Polygon Group

FINANCIAL INTERIM REPORT

Q3 2019

POLYGON

Always By Your Side.

Interim Report Polygon AB

January – September 2019

THIRD QUARTER 2019

- Sales grew 9.4% to EUR 173.0 million, organic growth amounted to 0.8% and acquired growth contributed 8.8%. Organic growth was good given that the third quarter last year was exceptionally strong at 11.9%.
- Adjusted EBITA amounted to EUR 12.2 million, an increase of 19.3% compared to last year. Increased activities in both newly acquired and existing businesses contributed to this increase.
- Operating profit amounted to EUR 10.5 million, an improvement of 29.5% compared to the preceding year.
- In August, Polygon US acquired AMRestore, with annual sales of EUR 2.3 million.
- In September, Polygon Norway acquired the remaining shares of the former franchise company Haugesund AS, with annual sales of EUR 1.8 million.

JANUARY – SEPEMBER 2019

- Sales growth for the period was 8.2% and turnover amounted to EUR 490.7 million. Organic growth was 1.5% and acquired growth amounted to 6.7%.
- Adjusted EBITA amounted to EUR 30.5 million, up 5.2% on the preceding year. This reflects a favourable activity level in most of the countries where Polygon operates.
- Operating profit for the period amounted to EUR 24.1 million, up 11.1% compared with last year.
- During the first three quarters of the year, Polygon made eight acquisitions, including Nettag in Switzerland (to be closed in the fourth quarter), with combined sales of approximately EUR 45 million.

GROUP KEY FIGURES

EUR million	Q3		Q1–3		12 Months
	2019	2018	2019	2018	LTM
Sales of services	173.0	158.1	490.7	453.4	656.6
Adjusted EBITDA*	**21.8**	**13.6**	**57.3**	**38.8**	**71.6**
Adjusted EBITDA, %	*12.6*	*8.6*	*11.7*	*8.6*	*10.9*
Adjusted EBITA	**12.2**	**10.3**	**30.5**	**29.0**	**41.1**
Adjusted EBITA, %	*7.1*	*6.5*	*6.2*	*6.4*	*6.3*
Operating profit (EBIT)	10.5	8.1	24.1	21.7	27.7
Operating cash flow	**16.9**	**9.9**	**12.0**	**0.4**	**35.7**
Net debt	286.9	189.5	286.9	189.5	286.9
-where of lease liability	79.6	3.0	79.6	3.0	79.6
Full-time employees	4,361	3,723	4,361	3,723	4,361

Note: 2018 figures have not been restated for the implementation of IFRS 16 Leases. LTM figures include three quarters of IFRS 16 Leases and one quarter of the previous accounting principle.

* Changed definition of Adjusted EBITDA compared with Q1 & Q2 2019 reports (see Definitions on page 15)

Comments from the CEO

Stronger European platform improves ability to grow returns

Axel Gränitz

We are the clear market leader in Europe at more than twice the size of our closest competitor and the global number two in the market. Our operations are decentralised due to the local nature of our business and the importance of being close to local customers. However, building our European platform and becoming stronger in individual markets are very important objectives for us. Leading a slow but steady consolidation in our local markets will allow us to get closer to more customers and to develop better tools and solutions to grow faster than the overall market and gain market shares. This is a long journey and we are still in the early phases, but I am confident that we are on track to create a strong platform that will generate significant returns over the long term.

The third quarter proves that Polygon has what it takes to deliver and most of our countries showed a higher activity level and good pace in their business. Sales in the quarter increased on a good level and organic growth accounted for 1% and acquired growth for 8%. Organic growth in the third quarter of 2018 amounted to 12%, so it was a great achievement to surpass this. Adjusted EBITA came in strong at EUR 12.2 million (10.3). One of the largest Major & Complex Claims we have ever had gave us a bit of tailwind in the quarter. In this project, three countries joined forces to meet a tight deadline. It's quite impressive what we can achieve when we work together and this is one of the strengths we have within our Group.

At the end of August, we acquired AMRestore in the US, a company that is active in document restoration and is a great addition to our existing business in that field. AMRestore´s annual sales exceed EUR 2 million with around 30 employees. In September, we acquired one of our franchise companies in Norway, Polygon Haugesund, with annual sales of close to EUR 2 million and around 15 employees. We have other franchise companies in Norway with combined sales amounting to EUR 25 million that could potentially become part of our Group going forward. The acquisition of Nettag will close before year-end. We still have a strong pipeline of potential acquisitions, so there is a good chance that we will be able to keep up the pace of acquired growth.

I have spent the last few weeks visiting Polygon depots all over the world and meeting up with our people to review their performance and plans for the future. This is a great time for Polygon – we keep getting better and better. Our employees are the most important asset we have in our Group and we are always happy to find that our focus on culture and leadership is well received. POLYGONVATRO was recently chosen as one of the 299 best companies in Germany to work for.

Another important focus area for Polygon is to always develop our business areas and find new solutions for our customers. In the UK, we are currently contributing our experience and support to a mould research project being carried out by University College London. This is a great way to learn more about what the customer needs and also an opportunity to improve our working methods, which have always been key for us. Some years ago, we successfully launched the Polygon Technical Drying Academy and now we are continuing with the Polygon Technical Fire Academy. Through this new academy, technicians and customers will be able to learn more about on how we deal with fire damage restoration and share knowledge how to handle damages. I have now been with Polygon for one year and it has been an exciting time in all regards. Many new challenges and opportunities lie ahead and I'm looking forward continuing on the journey along with this great family of ours.

Long-term outlook

The market for property damage control is relatively stable over time and is, by nature, characterised by a large share of annually recurring claims. A smaller part is related to more extreme and less predictable events caused by weather and fires.

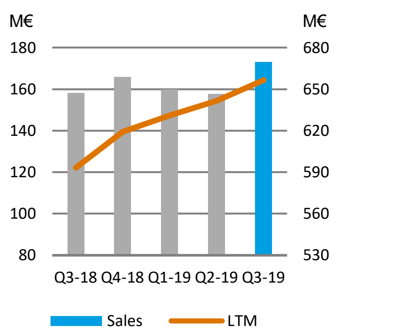
There are several trends in the property damage control market that are benefiting larger players like Polygon, such as procurement centralisation, customer preference for one-stop shops and the more complex requirements on front-end IT systems. Global warming is gradually increasing rainfall levels and extreme weather conditions, which will consequently increase water damage.

Stockholm, 23 October 2019

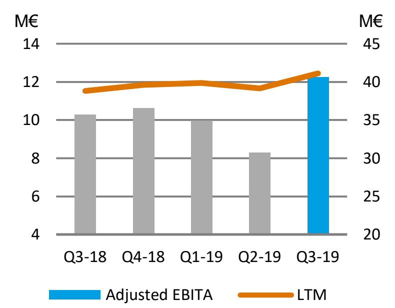
Axel Gränitz
President and CEO

Financial information

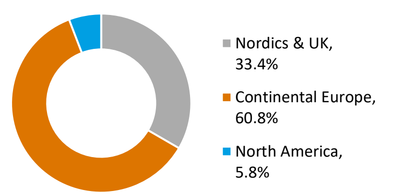
Sales development



Adjusted EBITA



Sales by segment LTM (%)



Group

THIRD QUARTER 2019

Sales amounted to EUR 173.0 million, up 9.4% compared with the third quarter of 2018. Organic growth amounted to 0.8%. Acquisitions contributed EUR 13.8 million in sales, corresponding to growth of 8.8%. Organic growth was good given that the third quarter last year was exceptionally strong at 11.9%. Sales growth returned to a favourable level in most European markets, supported by a number of larger projects.

Adjusted EBITA amounted to EUR 12.2 million (10.3). Both existing and acquired companies performed at a high level. Items affecting comparability (IAC) amounted to EUR -0.2 million (-0.5). Net financial expenses for the period amounted to EUR 4.3 million (2.5).

Tax expense for the period amounted to EUR 0.9 million (1.0). Net profit amounted to EUR 5.3 million (4.6).

JANUARY – SEPTEMBER 2019

Sales amounted to EUR 490.7 million, up 8.2% compared with the first nine months of 2018. Organic growth amounted to 1.5%, while acquired growth amounted to 6.7%.

Adjusted EBITA amounted to EUR 30.5 million (29.0). This reflects a good activity level in most of the countries where Polygon operates.

Items affecting comparability amounted to EUR -2.2 million (-2.5), mainly comprising acquisition-related costs. Net financial expenses for the period amounted to EUR 11.3 million (12.2).

Tax expense for the period amounted to EUR 4.1 million (2.3) and was impacted by the recognition of a deferred tax liability of EUR 0.9 million in the Parent Company and Polygon International AB for internal loans in foreign currencies. Net profit amounted to EUR 8.7 million (7.1).

ACQUISITIONS

In January, Polygon Netherlands strengthened its regional presence through the acquisitions of Tiedema Lekdetectie BV and Tiedema Droogtechniek BV, with annual sales of EUR 1.2 million. In March, Polygon acquired the shares of Alvisa Holding AG (Alvisa24). Alvisa24 is one of the market leaders in Switzerland, specialised in Fire Damage Restoration and Major & Complex Claims with annual sales of EUR 11 million. In April, Polygon Netherlands acquired VanWaarde companies with annual sales of EUR 1.8 million, active in document restoration.

In May, Polygon UK acquired The Plastic Surgeon Group with annual sales of EUR 15 million. This acquisition strengthens Polygon's offering in the area of property restoration and hard surface repairs. In June, Polygon Finland acquired Tehokuivaus OY, with annual sales of EUR 7 million in the area of water and fire damage restoration. Polygon signed an agreement at the end of June to acquire the shares of Nettag AG, a water and fire damage restoration company based in Switzerland. The acquisition will add sales of about EUR 4.5 million and is expected to close in November. In August, Polygon US acquired AMRestore, a document restoration company, based outside Washington DC/Baltimore, with annual sales of EUR 2.3 million. Polygon Norway acquired the remaining shares of the former franchise company Haugesund AS, with annual sales of EUR 1.8 million.

The total cash expenditure for acquisitions in the third quarter of 2019 was EUR 2.0 million and for the first three quarters of 2019 amounted to EUR 26.5 million.

CASH FLOW AND NET DEBT

The operating cash flow for the third quarter amounted to EUR 16.9 million (9.9) and followed the normal seasonal pattern.

The operating cash flow for the first three quarters amounted to EUR 12.0 million (0.4).

Total interest-bearing net debt was EUR 286.9 million, of which EUR 79.6 million pertained to leases. The Group's liquidity buffer amounted to EUR 41.5 million.

Net debt consists mainly of a EUR 210.0 million bond due in 2023 with a fixed rate coupon of 4% per annum. In addition, there is a revolving credit facility amounting to EUR 40.0 million.

Segments

Continental Europe continued its strong performance in the third quarter of 2019 with sales of EUR 106.7 million, representing growth of 5.1%. Adjusted EBITA amounted to EUR 5.6 million (5.4). Continental Europe reported sales of EUR 302.4 million in the first three quarters of the year, representing growth of 6.3%. Adjusted EBITA amounted to EUR 15.7 million (16.8).

Nordics & UK reported sales of EUR 59.9 million, corresponding to growth of 26.4% in the quarter. Adjusted EBITA was EUR 4.4 million (1.6). Nordics & UK reported sales of EUR 162.7 million in the first three quarters of the year, corresponding to growth of 12.0% in the period. Adjusted EBITA amounted to EUR 8.2 million (5.0).

North America reported sales of EUR 8.7 million in the third quarter of 2019, down 3.7%. Adjusted EBITA amounted to EUR 1.0 million (1.3). North America reported sales of EUR 27.9 million in the first three quarters of 2019, up 14.5% compared to 2018. Adjusted EBITA amounted to EUR 3.4 million (2.8).

Parent Company

The consolidated figures in this report are presented at the consolidated level for Polygon AB. The Parent Company, Polygon AB (corporate identity number 556816-5855), directly and indirectly holds 100% of the shares in all subsidiaries in the Group, except for the companies in Denmark, in which the non-controlling interest is 33.6%. The net result for Polygon AB for the third quarter amounted to EUR -1.7 million (-1.5) and for the period January-September 2019 to EUR -4.3 million (-8.5).

Significant risks and uncertainties

As a decentralised company with operations in 14 countries, Polygon faces internal and external risks that may impact its ability to achieve strategic objectives and financial targets. The Group is active in the property damage control business meaning work related to water damage restoration, fire damage restoration and temporary climate solutions. The general identified risks are mainly within the following categories: financial, operational, contract and assignment, IT, sustainability, governance and branding. Polygon has a risk management process in place which is part of the Polygon Model. Successful risk mitigation creates opportunities and competitive advantages.

For further details about the Group's risks and uncertainties, please refer to the 2018 Annual Report and the prospectus prepared in connection with the listing of the EUR 210,000,000 senior secured floating rate notes issued by Polygon AB (publ) (refer to the website: www.polygongroup.com). Polygon's view is that there have not been any significant changes during the reporting period with regard to the risks and uncertainties presented in the Annual Report.

Related party transactions

The Group is wholly owned by Polygon Holding AB, the Parent Company of Polygon AB. Polygon Holding AB is under the controlling influence of MuHa No2 LuxCo S.á.r.l. and this company is under the controlling influence of Triton Fund III. There have been no material transactions with companies in which MuHa No2 LuxCo S.á.r.l has a significant or controlling influence.

Other

The Board of Directors of Polygon AB (publ) or any of its subsidiaries may from time to time resolve to purchase notes issued by Polygon AB (publ), which are listed on Nasdaq Stockholm, on the market or in any other manner. Any purchase of notes will be made in accordance with the terms and conditions of the notes and the applicable laws and regulations. No such purchases have been carried out to date.

Consolidated income statement in summary

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Sales of services	172,961	158,106	490,720	453,397	619,264
Cost of sales	-131,879	-122,239	-373,807	-346,993	-473,277
Gross profit	**41,082**	**35,867**	**116,913**	**106,404**	**145,987**
Administrative and selling expenses	-30,039	-27,126	-90,231	-81,962	-113,590
Other operating expenses	-520	-618	-2,589	-2,760	-7,066
Operating profit	**10,523**	**8,123**	**24,093**	**21,682**	**25,331**
Financial items	-4,293	-2,522	-11,315	-12,220	-14,595
Profit after financial items	**6,230**	**5,601**	**12,778**	**9,462**	**10,736**
Income taxes	-907	-979	-4,106	-2,319	-4,233
Profit for the period	**5,323**	**4,622**	**8,672**	**7,143**	**6,503**
Profit attributable to:					
Owners of the Parent Company	5,824	4,417	8,933	6,668	6,113
Non-controlling interests	-501	205	-261	475	390
Total	**5,323**	**4,622**	**8,672**	**7,143**	**6,503**

Consolidated statement of comprehensive income

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Profit for the period	**5,323**	**4,622**	**8,672**	**7,143**	**6,503**
Comprehensive income					
Items that cannot be reclassified to profit or loss					
Actuarial gains and losses on defined benefit plans	-907	-131	-2,392	-328	-208
Tax	194	29	512	72	37
Items that can be subsequently reclassified to profit or loss					
Exchange differences on transactions of foreign operations	1,755	-430	2,077	107	-1,081
Other changes	517	-	517	-	-
Total comprehensive income, net of tax	**6,882**	**4,090**	**9,386**	**6,994**	**5,251**
Total comprehensive income attributable to:					
Owners of the Parent Company	7,383	3,885	9,647	6,519	4,861
Non-controlling interests	-501	205	-261	475	390
Total	**6,882**	**4,090**	**9,386**	**6,994**	**5,251**

Consolidated balance sheet

EUR thousands	30 Sep 2019	30 Sep 2018	31 Dec 2018
ASSETS			
Non-current assets			
Goodwill	163,012	131,349	137,126
Other intangible assets	52,925	57,625	53,329
Right of use assets	78,140	-	-
Tangible assets	52,487	45,662	46,101
Deferred tax assets	14,808	18,043	13,375
Other financial fixed assets	1,031	724	941
Total non-current assets	**362,403**	**253,403**	**250,872**
Current assets			
Contract assets from customers	42,272	47,352	44,730
Trade and other receivables	101,828	93,473	92,493
Receivables from Parent Company	323	315	315
Prepaid expenses	6,833	6,357	5,476
Cash and cash equivalents	5,558	24,434	33,192
Total current assets	**156,814**	**171,931**	**176,206**
TOTAL ASSETS	**519,217**	**425,334**	**427,078**
EQUITY AND LIABILITIES			
Equity			
Issued capital	58	58	58
Other contributed capital	10,771	10,771	10,771
Other capital reserves	281	-607	-1,795
Retained earnings	61,815	55,231	54,761
Equity attributable to owners of the Parent Company	**72,925**	**65,453**	**63,795**
Non-controlling interests	11,435	11,796	11,696
Total equity	**84,360**	**77,249**	**75,491**
Non-current liabilities			
Provisions	14,425	5,959	6,614
Deferred tax liabilities	20,808	20,017	18,471
Shareholder loans	6,153	5,594	6,153
Non-current interest-bearing liabilities	205,954	208,871	208,632
Non-current lease liability	54,612	-	-
Total non-current liabilities	**301,952**	**240,441**	**239,870**
Current liabilities			
Trade payables	33,599	42,061	45,550
Current lease liability	24,975	-	-
Other liabilities	32,498	25,548	27,487
Accrued expenses	41,833	40,035	38,680
Total current liabilities	**132,905**	**107,644**	**111,717**
TOTAL EQUITY AND LIABILITIES	**519,217**	**425,334**	**427,078**

Consolidated statement of cash flow

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Operating activities					
Operating profit	10,523	8,123	24,093	21,682	25,331
Adjustments for non-cash items before tax	11,523	4,382	31,502	15,315	23,912
Income tax paid	-903	-1,370	-3,443	-3,050	-6,313
Cash flow from operating activities before changes in working capital	**21,143**	**11,135**	**52,152**	**33,947**	**42,930**
Cash flow from changes in working capital					
Changes in operating receivables	-329	4,638	-3,724	-7,710	-4,062
Changes in contract assets from customers	-2,701	-7,872	4,010	-14,621	-11,601
Changes in operating liabilities	7,225	4,343	-17,740	-1,938	3,924
Cash flow from operating activities	**25,338**	**12,244**	**34,698**	**9,678**	**31,191**
Investing activities					
Acquisition of subsidiary, net of cash acquired	-1,954	-6,408	-26,500	-30,422	-34,038
Purchase of tangible assets	-3,850	-3,676	-12,645	-12,922	-16,288
Purchase of intangible fixed assets	-327	-386	-1,410	-1,731	-2,239
Sale of non-current assets	6	125	435	301	694
Cash flow from investing activities	**-6,125**	**-10,345**	**-40,120**	**-44,774**	**-51,871**
Cash flow before financing activities	**19,213**	**1,899**	**-5,422**	**-35,096**	**-20,680**
Cash flow from financing activities					
New borrowings	-	-	-	210,000	210,000
Repayment of borrowings	-	-	-	-181,155	-181,410
Lease payments	-5,359	-	-14,542	-	-
Net financial items received and paid	-1,250	-733	-7,522	-11,825	-17,058
Net cash flow from financing activities	**-6,609**	**-733**	**-22,064**	**17,020**	**11,532**
Cash flow for the period	**12,604**	**1,166**	**-27,486**	**-18,076**	**-9,148**
Cash and cash equivalents, opening balance	-6,547	23,010	33,192	42,541	42,541
Translation difference in cash and cash equivalents	-499	258	-149	-31	-201
Cash and cash equivalents, closing balance	**5,558**	**24,434**	**5,558**	**24,434**	**33,192**

Consolidated statement of changes in equity

EUR thousands	Attributable to owners of the Parent Company						
	Share capital	Other contributed capital	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
Closing balance, 31 December 2017	**58**	**10,771**	**-714**	**48,819**	**58,934**	**820**	**59,754**
New issues of shares	-	-	-	-	-	10,501	10,501
Profit for the period	-	-	-	6,668	6,668	475	7,143
Other comprehensive income	-	-	107	-256	-149	-	-149
Closing balance, 30 September 2018	**58**	**10,771**	**-607**	**55,231**	**65,453**	**11,796**	**77,249**
New issues of shares	-	-	-	-	-	-14	-14
Profit for the period	-	-	-	-554	-554	-86	-640
Other comprehensive income	-	-	-1,189	85	-1,104	-	-1,104
Closing balance, 31 December 2018	**58**	**10,771**	**-1,796**	**54,762**	**63,795**	**11,696**	**75,491**
Profit for the period	-	-	-	8,416	8,416	256	8,672
Other comprehensive income	-	-	2,077	-1,880	197	-	197
Other changes	-	-	-	517	517	-517	-
Closing balance, 30 September 2019	**58**	**10,771**	**281**	**61,816**	**72,926**	**11,435**	**84,360**

Income statement, Parent Company

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Sales of services	716	907	2,986	2,470	3,752
Gross profit	**716**	**907**	**2,986**	**2,470**	**3,752**
Administrative and selling expenses	-981	-883	-2,937	-2,466	-3,561
Other operating income/expenses	151	-68	-197	-84	-911
Operating profit/loss	**-114**	**-44**	**-148**	**-80**	**-720**
Financial items	-1,949	-1,621	-4,105	-7,999	-11,040
Result before income taxes	**-2,063**	**-1,665**	**-4,000**	**-8,079**	**-4,690**
Taxes	369	140	-299	-461	536
Result for the period	**-1,694**	**-1,525**	**-4,299**	**-8,540**	**-4,154**
Total comprehensive income	**-1,694**	**-1,525**	**-4,299**	**-8,540**	**-4,154**

Balance sheet, Parent Company

EUR thousands	30 Sep 2019	30 Sep 2018	31 Dec 2018
ASSETS			
Non-current assets			
Financial fixed assets	268,342	251,366	252,287
Current assets	34,933	50,332	52,978
TOTAL ASSETS	**303,275**	**301,698**	**305,265**
EQUITY AND LIABILITIES			
Equity			
Issued capital	58	58	58
Share premium reserve	6,771	6,771	6,771
Unrestricted equity	82,266	82,179	86,565
Total equity	**89,095**	**89,008**	**93,394**
Non-current interest-bearing liabilities	208,962	207,404	207,464
Current liabilities	5,218	5,286	4,407
TOTAL EQUITY AND LIABILITIES	**303,275**	**301,698**	**305,265**

Segment reporting

The segment information is presented based on company management's perspective, and operating segments are identified based on the internal reporting to Polygon's chief operating decision maker.

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Sales of services					
Nordics & UK	59,850	47,356	162,748	145,343	202,690
Continental Europe	106,699	101,524	302,351	284,436	382,717
North America	8,698	9,034	27,940	24,404	34,724
Intercompany sales	-2,286	192	-2,319	-786	-867
Total	**172,961**	**158,106**	**490,720**	**453,397**	**619,264**
Adjusted EBITA					
Nordics & UK	4,430	1,580	8,210	5,035	8,388
Continental Europe	5,645	5,354	15,727	16,815	21,290
North America	1,006	1,313	3,429	2,771	4,373
Other	1,164	2,019	3,137	4,388	5,579
Adjusted EBITA	**12,245**	**10,266**	**30,503**	**29,009**	**39,630**

Of the sales of services above, 5.8% (6.5%) of revenue was recognised at a point in time in the third quarter and 4.8% (6.2%) for the first to third quarter. The remainder is recognised over time.

Adjusted EBITDA and EBITA

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Adjusted EBITDA & EBITA breakdown					
Operating profit (EBIT)*	10,523	8,123	24,093	21,682	25,331
Add back depreciations	3,260	2,764	9,257	7,960	11,259
Add back amortisations	7,748	2,207	21,797	6,611	8,726
Operating profit before depreciation and amortisation(EBITDA)	**21,531**	**13,094**	**55,147**	**36,253**	**45,316**
Add back items affecting comparability (IAC)	234	541	2,161	2,523	7,720
Operating profit before depreciation and IAC (Adjusted EBITDA)	**21,765**	**13,635**	**57,308**	**38,776**	**53,036**
Operational depreciations	-3,222	-2,725	-9,141	-7,841	-10,756
Operational amortisations**	-6,298	-644	-17,664	-1,926	-2,650
Operating profit before amortization and IAC (Adjusted EBITA)	**12,245**	**10,266**	**30,503**	**29,009**	**39,630**

* of the total profit in the third quarter of 2019, 291 relates to difference between lease liability amoritsations and lease payments (Q1-Q3: 1,380)

**of the total amount of amortisations in the third quarter of 2019, 5,616 relates to right-of-use asset amortisations (Q1-Q3: 15,723)

Consolidated net debt

EUR thousands	30 Sep 2019	30 Sep 2018	31 Dec 2018
Defined benefit plans	6,893	5,026	5,188
Non-current interest-bearing liabilities	205,954	205,845	205,854
Lease liability	79,587	3,026	2,779
Cash and bank	-5,558	-24,434	-33,192
Net debt	**286,876**	**189,463**	**180,628**

Operating cash flow

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Operating cash flow breakdown					
Cash flow from operating activities	25,338	12,244	34,698	9,678	31,191
Purchase of tangible assets (net)	-3,850	-3,676	-12,645	-12,922	-16,288
Purchase of intangible fixed assets	-327	-386	-1,410	-1,731	-2,239
Add back cash related part of items affecting comparability (IAC)	234	373	2,428	2,355	5,227
Lease payments	-5,359	-	-14,542	-	-
Operating cash flow incl income tax paid	**16,036**	**8,555**	**8,529**	**-2,620**	**17,891**
Add back Income tax paid	903	1,370	3,443	3,050	6,313
Operating cash flow	**16,939**	**9,925**	**11,972**	**430**	**24,204**

Items affecting comparability (IAC)

EUR thousands	Q3		Q1–3		Full-year
	2019	2018	2019	2018	2018
Transaction costs, acquisition	-116	-149	-1,836	-226	-884
Restructuring	-118	-208	-593	-1,530	-4,231
Impairment IT systems and tangible assets	-	-121	-	-121	-1,921
Negative goodwill Norway	-	-	-	-	-658
Other	0	-63	268	-646	-26
Total	**-234**	**-541**	**-2,161**	**-2,523**	**-7,720**

Financial instruments

Polygon is exposed to a number of financial market risks that the Group is responsible for managing under the finance policy approved by the Board of Directors. The overall objective is to have cost-effective funding in the Group companies. The financial risks in the Group are managed, to a limited extent, through the use of financial instruments. The main exposures for the Group are liquidity risk, interest rate risk and currency risk.

Derivatives for currency hedging are measured at fair value, according to level 2, in compliance with IFRS 13. Other financial instruments are measured at their carrying amounts.

The significant financial assets and liabilities are shown below. According to Polygon's assessment, there is no significant difference between the carrying amounts and fair values.

EUR thousands	30 Sep 2019		30 Sep 2018		31 Dec 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets						
Trade receivables	97,533	97,533	91,147	91,147	88,369	88,369
Other current assets	4,059	4,059	3,009	3,009	3,278	3,278
Cash and cash equivalents	5,558	5,558	24,434	24,434	33,192	33,192
Total	**107,150**	**107,150**	**118,590**	**118,590**	**124,839**	**124,839**
Liabilities						
Non-current interest-bearing liabilities	205,954	209,243	208,871	213,040	208,632	212,778
Other interest-bearing liabilities	6,153	6,153	5,594	5,594	6,153	6,153
Non-current lease liability	54,612	54,612	-	-	-	-
Current lease liability	24,975	24,975	-	-	-	-
Trade payables	33,599	33,599	42,061	42,061	45,550	45,550
Other current liabilities	18,976	18,976	16,372	16,372	20,308	20,308
Accrued expenses	4,932	4,932	4,505	4,505	1,866	1,866
Total	**349,201**	**352,490**	**277,403**	**281,572**	**282,509**	**286,655**
Derivatives for hedging purposes						
Currency hedging derivatives	-18	-18	-18	-18	93	93
Total	**-18**	**-18**	**-18**	**-18**	**93**	**93**

Acquisitions of subsidiaries

Company	Corp. ID. No.	Country	Closing date	Estimated annual net sales in MEUR	No of employees
Tiedema Droogtechniek B.V.	1098498	Netherlands	1 January 2019	0.4	4
Tiedema Lekdetectie B.V.	1159013	Netherlands	1 January 2019	0.8	8
Alvisa Holding AG	CHF-358.912.902	Switzerland	1 March 2019	11.0	67
Vanwaarde Documentwacht B.V.	851557776	Netherlands	1 April 2019	0.6	5
Vanwaarde Museumwacht B.V.	821366026	Netherlands	1 April 2019	0.6	6
Vanwaarde Restauratie B.V.	850412869	Netherlands	1 April 2019	0.6	6
The Plastic Surgeon Holdings Limited	10552793	UK	10 May 2019	14.9	239
Tehokuivaus OY	1767199-4	Finland	3 June 2019	7.0	60
AMRestore, Inc	26-0581070	US	23 August 2019	2.3	29
Polygon Haugesund AS*	979 489 986	Norway	1 September 2019	1.8	14

*revaluation cost impact in income statement for the previously acquired shares: EUR 170 thousands.

The purchase price allocation presented below includes the acquired subsidiaries above and is preliminary.

EUR thousands	Q1–3
Fair value recognised on acquisition	**2019**
Customer relationships	6,545
Trademarks	647
Acquired order backlog	1
Tangible and intangible assets	2,344
Other non-current receivables	1,416
Current receivables	7,382
Inventory	1,018
Total identifiable assets at fair value	**19,353**
Long-term loans and other liabilities	2,104
Current liabilities	7,547
Deferred tax liabilities	1,420
Less: Cash and cash equivalents	-2,759
Total identifiable liabilites less cash at fair value	**8,312**
Total identifiable net assets at fair value	**11,041**
Goodwill	25,513
Purchase consideration transferred	**36,554**
Purchase consideration	
Cash paid	28,184
Liability to seller	8,370
Total consideration	**36,554**
Analysis of cash flows on acquisitions:	
Net cash acquired with the subsidiary	-2,759
Cash paid	28,184
Total net cash flow on acquisitions	**25,425**

Accounting policies

Accounting policies

The interim report for the Group has been prepared in accordance with IAS 34 Interim Reporting. The interim report for the Parent Company has been prepared in accordance with the Swedish Annual Accounts Act. The Group applies the International Financial Reporting Standards (IFRS) as adopted by the EU and the Swedish Annual Accounts Act.

The accounting policies applied in this interim report are the same as those applied in the consolidated annual accounts for 2018 with addition of the one mentioned below. More detailed accounting policies can be found on pages 66-72 of the Annual Report for 2018.

IFRS 16 Leases (effective from 1 January 2019)

This standard replaces IAS 17 and introduces a single lessee accounting model requiring lessees to recognise right-of-use assets and lease liabilities for leases with a term of more than 12 months. This significantly increases the total intangible assets in the balance sheet and affects net debt and other key performance indicators in both the balance sheet and income statement. During 2018, the Group set guidelines, reviewed leases in all countries and implemented an administrative support system to support the Group with consistent calculations according to the new standard. The main leases for the Group are for premises and vehicles, with premises accounting for 60% of the total lease cost and vehicles for 40%. While leases for premises are few in number, they are more complex, and while vehicle leases are numerous, they are often standardised with good supporting administration available. The Group applies the modified transition method using the practical expedients for contracts with a duration of less than 12 months (short-term) on the commencement date and contracts where the underlying asset is valued at less than EUR 5,000 (low-value asset). These leases are not included in the right-of-use asset or in the liability. The comparable year is not restated. An incremental borrowing rate has been set per country to be used if contractual information regarding rate is not available. The average incremental borrowing rate on 1 January 2019 amounted to about 5%. The transition has not had any impact on equity.

The impact on the balance sheet is shown below.

EUR thousands			
Impact on balance sheet	**Opening balance 1 January 2019**	**Impact IFRS 16**	**New opening balance 1 January 2019**
Other intangible assets	53,329	-2,561	50,768
Right-of-use assets	-	71,687	71,687
Deferred tax receivables	13,375	-	13,375
Total impact assets	**66,704**	**69,126**	**135,830**
Equity	75,491	-	75,491
Non-current interest-bearing liabilities	208,632	-2,778	205,854
Non-current lease liabilities	-	52,201	52,201
Deferred tax liabilities	18,471	-	18,471
Current liabilities	11,696	-	11,696
Current lease liability	-	19,703	19,703
Total impact equity & liabilities	**314,290**	**69,126**	**383,416**

The impact on the income statement is shown in the table below.

EUR thousands		**Q3**			**Q1–3**	
	Period values according to IAS 17	**Impact IFRS 16**	**Period values according to IFRS 16**	**Period values according to IAS 17**	**Impact IFRS 16**	**Period values according to IFRS 16**
Income statement line items						
Cost of sales	-131,937	58	-131,879	-374,209	402	-373,807
Gross profit	**41,024**	**58**	**41,082**	**116,511**	**402**	**116,913**
Administrative and selling expenses	-30,272	233	-30,039	-91,209	978	-90,231
Operating profit	**10,232**	**291**	**10,523**	**22,714**	**1,380**	**24,094**
Financial items	-3,436	-857	-4,293	-8,777	-2,538	-11,315
Profit before income taxes	**6,795**	**-567**	**6,229**	**13,937**	**-1,159**	**12,778**
Income taxes	-1,015	108	-907	-4,399	293	-4,106
Profit for the period	**5,780**	**-457**	**5,323**	**9,537**	**-865**	**8,672**
Adjusted EBITDA and EBITA						
Adjusted EBITDA	15,857	5,908	21,765	40,205	17,103	57,309
Adjusted EBITA	11,954	291	12,245	29,123	1,380	30,503

Definitions

Sales	Sales net of VAT and discounts
Organic growth	Sales growth excluding the impact of foreign exchange and acquisitions
Acquired growth	Sales from acquired companies during their first 12 months in the Group
Gross profit	Sales minus direct costs
Adjusted EBITDA	Earnings before interest, tax, depreciation and amortisation and items affecting comparability
Adjusted EBITA	Earnings before interest, tax, depreciation and amortisation of acquisition-related tangible and intangible assets, and items affecting comparability
Adjusted EBITDA, Adjusted EBITA margin	Adjusted EBITDA and Adjusted EBITA as a percentage of sales
Operational amortisations	Amortisation of intangible assets not related to acquisitions
Operational depreciations	Depreciation of tangible assets not related to acquisitions
EBIT	Earnings before interest and tax
Operational cash flow	Cash flow from operating activities excluding IAC payments and income tax paid less repayment of lease liabilities and capital expenditure
Capital expenditures	Resources used to acquire intangible and tangible assets that are capitalised
Net financial expenses	Financial income minus financial expenses including exchange rate differences related to financial assets and liabilities
Net debt	Interest-bearing debt (including pension and lease liabilities) minus cash and cash equivalents
Items affecting comparability (IAC)	Items attributable to capital gains/losses, impairment, restructuring, redundancy costs and other material non-recurring items
LTM	Last 12 months
IFRS	The term “IFRS” as used in this document refers to the application of IAS and IFRS as well as the interpretations of these standards published by the IASB’s Standards Interpretation Committee (SIC)

Amounts in brackets in this report refer to the corresponding period in the preceding year.

The Group’s key figures are presented in EUR million, rounded off to the nearest thousand, unless otherwise stated. All individual figures (including totals and sub-totals) are rounded off to the nearest thousand. From a presentation standpoint, certain individual figures may therefore differ from the computed totals.

Polygon presents certain financial performance measures that are not defined in the interim report in accordance with IFRS. Polygon believes that these measures provide useful supplemental information to investors and the company’s management when evaluating trends and the company’s performance. As not all companies calculate the performance measures in the same way, these are not always comparable to measures used by other companies. These performance measures should not be seen as a substitute for measures defined under IFRS.

Financial calendar 2019

This report was published on the Group’s website on 23 October 2019

Interim Report Q4 2019 will be published on 10 February 2020

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Review report

Introduction

We have reviewed the condensed interim report for Polygon AB as at September 30, 2019 and for the nine months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act regarding the Group, and in accordance with the Swedish Annual Accounts Act regarding the Parent Company.

Stockholm, 23 October, 2019

Ernst & Young AB

Staffan Landén

Authorised Public Accountant