

**R3 Polygon UK Ltd**

**Annual report and financial statements**

**Registered number 00402652**

**31 December 2018**



## **Corporate Information**

### **Directors**

J Sykes

A J Granitz appointed 15 October 2018

M Hamner appointed 17 April 2019

E Jensen resigned 15 October 2018

M Norberg resigned 17 April 2019

### **Secretary**

P Taggar

### **Auditors**

Ernst & Young LLP

One Cambridge Business Park

Cambridge CB4 0WZ

### **Bankers**

Nordea Bank AB

8th Floor, City Place House

55 Basinghall Street

London EC2V 5NB

### **Registered Office**

Blackstone Road

Stukeley Meadows Industrial

Huntingdon

Cambridgeshire PE29 6EE

### **Company Number**

00402652

## **Contents**

Strategic report	1-2
Directors' report	3-4
Statement of directors' responsibilities	5
Independent auditor's report	6-8
Statement of Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes to the financial statements	12-29

## Strategic report

The directors present their annual report and the financial statements for the year ended 31 December 2018.

### Principal activity and review of the business

R3 Polygon UK Ltd (the “Company”) principal activity is property and damage restoration services, temporary services for coatings, construction drying and climate control applications.

The key performance indicators used by the Company to monitor performance are as follows:

	2018	2017
Revenue (£000)	38,531	34,632
Operating profit (£000)	4,331	3,146
Average debtor days (days)	43	36

In 2018, the Company achieved revenue of £38,531,000, an increase of 11.3% compared to the previous year (2017: £34,632,000). Operating profit for the year is £4,331,000 showing an increase of 37.7% compared to the previous year (2017: £3,146,000). This was principally due to the impact of weather events that occurred in March 2018. The Company renewed a number of significant framework contracts across various sectors during 2018 and grew its overall market share. The Company operates in a very competitive environment with significant price pressure from its customers. The Company continues to invest in its people and aims to develop a culture of continuous improvement.

Key investments were made in the Company's equipment, capital expenditure of £896,000, with the goal of improving the services offered to customers, reducing the environmental impact of the business and for growth. This is reflected by the increase in employees from 350 in 2017 to 384 in the 2018, the acquisition of Neways Associates Limited and the post balance sheet acquisition of The Plastic Surgeon Holdings Limited. The Company continues to have strong long-term relationships with its key suppliers and sub-contractors.

The Company has made great efforts to improve its operational efficiency and to reduce waste in the business which it continues to try to optimise.

The Company average debtor days increased to 43 days (2017: 36 days). The increase was mainly down to slower customer payment processes and we are working with all our customers to try and improve this.

Staff turnover decreased to 18% (2017: 20.5%) and is still considered to be below the industry average.

## Strategic report (continued)

### Principal risks and uncertainties

The principal risks and uncertainties facing the Company are primarily competitive, credit and liquidity risks. The Company is also dependent on weather patterns.

#### *Competitive risk*

The Company is dependent on major customers; therefore, future performance would be affected by the loss of a key account to a competitor. We work continuously with our current customers and increasing our customer listing to mitigate this risk.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Company policies are aimed at minimising such losses including strong credit control operation and billing management. Details of the Company's debtors are shown in note 15 to the financial statements.

#### *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation by its operations, applying cash collection targets throughout the company. The company is also party to group cash pool arrangements.

By order of the board



J Sykes  
Director

Date:

15 July 2019

## **Directors' report**

The directors present annual report and financial statements for the year ended 31 December 2018.

### **Results and dividends**

The loss for the year after taxation amounted to £3,596,000 (2017: profit £2,963,000) with an operating profit of £4,331,000 (2017: £3,146,000). The directors did not declare or pay a dividend in the year (2017: £nil).

### **Future developments**

The Company continues to develop both within its core insurance sector and in its interior climate consultancy and rental business. It consistently invests in both its people and equipment in support of developing these and new areas.

The Company adopts a structured approach to business development and applies great effort in understanding the key current drivers of its customers and anticipating future ones.

The Company fosters an open and learning culture and have highly engaged and motivated employees. The culture is one of innovation and continuous improvement delivering valued benefit to key customer groups. In insurance this takes the form of improving the end customer journey, expanding the service scope, reducing claim duration and overall claim cost.

The Company is also anticipating and developing solutions using the Internet of Things in all sectors. The Company targets niches where its core knowledge and service skills can create differentiation and value.

All the Company's sectors are under price pressure, which limits the ability to pass on increasing costs. The Company continues to apply close attention to reducing internal cost through systematic control, efficiency initiatives and investment

### **Going concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### **Directors**

The directors who held office during the year and subsequent to the yearend were as follows:

J Sykes

A Granitz appointed 15 October 2018

Martin Hamner appointed 17 April 2019

E Jensen resigned 15 October 2018

M Norberg resigned 17 April 2019

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

### **Acquisitions during the year**

On 3 October 2018, the Company completed the acquisition of Neways Associates Limited, a company that provides building and structural repairs and refurbishment and contents removal and storage. The cash consideration paid was £2,500,000.

### **Post Balance sheet events**

On 9 May 2019, the Company has acquired The Plastic Surgeon Holdings Limited; the acquisition strengthens Polygon UK's position in the area of property restoration and hard surface repairs. The acquisition will add 239 employees and annual sales of approximately £13,000,000.

### **Political and Charity contributions**

The Company made no political donations or incurred any political expenditure during the year (2017: £nil). The Company donates to various charities during the year. Charity contributions in 2018 amounted to £5k (2017: £nil.)

## **Directors' report** *(continued)*

### **Employees**

#### *Disabled employees*

The Company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

#### *Employee involvement*

The Company operates a structured framework for employee information and consultation. During the year, the policy of providing employees with information about the Company has taken place through the use of newsletters and the Company's annual employee conference. Employees are encouraged to make suggestions on ways to improve the business and through the use of steering and project groups, management ensures that employees have an opportunity at every level to impact on how the business is managed.

The Company operates a sports and social committee run by employees which supports various charitable works as selected by employees themselves.

The Company launched an environmental volunteer group with funds from the Company to encourage a deeper sustainable culture within the business.

### **Policy and practice on payment of creditors**

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. The Company's average credit payment period at 31 December 2018 was 73 days (2017: 60 days).

### **Financial Instruments**

The Company finances its activities with cash. Other financial assets and liabilities, such as trade debtors and trade creditors arise directly from the Company's operating activities.

Financial instruments give rise to credit risk and liquidity risk. Information on Company's risk management can be found in the strategic report.

### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information

### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the board

  
**J Sykes**  
Director

15 July '19

Date:

## **Statement of directors' responsibilities**

The directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 'Reduced Disclosure framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS of R3 Polygon UK Ltd**

### **Opinion**

We have audited the financial statements of R3 Polygon UK Ltd (the "Company") for the year ended 31 December 2018 comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 'Reduced Disclosure Framework'.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The other information comprises the information included in the annual report set out on pages 1 to 5, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS of R3 Polygon UK Ltd (continued)**

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

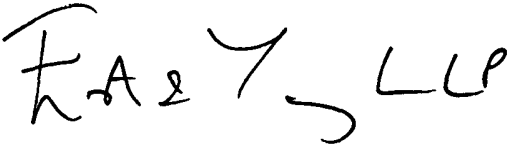
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS of R3 Polygon UK Ltd (continued)

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Handwritten signature of Fraser Bull in black ink.

Fraser Bull (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Cambridge, United Kingdom

Date: 16 July 2019

**Statement of Comprehensive Income**  
*for the year ended 31 December 2018*


	<i>Note</i>	<b>2018</b> <b>£000</b>	2017 £000
<b>Revenue</b>	<b>4</b>	<b>38,531</b>	34,632
Cost of sales		<b>(26,344)</b>	(24,245)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>12,187</b>	10,387
Distribution costs		<b>(3,333)</b>	(2,619)
Administrative expenses		<b>(4,523)</b>	(4,622)
		<hr/>	<hr/>
<b>Operating profit</b>	<b>5</b>	<b>4,331</b>	3,146
Impairment of loan receivable	<b>10</b>	<b>(7,349)</b>	–
Interest receivable and similar income	<b>8</b>	<b>371</b>	384
Interest payable and similar expenses	<b>9</b>	<b>(19)</b>	(46)
		<hr/>	<hr/>
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>(2,666)</b>	3,484
Tax on profit on ordinary activities	<b>11</b>	<b>(930)</b>	(521)
		<hr/>	<hr/>
<b>Profit/(loss) for the financial year</b>		<b>(3,596)</b>	2,963
		<hr/>	<hr/>
<b>Other comprehensive income</b>			
Remeasurements of defined benefit liability	<b>19</b>	<b>36</b>	138
Income tax on items that will not be reclassified to profit and loss		<b>(41)</b>	(41)
		<hr/>	<hr/>
Other comprehensive income/(loss) for the year, net of tax		<b>(5)</b>	97
		<hr/>	<hr/>
<b>Total comprehensive income/(loss) for the year</b>		<b>(3,601)</b>	3,060
		<hr/>	<hr/>

**Balance Sheet**  
*at 31 December 2018*

	<i>Note</i>	<b>2018</b> <b>£000</b>	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>	<b>2017</b> <b>£000</b>
<b>Noncurrent assets</b>					
Investments	12		4,894		2,394
Tangible fixed assets	13		3,185		3,725
Deferred tax assets	17		162		120
			<hr/>		<hr/>
			8,241		6,239
<b>Current assets</b>					
Work in Progress relating to services	14	3,347		1,239	
Debtors	15	6,404		12,425	
Cash at Bank		1,688		1,490	
			<hr/>		<hr/>
		11,439		15,154	
<b>Creditors: amounts falling due within one year</b>	16	(9,897)		(8,158)	
		<hr/>		<hr/>	
<b>Net current assets</b>			1,542		6,996
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			9,783		13,235
<b>Provisions for liabilities</b>					
Other provisions	18		(620)		(402)
			<hr/>		<hr/>
<b>Net assets excluding pension liability</b>			9,163		12,833
Pension liability	19		(498)		(567)
			<hr/>		<hr/>
<b>Net assets</b>			8,665		12,266
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	20		250		250
Capital contribution			1,953		1,953
Profit and loss account			6,462		10,063
			<hr/>		<hr/>
<b>Shareholder's funds</b>			8,665		12,266
			<hr/>		<hr/>

These financial statements were approved by the board of directors on and were signed on its behalf by:

J Sykes  
Director  
Date

  
15 July 19

Company registered number: 00402652

## Statement of Changes in Equity

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2017	250	1,953	7,003	9,206
<b>Total comprehensive income for the year</b>				
Profit for the financial year	–	–	2,963	2,963
Other comprehensive income	–	–	97	97
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	–	–	3,060	3,060
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2017	250	1,953	10,063	12,266
	<hr/>	<hr/>	<hr/>	<hr/>

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2018	250	1,953	10,063	12,266
<b>Total comprehensive income for the year</b>				
Loss for the financial year	–	–	(3,596)	(3,596)
Other comprehensive loss	–	–	(5)	(5)
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	–	–	(3,601)	(3,601)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance at 31 December 2018</b>	<b>250</b>	<b>1,953</b>	<b>6,462</b>	<b>8,665</b>
	<hr/>	<hr/>	<hr/>	<hr/>

## Notes to the financial statements

### 1 General information

R3 Polygon UK Limited (the "Company") is a private company limited by shares and is incorporated, domiciled and registered in England in the UK. The registered number is 00402652 and the registered address is Blackstone Road, Stukeley Meadows Industrial, Huntingdon, Cambridgeshire PE29 6EE.

The Company's principle activity during the year was property and damage restoration services, temporary services for coatings, construction drying and climate control applications. The Company has prepared its financial statements in sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated.

### 2 Significant accounting policies

#### 2.1 Basis of preparation of financial statements

These financial statements have been prepared on a going concern basis, in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Polygon Holdings AB. The Company's financial statements are individual entity financial statements.

The Company's parent undertaking, Polygon Holdings AB includes the Company in its consolidated financial statements. The consolidated financial statements of Polygon Holdings AB are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Hi Tech Building, 21 Sveavägen 9, 3<sup>rd</sup> floor, 101 52, Stockholm, Sweden.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures

- a) The requirements of paragraph 62, B64(d), B64(e), B64(g), B64(h), B64(j), B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66, B67 of IFRS 3 Business Combinations;
- b) The requirements of IFRS 7 Financial Instruments Disclosures;
- c) The requirements of the paragraph 91-99 of IFRS 13 Fair Value management;
- d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- e) The requirement in paragraph 38 of IAS 1 'Presentation of financial statements' to present comparative information in respect of:
  - 1) Paragraph 79(A)(iv) of IAS 1
  - 2) Paragraph 73(e) of IAS 16 Property and equipment
  - 3) Paragraph 118(e) of IAS 38 intangible assets.
- f) The requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- g) The requirements of IAS 7 Statement of Cash Flows;
- h) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- i) The requirements of paragraph 17 of IAS 24 Related Party Disclosures;
- j) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- k) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

## Notes to the financial statements (continued)

### 2 Significant accounting policies (continued)

#### 2.1 Basis of preparation of financial statements (continued)

##### *New standards, amendments and IFRIC interpretation*

IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from contracts with customers*, are new accounting standards that are effective for the year ended 31 December 2018 and have been adopted by the Company. However, they have not had a material impact on the Company as implemented. There are no other amendments to accounting standards, IFRIC interpretation that are effective for the year ended 31 December 2018 that have had an impact on the Company.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### 2.2 Going concern

In determining the appropriate basis of presentation of the financial statements, the Directors have considered whether the Company can continue in operational existence for the foreseeable future, this being a period of not less than 12 months from the date of the approval of the financial statements.

#### 2.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

#### 2.4 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in subsidiaries, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

##### *Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The amount of allowance is the difference between the assets' carrying amount and the present value of estimated future cash flows.

##### *Trade and other creditors*

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.



## Notes to the financial statements (continued)

### 2 Significant accounting policies (continued)

#### 2.4 Non-derivative financial instruments (continued)

##### *Investments in subsidiaries*

Investments in subsidiaries are carried at cost less impairment.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and term deposits which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less. Where the Company has the intention and ability to pool account balances, the net cash or overdraft position is disclosed.

Where the intention or ability to pool balances together is absent, the cash and overdraft are disclosed on a gross basis in the balance sheet.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

##### *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### 2.5 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The depreciation rates applied are as follows:

- Leasehold Improvements 10% (per annum) or over term of lease if shorter
- Rental fleet 15% -20% (per annum)
- Fixtures and fittings 15% - 25% (per annum)
- Motor Vehicles 25% (per annum)
- Computer equipment 20% - 33% (per annum)
- Software 50% (per annum)

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of tangible fixed assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the period of de-recognition.

#### 2.6 Work in progress relating to services

Work in progress requires estimation of project completion to determine the labour cost incurred up to the period end. The meeting of performance obligations is evenly spread over the life of the individual project delivered by the Company in proportion to the costs incurred.

## Notes to the financial statements (continued)

### 2 Significant accounting policies (continued)

#### 2.7 Impairment excluding deferred tax assets

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment, an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### 2.8 Employee benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted.

The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that has maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Contributions to defined contribution schemes are recognised in the income statement in the period in which they become payable.

#### 2.9 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

## Notes to the financial statements (continued)

### 2 Significant accounting policies (continued)

#### 2.10 Revenue

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

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

The scope and complexity of the projects vary from simple leak detection to large restoration projects, with most of the projects being small and short-term (with a duration of under three months). Typical examples of services the Company provides are repair and restoration of equipment, restoration services for everything from documents to buildings, leak detection and moisture control as well as keeping certain climate conditions at a constant level.

The Company's operations are characterised by a local presence and strong ties to local customers. Payment terms are determined according to industry practices and vary from project to project (from advance and partial payments to payments due after performance obligations are satisfied). The Company's payment terms do not include financial components; nor are they subject to any type of variable or restricting conditions.

Warranties are provided according to business practices and legal requirements.

#### *Performance Obligations and Revenue Recognition*

Most of the Company's performance obligations are satisfied over time since the Company performs restoration and humidity control services on assets controlled by the customer. Revenue from such projects is recognised over the period during which the performance obligation is carried out. For consulting services, equipment rental and other services billable by the hour or other fixed time periods, the practical expedient is used and revenue is recognised at the amount at which the Company has a right to invoice during the current accounting period.

The allocation of performance obligations is straightforward due to the nature of the Company's business – one job is considered one performance obligation, which makes it easy to allocate the price to the performance obligation, regardless of whether it is a fixed price or current account.

#### *Key Assessments and the Portfolio Approach*

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

The Company uses costs incurred to determine the percentage of completion of the performance obligation (based on costs incurred to date). In projects where percentage of invoicing reflects the progress of deliverance in a more accurate way this method is used. These methods together provide a fair presentation of the transfer of goods and services and shows the Company's completion of the promised deliveries to the customer. The percentage of invoicing (for example, when an agreement with the customer concerning invoicing reflects the progress in terms of delivering the performance obligation) in projects where this provides a more accurate reflection of the outcome of the performance obligation. Such a combination provides a fair presentation of the transfer of goods and services and shows the Company's completion of the promised deliveries to the customer. In loss making projects, where it is not likely that the customer will compensate the Company for services rendered, the loss is recognised immediately.

#### 2.11 Expenses

##### *Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

## **2 Significant accounting policies (continued)**

### **2.11 Expenses (continued)**

#### *Interest receivable and interest payable*

Interest payable and similar expenses include interest payable, finance expense on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

### **2.12 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## **3 Judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

### ***Operating lease commitments***

The Company has entered into commercial property leases and other equipment leases as a lessee. The classification of such leases as operating or finance leases requires the Company to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets and accordingly whether the lease requires an asset and liability to be recognised in the balance sheet.

Further, the requirement to provide for dilapidations in regard to leased properties requires judgment in the level of expenditure required at the end of the lease which may be a number of years in the future.

## Notes to the financial statements (continued)

### 3 Judgements and key sources of estimation uncertainty (continued)

#### *Taxation*

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies. Further details are contained in note 11.

#### *Pension and other post-employment benefits*

The cost of defined benefit pensions plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details are given in note 19.

## Notes to the financial statements (continued)

### 4 Revenue

	2018 £000	2017 £000
<b>By type:</b>		
Rendering of services	38,531	34,632
Total revenue	<u>38,531</u>	<u>34,632</u>

	2018 £000	2017 £000
<b>By activity:</b>		
Property and damage restoration services	34,671	30,756
Temporary climate services	3,860	3,876
Total revenue	<u>38,531</u>	<u>34,632</u>

	2018 £000	2017 £000
<b>By geographical market:</b>		
United Kingdom	38,531	34,632
Total revenue	<u>38,531</u>	<u>34,632</u>

### 5 Operating profit

*The operating profit is stated after charging:*

	2018 £000	2017 £000
Depreciation	1,275	1,115
Operating lease rentals:		
Plant and machinery	1,375	1,340
Land and buildings	745	691

	2018 £000	2017 £000
<i>Auditor's remuneration:</i>		
Audit of these financial statements	<u>31</u>	<u>30</u>

## Notes to the financial statements *(continued)*

### 6 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2018	2017
Selling	314	281
Management and Administration	70	69
	<u>384</u>	<u>350</u>

The aggregate payroll costs of these persons were as follows:

	2018	2017
	£000	£000
Wages and salaries	11,195	10,565
Social security costs	1,096	1,014
Other pension costs	445	371
	<u>12,736</u>	<u>11,950</u>

### 7 Directors' remuneration

	2018	2017
	£000	£000
Directors' remuneration	229	191
Company contributions to defined contribution pension plans	11	11
	<u>240</u>	<u>202</u>

The above remuneration represents the total remuneration for 1 director (2017: 1) being the highest paid director of the Company. The remuneration is for qualifying services to the Company and other members of the Group. It is not possible however to separately identify the portion of this remuneration which relates to the qualifying services to the other members of the Group.

A management fee of £766,940 (2017: £734,820) in respect of UK administration costs has been charged by group undertakings, which includes an amount for the services of 2 (2017: 2) of the Company's directors. However, it is not possible to identify separately these amounts that specifically relate to remuneration.

No director was a member of a defined benefit scheme in either the current or prior year.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	<u>1</u>	<u>1</u>

## Notes to the financial statements (continued)

### 8 Other interest receivable and similar income

	2018 £000	2017 £000
Interest receivable on group loan	371	384

### 9 Interest payable and similar expense

	2018 £000	2017 £000
Net interest on defined benefit liability	19	19
Overdraft interest	–	27
Total other interest payable and similar expense	19	46

Interest payable and similar expenses includes interest paid on bank loans and overdrafts of £nil (2017: £27,000).

### 10 Impairment of loan receivable

The impairment of loan receivable amounted to £7,349,000 which was due from R3 Polygon UK Holdings Limited, the previous parent company, which was struck off on 26 March 2019.

### 11 Taxation

#### (a) Tax on Profit on ordinary activities

The tax charge/(credit) is made up as follows:

	2018 £000	2017 £000
<b>Current tax:</b>		
UK corporation tax on the profit for the year	990	582
Adjustments in respect of prior years	18	(2)
	1008	580
<b>Deferred Tax:</b>		
Origination and reversal of timing differences	(98)	(49)
Effects of changes in tax rates	20	(10)
Total deferred tax	(78)	(59)
Tax on profit on ordinary activities	930	(521)



## Notes to the financial statements (continued)

### 11 Taxation (continued)

#### b) Reconciliation of effective tax rate

	2018 £000	2017 £000
Profit/(loss) for the year	(2,666)	3,484
Tax using the UK corporation tax rate of 19% (20%)	(507)	670
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,406	15
Group relief received	–	(74)
Tax rate changes	12	(10)
Adjustments in respect of prior periods	48	(12)
Tax charged directly to OCI	7	(27)
Deferred tax charged directly to OCI	(36)	(41)
Total tax expense	930	521

	2018 £000	2017 £000
<b>Deferred tax liability/(asset)</b>		
At 1 January 2018	(15)	47
Movement in the year	(147)	(167)
<b>At 31 December 2018</b>	(162)	(120)

#### (c) Income tax recognised in other comprehensive income

	2018 £000	2017 £000
Origination and reversal of temporary differences	36	41
	36	41

#### Factors that may affect future tax charges

The Finance (No.2) Act 2015 reduced the rate of Corporation tax from 1 April 2017 to 19% and by a further 1% to 18% from 1 April 2020. In the 2016 Budget, it was announced that the rate of Corporation tax from 1 April 2020 will be reduced further to 17%. This rate received Royal Assent on 15 September 2016. As such, the temporary differences are expected to reverse at the main rate of UK Corporation tax of 17%, being the rate enacted at the balance sheet date, and deferred tax has therefore been provided at this rate.

## Notes to the financial statements (continued)

### 12 Investment in subsidiaries

	Investment in subsidiaries £000
Balance at 1 January 2018	2,394
Additions	2,500
	<hr/>
Balance at 31 December 2018	4,894
	<hr/> <hr/>

On 3 October 2018, the Company completed the acquisition of Neways Associates Limited, a company that provides building and structural repairs and refurbishment and contents removal and storage. The cash consideration paid was £2,500,000.

Name of undertaking	Ownership	Principal Activity
Harwell Technical Services Limited	100% Ordinary Shares	Restoration Services
Neways Associates Limited	100% Ordinary Shares	Repairs and refurbishment and Removal and storage

The subsidiaries are incorporated in United Kingdom, with the registered address of Blackstone Road, Stukeley Meadows Industrial, Huntingdon, Cambridgeshire, PE29 6EE.

### 13 Tangible fixed assets

	Leasehold improvement £000	Rental fleet £000	Fixtures and fittings £000	Computer equipment £000	Total £000
<b>Cost</b>					
Balance at 1 January 2018	640	13,792	727	2,146	17,305
Additions	34	738	16	107	895
Disposals	–	(115)	–	–	(115)
Write-off	(393)	(3,673)	(497)	(1,929)	(6,492)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	281	10,742	246	324	11,593
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Depreciation and impairment</b>					
Balance at 1 January 2018	439	10,577	572	1,992	13,580
Depreciation charge for the year	30	1,129	35	81	1,275
Disposals	–	(111)	–	–	(111)
Write-off	(393)	(3,520)	(494)	(1,929)	(6,336)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2018	76	8,075	113	144	8,408
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net book value</b>					
At 1 January 2018	201	3,215	155	154	3,725
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	205	2,667	133	180	3,185
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements *(continued)*

### 14 Work in progress relating to services

	2018 £000	2017 £000
Work in progress relating to services	3,347	1,239
	<u>3,347</u>	<u>1,239</u>

### 15 Debtors

	2018 £000	2017 £000
<b>Debtors: amounts falling due within one year</b>		
Trade debtors	5,449	4,091
Amounts owed by group undertakings	48	6,981
Prepayments and accrued income	907	1,353
	<u>6,404</u>	<u>12,425</u>

### 16 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	5,252	3,983
Amounts owed to group undertakings	1,084	1,084
Corporation tax	605	283
Other taxes and social security costs	1,394	922
Accruals and deferred income	1,562	1,886
	<u>9,897</u>	<u>8,158</u>

The bank overdraft is secured by a floating charge over certain of the Company's assets. Trade creditors are not interest bearing and are normally settled on 30-day terms. Other creditors are non-interest bearing and have an average term of six months.

## Notes to the financial statements (continued)

### 17 Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2018 £000	2017 £000	2018 £000	2017 £000	2018 £000	2017 £000
Fixed asset differences	(15)	–	–	47	(15)	47
Short term differences	(147)	(167)	–	–	(147)	(167)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net tax (assets)/liabilities	(162)	(167)	–	47	(162)	(120)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

#### Movement in deferred tax during the year

	1 January 2018 £000	Recognised in income £000	Recognised in equity £000	31 December 2018 £000
Tangible fixed assets	46	(61)	–	(15)
Short term differences	(166)	(17)	36	(147)
	<hr/>	<hr/>	<hr/>	<hr/>
	(120)	(78)	36	(162)
	<hr/>	<hr/>	<hr/>	<hr/>

#### Movement in deferred tax during the prior year

	1 January 2017 £000	Recognised in income £000	Recognised in equity £000	31 December 2017 £000
Tangible fixed assets	76	(30)	–	46
Short term differences	(177)	(30)	41	(166)
	<hr/>	<hr/>	<hr/>	<hr/>
	(101)	(60)	41	(120)
	<hr/>	<hr/>	<hr/>	<hr/>

### 18 Provisions

	2018 £000	2017 £000
Balance at 1 January 2018	402	218
Increase of provision	118	184
	<hr/>	<hr/>
Balance at 31 December 2018	620	402
	<hr/>	<hr/>

A provision is recognised for dilapidations on leasehold properties which expire within two to five years.

## Notes to the financial statements (continued)

### 19 Employee benefits

#### *Defined contribution scheme*

The Company operates a defined contribution Group Personal Pension (GPP) Scheme. Employer contributions into the GPP scheme during 2018 totalled £448,000 (2017: £380,000). The unpaid contributions outstanding at the year-end amounted to £nil (2017: £nil).

#### *Defined benefit scheme*

The above scheme replaced a defined benefit pension scheme, the Munters Retirement Benefits Scheme (MRB Scheme). The MRB Scheme offered a defined benefit pension in respect of service prior to May 1991. The benefit structure was changed in May 1991 to a defined contribution basis. For service between May 1991 and March 1997, the MRB Scheme was required to provide members with pensions that are not less than the "Guaranteed Minimum Pensions" that must be provided by a scheme that had contracted out of the State Earnings Related Pension Scheme.

The MRB Scheme was closed to new members and closed to further accrual of benefits with effect from 31 December 2002. The figures below relate to the MRB Scheme as a whole and not just the MRB Scheme's defined benefit elements.

The MRB Scheme assets are held in a separate Trustee administered fund to meet long-term pension liabilities. The trustees of the fund are required to act in the best interest of the fund's beneficiaries. The appointment of trustees to the fund is determined by the MRB Scheme's trust documentation.

Under the scheme funding regime introduced by the Pensions Act 2004, the trustees are required to carry out regular scheme funding valuations of the MRB Scheme and establish a schedule of contributions and a recovery plan when there is a shortfall in the scheme. The recovery plan details the amount and timing of the contributions required to address the shortfall in the scheme. Scheme funding valuations are carried out at least every three years.

The most recently completed actuarial valuation of the MRB Scheme was carried out as at 31 March 2015. Following the valuation, the Company has agreed with the trustees that it will aim to eliminate the deficit over a 4 year and 9-month period between 31 March 2015 and 31 December 2019. The Company agreed to pay deficit contributions to the scheme of £11,667 per month from 31 March 2015 to 31 March 2016 and then £17,000 per month from 1 April 2016 to 31 December 2019. The total contributions to the MRB scheme in 2019 are expected to be £204,000 (2018: £204,000).

The trustees monitor funding levels on a regular basis. The next actuarial valuation is due to be completed as at 31 March 2018 is currently in progress and due to be completed in the near future. The contributions payable by the Company will be re-assessed part of the actuarial valuation. A funding update is due to be carried out as at 31 March 2019.

The key risks which could significantly impact the balance sheet, and to a lesser extent the profit and loss account, are as follows:

- Falls in asset values which are not offset by a rise in the discount rate used to place a value on the MRB Scheme's liabilities.
- A reduction in the discount rate, which will increase the value placed on the Scheme's liabilities.
- An increase in expected price inflation.
- Improving life expectation (lower mortality rates) resulting in benefits being paid for longer.

The information disclosed below is in respect of the whole of the plans for which the Company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2018 £000	2017 £000
Total defined benefit asset	2,882	3,149
Total defined benefit liability	(3,380)	(3,716)
Net liability for defined benefit obligations (see following table)	(498)	(567)

## Notes to the financial statements (continued)

### 19 Employee benefits (continued)

#### Movements in net defined benefit liability:

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2018	2017	2018	2017	2018	2017
	£000	£000	£000	£000	£000	£000
Balance at 1 January	(3,716)	(3,889)	3,149	3,035	(567)	(854)
<b>Included in profit or loss:</b>						
Interest (cost)/income	(91)	(94)	78	75	(13)	(19)
Past service cost	(156)	–	–	–	(156)	–
Payments in respect of settlements	64	236	(66)	(272)	(2)	(36)
	<u>(3,899)</u>	<u>(3,747)</u>	<u>(3,161)</u>	<u>2,838</u>	<u>(738)</u>	<u>(909)</u>
<b>Included in OCI:</b>						
Re-measurements (loss)/gain:						
Return on scheme assets (excluding net interest)	–	–	(286)	142	(286)	142
Experience (loss)/gain	57	(7)	–	–	57	(7)
Changes in demographic assumptions	113	–	–	–	113	–
Changes in financial assumptions	152	3	–	–	152	3
	<u>322</u>	<u>(4)</u>	<u>(286)</u>	<u>142</u>	<u>36</u>	<u>138</u>
<b>Other:</b>						
Contributions paid by the employer	–	–	204	204	204	204
Employee contributions	–	–	–	–	–	–
Benefits paid	197	35	(197)	(35)	–	–
	<u>197</u>	<u>35</u>	<u>7</u>	<u>169</u>	<u>204</u>	<u>204</u>
<b>Balance at 31 December</b>	<b>(3,380)</b>	<b>(3,716)</b>	<b>3,440</b>	<b>3,149</b>	<b>(498)</b>	<b>(567)</b>

The defined benefit obligation comprises £nil (2017: £nil) arising from unfunded plans and £3,380,000 (2017: £3,716,000) from plans that are wholly or partly funded.

Plan assets - the major categories of scheme assets as a percentage of total scheme assets are:

	2018	2017
	%	%
Equities	42.8	52.0
Government fixed interest bonds	5.9	7.0
Corporate bonds	19.7	21.0
Cash	31.6	20.0
	<u>100</u>	<u>100</u>

## Notes to the financial statements (continued)

### 19 Employee benefits (continued)

The pension scheme has not invested in any of the Company's own financial instruments nor in properties or other assets used by the Company. The assets are all quoted in an active market.

All equity securities and government bonds have quoted prices in active markets. All government bonds are issued by European governments and are AAA- or AA-rated. All other plan assets are not quoted in an active market.

#### Actuarial assumptions

The defined benefit obligation for this report and accounts was determined with the advice of independent qualified actuaries, Capita Employee Benefits, on the basis of annual valuations using the projected unit credit method. Scheme assets are stated at their market values at the respective balance sheet dates.

The Company estimates the present value of the duration of UK scheme liabilities on average fall due over 17 years.

Main assumptions:	2018	2017
Rate of salary increases	n/a	n/a
	In line with	In line with
	scheme rules	scheme rules
Rate of increase in pension in payments		
Discount rate	2.8%	2.5%
Expected return on assets	2.8%	2.5%
Inflation assumption (Consumer Prices)	2.6%	2.4%
Post retirement mortality in years:		
Current pensioners at 65 – Male	22.9	23.7
Current pensioners at 65 – Female	24.9	25.8
Future pensioners at 65 – Male	24.8	25.9
Future pensioners at 65 – Female	26.9	28.1

The discount rate is based on published indices for AA bonds with durations consistent with the pension obligations. The assumptions for inflation and for increases in pensions are based on the yield gap between long-term index-linked and long-term fixed interest gilt securities. Post-retirement mortality rate are based on 95% of the SAPS (Series 2) standard tables projected to reflect improvements in life expectancy using the CMI 2014 core model with long term improvements of 1.75% p.a.

#### Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Sensitivity analysis:	Change in assumption	Impact on scheme liability
	Increase/decrease by 0.5% p.a.	Decrease/increase by 8% p.a.
Discount rate		
	Increase/decrease by 0.5% p.a.	Increase/decrease by 0.3% p.a.
Inflation (RPI, CPI)		

## Notes to the financial statements (continued)

### 20 Capital and reserves

	2018 No.	2018 £000	2017 No.	2017 £000
<b>Allotted, called up and fully paid:</b>				
Ordinary shares of £1 each (2017: £1)	250,000	250	250,000	250
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### Profit and loss account

Profit and loss account represents the amount of net earnings, less amounts paid out as dividends, retained by the Company to be reinvested in its core business.

#### Capital Contribution

The capital contribution account represents additional payments made by shareholders without repayment requirements.

### 21 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2018 £000	2017 £000
Less than one year	1,852	1,788
Between one and five years	2,790	3,017
More than five years	279	279
	<u>          </u>	<u>          </u>
	4,921	5,084
	<u>          </u>	<u>          </u>

The Company has entered into commercial leases on certain properties, motor vehicles and items of machinery. These leases have an average duration of between 3 and 10 years. Only the property lease agreements contain an option for renewal, with such options being exercisable three months before the expiry of the lease term at rentals based on market prices at the time of exercise. There are no restrictions placed upon the lessee by entering into these leases.

During the year £2,120,000 was recognised as an expense in the profit and loss account in respect of operating leases (2017: £2,031,000).

### 22 Parent and ultimate controlling party

The Company's immediate parent undertaking is Polygon International AB.

In the directors' opinion, the Company's ultimate parent undertaking is MuHa No2 LuxCo SARL incorporated in Luxemburg and Triton Investments is the Company's controlling party.

The smallest and largest group which consolidates the results of the Company is Polygon Holdings AB. Copies of the group financial statements may be obtained from Hi Tech building 21, Sveavägen 9, 3rd floor 101 52, Stockholm Sweden.

### 23 Subsequent events

On 9 May 2019, the Company acquired The Plastic Surgeon Holdings Limited; the acquisition strengthens Polygon UK's position in the area of property restoration and hard surface repairs. The acquisition will add 239 employees and annual sales of £13,000,000.