

Polygiene AB (publ.)

Annual Report 2016



polygiene.com/ir



Polygiene®
STAY FRESH

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POLYGIENE
ODOR
FREE

This is Polygiene



Polygiene is an internationally leading provider of odor control and Stay Fresh solutions for clothing, sports equipment, shoes and other materials. Polygiene's treatment provides natural odor control which lasts throughout the material's life cycle. This odor control means that clothes can be worn for longer and washed less, which helps to reduce environmental impacts.

Polygiene builds its brand by working actively with the entire value chain, from development and manufacture at subcontractor sites, to marketing, distribution and active customer support.

2006

Polygiene is established.

patagonia



2006

Initially, the focus is on hard surfaces and materials for hospital environments. The company learns to effectively prevent growth of bacteria and viruses.

2007/08

Scandinavian Sport & Outdoor brands approach Polygiene to find a solution to the odor problem.

2009

Consumer research is conducted. The Company adjusts its business model in order to better fulfill consumer requirements and trends.

2012

Breakthrough in the U.S. Sport & Outdoor market due to cooperation with Patagonia.

2013/14

Breakthrough in the global sportswear market due to cooperation with Adidas.

2015/16

Further consumer studies within the Lifestyle segment. Initiatives are taken to win leadership of the odor control/ Polygiene STAY FRESH category in this segment.

2016

Penetration of the shoe market with Converse in Japan and of home textiles with Evezary and Fogni in South Korea.

2016 in brief

Net sales in 2016 increased by 20 percent to MSEK 61.6 (51.5). During the year offensive initiatives were launched to achieve further growth in 2017 and beyond.

The initiatives taken and the costs of the IPO on Nasdaq First North, totaling approximately MSEK 13, reduced the operating profit (EBIT) compared with the previous year to MSEK -3.4 (5.6). Profit after tax in 2016 was MSEK -3.2 (9.2) and cash flow for 2016 was MSEK -7.5 (21.5).

Listing on Nasdaq First North

Polygiene AB was listed on Nasdaq First North in Stockholm on 14 March 2016.

Strengthening of the organization with key recruitments

During the year the organization was strengthened by recruitment to a number of key positions. Positions added at the beginning of the year included CFO and Technical Director for Asia Pacific. Later in the year, new staff members were recruited for the positions of Director of Commercial Operations for Europe, Technical Director for textile applications and Head of Marketing for Europe.

New cooperation and segments

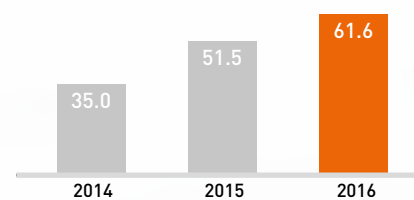
A number of new business partnerships were launched during the year, including:

- Converse Footwear Co., Ltd was the first brand to introduce Polygiene Odor Control Technology within the shoe segment, on its launch in the Japanese market.

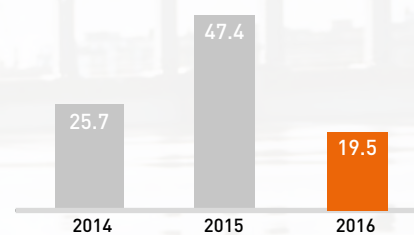
- Together with the US firm Propper, Polygiene took an important first step into the personal protective equipment and uniforms for work segment.
- HJC, the globally leading South Korean manufacturer of motorcycle helmets, are introducing helmets with odor control in partnership with Polygiene.
- White Sierra, a US brand that manufactures and markets all types of outdoor garments for the entire family, will introduce Polygiene in their collections.
- Evezary, South Korea's largest bed linen and home textile company, has entered into a partnership agreement with Polygiene.
- Fogni, South Korea's leading manufacturer of functional and ecofriendly fiber filling materials used in home textiles and furniture, as well as bed linen for the home, healthcare sector and the hotel industry, has entered into a partnership agreement with Polygiene.
- The Swedish fitness clothing brand Dcore is focusing fully on Polygiene's odor control method.
- Bpost Group, Belgium's leading supplier of post services, is now beginning to provide its employees with odorless workwear.
- The global sportswear brand 2XU (two times you) is launching Polygiene treatment of compression garments.



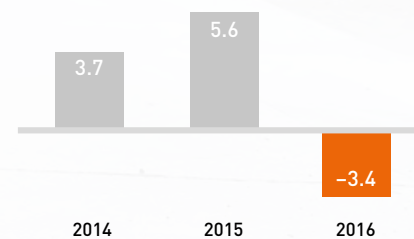
Net sales, MSEK



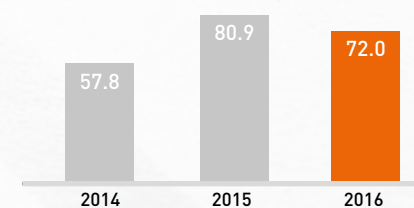
Net sales, growth, %



Operating profit (EBIT), MSEK



Equity/assets ratio, %



Message from the CEO

The very strong interest in Polygiene as the market's leading odor control system was reflected in the continued strong demand from both new and existing customers during the year.

We have continued to invest in increased resources and expertise, and in local PR and marketing activities in our key markets in the USA, Europe and Asia, in order to secure and accelerate the growth rate and build an even stronger Polygiene brand within our focused market segments.

In 2016, net sales increased by 20 percent to MSEK 61.6. Our operating result (EBIT) was MSEK -3.4, which is a decline from the previous year, mainly as a consequence of investments for the future such as increased focus on PR and marketing activities, and expansion of the organization.

Continued growth in several areas

We can see continued strong growth in our largest segment, Sport & Outdoor, in both new and existing markets. There is growing interest in sports and exercise in Asia, where we have several exciting collaboration activities. There is very strong interest from consumers and brands within treated shoes, so that we consider this segment to be a central future development area. We already collaborate with such brands as Converse Japan, SOLE and ASTRAL.

Athleisure, the sector overlap between Athletic and Leisure, has now become an established trend and we are working actively to establish Polygiene as a natural function for garments within this area. We are also continuing to expand with further traditional Lifestyle products, such as undergarments and socks, including together with Wacoal in Japan. Wacoal is the leading brand for ladies' underwear in the Japanese market, but also has extensive exports to Asia, Europe and the Asia.

The home textiles segment has increased rapidly for Polygiene and today accounts for approximately 15 percent of our textile revenue. We believe that this share can increase further in the future, primarily in Asia. Based on our active work in the USA during the year together with Business Sweden and our agents, we have high hopes of a breakthrough in the American market, too.

During the year, a partnership agreement was established with Belgian Post Group (bpost), which is now beginning to provide its employees with odorless workwear. Bpost is Belgium's leading provider of domestic and international postal and logistics services. Our partnership with bpost is further promoting Polygiene's position in the workwear market.

Strengthening the organization

During the year, our organization was strengthened for the future by recruitment to several new positions. Positions added at the beginning of the year included a CFO and a Technical Director for Asia Pacific. Later in the year, new staff members were recruited for the positions of Director of Commercial Operations for Europe, Technical Director for textile applications and Head of Marketing for Europe.

Our increased focus on market activities will continue during 2017. Among other things, we plan to strengthen our sales organization in the USA. A local presence, with sales and marketing resources, is a key component in strengthening opportunities for a continued strong growth rate.

“Several exciting new brands have been added to the customer portfolio in our most important markets and segments and we can see significant growth potential in the coming years.”

Christian von Uthmann, CEO



Summary of 2016 and future outlook

To summarize the year, and shortly look forward:

- Continued strong growth at 20 percent.
- Several exciting new brands have been added to the customer portfolio in our most important markets and segments.
- We have invested successfully in our organization and in building up and strengthening our brand together with our partner brands.
- Despite sound growth in recent years, Polygiene's penetration of our customers is still low, so that significant growth potential still remains.

- The resource and market initiatives achieved in 2016, which are continuing in 2017, are creating good conditions to ensure future annual growth in excess of 30 percent. Profitability is expected to increase gradually during the next few years towards our specific target, as costs are not expected to increase at the same rate as the margin from increased sales.

Overall, this makes us very well prepared for an exciting 2017, and I can see considerable business opportunities in all of our markets. I am convinced that this will result in continued strong growth and an even stronger Polygiene brand at the end of the year.

Global drivers

Polygiene's activities are affected by a number of global drivers and trends.

Demographic development

There are more than seven billion people in the world, and all of them need clothing. In the U.S. and Europe, people use an estimated 30 kilos (66 lbs.) of textiles per person per year. In China, this is 14 kilos (30 lbs.) of textiles per person per year. In India, which within 12 years is expected to surpass China in terms of population, this figure is 5 kilos (11 lbs.).*

During the next 30 years, the world's population will increase by 2 billion, and in growing economies such as China and India rising standards of living will increase consumption. A growing middle class that has increasingly more leisure time and an increased awareness of health and well-being will also lead more and more people to spend additional time and money on appearance, fashion, sports, fitness and wellness.

* www.textileworld.com

Changing consumption patterns

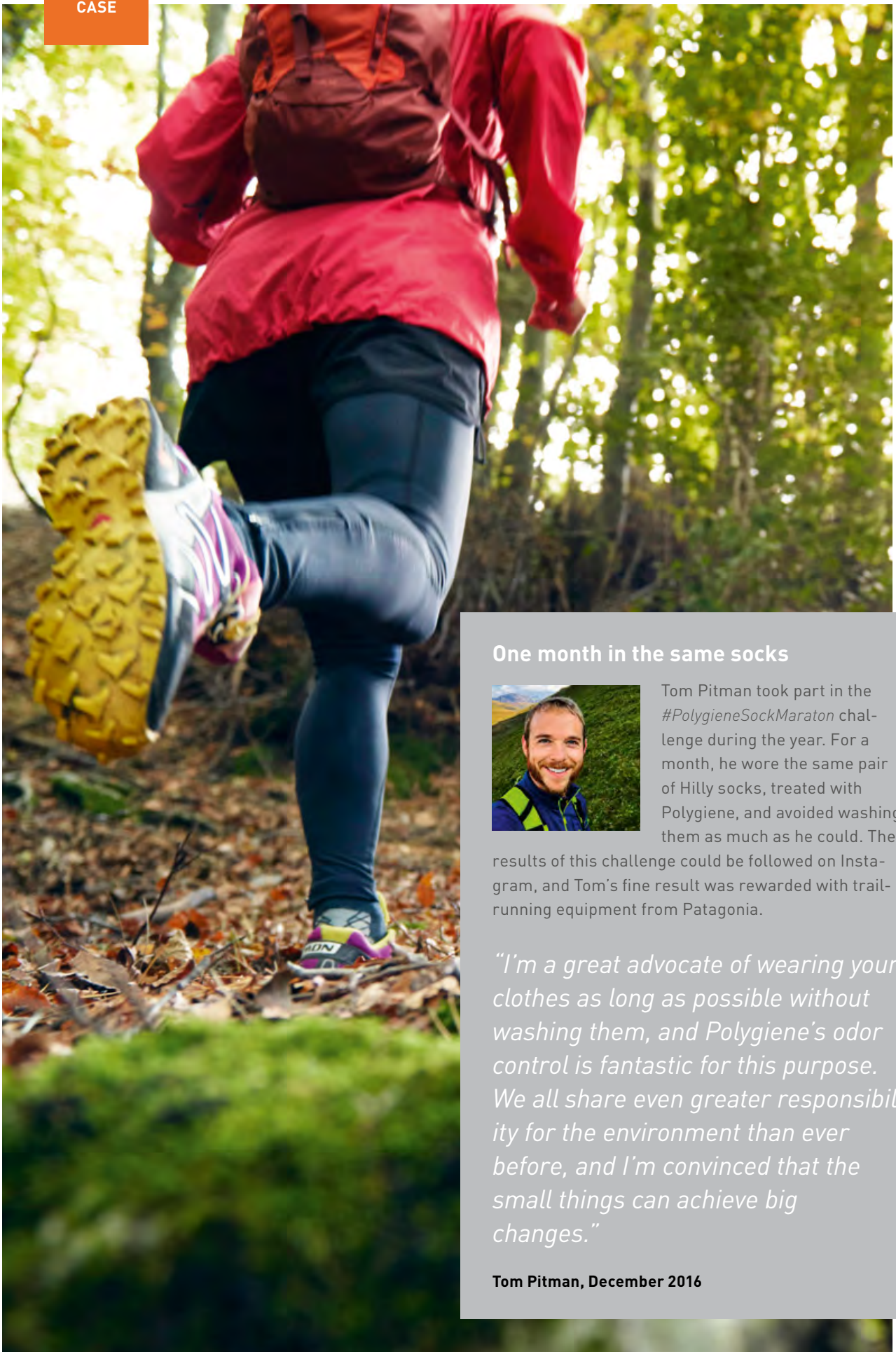
People are increasingly concerned about how they are perceived by others. They do not want to smell bad, and they want to feel fresh and confident on a daily basis and while exercising. Increasing numbers of consumers are asking for easy-care clothing that does not smell bad after use. There is also a clear trend for consumers to be more environmentally aware and to make climate-smart choices.

Brand profiling

There is a polarization in the Sport & Outdoor segment between "value brands" that offer a product at a low price, and "premium brands" or "specialty brands" that deliver the best functionality, the latest innovation, the best design and the best possible differentiation, etc., at a higher price. To justify a higher product price, these brands must offer consumers both the best functionality and a clear, marketable product description.

Climate and the environment

In step with the world's growing population and rising standards of living, more and more textiles are being used and washed, which means that water consumption is also increasing rapidly. Fresh water is a scarce resource in more and more places around the world. For example, water shortages, especially in major metropolitan areas, frequently occur in parts of the U.S., Europe and Asia. Groundwater levels are falling, and many major rivers show significantly reduced water levels and high levels of pollution.



One month in the same socks



Tom Pitman took part in the #PolygieneSockMaraton challenge during the year. For a month, he wore the same pair of Hilly socks, treated with Polygiene, and avoided washing them as much as he could. The

results of this challenge could be followed on Instagram, and Tom's fine result was rewarded with trail-running equipment from Patagonia.

"I'm a great advocate of wearing your clothes as long as possible without washing them, and Polygiene's odor control is fantastic for this purpose. We all share even greater responsibility for the environment than ever before, and I'm convinced that the small things can achieve big changes."

Tom Pitman, December 2016

Strategy and goals

Vision

Polygiene shall be the leading global brand for odor control, making it possible for consumers to stay fresh in an effective and environmentally sustainable way.

Goals

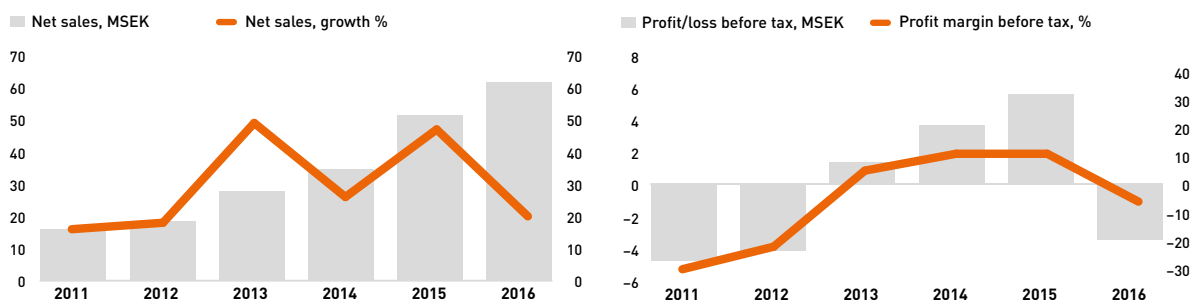
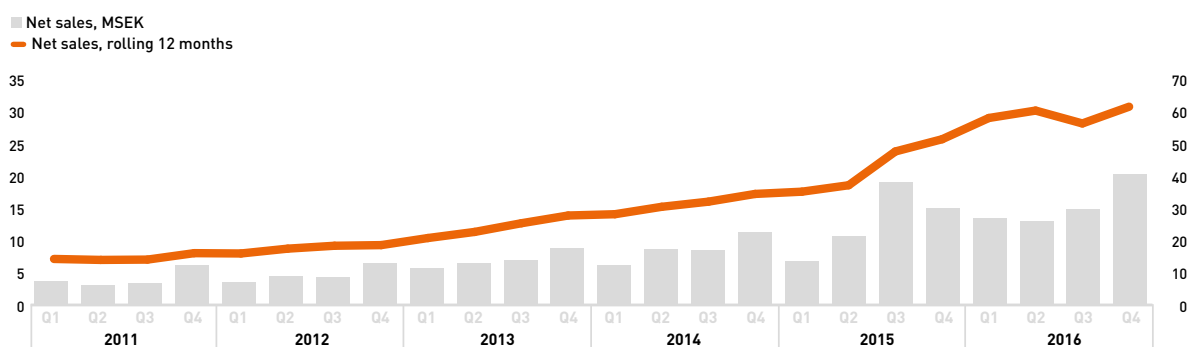
Polygiene will be the market-leading "ingredient brand" (within the Sport & Outdoor, Lifestyle, Home Textiles and other segments) that, in partnership with the premium brands and retailers, delivers the market's best solution for odor control with a product that is effective, permanent and safe to use, and which contributes to a more sustainable world.

Strategy

To develop and deliver the Polygiene brand and comprehensive solutions within the functional area of odor control by conducting business in a focused, creative and professional manner in close cooperation with our premium brand partners (customers), agents, distributors and suppliers. Polygiene's preferred growth strategy is currently organic growth, not acquisition-driven growth.

Financial goals

The Board of Directors' target is for average annual organic growth in net revenues to exceed 30 percent over a business cycle. Furthermore, the Board's target is that, in the long term, the earnings before tax or pretax profit margin (EBT%) shall exceed 15 percent over a business cycle.



Business model and offering

Polygiene focuses mainly on manufacturers of leading premium clothing brands and their customers and works actively with the entire value chain, from development and manufacture at subcontractor sites, to marketing, distribution and active customer support.

Polygiene was established in January 2006 through a spin-off from the Perstorp Group, which specializes in chemicals. The company develops and sells permanent odor control of primarily premium clothing brands in the textile industry, but also antibacterial solutions for other types of surfaces.

The technology was originally developed in the early 2000s to create antibacterial surfaces for various plastic materials and industrial flooring. The work of developing further applications for other antibacterial surfaces continued during the years, and today the technology is also used in applications within, for example, sanitary equipment, flooring and paint.

Growing customer base

The technology for odor control of textiles was developed in 2007-2008 and has expanded strongly in recent years, especially for sportswear and sports equipment. Polygiene currently delivers products and solutions to more than 140 leading clothing brands and is continuously developing the market.

Garments treated with Polygiene can be worn for longer without this affecting their freshness. This reduces washing and increases the garments' lifetime, contributing to a positive environmental impact.



A strong co-brand

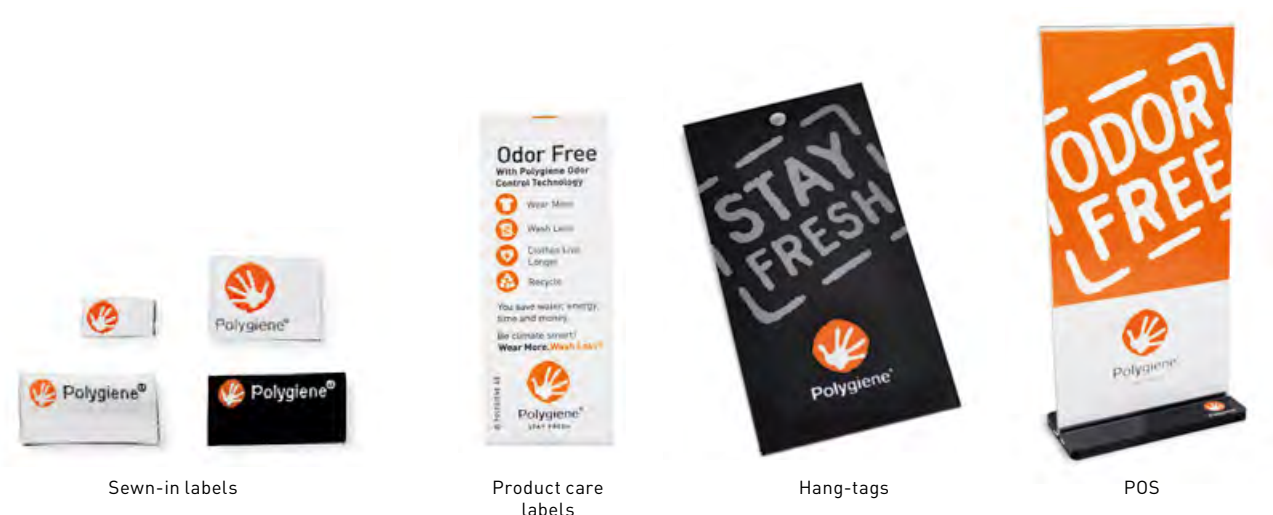
The offering comprises treatment of textile or materials, functional solutions, expertise and active support concerning odor control and Polygiene's STAY FRESH concept. The business model not only includes sales of the functionality to customers, but also an overall solution which includes a communication and information package for stores and consumers, training of the customer's sales team, ongoing customer support, hardware handling as the application of the actual preparation at the specific customer's textile supplier, all related administration, and quality control and follow-up.

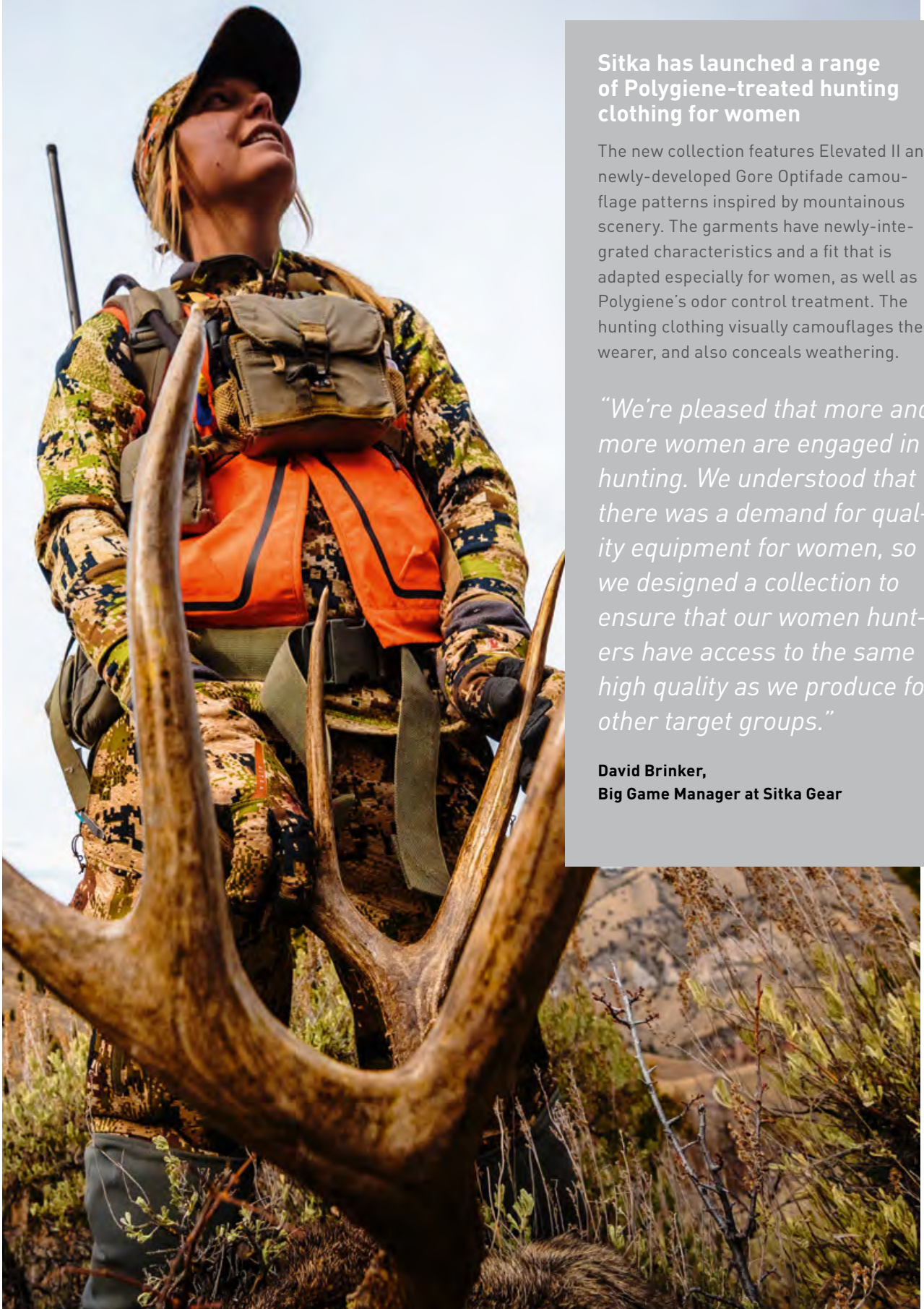
Polygiene is developed in close collaboration with the company's partners and new cooperation within additional segments and geographical markets continues to be established. Significant resources are invested in training customers' employees, and also in marketing in order to continually increase the value of the Polygiene brand and of the partner brands that use Polygiene in their products. Through this co-branding, Polygiene helps both its partners' brands and its partners' retailers with marketing and communicating clear customer value to consumers.

Polygiene delivers a complete and tested solution

Besides odor control products, Polygiene also delivers:

- Training in adapted applications, and sustainability and performance testing
- Brand development for product and functionality: hang-tags, sewn-in labels and product care labels
- Brand training for sales force and launch support
- Commercial training
- Customer reviews, PR/media, Internet and social media support





Sitka has launched a range of Polygiene-treated hunting clothing for women

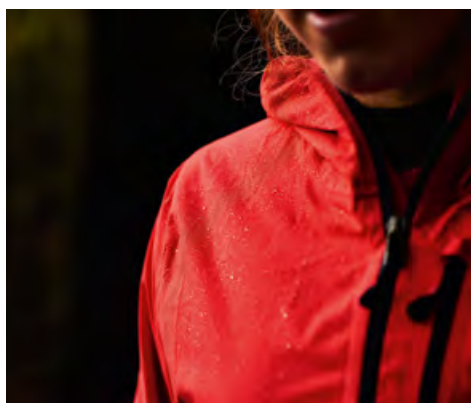
The new collection features Elevated II and newly-developed Gore Optifade camouflage patterns inspired by mountainous scenery. The garments have newly-integrated characteristics and a fit that is adapted especially for women, as well as Polygiene's odor control treatment. The hunting clothing visually camouflages the wearer, and also conceals weathering.

"We're pleased that more and more women are engaged in hunting. We understood that there was a demand for quality equipment for women, so we designed a collection to ensure that our women hunters have access to the same high quality as we produce for other target groups."

David Brinker,
Big Game Manager at Sitka Gear

Market and competitors

Today, Polygiene is the market leader in the odor control segment, with regard to technology leadership as well as brand recognition.



About Polygiene in brief

- Polygiene prevents malodorous bacteria growth.
- Polygiene is only active on the textile surface, and does not affect the skin.
- Polygiene's odor control is maintained throughout the material's useful life.

Synthetic materials – especially polyester* – represent a growing share of global textile production. Polyester is used to manufacture sportswear, lifestyle and functional clothing, shoes, accessories, protective gear and home textiles. Textile materials based on polyester fibers have many advantages in terms of good, flexible characteristics, as well as cost and resource efficiency. Polyester and other synthetic fibers can also be recycled.

However, a well-known disadvantage of polyester-based fabrics is that they provide an excellent breeding ground for odor-causing bacteria. Polygiene offers an effective, environmentally friendly solution that keeps clothing, shoes, protective gear (such as helmets and knee pads), and other garments and articles odor free.

Clear functionality

Polygiene now operates globally, and primarily cooperates with premium brands within five different segments. Sales in 2016 were distributed as follows on the various segments:

- **Sport & Outdoor** (sportswear, protective gear, outdoor, hunting, fishing and more) approximately 72 percent
- **Lifestyle & Workwear** (shirts, blouses, trousers, suits, undergarments, socks, shoes and more) approximately 10 percent
- **Home Textiles** (towels, bedsheets, pillowcases, mattresses, pillows and more) approximately 9 percent
- **Footwear** (shoes and insoles) approximately 1 percent
- **Other** (paint, flooring, sanitary equipment and more) approximately 8 percent

More than 30 million yards of fabric were treated with Polygiene products in 2016.

The most successful brand leaders in the textile industry within the "ingredient brands" category (such as Gore-tex and Lycra) are characterized by distinct functionality. These brands address a clear and perceived consumer need, thereby creating significant customer value. This customer value can be communicated through co-branding in a simple and consistent manner in the marketing of consumer products which apply the functionality, such as waterproof shoes or jackets with Gore-Tex membranes.

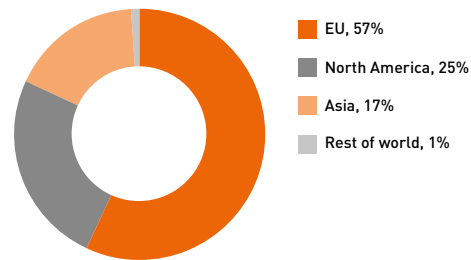
Polygiene offers an overall concept that is based on careful testing throughout the entire value chain, together with quality

* www.textileworld.com

assurance of the many different applications. Polygiene is the global category leader within the Sport & Outdoor segment and has taken advantage of this position to expand its category leadership to other segments. New segments that are now being actively promoted are clothing (fashion wear, sportswear and workwear), shoes, home textiles, etc. For several application areas, market promotion has only commenced to a limited extent, and the level of penetration is still low. It is therefore assessed that significant potential can be expected within these newly-added segments.

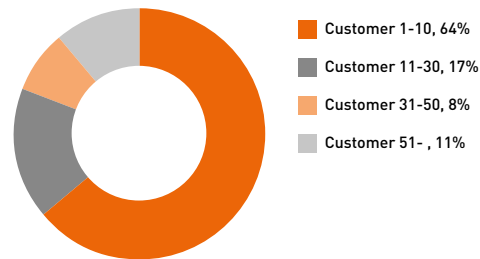
The development is driven by several interacting factors, such as a growing middle class with increased disposable income, and an underlying health trend that, in principle, is increasing throughout the world. Another factor that is increasingly affecting demand is the wish of many consumers to make climate- and resource-smart choices. Garments treated with Polygiene can be used for considerably longer and require far less frequent washing than untreated garments. This reduces the environmental impact from textile manufacture and cleaning, saving both water and energy. This also saves time for consumers, who do not have to wash their clothes so often.

Sales, geographic distribution, %*



* Location of customers' head office/purchase office

Sales, customers grouped by size, %



Activities

Polygiene has developed and offers products and treatment methods which ensure permanent odor control from first use and throughout the garment's lifetime.

"Stinky polyester" is a well-known phenomenon that occurs when bacteria grow on textiles. There are several fundamentally different approaches to avoiding the problem:

- Wash clothing more frequently.
- Reduce the conditions for bacterial growth by choosing a material, for instance wool, which does not promote the growth of bacteria.
- Encapsulate or absorb the odor that arises.
- Treat the material with a solution that reduces bacterial growth.

Polygiene's method is based on the last-mentioned, i.e. treating the material to reduce bacterial growth. To a great extent, Polygiene's solutions are based on naturally occurring silver salt made from recycled silver. The silver salt effectively inhibits bacterial growth, thereby reducing odor, as well as the need to frequently wash the treated garments. The solutions can be applied to thread as well as fabric, and are so effective that the application of only a small amount of solution is sufficient to provide lasting odor control that remains effective throughout the garment's lifetime.

Regulatory and governmental approvals

The additives sold by Polygiene are produced in the EU and Japan with minimum use of resources, and fulfill stringent environmental requirements, such as the requirements in EU chemicals legislation. Polygiene is also a member of the Swerea (Swedish research group) Chemicals Group, which helps to keep the company continuously updated and that it

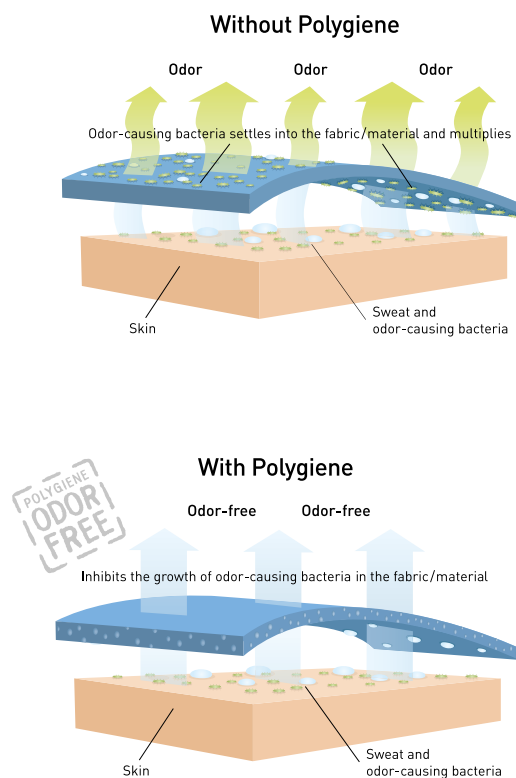


can contribute actively to any adjustments to chemicals laws and regulations, and other issues related to the environment.

The company and its products are also approved by the U.S. Environmental Protection Agency (EPA) and in accordance with the EU's Biocidal Products Regulation (BPR). The latter two approvals are also important for Polygiene to be able to sell products in the Asian markets. There are also a number of other very important approvals and certifications specific to the textile industry, and Polygiene holds all of

What is Polygiene and how does it work?

- Polygiene is an internationally leading manufacturer of odor control technology for garments, equipment and material.
- Polygiene's treatment is based on silver salt (silver chloride) made from recycled silver.
- Polygiene is applied together with other treatment of the material, which minimizes the environmental impact, as no further energy or water is required.



these, including Oeko-Tex® and bluesign®. In the UK, products containing Polygiene have achieved Medical Class 1** approval, which is proof of how safe it is to use Polygiene.

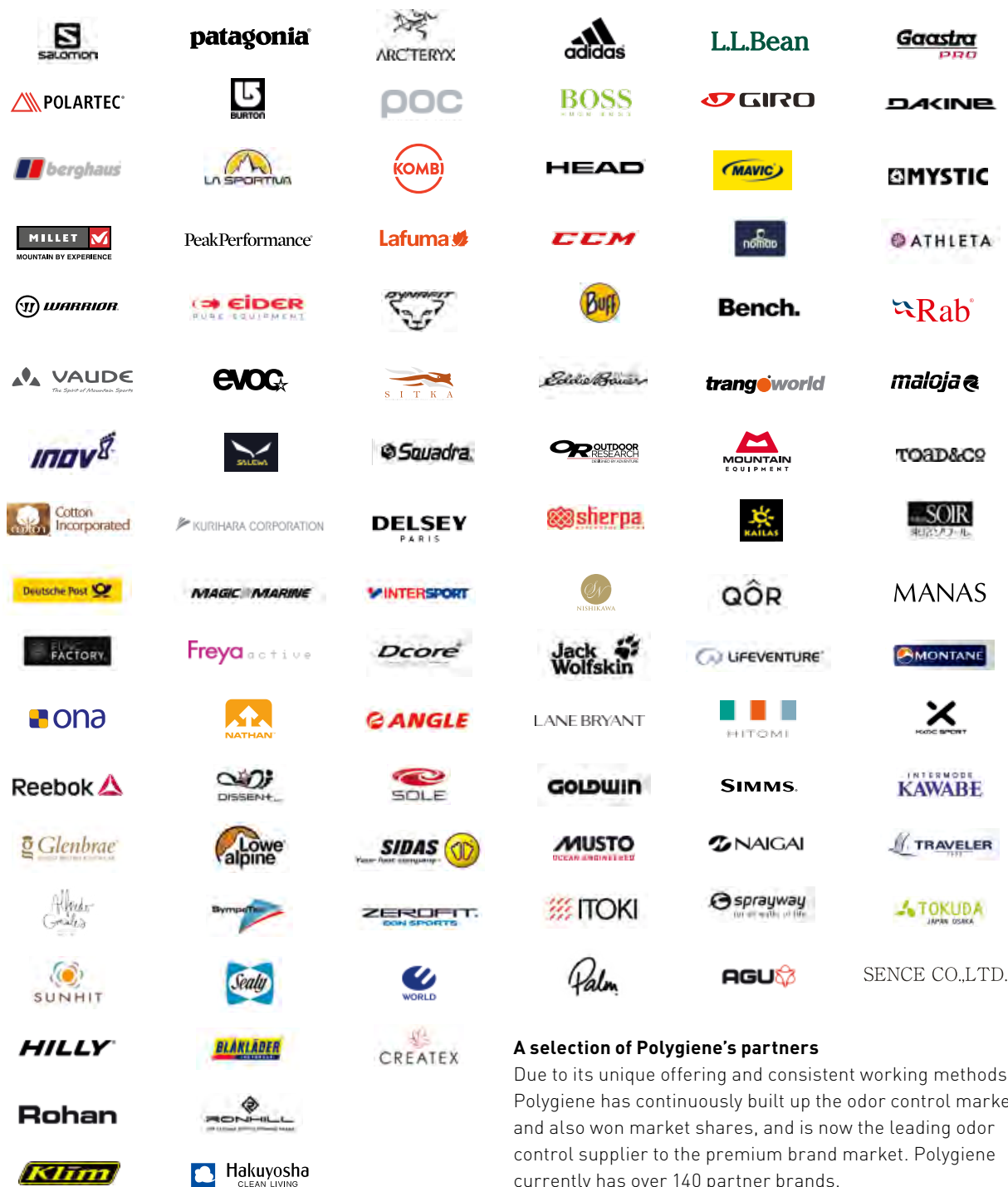
A global organization

At year-end, the company's operating organization included 18 staff members, of whom 14 are employed and 4 are contracted consultants. At the beginning of 2016, the organiza-

tion was expanded with the appointment of a CFO and a Technical Director, Asia Pacific. Later in the year, new staff members were recruited for the positions of Director of Commercial Operations for Europe, Technical Director for textile applications and Head of Marketing for Europe. Polygiene's staff are based in Sweden, Germany, the UK, the USA and China (Hong Kong).

Polygiene in the world





A selection of Polygiene's partners

Due to its unique offering and consistent working methods, Polygiene has continuously built up the odor control market and also won market shares, and is now the leading odor control supplier to the premium brand market. Polygiene currently has over 140 partner brands.

Sustainability

Polygiene works closely with several leading brands, with continued focus on reducing environmental impacts through more sustainable use of textiles. Products treated with Polygiene do not need to be washed so often, and are more durable, which has a significant positive environmental impact.

Polygiene is contributing to climate-smart clothing

- Polygiene is bluesign®-certified – the textile industry's stringent ecolabelling scheme which covers the entire product life cycle. Polygiene cooperates with the brands that are considered to be environmental leaders, many of which are bluesign®-certified
- Polygiene consists of low concentrations of natural silver salt (silver chloride, AgCl) produced from recycled silver. Polygiene does not work with nanosilver.
- Controlled application – Polygiene is applied with other treatments in a closed system.

Consumers account for two thirds of a garment's environmental footprint over its lifetime. Excessive water consumption, primarily due to excessive washing, plays a vital role in calculating this footprint. A shortage of fresh water is an acute problem in many parts of the world; both high- and low-income countries.

Polygiene's customers are companies that specialize in manufacturing environmentally sustainable outdoor clothing and sportswear. They share a need for anti-odor treatment, with a clear focus on climate-smart garments. The Polygiene method is also used in helmets, hockey and ski gloves, groin protectors, protective gear, ski boots and skates, shoes and soles, mattresses, door handles and toilet seats.

Reduced environmental impacts

Garments treated with Polygiene will remain odor-free and can be used several times before being washed. Without excessive washing and bacteria growth, the material also lasts longer, and products treated with Polygiene will not be discarded quickly due to odors. Overall, this extends product lifetimes and reduces water consumption. Sustainable odor control technologies such as Polygiene play an important role in reducing the environmental footprint of garments and equipment.

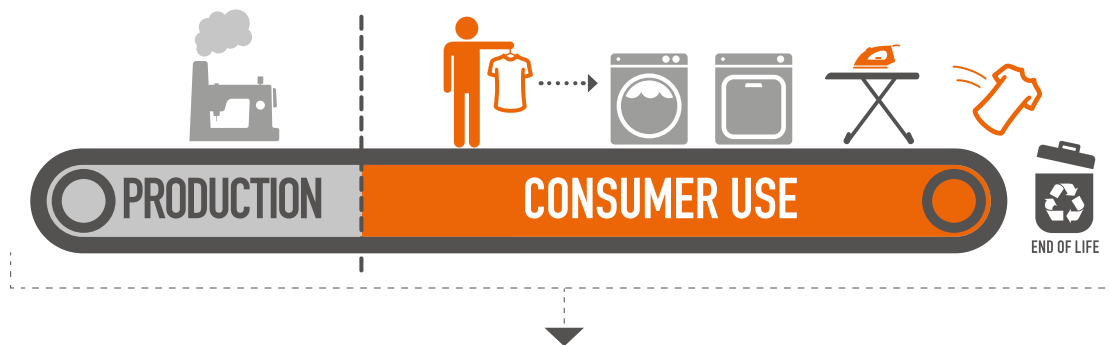
An independent life cycle analysis (LCA) showed that wearing garments treated with Polygiene more than once after washing reduced the garment's environmental impact compared to an untreated garment washed after each use.

Recycled silver

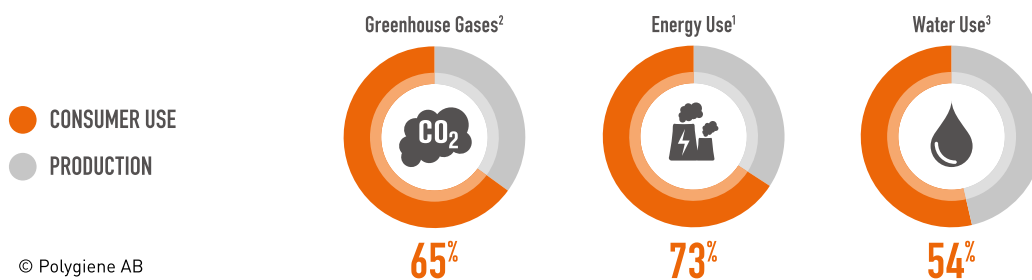
To reduce odors in textiles, Polygiene has developed a treatment method where the active ingredient is naturally occurring silver salt, produced from recycled silver. The salt is applied at the manufacturer on the final processing of the fabric, which minimizes the environmental impact, since no extra energy or extra water is used.

The active substance in Polygiene is silver chloride, AgCl. This occurs naturally in the ground and sea and is poorly soluble in water. This means that Polygiene's do not have any foreign or "man-made" discharges to nature. Bacteria

2/3 OF THE ENVIRONMENTAL IMPACT OF APPAREL OCCURS DURING CONSUMER USE¹



BREAKDOWN OF ENVIRONMENTAL IMPACT DURING A GARMENT'S LIFECYCLE



and silver compounds have co-existed in nature for millions of years.

Polygiene exclusively uses recycled silver, which does not leave scars in nature in the same way as mining does. The silver which is used is thus already in circulation.

The Polygiene treatment is bluesign®-certified and is manufactured in the EU and Japan in closed systems with controlled water discharges and air emissions. Bluesign® is a standard for the environmental certification of textile production that takes a holistic approach to clothing manufacturers' social responsibility and includes production emissions to the air and water, resource handling and workforce protection, as well as the safety of the end-user. The labeling scheme mainly concerns materials, although manufacturers and retailers may also join the scheme and work according to the standard.

Polygiene is also a member of the Sustainable Apparel Coalition, which comprises brands, retailers, manufacturers and exporters in the clothing and shoe industry. The organization works to reduce both environmental and social impacts from global garment and shoe production.

Climate-smart use

- Garments can be worn several times before they need to be washed, and can be washed at lower temperatures, which reduces water, detergent and energy consumption.
- Garment lifetime is increased as they are not worn out by excessive washing or bacterially-induced fiber degradation. The treatment is permanent and remains active throughout the garment's lifetime.
- Garments are not discarded unnecessarily due to odors.
- Polygiene-treatment garments can be recycled.

Share capital, the share and ownership structure

Share capital

Polygiene's share capital totals SEK 2,051,600, allocated to 20,516,000 outstanding shares. The Polygiene Articles of Association provide that the share capital shall be not less than SEK 1,300,000 or more than SEK 5,200,000, and total outstanding shares shall be not less than 13,000,000 and shall not exceed 52,000,000. Par value for each share is SEK 0.10. The company has a single class of shares, and every share carries equal rights to dividend and excess after liquidation, and entitles the holder to one vote per share. Polygiene shares are not, nor have they been, subject to offers based on mandatory bids, right of redemption, or right of sell-out. The shares are also not the subject of a take-over bid. The shares have been issued in compliance with Swedish law and are denominated in Swedish kronor. There are no legal limitations to the right to transfer the shares.

The share

The Polygiene AB (publ.) share was listed on Nasdaq First North in Stockholm on 14 March 2016. The share is listed under the POLYG ticker.

Total turnover for the Polygiene share from 14 March to 31 December 2016 was 6,879,591 shares, corresponding to an average of 33,723 shares per trading day. The share price at the end of the period was SEK 12.50, corresponding to market capitalization of MSEK 256. Highest and lowest prices during the period were SEK 17.80 and 9.10, respectively.

Outstanding warrants

Warrants 2015/2018

In December 2015, Polygiene issued 250,000 warrants to staff and members of the Board and the Board chair, which entitle holders to subscribe for an equivalent number of shares. These warrants may be exercised during the period from 1 to 31 December 2018 and have an exercise price of SEK 15 per share. In the event that all warrants in this program are exercised to purchase Polygiene shares, the company will issue a total of 250,000 new shares. These warrants are subject to standard conversion terms in relation to new share issues and similar.

Board authorizations to issue shares and warrants

At the end of 2016 the Board had no authorization to decide on share issues, warrants or convertible debentures.

Development in the share capital

Since the establishment of the company in November 2005, Polygiene's share capital has changed as presented in the table below. Since the establishment of the company and up to and including 2013, Polygiene has conducted a number of new share issues for a total amount of more than MSEK 40. In order to enable greater investment in markets and sales activities and to increase the number of shareholders prior to the listing of company shares in March 2016, a new share issue directed at around one hundred selected business angels and private investors was conducted in December 2015. This directed new share issue totaled MSEK 22.5 in proceeds, with a price per share issued of SEK 7.50, which corresponds to a pre-money valuation of approximately MSEK 122 (corresponding to a post money valuation of approximately MSEK 145).

On the exercising of 2014/2016 warrants with a subscription period from 1 May to 1 August 2016, the share capital increased by SEK 120,000 and 1,200,000 new shares were issued.

Shareholders in Polygiene

As of 31 December 2016 Polygiene had 767 shareholders.

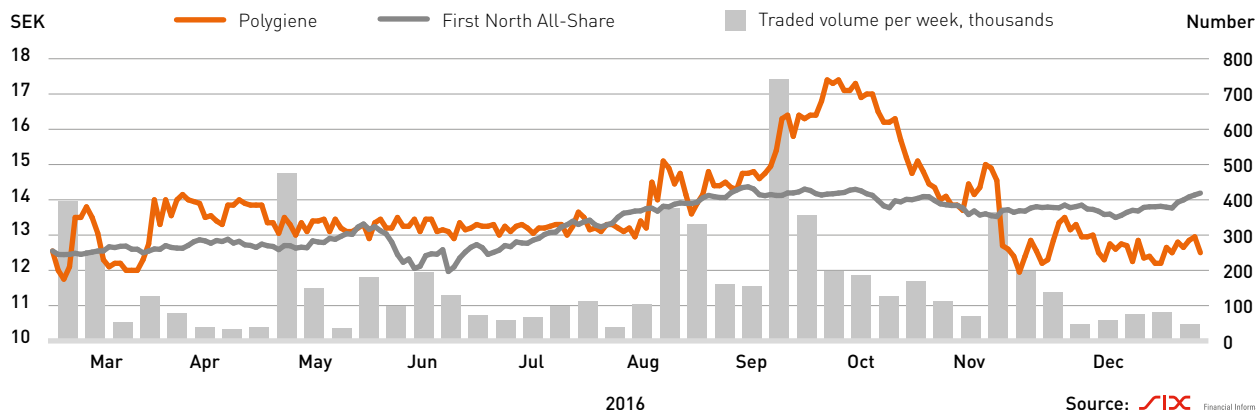
The table below shows the 10 largest shareholders as of 31 December 2016.

Shareholders	Shares	Percent
JP Morgan Bank Luxembourg	2,810,061	13.7%
Richard Tooby*	2,065,800	10.1%
Nomura Securities Co Ltd Japan	1,500,000	7.3%
Erik A i Malmö AB	1,348,800	6.6%
Clearstream Banking S.A. Luxembourg	980,223	4.8%
Christian von Uthmann*	898,978	4.4%
Jonas Wollin*	813,500	4.0%
Lennart Holm*	800,220	3.9%
Mats Georgson*	707,000	3.4%
Peter Sjösten*	603,000	2.9%
Other	7,988,418	38.9%
Total	20,516,000	100.0%

* Refers to personal holdings and those of associated natural persons and legal entities.

Source: Data from Euroclear and data known to the company.

Polygiene 2016-03-14–2016-12-31



Year	Action	Changes to equity (SEK)	Acc. share capital (SEK)	Change (number of shares)	Acc. number of shares	Par value (SEK)
2005	Formation of company	100,000	100,000	1,000	1,000	100
2006	New share issue	200,000	300,000	2,000	3,000	100
2006	New share issue	842,500	1,142,500	8,425	11,425	100
2007	New share issue	476,200	1,618,700	4,762	16,187	100
2010	New share issue	1,060,700	2,679,400	10,607	26,794	100
2011	New share issue	753,900	3,433,300	7,539	34,333	100
2011	New share issue	1,512,900	4,946,200	15,129	49,462	100
2011	New share issue	1,206,500	6,152,700	12,065	61,527	100
2012	New share issue	468,000	6,620,700	4,680	66,207	100
2012	Capital reduction	-3,575,178	3,045,522	0	66,207	46
2012	Capital reduction	-1,721,382	1,324,140	0	66,207	20
2012	New share issue	287,460	1,611,600	14,373	80,580	20
2013	New share issue	20,000	1,631,600	1,000	81,580	20
2015	Share split 200:1	—	1,631,600	16,234,420	16,316,000	0.10
2015	New share issue	300,000	1,931,600	3,000,000	19,316,000	0.10
2016	New share issue	120,000	2,051,600	1,200,000	20,516,000	0.10

Dividend policy

The dividend policy is determined by the Annual General Meeting based on a proposal from the Board of Directors, and distribution of dividends is processed by Euroclear. The right to receive dividends flows to the shareholder registered in the company stock register maintained by Euroclear as of the record date for the issue of the dividend as determined by the Annual General Meeting. Dividends are normally paid as a cash amount per share through Euroclear, but may also be paid as other than cash, such as through a distribution in kind. In the event that a shareholder cannot be contacted for payment of a dividend, the shareholder's receivable shall remain against the company, and is limited only by general statutory limitations law. In the event that the statutory limitation applies, the entire amount reverts to the company. Polygiene does not apply any restrictions or special procedures in regard to issuing cash dividends to shareholders domiciled outside Sweden. Except for possible

limits imposed by the banking and clearing systems, payment is made in the same way as for shareholders domiciled in Sweden. Normally, withholding tax is deducted from dividend payments to shareholders who are not tax residents of Sweden.

The amounts of possible future dividends issued to shareholders in Polygiene will depend upon several factors, including profits, financial position, cash flow, and operating capital requirements. Dividends to shareholders will not be issued until the long-term profitability of the company can be determined. In the coming years, the company does not anticipate issuing any dividends, as all available assets will be used for continued expansion.

Shareholder agreements

To the extent of the Board of Director's knowledge, no shareholder agreements are concluded among shareholders in Polygiene.

Board of Directors, senior management and auditors

Board of Directors

The Board of Directors of Polygiene currently consists of six members elected for the period up to the end of the next Annual General Meeting.

According to Polygiene's Articles of Association, adopted at the extraordinary general meeting on 14 January 2016, the Board of Directors must have no less than three and no more than ten members, with a maximum of ten deputies. The current Board of Directors was elected for the period until the end of the next Annual General Meeting, which will take place on 17 May 2017.

All members of the Board of Directors, except Richard Tooby, are, in the Board's opinion, independent in relation to the larger shareholders (which refers to shareholders that directly or indirectly own 10 percent or more of the shares

or votes in the company). Mikael Bluhme, Jonas Sjögren, Richard Tooby and Jonas Wollin are, in the Board's opinion, independent in relation to the company, while Lennart Holm and Mats Georgson cannot be considered to be independent of the company, due to their consulting assignments for the company. Via his wholly-owned company Rudholm & Haak (HK) Ltd, Jonas Wollin is a supplier to Polygiene. Rudholm & Haak (HK) Ltd supplies products to Polygiene for a value of approximately MSEK 1.9 excluding VAT per annum. However, the value of the products that Rudholm & Haak (HK) Ltd supplies to Polygiene as a proportion of total company sales for Rudholm & Haak (HK) Ltd is relatively small. Therefore, despite the actual relationship of Jonas Wollin's company to Polygiene, he is still considered to be independent in relation to the company.

Board of Directors

Name	Position	Born	Elected	Holdings*
Lennart Holm	Chairman	1960	2015	800,200 shares, 80,000 TO 2015/2018
Mikael Bluhme	Member	1966	2015	10,000 shares
Mats Georgson	Member	1968	2008	707,000 shares
Jonas Sjögren	Member	1974	2016	250,000 shares
Richard Tooby	Member	1969	2015	2,065,800 shares
Jonas Wollin	Member	1964	2011	813,500 shares

* Refers to personal holdings and those of associated natural persons and legal entities as of 31 December 2016. TO 2015/2018 represents warrants series 2015/2018 where each warrant gives entitlement to subscribe for 1 share.

Source: Data from Euroclear and data known to the company.

Board of Directors



Lennart Holm
Chairman

Born 1960, Chairman of the Board since October 2015 – has long experience from working in senior management positions in international companies operating in the chemical and forestry industry, among others. Holm is now an active entrepreneur with investments in various industries.

Education: M.Sc. Chemical Engineering, Chalmers University of Technology, Gothenburg.

Primary occupation: Entrepreneur.

Other current assignments: Chairman of the Board of Axolot Solutions AB, BillerudKorsnäs AB (publ.), Brunkeberg Systems AB, Hamnkrogen i Helsingborg Holding AB, Nexam Chemical Holding AB (publ.), Tuve Holding AB and Vida AB. Board Member of Holm & Gross Holding AB and Preventic Group AB.

Previous assignments (last five years): Chairman of the Board of Croviva Invest AB, Perstorp Holding AB, SI Technology Investments AB, Vigmed Holding AB and Yellow Bridge Management AB. Board Member of Bio-Mass C Holding AB, CBS Chamber Bygg Sweden AB, Hempel AS, Lahega Kemi AB, Nattaro Labs AB, Neco Norden AB, SOS Barnbyar Sverige and Zenterio AB (publ.).

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 800,220 shares, 80,000 warrants 2015/2018.

Independent in relation to larger shareholders, but not in relation to the company.



Richard Tooby
Member

Born 1969, Board Member since October 2015 – has experience with chemical sector businesses and entrepreneurship.

Education: M.Sc. Business Administration and Economics, Stockholm School of Economics.

Primary occupation: Board positions and venture capital investments.

Other current assignments: Chairman of the Board of InCoax Networks Europe AB and Board Member of RT Advisory Services AB.

Previous assignments (last five years): Board Member of Protista Corporation AB, Nexam Chemical AB and Richard Tooby Investment AB.

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 2,065,800 shares

Independent in relation to the company, but not in relation to larger shareholders.



Jonas Wollin
Member

Born 1964, Board Member since July 2011 – has long experience as entrepreneur in the textile industry.

Education: Business studies at Hvitfeldtska Upper Secondary School.

Primary occupation: Entrepreneur.

Other current assignments: Chairman of the Board and CEO of Rudholm Group Holding AB, Chairman of the Board of Rudholm & H.K AB, Bamatex AB, Simplicity AB, IBD Sweden AB, Svensk Knalle Handel AB and Marketplace Borås Economic Association. Board Member of Borås Ridhus AB, Rudholm Group Property AB, Borås Stad Textile Fashion Center AB, Etikettgruppen Svenska AB, MUJ Invest AB, Portas AB, R. Scandinavia AB, Inkubatorn i Borås AB, Kaponjären 1 AB, Kaponjären 2 AB, WooCode AB and InklInvest AB.

Previous assignments (last five years): Chairman of the Board of MUJ Invest AB, Portas AB, R. Scandinavia AB and Print& Profile i Borås AB. Board Member of Craftsson AB, BoråsBorås Näringsliv AB, MySoul i Borås AB, Simplicity Holding AB, Scandinavian Safety Restaurang AB, Mickson Fastighets AB, Golf Factory i Borås AB and Borås Näringslivs Economic Association.

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 813,500 shares.

Independent in relation to larger shareholders, and also in relation to the company.



Mats Georgson

Member

Born 1968, Board Member since January 2008 – has long experience as a business consultant entrepreneur.

Education: Ph.D., Marketing and Communication science, University of Connecticut, USA, and B.A., Communication and Media Studies, Stockholm University. Ten years as an academic lecturer at Stockholm University in marketing and brand-related subjects.

Primary occupation: Business consultant. His customers over the last five years include Electrolux, Zound Industries (Marshall Headphones, Urbanears), Handelsbanken, Svenska Postkodlotteriet, Smart Media Solutions AB, Evoko AB, Adlibris, SSAB, Veolia, Casall, Outnorth, Gant, FOI, Unionen, Jernhusen, Hyundai, Flygbussarna, Dina Föräkringar, Movestic, CMore, Proffice, Unibet, Nordens Ark, Nynas, SF Bio, Boxer, Försvarmakten, Tetra Pak and more.

Other current assignments: Board Member of Annell Holding AB, Moretime Professional Services AB (publ.), Svettor AB, Evoko Unlimited AB, Pike Solution AB, Moretime Financial Services AB, Georgson Ventures AB, Board Member and CEO of Georgson Strategy AB and Board deputy of Brinning Konsult AB.

Previous assignments (last five years): Chairman of the Board of Lantliv & Trädgård Bromma AB, Board Member of Annell Ljus och Form AB, Board deputy of Sista Versen 7724 AB, Board deputy of Brinning Konsult AB and owner of Georgson Konsult.

Bankruptcy, compulsory liquidation, or similar: Mats Georgson is a Board Member of Moretime Professional Services AB (publ) and Moretime Financial Services AB. These companies initiated business reorganization proceedings under a ruling by the District Court of Stockholm on 26 February 2016.

Holding in Polygiene: 707,000 shares.

Independent in relation to larger shareholders, but not in relation to the company.



Jonas Sjögren

Member

Born 1974, Board Member since May 2016 – has long experience from leading media positions.

Education: M.Sc. Business Administration and Economics, Stockholm School of Economics.

Primary occupation: CEO/Group President of POC.

Other current assignments: Board Member of PlayAd Media Group and InCoax Networks Europe.

Previous assignments (last five years): Board Member of Discovery Networks Sweden, Discovery Networks Finland, SBS Radio AB and SBS Radio Finland Oy.

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 250,000 shares

Independent in relation to larger shareholders, and also in relation to the company.



Mikael Bluhme

Member

Born 1966, Board Member since October 2015 – has long experience with business consulting and entrepreneurship.

Education: IHM Business School.

Primary occupation: Entrepreneur.

Other current assignments: Board Member and CEO of Clamo AB, and Board Member of Envida AB, Train Alliance Sweden AB (publ.) and Villman & Co.

Previous assignments (last five years): Chairman of the Board of Adomera AB, New TLD Company AB and Rynkan AB, and CEO and Board deputy of CeDel AB and Board deputy of T.I.M. Consulting AB.

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 10,000 shares

Independent in relation to larger shareholders, and also in relation to the company.

Senior Management



Christian von Uthmann
CEO

Born 1963, employed since 2006 – has a Masters in Mechanical Engineering from KTH Royal Institute of Technology in Stockholm. Christian was previously logistics manager at PERGO and manager at Accenture. Christian was CEO of Perstorp Compounds AB for three years.

Other current assignments: Member of Commonhold association Obol på Föreningsgatan.

Previous assignments (last five years): Board Member of Polygiene AB.

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 898,978 shares, 40,000 warrants 2015/2018.



Jan Bertilsson
CFO

Born 1957, employed since 2016 – has a B.Sc. in Business and Economics from Gothenburg University. Jan was previously CFO at ReadSoft AB, Financial Manager at Comator Process AB, Bergsala AB and Atlas Resor AB, and business consultant at Enator Väst AB and Resco AB.

Other current assignments: —

Previous assignments (last five years): Board Member of Lexmark Expert Systems AB, ReadSoft Financial AB and ReadSoft Software Service AB, and external authorized signatory for Lexmark Enterprise Software Sverige Services AB.

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 15,000 shares and 25,000 warrants 2015/2018.



Peter Sjösten
CCO

Born 1955, employed since 2010 – has an Economics and Teaching Degree from Linköping University. Peter previously worked as General Manager at SpePharm Nordic and as International Business Director at Nycomed. He was also previously General Manager at Espri Health.

Other current assignments: Chairman of the Board of Creative Marketing & Communication i Malmö AB.

Previous assignments (last five years): —

Bankruptcy, compulsory liquidation, or similar: —

Holding in Polygiene: 603,000 shares, 20,000 warrants 2015/2018.

Senior Management

Name	Position	Born	Employed	Holdings*
Christian von Uthmann	CEO	1963	2006	898,978 shares, 40,000 TO 2015/2018
Jan Bertilsson	CFO	1957	2016	15,000 shares, 25,000 TO 2015/2018
Peter Sjösten	CCO	1955	2010	603,000 shares, 20,000 TO 2015/2018

* Refers to personal holdings and those of associated natural persons and legal entities as of 31 December 2016. TO 2015/2018 represents warrants series 2015/2018 where each warrant gives entitlement to subscribe for 1 share.

Source: Data from Euroclear and data known to the company.

Auditors

The auditor for Polygiene is Ernst & Young Aktiebolag with Johan Thuresson as Chief Auditor. Johan Thuresson is a Certified Public Accountant and member of FAR, the professional institute for authorized public accountants and advisers, and was elected to serve until the end of the Annual General Meeting which will take place on 17 May 2017.

Directors' Report 2016

The Board of Directors and CEO of Polygiene AB (publ), 556692-4287, domiciled in Malmö, Sweden, hereby present the Annual Report for the 2016 financial year.

The company

Polygiene is building a brand around odor control functionality and Polygiene STAY FRESH® solutions for consumers. Polygiene is building its brand by actively working with the entire value chain, from development and manufacturing at subcontractor sites, to marketing, distribution and active customer support.

Market and sales

Polygiene's sales currently take place within five different segments:

- Sport & Outdoor (sportswear, protective gear, outdoor, hunting, fishing and more).
- Lifestyle & Workwear (shirts, blouses, trousers, suits, undergarments, socks, shoes and more).
- Home Textiles (towels, bedsheets, pillowcases, mattresses, pillows and more).
- Footwear (shoes and insoles)
- Other (paint, flooring, sanitary equipment and more).

The largest segment during the year was Sport & Outdoor, accounting for approximately 72 (58) percent of net sales. Today, Polygiene works with more than 140 brands, of which many are leading brands within the various segments. New brands are being added continuously and we can see strong growth in several markets, primarily the USA and Asia.

Comments on the financial development in 2016

2016 compared to 2015

Revenue

The Company's net sales in 2016 amounted to MSEK 61.6 (51.5), representing growth of 20 (47) percent. The increase primarily relates to increased sales to existing customers and also sales to several new customers. Other operating income amounted to MSEK 3.6 (1.5) and consists of positive exchange-rate differences.

Expenses

Operating expenses in 2016 amounted to MSEK 68.5 (47.4), representing an increase of 45 (44) percent. Cost of sales amounted to MSEK 26.0 (22.0) and is directly related to the increase in revenue.

Other external expenses for the year amounted to MSEK 28.3 (15.8). These expenses consist of:

- PR and marketing campaigns, MSEK 19.8 (11.8)
- Administrative expenses, including current expenses for listing on Nasdaq First North at MSEK 6.5 (2.8)
- Development expenses, MSEK 1.1 (1.2)
- Non-recurring expenses for listing on Nasdaq First North at MSEK 0.9 (0.0)

During the year, a number of key positions were filled and personnel expenses amounted to MSEK 10.5 (7.6). Other operating expenses amounted to MSEK 3.7 (2.0) and consist of negative exchange rate differences and recognized foreign tax at source, called withholding tax.

Profit/loss before tax

The loss before tax in 2016 was MSEK -3.4 (5.6). This is equivalent to an operating margin of -5.5 (11.0) percent. The profit after tax was MSEK -3.2 (9.2) and was affected by recognition of deferred tax of MSEK 0.2 (3.5).

Balance sheet

Total assets as at 31 December 2016 amounted to MSEK 57.3 (50.5). Trade receivables amounted to MSEK 29.9 (14.0) as at 31 December 2016. The increase is a consequence of the increase in net sales during 2016, as well as extended credit terms for certain large customers. Cash and cash equivalents totaled MSEK 20.0 (27.5) as at 31 December 2016. During the year, cash and cash equivalents increased by MSEK 3.6 on the exercising of a warrant program for 1,200,000 shares. This also resulted in a share capital increase of MSEK 0.12 and an increase in equity of MSEK 3.6. Polygiene's equity/assets ratio was 72.0 (80.9) percent at year-end 2016.

Multi-year overview

	2016	2015	2014	2013	2012
Net sales (TSEK)	61,557	51,511	34,957	27,804	18,641
Profit before tax (TSEK)	-3,397	5,641	3,683	1,418	-4,113
Total assets (TSEK)	57,318	50,468	16,176	9,770	6,556
Equity/assets ratio (%)	72.0	80.9	57.8	40.1	35.1

The company had a taxable deficit of MSEK 25.1 (24.1) at the end of the year. It is assessed that this deficit can be utilized in the coming years, so that a deferred tax asset for a further MSEK 0.2 (3.5) was recognized in 2016.

Cash flows

Cash flows from operating activities were negative at MSEK –11.1 (–0.9), due to the negative result, as well as the increase in trade receivables. The exercising of the warrant program provided additional funds from financing activities of MSEK 3.6.

Organization/personnel

At year-end 2016, Polygiene's operational organization consisted of 18 (10) people, of whom 14 were employees and four were contracted consultants.

Share

Polygiene's shares have been listed on Nasdaq First North in Stockholm under the POLYG ticker since 14 March 2016. The share capital as at 31 December 2016 amounted to SEK 2,051,600, comprising 20,516,000 outstanding shares in a single class of shares.

For further information about the share, see Share capital and ownership on pages 20–21.

Other significant events during the financial year

In conjunction with the exercising of the TO 2014/2016 warrant program, 1,200,000 new shares were issued, equivalent to the maximum number of shares in the program. The share capital was increased by SEK 120,000. The subscription price was SEK 3.00 per share, which contributed MSEK 3.6 to the company.

Significant events after the close of the financial year

No significant events have occurred after 31 December 2016.

Risk and uncertainty factors

The Company has identified the following current risk and uncertainty factors:

- Market growth
- Competition
- Product liability
- Reliance on suppliers
- Dependence on key persons and employees
- Financing and future capital requirements
- Currency risk

The Company is continuously focused on preventive measures to minimize these risk and uncertainty factors as far as possible and currently sees no risks that are expected to have a significant impact on its activities in the immediate future.

Reporting currency

The Company's reporting currency is Swedish kronor (SEK).

Future outlook

The Board of Directors of Polygiene has the objective for average annual organic growth in net revenues to exceed 30 percent over a business cycle. Furthermore, the Board of Directors has the objective that, in the long term, the pre-tax profit margin must exceed 15 percent over a business cycle.

Allocation of profit

Proposed allocation of profit

Available for distribution by the Annual General Meeting (TSEK)

Retained losses	–12,356
Share premium reserve	54,761
Profit for the year	–3,164
	39,241

The Board of Directors proposes that

the following amount be carried forward	39,241
	39,241

Concerning the Company's results and financial position, reference is made to the following income statement and balance sheet with supplementary information.

Income Statement

TSEK	Note	2016-01-01- 2016-12-31	2015-01-01- 2015-12-31
Operating income, etc.			
Net sales	1	61,557	51,511
Other operating income	2	3,574	1,487
		65,131	52,998
Operating expenses			
Cost of goods sold		-26,049	-21,981
Other external expenses	3, 4	-28,313	-15,758
Personnel expenses	5	-10,505	-7,627
Other operating expenses	6	-3,656	-2,033
		-68,523	-47,399
Operating profit/loss		-3,392	5,599
Profit/loss from financial items			
Other interest income and similar items		0	42
Interest expenses and similar items		-5	0
		-5	42
Profit/loss before tax		-3,397	5,641
Tax on the profit for the year	7	233	3,530
Profit for the year		-3,164	9,171
Profit per share, SEK		-0.16	0.55
Profit per share after full dilution, SEK		-0.16	0.52
Average number of outstanding shares		19,716,000	16,566,000
Average number of outstanding shares after full dilution		20,766,000	17,786,833

The profit after tax per share is calculated as the profit for the year after tax divided by the year's average number of outstanding shares.

The profit after tax per share after full dilution is calculated as the profit for the year after tax divided by the period's average number of outstanding shares and after full dilution via the current option program.

As the result for 2016 is negative, dilution has no effect on the profit per share.

Balance Sheet

TSEK	Note	2016-12-31	2015-12-31
ASSETS			
Fixed assets			
Intangible assets			
Other intangible assets	8	0	0
		0	0
Tangible assets			
Inventories, tools and installations	9	0	0
		0	0
Financial assets			
Holdings in affiliated companies	10	0	0
Deferred tax asset	11	5,523	5,290
Other non-current receivables	12	14	14
		5,537	5,304
Total fixed assets		5,537	5,304
Current assets			
Inventories, etc.			
Finished items and items for sale		218	225
		218	225
Current receivables			
Trade receivables		29,927	13,968
Current tax assets		206	190
Other receivables		491	544
Prepaid expenses and accrued income		916	2,692
		31,540	17,394
Cash and cash equivalents			
Cash and cash equivalents	13	20,023	27,545
		20,023	27,545
Total current assets		51,781	45,164
TOTAL ASSETS		57,318	50,468

Balance Sheet, continued

TSEK	Note	2016-12-31	2015-12-31
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	14	2,052	1,932
		2,052	1,932
Unrestricted equity			
Share premium reserve		54,761	51,267
Retained earnings		-12,356	-21,527
Profit for the year		-3,164	9,171
	16	39,241	38,911
Total equity		41,293	40,843
Current liabilities			
Advance payments from customers		50	263
Accounts payable		9,089	5,242
Other liabilities		527	345
Accrued expenses and prepaid income	15	6,359	3,775
		16,025	9,625
TOTAL EQUITY AND LIABILITIES		57,318	50,468

Cash Flow Statement

TSEK	2016	2015
Profit/loss before financial items	-3,392	5,599
Interest received	0	43
Interest paid	-5	-1
Cash flow from operating activities before changes in operating capital	-3,397	5,641
Increase/decrease in inventory	7	-65
Increase/decrease in current receivables	-14,146	-9,225
Increase/decrease in current liabilities	6,400	2,800
Cash flow from operating activities	-11,136	-849
Cash flow from investing activities	0	0
Financing activities		
New share issue	3,600	22,277
Option premiums	14	44
Cash flow from financing activities	3,614	22,321
Change in cash and cash equivalents	-7,522	21,472
Cash and cash equivalents at the beginning of the year	27,545	6,073
Cash and cash equivalents at the end of the year	20,023	27,545

Changes in equity

TSEK	Share capital	Share premium reserve	Retained earnings	Profit for the year
Opening balance 2015-01-01	1,632	29,247	-26,970	5,443
New issue	300	21,977		
Option program		43		
Allocation of previous year's result			5,443	-5,443
Profit for the year				9,171
Opening balance 2016-01-01	1,932	51,267	-21,527	9,171
New issue	120	3,480		
Option program		14		
Allocation of previous year's result			9,171	-9,171
Profit for the year				-3,164
Closing balance 2016-12-31	2,052	54,761	-12,356	-3,164

Supplementary Information and Notes

GENERAL INFORMATION

Accounting policies

The Annual Accounts have been prepared in accordance with the Swedish Annual Accounts Act and the Swedish Accounting Standards Board General Recommendations BFNAR 2012:1 Annual Report and Consolidated Financial Statements (K3). The accounting policies applied are unchanged from the previous year.

Valuation principles

Receivables

Receivables are recognized at the amounts at which they are calculated to accrue.

Other assets, provisions and liabilities

Other assets, provisions and liabilities are recognized at acquisition value, unless specified otherwise below.

Revenue recognition

Income is recognized at the actual value received or which will be received. The company therefore reports revenue at nominal value, i.e. the sales price after deduction of any discounts.

The company's business model includes two sources of revenue: income from goods delivered; and royalty based on the volumes of textiles or equipment processed. Revenue from goods delivered is recognized when delivery and invoicing have taken place. Royalty is recognized as income when the volumes of processed textiles or equipment have been reported.

Tangible assets

Tangible assets are recognized at cost less accumulated depreciation and any write-downs for impairment. Assets are depreciated on a straight-line basis over the assets' estimated useful life. The useful life is re-assessed as at each balance sheet date.

The following useful lives are applied:

Inventories, tools and machines	5 years
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Intangible assets

Intangible assets are recognized at cost less accumulated amortization and any write-downs for impairment. Assets are depreciated on a straight-line basis over the assets' estimated useful life. The useful life is re-assessed as at each balance sheet date. Projects in progress are not amortized, but the impairment requirement is assessed on an annual basis.

The following useful lives are applied:

Concessions, patents, licenses, trademarks and similar rights	5 years
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Affiliated companies

The Company has a 49 percent interest in Polygiene Ltd, UK. This holding is not consolidated as the Company's interest is below 50 percent, and there is no controlling influence.

Leasing

The Company reports all leasing agreements, both financial and operational, as operational leasing agreements. These are reported as costs on a straight-line basis over the leasing period.

Inventories

Inventories are recognized at the lower of acquisition value, calculated according to the FIFO principle, and net sales value. Net sales value is calculated as the sales value after deductions for estimated sales costs, to take account of obsolescent items.

Income tax

Current tax is the income tax for the current financial year, which concerns the taxable profit for the year and the element of income tax for previous financial years that has not yet been reported.

Current tax is assessed as the probable amount according to the tax rates and tax rules applying as at the balance sheet date.

Deferred tax is the income tax on the taxable results concerning future financial years, as a consequence of previous transactions or events.

Deferred tax is calculated on any temporary differences. A temporary difference exists when the reported value of an asset or liability deviates from the taxable value. Temporary differences are not considered with regard to differences attributable to investments in subsidiaries, branches, affiliated companies or joint ventures, if the company can control the time of reversal of the temporary differences and it is not obvious that the temporary difference will be reversed within the foreseeable future. Differences originating from the initial reporting of goodwill, or on the initial reporting of an asset or liability, will not constitute temporary differences either, provided that the relevant transaction is not a business acquisition and does not affect tax or the recognized result.

A deferred tax asset concerning tax losses carried forward or other future tax deductions is recognized to the

extent that it is probable that the carryforward can be set off to profit on any future taxation.

Receivables and liabilities in foreign currency

Monetary receivables and liabilities in foreign currency are translated at the exchange rate on the balance sheet date.

Exchange rate differences arising on the adjustment or translation of monetary items are reported in the income statement for the financial year in which they arise, either as an operating item or as a financial item, based on the underlying transaction.

Note 1 Net sales by geographical area and segment

%	Ratio of total sales	
	2016	2015
Geographical area*		
EU	57	50
North America	25	34
Asia	17	15
Rest of the world	1	1

*) Location of customers' head office/purchase office

Segment		
Sport & Outdoor	72	58
Lifestyle	10	10
Home Textiles	9	22
Footwear	1	0
Other	8	10

Note 2 Other operating income

TSEK	2016	2015
Exchange rate gains	3,574	1,341
Recovered trade receivables	0	146
Total other operating income	3,574	1,487

Note 3 Leasing agreements – Operational leasing

TSEK	2016	2015
The Company's leasing charges during the year amounted to	353	336
Future minimum leasing charges for non-terminable leasing agreements fall due for payment as follows:		
Within one year	323	297

The operational leasing agreements concern rental agreements for office premises with an agreement term of 12 months.

Assessments and estimates

Assessments and estimates are made on an ongoing basis according to historical outcomes and expectations of future development that can be considered reasonable in the prevailing conditions.

The company had a taxable deficit of MSEK 25.1 (24.1) at the end of the year. Since it is assessed that this deficit can be utilized in the coming years, a deferred tax asset totaling MSEK 5.5 (5.3) was recognized in 2016.

Note 4 Audit fees

TSEK	2016	2015
Auditing, EY	368	94
Tax advice, EY	141	29
Total audit fees	509	123

Note 5 Personnel and related parties

Average number of employees

The average number of employees is based on the number of working hours paid by the company in relation to a normal working day.

	2016	2015
The average number of employees was	10	7
– of whom women	4	4
– of whom men	6	3

Salaries, remuneration, etc.

Salaries, remuneration, social security expenses and pension costs have been defrayed at the following amounts:

TSEK	2016	2015
Board of Directors		
Lennart Holm, Chairman	230	115
Mikael Bluhme	131	50
Mats Georgson	131	66
Per Palmqvist Morin	50	50
Jonas Sjögren	66	—
Richard Tooby	131	—
Jonas Wollin	131	66
CEO		
Salary and remuneration	1,338	1,273
Pension costs	364	317
Total for the Board of Directors and CEO	2,572	1,937
Other employees		
Salaries and remuneration	5,435	3,447
Pension costs	814	528
Total other employees	6,249	3,975
Social security expenses	2,183	1,648
Total for the Board of Directors, CEO and other employees	11,004	7,560

Note 5 continued

Gender distribution of the Board of Directors and Executive Management

	2016	2015
Number of members of the Board of Directors	6	6
– of whom women	0	0
Number of other executive positions, including the CEO	3	3
– of whom women	0	0
Pension obligations to the Board of Directors and CEO	0	0

Richard Tooby did not receive any Director's fees in 2015. For other Board Members in 2015, Director's fees for six months were paid in 2015.

Per Palmqvist Morin resigned as a Board Member at the Annual General Meeting in May 2016. The remuneration concerns the period up to the Annual General meeting.

No bonus was paid to the CEO for 2016. For 2015, a bonus equivalent to one month's salary was paid. The CEO has no entitlement to severance payments.

During the year, consulting fees in addition to Director's fees was paid to members of the Board of Directors for a total of TSEK 549 (182), distributed as follows:

Lennart Holm Development AB	TSEK 148 (54)
Georgson Strategy AB	TSEK 280 (0)
Per Morin KPM Consulting AB	TSEK 121 (128)

The following transactions with related companies took place during the year:

Rudholm & Haak (HK) Ltd	TSEK 1,907 (1,501)
Polygiene Ltd	TSEK 2,358 (2,418)
Stellar Strategies	TSEK 1,708 (233)

Note 6 Other operating expenses

TSEK	2016	2015
Foreign withholding tax charged	2,046	1,049
Exchange rate losses	1,610	984
Total other operating expenses	3,656	2,033

Note 7 Tax on the profit for the year

TSEK	2016	2015
Current tax	0	0
Deferred tax asset concerning tax losses carried forward	233	3,530
Reconciliation of effective tax		
Profit/loss before tax	-3,397	5,641
Tax cost 22.00% (22.00%)	748	-1,241
Tax effect of:		
Non-deductible expenses	-515	-270
Non-taxable income	0	0
Tax losses carried forward utilized for the year	0	1,511
Recognition of deferred tax asset not previously recognized	0	3,530
Total tax on the profit for the year	233	3,530

The company has a taxable deficit amounting to TSEK 25,106 (24,050). The booked deferred tax asset for taxable deficits amounts to TSEK 5,523 (5,290). The booked amount is estimated to be utilized during the coming years.

Note 8 Other intangible assets

TSEK	2016	2015
Opening acquisition value	1,158	1,158
Closing accumulated acquisition value	1,158	1,158
Opening amortization	-1,158	-1,158
Amortization for the year	0	0
Closing accumulated amortization	-1,158	-1,158
Closing recognized value	0	0

Note 9 Inventories, tools and installations

TSEK	2016	2015
Opening acquisition value	0	24,729
Sale/disposal	0	-24,729
Closing accumulated acquisition value	0	0
Opening depreciation	0	-24,729
Sale/disposal	0	24,729
Closing accumulated depreciation	0	0
Closing recognized value	0	0

Note 10 Holdings in affiliated companies

Company	Reg. no.	Registered office	Ownership interest	Voting share	2016-12-31	2015-12-31
					Recognized value	Recognized value
Polygiene Ltd	6803458	Nottingham, UK	49.0%	49.0%	0	0
Details of equity and results (SEK)						
Equity					1,114	1,238
Profit for the year					779,292	812,624

Details of equity and results based on Polygiene Ltd's most recently adopted annual accounts, 2015-12-31. Equity and the profit for the year are stated in full, irrespective of ownership. The profit for the year is the profit after financial items. The Company has no entitlement to distribution from the affiliated company.

Note 11 Deferred tax asset

TSEK	2016-12-31	2015-12-31
Opening balance	5,290	1,760
Deferred tax reported in the profit for the year	233	3,530
Closing balance	5,523	5,290

Note 12 Other non-current receivables

TSEK	2016-12-31	2015-12-31
Deposit, office, Sanatus Fastigheter	14	14
Total other non-current receivables	14	14

Note 13 Cash and cash equivalents

TSEK	2016-12-31	2015-12-31
Available balances	20,023	27,545
Total cash and cash equivalents	20,023	27,545

Note 14 Share information

	Number of shares	Listed value per share
Number/value at the beginning of the year	19,316,000	0.10
New share issue	1,200,000	0.10
Number/value at the end of the year	20,516,000	0.10

The company has a single class of shares, and every share carries equal rights to dividend and excess after liquidation, and entitles the holder to one vote per share.

In 2014, Polygiene issued 1,200,000 warrants to staff and members of the board and the board chair, which entitle holders to subscribe for an equivalent number of shares. These warrants could be exercised during the period from 1 May to 31 August 2016 and had an exercise price of SEK 3.00 per share. All of the warrants were exercised.

In 2015, Polygiene issued 250,000 warrants to staff and members of the board and the board chair, which entitle holders to subscribe for an equivalent number of shares. These warrants may be exercised during the period from 1 to 31 December 2018 and have an exercise price of SEK 15.00 per share.

Note 15 Accrued expenses and prepaid income

TSEK	2016-12-31	2015-12-31
Accrued salaries	0	424
Accrued holiday pay	1,111	708
Accrued social security expenses	349	335
Accrued special payroll tax	318	209
Accrued commission tax	1,123	852
Other accrued expenses	3,458	1,246
Total accrued expenses and prepaid income	6,359	3,774

Note 16 Allocation of profit**Profit available for allocation**

TSEK	2016-12-31	2015-12-31
Retained earnings	-12 356	-21 527
Share premium reserve	54 761	51 267
Profit for the year	-3 164	9 171
	39 241	38 911
The Board of Directors proposes that the following amount be carried forward		
	39 241	38 911
	39 241	38 911

Definitions of key ratios**Operating profit, EBIT**

Profit before interest and tax.

Equity/assets ratio

Equity as a ratio of total assets.

Malmö 26 April 2017

Christian von Uthmann
CEO

Lennart Holm
Chairman of the Board of Directors

Mikael Bluhme

Mats Georgson

Jonas Sjögren

Richard Tooby

Jonas Wollin

Our audit report was submitted on 26 April 2017
Ernst & Young AB

Johan Thuresson
Authorized Public Accountant

Auditor's report

To the annual general meeting of the shareholders of Polygiene AB (publ), corporate identity number 556692-4287

Report on the annual accounts

Opinion

We have audited the annual accounts of Polygiene AB (publ) for the 2016 financial year. The annual accounts of the company are included on pages 26-37 of 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 Polygiene AB (publ) as of 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibility in accordance with these standards is described under Auditor's responsibility. We are independent in relation to Polygiene AB in accordance with generally accepted auditing standards in Sweden, and have otherwise fulfilled our professional ethical responsibility in accordance with these requirements.

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

Other information besides the annual report

This document also includes other information than the annual report, which can be found on pages 1-25. The Board of Directors and the CEO are responsible for this other information.

Our opinion concerning the annual report does not include this information and we do not express any statement of assurance concerning this other information.

In conjunction with our audit of the annual report our responsibility is to read the information identified above and to check whether to a material extent the information is not in accordance with the annual report. In this review we also take account of the knowledge we have otherwise obtained during our audit and assess whether the information otherwise seems to include material misstatements.

If we conclude, on the basis of the work performed concerning this information, that the other information includes a material misstatement, we have an obligation to report this. We have nothing to report in this respect.

Responsibilities of the Board of Directors and the CEO

The Board of Directors and the CEO are responsible for the presentation of the annual report and for presenting a true and fair view in accordance with the Annual Accounts Act. The Board of Directors and the CEO are also responsible for the internal control which they consider necessary to present an annual report that is free of material misstatement, whether this is due to fraud or error.

On the presentation of the annual report, the Board of Directors and the CEO are responsible for the assessment of the company as a going concern. Where appropriate, they must disclose any circumstances that might affect the ability to continue operations and to apply the going concern assumption. The going concern assumption is not applied, however, if the Board of Directors and CEO intend to dissolve the company, discontinue activities, or have no realistic alternative to this.

Auditor's responsibility

Our objectives are to obtain reasonable assurance concerning whether the annual report as a whole is 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 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 the annual report.

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 in the annual report, 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 opinion. 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 internal control.
- Evaluate the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and related disclosures made by the Board of Directors and the CEO.
- Conclude on the appropriateness of the Board of Directors and the CEO's use of the going concern basis of accounting in the presentation of the annual report and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 report concerning the material uncertainty or, if such disclosures are inadequate, to modify our opinion. 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 the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual report, including the disclosures, and whether the annual report represents the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other things, the planned scope and plan for the audit, and when it will take place. We must also report any significant observations during the audit, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion

In addition to our audit of the annual report, we have also audited the administration of the Board of Directors and the CEO of Polygiene AB (publ) for the 2016 financial year, as well as the proposal for allocation of the profit or loss of the company.

We ensure that the annual general meeting allocates the profit as proposed in the Directors' Report and grant discharge of the members of the Board of Directors and the CEO for the financial year.

Basis for opinion

We have conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility in accordance with this is described under Auditor's responsibility. We are independent in relation to Polygiene AB in accordance with generally accepted auditing standards in Sweden, and have otherwise fulfilled our professional ethical responsibility in accordance with these requirements.

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

Responsibilities of the Board of Directors and the CEO

The Board of Directors is responsible for the proposal for allocation of the company's profit or loss. The proposed allocation includes an assessment of whether the allocation is responsible in view of the requirements made by the nature of the company's activities, scope and risks concerning the size of the company's equity capital, consolidation requirement, liquidity and financial position.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes continuous assessment of the compa-

ny's financial position and ensuring that the company's organization is designed to ensure the responsible control of the company's accounting, administration of funds and financial affairs in general. The CEO Director must ensure the ongoing administration in accordance with the Board of Directors' guidelines and instructions and, among other things, take the measures necessary to complete the company's accounting in accordance with statutory provisions, and so that administration of funds takes place on a responsible basis.

Auditor's responsibility

Our objective for the audit of the administration, and thereby our opinion concerning discharge of responsibility, is to obtain audit evidence in order to determine with a reasonable degree of assurance whether any member of the Board of Directors or the CEO in any material respect:

- has taken any measures or is responsible for any omissions which may lead to a claim for indemnification against the company, or
- has in any other way acted in conflict with the Swedish Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective for the audit of the proposal for allocation of the company's profit or loss, and thereby our opinion thereon, is to assess with a reasonable degree of assurance whether the proposal is in accordance with the Swedish 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 might lead to a claim for indemnification against the company, or that a proposal for allocation of the company's profit or loss is in conflict with the Swedish 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 review of the administration and the proposal for allocation of the company's profit or loss is primarily based on the audit of the annual accounts. The additional audit procedures performed are based on our professional assessment, according to materiality and risk. This entails that we focus our review on the measures, areas and circumstances that are significant for the activities, and where any deviations and infringements would be of particular importance to the company's situation. We review and examine any decisions taken, bases for decision, measures taken and other circumstances of relevance to our statement concerning discharge of responsibility. As the basis for our opinion concerning the Board of Directors' proposal for allocation of the company's profit or loss we have reviewed whether the proposal is in accordance with the Swedish Companies Act.

Malmö 26 April 2017

Ernst & Young AB

Johan Thuresson

Authorized Public Accountant

Annual General Meeting and financial calendar

Annual General Meeting

The Annual General Meeting will be held at 3pm on 17 May 2017 at Malmö Börshus, Skeppsbron 2 in Malmö, Sweden.

Right of participation and registration

Shareholders wishing to attend the Annual General Meeting must be registered in the shareholder register held by Euroclear Sweden AB by Thursday, 11 May 2017; and also registered with the company by Thursday, 11 May 2017, in writing to Polygiene AB, Attn. Jan Bertilsson, Stadiogatan 65, SE-217 62 Malmö, by e-mail to jb@polygiene.com or by telephone (+46) (0)725 58 26 69. Registration must include full name, personal or business reg. no., shareholding, address and daytime telephone number, as well as, where relevant, details of any accompanying counsel (maximum two).

Nominee shares

To be entitled to attend the Annual General Meeting, shareholders whose shares are registered as nominee shares via banks or other portfolio managers must temporarily register the shares in their own name with Euroclear Sweden AB. This re-registration must take place by no later than Thursday, 11 May 2017, which entails that shareholders requiring this re-registration must notify the portfolio manager in good time before the aforementioned date.

Proxies, etc.

If a shareholder is to be represented by a proxy, the proxy must present a written and dated power of attorney signed by the shareholder at the Annual General Meeting. The power of attorney may not be older than one year, unless a longer term of validity (but no longer than five years) is specified in the power of attorney. If the power of attorney is drawn up by a legal entity, the proxy must also present the current certificate of registration or equivalent document of authorization for the legal entity. To facilitate admission, a copy of the power of attorney and other authorization documents should be attached to the registration for the Annual General Meeting. The power of attorney form is available on the company's website (www.polygiene.com/ir) and can be sent by post to shareholders who contact the company and submit their address.

Financial Calendar

Interim Report Q1 2017	10 May 2017
Annual General Meeting 2017	17 May 2017
Interim Report Q2 2017	24 August 2017
Interim Report Q3 2017	9 November 2017
Year-End Release 2017	February 2018



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