Cash flow from change in working capital	*(742)*	*3,999*
Cash flow from operating activities	**(760)**	**3,974**
Investing activities		
Cash flow from investing activities	**–**	**–**
Financing activities		
New loans to group companies	(81,882)	–
Repayment of receivables from group companies	–	120,846
Paid bank and advisory fees	(2,231)	(38,638)
Interest paid	(19,294)	(7,491)
New financing	100,000	1,152,729
Repayment of debt	–	(688,068)
Dividend received	1,162	–
Paid shareholder contribution	–	(540,194)
Cash flow from financing activities	**(2,245)**	**(817)**
Cash flow for the period	**(3,005)**	**3,157**
Cash and cash equivalents at start of period	3,257	100
Cash and cash equivalents at end of period	**252**	**3,257**

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 note 1 to the consolidated financial statements in the annual report. The accounting policies are unchanged compared with those applied in 2017.

Note 1 Borrowings in the Parent Company

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

	2017		
EUR thousand	Current liabilities	Non-current liabilities	Total
Unsecured			
Senior Unsecured Notes	6,626	1,137,262	**1,143,888**
Total (carrying amount)	**6,626**	**1,137,262**	**1,143,888**

Note 2 Investments in Subsidiaries

EUR thousand	2018	2017
Opening acquisition value	1,134,604	594,410
Capital increase	55,348	540,194
Closing accumulated acquisition value	**1,189,952**	**1,134,604**

Subsidiary name	Reg. no	Reg. office	No. of shares	Share of share capital and voting rights	2018	2017
Verisure Holding AB	556854-1410	Malmö	500,000	100%	1,189,952	1,134,604
Total					**1,189,952**	**1,134,604**

Note 2 cont.

Subsidiary name	Country	Share of share capital and voting rights
Verisure Holding AB	Sweden	100%
Securitas Direct AB (publ)	Sweden	100%
Verisure Sales Sverige AB	Sweden	100%
Verisure Sverige AB	Sweden	100%
Alert Alarm AB	Sweden	100%
Securitas Direct Sverige AB	Sweden	100%
Verisure Logistics AB	Sweden	100%
Verisure Innovation AB	Sweden	100%
Verisure Sàrl	Switzerland	100%
Securitas Direct BV	The Netherlands	100%
Verisure Installation and Monitoring B.V.	The Netherlands	100%
Securitas Direct NV	Belgium	100%
Securitas Direct Management BVBA	Belgium	100%
Verisure Holding AS	Norway	100%
Verisure AS	Norway	100%
Falck Alarm by Verisure AS	Norway	100%
Verisure A/S	Denmark	100%
Falck Alarm by Verisure A/S	Denmark	100%
Verisure Oy	Finland	100%
Verisure Services (UK) Limited	United Kingdom	100%
Verisure Deutschland GmbH	Germany	100%
Verisure International AB	Sweden	100%
ESML SD Iberia Holding S.A.U.	Spain	100%
Verisure Perú S.A.C	Peru	100%
Verisure Italy S.R.L.	Italy	85%
Verisure Brazil Monitoramento de Alarmes LTDA	Brazil	100%
Securitas Direct S.A.S	France	100%
Mediaveil S.A.S	France	95%
Securitas Direct España S.A.U	Spain	100%
Securitas Direct Portugal Unip. LDA	Portugal	100%
Verisure Chile SPA	Chile	100%

Note 3 Pledged Assets and Contingent Liabilities in the Parent Company

Pledged assets

EUR thousand	2018	2017
Shares in subsidiaries	1,189,952	1,134,604

There are no contingent liabilities in 2018 and 2017.

April 29 2019, Malmö

Austin Lally
CEO

Fredrik Östman

Stefan Götz

Cecilia Hultén
Chairman

Adrien Motte

Our auditor's report was issued on April 29 2019, Stockholm
PricewaterhouseCoopers AB

Johan Rippe
Authorised Public Accountant

Independent Auditor’s Report

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

Corporate identity number 556854-1402

Opinions

We have audited the annual financial statements and the consolidated financial statements of Verisure Midholding AB (publ) for the financial year ended 31 December 2018. 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, 2018 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, 2018 through December 31, 2018 and a summary of significant accounting policies. The financial statements of the parent company and the group are included in the printed version of this document on pages 24–73.

In our opinion, the accompanying 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 at December 31, 2018, 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, 2018, and the operations and cash flows for the period from January 1, 2018 through December 31, 2018, in accordance with International Financial Reporting Standards, as adopted by the EU.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the parent company and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter - Basis of Accounting and Use

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 to present the operations of Verisure Midholding AB (publ) for the full year 2018, 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. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the parent company's and the group´s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Stockholm, April 29, 2019
PricewaterhouseCoopers AB

Johan Rippe
Authorized Public Accountant

Five-Year Financial Overview

EUR thousand	2018	2017	2016	2015	2014
Portfolio services segment: *Unaudited operating data*					
Total subscribers (year end)[1], units	2,930,753	2,586,123	2,293,993	2,016,523	1,788,439
Cancellations, units	171,099	153,369	142,708	129,174	125,296
Attrition rate (LTM)	*6.2%*	*6.3%*	*6.7%*	*6.8%*	*7.3%*
Net subscriber growth, units[1]	344,630	292,130	277,470	228,084	162,446
Subscriber growth rate, net	*13.3%*	*12.7%*	*13.8%*	*12.8%*	*10.0%*
Average monthly revenue per user (ARPU), (in EUR)[2]	40.2	39.8	38.9	38.1	37.3
Monthly adjusted EBITDA per subscriber (EPC), (in EUR)[2]	26.9	26.0	24.6	23.0	21.6
Non-IFRS and IFRS financial data					
Portfolio services revenue	1,329,536	1,158,096	995,393	862,367	763,842
Portfolio services adjusted EBITDA	890,704	759,909	629,479	521,729	440,971
Portfolio services adjusted EBITDA margin	*67.0%*	*65.6%*	*63.1%*	*60.5%*	*57.7%*
Customer acquisition segment: *Unaudited operating data*					
New subscribers added (gross)	515,624	439,687	359,468	308,494	264,801
Cash acquisition cost per new subscriber (CPA), (in EUR)	1,196	1,167	1,176	1,149	1,103
Non-IFRS and IFRS financial data					
Customer acquisition revenue	279,147	234,478	179,784	141,211	118,518
Customer acquisition adjusted EBITDA	(265,444)	(202,819)	(177,361)	(160,933)	(137,202)
Capital expenditures	351,304	310,407	245,338	193,425	154,984
Adjacencies segment:					
Adjacencies revenue	16,167	2,183	2,027	1,395	–
Adjacencies adjusted EBITDA	(2,322)	464	371	43	–
Consolidated: *Unaudited operating data*					
Payback period (in years)	3.7	3.7	4.0	4.2	4.3
Non-IFRS and IFRS financial data					
Revenue	1,624,849	1,394,757	1,177,205	1,004,973	882,360
Organic revenue growth	*19.4%*	*17.4%*	*15.7%*	*14.0%*	*9.8%*
Adjusted EBITDA	622,938	557,554	452,489	360,839	303,769
Adjusted EBITDA margin	*38.3%*	*40.0%*	*38.2%*	*35.7%*	*34.4%*
Capital expenditures	500,138	429,075	321,064	253,892	211,867
Reported (including SDI)					
Revenue	1,612,525	1,372,409	1,177,205	1,004,973	882,360
Adjusted EBITDA	583,549	500,424	452,489	360,839	303,769

[1] Differences in reconciliation with end of period subscriber data are primarily due to acquisitions of contract portfolios.
[2] All amounts are before SDI (if not otherwise stated). Comparatives have been restated. Refer to note 3 for reconciliation.
[3] 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 our business. The non-IFRS operational and statistical information related to our operations included in this section is unaudited and has been derived from internal reporting systems. Although none of these metrics are measures of financial performance under IFRS, we believe that these metrics provide important insight into the operations and strength of our business. These metrics may not be comparable to similar terms used by competitors or other companies, and from time to time we may change our definitions of these metrics. The metrics include the following:

Adjusted EBITDA
Earnings before interests, taxes, depreciation and amortization, write-offs and separately disclosed items and IFRS 15 adjustments.

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.

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

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

New subscriber added (gross)
Total number of new subscribers added.

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

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

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

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

Risk Factors

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 segment of the much larger security and safety services market (the ''RHSB segment'') in Europe and Latin America is fragmented and subject to significant competition and pricing pressures. As a result, within our segment, we must compete against a variety of players who use various strategies. For example, the majority of our competitors offer lower installation and lower recurring fees, generally reflecting the product quality and service levels. Likewise, 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 use lower pricing to increase their customer base and win market share. Our higher installation fees as compared to our competitors could make our competitors' offers appear more attractive to potential customers, 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 potential competition from improvements in do-it-yourself (''DIY'') self-monitored 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 and monitor without third party involvement. Continued pricing pressure or improvements in technology, as well as increased smart phone penetration, and possible 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 market and telecommunications market are best situated to move into the security and safety industry. While within the connected home market, security and safety is the largest growing segment, the connected home market itself is growing quickly and covers many different products and services in segments such as utility management, entertainment, wellness management and smart appliances. If competitors in these alternative segments move into the security and safety segment of the connected home market, 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 Amazon, Google, Apple and Microsoft have launched smart home platforms. Such players could leverage their well-known brand names and technological superiority to enter the security and safety segment of the connected home market. For example, Google acquired Dropcam (a manufacturer of security cameras) in June 2014, and merged it with Nest (a manufacturer of smart thermostats) and has subsequently launched a DIY home alarm platform in the US on that basis. As another example, Amazon acquired Blink in December 2017 and Ring in February 2018, and subsequently proceeded to launch a Ring Alarm product suite in the U.S. 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 significant interest in entering the security and safety market in Europe and Comcast has already done so successfully in the United States. Given the extensive customer base of larger telecommunications players, if they are able to successfully develop security monitoring capabilities, they may be able to leverage their existing customer contacts to rapidly 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 technological features 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 new product features can have a significant impact on a customer's initial decision to choose our products. Likewise, the quality of our monitoring services, which heavily depend on the technology used in our security alarm systems, also 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. For example, one of the current limitations of DIY systems is that they are not yet intelligent enough to distinguish between false alarms and actual intrusions. However, the technology used in such systems, and in particular in the artificial intelligence engines behind them, could quickly improve and thus increase the level of competition. Alternatively, technological improvements in distinct but related industries could also increase levels of competition. 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 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 rate 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 rate in our small business portfolio compared to our residential customers. Attrition as a percentage of overall customers increased in both 2012 and 2013, which was primarily driven by enduring effects of the recession in the Spanish economy, where we have a larger proportion of small business customers compared to the rest of our segments. 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 subject to uncertainty. General market volatility may result from uncertainty about sovereign debt and fear of further downgrading of or defaults on sovereign debt, in particular in Greece, Italy, Portugal and Spain.

Spain, as mentioned above, was severely affected by the crisis of previous years but, at the moment, is recovering from the period of recession and austerity. However, the economy still suffers from relatively high levels of unemployment and debt. Furthermore, tensions in Catalonia relating to the sovereignty of the region are not abating and as a result the Spanish Government has decreased its economic outlook for 2019, and the National Securities Market Commission (Comisi´on Nacional del Mercado de Valores) has mentioned the uncertainty derived from the political turmoil in Catalonia as a domestic risk.

Additionally, on March 29, 2017, the Prime Minister of the United Kingdom officially triggered Article 50 of the Treaty of Lisbon, signaling the start of a two-year period in which the United Kingdom will negotiate the terms of its exit (''Brexit'') from the European Union. While it is difficult to predict the effect of Brexit on the European and global economy, uncertainty regarding new or modified arrangements between the United Kingdom and the European Union could have a material adverse effect on the buying behavior of commercial and individual customers. There could be further calls for other governments of other European Union Member States to consider withdrawal from the European Union. Such developments, or the perception that any such developments could occur, could have a material adverse effect on global economic conditions and the stability of the global economy.

Any deterioration of the current economic situation in the market segments in which we operate, or in the global economy as a whole could have a negative impact on the Group's revenues and increase the Group's financing costs, circumstances that could have a material adverse effect on the business, financial condition and results of operations of the Group.

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 seek to contractually lock our customer into long term contracts, although some countries set an initial period during which the customer can only get out of the contract against a fee. After any such initial period, a customer may cancel a subscription with a notice period of typically one to three months without penalty. For residential customers, the main reasons for cancelling a subscription include factors such as moving to a new home, financial distress, dissatisfaction with our customer service or prices. For small businesses, attrition usually related to financial distress, the failure, closure or relocation of the business or dissatisfaction with our customer service or prices. Our overall attrition rates on a twelve-month trailing basis were 6.8%, 6,7%, 6.3% and 6.2% in the years ended December 31, 2015, 2016, 2017, and 2018 respectively. As we continue to expand, including into new regions, our new customers may have different economic and other characteristics from our current customers, which may lead to increased attrition rate. For example, in Latin America, the attrition rates were higher than we typically experience in our European geographies.

Customer attrition reduces our revenues from monthly subscription fees and, to the extent we decide to invest in replacing such customer attrition with new customer contracts, customer attrition also increases our customer acquisition costs. Consequently, customer attrition, 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 customer acquisition 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 attrition 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 affected 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 were 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 substantial concentration of sales in Iberia (Spain and Portugal) makes us more vulnerable to negative developments in the region.

A significant portion of our operations occur in Iberia (Spain and Portugal). The Iberian segment accounted for 41% of our revenue for the year ended December 31, 2018. In light of this concentration, our business is particularly sensitive to developments that materially impact the Iberian economy or otherwise affect our operations in Iberia. Negative developments in, or the general weakness of, the Iberian 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 attrition rates among our small business customers, which may persist due to disruptive economic events in Iberia. We have a higher percentage of small business customers in Iberia than in our other market segments 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. Tension in Catalonia relating to the sovereignty of the region, or political instability in other regions in Iberia could lead to an economic slowdown in those regions. While the impact of a continued economic slowdown or recession on our business in Iberia is uncertain, it could result in a decline in our revenues which could have a material adverse effect on our business, financial condition and results of operations.

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 rate 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. In some cases, they are also competing with us for monitoring services. If these or other guarding companies were to successfully expand or further expand into the alarm monitoring and installation market segment, they would become direct and larger competitors with us. This development could also force us 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 share of supply 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 could hurt our revenues, and our failure to comply with regulations regarding the use of personal customer data could subject us to lawsuits or result in the loss of goodwill of our customers and adversely affect our business, financial condition and results of operations.

As part of our operations, we collect a large amount of private information from our customers, including name, address, bank details, 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 images taken by our photo

detectors and cameras, 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 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 centralized 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 most of the countries in which we operate, 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 penalty, including fines. Additionally, in most of the countries in which we operate, our customers and employees have the right to access, rectify, or oppose the processing of their personal data.

Notwithstanding our efforts to meet all applicable legal regulations, we are exposed to the risk that data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by us or on our behalf.

Potential competition with our former parent or disputes over one of our primary brand names may negatively impact our results of operations.

The Group trades under two brands, SECURITAS DIRECT and VERISURE. We do not own the ''SECURITAS'' brand name or trademark. Instead, we license the ''SECURITAS'' brand name and trademark to use as part of "SECURITAS DIRECT" from Securitas AB (publ) for most of our operating geographic locations. Securitas AB (publ) is our former parent company from whom we demerged in 2006. Although, historically, Securitas AB (publ) has primarily focused on the large enterprise segment of the broader security services market, they do compete with us for alarm and monitoring services for the residential and small business segment in which we operate in some countries discussed below. However, in the future, Securitas AB (publ) may choose to change their focus and increase their presence in the residential and small business segment including use of the ''SECURITAS'' brand name in the geographies in which we operate. In that case, consumers may become confused between the two different companies. Additionally, consumers may prefer the products or services that Securitas AB (publ) would offer over our products or services.

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. Since 2009, we have developed our ''Verisure'' brand to use for our business in most countries.

We regard our brand names as critical to our success. Failure to protect our brand names or to prevent unauthorized 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 some increases beyond the increase in consumer price indices, generally reflecting increased service levels). 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 rate. 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, and we may not be able to successfully implement our comprehensive cost savings program, FOG.

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.

In late 2014, we began implementing a group-wide operational improvement plan, FOG, with the aim of optimizing our cost structure and improving productivity. The program seeks to leverage our scale and share best practices across our global footprint in order to reduce costs and improve our margins. We have, since the program's implementation, monitored the obtained savings through implementation of a diligent bottom-up process with quarterly reporting to country and Group Management teams. The actual cumulative savings as of December 2018 are EUR 151 million, obtained through development and sharing of new best practices in our alarm monitoring, customer care and maintenance departments.

We expect that our incremental cost savings for the period from January 1, 2019 to December 31, 2019 will be approximately EUR 11.4 million. There can be no guarantee that such benefits will be realized 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 counterparties), 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 materialize 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 46% of our total operating costs for the year ended December 31, 2018. Any increase in labor costs, particularly in Spain where our largest number of 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-unionized workers may unionize, 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 with whom we work 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 rate 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 customer contracts and other agreements pursuant to which we sell our products and services typically contain provisions limiting our liability in the event of loss due to a system failure or an inadequate response to alarm activation. However, these provisions may be inadequate to protect us from potential liability particularly if they are deemed partially or entirely 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 national laws, as well as 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. Relevant regulation for our operations include such matters as consumer protection, country-specific security industry regulation (including with respect to product or operational requirements), data privacy, marketing, competition and anti-bribery. Many European countries have regulations governing consumer sales methods such as door-to-door, telemarketing and online sales or 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. Additionally, we generally must obtain operating certificates or permits for our alarm monitoring centers, and provide specified 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 may in certain countries be subject to consequences if we forward false alarms to such emergency providers. Any failure to comply with the laws or regulations (local or otherwise) in jurisdictions in which we operate may result in fines, penalties or a suspension or termination of our right to sell, install and/or 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 market segment within the localities in which such laws or regulations are implemented, or could impact our sales channels. 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 monitoring 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 a monitored alarm system. In addition, some local governments impose 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 fines or penalties, or if local governments increase existing requirements, our customers may find these additional charges prohibitive and be discouraged from using monitored alarm 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 manufacturers 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. Across the Group, we have a number of critical components in our systems where we have a single supplier, 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 or to buy volumes beyond actual demand where demand falls below expectations. 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.

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

Our success and competitive position depend 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. While we are increasingly seeking patent protection covering such proprietary technologies, our legal protections covering our proprietary technologies 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 geographies or realize the intended benefits from our acquisitions.

Our growth plan includes expansion into new or recently entered regions in Europe and Latin America. Expanding into these geographies involves significant expenditures, over a period of several years, on development of monitoring and backup centers, hiring and training of personnel, and marketing efforts to introduce our brand to the new geography. 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 regions 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 geographies and following trends in these areas in order to effectively compete;
- increased costs associated with adapting our products and services to different requirements in the local markets areas, which may decrease our margins and profitability;
- challenges relating to developing and maintaining appropriate, and risk of non-compliance with, risk management and internal control structures for operations in new geographies and understanding and complying with new regulatory schemes;
- reduced ability to predict our performance because we will have less experience in the new geographies than in our existing geographies;
- 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, such as the purchases of NorAlarm in May 2016, Falk Denmark in September 2016 and Falck Norway in December 2016, and TeleAlarme in October 2017, 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, and our failure to accurately anticipate or capture expected benefits from our add-on acquisitions, 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 ended December 31, 2018, 66% of our revenue was denominated in euro, 23% was denominated in SEK and NOK and 11% of revenue was denominated in other currencies. Historically, the euro/SEK exchange rate fluctuated significantly, as it averaged SEK 9.3248 = EUR 1.0 in 2015, SEK 9.4648 = EUR 1.0 in 2016, SEK 9.6464 = EUR 1.0 in 2017 and for 2018 the exchange rate averaged SEK 10.2937 = EUR 1.0.

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 at the end of the first full financial year following acquisition 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 are dependent on our ability to attract and retain key management, sales 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 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. Also, our business model is specific and differentiated. So, we need to ensure new personnel have the time and training to become fully effective. We also are dependent on continuing to retain the very experienced managers across the Company who are experts in our specific and differentiated business model. We have had new personnel join our management every year 2014 through 2018, particularly at the senior management level. As such, we may face some of the challenges typically associated with the integration and assimilation of new managers and key personnel, such as changes in organizational and reporting structures, the need to recruit additional new personnel or the departure of existing personnel. For example, in 2014, we increased the size and responsibility of our management team and we hired a new Chief Executive Officer and Chief Human Resources Officer. In 2015, we hired a Chief Marketing Officer and Chief Legal Officer. We continued to add new talent to our senior leadership in 2016 with the hiring of a new Chief Financial Officer and Chief Information Officer. In 2017, we hired a Chief Product and Services Offer to lead our Research & Development organization. Finally, in 2018, we hired a Chief Marketing Officer, internally recruited, and Chief Legal Officer. We also continued to expand our ''sales-installer'' replicable business model as a key 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.

Given the diverse economic and political circumstances in individual Eurozone countries, there is a risk that fears surrounding the sovereign debts and/or fiscal deficits of several countries in Europe, the possibility of a downgrading of, or defaults on, sovereign debt, a future 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 could result in one or more countries defaulting on their debt obligations and/or ceasing use the euro and re-establishing their own national currency or the Eurozone as a whole collapsing. If such an event were to occur, it is possible that there would be significant, extended and generalized 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.

Such 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, ARPUs, 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.

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 Additional 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 Amended and Restated Senior Facilities Agreement, the Senior Notes Indenture and the Senior Secured Notes Indenture contain covenants restricting our and our subsidiaries' corporate activities. See ''—Risks Related to Our Financing Arrangements and the Notes— We are subject to restrictive covenants under our financing agreements that limit our operating and financial flexibility''. Certain of such covenants impose limitations based on euro amounts (including limitations on 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.

Risks Related to Our Financing Arrangements and the Notes

The Company and certain of its guarantors are holding companies with no operations of their own.

Each of these holding companies will be dependent upon the cash flow from its subsidiaries in the form of dividends, interest payments on intercompany loans or other distributions or payments to meet its obligations, including its obligations under the relevant series of Notes and the Guarantees, as applicable. The amounts of dividends, intercompany loan payments (including, in the case of the Senior Notes, payments by the Senior Secured Notes Issuer

under the Senior Notes Proceeds Loans), distributions available or other payments to each holding company will depend on the profitability and cash flows of its subsidiaries and the ability of its subsidiaries to make such dividends, payments or distributions under applicable law. The subsidiaries of the Company and these guarantors, however, may not be permitted to make such dividends, payments or distributions to the Company or other guarantors to make payments in respect of their respective indebtedness, including the Notes and the Guarantees, as applicable. Various regulations, including tax laws, 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 Company or the guarantors. Any restrictions on such subsidiaries could adversely affect the ability of the Company or such 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 Company or such guarantors by their respective subsidiaries to enable the Company or such guarantors to service their respective obligations, including those under the relevant series of Notes or the Guarantees, as applicable. Although the Senior Notes Indenture and the Senior Secured Notes Indenture will limit the ability of the Company's subsidiaries to enter into future consensual restrictions on their ability to pay dividends and make other payments to the Company and the guarantors, there are significant qualifications and exceptions to these limitations. Goodwill impairment and other non-cash charges in our profit or loss account, as well as charges recognized directly in equity, if incurred, could potentially reduce the Company's subsidiaries' reserves available for distribution and thus reduce or prevent upstream dividend payments directly or indirectly to the Company. In addition, the subsidiaries of the Company that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

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. As at December 31, 2018, our total indebtedness was EUR 4,758.3 million and we had EUR 227.9 million of additional availability under the Revolving Credit Facility. 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.

Our substantial debt could have important negative consequences for us and holders of the Notes. 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 the Senior Credit Facilities;
- 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 Senior Notes Indenture, the Senior Secured Notes Indenture and the Amended and Restated Senior Facilities Agreement contain or will 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 on a pari passu basis (or, with respect to the Senior Notes, on a senior basis) and debt of a Guarantor that ranks on a pari passu basis (or, with respect to the Senior Notes, on a senior basis) the Guarantees, could be substantial. Incurring such additional debt could further increase the related risks we now face. In addition, the Senior Notes Indenture, the Senior Secured Notes Indenture and the Amended and Restated 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 Senior Notes Indenture, the Senior Secured Notes Indenture and the Amended and Restated Senior Facilities Agreement contain or will contain covenants that impose significant operating and financial restrictions on us. These agreements limit or will 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
- 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 or will be 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 Amended and Restated Senior Facilities Agreement requires us to comply with certain affirmative and negative covenants and a financial covenant with respect to the Revolving Credit Facility only (as set out in the Amended and Restated Senior Facilities Agreement) while certain amounts under the Senior Credit Facilities remain outstanding. Our ability to satisfy our covenants may be affected by events beyond our control, and we cannot assure you that we will satisfy such covenants. A breach of any of those covenants (including such financial covenant) or restrictions could result in an event of default under the Amended and Restated Senior Facilities Agreement. Upon the occurrence of any event of default that is continuing under the Amended and Restated Senior Facilities Agreement, subject always to any 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 Amended and Restated Senior Facilities Agreement could lead to an event of default and acceleration under other debt instruments that contain or will contain cross default or cross acceleration provisions, including the Senior Notes Indenture and the Senior Secured Notes Indenture. If our creditors, including the creditors under the Amended and Restated 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 Notes and the Senior Credit Facilities, 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 realized 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 before both the Senior Notes and the Senior Secured 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 any series of 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 Senior Notes Indenture, the Senior Secured Notes Indenture and the Amended and Restated 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. 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 realized 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 SEK-denominated Existing 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 the SEK-denominated Existing 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, increasing our interest expense associated with these obligations, reducing cash flow available for capital expenditures and hindering our ability to make payments on the Notes. The Senior Notes Indenture, the Senior Secured Notes Indenture and the Amended and Restated Senior Facilities Agreement do not or will not contain a covenant requiring us to hedge all or any portion of our floating rate debt.

Although we may enter into and maintain certain hedging arrangements designed to fix a portion of these rates, there can be no assurance that hedging will continue to be available on commercially reasonable terms. Hedging itself carries certain risks, including that we may need to pay a significant amount (including costs) to terminate any hedging arrangements. To the extent interest rates were to rise significantly, our interest expense would correspondingly increase, thus reducing cash flow.

Following allegations of manipulation of LIBOR, a different measure of inter-bank lending rates, regulators and law enforcement agencies from a number of governments and the

European Union are conducting investigations into whether the banks that contribute data in connection with the calculation of daily EURIBOR and STIBOR may have been manipulating or attempting to manipulate EURIBOR and STIBOR. In addition, EURIBOR, STIBOR and other interest rates or other types of rates and indices which are deemed to be ''benchmarks'' are or may be the subject of ongoing national and international regulatory reform, including the implementation of the IOSCO Principles for Financial Market Benchmarks (July 2013) and the new European regulation on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, which entered into force on June 30, 2016. Following the implementation of any such reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or benchmarks could be eliminated entirely, or there could be other consequences which cannot be predicted. For example, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, changes in the manner of administration of any benchmark, or actions by regulators or law enforcement agencies could result in changes to the manner in which EURIBOR or STIBOR is determined, which could require an adjustment to the terms and conditions, or result in other consequences, in respect of any debt linked to such benchmark (including but not limited to the SEK-denominated Existing Senior Notes and the Senior Credit Facilities whose interest rates are linked to EURIBOR and STIBOR as applicable). Any such change, as well as manipulative practices or the cessation thereof, may result in a sudden or prolonged increase in reported EURIBOR or STIBOR, which could have an adverse impact on our ability to service debt that bears interest at floating rates of interest.

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