

ANNUAL REPORT 2017



Contents

This version is a translation from the Swedish original and if any discrepancy the Swedish prevails.

ADMINISTRATION REPORT	1		
Sustainability report	3	Note 24 Equity	30
CORPORATE GOVERNANCE REPORT	5	Note 25 Pension provisions	30
CONSOLIDATED FINANCIAL STATEMENTS	10	Note 26 Accrued expenses and prepaid income	31
Consolidated income statement	10	Note 27 Contingent liabilities	31
Consolidated statement of other comprehensive income	10	Note 28 Changes in financial liabilities	32
Consolidated balance sheet	11	Note 29 Related party transactions and list of group companies	32
Consolidated statement of cash flows	12	Note 30 Reconciling items between income before tax and net cash flow	33
Consolidated statement of changes in equity	13	Note 31 Subsequent events	33
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	14	Note 32 Five-year overview	34
Note 1 Corporate information	14	Note 33 Alternative performance indicators	34
Note 2 Accounting policies for the consolidated financial statements	14	Note 34 Definitions	35
Note 2.1 Significant accounting policies	14	PARENT COMPANY FINANCIAL STATEMENTS	36
Note 2.2 Changes in accounting standards and policies	14	Parent Company income statement	36
Note 2.3 Reclassification/changes in presentation	16	Parent Company statement of other comprehensive income	36
Note 2.4 Summary of key accounting policies	16	Parent Company balance sheet	37
Note 2.5 Critical accounting judgments and key sources of estimation uncertainty	19	Parent Company statement of cash flows	38
Note 3 Business combinations	20	Parent Company statement of changes in equity	38
Note 4 Discontinued operations	20	NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS	39
Note 5 Segment information	21	Note 1 Basis of preparation	39
Note 6 Allocation of expenses by category	21	Note 2 Breakdown of sales	39
Note 7 Audit fees	22	Note 3 Salaries, employee compensation and other fees	39
Note 8 Salaries, social security expenses and employee benefits	22	Note 4 Audit fees	39
Note 9 Financial income and expenses	23	Note 5 Other operating expenses	39
Note 10 Income taxes	23	Note 6 Financial income and financial expenses	39
Note 11 Goodwill	24	Note 7 Appropriations	39
Note 12 Other intangible assets	25	Note 8 Income taxes	39
Note 13 Impairment testing for goodwill and trademarks	25	Note 9 Participations in group companies	40
Note 14 Property, plant and equipment	26	Note 10 Non-current receivables from group companies	40
Note 15 Work in progress	26	Note 11 Non-current financial liability	40
Note 16 Prepaid expenses and accrued income	26	Note 12 Accrued expenses and prepaid income	40
Note 17 Financial instruments and financial risk management	27	Note 13 Pledged assets	40
Note 18 Interest-bearing loans and borrowings	28	Note 14 Reconciling items between income before tax and net cash flow	40
Note 19 Cash and cash equivalents	29	Note 15 Related-party transactions	40
Note 20 Accounts receivable	29	Note 16 Proposed disposition of earnings	40
Note 21 Pledged assets for own liabilities and provisions	29	Note 17 Subsequent events	40
Note 22 Finance and operating leases	30	SIGNATURES OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER	41
Note 23 Other liabilities	30	AUDITOR'S REPORT	42

Administration report

The Board of Directors and the Chief Executive Officer of Polygon AB (publ.), corporate identity number 556816-5855, hereby present the Annual Report and Consolidated Financial Statements for the fiscal year 2017.

OPERATIONS

Polygon AB and its subsidiaries perform services primarily in the area of water and fire damage restoration and also offer other services such as temporary humidity control, leak detection, odor elimination and moisture investigations.

Polygon's customers are insurance companies, as well as commercial and private property owners. The Polygon Group conducts business in Europe, North America and Asia and has a strong local presence through its approximately 300 service depots. Polygon creates value by minimising costs for the extent of the damage and through its rapid response, as well as professional and secure claims processing on behalf of the insured.

The Polygon Group consists of parent company Polygon AB, that was formed on 12 July 2010, and 28 (22) subsidiaries. All subsidiaries are fully owned, except Polygon A/S where non-controlling interests own 24.2%. The Group was established at the end of September 2010 when Triton Fund III via Polygon AB acquired 100% of the shares in the listed Munters Division MCS (Moisture Control Services) from the then listed company Munters AB.

OWNERSHIP STRUCTURE

Polygon AB is fully owned by Polygon Holding AB, of which 84.10% was in turn owned by MUHa No 2 LuxCo S.à.r.l on 31 December 2017.

FISCAL YEAR 2017

Sales amounted to EUR 518.8 million, up by 6.9% compared to the same period of last year. Adjusted organic growth was 5.7%. The key driver behind this development was Continental Europe. The overall effects of weather events were on low level compared to 2016. Growth has been driven by the development of the customer portfolio and effects from new contracts gained.

Adjusted EBITA of EUR 33.5 million was 4.4% better than last year. Strong development in Continental Europe compensated for negative development in the Nordics (Denmark and Norway). Leverage on indirect costs continued in 2017 as a result of the sales growth and compensated for the lower gross margin. EBITA was EUR 30.6 million (30.3). Items affecting comparability were booked in an amount of EUR 2.9 million (1.8) in the period. The main amount consists of items in connection with acquisitions.

Net financial expenses for the year amounted to EUR 16.9 million (8.4), of which EUR 11.5 million (9.7) was attributable to net interest expenses and EUR 5.4 million (gains 1.3) to negative exchange rate changes.

The increase in the Bond by EUR 60.0 million in late 2016 has resulted in higher net interest expenses and most of the exchange rate losses have arisen from unrealized exchange rate deviations in USD in the past three quarters of the year.

Tax in the period amounted to EUR 3.2 million (2.3), resulting in an effective tax rate of 35%. EUR 1.0 million refers to the change in tax rate in the US and EUR 0.6 million to a tax audit in Germany. The effective tax rate excluding these effects is 18%.

Profit before tax amounted to EUR 9.0 million (12.7) and net profit was EUR 5.8 million (10.4).

	2017	2016
EBIT	25.9	25.1
Amortisation and depreciation of assets in connection with acquisition	4.7	5.2
IAC (items affecting comparison)	2.9	1.8
Adjusted EBITA	33.5	32.1
Adjusted EBITA margin	6.5%	6.6%
Depreciation of other intangible and tangible assets	10.0	9.3
Adjusted EBITDA	43.5	41.4
Adjusted EBITDA margin	8.4%	8.5%

During the year, the Group has acquired 6 companies; see Note 3 Business combinations for details.

Polygon Sweden acquired Villaklimat OBM AB at the end of March in order to strengthen its regional presence in the southern part of Sweden.

Polygon Norway AS acquired Polygon Nord AS on 25 September. The acquired company has been a franchise of Polygon since 1991 and its business covers the northern part of Norway. Skadegruppen AS was signed in September and approved by the Norwegian competition authorities in October. The company was acquired from Coor Management Service Holding AB and will contribute to a larger share of wallet, a wider customer base and strengthening of the market leader position for Polygon Norway AS. The closing was completed 1 November 2017 and the company was consolidated from that date. The company was loss making at the take over and a performance improvement programme has been initiated. The negative goodwill that occurs at the acquisition will cover the restructuring costs booked in the last quarter.

Three companies in the northwest part of France were acquired by Polygon France on 28 December 2017 and they will strengthen Polygon's presence in that area.

No operations were divested during the year.

Items affecting comparability consist of following items:

	2017	2016
Transaction costs, acquisition	1.5	0.2
Restructuring	4.0	0.2
Impairment IT systems and tangible assets	0.6	0.6
Negative goodwill Norway	-4.0	-
Others	0.8	0.8
Total	2.9	1.8

In February, Nadia Meier-Kirner was appointed to the Board as a new director and Gunilla Andersson was in December. In other respects, the Board of Directors has been unchanged.

FINANCING AND LIQUIDITY

In April 2014 the Group's previous bank financing was replaced with a Senior Secured Floating Rate Note of EUR 120 million that carries interest at a floating rate and matures in 2019. On 3 November 2016, this was extended by EUR 60 million to EUR 180 million. The floating interest rate is calculated on three-month EURIBOR plus 500 basis points. Polygon AB's bond is listed on the Corporate Bond List of NASDAQ OMX in Stockholm. On 29 June 2016, a restructuring of the internal loans in the Group was carried out to strengthen equity in the German subsidiary.

Cash and cash equivalents at 31 December 2017 amounted to EUR 42.5 million (36.6). Cash flow from operating activities in 2017 was EUR 40.7 million (33.2). The main difference in cash flow from operating activities between years is due to higher income in 2017 and improvements in working capital.

CAPITAL EXPENDITURE

The Group's capital expenditure on property, plant and equipment for the period amounted to EUR 16.9 million (15.0). In addition, the Group has upgraded its IT systems for EUR 2.4 million (2.6). Total amortisation/depreciation during the period amounted to EUR 14.7 million (14.5), of which EUR 9.3 million (9.3) is attributable to property, plant and equipment and EUR 5.4 million (5.2) to intangible assets.

Amortisation of intangible assets refers mainly to customer relations acquired in business combinations and amortisation of capitalised costs for development of the Group's IT systems. During the year, intangible assets were impaired by EUR 0.5 million (0.6). The impairment loss refers to development costs for internal computer systems that will not be taken into operation.

EMPLOYEES

The average number of employees in the Group during 2017 was 3,279 (2,908).

For more information, see Note 8 Salaries, social security expenses and employee benefits.

SIGNIFICANT RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

Polygon is a leader in quality and technology, with a strong brand and a comprehensive service offering. Strength is provided by a wide local presence in geographically dispersed markets and a flexible cost structure. The risks consist of variations in revenue resulting from changes in the weather and temperature, and the related damage frequency. The Group's operations also have extensive exposure to the insurance industry, which leads to a mutual dependency.

Competition comes from a few global operators, but mainly from a large number of local players.

Financial risks

Polygon is exposed to a number of financial risks: market risk (currency risk and interest rate risk), credit risk and liquidity risk.

Currency risk

The Group's currency exposure is divided into transaction exposure (exposure in foreign currency related to contractual cash flows) and translation exposure (equity in foreign subsidiaries). The currency exposure arises from inter-company financing and from translation of the income statements and balance sheets of foreign subsidiaries to the Group's reporting currency (EUR). At year-end Polygon has an outstanding hedge for transaction exposure in SEK/EUR.

Currency risk relates to the risk of changes in foreign exchange rates that could negatively affect the Group's earnings. Transaction exposure is considered low as the extent of flow between currency zones is limited. Translation exposure relates primarily to translation from Swedish kronor (SEK), Danish kroner (DKK), Norwegian kroner (NOK), Canadian dollars (CAD), US dollars (USD) and British pounds (GBP).

Interest rate risk

Interest rate risk is related to changes in market interest rates that could affect cash flow, profit and/or the fair value of financial assets and liabilities. At year-end the Group had no hedging products to minimise interest exposure.

Liquidity risk

Liquidity risk refers to risk that the Group will be unable to meet its short-term payment obligations. The Group works continuously with business ratios and forecasts to handle the fluctuations that are expected to arise in liquidity. At 31 December 2017 the Group had EUR 60.9 million (46.4) in unutilised loan commitments for which all earlier covenants have been met.

Credit risk

Credit risk refers to the risk that counterparty in a transaction will not fulfil its obligations under the agreement and that any collateral will not cover the Group's receivable. For commercial counterparties where the Group has a larger exposure, an individual credit assessment is carried out. The Group also works regularly to shorten the effective credit period.

Credit risk is limited, since no individual customer accounts for more than 5% of the Group's total revenue, i.e. credit risk is dispersed both geographically and among many customers. For further information, see Note 17 Financial instruments and financial risk management.

PARENT COMPANY

Polygon AB's operations include joint group functions as well as ownership and management of shares in group companies. Polygon AB had 3 employees (3) during the year. No investments were made during 2017. Loss before tax amounted to EUR 7.4 million (profit 1.4). The decrease in earnings is

attributable to currency exchange losses and lower interest income from subsidiaries. Parent company appropriations are also lower in 2017.

Cash and cash equivalents at 31 December 2017 amounted to EUR 26.2 million (28.7). The Parent Company's assets amounted to EUR 279.4 million (287.0) and equity was EUR 97.5 million (104.5).

SUBSEQUENT EVENTS

The acquisition of Dansk Bygningskontrol A/S (DB) was closed at the beginning of January 2018 and will be consolidated from that date. DB will strengthen our market position in Denmark and the company is close to three times the size of Polygon's existing business in the country. A restructuring programme after the merger of the two companies will realise synergies and create a highly effective organisation.

An acquisition in Germany, Von Der Lieck GmbH & Co (VDL), was signed in October and was closed at the beginning of January 2018. VDL will strengthen Polygon in the western region close to the Dutch border.

Polygon International AB acquired a minority interest in Caption Data Ltd (CDL) in the UK at the beginning of February. The acquisition opens opportunities to influence and participate in digitalisation of the industry as CDL is a leader in the development of remote control applications for surveillance of factors such as humidity control.

For more information please see note 31 Subsequent events.

Polygon AB has successfully placed EUR 210 million senior secured notes with a possibility to issue subsequent notes in February 2018. The notes, maturing in February 2023, will bear a fixed rate coupon at 4.000 percent per annum. The notes will be issued at the regulated market of Nasdaq OMX in Stockholm.

The proceeds from the notes issue will be used to refinance the existing EUR 180 million notes due 16 April 2019 and for general corporate purposes (including acquisitions).

The existing bond is for the reason mentioned above classified as short term in this report.

FUTURE OUTLOOK

Polygon is continuing to work according to its strategic plans, with a focus on strengthening its market positions through organic growth, acquisition-driven growth and efficiency optimisation.

RESEARCH AND DEVELOPMENT

The Group's research and development relate to products and services in the existing fields of activity.

SUSTAINABILITY REPORT ACCORDING TO SWEDISH ANNUAL ACCOUNTS ACT

For fiscal years beginning after 31 December 2016, large companies must prepare a sustainability report according to chapter 6 §10–14 of the Annual Accounts Act. The sustainability report should contain the sustainability information

needed for understanding the company's development, status and results and the impact of the business, including information on environmental, social, human, human rights and anti-corruption issues. The report has been submitted to the company's auditor at the same time as the annual report.

Polygon is a decentralised service company and the business model is based on sustainability by preventing, controlling and mitigating damage caused by water and fire by providing services to customers around the world. The Group's services include to a large extent to preserve and rebuild property as well as restore damaged equipment to its original condition, saving both resources and the environment for the customer and the outside world.

Environment

The Group's services contribute to sustainability and recycling, but many of the services are carried out at the premises of insurance companies' customers, which are spread around the countries. This means that transportation of personnel and materials is required and this may also happen on a number of occasions for each customer. In UK a tool that reduces the effect transportation has on the environment, Lightfoot, has been installed in the cars and this is estimated to have reduced fuel consumption by 34%. Another example is the remote controlled measurement equipment for moisture control, used to monitor the progress of drying work. This reduces the need for physical visits and increases the climate benefits in terms of reduced emissions. When cleaning and restoring after fires the Group's operations use solvents and other chemical compounds. The rules for handling and destroying these are available locally in work descriptions and comply with local laws and regulations. Polygon's operations are not licensed or notifiable under applicable environmental legislation.

Staff and social responsibility

In all of the Group's operations, the staff is priority one, as the connection between good staff and satisfied customers is a cornerstone of the business model. Employee surveys and follow-up of these are important parts of retaining existing employees and attracting new employees. The response rate is high, 94%, and an employee satisfaction index on the same level indicates a high level of involvement. Working to save and restore customers' property is rewarding, but at the same time the place where the employees work can be dangerous. Most reported incidents are falls of different kinds. Polygon applies a structured approach to minimising risks and protects employees and other workers from injuries and accidents using protective equipment, clothing and air filtration to avoid exposure to harmful substances. Local work environment regulations are naturally followed as well as applicable legislation. Education is also an important part of this work and also an essential part of staff development. Polygon Academy is a special education programme to secure good future leaders within the Group in a structured way. Good leadership has proved to be an important success factor in ensuring confident and motivated personnel.

Respect for human rights

Polygon's Code of Conduct describes the main principles of corporate responsibility and the principles that all Polygon employees shall follow. These principles govern relationships with colleagues as well as with customers, suppliers, society and shareholders. The responsibility of each employee for his or her professional conduct is the base in every situation and creates a common approach in the Group. In many cases, daily work involves meeting people who have suffered from accidents and serious property damage, and empathy and compassion are important in the daily business conducted. The policy also includes diversity and gender equality as well as, starting from this year, data protection rules in accordance with the general data protection regulations (GDPR), which apply as of May 2018. As part of the onboarding process, staff are trained in the code of conduct and 99% have knowledge of it according to the answers to the annual employee survey.

Preventing corruption

Both bribery and corruption occur in the industry in which Polygon conducts its business. Of course, Polygon will in no way be part of this behaviour and, in order to prevent and provide employee regulations for this, a fair competition policy has been developed. This deals with both how to prevent corruption and also how to avoid anti-competitive behaviour in the industry. Each employee participates in online training where important issues regarding the subjects are raised to be handled and completed with examination for confirmation of the understanding of the subject. 86% of employees have completed the education and remaining have received material with corresponding content.

Polygon reassesses its sustainability priorities through dialogue with internal and external stakeholders. The outside world is constantly changing and the Group continuously monitors new issues and assesses how operations can be affected. The stakeholders' expectations are identified collected and evaluated as a basis for future priorities.

CORPORATE GOVERNANCE REPORT

According to the Swedish Annual Accounts Act, Chapter 6, §8, the corporate governance report is published separately from the administration report.

PROPOSED DISPOSITION OF EARNINGS

Proposed disposition of the Parent Company's losses:

The Board of Directors and the Chief Executive Officer propose that the year's net income of EUR 6,967,748, together with retained earnings of EUR 104,458,703, amounting to a total of EUR 97,490,955, be carried forward to new account.

In the current year Polygon AB has transferred EUR 0.0 (4.0) million Group contribution and EUR 0.0 (2.2) million dividends to Polygon Holding AB. Polygon AB received shareholder contributions from Polygon Holding AB amounting to EUR 0.0 (4.0) million in 2017.

Corporate governance report

Polygon shall be governed in a manner characterised by long-term sustainability, for the shareholders as well as for the employees, customers, suppliers and other stakeholders. This demands clearly defined goals, guidelines and strategies, as well as compliance with the company's business principles with regard to the environment, human rights, ethics and transparency. The purpose of this report is to describe the rules, guidelines, laws and policies under which Polygon is governed, the division of responsibility within the company and the way in which its decision-making bodies – the Annual General Meeting, the Board of Directors and the CEO – act and interact.

As of the financial year 2014, the Board of Polygon AB (publ.) prepares a statutory corporate governance report in accordance with the Swedish Annual Accounts Act, Chapter 6.

CORPORATE GOVERNANCE STRUCTURE

Polygon AB is a Swedish public limited company domiciled in Stockholm. Through its subsidiaries, the company conducts consulting and service operations in the area of water and fire damage restoration. The company's mission is to prevent, control and alleviate the effects of water, fire and climate damage.

Governance and control over the company are regulated by a combination of written rules and practice. These rules refer mainly to the Swedish Companies Act and the Swedish Annual Accounts Act, but also the Swedish Code of Corporate Governance and the rules applicable in the regulated market where the company's bonds are traded. Since 2014 Polygon AB's bonds are listed on the Corporate Bond List of NASDAQ OMX in Stockholm.

SHARE CAPITAL AND SHAREHOLDERS

Polygon AB has 5,600 shares outstanding. Each share entitles the holder to one vote. There are no restrictions on the number of shares a shareholder may represent at the Annual General Meeting.

Polygon AB is fully owned by Polygon Holding AB, of which 84.10% is in turn owned by MUHa No 2 LuxCo S.å.r.l on 31 December 2017.

GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the company's highest decision-making body. At a general meeting, the shareholders exercise their voting rights among other things by electing the company's Board of Directors and auditors and passing resolutions on guidelines for compensation to the company's Board of Directors, Executive Management and auditors.

When appropriate, the general meeting of shareholders also passes resolutions regarding the Articles of Association, dividends and changes in the share capital. The general meeting of shareholders that is held within six months after the

end of the fiscal year also resolves on adoption of the income statement and balance sheet, the disposition of earnings and discharge from liability for the Board of Directors and the CEO. There are no restrictions on the number of votes each shareholder may exercise at a general meeting.

The general meeting of shareholders has not given the Board authorisation to issue shares or acquire treasury shares.

BOARD OF DIRECTORS

The Board consists of seven members:

Luc Hendriks, born 1963, Senior Industry Expert at West Park Management Services, has been Chairman of the Board since 2015. He has held executive positions in Brambles and General Electric, and is member of the Board of Directors of Optigroup (former Papyrus), Europart and Unica.

Petter Darin, born 1985, Investment Advisory Professional at Triton Advisors, has been board member since 2015 and also a member of the audit committee. He has previously worked in M&A and as corporate finance advisor at UBS.

Lars-Ove Håkansson, born 1937, board member since 2015, has previously served as CEO of Skanska and holds a number of board assignments in various companies.

Nadia Meier-Kirner, born 1978, board member since February 2017, acts as an investment advisory professional at Triton Advisers. She has previously worked in M&A and as corporate finance adviser at Dresdner Kleinwort in Frankfurt.

Jonas Samuelson, born 1968, board member since 2010 and is chairman of the audit committee. He is the CEO of Electrolux and has previously been CFO in Munters and Electrolux.

Ole Skov, born 1960, board member since 2016, is an independent investor with the background of managing partner in Accenture Financial Services and as management consultant at McKinsey & Co.

Gunilla Andersson, born 1965, board member from December 2017, works as CFO in Optigroup and has worked as CFO for Papyrus.

Work and responsibilities of the Board

The Board Chairman oversees the work of the Board and has special responsibility for monitoring the company's development between the Board meetings and ensuring that the members of the Board are continuously provided with the information required to satisfactorily discharge their duties. During the fiscal year, the Board held six minuted meetings, of which one was a statutory meeting in conjunction with the Annual General Meeting. The work of the Board is regulated by rules of procedure that are adopted on a yearly basis. The rules of procedure stipulate the segregation of duties between the Board and the Executive Management, the responsibilities of the Board Chairman and the CEO and the procedures for financial reporting.

Independence of the Board

All members are independent in relation of the company. Furthermore three of the members of Board are considered to be independent in relation the owner of the company.

The CEO is not a member of the Board but participates in Board meetings in the capacity of rapporteur.

AUDIT COMMITTEE

The Board has appointed an audit committee whose task is to analyse and discuss the company's risk management and control, and to ensure compliance with the established principles for financial reporting and internal control. The committee formulates guidelines for the company's financial reporting and monitoring and has decision-making authority in matters related to internal control.

The audit committee maintains contact with the company's independent auditor in order to discuss the focus and scope of the audit work. The management audit that is performed by the auditors every autumn is based on the risk and materiality analysis that they have compiled. In connection with the annual closing of the books, the company's auditors report their observations from the audit and their assessment of the company's internal control.

During the year, the audit committee has consisted of two Board members. The committee held seven meetings during the year. These meetings were also attended by the company's CFO and the company's independent auditors.

AUDITORS

At the 2017 AGM, the registered public auditing firm of Ernst & Young AB was reelected as the company's independent auditor.

Auditor in Charge is Staffan Landén, who is an authorised public accountant and also the elected auditor of Vattenfall, Semcon och Papyrus, among others. In addition, Staffan Landén has been appointed stock market auditor by NASDAQ OMX in Stockholm.

The auditors' independent status is ensured by the auditing firm's internal guidelines. This independence has been confirmed to the audit committee.

EXECUTIVE MANAGEMENT

The CEO and the Executive Management formulate and execute Polygon's overarching strategies and address matters related to acquisitions, divestments and major investments. Such matters are prepared by the Executive Management for decision by the Board of the Parent Company. The President, who is also CEO, is responsible for the day-to-day administration of the company in accordance with the Board's decisions and guidelines.

The Polygon Group's Executive Management consists of the CEO, the COO, the CCO and the CFO. The Group Management Team consists of the Executive Management and the three subsidiary presidents, a total of seven people who are senior executives in the Group.

OPERATIVE MANAGEMENT

The CEO is responsible for operative management of the Group.

Polygon AB's organisation is decentralised. This is a deliberate, strategic choice motivated by the fact that the business is normally local in nature and a conviction that the best decisions are made locally. The Group's commercial organisation is based on decentralisation of responsibilities and powers in combination with a timely and efficient reporting and control system.

In the subsidiaries, there are written instructions for the respective presidents. In addition, there are a number of policies and instructions that regulate operations in the subsidiaries. The Code of Conduct is one such document.

A large share of communication and discussion within the Group is based on the internal financial reporting.

Local and consolidated monthly closings of the books are prepared for each internal profit centre. Aside from the income statement and balance sheet, the monthly accounts contain key performance measures and other relevant data. In connection with the monthly closing of the books, meetings are held with the subsidiary managements. On a quarterly basis, the Group presents its financial accounts to the market.

INTERNAL CONTROL

In accordance with the Swedish Companies Act, the Board of Directors is responsible for the company's internal control over financial reporting.

Internal control over financial reporting is designed to ensure reasonable assurance regarding the reliability of the external financial reporting, which consists of the annual report and the quarterly reports. This internal control shall also provide reasonable assurance that the financial reporting is prepared in accordance with the applicable laws and accounting standards and other requirements for listed companies.

Control environment

The segregation and delegation of responsibilities have been documented and communicated in internal documents that govern the actions of the Board of Directors and the company, such as the Board of Directors' procedural plan, instructions for the CEO, order of delegation, order of authorisation and other internal control documents such as the finance policy, investment policy, finance manual, etc.

The audit committee, which consists of two Board members, shall oversee compliance with the principles for financial reporting and internal control and ensure that the requisite contacts with the company's independent auditors are maintained.

All internal control documents are updated regularly in response to factors such as changes in legislation or accounting rules.

Risk assessment

In accordance with the Board's procedural plan, once a year the Board conducts a review of the company's internal control. An assessment is carried out to identify risks and measures are adopted to reduce these risks. The independent auditors are invited to a meeting of the audit committee to report on their opinions and observations regarding the company's internal control.

Control activities

Since the company's finance and accounting system is structured so that signing of agreements and payment of invoices, etc., must adhere to the established decision-making paths and the signatory and authorisation rights that are stipulated in the internal control documents, there is a basic control structure to counter and prevent the risks that the company has identified. Aside from this control structure, there are a number of control activities to further detect and correct errors and deviations. Such control activities consist of monitoring at different levels in the organisation, such as the Board's monitoring and reconciliation of passed Board decisions, review and comparison of profit/loss items, reconciliation of accounts and approval and reporting of business transactions in the accounting department.

Annual self-assessment

In 2015 the Group introduced a routine that is based on self-assessment. It is carried out by each subsidiary based on predefined questions that are formulated by the finance department. The purpose of this evaluation is to examine the Group's internal control routines and compliance with these. The results are reviewed and reported to the audit committee.

The self-assessment is performed with consideration to the transaction flow, staffing and control mechanisms. The focus is on significant income statement and balance sheet items and the areas where there is a risk that the consequences of any misstatements could be significant. The self-assessment is carried out during the third quarter and follow-up controls are performed at regular intervals thereafter.

Information and communication

Polygon has built up an organisation to ensure that the financial reporting is correct and efficient. The internal control documents clarify who is responsible for what in day-to-day interactions between the various departments and ensure that the relevant information and communication reach all affected parties.

The Executive Management is provided with both weekly and monthly financial information about the company and its subsidiaries regarding development of future investments and liquidity planning. The company's information policy ensures that all published information, both external and internal, is correct and issued at the appropriate time for each occasion.

Monitoring

Monitoring is carried out continuously at all levels in the organisation. The Board regularly evaluates the information provided by the Executive Management and the auditors. Furthermore, the Board carries out an annual follow-up of the completed risk assessment and the decided measures. Special attention is given to the Board's monitoring for development of internal control and assurance that measures are taken regarding any deficiencies or proposals that have been found or put forward.

Board of Directors



LUC HENDRIKS

Chairman of the Board

Board member since 2015

Nationality: Dutch

Background: Currently, Senior industry expert, West Park Management Services at Triton. Formerly executive director of Brambles, executive positions at General Electric.

Other board roles: Optigroup (former Papyrus), Europart and Unica.



PETTER DARIN

Board member

Board member since 2015

Nationality: Swedish. Background: Currently, investment advisory professional, Triton Advisers. Formerly M&A and corporate finance advisor at UBS. Other board roles: Ramudden.



LARS-OVE HÅKANSSON

Board member

Board member since 2015

Nationality: Swedish Background:

Currently, various board positions.

Formerly CEO of Skanska.



NADIA MEIER-KIRNER

Board member

Board member since 2017

Nationality: German

Background: Currently, investment advisory professional at Triton Advisers. Formerly M&A and corporate finance advisor at Dresdner Kleinwort in Frankfurt.



JONAS SAMUELSON

Board member

Board member since 2010

Nationality: Swedish Background: Currently, president and CEO of Electrolux. Formerly CFO of Munters.



OLE SKOV

Board member

Board member since 2015

Nationality: Danish

Background: Currently, independent investor.

Formerly managing partner, Accenture Financial Services and management consultant, McKinsey & Co.



GUNILLA ANDERSSON

Board member

Board member since 2017 (December)

Nationality: Swedish

Background: Currently, CFO and Head of Shared Services at Optigroup. Formerly CFO TA Hydronics, CFO Tour & Andersson AB.



Group Management



JONAS GRANATH

Chief Commercial Officer & Deputy CEO

Born in 1976

Joined Polygon: 2014

Background: Senior positions at IL Recycling Poland, Swedish Trade Council

Education: M.Sc. Economics and Business Administration from Stockholm School of Economics & University of St. Gallen.



ERIK-JAN JANSEN

President and CEO

Born in 1965

Joined Polygon: 2014

Background: Chief Operating Officer Europe at Securitas AB. International management positions with Four Seasons, Mandarin Oriental, InterContinental and Le Meridien
Education: BBA, Hotel Management School Maastricht, The Netherlands.



MATS NORBERG

Chief Financial Officer

Born in 1959

Joined Polygon: 2013

Background: CFO for the Nordics, Baltics and Switzerland at Dahl International/ Saint Gobain, CFO at Aftonbladet

Education: M.Sc. Business Administration from Uppsala University.



CHRISTIAN KOHL

Chief Operating Officer

Born in 1969

Joined Polygon in 2006

Background: Senior positions at 3M in Sales and Marketing. Country president at Munters/ Polygon Austria and Switzerland

Education: Law at University Vienna, Six Sigma Black Belt, IMP-Programme at Duke University.

Consolidated financial statements

Consolidated income statement

EURk	Note	2017	2016
Sale of services	5	518,814	485,282
Cost of sales	6, 8	-391,649	-361,207
Gross profit		127,165	124,075
Selling and distribution costs	6, 7, 8	-98,072	-96,433
Other operating costs	6	-3,169	-2,540
Operating income		25,924	25,102
Financial income	9	151	125
Financial expenses	9	-17,097	-8,510
Income after financial items		8,978	16,717
Group contribution given		-	-4,000
Income before taxes		8,978	12,717
Income taxes	10	-3,165	-2,274
Net income for the year		5,813	10,443
Net income for the year			
Attributable to owners of the company		5,935	10,246
Attributable to non-controlling interest		-122	197
Total		5,813	10,443
Number of shares		5,600	5,600
Earnings per share before and after dilution ¹⁾		1.06	1.83

¹⁾ Profit for the period attributable to owners of the company/average number of shares during the period.

Consolidated statement of other comprehensive income

EURk	Note	2017	2016
Net income for the year		5,813	10,443
Consolidated statement of comprehensive income	24		
<i>Items that can not be reclassified to profit or loss</i>			
Actuarial gains and losses on defined benefit plans		-222	-776
Income tax effects on other comprehensive income		18	138
<i>Items that later can be reclassified to profit or loss</i>			
Translation difference		531	-367
Various comprehensive income		327	-1,005
Total comprehensive income for the year, net of tax		6,140	9,438
Total comprehensive income for the year			
Attributable to owners of the company		6,262	9,241
Attributable to non-controlling interest		-122	197
Total		6,140	9,438

Consolidated balance sheet

EURk	Note	2017	2016
ASSETS			
Non-current assets			
Goodwill	11, 13	110,942	104,181
Other intangible assets	12	41,960	45,561
Property, plant and equipment	14	40,200	33,251
Deferred tax assets	10	16,419	23,424
Total non-current assets		209,521	206,417
Current assets			
Work in progress	15	20,806	29,613
Account receivables	17, 20	76,570	70,079
Receivables from parent company		308	347
Current tax receivables	10	213	315
Other current financial assets		1,893	1,841
Prepaid expenses	16	5,264	5,843
Cash and cash equivalents	17, 19	42,541	36,585
Total current assets		147,595	144,623
TOTAL ASSETS		357,116	351,040
EQUITY AND LIABILITIES			
Equity			
	24		
Issued capital		58	58
Other contributed capital		10,771	10,771
Translation reserve		-694	-1,225
Retained earnings		48,397	42,664
Equity attributable to owners of the parent company		58,532	52,268
Non-controlling interests		820	1,105
Total equity		59,352	53,373
Non-current liabilities			
Pension provisions	25	4,856	4,900
Other provisions		1,519	219
Pension provisions	10	15,393	21,890
Non-current interest-bearing liabilities	18, 28	183,389	181,282
Total non-current liabilities		205,157	208,291
Current liabilities			
Advance payments from customers		146	238
Pension provisions	25	132	135
Other provisions		4,485	1,475
Accounts payable	17	35,647	42,893
Short-term interest-bearing liabilities	17	885	-
Other current liabilities	17, 23	16,957	13,859
Accrued expenses	17, 26	30,717	27,467
Current income tax liabilities	10	3,638	3,309
Total current liabilities		92,607	89,376
TOTAL EQUITY AND LIABILITIES		357,116	351,040

Pledged assets and contingent liabilities are stated in 20 and 27.

Consolidated statement of cash flows

EURk	Note	2017	2016
Operating activities			
Income before taxes		25,924	25,102
Adjustments for non cash items before tax	30	8,972	13,999
Income tax paid		-2,961	-1,427
Cash flow from operating activities before changes in working capital		31,935	37,674
Cash flow from changes in working capital:			
Changes in operating receivables		464	-7,557
Changes in work in progress		12,451	-12,380
Changes in operating liabilities		-4,177	15,436
Cash flow from operating activities		40,673	33,173
Investing activities			
Acquisition of a subsidiary, net of cash acquired	3	-7,108	-
Purchase of property, plant and equipment	14	-16,925	-14,955
Purchase of intangible fixed assets	12	-2,390	-2,622
Sale of fixed assets		86	4
Net cash flows used in investing activities		-26,337	-17,573
Cash flow before financing activities		14,336	15,600
Cash flows from financing activities			
	28		
New borrowings		-	57,262
Repayment of borrowings		-14	-52,960
Dividend to parent company		-	-2,192
Dividends received		4	-
Dividend to non-controlling interest		-163	-130
Financial income received ¹⁾		147	125
Financial costs paid ¹⁾		-9,293	-8,081
Net cash flows from financing activities		-9,319	-5,976
Cash flow for the year		5,017	9,624
Cash and cash equivalents, opening balance		36,585	26,529
Translation difference in cash and cash equivalents		939	432
Cash and cash equivalents, closing balance		42,541	36,585

¹⁾ Interest income received amounts to 147 (157) TEUR and interest costs paid amounts to 9,131 (6,555) TEUR.

Consolidated statement of changes in equity

EURk	Attributable to the owners of the company						Non-controlling interest	Total equity
	Share capital	Other contributed capital	Translation reserve	Actuarial gains/losses on defined benefit plans ¹⁾	Retained earnings	Total		
Closing balance, December 31 2015	58	6,771	-858	-965	36,213	41,219	1,038	42,257
Shareholder contribution	-	4,000	-	-	-	4,000	-	4,000
Unconditional shareholder contribution	-	-	-	-	-2,192	-2,192	-130	-2,322
Net income for the year	-	-	-	-	10,246	10,246	197	10,443
Actuarial gains/losses	-	-	-	-777	-	-777	-	-777
Other comprehensive income	-	-	-367	-	-	-367	-	-367
Tax related to items in other comprehensive income	-	-	-	139	-	139	-	139
Closing balance, December 31 2016	58	10,771	-1,225	-1,603	44,267	52,268	1,105	53,373
Dividend to shareholders	-	-	-	-	-	-	-163	-163
Net income for the year	-	-	-	-	5,935	5,935	-122	5,813
Actuarial gains/losses	-	-	-	-222	-	-222	-	-222
Other comprehensive income	-	-	531	-	-	531	-	531
Tax related to items in other comprehensive income	-	-	-	18	-	18	-	18
Closing balance, December 31 2017	58	10,771	-694	-1,807	50,202	58,532	820	59,352

¹⁾ Retained earnings in statement of financial position consist of actuarial gains/losses and retained earnings.

Notes to the consolidated financial statements

NOTE 1 Corporate information

These consolidated financial statements include the Parent Company Polygon AB, corporate identity number 556816-5855, and its subsidiaries. The postal address of the head office is Sveavägen 9, SE-111 57 Stockholm, Sweden.

Polygon AB is a wholly owned subsidiary of Polygon Holding AB, corporate identity number 556809-3511, domiciled in Stockholm, Sweden. Polygon Holding AB is the ultimate company in the Group that prepares consolidated financial statements. The ultimate parent company of the Group is MuHa No. 2 LuxCo S.à.r.l., corporate identity number B155960 domiciled in Luxembourg.

The financial statements refer to Polygon AB and were approved by the Board of Directors in connection with the Board meeting on 25 April 2018.

NOTE 2 Accounting policies for the consolidated financial statements

NOTE 2.1 Significant accounting policies

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the European Commission for application within the EU for fiscal years beginning on or after 1 January 2017. In addition, the Swedish Financial Reporting Board recommendation RFR 1, Supplementary Accounting Rules for Groups, has been applied.

The Parent Company applies the same accounting policies as the Group, with the exception of those cases specified in Note 1 to the Parent Company financial statements.

PRESENTATION CURRENCY

The presentation currency of the Group is euros (EUR), which is the functional currency of the Parent Company. Unless otherwise specified, all amounts are in stated in thousands of euros (EURk).

The financial statements are presented euros (EUR), 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.

REPORTING PERIOD

The reporting period is the fiscal year from 1 January 2017 to 31 December 2017, and all balance sheet items refer to 31 December 2017. The previous fiscal year was 1 January 2016 to 31 December 2016 and the balance sheet items for this period refer to 31 December 2016.

BASIS OF PRESENTATION

The consolidated financial statements have been prepared based on the assumption of a going concern. Assets and liabilities are recorded on a historical cost basis with the exception of derivative financial instruments and acquisition earn-outs, which are measured at fair value. At year-end 2017 the Group had no hedging products to minimise risk exposure.

BASIS OF CONSOLIDATION

The consolidated financial statements cover the Parent Company and its subsidiaries. The financial statements of the Parent Company and the subsidiaries that are a part of the consolidated financial statements refer to the same period and are prepared in accordance with the same accounting policies.

All inter-company items are eliminated in full and are consequently not included in the consolidated financial statements.

Subsidiaries

A subsidiary is a company in which the Parent Company holds more than 50% of the voting rights or otherwise has a controlling influence. Subsidiaries are consolidated from the date on which control is transferred to the Group and until the date when such control ceases.

Non-controlling interests

A non-controlling interest is portion of the profit/loss and net assets of non-wholly owned subsidiaries that falls to owners other than the owners of the Parent Company. Its share of net income is included in the net income of the Group and its net assets are included in consolidated equity.

Translation of the financial statements of foreign subsidiaries

Foreign subsidiaries with a functional currency other than EUR are translated to EUR, since this is the presentation currency of the Group and the functional currency of Polygon AB. Income statement items are translated at the average exchange rate and balance sheet items are translated at the closing day rate of exchange. All surplus values recorded in connection with the acquisition of a foreign subsidiary, such as goodwill and other previously unrecognised intangible assets, are regarded as the respective entity's and are therefore translated at the closing day rate of exchange. Foreign exchange differences are recognised in other comprehensive income. On the disposal of a subsidiary, the accumulated foreign exchange differences are reversed in the income statement.

The exchange rates applied for foreign currency translation are as follows:

	Closing balance rate Dec 31 2017	Average rate 2017	Closing balance rate Dec 31 2016	Average rate 2016
CAD	0.6664	0.6830	0.7049	0.6826
DKK	0.1343	0.1344	0.1345	0.1343
GBP	1.1274	1.1409	1.1685	1.2213
NOK	0.1016	0.1072	0.1102	0.1077
SEK	0.1015	0.1038	0.1045	0.1056
SGD	0.6250	0.6416	0.6572	0.6547
USD	0.8358	0.8864	0.9509	0.9040

GROSS ACCOUNTING

Gross accounting is applied consistently in accounting for assets and liabilities, with the exception of cases when there is both a receivable and a liability against the same counterparty and Polygon has a legally enforceable right to offset these and intends to do so. Unless otherwise stated, offsetting is also applied regarding revenues and expenses.

CLASSIFICATION OF ASSETS AND LIABILITIES

Non-current assets, non-current liabilities and provisions are expected to be recovered or settled more than 12 months after the balance sheet date. Current assets and current liabilities are expected to be recovered or settled within 12 months from the balance sheet date.

NOTE 2.2 Changes in accounting standards and policies

IFRSs THAT ARE MANDATORILY EFFECTIVE FOR FINANCIAL YEARS BEGINNING AFTER 2018 AND LATER ACCORDING TO THE EU:

A number of new or revised IFRS will not be mandatorily effective until future fiscal years and have not been applied in advance in the preparation of these financial statements. The IFRSs that are expected to, or may have, an impact on the Group's financial statements are described below.

IFRS 15 Revenue recognition

The standard combines, enhances and replaces specific guidance on recognising revenue with a single standard.

Note 2.2 cont.

DESCRIPTION OF POLYGON'S BUSINESS

Polygon provides services in the area of preventing, controlling and mitigating effects of water, fire and climate.

The customer base includes insurance companies, companies in the private and public sectors and households.

The range of the projects' size and complexity varies from trivial leak detection to large restoration projects, with the most of the projects being small (under EUR 2 thousand) and short-term (with duration under three months). Typical examples of services that Polygon promises to provide are reconditioning of equipment, restorative services for everything from documents to buildings, leak detection and moisture control, as well as keeping certain climate conditions at a constant level.

Polygon's business is characterised by local presence and strong ties to local customers. International cooperation begins to play significant role in the major complex claims segment.

Significant payment terms are set up according to industry practices and vary from country to country and project to project (from advance and partial payments to payments due after performance obligations are satisfied). Polygon does not incorporate financial components in the payment terms, has no variable considerations and no constrained revenue terms.

Warranties are provided according to business practices and legal requirements in the country where the project is performed.

PERFORMANCE OBLIGATIONS AND REVENUE RECOGNITION

Most of Polygon's performance obligations are satisfied over time as the work is performed on assets controlled by the customer while Polygon is conducting restoration services or providing climate control. The revenue on such projects is recognised over time. For consulting services, equipment renting and other services billable by the hour or other fixed time periods practical expedient is used and revenue is recognised in an amount to which Polygon has a right to invoice in the current accounting period.

The exception from the above is leak detection projects where the performance obligation is satisfied upon receipt of leak a detection report. Revenue for these jobs is recognised at a point in time.

Commission fees from the franchise part of the business are recognised in the amount to which Polygon has the right to invoice the franchisee in the current accounting period.

The allocation of performance obligations is straight-forward due to the nature of Polygon's business – one job is considered as one performance obligation, which simplifies the allocation of the price to performance obligations, whether it is a fixed price or a cost plus projects.

SIGNIFICANT JUDGMENTS AND PORTFOLIO APPROACH

Polygon uses the portfolio approach for revenue recognition, which allows bundling of similar performance obligations for more effective handling. The portfolio approach is applied to the large amount of generally small (under EUR 2 thousand) and short-term (under three months) obligations that make up the bulk of the Group's business. The remaining obligations with a longer duration are accounted for by using the percentage of completion method.

Polygon uses the input method for determining the progress in satisfying the performance obligation (based on costs incurred to date) with a combination of output methods where output method (e.g. agreement with the customer on the progress of the project) shows fairer outcome of the performance obligation. Such combination provides a faithful depiction of the transfer of goods or services as well as a reasonable measure of satisfaction of the Group's promises towards the customer.

EFFECT OF THE INTRODUCTION OF THE STANDARD

In the Group, work on the new standard was completed during the fourth quarter with final adjustments to the Group guidance and continuation of the restatement of actual figures for 2017.

The Group will use the standard retrospectively, utilising the practical expedient to not restate contracts that begin and end within the same annual accounting period or are completed contracts at the beginning of the earliest period presented.

When introducing the new standard, the reallocation of revenue recognition will have a positive one-time effect on equity of EUR 0.8 million in 2016. Revenue recognition at the total annual level, with the application of the new standard, will not be significantly affected. The assessment carried out confirms the earlier assumption that the allocation of revenue between months will be changed, and will show the level of business activities in the month of recognition. Revenue for 2017 will be EUR 6.4 million less than with the application of the previous standard due to the fact that according to the new accounting principles revenue is recognised earlier compared to the old principles.

	Amount reported earlier 2017	Restated amount 2017 ¹⁾	Change
Consolidated income statement			
Sales of services	518,814	512,429	-6,385
Cost of sales	-391,649	-385,750	5,899
Gross profit	127,165	126,679	-486
EBITA	25,924	25,438	-486
Profit before income taxes	9,100	8,614	-486
Income taxes	-3,165	-2,977	188
Profit for the period	5,935	5,637	-298

¹⁾ Minor adjustment has been done since the publication of the year-end report resulting in 185 TEUR lower sales and 126 TEUR lower earnings than earlier reported.

IFRS 9 Financial instruments

This standard will come into effect on 1 January 2018 and replaces IAS 39 Financial instruments: Recognition and measurement. The new standard contains rules for classification and measurement of financial assets and liabilities, impairment of financial instruments and hedge accounting.

The new standard introduces a method of classification and measurement of financial assets dependent on the company's business model for investing in the asset and the contractual cash flows of the asset:

- Financial assets with the sole purpose to receive contractual cash flows and with only cash flows consisting of principal amounts and interest on principal amounts are recognised at amortised cost.
- Financial assets with the purpose to receive contractual cash flows as well as being available for sale with contractual cash flows consisting of principal amounts and interest on principal amounts are recognised at fair value with value changes reported in other comprehensive income.
- Financial assets with the sole purpose to be available for sale are recognised at fair value with value changes reported in the income statement.
- Financial assets with contractual cash flows consisting of not only principal amounts and interest on principal amounts to be recognised at fair value with value changes reported in the income statement, independent of the purpose of the holding of the asset.

For financial liabilities the rules in IFRS 9 are in principle the same as in IAS 39, with the exception for financial liabilities recognised using the fair value-option related to changes in the credit risk for the liability, the value changes are reported in other comprehensive income.

The new impairment rules means a change from the current "incurred loss model" according to IAS 39 to be replaced by an "expected loss model" according to IFRS 9. The purpose of the change is mainly to make provisions for bad debt at an earlier stage and to reduce volatility in the reported bad debt provisions.

The new model that embraces all kinds of financial assets recognised at amortised cost, differentiates assets into three different categories depending of change in credit risk. The division into categories anticipates the assets to be of a more long-term character which is not the case for Polygon with the main financial assets consisting of accounts receivable and cash and cash equivalents. Accounts receivable are in principal on large and well-established customers (insurance companies) with good ability to pay, which is considered in provisions for bad debt. The payment conditions are normally short-term in the interval 10–60 days with 30 days as the standard term. The realised bad debt expenses for the group have been minor in the last three years.

Financial debt is mainly concerning loan agreements and trade payables which are not affected by the new rules in IFRS 9 with one exception and that is described above ("fair-value option"). This is not applicable for Polygon.

One of the major objectives with the new rules for hedge accounting is to reflect the effects of a company's financial risk management in the financial reporting.

Polygon is not applying hedge accounting and the new rules will not have an impact.

The review of the impact of the new standard on the Group that was conducted during the year indicated that there will be no expected impact.

The main focus for the Group has been the impairment model for expected credit losses as accounts receivables are a material part of the balance sheet. The existing model in the Group has been valued with the new standard in mind and the outcome is that it will have a minor, not material, impact on the reserves for credit losses, and that the previously used method will cover the requirement regarding forward looking

assessment of expected credit losses of the new standard. The Group will centrally ensure that sufficient reserves for total expected losses are available.

IFRS 16 Leasing

This standard will come into effect on 1 January 2019 and replaces IAS 17 Leasing and IFRIC 4 Determining Whether an Arrangement Contains a Lease. For companies which are in a lessee position the current classification into operational and financial leasing will disappear and be replaced by a model where assets and liabilities for all lease contracts have to be reported in the balance sheet. For lease contracts with duration of 12 months or less or a contract value of USD 5,000 or less, there is a possibility to apply a relief rule. In the income statement, depreciation will be separated from financial expenses related to the lease liability. This means that for a lease contract all future lease payments will be calculated at present value and reported as a financial liability in the balance sheet.

The corresponding value will be reported as a non-current asset (right-of-use). When lease expenses are invoiced they will be recorded as amortisation of the lease liability and financial expense. The non-current asset will be depreciated over its economic lifespan.

In the financial reports the impact will be an improvement of operating income while the financial expenses will increase. In the cash flow there will be an offset from payments in operating activities to financing activities. There will also be an impact on the total balance sheet and key ratios due to the new standard.

Implementation of the new standard will significantly increase the total property, plant and equipment in balance sheet and affect net debt and other key performance indicators both in the balance and the income statement. The initial introduction and planning of implementation of the new standard in the Group has started and is scheduled to continue during 2018. The main leases for the Group are premises and vehicles. The impact on the Group will be significant. The information in Note 22 Financial and operational leasing gives an indication of the extent of leasing agreements in the Group and which commitments are available at the balance sheet date.

NOTE 2.3 Reclassifications/ changes in presentation

The group has corrected the presentation of certain items in the Notes to the Financial statements. The results of adjustments are presented in the tables below:

NOTE 17 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

BREAKDOWN OF CASH AND BANK BY CURRENCY	Amount reported earlier 2016	New amount 2016	Change
EUR	45,618	22,297	23,321
SEK	-3,651	938	-4,589
USD	-8,739	4,190	-12,929
NOK	2,098	1,628	470
GBP	-1,320	4,953	-6,273
Other currencies	2,579	2,579	-
Total	36,585	36,585	0

BREAKDOWN OF TRADE PAYABLES BY CURRENCY	Amount reported earlier 2016	New amount 2016	Change
EUR	29,437	28,613	824
SEK	1,225	2,049	-824
USD	2,275	2,275	-
NOK	3,534	3,534	-
GBP	5,045	5,045	-
Other currencies	1,377	1,377	-
Total	42,893	42,893	0

NOTE 2.4 Summary of key accounting policies

REPORTING OF FOREIGN EXCHANGE EFFECTS

Foreign currency transactions denominated in a currency other than the Group's functional currency are revalued at the rate ruling on the transaction date. Assets and liabilities denominated in a currency other than the Group's functional currency are revalued at the closing day rate. Any foreign exchange differences are recognised in the income statement.

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCY

Receivables and liabilities denominated in foreign currency have been revalued at the closing day rate. Foreign exchange gains and losses arising from operating receivables and liabilities are recognised in operating income. Foreign exchange differences related to financial assets and liabilities are recognised in financial expenses in net financial items.

INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset that lacks physical substance. Intangible assets that are identified and valued separately from goodwill from business combinations consist mainly of trademark-, customer-, contractual- and/or technology-related assets. Typical marketing and customer-related assets are trademarks and customer relations. Customer contracts and customer relations are attributable to expected customer loyalty and the cash flow that is expected to arise over the remaining useful lives of these assets. The historical cost for this type of intangible asset consists of the fair value at the acquisition date, calculated according to established valuation methods.

Development expenditures are recognised as an intangible asset only if it is probable that a development project will generate economic benefits in the future and the cost of the asset can be measured reliably. The cost of capitalised development expenses includes only expenses directly attributable to the development project. Other internally-generated intangible assets are not recognised as assets. Instead, the expenditures are treated as an expense in the period in which they arise.

Separately-acquired intangible assets are recognised at cost less accumulated amortisation and impairment.

All intangible assets are amortised on a straight-line basis over their estimated useful lives and are reviewed every balance sheet date. Amortisation begins when the asset is available for use. Certain trademarks have an unlimited lifetime and are not amortised at all.

Depreciation is calculated as follows:

	Years
Patents, licenses and software	3-8
Customer relations	10-12

The value of the order book is amortised over a 1-3 month period.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are recognised according to the acquisition method. When a business combination occurs, the company's assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring costs) are identified and measured at their fair values.

If the consideration paid by the Group is greater than the fair value of the identified net assets, the difference is recognised as goodwill. Goodwill is continuously measured at cost less accumulated impairment. Since it is not possible to individually test goodwill for impairment, it is allocated to one or more cash-generating units, depending on how the goodwill is monitored for internal control purposes. Polygon has allocated the amount of goodwill to three cash-generating units: Nordic & UK, Continental Europe and North America.

Goodwill is not amortised, but is instead tested for impairment annually.

See Note 11 Goodwill and Note 13 Impairment testing of goodwill and trademarks.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are physical assets that are used in the Group's operations and have an expected useful life exceeding one year. Items of property, plant and equipment are initially measured at cost and are depreciated on a straight-line basis over their estimated useful lives. When items of property, plant and equipment are recognised, any residual value is taken into account when the depreciable amount of the asset is determined. In the event of a significant decrease in value, it may be necessary to recognise an impairment loss in addition to depreciation. Depreciation begins when the asset is ready to be taken into use. Land is not depreciated.

An item of property, plant and equipment is derecognised from the balance sheet on disposal or when no future economic benefits are expected either from its disposal or sale. Any gains or losses are calculated as the

Note 2.4 cont.

difference between sale proceeds and the carrying amount. The gain or loss is recognised in the accounting period when the asset was sold, as other expenses or other income.

The residual value, useful life and depreciation rate of an asset is reviewed at the end of each financial year and, if necessary, any change is accounted for prospectively.

Customary costs of maintenance and repairs are expensed as incurred. However, costs related to significant renewals and improvements are capitalised and depreciated over the remaining useful life of the underlying asset.

Depreciation is calculated as follows:	Years
Improvements in rented premises	6–9
Dehumidifiers and similar equipment	5–10
Buildings	20–25
Equipment	3–6

IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

If there are internal or external indications to the Polygon Group that the value of an asset has declined, the asset should be tested for impairment. For goodwill and assets with indefinite useful lives, such impairment testing should be carried out at least annually, whether there is evidence of impairment or not. If an asset cannot be tested separately, it is assigned to a cash-generating unit to which identifiable cash flows can be allocated.

An impairment loss should be recognised for an asset or a group of assets (cash-generating units) if the carrying amount is higher than the recoverable amount. The recoverable amount is the higher of value in use and net realizable value. Impairment losses are recognised in the income statement.

For all assets except goodwill and intangible assets with indefinite useful lives, an assessment is made at each balance sheet date whether there is an indication that an earlier impairment loss, in whole or in part, is no longer justified. If the assumptions underlying calculation of an asset's recoverable amount have changed, the carrying amount of the asset or assets is increased to its recoverable amount. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised. The reversal is recognised in the income statement unless the asset is recognised at the revalued amount in accordance with another standard.

Goodwill is allocated to different cash-generating units. If the allocation of goodwill cannot be completed before the end of the year in which the company made the acquisition, the initial allocation should then be carried out before the end of the fiscal year following the year when the acquisition was made. In such cases, amounts relating to non-allocated goodwill and the reason why they have not been allocated should be stated. Impairment of goodwill and intangible assets with indefinite useful lives is not reversed.

FINANCIAL INSTRUMENTS

A financial instrument is any type of contract that gives rise to a financial asset in one company and a financial liability or equity instrument in another company. At year-end Polygon had an outstanding hedge for transaction exposure in SEK/EUR.

FINANCIAL ASSETS

The financial assets of the Group are divided into four categories:

- Financial assets measured at fair value through profit or loss.
 - Held-for-trading financial assets.
 - Financial assets initially measured at fair value (“fair value option”).
- Loans and receivables measured at amortised cost in accordance with the effective interest method.
- Held- to-maturity financial assets measured at amortised cost in accordance with the effective interest method.
- Available-for-sale financial assets measured at fair value and recognised in other comprehensive income.

Financial assets are classified in one of the four categories above. At present, the Polygon Group has financial assets belonging to only the category of loans and receivables. These are initially recognised at fair value.

These assets are regularly and systematically assessed in terms of which final economic benefits are expected to flow to the company. There are no held-to-maturity or available-for-sale financial assets. All assets are tested for impairment. If management estimates and deems it appropriate, the initial classification is revaluated at each year end.

All purchases and sales of financial assets are recognised on the transaction date, which is the date on which the Group commits to purchase or sell the asset. Such purchases and sales normally require delivery within the period determined by regulation or custom in the market.

Financial assets at fair value through profit and loss

In accordance with IFRS 13, Polygon discloses information about financial instruments measured at fair value in the balance sheet, in a fair value hierarchy with three levels. Level 1 consists of instruments that are quoted on an active market where identical instruments are traded. Level 2 consists of instruments that are not quoted on an active market, but where observable market data is used as a basis for valuation of these instruments (either directly or indirectly). Level 3 consists of instruments where the valuation mainly is based on non-observable market data.

The assessments have been carried out based on the circumstances and factors that are applicable to the different instruments.

Loans and receivables

Loans are initially measured at fair value plus transaction costs where applicable, and are subject to regular and systematic analysis in order to determine the amount in which the loan is expected to be received. If a loan is deemed doubtful, a provision is made for the difference between the carrying amount and the expected cash flow. Interest income related to loans is included in financial income.

Accounts receivables are initially recognised at fair value. An allowance is made for doubtful receivables at year-end when there is objective evidence that the full value of the asset will not be recoverable. Losses attributable to doubtful receivables are recognised in the income statement in other operating expenses. See Note 20 Trade receivables.

The Polygon Group's cash and bank balances, trade receivables, and certain other current and interest-bearing receivables are recognised in this category.

CASH AND BANK BALANCES

Cash and current bank balances in the balance sheet consist of cash on hand and demand deposits with a maturity of three months or less from the date of acquisition.

FINANCIAL LIABILITIES

The Group's financial liabilities are divided into two categories:

- Financial liabilities at fair value through profit and loss
 - Held-for-trading financial liabilities
 - Financial liabilities initially recognised at fair value (“fair value option”).
- Financial liabilities at amortised cost

Financial liabilities at fair value through profit or loss

Some of the Group's acquisitions include earn-outs. These are recognised as a financial liability at fair value through profit or loss. Earn-out payments have been classified at level 3 since there is no observable market data to apply.

Financial liabilities at amortised cost

Liabilities are initially recognised at fair value, including transaction costs. In subsequent periods these liabilities are recognised at amortised cost in accordance with the effective interest method.

Fees paid for loan commitments are recognised as transaction costs and are allocated over the term of the loan commitments/loans in the income statement.

In cases where quoted information/inputs are not available in order to recognize a financial instrument at fair value, accepted valuation techniques that can be more or less dependent on quoted information/inputs are used. In some cases, valuation techniques based on the company's own assumptions and estimations are applied. The fair values of financial assets and liabilities are assumed to be their nominal values for those assets and liabilities with a term of less than one year. The fair values of financial liabilities are their discounted cash flows. Discounting is done at the interest rate that is available to the Group for similar financial instruments. At the end of the reporting period, Polygon AB had no financial derivatives.

The purchase or sale of a financial instrument is recorded on the trade date, which is the date on which the Group commits to purchase or sell the financial instrument. A financial instrument is derecognised when the right to receive or pay cash flows attributable to the financial instrument expires or the Group has explicitly transferred all risks, allocations and obligations attributable to a possession of the financial asset or liability.

FINANCIAL DERIVATIVES AND HEDGE ACCOUNTING

Derivative financial instruments are measured initially and subsequently at fair value. Changes in fair value are recognised through profit or loss unless they make up a part of an effective hedging relationship and hedge accounting is applied. Once a derivative contract has been entered into, the Group chooses to classify the derivative as a fair value hedge, a cash flow hedge or a hedge of a net investment in foreign operations. If a fair value hedge exists and the criteria in IAS 39 have been met, the gain or loss from changes in the fair value of the hedging instruments is recognised in the income statement together with the changes in the fair

value of the hedged item in the balance sheet. The portion of the gain or loss on the hedging instrument that is determined to be an effective cash flow hedge or hedge of foreign subsidiaries is recognised in other comprehensive income. The accumulated change in fair value for this type of derivative is recycled into profit or loss in the same period(s) in which the hedged item affects profit or loss.

When a hedging instrument is sold, terminated, exercised, revoked or otherwise ceases to meet the criteria for hedge accounting, any gain or loss that has been recognised in equity (via comprehensive income), to be ultimately recognised as an adjustment in either expenses or income when the planned transaction or assumed obligation is realised, is recognised in the income statement. However, if a planned transaction or an assumed obligation is no longer expected to occur, the accumulated gain or loss that has been recognised in other comprehensive income for the period in which the hedge applied is immediately transferred to the income statement.

Polygon is not applying hedge accounting.

IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, the Polygon Group assesses whether there are any objective circumstances that indicate that a financial asset may be impaired. This type of impairment is recognised in the income statement.

PROVISIONS

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event, it is probable that the Group will be required to settle the obligation and the amount of the obligation can be reliably estimated. When the company expects some or all of the expenditure required to settle an obligation to be reimbursed by another party, for example within the framework of an insurance agreement, the reimbursement is recognised as a separate asset, but only when it is virtually certain that reimbursement will be received.

If the time value is material, the present value of the future payment is calculated using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the obligation due to the time value is recognised as an interest expense.

EMPLOYEE BENEFITS

The Group has both defined benefit and defined contribution pension plans, as well as other long-term employee benefits.

Provisions for defined benefit plans are calculated using the projected unit credit method. Aside from consideration to the pensions and statutory rights that are known on the balance sheet date, assumptions are made regarding expected pension and salary increases and other significant factors. The calculation is based on actuarial computation methods.

Revaluations, which are reported in Other comprehensive income below the heading "Items that will not be reclassified to the result for the period", are actuarial gains and losses, the difference between actual return and interest income on plan assets and effect of change in asset items excluding net interest. Actuarial gains and losses arise due to changes in actuarial assumptions and differences between previous actuarial assumptions and the actual outcome.

The total net obligation for all plans is recognised in the consolidated balance sheet after adjustment for any prior costs that have not yet been distributed over the correct period of time. The net obligation is divided into a current and a non-current portion.

The Group's costs for defined contribution pension plans are expensed in the income statement in the year they are attributable to.

COMPENSATION IN CASE OF LAY-OFFS

Lay-offs restructuring provision is accounted for in financial statements only if there is a legally binding obligation to terminate employees or provide compensation in the form of an offer to leave voluntary. In the last case a cost and liability is accrued only if it is probable that the offer will be communicated and accepted, and the number of employees who will accept the offer can be reliably estimated.

LEASES

Leases where the lessor maintains all of the risks and rewards of ownership are classified as operating leases. Lease payments under operating leases are recognised as an expense on a straight-line basis over the lease term.

SEGMENT REPORTING

The Polygon Group consists of three different segments. The segments are identified based on the Group's geographical spread. The segments are regularly evaluated by the Group CEO, who is the chief operating decision-maker (CODM). The operating profit for the identified business segments is regularly monitored by the Group's highest decision maker in order to allocate resources and assess results. The Group's internal report-

ing and, consequently, information to the Group CEO, are divided into geographic areas, the Nordic countries and the UK, Continental Europe, and North America, which constitute the Group's operating segments

The segments are responsible for operating income and the net assets that are used in the segment, while net financial items, taxes, borrowings and equity are not reported by segment. Operating income and net assets for the segments are consolidated according the same principles as for the Group as a whole. The segments consist of a group of separate companies. Operating expenses that are not included in the segments are recognised in group-wide expenses and consist of central functions including group management and central staffs.

REVENUE

Revenue is generated by the sale of delivered services.

Revenue in the operating activities of the Group is measured at the fair value of the consideration received or receivable for services sold in the Group's operating activities, with consideration to the applicable terms of payment, excluding taxes and fees. Revenue is recognised when it is probable that any economic benefits associated with the item of revenue will flow to the Group and the amount of revenue can be measured reliably. This date normally coincides with invoicing of delivered services. Partial payments or advances from customers are recognised in revenue only when they refer to services already performed.

Revenue from major project assignments is recognised in proportion to the stage of completion of the projects on the balance sheet date. The stage of completion is normally measured as the proportion of project costs incurred to date in relation to the estimated total costs of the project. If a reliable estimation of the stage of completion cannot be made, revenue is not recognised until the project is finished. The same applies to smaller projects.

In loss-making projects where it is not likely that the customer will compensate Polygon for rendered services, the loss is recognised immediately.

In addition to exchange rate gains on trade receivables and trade payables, other operating income includes capital gains on sold property, plant and equipment. Financial income is accrued using the effective interest method.

In Norway, the Group has agreements with franchisees in which Polygon receives a commission on sales to end customers. Polygon issues an invoice for the entire amount to the end customer and receives an invoice from the franchisee for services rendered. The difference corresponds to the commission. These transactions are recognised net as sales revenue, i.e. the commission is recognised in sales revenue.

INCOME TAX

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount that is expected to be recovered from or paid to taxation authorities. The Group's current tax is calculated using the tax rates and tax laws that had been enacted or substantively enacted by the end of the reporting period.

Current income tax attributable to items recognised in equity and in other comprehensive income is recognised in equity and in other comprehensive income, and not in the income statement.

Deferred tax

Deferred tax is recognised on the balance sheet date in accordance with the balance sheet method for temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except when the deferred tax liability arises as a result of impairment of goodwill or when an asset or liability is recognised as part of a transaction that is not a business combination which, at the time of the transaction, affects neither accounting profit nor taxable profit, and
- for deductible temporary differences associated with investments in subsidiaries, apart from cases where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognised for deductible temporary differences, including unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amounts of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled,

Note 2.4 cont.

based on the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to set off current tax assets against current tax liabilities on a net basis and the deferred tax amounts are related to the same entity in the Group and are levied by the same taxation authority.

STATEMENT OF CASH FLOWS

Cash and cash equivalents consist of cash on hand and demand deposits, together with other short-term, highly liquid investments with a maturity of three months or less from the date of acquisition. Cash received and paid is recognised in the cash flow statement. Cash flow from operating activities is recognised in accordance with the indirect method.

SUBSEQUENT EVENTS

Post-balance sheet events that confirm the existing terms at the balance sheet date are taken into consideration in valuation of assets and liabilities.

NOTE 2.5 Critical accounting judgments and key sources of estimation uncertainty

In preparing the financial statements in accordance with IFRS, the Board and CEO are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities, as well as income and expenses. The areas where estimates and assumptions are of material importance to the Group and which may affect the financial statements are described below:

IMPAIRMENT OF INTANGIBLE ASSETS

Intangible assets other than goodwill and intangible assets with an indefinite useful life are amortised over the period in which they will generate revenue, i.e. their useful lives. If there is any indication that an asset may be impaired, the recoverable amount of the asset is calculated. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. The recoverable amount is determined according to management's estimates of future cash flows. The assumptions that have been made in the impairment test and related sensitivity analysis are further explained in Note 13 Impairment testing of goodwill and trademarks. The key assumptions relate primarily to assumptions about future sales and profit growth, as well as assumptions about the discount rate.

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually and whenever there is an indication that the asset may be impaired.

If the recoverable amount of the asset is less than its carrying amount, an impairment loss is recognised to reduce the carrying amount of the asset to its recoverable amount.

DEFERRED TAX ASSETS

Deferred taxes are recognised for temporary differences arising between the tax bases and carrying amounts of assets and liabilities, as well as for unutilised tax losses and tax credits. A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable profits will be available against which it can be utilised. In the event that the actual outcome differs from the applied assumptions, or management adjusts these assumptions in the future, the value of the deferred tax assets could change.

WORK IN PROGRESS AND REVENUE RECOGNITION

The Group applies the percentage of completion method for significant customer contracts. The estimate of total contract costs and revenues is critical for revenue recognition and provisions for onerous contracts and the outcome of additional invoicing may affect profit.

PROVISIONS FOR DOUBTFUL DEBTS

Trade receivables are recognised initially at fair value and subsequently at their expected realizable value, with an estimate for doubtful debts based on an objective review of all outstanding amounts during the year and on the balance sheet date. The Group also analyses past due receivables and, based on this analysis, recognizes a provision for bad debts if there is no objective evidence that the payment will be received. Losses attributable to doubtful debts are accounted for as other operating expenses.

PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Defined benefit pension provisions are calculated based on actuarial valuations with assumptions about the discount rate, inflation, expected salary increases and demographic factors. These assumptions are updated annually, which affects the size of the recognised provisions. The most significant assumptions relate to the discount rate and expected salary increases. In the Swedish pension plans, mortgage bonds are used as the basis for the discount rate. For other pension plans corporate bonds have been the basis for determining the discount rate.

NOTE 3 Business combinations

For acquisitions of service companies, consideration is paid not only for the substance found in the company but also an excess value, for example to acquire new customer relationships and knowledgeable, well-educated and experienced employees. The employees are the single most important value creators, but they are not recognised as an asset in the acquired businesses. Therefore, they represent the goodwill arising in the Polygon Group together with the expected synergies between existing and acquired units.

Polygon Sweden acquired Villaklimat OBM AB at the end of March in order to strengthen its regional presence in southern part of Sweden.

Polygon Norway AS acquired Polygon Nord AS on 25 September. The acquired company has been franchise of Polygon since 1991 and its business covers the northern part of Norway. Skadegruppen AS was signed in September and approved by the Norwegian competition authorities in October. The company was acquired from Coor Management Service Holding AB and will contribute to a larger share of wallet, a wider customer base and a strengthening of the market leader position for Polygon Norway AS. The closing was completed 1 November 2017 and the company was consolidated from that date. The company was loss making at the take over and a performance improvement programme has been initiated. The negative goodwill that occurs at the acquisition will cover the restructuring costs booked in the fourth quarter.

The fair values of the identifiable assets and liabilities at the acquisition date are presented below. All amounts and assumptions are preliminary.

BUSINESS COMBINATIONS IN 2017

Fair value recognised on acquisition	2017	2016
Equipment	995	-
Licences	53	-
Other non-current receivables	31	-
Inventory	4,148	-
Current receivables	6,700	-
Total identifiable assets at fair value	11,927	-
Long-term loans and other liabilities	7,661	-
Deferred tax liabilities	391	-
Less: Cash and cash equivalents	-3,149	-
Total identifiable liabilities less cash at fair value	4,903	-
Total identifiable net assets at fair value	7,024	-
Negative goodwill	-3,992	-
Goodwill	8,400	-
Purchase consideration transferred	11,432	-
	2017	2016
Purchase consideration		
Cash paid	10,212	-
Additional purchase price	1,220	-
Total consideration	11,432	-
Analysis of cash flows on acquisition		
Net cash acquired with the subsidiary	-3,149	-
Cash paid	10,212	-
Translation difference	45	-
Closing balance	7,108	-

Company	Country	Corp.ID. No.	Ownership	Closing date	Annual net sales (estimated) MEUR ¹⁾	No of employees
Villaklimat OBM AB	Sweden	556637-3857	100%	31 Mar 2017	2	14
Polygon Nord AS	Norway	956 827 264	100%	25 Sept 2017	5	47
Skadegruppen AS	Norway	943 578 524	100%	26 Sept 2017	27	208
Bretagne Assèchement	France	440 853 547	100%	28 Dec 2017	2	21
Bretagne Assèchement Nord	France	503 279 697	100%	28 Dec 2017	2	22
Normandie Assistance	France	499 557 478	100%	28 Dec 2017	1	4

¹⁾ Estimated at acquisition date.

NOTE 4 Discontinued operations

No operations were divested during 2016 or 2017.

NOTE 5 Segment information

The Group has three operating segments that are divided by geographical market. All segments apply IFRS, in conformity with the Group as whole.

2017	Nordics & UK	Continental Europe	North America	Other	Eliminations	Group Total
Income external customers	147,428	338,574	32,812	-	-	518,814
Income internal customers	10	150	4	-	-164	-
Total income	147,438	338,724	32,816	-	-164	518,814
Operating income	6,360	17,036	4,052	-1,524	-	25,924
Net financial items	-	-	-	-	-	-16,946
Taxes	-	-	-	-	-	-3,165
Net income for the year	-	-	-	-	-	5,813
Depreciation	2,578	7,216	1,857	3,011	-	14,662
Assets	101,828	164,851	30,443	60,162	-167	357,116
where of Goodwill	46,742	46,014	18,186	-	-	110,942
Liabilities	65,092	98,592	23,256	192,523	-81,699	297,764
Investments						
Tangible	2,769	9,625	4,531	-	-	16,925
Intangible	-	137	-	2,252	-	2,389
2016						
Income external customers	143,669	310,899	30,714	-	-	485,282
Income internal customers	33	47	-	-	-80	-
Total income	143,702	310,946	30,714	-	-80	485,282
Operating income	7,464	12,108	2,159	3,371	-	25,102
Net financial items	-	-	-	-	-	-12,385
Taxes	-	-	-	-	-	-2,274
Net income for the year	-	-	-	-	-	10,443
Depreciations	2,347	6,396	2,391	3,403	-	14,537
Assets	94,350	165,140	32,198	62,295	-2,943	351,040
where of Goodwill	44,056	40,467	19,658	-	-	104,181
Liabilities	60,977	106,635	25,573	191,327	-86,846	297,666
Investments						
Tangible	2,885	7,881	4,067	122	-	14,955
Intangible	-	705	-	1,917	-	2,622

GEOGRAPHICAL AREAS

The figures for revenue are based on the country where the customer is found.

Geography	2017	2016
Sweden	19,786	19,036
Germany	295,882	266,662
Other	203,146	199,584
Total	518,814	485,282
Service line	2017	2016
Water damage restoration	230,531	219,206
Fire damage restoration	93,119	84,078
Reconstruction	119,102	111,004
Other	76,062	70,994
Total	518,814	485,282

NOTE 6 Allocation of expenses by category

	2017	2016
Payroll expenses	176,280	171,226
Subcontractor expenses	188,227	184,858
Other operating expenses	87,327	60,953
Depreciation/scraping	14,662	14,537
Other expenses	28,516	27,911
Gains (-)/losses/write-offs of assets	420	550
Negative goodwill	-3,992	-
Transaction expenses	1,450	145
Total	492,890	460,180

Operating expenses distributed above are reported on lines Cost of sales, Selling and distribution costs and Other operating costs in the Consolidated income statement.

NOTE 7 Audit fees

	2017	2016
<i>Ernst & Young</i>		
Audit assignment	527	453
Auditing besides audit assignment	42	104
Tax consultation	46	107
Other services	5	16
<i>Others</i>		
Audit assignment	18	13
Auditing besides audit assignment	5	21
Tax consultation	175	167
Other services	30	13
Total auditors' fees	848	894

Audit assignment refers to auditing of the annual report, the accounting records and the administration of the Board of Directors, as well as other audit-related work that is incumbent upon the auditors.

NOTE 8 Salaries, social security expenses and employee benefits

Average number of employees per country	2017		2016	
	No of employees	Whereof men, %	No of employees	Whereof men, %
Sweden	166	84	162	84
Norway	454	81	186	82
Finland	277	88	269	90
Denmark	94	69	113	72
Belgium	39	82	36	83
Austria	97	88	92	88
Germany	1,455	76	1,370	77
France	92	75	49	80
United Kingdom	371	75	396	76
Netherlands	120	83	114	87
Singapore	4	75	4	75
USA	85	85	89	79
Canada	25	68	28	71
Total Group	3,279	79	2,908	79

SALARIES, SOCIAL SECURITY EXPENSES AND OTHER COMPENSATION

	2017			2016		
	Salaries and other compensation	Payroll overhead	(out of which pension)	Salaries and other compensation	Payroll overhead	(out of which pension)
Parent company	2,082	433	377	2,063	156	409
Subsidiaries	133,120	30,051	5,343	123,019	26,757	5,126
Total Group	135,202	30,484	5,720	125,082	26,913	5,535

BREAKDOWN OF SALARIES, OTHER COMPENSATION AND SOCIAL SECURITY EXPENSES BETWEEN THE BOARD, THE CEO AND OTHER EMPLOYEES

	2017			2016		
	Salaries and other compensation	(of which bonus etc.)	Payroll overhead	Salaries and other compensation	(of which bonus etc.)	Payroll overhead
Board	231	-	-	203	-	-
Managing director	916	499	10	953	552	-310
Other employees	134,055	5,741	30,474	123,926	6,219	27,223
Total Group	135,202	6,240	30,484	125,082	6,771	26,913

REMUNERATION TO THE BOARD OF DIRECTORS

Member of the Board		2017		2016	
		Compensation	Payroll overhead	Compensation	Payroll overhead
Luc Hendriks	Chairman of the Board	60	-	60	-
Ole Skov	Board member	30	9	30	9
Jonas Samuelson	Board member, Chairman of the Audit Committee	45	14	45	14
Petter Darin	Board member, member of the Audit Committee	38	12	38	12
Lars-Ove Håkansson	Board member	30	2	30	2
Nadia Meier-Kirner	Board member	28	-	-	-
Gunilla Andersson	Board member, elected in December 2017	-	-	-	-
Summa		231	37	203	37

Remuneration to the Chairman of the Board is EUR 60 thousand and to other Board members EUR 30 thousand per year. The chairman of the Audit committee receives EUR 15 thousand and other members of the Audit committee EUR 7.5 thousand per year.

GENDER DISTRIBUTION ON THE BOARD AND AMONG OTHER SENIOR EXECUTIVES

	2017	2016
Distribution of men and women within the Board of Directors		
Women	2	-
Men	5	5
Distribution of men and women regarding CEO and other executives of the Group ¹⁾		
Women	-	-
Men	7	7

¹⁾ Senior executives in the Group during 2017 included the CEO, the COO, the CCO and the CFO and three Country Presidents Senior executives.

	2017	2016
Compensation to Group Management		
Sales and other compensation	3,248	3,246
Pensions and reimbursement of medical	423	448
Total	3,671	3,694

Salary to the CEO and senior executives is determined by the Board of Directors. The salary level shall be based on market conditions in relation to competence and performance. In addition to basic annual salary, compensation can include a maximum bonus of 100% of annual salary. The outcome of the bonus is based mainly on the attainment of financial targets.

The company uses only premium-based pension solutions for senior executives. These pension solutions vary between 25% and 35% of basic annual salary.

The notice period for senior executives is between 6 and 12 months, plus six months of termination benefits that cover only basic salary. The CEO has a notice period of six months and in the event of termination of employment on the part of the company, the notice period is 12 months.

Other benefits include company car benefits, car allowances and health insurance.

NOTE 9 Financial income and expenses

Finance income	2017	2016
Interest income	151	157
Other financial income	–	–32
Total financial income	151	125
Finance costs	2017	2016
Interest expense	–9,798	–9,097
Financial exchange differences	–5,397	1,174
Other financial expenses	–1,902	–587
Total finance costs	–17,097	–8,510
Net financial expenses	–16,946	–8,385

NOTE 10 Income taxes

The principal components of the income tax expense are:

	2017	2016		2017	2016
Consolidated income statement			Reconciliation of effective tax		
Taxes for the year	–3,360	–1,919	Income before taxes	8,978	12,717
Tax on capital gain not recognised in profit and loss account	–323	–1,747	Tax according to current tax rate for Parent Company 22%	–1,975	–2,798
Adjustments for taxes related to previous year	327	25	Difference related to foreign tax rates	–1,055	–526
	–3,356	–3,641	Non-deductible expenses	–812	–1,452
Change of deferred tax related to temporary differences	–34	1,432	Change in non-capitalised loss carry-forward	–1,369	2,519
Other	225	–65	Tax-exempt income	386	1,885
Total recognised tax expense in the income statement	–3,165	–2,274	Taxable income not recognised in profit and loss account	–323	–1,747
			Tax related to previous years	327	25
			Other	1,657	–180
			Total	–3,165	–2,274

The average effective tax rate was 35.2% (17.9). The average nominal tax rate in the countries where the Group operates is around 23%.

The tax cut adopted in the US at the end of the year, where the corporate tax rate was reduced from 35% to 21%, has affected the deferred tax Polygon US Corporation booked on losses carried forward. The reduction in deferred tax of EUR 1.0 million refers to the change in tax rate in the US and this is shown above under Other. A tax audit in Germany reduces an additional EUR 0.6 million in deferred tax and is also included under Other above.

DEFERRED TAX ASSETS/LIABILITIES

The deferred tax asset and provision recognised in the balance sheet are attributable to the following assets and liabilities:

	2017			2016		
	Deferred tax asset	Deferred tax liability	Net	Deferred tax asset	Deferred tax liability	Net
Intangible assets	–	11,871	–11,871	–	11,807	–11,807
Plant and machinery	355	2,104	–1,749	1,140	567	573
Work in projects	2,398	190	2,208	340	8,271	–7,931
Accounts receivable	228	3,135	–2,907	6,953	1,080	5,873
Provisions	726	34	692	54	46	8
Other liabilities	267	1	266	–	106	–106
Loss carry-forward	12,363	–	12,363	14,530	–	14,530
Provisions for pensions	1,090	–	1,090	1,107	–	1,107
Other	944	10	934	–700	13	–713
Total	18,371	17,345	1,026	23,424	21,890	1,534
Netting within company	–1,952	–1,952	–	–	–	–
Closing balance	16,419	15,393	1,026	23,424	21,890	1,534

CHANGE IN DEFERRED TAX RELATED TO TEMPORARY DIFFERENCES AND LOSS CARRY-FORWARDS

2017	Opening balance	Acquisitions	Disclosed in income statement	Disclosed in other comprehensive income	Exchange differences	Closing balance
Intangible assets	-11,807	-889	825	-	-	-11,871
Plant and machinery	573	203	-2,525	-	-	-1,749
Work in projects	-7,931	-267	10,406	-	-	2,208
Accounts receivable	5,873	59	-8,839	-	-	-2,907
Provisions	8	-	684	-	-	692
Non-current liabilities	-106	-	372	-	-	266
Loss carry-forward	14,530	493	-2,660	-	-	12,363
Provisions for pensions	1,107	-	-	-18	-	1,089
Other	-713	-	1,703	-	-55	935
Closing balance	1,534	-401	-34	-18	-55	1,026

2016	Opening balance	Acquisitions	Disclosed in income statement	Disclosed in other comprehensive income	Exchange differences	Closing balance
Intangible assets	-12,978	-	1,171	-	-	-11,807
Plant and machinery	-94	-	667	-	-	573
Work in projects	6,200	-	-14,086	-	-45	-7,931
Accounts receivable	-7,784	-	13,657	-	-	5,873
Provisions	27	-	-24	-	5	8
Non-current liabilities	-124	-	18	-	-	-106
Loss carry-forward	14,756	-	-226	-	-	14,530
Provisions for pensions	1,042	-	267	138	-340	1,107
Other	-704	-	-12	-	3	-713
Closing balance	341	-	1,432	138	-377	1,534

Deferred tax assets related to loss carry-forwards are recognised to the extent it is deemed probable that there will be sufficient future taxable profits against which they can be utilised.

	2017	2016
Loss carry forward		
Due date		
0-1 year	-	94
1-2 year	-	-
2-3 year	-	-
3-4 year	-	-
4-5 year	-	-
>5 year	19,719	26,730
No due date	50,483	52,692
Total	70,202	79,516

Total loss carry-forwards at the end of the year amounted to EUR 70.2 million (79.5), which amounts to EUR 21.3 million (23.5) in-tax value. Loss carry-forwards for which no deferred tax asset has been recognised amounted to EUR 34.7 million (29.0). Consequently, loss carry-forwards of EUR 35.5 million (50.5) are subject to recognition as deferred tax assets.

NOTE 11 Goodwill

	2017	2016
Opening balance acquisition values	112,953	113,514
Additions ¹⁾	8,315	-1,014
Reclassifications	-1,930	453
Exchange rates differences	119,338	112,953
Closing balance acquisition values	-8,771	-8,649
Exchange rates differences	375	-123
Closing balance accumulated impairment	-8,396	-8,771
Net book value closing balance	110,942	104,181

¹⁾ See Note 3 Business combinations.

NOTE 12 Other intangible assets

2017	Trademarks	Order backlog	Customer relations	Other	Total
Opening balance acquisition values	25,885	9,018	40,327	15,910	91,140
Additions through company acquisitions	-	-	-	53	53
Acquisitions	-	-	-	2,389	2,389
Sales/ scrapping	-	-	-	-179	-179
Translation differences	-64	-104	-171	-41	-380
Closing balance acquisition values	25,821	8,914	40,157	18,132	93,024
Opening balance depreciation	-181	-9,018	-25,629	-6,479	-41,307
Deprecation according to plan	-	-	-4,414	-954	-5,368
Sales/ scrapping	-	-	-	179	179
Translation differences	22	104	46	34	206
Closing balance accumulated depreciation	-159	-8,914	-29,997	-7,220	-46,289
Opening balance write-downs	-	-	-	-4,274	-4,274
Write-downs	-	-	-	-500	-500
Closing balance accumulated write-downs	-	-	-	-4,774	-4,774
Net book value	25,662	-	10,160	6,138	41,960
2016	Trademarks	Order backlog	Customer relations	Other	Total
Opening balance acquisition values	25,644	8,975	39,913	13,355	87,886
Additions through company acquisitions	56	-	84	-	140
Acquisitions	-	-	-	2,622	2,622
Disposals	-	-	-	-592	-592
Reclassification	203	-	304	592	1,099
Translation differences	-18	43	26	-67	-16
Closing balance acquisition values	25,885	9,018	40,327	15,910	91,140
Opening balance depreciation	-131	-8,975	-21,170	-5,814	-36,089
Deprecation according to plan	-42	-	-4,412	-735	-5,189
Translation differences	-7	-43	-47	70	-21
Closing balance accumulated depreciation	-181	-9,018	-25,629	-6,479	-41,306
Opening balance write-downs	-	-	-	-4,274	-4,274
Closing balance accumulated write-downs	-	-	-	-4,274	-4,274
Net book value	25,704	-	14,699	5,157	45,561

The income statement includes amortisation of EUR 0.0 million (0.0) for the cost of sales, EUR 5.3 million (5.1) in selling and administrative expenses and EUR 0.1 million (0.1) in other operating costs. An impairment loss of EUR 0.5 million (0.6) was recognised for development costs for internal IT systems that will not be taken into operation.

NOTE 13 Impairment testing of goodwill and trademarks

Polygon has three operating segments that represent the cash-generating units.

Goodwill and other intangible assets with indefinite useful lives acquired through business combinations are specified in the table below.

	2017		2016	
	Goodwill	Trademarks	Goodwill	Trademarks
Nordics & UK	46,742	5,830	44,056	5,872
Continental Europe	46,014	19,831	46,467	19,831
North America	18,186	1	19,658	1
Total	110,941	25,662	104,181	25,704

Polygon's impairment test for goodwill and trademarks was performed through an estimation of value in use. This calculation includes several assumptions about future conditions and estimates of parameters. Changes in these assumptions and estimates could affect the carrying amount of goodwill. Value in use is determined through cash flow calculations, where the first five years are based on the five-year business forecast established by management. The cash flows estimated thereafter are based on an annual growth rate of 2% (2), which is assessed to correspond to the long-term growth in the unit's markets.

The discount rate was determined based on the Group's weighted average cost of capital (WACC) based on assumptions about the interest rate on long-term government bonds and the company-specific risk factor and beta value.

The estimated cash flows have been discounted to present value using a discount rate (WACC) of 11.4% (13.3) before tax. The conclusion of the impairment test is that there is no indication of impairment, since value in use exceeds the carrying amount including goodwill and other intangible assets.

In the event that the company is unable to achieve the business plan on which the cash flow calculations are based, this could lead to impairment.

NOTE 14 Property, plant and equipment

Property and plant	2017	2016
Opening balance acquisition value	2,810	2,793
Investments	-	5
Disposals	-	-2
Translation differences	-15	14
Closing balance acquisition value	2,795	2,810
Opening balance depreciation	-1,341	-1,277
Depreciation for the year	-57	-58
Translation differences	6	-7
Closing balance accumulated depreciation	-1,392	-1,341
Carrying amount closing balance	1,403	1,467
Equipment	2017	2016
Opening balance acquisition value	136,307	125,818
Additions due to acquiring of business	994	140
Investments	16,925	14,950
Disposals	-2,583	-3,129
Reclassification	7	507
Adjustments	-	3
Translation differences	-4,175	-1,982
Closing balance acquisition balance	147,475	136,307
Opening balance depreciation	-103,909	-99,468
Depreciation for the year	-9,236	-9,290
Disposals	2,529	3,012
Translation differences	2,607	1,837
Closing balance accumulated depreciation	-108,009	-103,909
Opening balance write-down	-615	-634
Write-downs	-58	-
Translation differences	4	19
Closing balance accumulated write-downs	-669	-615
Carrying amount closing balance	38,797	31,783

The income statement includes depreciation of EUR 7.8 million (7.3) for the cost of sales, EUR 1.4 million (1.3) in selling and administrative expenses and EUR 0.2 million (0.7) in other operating expenses.

NOTE 15 Work in progress

Polygon's business mainly consists of a large amount of small projects with an average duration of 1-4 months. Their part in the total amount of work in progress is at the year-end 58% (64%). The portion of projects with duration longer than one year is 7% (4%).

NOTE 16 Prepaid expenses and accrued income

	2017	2016
Prepaid insurance	512	526
Prepaid rent	641	655
Prepaid services	1,172	1,382
Leasing	628	520
Personnel related expenses	963	1,151
Other prepaid expenses	1,348	1,607
Total	5,264	5,843

NOTE 17 Financial instruments and financial risk management

FINANCIAL RISK MANAGEMENT IN THE POLYGON GROUP

Polygon AB is exposed to a number of financial market risks that the Group is responsible for managing within the framework of the finance policy approved by the Board of Directors.

The overall objective is to have cost-effective financing in the group companies. The financial risks in the Group are mainly handled through the

weekly exchange of non-euro cash into euros and only to a limited extent through financial instruments. The main risk exposures for the Group are liquidity risk, interest rate risk, currency risk, credit risk and counterparty risk.

The table below shows the Group's significant financial assets and liabilities.

	2017		2016	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Current assets				
Accounts receivable	76,570	76,570	70,079	70,079
Other current assets	2,522	2,522	2,248	2,248
Receivables, parent company	308	308	347	347
Cash and cash equivalents	42,541	42,541	36,585	36,585
Currency derivatives	-	-	113	113
Total assets	121,941	121,941	109,372	109,372
Liabilities				
Non-current interest-bearing liabilities (shareholder loans)	5,593	5,593	5,085	5,085
Non-current interest-bearing liabilities	177,796	180,000	176,197	180,014
Other non-current liabilities	819	819	-	-
Current interest-bearing liabilities	885	885	-	-
Accounts payable	35,647	35,647	42,893	42,893
Other current liabilities	16,757	16,757	13,859	13,859
Accrued expenses	1,900	1,900	1,742	1,742
Currency derivatives	202	202	-	-
Total liabilities	239,599	241,803	239,776	243,593

CURRENCY RISK

As a consequence of its international activities, Polygon is exposed to movements in foreign exchange rates. The table below shows currency exposure for the various financial assets and liabilities.

BREAKDOWN OF THE GROUP'S LOANS BY CURRENCY

	2017	2016
EUR	184,274	181,240
Other currencies	-	42
Total	184,274	181,282

BREAKDOWN OF TRADE RECEIVABLES BY CURRENCY

	2017	2016
EUR	54,387	49,338
SEK	2,834	2,295
USD	4,732	4,025
NOK	7,369	5,708
GBP	4,541	5,659
Other currencies	2,707	3,054
Total	76,570	70,079

BREAKDOWN OF OTHER CURRENT RECEIVABLES BY CURRENCY

	2017	2016
EUR	1,540	1,456
SEK	324	297
USD	84	78
NOK	85	50
GBP	395	351
Other currencies	94	16
Total	2,522	2,248

BREAKDOWN OF CASH AND BANK BY CURRENCY

	2017	2016
EUR	20,924	22,297
SEK	1,612	938
USD	4,850	4,190
NOK	6,051	1,628
GBP	7,957	4,953
Other currencies	1,147	2,579
Total	42,541	36,585

The above amounts relate to bank balances.

BREAKDOWN OF TRADE PAYABLES BY CURRENCY

	2017	2016
EUR	24,096	28,613
SEK	1,934	2,049
USD	2,043	2,275
NOK	3,624	3,534
GBP	3,073	5,045
Other currencies	877	1,377
Total	35,647	42,893

BREAKDOWN OF OTHER CURRENT LIABILITIES BY CURRENCY

	2017	2016
EUR	12,073	10,932
SEK	529	426
NOK	3,222	1,361
GBP	883	925
Other currencies	250	215
Total	16,957	13,859

BREAKDOWN OF ACCRUED INTEREST EXPENSES BY CURRENCY

	2017	2016
EUR	1,900	1,742
Total	1,900	1,742

Note 17 cont.

TRANSACTION EXPOSURE

The Polygon Group's policy for transaction exposure is to minimise the impact of short-term changes in foreign exchange rates on earnings by hedging the transaction exposure on a case-by-case basis.

The main transaction exposures arise in EUR against local currencies.

CURRENCY EXPOSURE

Polygon's assets in foreign subsidiaries are financed through loans or equity. If a foreign subsidiary that has an accounting currency other than EUR is financed through equity, a translation risk arises in connection with the translation of subsidiary's financial statement into the reporting currency (EUR). Translation risk is the risk that changes in foreign currency exchange rates will negatively influence Polygon's net investment in foreign operations at translation of the subsidiaries' statements of financial position and income statements. Currency exchange gains (losses) arising on translation are reported in the Consolidated statement of other comprehensive income.

Due to the fact that many of the significant subsidiaries have EUR as their functional currency, translation risk is very limited in amount. The table below shows the influence of changes in foreign currency exchange rates on net investments in foreign operations.

	2017	2016
Change in USD rate		
+10/-10%	611	726
Change in NOK rate		
+10/-10%	509	439
Change in GBP rate		
+10/-10%	626	291
Change in SEK rate		
+10/-10%	570	565

TRANSACTION RISK AND HEDGES IN THE MAIN CURRENCIES

Polygon currently has outstanding hedges for transaction exposure in SEK/EUR. Hedge accounting is not applied.

INTEREST RATE RISK

Fluctuations in interest rates affect the Group's interest expense. Polygon's policy for interest rate risk is designed to reduce the impact of interest rate changes on earnings. In the case of interest-bearing assets, the fixed interest period shall be short and matched against repayment of loans. On the balance sheet date, Polygon had no interest hedges in the form of interest rate swaps or interest rate caps.

At 31 December 2017, a simultaneous change in interest rates of +/11 percentage points, excluding interest rate hedges, would have impacted the annual net interest expense by EUR 1.8 million (1.8), assuming that the Group's duration and funding structure remain constant during the year.

The floating rate interest-bearing net liability position for the Group as a whole, including cash and cash equivalents, was EUR 142.6 million (144.7).

CUSTOMER CREDIT RISK

Management's assessment is that there is no significant concentration of credit risk with any individual customer, counterparty or geographical region for Polygon. The age analysis of accounts receivables is shown in Note 20 Accounts receivables.

LIQUIDITY AND REFINANCING RISK

Financing risks refer to the risk of difficulty in obtaining financing for operations at a given point in time. Polygon's finance policy states that the Group's external loan portfolio shall have a maturity structure that guarantees that Polygon will not be exposed to refinancing risks.

Polygon is also subject to some covenants that are specified in the terms and conditions for the Senior Secured Floating Rate Note and in the terms and conditions for the overdraft facility, such as key ratios and performance indicators linked to the consolidated income statement and balance sheet. The covenants were met for both 2017 and 2016.

CAPITAL RISK MANAGEMENT

The Group's capital structure should be maintained at a level that ensures the ability to run the business to generate returns for the shareholders and benefits for other stakeholders, while at the same time maintaining an optimal capital structure to reduce capital costs.

To maintain or adjust the capital structure, the Group can, conditional on approval by the shareholders and external lenders when applicable, vary the dividend that is paid to the shareholders, reduce the share capital for payment to the shareholders, issue new shares or sell assets to reduce debt. The Group continuously analyses the relationship between debt and equity and same relationship including shareholder loans.

EURk	2017	2016
Interest-bearing net liabilities (A)	136,141	139,612
Total equity (B)	59,352	53,373
Relation between liabilities and equity (A/B)	2.3	2.6

EURk	2017	2016
Interest-bearing net liabilities including loans from parent company (A)	141,734	144,697
Total equity (B)	59,352	53,373
Relation between liabilities and equity (A/B)	2.4	2.7

NOTE 18 Interest-bearing loans and borrowings

The Group's interest-bearing loans and borrowings are presented in the table below, including interest rate hedges.

	2017	2016
<i>Non-current:</i>		
Bonds and other loans (floating interest rate)	180,000	180,014
Capitalised finance costs ¹⁾	-2,204	-3,818
Other interest-bearing liabilities (shareholder loan)	5,593	5,085
Total non-current liabilities	183,389	181,282
<i>Current:</i>		
Other bank loans	885	-
Total current liabilities	885	-
Amount of borrowings	184,274	181,282

¹⁾ Finance costs are amortised over the duration of the loans.

THE MATURITIES OF FINANCIAL LIABILITIES ARE AS FOLLOWS:

	Book value		Undiscounted cash flow	
	2017	2016	2017	2016
Within 1 year	53,483	64,248	55,476	73,538
Between 2 and 5 years	180,323	176,197	181,596	213,357
After 5 years	5,593	5,085	11,323	11,161
Total	239,599	245,530	248,395	298,056

The carrying amounts above include financial liabilities. The non-discounted cash flows above include financial liabilities and interest payments. All amounts in currencies other than EUR are revalued at the closing day rate and interest payments on loans with variable interest have been calculated at the closing day rate.

The weighted average interest rate on external loans and borrowings, including margins and the effects of interest rate hedges, was 5.00% (5.00).

Note 18 cont.

FINANCIAL ASSETS AND LIABILITIES BY VALUATION CATEGORY:

2017	Derivatives	Acquisition earn-outs	Total reported value	Fair value
Valuation category	Level 2	Level 3		
LIABILITIES				
Long-term liabilities				
Other short-term liabilities	-	692	692	692
Current liabilities				
Other short-term liabilities	202	615	817	817
Total financial liabilities	202	1,307	1,509	1,509
2016				
Valuation category	Level 2	Level 3	Total reported value	Fair value
ASSETS				
Current assets				
Other short-term assets	113	-	113	113
Total financial assets	113	-	113	113

The Group categorises financial assets and financial liabilities that are measured at fair value in a fair value hierarchy based on the inputs that are used to measure each asset and liability.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, inputs other than quoted prices that are observable, directly or indirectly, essentially for the instrument's entire duration as well as the inputs used in valuation techniques that have been derived from observable market data.

Level 3 – Inputs that are essential for the fair value of the asset or liability are not observable, and the Group's own assessments are instead applied.

Financial liabilities at level 3 consist of acquisition earn-outs for acquired operations. The valuation of this is based on the acquired operation's expected future financial performance, which has been assessed by management.

Specification of financial assets and liabilities	2017	2016
Financial assets		
Opening balance	113	-
Change during the year	-113	113
Closing balance	-	113
Financial liabilities		
Opening balance	-	649
Change additional purchase price	1,307	-649
Change market value interest hedge	202	-
Closing balance	1,509	-

The average maturity of the currency hedge is 6 months.

NOTE 19 Cash and cash equivalents

	2017	2016
Cash at banks and petty cash	42,541	36,585
Total	42,541	36,585

At 31 December 2017, the Group had EUR 60.9 million (46.4) available in unutilised loan commitments for which all earlier covenants had been met.

NOTE 20 Accounts receivable

	2017	2016
Accounts receivable	81,387	74,110
Provision for doubtful receivables	-4,817	-4,031
Total	76,570	70,079

No collateral (pledge) for trade receivables has been received.

AGE ANALYSIS OF ACCOUNTS RECEIVABLES

2017	Overdue receivables	Overdue receivables – provisions recognised	Overdue receivables – no provisions recognised
Less than 30 days overdue	19,258	-	19,258
31 to 60 days overdue	7,418	-	7,418
61 to 90 days overdue	3,791	-	3,791
91 to 180 days overdue	4,519	-	4,519
Over 181 days overdue	5,974	-4,817	1,157
Total overdue accounts	40,960	-4,817	36,143
Accounts receivable within their credit terms	40,427	-	40,427
Total	81,387	-4,817	76,570

2016	Overdue receivables	Overdue receivables – provisions recognised	Overdue receivables – no provisions recognised
Less than 30 days overdue	17,607	-	17,607
31 to 60 days overdue	6,466	-	6,466
61 to 90 days overdue	3,254	-	3,254
91 to 180 days overdue	5,321	-	5,321
Over 181 days overdue	4,730	-4,031	699
Total overdue accounts	37,378	-4,031	33,347
Accounts receivable within their credit terms	36,732	-	36,732
Total	74,110	-4,031	70,079

PROVISIONS FOR DOUBTFUL DEBTS

	2017	2016
Opening balance	4,031	3,315
Acquired companies	324	-
Current year provision	702	972
Utilised receivables	-144	-228
Recovered bad debt	-77	-24
Exchange rate differences	-19	-4
Closing balance	4,817	4,031

NOTE 21 Pledged assets for own liabilities and provisions

	2017	2016
Shares in subsidiaries	399,181	389,259
Pledged assets for own liabilities and provisions	399,181	389,259

All shares in the Group's major subsidiaries as well as the internal loans are pledged as security for loans from financial institutions. The amounts stated under pledged assets therefore correspond to total net assets in the pledged subsidiaries.

NOTE 22 Finance and operating leases

FINANCE LEASE COMMITMENTS

The Group has no assets held under finance leases.

OPERATING LEASE COMMITMENTS

The operating lease commitments refer primarily to premises, service vehicles, computers and office equipment. These commitments have an average life of 1–5 years without opportunity to acquire the object. The Group is not subject to any restrictions as a result of these commitments.

Lease payments during the year amounted to EUR 25.6 million (23.9).

	2017	2016
Rent of premises	11,269	9,617
Cars and other vehicles operating leases	12,740	11,738
Other operating leasing	1,609	2,538
Total	25,618	23,893

MINIMUM LEASE PAYMENTS

	2017	2016
Less than 1 year	24,462	20,432
1–2 years	18,454	15,065
2–3 years	12,724	9,650
3–4 years	8,563	5,419
4–5 years	5,964	3,522
More than 5 years	6,762	6,679
Future finance charges	76,929	60,767

NOTE 23 Other liabilities

	2017	2016
VAT	11,551	10,515
Employee withholding taxes	2,819	2,281
Other liabilities	2,587	1,063
Total	16,957	13,859

NOTE 24 Equity

SHARE CAPITAL

Each share has a quota value of EUR 10.27. All shares are of the same class and carry equal voting rights. All shares are fully paid-up. All shares grant equal rights to the company's assets and profits. There are no restrictions on the transferability of shares due to law or the Articles of Association.

OTHER CONTRIBUTED CAPITAL

Other contributed capital refers to equity contributed by shareholders. This includes share premium reserves.

In accordance with chapter 4, § 2 of the Swedish Annual Accounts Act, Polygon International AB has created a reserve in 2016 in restricted equity for development costs. The reserve amounted to EUR 4.0 million (2.4) at the end of 2017. The reserve is restricted/not distributable.

HEDGING RESERVE

The hedging reserve refers to accumulated gains and losses arising from changes in the fair value of cash flow hedges attributable to hedges of exchange rate fluctuations and interest rate risks. At the end of the year there were no cash flow hedges recognised in other comprehensive income. Hedge accounting is not applied.

FOREIGN CURRENCY TRANSLATION RESERVE

The foreign currency translation reserve covers all translation differences arising in translation of the financial statements of foreign operations that are presented in a currency other than that used for presentation of the consolidated financial statements. The Parent Company and the Group present their financial statements in euros (EUR).

ACTUARIAL GAINS/LOSSES

See information in Note 25 Pension provisions.

NOTE 25 Pension provisions

The Polygon Group has established pension plans for its employees in the countries where the Group operates. The plans generally conform to local practice in the respective countries and may take the form of defined contribution or defined benefit plans. The Group has defined benefit plans in Sweden, Germany, France and the United Kingdom. The defined benefit pension plan in Norway was finally terminated in 2015 and was then transferred into defined contribution plans.

The defined contribution plans mainly include retirement pensions, disability pensions and survivor pensions. The contributions are paid during the year by the respective group company to separate legal entities, e.g. insurance companies. The Group has no further obligations once the contributions have been paid.

The defined benefit plans refer mainly to employees in Sweden, but also to employees in France. In the other countries, the defined benefit plans are closed and no new vesting is made. All pension plans are based on final salary, and provide benefits in the form of a guaranteed level of pension payments, usually as a percentage of final salary, to the plan participants during their lifetimes.

The total pension expense for 2017 amounted to EUR 279 thousand (250), compared to an expected pension expense for 2016 of EUR 240 thousand (262). The higher pension expense for 2017 is mainly attributable to settlement through income statement of EUR 41 thousand in the UK (see below for more information). The total net liability according to IAS 19 is at the same level as in the previous year due to exchange rates.

The pension plan in the United Kingdom is funded and also includes a defined contribution complement. The pension plan is closed, which means that no current service costs are added to this plan. The plan assets are exposed to market risks, among other risks. During the year, annuities were purchased and payments were made to external pension plans. The purchase of annuities is recognised in settlement in the summary and the others in payments from the plan.

The pension plan in Sweden consists of the collectively agreed ITP plan. This plan includes both defined contribution and defined benefit components. The defined benefit obligation is secured through provisions in the balance sheet, combined with credit insurance in PRI Pensionsgaranti. The pension plan exposes the Group to risks such as a change in the discount rate, increased life expectancy, higher inflation and salary increases.

In France and Germany there are unfunded pension obligations in minor amounts. The present value for these pension plans is mainly impacted by changes in the discount rate.

The tables below summarise the components of the net pension expense that are recognised in the income statement and in other comprehensive income, as well changes in the value of the defined benefit pension obligation as recognised in the balance sheet.

	2017	2016
Summary of pension provisions in the Group		
Long-term defined benefit liability	4,988	5,034
Net liability recognised in the Balance sheet	4,988	5,034
Pension expenses	2017	2016
Amounts recognised in the income statement		
Current service cost	144	92
Interest expenses	221	276
Interest income on assets	-86	-118
Expenses, defined benefit plans	279	250
Expenses, defined contribution plans	5,576	5,443
Amounts recognised in Other Comprehensive Income		
Remeasurement of pension obligation	329	1,178
Remeasurement of plan assets	-108	-401
Expenses/ (income), defined benefit plans	221	776
Total pension expenses	6,076	6,469

Note 25 cont.

Amount recognised in the balance sheet	2017	2016
Fair value of defined benefit obligation, funded plans	4,189	4,544
Fair value of plan assets	-3,498	-3,546
Net liability recognised in the balance sheet	691	998
Present value of defined benefit obligation, unfunded plans	4,297	4,036
Net liability recognised in the balance sheet	4,988	5,034
Change in amount recognised in the Balance sheet	2017	2016
Opening balance, net liability	5,034	4,710
Current service cost	144	92
Net interest	135	158
Remeasurements	221	776
Pension payments directly from employer	-170	-168
Employer's contribution to the pension plan assets	-233	-231
Effect of changes in foreign exchange rates	-143	-303
Closing balance, net liability	4,988	5,034
Change in present value of defined benefit obligation	2017	2016
Opening balance, defined benefit obligation	8,580	8,099
Current service cost	104	92
Interest expenses	221	276
Settlement	-269	-30
Remeasurements of pension obligation		
- financial assumptions	340	1 489
- experience adjustments	-10	-311
Pension payments	-209	-236
Effect of changes in foreign exchange rates	-271	-799
Closing balance, defined benefit obligation	8,486	8,580
Change in fair value of plan assets	2017	2016
Opening balance, plan assets	3,546	3,389
Interest income	86	118
Return excluding interest income	108	401
Employer's contribution	402	399
Pension payments from plan assets	-209	-236
Settlements	-310	-30
Effect of changes in foreign exchange rates	-125	-495
Closing balance, plan assets	3,498	3,546
Fair value of plan assets	2017	2016
Equities	52%	71%
Bonds	29%	14%
Other, including cash and cash equivalents	19%	15%
Total	100%	100%

All plan assets are assets with a quoted market price in an active market. None of the plan assets are invested in the Group's own equity instruments, debt instruments, real estate, or other assets that are used by the Group.

2017	Defined benefit obligation	Plan assets	Net liability
Break-down per country			
United Kingdom, funded plan	4,189	3,498	691
Sweden, unfunded plan	3,898	-	3,898
Other countries, unfunded plans ¹⁾	399	-	399
Total	8,486	3,498	4,988

¹⁾ France and Germany.

The most important financial actuarial assumptions that have been used to determine the pension obligations for the Group's significant pension plans are:

Significant actuarial assumptions	2017	2016
United Kingdom		
Discount rate	2.50%	2.50%
Inflation	2.40%	2.50%
Future wage increase	N/A	N/A
Future pension increase	N/A	N/A
Sweden		
Discount rate	2.75%	2.75%
Inflation	2.00%	1.60%
Future wage increase	3.00%	2.60%
Future pension increase	2.00%	1.60%

Assumptions about life expectancy are based on official statistics and experience from life expectancy surveys in the respective countries, and are determined after consultation with experts in the actuarial field. The discount rate is determined with reference to high quality corporate bonds that are traded in a deep market with consideration to the duration of the pension obligation. In Sweden, the discount rate is based on the discount rate on secured mortgage-backed bonds.

An increase in the discount rate by 0.5 percentage points would reduce the pension obligation by EUR 766 thousand, corresponding to a reduction in the liability by 9.0%. A decrease in the discount rate by 0.5 percentage points would increase the pension obligation by EUR 881 thousand, corresponding to an increase in the liability by 10.4%.

An increase in the inflation rate by 0.5 percentage points would increase the pension obligation by EUR 499 thousand, corresponding to an increase in the liability by 6.1%. A decrease in the inflation rate by 0.5 percentage points would reduce the pension obligation by EUR 441 thousand, corresponding to a reduction in the liability by 5.4%.

The sensitivity analysis is carried out by changing one actuarial assumption while the other assumptions remain constant. This method shows the obligation's sensitivity to an individual assumption. This is a simplified method, since the actuarial assumptions are normally correlated.

The weighted average duration of the pension obligation is approximately 19 years.

The Group's expected contributions to the pension plans, including pension payments directly from the employer, for the next annual reporting period amount to EUR 398 thousand including special payroll tax (Sweden).

NOTE 26 Accrued expenses and prepaid income

	2017	2016
Accrued salary-related expenses	10,753	11,073
Accrued vacation pay	8,811	7,109
Accrued non-received invoices	4,797	3,578
Accrued interest expenses	1,900	1,742
Other accrued expenses and prepaid income	4,456	3,965
Total	30,717	27,467

NOTE 27 Contingent liabilities

There are no contingent liabilities in the Group.

NOTE 28 Changes in financial liabilities

Reconciliation of opening and closing balances for financial liabilities as well as their cash flow changes presented in the table below:

	1 January 2017	Cash flows	Changes in fair values	Acquisitions	Other	31 December 2017
Non-current interest-bearing liabilities	181,282	-14	1,614	-	507	183,389
Current interest-bearing liabilities	-	-	-	885	-	885
Accrued expenses	1,742	-	-	-	158	1,900
Currency derivatives (-asset/+liability)	-113	-	315	-	-	202
Total liabilities from financing activities	182,911	-14	1,929	885	665	186,376

Capitalization of the interest expenses for shareholder a loan in the amount of EUR 509 thousand and accrued interest expenses of EUR 158 thousand are included in Other.

NOTE 29 Related-party transactions and list of group companies

The Group is under the controlling influence of Polygon Holding AB, the Parent Company of Polygon AB. Polygon Holding AB, reg no 556809-3511 is domiciled in Stockholm, is 84.10% owned by MUHa No 2 LuxCo S.à.r.l 31 December 2017, which is under the controlling influence of Triton Fund III. The Group has loans from Triton amounting to EUR 5.6 million (5.1), for further details please see note 18 Interest-bearing loans and borrowings. During the year, EUR 263 thousand (253) was paid to West Park Management Services Ltd and Triton Partners Ltd as compensation for services rendered and outlays, and the company repaid loans of EUR 52.9 million and accrued interest of EUR 2.3 million in 2016. There were no transactions connected to loans in 2017.

In the current year, group contributions in an amount of EUR 0.0 million (4.0), and dividends of EUR 0.0 million (2.2) were paid to Polygon Holding AB. Polygon AB received shareholder contributions from Polygon Holding AB in an amount of EUR 0.0 million (4.0) during 2017.

Transactions between subsidiaries were not material during 2017 and 2016.

For information regarding salary and other remuneration to group management and board members please see note 8.

PolygonVatro GmbH is included as a German subsidiary in the consolidated financial statements of Polygon AB and, in consideration of this inclusion, makes use of the exemption provision of section 264 (3) HGB (German Commercial Code).

Subsidiaries	Country	Corporate Identity Number	Number of shares	Share of capital	Book value
Company name					
Polygon International AB	Sweden	556807-6417	50,100	100.0%	183,859
Polygon Norway Holding AS	Norway	996019381	335,500	100.0%	6,832
Polygon AS	Norway	915229115	3,450	100.0%	10,787
Skadegruppen AS	Norway	943578524	31,000	100.0%	-1,883
Polygon Nord AS	Norway	956827264	50	100.0%	3,561
Polygon A/S	Denmark	42 93 83 19	470,000	75.8%	119
Polygon Nederland Holding BV	Netherlands	51345706	40	100.0%	5,222
Polygon Nederland BV	Netherlands	28030503	40	100.0%	16,100
Polygon Belgium NV	Belgium	440188077	1,250	100.0%	485
Polygon Sverige AB	Sweden	556034-6164	2,100	100.0%	64,121
AK-Konsult Indoor Air AB	Sweden	556394-3249	4,000	100.0%	1,910
PolygonVatro GmbH	Germany	HRB 10 713	1	100.0%	59,457
VDL Verwaltungs GmbH	Germany	HRB 21685	1	100.0%	25
Polygon Austria Service GmbH	Austria	FN 115034v	75,000	100.0%	111
Polygon Restoration Inc	Canada	103804811	81	100.0%	2,415
Lora Construction Inc	Canada	863300307	20,000	100.0%	215
9237-2556 Quebec Inc	Canada	815014006	200	100.0%	8
Polygon France SAS	France	341 019 180	100	100.0%	2,766
Bretagne Assèchement Nord	France	503279697	40,000	100.0%	3,945
Bretagne Assèchement	France	440853547	999	100.0%	2,650
Normandie Assistance	France	499557478	110	100.0%	405
Polygon Service Pte Ltd	Singapore	201012990Z	1,317	100.0%	1,788
Polygon UK Holding Ltd	United Kingdom	7452971	2	100.0%	1,632
R3 Polygon UK Ltd	United Kingdom	00402652	250,000	100.0%	7,688
Harwell Technical Services Ltd	United Kingdom	3064821	10,000	100.0%	2,611
Polygon US Corporation	USA	27-2892115	1,000	100.0%	-
Polygon Finland Holding Oy	Finland	2354769-0	2,500	100.0%	2,043
Polygon Finland Oy	Finland	0892371-5	50,000	100.0%	18,895

NOTE 30 Reconciling items between income before tax and net cash flow

	2017	2016
Non-affecting cash-flow:		
Depreciation and impairment of intangible assets	5,368	5,196
Depreciation of tangible assets	9,294	9,341
Negative goodwill	-3,992	-
Disposal/ scrapping of non-tangible assets	420	550
Changes in provisions and other	-2,118	-1,088
Total	8,972	13,999

NOTE 31 Subsequent events

ACQUISITIONS 2018

The acquisition of Dansk Bygningskontrol A/S (DB) was closed at the beginning of January 2018 and will be consolidated from that date. DB will strengthen our market position in Denmark and the company is close to three times the size of Polygon's existing business in the country. A restructuring programme after the merger of the two companies will realise synergies and create a highly effective organisation.

An acquisition in Germany, Von Der Lieck GmbH & Co (VDL), was signed in October and was closed at the beginning of January 2018. VDL will strengthen Polygon in the wester region close to the Dutch border.

The aggregated amounts below for both acquisitions are preliminary.

Far value recognised on acquisition	2018
Customer relationships	8,433
Equipment	4,485
Inventory	5,637
Current receivables	5,640
Total identifiable assets at fair value	24,195
Long-term loans and other liabilities	4,186
Current liabilities	4,785
Deferred tax liabilities	560
Less: Cash and cash equivalents	6
Total identifiable liabilities less cash at fair value	9,537
Total identifiable net assets at fair value	14,658
Goodwill	12,831
Purchase consideration transferred	27,489
Purchase consideration	
Cash paid	21,117
Liability to seller	6,372
Total consideration	27,489
Analysis of cash flows on acquisition:	
Net cash acquired with the subsidiary	6
Cash paid	21,117
Translation difference	14
Closing balance	21,137

Polygon International AB acquired a minority interest in Caption Data Ltd (CDL) in the United Kingdom at the beginning of February. The acquisition opens opportunities to influence and participate in digitalisation of the industry as CDL is a leader in the development of remote control applications for surveillance of factors such as humidity control.

REFINANCING 2018

Polygon AB has successfully placed EUR 210 million in senior secured notes with a possibility to issue subsequent notes in February 2018.

The notes, maturing in February 2023, will bear a fixed rate coupon at 4.00%. The notes will be issued on the regulated market of Nasdaq OMX in Stockholm. The proceeds from the notes issue will be used to refinance the existing EUR 180 million notes due 16 April 2019 and for general corporate purposes (including acquisitions).

NOTE 32 Five-year overview

	2013	2014	2015	2016	2017
Sales and net income					
Sales of services	423,361	419,106	438,740	485,282	518,814
Gross profit	-1,306	-1,097	6,975	25,102	25,924
Net financial income/expenses	-12,395	-11,525	-6,812	-12,385	-16,946
Income before tax from continuing operations	-13,701	-12,622	163	12,717	8,978
Income taxes	3,206	2,100	41	-2,274	-3,165
Net income for the year	-10,495	-10,522	204	10,443	5,813
Financial position					
Goodwill	100,961	102,588	104,865	104,181	110,942
Other intangible assets	56,610	53,772	47,523	45,561	41,960
Tangible assets	27,298	27,103	27,233	33,251	40,200
Financial assets	19,914	22,777	22,282	23,424	16,419
Projects in progress	12,422	16,498	17,508	29,613	20,806
Current receivables	74,556	74,530	71,288	78,425	84,248
Cash and cash equivalents	15,789	21,509	26,529	36,585	42,541
Total assets	307,550	318,777	317,228	351,040	357,116
Equity	53,918	42,445	42,257	53,373	59,351
Provisions	30,108	29,774	26,719	27,009	21,768
Non-current liabilities	146,308	175,397	175,812	181,282	5,593
Current liabilities	77,216	71,161	72,440	89,376	270,403
Total equity and liabilities	307,550	318,777	317,228	351,040	357,116
KPIs					
EBITDA	14,848	13,442	21,843	39,639	40,586
EBITA	4,803	4,651	12,478	30,291	30,600
Adjusted EBITA	14,831	11,781	20,028	32,052	33,508
Adjusted EBITA, %	3.5	2.8	4.6	6.6	6.5
Net debt	90,138	101,761	96,248	144,647	141,947
Full-time employees per year end	2,779	2,840	2,765	2,909	3,279

NOTE 33 Alternative performance indicators

EURk	2017	2016
Adjusted EBITDA breakdown		
Operating profit (EBIT)	25,924	25,102
Add back amortisation of acquisition-related tangible and intangible assets	4,676	5,189
Operating profit before amortisation (EBITA)	30,600	30,291
Add back depreciation	9,986	9,348
Operating profit before depreciation (EBITDA)	40,586	39,639
Add back items affecting comparability (IAC)	2,908	1,761
Operating profit before depreciation and IAC (adjusted EBITDA)	43,494	41,400
Adjusted EBITA break down		
Operating profit (EBIT)	25,924	25,102
Add back amortisation of acquisition-related tangible and intangible assets	4,676	5,189
Operating profit before amortisation (EBITA)	30,600	30,291
Add back items affecting comparability (IAC)	2,908	1,761
Operating profit before amortisation and IAC (Adjusted EBITA)	33,508	32,052
Net debt		
Defined benefit plans	4,988	5,035
Other long-term loans, interest bearing	178,614	176,197
Financial leases and current loans, interest bearing	885	-
Cash and bank	-45,541	-36,585
Net debt	141,947	144,647

NOTE 34 Definitions

Sales	Sales net of VAT and discounts
Gross profit	Sales minus cost of goods sold
EBITDA	Earnings before interest, tax, depreciation and amortisation
Adjusted EBITDA	Earnings before interest, tax, depreciation, amortisation and items affecting comparability
EBITA	Earnings before interest, tax, amortisation of acquisition related tangible and intangible assets
Adjusted EBITA	Earnings before interest, tax, amortisation of acquisition related tangible and intangible assets and items affecting comparability
EBIT	Earnings before interest and tax
Operating margin	Earnings before interest and tax as a percentage of sales
EBITDA, Adjusted EBITDA, EBITA, Adjusted EBITA-margin	EBITDA, Adjusted EBITDA, EBITA and Adjusted EBITA as a percentage of sales
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 leasing debts) 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
Capital expenditures	Resources used to acquire intangible assets and property, plant and equipment that are capitalised
Organic growth	Business expansion generated within the existing company excluding the impact of foreign exchange
Adjusted organic growth	Business expansion generated within the existing company excluding the impact of foreign exchange and adjusted for acquired and disposed businesses
LTM	Last twelve months

Polygon presents certain financial performance measures that are not defined in accordance with IFRS. Polygon is of the opinion that these performance measures provide useful supplementary information to investors and the company's management in order to evaluate trends and the company's development. Since not all companies calculate

financial performance measures in the same manner, these are not always comparable to the performance measures used by other companies. The applied performance measures should not be seen as a replacement for the performance measures defined in accordance with IFRS, but instead as a complement.

Parent Company financial statements

Parent Company income statement

EURk	Note	2017	2016
Sales of services	2	3,533	3,087
Total revenue		3,533	3,087
General administration and sale expenses	3, 4	-3,280	-3,015
Other operating costs	5	-176	18
Operating income		77	90
Financial income	6	3,573	5,304
Financial expenses	6	-11,775	-7,317
Income (loss) after financial items, net		-8,125	-1,923
Appropriations	7	680	3,300
Income (loss) before income taxes		-7,445	1,377
Income taxes	8	478	-210
Net income		-6,967	1,167

Parent Company statement of other comprehensive income

EURk	Note	2017	2016
Net income		-6,967	1,167
Comprehensive income		-6,967	1,167

Parent Company balance sheet

EURk	Note	2017	2016
ASSETS			
Non-current assets			
Non-current financial assets			
Participations in Group companies	9, 13	185,902	185,902
Deferred tax assets	8	812	-
Receivables from Group companies, interest-bearing	10	64,283	64,462
Total non-current assets		250,997	250,364
Current assets			
Current receivables			
Receivables, parent company		308	347
Other receivables		87	217
Prepaid expenses		14	12
Receivables, Group companies		28,007	36,018
Total current receivables		28,416	36,594
Total current assets		28,416	36,594
TOTAL ASSETS		279,413	286,958
EQUITY AND LIABILITIES			
Equity			
<i>Restricted equity</i>			
Share capital (5,600 shares at ratio value 10.27 EUR)		58	58
<i>Non-restricted equity</i>			
Other contributed capital		6,771	6,771
Retained earnings		90,719	97,686
Total non-restricted capital		97,490	104,457
Total equity		97,548	104,515
Non-current liabilities			
Deferred tax liabilities		502	179
Non-current financial liabilities, interest-bearing	11	177,796	176,207
Total non-current liabilities		178,298	176,386
Current liabilities			
Accounts payable		53	315
Current liabilities, Group companies		-	2,402
Other current liabilities		290	156
Accrued costs	12	3,224	3,184
Total current liabilities		3,567	6,057
TOTAL EQUITY AND LIABILITIES		279,413	286,958

Parent Company statement of cash flows

EURk	Note	2017	2016
Operating activities			
Operating income		77	90
Adjustments for non-cash items in income before tax	14	-	387
Financial income received		2,633	4,917
Income tax paid		-42	-
Cash flow from operating activities prior to changes in working capital		2,668	5,394
Changes in working capital			
Changes in other receivables		-718	633
Changes in other liabilities		-217	191
Cash flow used in operating activities		1,733	6,218
Cash flow from investing activities			
Shareholder contribution to subsidiaries		-	-56,118
Cash flow used in investing activities		-	-56,118
Cash flow from financing activities			
Increase in loans		-	57,262
Change of receivables from Group companies		4,640	11,618
Dividend to Parent Company		-	-2,192
Financial cost paid		-8,909	-6,099
Cash flow from financial activities		-4,269	60,589
Cash flow from the year		-2,536	10,689
Cash and cash equivalents at the beginning of the year		28,718	18,029
Cash and cash equivalents at the end of the year		26,182	28,718

Parent Company statement of changes in equity

EURk	Share capital	Share premium	Retained earnings	Total equity
Closing balance per 31 December 2015	58	6,771	94,711	101,540
Shareholder's contribution	-	-	4,000	4,000
Dividends paid	-	-	-2,192	-2,192
Net income	-	-	1,167	1,167
Closing balance per 31 December 2016	58	6,771	97,686	104,515
Net income	-	-	-6,967	-6,967
Closing balance per 31 December 2017	58	6,771	90,719	97,548

Notes to the Parent Company financial statements

NOTE 1 Basis of presentation

APPLIED RULES AND REGULATIONS

In addition to the Group's accounting policies, the financial statements of the Parent Company have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. This means that IFRS is applied with the exception of the additions presented below.

The Parent Company's bank balances are not recognised as cash since they are part of the Group's cash pool. However, the bank balances are presented as cash in the cash flow statement.

CURRENT FINANCIAL ASSETS

In the Parent Company, financial assets are measured at the lower of historical cost and the recoverable amount. The recoverable amount is the higher of the net selling price and value in use. Value in use consists of the present value of estimated future net cash flows. If the recoverable amount is lower than the carrying amount, the carrying amount is reduced to the recoverable amount. The amount can be written up when an asset is judged to have a reliable and permanent value that clearly exceeds the carrying amount, in accordance with the Swedish Annual Accounts Act.

INVESTMENTS IN SUBSIDIARIES

In the Parent Company, investments in subsidiaries are recognised on a historical cost basis. All dividends received are recognised in the income statement.

GROUP CONTRIBUTIONS AND SHAREHOLDER CONTRIBUTIONS

Shareholder contributions are recognised directly in equity by the recipient and are capitalised in shares and participations by the renderer. Group contributions received and rendered are recognised in the income statement as appropriations in accordance with RFR 2.

NOTE 2 Breakdown of sales

Polygon AB had no external sales in the period. All revenue is inter-company. No purchases were made from other group companies during the year.

NOTE 3 Salaries, compensation to employees and other fees

Of the Group's senior executives, the CEO, CFO and COO are employed by the Parent Company.

The average number of employees for the parent company was 3 (3).

Compensation to these individuals and significant terms of employment are described in Note 8 Salaries, social security expenses and employee benefits to the Consolidated financial statements.

NOTE 4 Audit fees

	2017	2016
Audit assignment (EY)	50	48
Other assignments (EY)	12	107
Total	62	155

Audit assignments refer to auditing of the annual report and financial accounts and the administration by the Board, as well as other audit tasks that are incumbent upon the company's auditors.

NOTE 5 Other operating expenses

	2017	2016
Transaction costs in connection with acquisitions	9	-18
Currency exchange gains/ losses	7	-
Consultant costs	160	-
Total	176	-18

NOTE 6 Financial income and financial expenses

	2017	2016
Financial income		
Interest income, internal	3,573	5,304
Total	3,573	5,304
Financial expenses		
Interest cost, external	-9,123	-6,592
Exchange rate differences	-944	13
Other financial expenses	-1,708	-738
Total	-11,775	-7,317
Net financial expenses	-8,202	-2,013

NOTE 7 Appropriations

	2017	2016
Received group contribution	680	7 300
Paid group contribution	-	-4 000
Total	680	3 300

NOTE 8 Income taxes

	2017	2016
Income before taxes	-7,445	1,377
Tax according to current tax rate for Parent Company 22%	1,638	-303
Non-deductible expenses	-14	-8
Not recognised tax loss carry-forward	-812	-
Used not previously accounted loss carry forward	-	1,105
Tax effect on gains not recognised in income statement	-	-825
Deferred tax on temporary differences not reflected in income statement	-323	-179
Others	-11	-
Income taxes for the year	478	-210

NOTE 9 Participations in group companies

Participation in Group Companies	Country	Corporate identity number	Number of shares	Share of capital	2017	2016
Polygon International AB	Sweden	556807-6417	50,100	100.0%	183,859	183,859
Polygon Finland Holding Oy	Finland	2354769-0	2,500	100.0%	2,043	2,043
Net carrying value closing balance					185,902	185,902
					2017	2016
Opening balance					185,902	76,296
Shareholder contribution to Polygon International AB					-	109,606
Closing balance					185,902	185,902

Indirect ownership and Group structure is described in Note 29 Related party transactions to the Consolidated financial statements.

NOTE 10 Non-current receivables from group companies

	2017	2016
Polygon AS	419	454
Polygon Holding Finland OY	14,967	14,207
Polygon Nederland Holding BV	5,502	5,502
Polygon Norway Holding AS	10,130	10,980
Polygon Restoration Inc	933	987
PolygonVatro GmbH	32,332	32,332
Total	64,283	64,462

NOTE 11 Non-current financial liability

	2017	2016
Bond	180,000	180,000
Capitalised finance costs ¹⁾	-2,204	-3,793
Total	177,796	176,207

¹⁾ Finance costs are amortised over the duration of the loans.

NOTE 12 Accrued expenses and prepaid income

	2017	2016
Accrued rent expenses	1,900	1,742
Personnel related expenses	1,233	1,208
Other accrued expenses	91	234
Total	3,224	3,184

NOTE 13 Pledged assets

All shares in the Group's significant subsidiaries as well as some of the Group's internal loans are pledged as security for the Group's bond. Amounts stated in Note 21 Pledged assets for own liabilities and provisions in the Notes to the Consolidated financial statements correspond to the total net assets in the pledged subsidiaries. The table below presents the book value of shares pledged in the Parent Company.

EURk	2017	2016
Pledged assets		
Shares in subsidiaries	185,902	185,902
Total assets pledged	185,902	185,902
Contingent liabilities	None	None

NOTE 14 Reconciling items between income before tax and net cash flow

	2017	2016
Non-cash items		
Changes in provisions	0	387
Total	0	387

NOTE 15 Related-party transactions

Polygon AB is under the controlling influence of Polygon Holding AB, the Parent Company of Polygon AB. Polygon Holding AB, reg no 556809-3511, is domiciled in Stockholm, and was 84,10% owned by MUHa No 2 LuxCo S.à.r.l on 31 December 2017, which is under the controlling influence of Triton Fund III. During the year, EUR 263 thousand (253) was paid to West Park Management Services Ltd and Triton Partners Ltd as compensation for services rendered and outlays.

Polygon AB has received group contributions of EUR 0.7 million (7.3) from the subsidiary Polygon International AB.

During the year, group contributions of EUR 0.0 million (4.0) and dividends of EUR 0.0 million (2.2) were paid to Polygon Holding AB. Polygon AB received shareholder contributions from Polygon Holding AB in an amount of EUR 0.0 million (4.0).

NOTE 16 Proposed disposition of earnings**PROPOSED DISPOSITION OF EARNINGS**

The Board of Directors and the Chief Executive Officer propose that the year's net loss of EUR 6,967,748, together with retained earnings of EUR 104,458,703, amounting to a total of EUR 97,490,955, be carried forward to new account.

NOTE 17 Subsequent events**REFINANCING 2018**

Polygon AB has successfully placed EUR 210 million senior secured notes with a possibility to issue subsequent notes in February 2018. The notes, maturing in February 2023, will bear a fixed rate coupon at 4.00%. The notes will be issued on the regulated market of NASDAQ OMX in Stockholm.

The proceeds from the notes issue will be used to refinance the existing EUR 180 million notes due 16 April 2019 and for general corporate purposes (including acquisitions).

Signatures of the Board of Directors and the Chief Executive Officer

The Board of Directors and the CEO hereby certify that the annual accounts were prepared in accordance with generally accepted accounting standards in Sweden, and that the consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as defined in regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and provide a fair presentation of the group's and parent company's financial position and earnings, and that the statutory administration report provides a fair presentation of the group's and parent company's operations, financial position and earnings and describes significant risks and uncertainties facing the parent company and the companies included in the group.

Stockholm, 25 April 2018

Lucas Hendriks
Board Chairman

Petter Darin
Board member

Ole Skov
Board member

Jonas Samuelson
Board member

Lars-Ove Håkansson
Board member

Gunilla Andersson
Board member

Nadia Meier-Kirner
Board member

Erik-Jan Jansen
President & CEO

Our audit report regarding this annual report was submitted on 25 April 2018
Ernst & Young AB

Staffan Landén
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Polygon AB (publ), corporate identity number 556816-5855

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Polygon AB (publ) except for the corporate governance statement on pages 5–9 and the statutory sustainability report on pages 3–4 for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 1–41 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 5–9 and the statutory sustainability report on pages 3–4. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU with the exception of a very limited service reported to the Audit Committee.

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

KEY AUDIT MATTERS

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

VALUATION OF GOODWILL AND TRADEMARK

Description

In the Group's balance sheet as per December 31, 2017 the reported value of Goodwill and Trademarks amounts to EUR 136.6 million, which equals 38 % of the Group's total assets. As described in note 2.4 the company prepares annually, or as soon there is an indication that there is an impairment need, an impairment test. Goodwill is allocated to cash generating units and in if the book value exceeds the recoverable amount, the asset is impaired to its recoverable amount. The recoverable amount is determined by calculating the value in use and in note 2.4 it is stated that when making this calculation assessment of the future profit and loss is made. In note 13 it is stated that the assessment of the value in use is based on the group's five-year business plan and an assessed 2% annual growth rate thereafter for the cash generating units. When determining important assumptions the company uses both historical experiences as well as assessments of the future. In 2017 no need for impairment has been identified. Based on the assumptions used in the calculation of the value in use we have assessed the valuation of goodwill and trademark as a key audit matter in the audit.

How our audit addressed this key audit matter

In our audit we have evaluated the Company's process to develop and perform impairment tests. We have examined how cash-generating units, based on established criteria's, are identified and compared to how the Company internally monitors its business. We have assessed the valuation and calculation methods used by the company and made comparisons with historical results and the accuracy in previous forecasts.

We have also involved valuation specialists to assist us in the assessment of reasonableness in used assumptions, sensitivity analysis of changed assumptions, and the reasonableness of the discount rate and the long term growth rate. We have also assessed whether the information disclosed in the annual report is appropriate.

REVENUE RECOGNITION

Description

Sales of services for 2017 amounts to EUR 518.8 million. The policies for revenue recognition is stated in note 2.4. Revenue is recognized when it is probable that any economic benefits associated with the item of revenue will flow to the group and the amount of revenue can be measured reliably. In some instances the revenue recognition is based on assessments of the stage of completion of the delivered service. Based on that the revenue recognition involves assessments made by the company it is our assessment that revenue recognition is a key audit matter in the audit.

How our audit addressed this key audit matter

In our audit we have, among other things, performed analytical review, audit of agreements and tested samples of the revenue allocation at the year end closing to assess the correctness of the revenue recognition. We have specifically focused on auditing larger and complex agreements.

We have audited the process for collection of accounts receivable and assessment of doubtful receivables. We have also performed audit procedures on the company's assessment of contracts with low or negative income and assessed whether the information disclosed in the annual report is appropriate.

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–2. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this

other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the

going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and

consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Polygon AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support

for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 5–9 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the statutory sustainability report on pages 5–9, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

Ernst & Young AB, Jakobsbergsgatan 24, 111 44 Stockholm, was appointed auditor of Polygon AB (publ) by the general meeting of the shareholders on the 20 June 2017 and has been the company's auditor since the 7 February 2011.

Stockholm, 25 April 2018
Ernst & Young AB

Staffan Landén
Authorized Public Accountant

Offices

HEAD OFFICE

Polygon AB
Sveavägen 9, 3rd floor | 111 57 Stockholm, Sweden
info@polygongroup.com
www.polygongroup.com

AUSTRIA

IZ-NÖ-Süd, Ricoweg – Objekt M37, 2351 Wr. Neudorf,
Austria
Tel: +43 50-6142-20
anfrage.at@polygongroup.com
www.polygongroup.com/at

BELGIUM

Moerelei 127, B-2610 Wilrijk, Belgium
Tel: +32 3 451 35 90
sos@polygongroup.com
www.polygongroup.com/be (Flemish)
www.polygongroup.com/be-fr/ (French)

CANADA

4565 Metropolitain Est, Montréal Qc H1R 1Z4, Canada
Tel: +1-514-326-0555
ca_info@polygongroup.com
www.polygongroup.com/ca
www.polygongroup.com/ca-en/

DENMARK

Stamholmen 193B, 2650 Hvidovre, Denmark
Tel: +45 72 28 28 18
www.polygongroup.com/dk

FINLAND

Lyhtytie 22, 00741 Helsinki, Finland
Tel: +358 20 7484 02
finland@polygongroup.com
www.polygongroup.com/fi

FRANCE

Carré d'Ivry, Bâtiment H, 26, rue Robert Witzchitz,
94200 Ivry-sur-Seine, France
Tel: +33 1 46 81 87 97
contact.fr@polygongroup.com
www.polygongroup.com/fr

GERMANY

Raiffeisenstraße 25, 57462 Olpe, Germany
Tel: +49 2761 93810
service@polygonvatro.de
www.polygongroup.com/de

NETHERLANDS

J. Keplerweg 4, 2408 AC Alphen aan den Rijn, Netherlands
Tel: +31 (0) 88 500 35 00
nederland@polygongroup.com
www.polygongroup.com/nl

NORWAY

Enebakkveien 307, N-1188, Oslo, Norway
Tel: +47 22 28 31 10
firmapost@polygongroup.com
www.polygongroup.com/no

SINGAPORE

48 Mactaggart Road, #07-02 MAE Industrial Building,
Singapore 368088
Tel: +65 6744 1870
singapore@polygongroup.com
www.polygongroup.com/sg

SWEDEN

Hemvärnsgatan 15 (Box 1227) 171 23 Solna, Sweden
Tel: +46 8 750 33 00
sverige@polygongroup.com
www.polygongroup.com/se

UNITED KINGDOM

Blackstone Road, Huntingdon, Cambridgeshire, PE29 6EE,
United Kingdom
Tel: +44 1480 442327
uk_sales@polygongroup.com
www.polygongroup.com/uk

USA

15 Sharpner's Pond Road, Building F, North Andover,
MA 01845, USA
Tel: +1-800-422-6379
us_info@polygongroup.com
www.polygongroup.com/us