Polygon Group

FINANCIAL INTERIM REPORT

Q4 2019

POLYGON

Always By Your Side.

Interim Report Polygon AB

January – December 2019

FOURTH QUARTER 2019

- Sales grew 12.4% to EUR 186.4 million, organic growth amounted to 5.1% and acquired growth contributed 7.3%.
- Adjusted EBITA amounted to EUR 13.8 million, an increase of 30% compared to last year.
- Operating profit amounted to EUR 10.2 million (3.6).
- In November, Polygon closed the acquisition of Nettag AG in Switzerland.

JANUARY – DECEMBER 2019

- Sales growth for the year was 9.3% and turnover amounted to EUR 677.1 million. Organic growth was 2.5% and acquired growth totalled 6.8%.
- Adjusted EBITA amounted to EUR 44.3 million, up 12% on the preceding year.
- Operating profit for the period amounted to EUR 34.3 million (25.3).
- During the full year, Polygon made eight acquisitions with combined sales of approximately EUR 45 million.

GROUP KEY FIGURES

EUR million	Q4		Full-year	
	2019	**2018**	**2019**	**2018**
Sales of services	186.4	165.9	677.1	619.3
Adjusted EBITDA	**24.0**	**14.3**	**81.3**	**53.0**
Adjusted EBITDA, %	*12.9%*	*8.6%*	*12.0%*	*8.6%*
Adjusted EBITA	**13.8**	**10.6**	**44.3**	**39.6**
Adjusted EBITA, %	*7.4%*	*6.4%*	*6.5%*	*6.4%*
Operating profit (EBIT)	**10.2**	**3.6**	**34.3**	**25.3**
EBIT, %	*5.5%*	*2.2%*	*5.1%*	*4.1%*
Operating cash flow	19.5	23.8	31.9	24.2
Net debt	284.8	180.6	284.8	180.6
- of which lease liability	82.4	2.8	82.4	2.8
Full-time employees	4,512	3,810	4,512	3,810

Note: 2018 figures have not been restated for the implementation of IFRS 16 Leases.

Comments from the CEO

Strong fourth quarter concludes another all-time-high year

Axel Gränitz

The market for property damage restoration is stable and growing slowly over time, only marginally affected by the general business cycle, with an estimated average long-term growth rate of 1-3% per year. Demand in Europe in 2019 was supported by weather events to a lesser degree than in 2018, which means that the Group's organic growth of 2.5% for the year reflected an excellent performance and continued market share gains in several markets. Thanks to numerous successful acquisitions in 2019, total sales growth amounted to 9.3%. We are experiencing a consolidation wave in our industry, with several major transactions taking place in both North America and Europe during the year. Personally, I think this is a positive development that will advance our industry over time, and bring further professionalism and better services to all our customers.

Our operations are decentralised due to the local nature of our business and the importance of being close to local customers. However, our ability to share best practices and develop common tools and service concepts comes from being a strong Group that works closely together.

The fourth quarter was clearly the best quarter of the year, with all-time-high sales and EBITA. Sales amounted to EUR 186 million, corresponding to an increase of 12%, of which organic growth accounted for 5% and acquired growth for 7%. Adjusted EBITA also ended the year on a high note at EUR 13.8 million (10.6), an increase of 30%. We noted strong performances throughout the Group in both existing and acquired companies. In Sweden, we acquired Saneringsfirman Hedberg, a fire damage restoration company with annual sales of EUR 2.5 million and around 30 employees. The acquisition was closed in early January 2020. The acquisition of Nettag closed in November and will broaden our offering in the Swiss market. With a strong pipeline of potential acquisitions, our current pace of acquisition is likely to continue in 2020. In light of this, we decided to tap our bond for an additional EUR 40 million during the fourth quarter in order to finance future acquisitions, mainly in Europe. As part of this process, we confirmed and improved our credit ratings, providing further proof of our strength.

As a growth company in a consolidating industry, each year is likely to be a record year. Having said that, I am very proud of what we – all of our employees – have achieved together in 2019. We have taken several important steps on our journey to building a truly great company. Some examples are our successful entry into the Swiss market, a strategic service line extension in the UK through the acquisition of surface repair specialist Plastic Surgeon, several wins of Major & Complex Claims in Norway where we delivered on challenging projects using resources from several countries including our German powerhouse, and finally a significant operational turnaround in Finland.

Our core business requires us to deliver efficiently on many small projects, to control costs and to maintain high quality – always by our customer's side. Every day, we see how our project managers and technicians execute projects with the utmost integrity, excellence and empathy. I have said it before but it is worth repeating, Polygon's success is built on the efforts of all our outstanding employees. Polygon Academy is one example of how we try to capitalise on these efforts. I recently participated in a session of the 2019 Academy and was impressed by the energy and creativity of the group. I am convinced that our Academy is well designed to create talented managers within our organisation and help us to grow alongside these future leaders. It is also a great opportunity for all participants to share knowledge and learn from real case studies from all over the Group.

Long-term outlook

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

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

Stockholm, 10 February 2020

Axel Gränitz
President and CEO

Financial information

Group

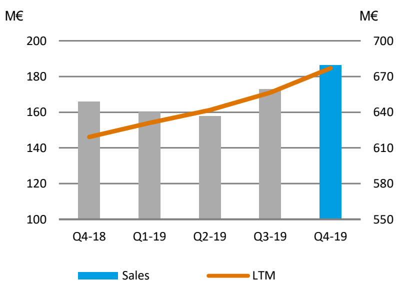
FOURTH QUARTER 2019

Sales amounted to EUR 186.4 million, up 12.4% compared with the fourth quarter of 2018. Organic growth totalled 5.1%. Acquisitions contributed EUR 12.3 million in sales, corresponding to growth of 7.3%. Sales growth returned to a favourable level in most European markets, supported by a number of larger projects.

Adjusted EBITA amounted to EUR 13.8 million (10.6). Both existing and acquired companies continued to perform at a high level. Items affecting comparability (IAC) amounted to EUR -1.6 million (-5.2). Net financial expenses for the period totalled EUR 6.4 million (2.4).

Tax expense for the period amounted to EUR 2.0 million (1.9). Net profit totalled EUR 1.8 million (loss: 0.6).

Sales development



JANUARY – DECEMBER 2019

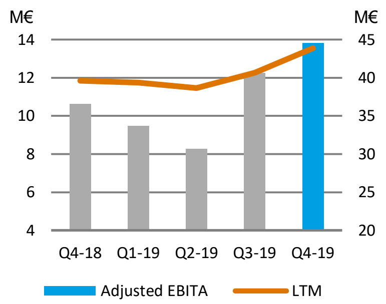
Sales amounted to EUR 677.1 million, up 9.3% compared with full-year 2018. Organic growth totalled 2.5%, while acquired growth amounted to 6.8%.

Adjusted EBITA amounted to EUR 44.3 million (39.6). This reflects a good activity level in most of the countries where Polygon operates.

Items affecting comparability amounted to EUR -3.8 million (-7.7), mainly comprising acquisition-related costs. Net financial expenses for the period totalled EUR 17.7 million (14.6).

Tax expense for the period amounted to EUR 6.0 million (4.2). Net profit totalled EUR 11.1 million (6.5).

Adjusted EBITA



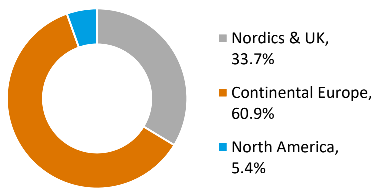
ACQUISITIONS

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 the 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 strengthened 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. In August, Polygon US acquired AMRestore, a document restoration company, based outside Washington DC/Baltimore, 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. In November, the acquisition of Nettag AG, a water and fire damage restoration company in Switzerland with annual sales of EUR 4.5 million, was completed.

The total cash expenditure for acquisitions amounted to EUR 6.1 million for the fourth quarter of 2019 and EUR 32.6 million for full-year 2019.

Sales by segment LTM (%)



CASH FLOW AND NET DEBT

The operating cash flow for the fourth quarter amounted to EUR 19.5 million (23.8) and followed the normal seasonal pattern.

The operating cash flow for the full year amounted to EUR 31.9 million (24.2).

Total interest-bearing net debt was EUR 284.8 million, of which EUR 82.4 million pertained to leases. The Group's liquidity buffer amounted to EUR 86.3 million.

Net debt consists mainly of a EUR 250.0 million bond due in 2023 with a fixed rate coupon of 4% per annum, after a tap issue in December of EUR 40 million. The proceeds from the new notes will be used for general corporate purposes including acquisitions. In addition, there is a revolving credit facility amounting to EUR 40.0 million.

Segments

Continental Europe continued its strong performance in the fourth quarter of 2019 with sales of EUR 112.3 million, representing growth of 14.2%. Adjusted EBITA amounted to EUR 5.6 million (4.5). Continental Europe reported sales of EUR 414.6 million for the full year, representing growth of 8.3%. Adjusted EBITA amounted to EUR 21.3 million (21.3).

Nordics & UK reported sales of EUR 66.6 million, corresponding to growth of 16.1% in the quarter. Adjusted EBITA was EUR 5.7 million (3.4). Nordics & UK reported sales of EUR 229.3 million for the full year, corresponding to growth of 13.1% in the period. Adjusted EBITA amounted to EUR 13.9 million (8.4).

North America reported sales of EUR 9.1 million in the fourth quarter of 2019, down 11.5%. Adjusted EBITA amounted to EUR 1.1 million (1.6). North America reported sales of EUR 37.1 million in the full-year 2019, up 6.8% compared to 2018. Adjusted EBITA amounted to EUR 4.5 million (4.4).

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 amounted to EUR 5.9 million (4.4) for the fourth quarter and to EUR 1.6 million (-4.2) for full-year 2019.

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 its 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) as well as the latest investor presentation released in connection with the issue of EUR 40,000,000 under same terms and conditions (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.

This report has not been audited.

Subsequent events

After the closing date, the Board of Directors of Polygon AB decided to buy the minority share of 33.6% in Polygon A/S in Denmark. The transaction is expected to close in the first quarter of 2020.

Polygon Sweden AB acquired Saneringsfirman Hedbergs AB in the beginning of January 2020.

Consolidated income statement in summary

EUR thousands	Q4		Full-year	
	2019	**2018**	**2019**	**2018**
Sales of services	186 360	165 867	677 080	619 264
Cost of sales	-140 843	-126 285	-514 650	-473 277
Gross profit	**45 517**	**39 583**	**162 430**	**145 987**
Administrative and selling expenses	-33 291	-30 330	-123 522	-112 293
Other operating expenses	-2 002	-5 603	-4 590	-8 364
Operating profit	**10 224**	**3 650**	**34 318**	**25 331**
Financial items	-6 404	-2 376	-17 720	-14 595
Profit before income taxes	**3 820**	**1 274**	**16 598**	**10 736**
Income taxes	-1 978	-1 914	-6 084	-4 233
Profit for the period	**1 842**	**-640**	**10 514**	**6 503**
Profit attributable to:				
Owners of the Parent Company	1,387	-554	9,803	6,113
Non-controlling interests	455	-86	711	390
Total	**1,842**	**-640**	**10,514**	**6,503**

Consolidated statement of comprehensive income

EUR thousands	Q4		Full-year	
	2019	**2018**	**2019**	**2018**
Profit for the period	**1,842**	**-640**	**10,514**	**6,503**
Comprehensive income				
Items that cannot be reclassified to profit or loss				
Actuarial gains and losses on defined benefit plans	760	120	-1,632	-208
Tax	-172	-35	340	37
Items that can be subsequently reclassified to profit or loss				
Exchange differences on transactions of foreign operations	1,614	-1,189	3,691	-1,081
Total comprehensive income, net of tax	**4,044**	**-1,744**	**12,913**	**5,250**
Total comprehensive income attributable to:				
Owners of the Parent Company	3,589	-1,658	12,202	4,861
Non-controlling interests	455	-86	711	390
Total	**4,044**	**-1,744**	**12,913**	**5,250**

Consolidated balance sheet

EUR thousands	31 Dec 2019	31 Dec 2018
ASSETS		
Non-current assets		
Goodwill	165,459	137,126
Right-of-use assets	80,530	-
Other intangible assets	57,215	53,329
Tangible assets	52,713	46,101
Deferred tax assets	14,434	13,375
Other financial fixed assets	1,086	941
Total non-current assets	**371,437**	**250,872**
Current assets		
Contract assets from customers	45,857	44,730
Trade and other receivables	102,203	92,493
Receivables from Parent Company	332	315
Prepaid expenses	7,020	5,476
Cash and cash equivalents	50,612	33,192
Total current assets	**206,024**	**176,206**
TOTAL ASSETS	**577,461**	**427,078**
EQUITY AND LIABILITIES		
Equity		
Issued capital	58	58
Other contributed capital	10,771	10,771
Other capital reserves	1,896	-1,794
Retained earnings	64,120	54,760
Equity attributable to owners of the Parent Company	**76,845**	**63,795**
Non-controlling interests	11,890	11,696
Total equity	**88,735**	**75,491**
Non-current liabilities		
Provisions	16,025	6,614
Deferred tax liabilities	21,279	18,471
Shareholder loans	6,438	6,153
Non-current interest-bearing liabilities	246,481	208,632
Non-current lease liability	57,589	-
Total non-current liabilities	**347,812**	**239,870**
Current liabilities		
Trade payables	43,219	45,550
Current lease liability	24,761	-
Other liabilities	32,140	27,487
Accrued expenses	40,794	38,680
Total current liabilities	**140,914**	**111,717**
TOTAL EQUITY AND LIABILITIES	**577,461**	**427,078**

Consolidated statement of cash flow

EUR thousands	Q4		Full-year	
	2019	2018	2019	2018
Operating activities				
Operating profit	10,224	3,650	34,318	25,331
Adjustments for non-cash items before tax	10,289	8,596	41,790	23,912
Income tax paid	-1,447	-3,262	-4,890	-6,313
Cash flow from operating activities before changes in working capital	**19,066**	**8,984**	**71,218**	**42,931**
Cash flow from changes in working capital				
Changes in operating receivables	397	3,648	-3,259	-4,062
Changes in contract assets from customers	-3,045	3,020	965	-11,601
Changes in operating liabilities	10,524	5,862	-6,808	3,924
Cash flow from operating activities	**26,942**	**21,518**	**62,116**	**31,192**
Investing activities				
Acquisition of subsidiary, net of cash acquired	-6,083	-3,616	-32,583	-34,038
Purchase of tangible assets	-3,779	-3,367	-16,423	-16,288
Purchase of intangible fixed assets	-957	-507	-2,367	-2,238
Sale of non-current assets	544	393	979	694
Cash flow from investing activities	**-10,275**	**-7,097**	**-50,394**	**-51,871**
Cash flow before financing activities	**16,667**	**14,417**	**11,722**	**-20,679**
Cash flow from financing activities				
New borrowings	40,000	-	40,000	209,986
Repayment of borrowings	-	-	-	-181,399
Lease payments	-5,891	-	-20,460	-
Net financial items received and paid	-5,896	-5,489	-13,706	-18,476
Net cash flow from financing activities	**28,213**	**-5,489**	**5,834**	**10,112**
Cash flow for the period	**44,880**	**8,988**	**17,556**	**-10,568**
Cash and cash equivalents, opening balance	5,558	24,434	33,192	42,541
Translation difference in cash and cash equivalents	174	-228	-136	1,218
Cash and cash equivalents, closing balance	**50,612**	**33,192**	**50,612**	**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	-	-	-	0	0	10,486	10,486
Profit for the period	-	-	-	6,114	6,114	390	6,503
Other comprehensive income	-	-	-1,081	-171	-1,252	-	-1,252
Closing balance, 31 December 2018	**58**	**10,771**	**-1,795**	**54,761**	**63,795**	**11,696**	**75,491**
Other changes	-	-	-	517	517	-517	-
Shareholder´s contribution	-	-	-	329	329	-	329
Profit for the period	-	-	-	9,803	9,803	711	10,514
Other comprehensive income	-	-	3,691	-1,290	2,401	-	2,401
Closing balance, 31 December 2019	**58**	**10,771**	**1,896**	**64,120**	**76,845**	**11,890**	**88,735**

Income statement, Parent Company

EUR thousands	Q4		Full-year	
	2019	**2018**	**2019**	**2018**
Sales of services	1,069	1,282	4,055	3,752
Gross profit	**1,069**	**1,282**	**4,055**	**3,752**
Administrative and selling expenses	-1,288	-1,095	-4,220	-3,561
Other operating income/expenses	-6	-827	-208	-911
Operating Profit/loss	**-225**	**-640**	**-373**	**-720**
Financial items	-1,411	-3,041	-5,516	-11,040
Loss after financial items	**-1,636**	**-3,681**	**-5,889**	**-11,760**
Group contribution received	9,000	7,070	9,253	7,070
Result before income taxes	**7,364**	**3,389**	**3,364**	**-4,690**
Taxes	-1,460	997	-1,759	536
Result for the period	**5,904**	**4,386**	**1,605**	**-4,154**
Total comprehensive income	**5,904**	**4,386**	**1,605**	**-4,154**

Balance sheet, Parent Company

EUR thousands	31 Dec 2019	31 Dec 2018
ASSETS		
Financial fixed assets	271,706	252,287
Current assets	76,135	52,978
TOTAL ASSETS	**347,841**	**305,265**
EQUITY AND LIABILITIES		
Equity		
Issued capital	58	58
Share premium reserve	6,771	6,771
Unrestricted equity	88,499	86,565
Total equity	**95,328**	**93,394**
Non-current interest-bearing liabilities	248,196	207,464
Current liabilities	4,317	4,407
TOTAL EQUITY AND LIABILITIES	**347,841**	**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	Q4		Full-year	
	2019	2018	2019	2018
Sales of services				
Nordics & UK	66,593	57,347	229,340	202,690
Water damage restoration	35,207	35,653	126,225	124,289
Fire damage restoration	29,079	19,261	94,335	68,647
Climate control	2,307	2,433	8,780	9,754
Continental Europe	112,284	98,281	414,635	382,717
Water damage restoration	59,136	50,106	208,246	194,560
Fire damage restoration	50,492	45,946	197,135	179,101
Climate control	2,656	2,229	9,254	9,056
North America	9,134	10,320	37,074	34,724
Water damage restoration	1,373	3,744	8,374	9,948
Fire damage restoration	342	113	770	516
Climate control	7,419	6,463	27,930	24,260
Intercompany sales	-1,651	-81	-3,969	-867
Total	**186,360**	**165,867**	**677,080**	**619,264**
Adjusted EBITA				
Nordics & UK	5,708	3,353	13,918	8,388
Continental Europe	5,597	4,475	21,324	21,290
North America	1,096	1,602	4,525	4,373
Other	1,434	1,191	4,571	5,579
Adjusted EBITA	**13,835**	**10,621**	**44,338**	**39,630**

EUR thousands	Q4		Full-year	
	2019	2018	2019	2018
Point in time for revenue recognition				
Nordics & UK	66,593	57,347	229,340	202,690
Revenue recognised at one point in time	1,577	5,693	11,043	18,524
Revenue recognised over time	60,981	47,501	202,966	168,133
Revenue recognised according to practical exemption at invoicing	4,035	4,153	15,331	16,033
Continental Europe	112,284	98,281	414,635	382,717
Revenue recognised at one point in time	6,889	5,998	25,987	22,707
Revenue recognised over time	102,739	90,054	379,394	350,954
Revenue recognised according to practical exemption at invoicing	2,656	2,229	9,254	9,056
North America	9,134	10,320	37,074	34,724
Revenue recognised at one point in time	20	14	68	25
Revenue recognised over time	1,695	3,843	9,076	10,439
Revenue recognised according to practical exemption at invoicing	7,419	6,463	27,930	24,260
Intercompany sales	-1,651	-81	-3,969	-867
Total	**186,360**	**165,867**	**677,080**	**619,264**

Adjusted EBITDA and EBITA

EUR thousands	Q4		Full-year	
	2019	2018	2019	2018
Adjusted EBITDA and EBITA breakdown				
Operating profit (EBIT)*	10,224	3,650	34,318	25,331
Add back depreciations	3,232	3,298	12,489	11,259
Add back amortisations	8,920	2,116	30,716	8,726
Operating profit before depreciation and amortisation (EBITDA)	22,376	9,063	77,523	45,316
Add back items affecting comparability (IAC)	1,596	5,197	3,756	7,720
Operating profit before depreciation and IAC (Adjusted EBITDA)	**23,972**	**14,260**	**81,279**	**53,036**
Operational depreciations	-3,192	-2,915	-12,333	-10,756
Operational amortisations**	-6,945	-724	-24,608	-2,650
Operating profit before amortisation and IAC (Adjusted EBITA)	**13,835**	**10,621**	**44,338**	**39,630**

* of the total profit in the forth quarter of 2019, 611 relates to difference between lease liability amortisations and lease payments (full year 2019: 1,990)

** of the total amount of amortisations in the forth quarter of 2019, 6,209 relates to right-of-use amortisations (full year 2019: 21,932)

Consolidated net debt

EUR thousands	31 Dec 2019	31 Dec 2018
Defined benefit plans	6,536	5,188
Non-current interest-bearing liabilities	246,481	205,854
Lease liability	82,350	2,778
Cash and bank	-50,612	-33,192
Net debt	**284,755**	**180,628**

Operating cash flow

EUR thousands	Q4		Full-year	
	2019	2018	2019	2018
Operating cash flow breakdown				
Cash flow from operating activities	26,942	21,518	62,116	31,192
Purchase of tangible assets (net)	-3,778	-3,367	-16,423	-16,288
Purchase of intangible fixed assets	-957	-507	-2,367	-2,238
Add back cash-related part of items affecting comparability (IAC)	1,735	2,872	4,163	5,227
Lease payments	-5,891	-	-20,460	-
Add back income tax paid	1,447	3,262	4,890	6,313
Operating cash flow	**19,498**	**23,778**	**31,919**	**24,206**

Items affecting comparability (IAC)

EUR thousands	Q4		Full-year	
	2019	2018	2019	2018
Transaction costs, acquisition	-1,099	-705	-2,935	-931
Restructuring	158	-2,064	-435	-4,332
Impairment IT systems and tangible assets	-	-1,667	-	-2,042
Adjustment acquisition in Norway	-	-658	-	-658
Other, net	-655	-103	-385	243
Total	**-1,596**	**-5,197**	**-3,755**	**-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	31 Dec 2019		31 Dec 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Trade receivables	97,837	97,837	88,369	88,369
Other current assets	4,558	4,558	3,278	3,278
Cash and cash equivalents	50,612	50,612	33,192	33,192
Total	**153,007**	**153,007**	**124,839**	**124,839**
Liabilities				
Non-current interest-bearing liabilities	255,031	258,756	208,632	212,778
Shareholder loans	6,438	6,438	6,153	6,153
Non-current lease liability	57,589	57,589	-	-
Current lease liability	24,761	24,761	-	-
Trade payables	43,219	43,219	45,550	45,550
Other current liabilities	23,735	23,735	20,308	20,308
Accrued expenses	2,376	2,376	1,866	1,866
Total	**413,149**	**416,874**	**282,509**	**286,655**
Derivatives for hedging purposes				
Currency hedging derivatives	-3	-3	93	93
Total	**-3**	**-3**	**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.	1,098,498	Netherlands	1 January 2019	0.4	4
Tiedema Lekdetectie B.V.	1,159,013	Netherlands	1 January 2019	0.8	8
Alvisa Holding AG	CHF-358.912.	Switzerland	1 March 2019	11.0	67
Vanwaarde Documentwacht B.V.	851,557,776	Netherlands	1 April 2019	0.6	5
Vanwaarde Museumwacht B.V.	821,366,026	Netherlands	1 April 2019	0.6	6
Vanwaarde Restauratie B.V.	850,412,869	Netherlands	1 April 2019	0.6	6
The Plastic Surgeon Holdings Limited	10,552,793	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
Nettag AG	CHE-105.859.	Switzerland	1 November 2019	4.5	35
				44.4	**473**

*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 **Fair value recognised on acquisition**	**Full-year** **2019**
Customer relationships	6,545
Trademarks	647
Tangible and intangible assets	2,429
Other non-current receivables	1,348
Current receivables	18,517
Inventory	1,018
Total identifiable assets at fair value	**30,504**
Long-term loans and other liabilities	1,856
Current liabilities	19,297
Deferred tax liabilities	1,291
Less: Cash and cash equivalents	-2,993
Total identifiable liabilites less cash at fair value	**19,451**
Total identifiable net assets at fair value	**11,053**
Goodwill	29,828
Purchase consideration transferred	**40,881**
Purchase consideration	
Cash paid	31,705
Takeover of debt	-2,537
Liability to seller	11,713
Total consideration	**40,881**
Analysis of cash flows on acquisitions:	
Net cash acquired with the subsidiary	-2,993
Earn outs	4,456
Cash paid	31,705
Translation difference	-585
Total net cash flow on acquisitions	**32,583**

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		**Q4**			**Full-year**	
	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**
Cost of sales	-141,052	209	-140,843	-515,260	610	-514,650
Gross profit	45,308	209	45,517	161,820	610	162,430
Administrative and selling expenses	-33,693	402	-33,291	-124,901	1,379	-123,522
Operating profit	**9,613**	**611**	**10,224**	**32,327**	**1,991**	**34,318**
Financial items	-5,480	-924	-6,404	-14,257	-3,463	-17,720
Profit before income taxes	**4,133**	**-313**	**3,820**	**18,071**	**-1,473**	**16,598**
Income taxes	-2,055	77	-1,978	-6,454	370	-6,084
Profit for the period	**2,079**	**-237**	**1,842**	**11,617**	**-1,103**	**10,514**
Adjusted EBITDA and EBITA						
Adjusted EBITDA	17,152	6,820	23,972	57,357	23,922	81,279
Adjusted EBITA	13,224	611	13,835	42,347	1,991	44,338

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 margin, 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 2020

This report was published on the Group's website on 10 February 2020

Annual report 2019 will be published on 27 April 2020

Interim Report Q1 2020 will be published on 5 May 2020

Interim Report Q2 2020 will be published on 10 August 2020

Interim Report Q3 2020 will be published on 9 November 2020

Interim Report Q4 2020 will be published on 10 February 2021

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