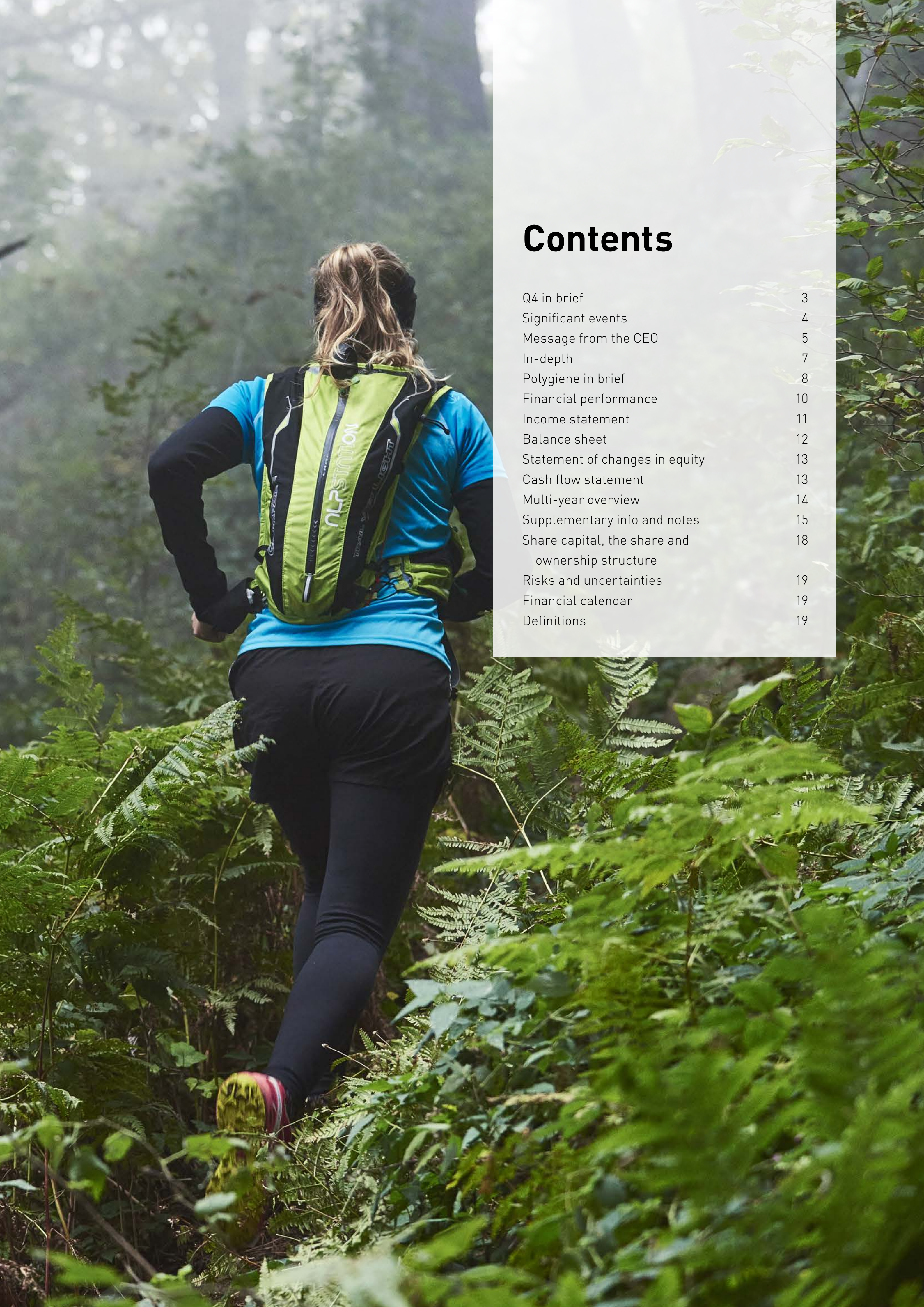
Polygiene AB (publ.)

Interim Report
1 January–31 March 2018

ir.polygiene.com

Polygiene®
STAYS FRESH



Contents

Q1 in brief

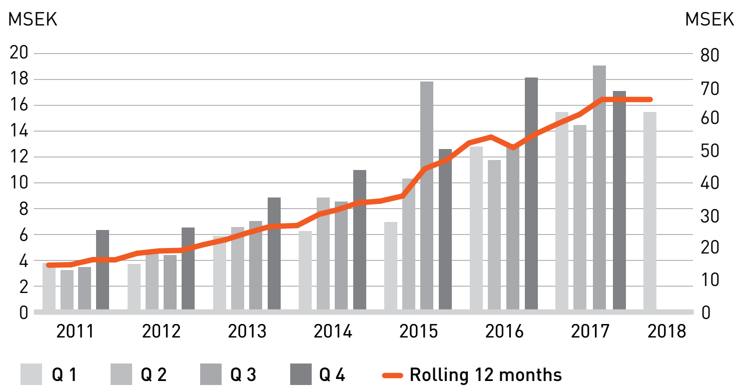
Strong end of quarter, reduced costs and a positive cashflow

- In the first quarter, net sales amounted to MSEK 15.5 (15.5), an increase of 0%. When cleared from exchange-rate differences, the net sales were MSEK 17.0, an increase of 9.6%.
- The operating profit/loss (EBIT) for the period was MSEK -2.0 (-3.1).
- Cash flow for the first quarter amounted to MSEK 2.7 (0.7).
- The total external operating expenses decreased by 14% compared to the same period last year.
- A late Chinese New Year temporarily reduced sales during the first two months of the year. This was followed by the month of March, which, in terms of net sales, was the second best month in the history of the company.
- The second quarter is off to a strong start with a solid increase in net sales during the month of April.
- By the end of the quarter, there were 18 (18) employees working in the company's operative organization.

Key ratios	Jan–Mar 2018	Jan–Mar 2017	Rolling 12 months	Full year 2017
Net sales, MSEK	15.5	15.5	66.2	66.1
Operating profit EBIT, MSEK	-2	-3.1	-5.0	-6.1
Operating margin EBIT, %	-11.7	-19.2	-7.3	-9.0
Adjusted operating profit, MSEK	-1.3	-2.5	-2.4	-3.6
Adjusted operating profit, %	-7.7	-10.3	-3.4	-5.4
Profit after tax, MSEK	-1.7	-2.5	-4.0	-5.4
Operating margin after tax, %	-10	-15.9	-5.8	-8.0
Earnings per share, SEK	-0.08	-0.12	-0.20	-0.26
Cash flow, MSEK	2.7	0.7	-7.1	-9.1

Adjusted operating profit is after foreign exchange effects and withholding tax.

Net sales per quarter and rolling 12 months



Significant events in brief

Events during Q1 2018 (January–March)

- Adidas launches Polygiene in its Terrex CC Voyager shoe, which is considered to be a breakthrough in the footwear segment. The hope is that this will lead to an increase in volumes from both Adidas and other partners in the future.
- A new collaboration with the premium brand Aigle in Japan began by Polygiene providing odor-control technology to men's and women's logo t-shirts in the Aigle 2018 Spring/Summer collection. Aigle is owned by Lacoste in Japan, which is one of the subsidiary companies of Lacoste in France.
- Polygiene expands in the Asian market with World Group and launches Polygiene in denim for the first time. World Group is one of the dominant Asian house of brands with large-scale production capacities, thousands of retail stores throughout Asia and online shops with a global reach.
- As previously mentioned, as of January 1, 2018, the company has transitioned to IFRS. Beginning with the first quarter, Polygiene is preparing its financial statements according to new accounting principles as dictated by the new standards.
- Polygiene has appointed a new CFO, Kristian Populin, previously the accounting manager at the company. Kristian has assumed the role as CFO after Ulrika Björk was appointed as CEO before yearend.
- Hans Bergman and Chiara Galimberti have been employed as part of the Polygiene team as Commercial Directors for North America and Europe, respectively, in order to increase focus on sales and new partners. This is an important element in building a more sales-driven organization to achieve the company's long-term goals for 2022.

Adidas Terrex CC Voyager – the first shoe model from adidas treated with Polygiene Stays Fresh Technology.

- Polygiene appoints Mats Georgson Chief Marketing Officer (CMO). Mats holds a PhD in Marketing Communication and has vast experience in working with Polygiene. He has been a member of the Board for the past decade.
- Polygiene adds two new members to its Advisory Board with a focus on growth strategies. Lars Björk comes from the growth rocket Qlik and Philipp Burgtorft has experience from several market-leading ingredient brands such as GORE-TEX®, among others.
- Polygiene appoints Erik Penser Bank AB as liquidity provider in compliance with the rules of Nasdaq First North.

Significant events after Q1

- Polygiene and Christian von Uthmann have reached an agreement, which terminates his employment with immediate effect.
- Polygiene establishes a new group management team to accelerate growth, profitability and organizational development.

Message from the CEO

Late Chinese New Year led to weak sales start but strong finish for the first quarter

The total net sales during the first quarter of 2018 amounted to MSEK 16.7 (15.9) and an operating profit/loss of MSEK -2.0 (-3.1), an improvement of MSEK 1.1. The adjusted operating profit/loss was MSEK -1.3 (-1.6), and the cash flow ended at MSEK 2.7 (0.7), strengthening the company's financial position.

Ulrika Björk
CEO Polygiene AB

Age: Turns 50 in August	
Family: Boyfriend and four kids (26, 23, 16, 14 years old)	
City: Helsingborg, Sweden	
Career: Background as CFO	
Leisure: Family, travel, food and wine	
Sport: Running, sailing, skiing	

Impact of a later Chinese New Year

Historically, the company's first quarter has always been the weakest with restrained sales and relatively high costs due to important marketing activities, such as trade shows, which take place during this time. Because customers' production takes place in China, sales this year have been influenced more than usual by the Chinese New Year, which fell three weeks later on the calendar than last year. Polygiene is dependent upon its partners' production planning as well as on how our distributors choose to place orders and how they handle their inventories. Towards yearend 2017, management recognized how the late Chinese New Year was affecting our business and these effects continued into the first few weeks of the new year. At the same time, the company's order intake and billings show that the effects have diminished, and the growth rate has now normalized. The month of March was the company's second best sales month ever after September 2017, and we see a continuing positive trend continuing into the second quarter, with April's sales showing strong gains in net sales compared to the same month last year.

Strong financial control and positive cash flow

Since the CEO transition at yearend 2017, we have strengthened cost control in the company, without losing sight of investing in sales and marketing. Quarterly development expenses show that these investments have already borne fruit; the operating profit/loss at the end of the quarter was MSEK -2.0 (adjusted operating profit/loss -1.1), an improvement of MSEK 1.1 compared to last year, despite relatively marginal growth in sales. The focus on internal cost control has had a positive effect on cash flow; the company reported a profit of MSEK 2.7 (0.7). I think this is a clear indication that the company is setting the right priorities and thereby strengthening its financial position –even during the company's historically weakest sales quarter of the year.

A broadened customer base to cultivate

Polygiene's stated strategy is to broaden its business focus from the Sport & Outdoor segment to other product areas such as Lifestyle, Workwear, Home Design and Footwear. The past year indicated that the strategy is sound; significant inroads were made in the Footwear segment with the contract signed with adidas for its Terrex shoes, news that reverberated throughout the footwear industry. At the same time, Home Design customers increased their volumes, which resulted in two of these players now ranking among the company's Top 5 customers. Over the past six months, we have intensified efforts to cultivate the Lifestyle segment, and have had positive response to our offering, such as breakthroughs within the denim segment, which holds great potential. Finally, we state that the sales cycles are becoming shorter as awareness of the odor control category increases, and brand owners are becoming increasingly keen to offer odor control functionality in their products. This supports a systematic method to drive growth. During this quarter, we have signed a major customer who treated 300,000 women's blouses with Polygiene. This demonstrates that the Lifestyle segment has completely different sales frequency and seasonal variations than Sport & Outdoor, which will gradually create a better balance for production planning in the company.

Increased focus on the organization

During my first months as CEO, I have conducted a thorough situation analysis of the company, where we identified an organizational structure, customer offerings and focus on profitability as areas where the company must become even sharper to be able to attain our long-term financial goals.

As CEO, it is my job to take the company from an entrepreneurial organization to a professional organization with a clear division of roles and responsibilities. This will enable us to scale up the business model in new and existing segments, with new and existing customers and in new and emerging markets. The addition of a broader management group in April should be viewed as a result of the situation analysis.

We have also analyzed our offering and plan to focus primarily on a much more systematic sales process and better bundling of the company's offering to customers. This can deepen our partnerships as well as the perceived business benefits. This will also include a review of our product portfolio. We plan to invest significantly more resources than before in R&D and product development in order to remain at the forefront of the industry.

Finally, we have introduced cost centers budgets and responsibilities, which means that we can quickly spot any discrepancies and act accordingly if cost leakage is detected. Implementing a new business system is also crucial to improving the efficiency of our internal operations.

Nobody who follows Polygiene has been able to avoid the fact that, in the beginning of April, Christian von Uthmann's employment in the company was terminated with immediate effect. After a change at the helm in December 2017, when Christian assumed the role of Vice President, New Ventures and Strategies, it became clear that he had difficulty adapting to his new role. I can say that this had negative effects on our organ- ization and, unfortunately, resulted in a series of conflicts. The situation was neither sustainable, nor in line with how I as CEO want to run the company through broader commitments. I therefore decided, after consulting with the Board, that it was best for the company if Christian left, which has now taken place. The change has already resulted in a better working environment and sharper focus on the company's journey forward. During the second half of 2017 and first quarter of 2018, Polygiene has strengthened and broadened its organization, especially within sales and marketing. I would say that we are better equipped than ever to take the company to the next level.

Outlook

The first quarter 2018 has been devoted to conducting a situation analysis, appointing a new group management team and establishing a viable way to take the company forward. The integration of additional sales and marketing competence into our team has gone smoothly; our colleagues have been quick to assume their new roles and share their international experience and insights.

Demand for odor control technology exists, and Polygiene stands ready to deliver. Our long-term goals of reaching net sales of more than MSEK 400 and an operating profit exceeding 20% by the year 2022 remains our guiding star. After my first few months at company's helm as CEO, I am convinced that 2018 will be the year where Polygiene takes the next step forward and generates positive results as well as stronger, more dynamic growth. This will serve as proof of the scalability of our business and that, in the near future, we will be able to leverage this scalability to achieve profitable growth.

Let us now set our sights on the future. I am looking forward to a exciting year with Polygiene and our partners.

Ulrika Björk, CEO

In-depth: Addressable market, financial targets, organization, IFRS

Market potential

Polygiene has identified great potential for odor control solutions. Current estimates put the total addressable market for "branded odor control" worldwide at more than 1800 million units of clothing, footwear and textiles, which corresponds to at least 1900 million yards of textile each year. Most of the market has not yet been penetrated by Polygiene or its competitors. Here lies the future growth potential for Polygiene: to educate current and future customers (brand partners) about the added value of branded odor control. The total addressable market can be broken down in millions of units as follows: Sportswear (450 million), Fashion (660 million), Workwear (48 million), Footwear (450 million) and Home Textile (200 million). For more details: ir.polygiene.com

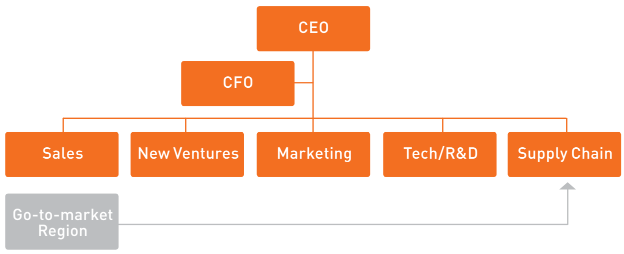
Financial goals 2022

Polygiene's financial goals for 2022 shall be viewed in light of the market potential described above (which is more than twice the size of the company's 2022 goals), the company's extensive partner list and company's focus on strengthening its organization and way of working. Polygiene aims to achieve net sales of more than MSEK 400 and an EBIT margin of at least 20% by 2022.

Organization

Polygiene is a function-based organization whereby its goals and strategic decisions are determined by the company's management group. However, we currently work in a matrix organization where individual teams work locally to achieve the vision and strategies that are set globally.

Working in smaller, regional teams enables us to increase special competencies, to react faster and to become more sure-footed. We currently work in three regional go-to-market teams: North America, Europa and Asia. Each team is comprised of sale, new ventures, marketing, tech/R&D and supply chain. Working with local agents and public relations agencies enables us to provide comprehensive services to customers.



Polygiene is transitioning to a new revenue accounting method for revenue derived from royalties.

A review of the company's revenue model was conducted In accordance with International Financial Reporting Standards. As a result, the company in consultation with an accounting specialist decided to transition to a new revenue accounting model for the portion of revenue derived from royalties. As of January 1, 2018, the company reports net income instead of gross income for these revenues, which is in line with the transition to IFRS15. Polygiene's first quarterly report for 2018 reflects this change.

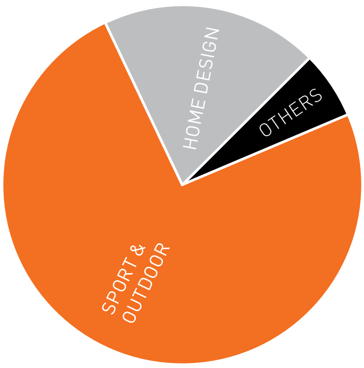
The new model will impact the company's net sales and cost of goods sold. Gross profit in Swedish kronor and everything included therein remains unchanged. To be able to provide comprehensive historical financial information and obtain comparative figures, the 2014–2017 year has also been translated into the new model.

IFRS ADJUSTMENT	**2013**			**2014**			**2015**			**2016**			**2017**		
MSEK	Old	New	Diff	Old	New	Diff	Old	New	Diff	Old	New	Diff	Old	New	Diff
Net sales	27,8	27,8	0	35	34,2	-0,8	51,5	47,2	-4,3	61,6	55,4	-6,2	75,7	66,2	-9,5
Cost of goods sold	-11,1	-11,1	0	-13,5	-12,6	0,9	-22	-17,2	4,8	-26	-19	7	-33	-22,3	10,7
Gross margin	16,7	16,7	0	21,5	21,6	0,1	29,5	30	0,5	35,6	36,4	0,8	42,7	43,9	1,2
Gross margin %	60%	60%	0	61%	63%	2%	57%	64%	6%	58%	66%	8%	56%	66%	10%

Unaudited numbers.

Polygiene in brief

As the world-leading provider of odor control and Stays Fresh Technology för clothing, equipment, textiles and other materials, Polygiene helps people stay fresh and confident whatever they do and wherever they are. Today the company has more than 140 global partners, covering a wide range of segments such as sports and outdoor, lifestyle and fashion, as well as home products and protective surfaces. With the aim to build growth as a global ingredient brand, Polygiene also wants to drive change in consumer behavior under the motto Wear More. Wash Less©. The strong brand is a major asset and the ongoing work with brand building and awareness is a key factor in reaching the future targets.

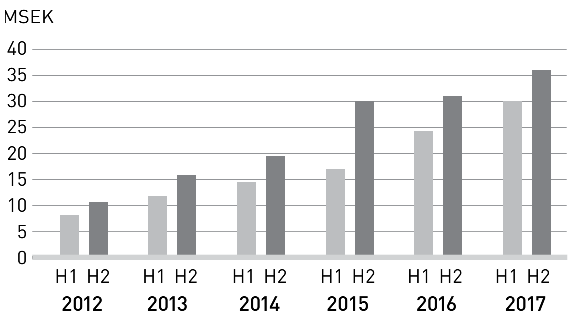


Operations

Approximately 80% of the turnover 2017 came from Sport & Outdoor, 15% from Home Design and the other 5% from Lifestyle, Footwear and Workwear. 2022 the estimation is that Lifestyle and Footwear will grow.

Partners

Polygiene currently has over 140 partner brands globally within the segments of Sport & Outdoor, Lifestyle, Home Textiles, Footwear, Workwear and Protective surfaces. A global selection is presented here, see full partner list.



Net sales first/second half of the years 2012–2017

This six-year period shows steady growth and a stronger second half of the year. The seasonal fluctuations might be less pronounced as new partners from segments with less seasonal variations are added.

400

MSEK IN NET SALES BY 2022

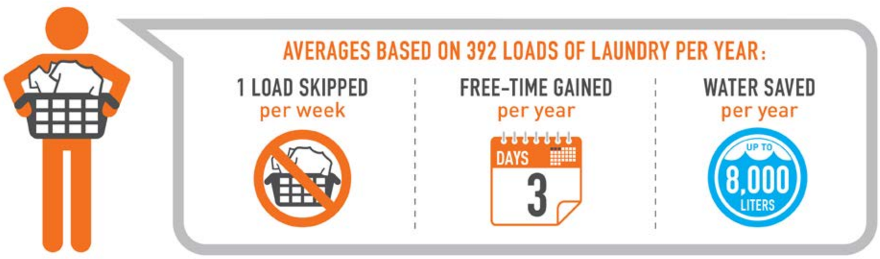
Financial targets

Based on a study of the addressable market within odor control and Stays Fresh-solutions and the annual potential of over 1.8 billion products, the financial targets that must be met by 2022 are net sales in excess of 400 MSEK and an EBIT margin of more than 20%.

Wear More. Wash Less©

Polygiene Stays Fresh Technology

Today consumers can reduce their environmental impact simply by washing less frequently. Polygiene makes this possible by controlling odor in textiles. If garments are worn a bit longer and washed a bit less, we extend both the life of the garment and save water, energy and time. Or as we say it: Wear More. Wash Less©.

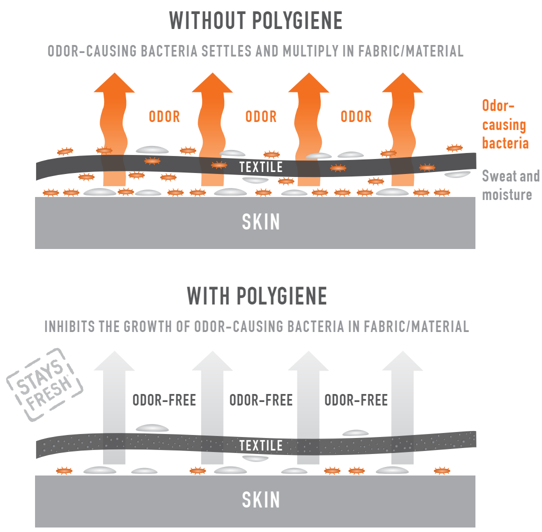


Save time

What would you do with three extra days? If one load of wash is skipped every week during a year, the time saved is three days to spend on something you love to do. Studies show that time is seen as a new currency today.

How it works

Polygiene's method is based on treatment of materials to reduce bacterial growth, which is the source of odors mainly in synthetic materials. To a great extent, Polygiene's solutions are based on silver salt made from recycled silver which remains effective throughout the product's lifetime.The solutions can be applied into fibers as well as fabrics and other materials.



Stays Fresh

Polygiene – a global partner

Polygiene focuses mainly on manufacturers of leading premium brands and their customers, and actively works throughout the entire value chain–from development and manufacturing, to marketing, distribution and customer support. Polygiene has a global network of agents, distributors and regional offices.

Financial performance

Net sales and profit

Operating revenue

The company's net sales for the first quarter amounted to MSEK 15.5 (15.5), corresponding to an increase of 0 percent compared to the same quarter last year.

Other operating income amounted to MSEK 1.2 (0.4) and consists of positive exchange-rate differences.

Gross margin

During the quarter, a lower gross margin of 66.6 percent was reported compared to 70.9 percent for the same period last year. This is due to quarterly fluctuations in cost of goods sold and the sales mix due to variations in the pricing model, depending on the customer and the product. Quarterly fluctuations are accumulated over the year and will even out. The cost of goods sold was MSEK -5.2 (-4.5) for the quarter.

Operating expenses

Other external expenses for the quarter amounted to MSEK -8.4 (-9.8), which is a decrease of 14 percent. These expenses consist of:

- *Cost of goods sold* was MSEK -3.0 (-2.6), of which MSEK -2.2 (-1.8) were variable. The variable costs consist of commissions for agents and distributors, which have increased due to a new commission model for China.
- *Marketing expenses* of MSEK -2.6 (-3.6). The reduction of expenses is due to general cost savings as well as postponed marketing activities.
- *Administrative expenses* were MSEK -1.3 (-1.9) due to lower consultancy and investor relations expenses for the period.
- *Technology and development expenses* MSEK -0.2 (-0.4).
- *Expenses of contracted consultants* MSEK -1.2 (-1.3).

Personnel expenses increased somewhat during the first quarter to MSEK -3.4 (-3.2).

Withholding tax amounted to -0.7 (-0.5) and is in line with sales. Withholding tax is a type of tax that Polygiene can recover when previously taxable deficits are activated. As Polygiene has MSEK 28.3 in previous deficits (2017), the precautionary principle is applied, and the withholding tax will be expensed this year (2018).

Depreciation and write-downs amounted to MSEK -0.1 (0) during the quarter.

Other operating expenses relate to exchange rate losses of MSEK -0.8 (-0.9).

Operating profit/loss

The operating profit/loss (EBIT) for the period amounted to MSEK -2.0 (-3.1), representing an operating margin of -11.7 (-19.2) percent, the operating profit/loss after tax amounted to MSEK -1.7 (-2.5).

Financial position

Financial assets

At end of the first quarter, the financial assets amounted to MSEK 6.6 (5.5) and relate to deferred tax assets for the tax loss carryforwards incurred in previous years. The total tax loss carryforwards at the end of the first quarter amounted to MSEK 29.6.

Intangible assets

During the first quarter, a total of MSEK 0.6 has been invested in creating a digital platform to increase brand awareness among consumers and in trademark registrations in new markets. The expenses will be capitalized in the balance sheet and will be written off over a five-year period.

Equity

Equity at the end of the quarter amounted to MSEK 34.2 (41.3). The equity/assets ratio as of 21 March 2018 was 67.5 (72.2) percent.

Cash flow and liquidity

Cash flow from operating activities amounted to MSEK 3.3 (0.7) during the first quarter of the year.

At the end of the quarter, the company's cash and cash equivalents amounted to MSEK 13.7 (20.8).

Staff

At the end of the quarter, the company's operating organization consisted of 18 (18) staff members, of whom 14 (14) are employed and 4 (4) are consultants.

Income statement

Income statement in brief, TSEK	Note	Group Jan–Mar 2018	Parent company Jan–Mar 2017	Parent company Rolling 12 month	Parent company Full year 2017
Operating revenue					
Net sales	7	15,479	15,474	66,156	66,152
Other operating income		1,230	422	2,754	1,234
Total operating revenue		**16,709**	**15,896**	**68,910**	**67,385**
Operating expenses					
Costs of goods sold		-5,175	-4,506	-21,929	-21,261
Other external expenses		-8,408	-9,788	-31,465	-32,845
Personnel expenses		-3,437	-3,236	-13,461	-13,260
Withholding tax		-659	-518	-2,636	-2,495
Depreciation and write-downs		-144		-330	-186
Other operating expenses		-838	-907	-4,082	-3,439
Total operating expenses		**-18,661**	**-18 ,955**	**-73,903**	**-73,486**
Operating profit/loss		**-1,952**	**-3,059**	**-4,993**	**-6,101**
Profit from financial items					
Interest expenses and similar items			-2	-7	-8
Profit after financial items		**-1,952**	**-3,061**	**-5,000**	**-6,109**
Tax income for the period		284	527	984	700
Profit/loss for the period		**-1,668**	**-2,534**	**-4,016**	**-5,409**
Earnings per share (after tax)		**-0.08**	**-0.12**	**-0.20**	**-0.26**

Balance sheet

Balance sheet in brief, TSEK	**Note**	**Group 2018-03-31**	**Parent company 2017-03-31**	**Parent company 2017-12-31**
ASSETS				
Fixed assets				
Intangible assets	8	2,962		2,533
Financial assets	9	6,287	6,064	6,287
Total fixed assets		**9,249**	**6,064**	**8,820**
Current assets				
Finished items and items for sale		296	215	313
Trade receivables		24,256	25,187	31,699
Other current assets		3,215	1,433	1,339
Cash and cash equivalents		13,668	20,767	10,930
Total current assets		**41,435**	**47,602**	**44,281**
TOTAL ASSETS		**50,684**	**53,666**	**53,101**
TOTAL EQUITY AND LIABILITIES				
Equity		**34,217**	**38,759**	**35,885**
Liabilities				
Accounts payable		10,147	9,270	12,150
Other current liabilities		6,320	5,637	5,066
Total short-term liabilities		**16,467**	**14,907**	**17,216**
Total liabilities		**16,467**	**14,907**	**17,216**
TOTAL EQUITY AND LIABILITIES		**50,684**	**53,666**	**53,101**

Statement of changes in equity

Statement of changes in equity, TSEK	Jan–Mar 2018	Jan–Mar 2017	Full year 2017	Full year 2016
Equity at period start	35,885	41,293	41,293	40,843
New share issues and warrants				3,614
Transactions with the owners	**35,885**	**41,293**	**41,293**	**44,457**
Annual earnings	-1,668	-2,534	-5,409	-3,164
Total annual earnings	**-1,668**	**-2,534**	**-5,409**	**-3,164**
Equity at period end	**34,217**	**38,759**	**35,884**	**41,293**

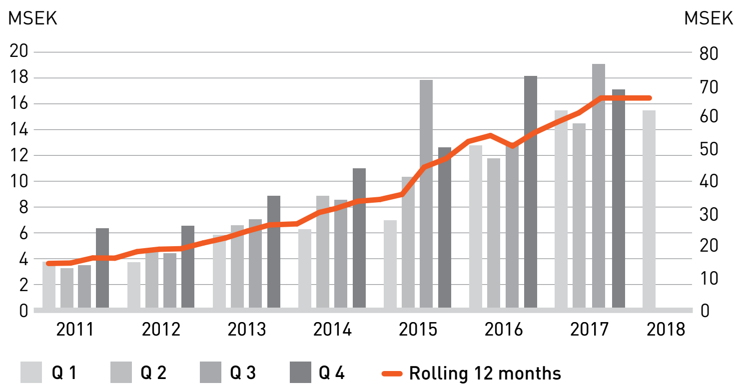
Cash flow statement

Cash flow statement, TSEK	Group Jan–Mar 2018	Parent company Jan–Mar 2017	Parent company Full year 2017
Profit/loss before financial items	-1,952	-3,059	-6,101
Depreciation	144		186
Depreciation interest received			-8
Interest paid		-2	
Cash flow from operating activities before changes in operating capital	**-1,808**	**-3,061**	**-5,923**
Changes in working capital			
Increase/decrease in inventory	17	3	-94
Increase/decrease in inventory	6,119	4,920	-1,498
Increase/decrease in current liabilities	-1,017	-1,118	1,191
Cash flow from operating activities			
Net cash flow from current activities	**3,311**	**744**	**-6,324**
Investment activities			
Acquisition of shares in subsidiaries, after deduction of liquid assets			-50
Acquisition of intangible assets	-573		-2,719
Cash flow from investing activities	**-573**	**0**	**-2,769**
Financing activities		0	
Annual cash flow	**2,738**	**744**	**-9,093**
Cash and cash equivalents at period start	10,930	20,023	20,023
Cash and cash equivalents at period end	**13,668**	**20,767**	**10,930**

Multi-year overview

Multi-year overview	Jan–Mar 2018	Jan–Mar 2017	Full year 2017	Full year 2016	Full year 2015
Net sales, TSEK	15,479	15,474	66,152	55,407	47,168
Sales growth, %	0	22	19	18	38
Operating profit/loss EBIT, TSEK	-1,952	-3,059	-6,101	-3,392	5,599
Profit after tax, TSEK	-1,668	-2,534	-5,409	-3,164	9,171
Operating margin EBIT, %	-12	-19	-9	-6	12
Operating margin after tax, %	-10	-16	-8	-6	19
Cash flow, TSEK	2,738	744	-9,093	-7,522	21,471
Equity, TSEK	34,217	38,759	35,885	41,293	40,843
Balance sheet total, TSEK	50,684	53,666	53,101	57,318	50,468
Equity/assets ratio, %	68	72	68	72	81
Number of shares at period-end, thousands	20,516	20,516	20,516	20,516	19,316
Average no. of shares at period-end, thousands	20,516	20,516	20,516	19,716	16,566
Earnings per share, SEK	-0.08	-0.12	-0.26	-0.16	0.55
Cash flow per share, SEK	0.13	0.04	-0.44	-0.38	1.30
Equity per share, SEK	1.67	1.89	1.75	2.01	2.11
Share price at period end, SEK	9.7	13.6	11.5	12.5	-

Net sales per quarter and rolling 12 months



Supplementary Info and Notes

Note 1: Nature of the business

Polygiene is the world-leading provider of odor control technology and Stays Fresh solutions for clothing, sports equipment, lifestyle, textiles and other materials to help people stay fresh and confident, whatever they do and wherever they are. Today, the Group has more than 140 global partners representing various segments, including Sport & Outdoor, Lifestyle, Home Design, Footwear, Workwear and Protective Surfaces. Polygiene not only is driving growth as a global ingredient brand, but also driving change in consumer behavior under the company motto, Wear More. Wash Less©. The Polygiene brand is a significant asset; work is ongoing to strengthen and raise awareness of the brand, which is important to be able to achieve the company's future goals.

The parent company is listed on Nasdaq First North.

Note 2: General Information and Compliance with IAS 34

This interim report covers the interim period from 1 January to 31 March 2018, and is presented in Swedish kronor (SEK), which is the parent company's functional currency. The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting.

Beginning in 2018, the parent company will issue one consolidated financial statement.

This first consolidated financial statement as of 31 December 2018 will be prepared in accordance with IFRS. Therefore, this interim report for the Group is also prepared in accordance with IFRS.

The parent company is therefore transitioning from K3 accounting standards to RFR 2 in this interim report. These changed accounting and valuation principles have had no effect on the parent company's earnings and equity.

The Group is, for the first time, applying IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. Other changes and interpretations to be applied for the first time in 2018 have no effect on this interim report. The Group has not previously applied any standard that has been published but that has not yet come into force.

Due to the fact that this is Polygiene's first year using consolidated financial statements, the parent company's figures for the 2017 interim period and calendar year have been included for comparison in this Interim Report.

All operations of the Group are conducted in one segment.

The interim report does not contain all the information required in financial statements in accordance with IFRS and should therefore be read together with the annual report for 2017 except everything in terms of the description of the basic regulations. Complete supplementary information in accordance with IFRS will be provided in the annual report for 2018.

Polygiene AB (publ), the Group's parent company, is a public limited company established and registered in Sweden. Its headquarters and principal place of business is located at Stadiongatan 65, 217 62 Malmö, Sweden. Polygiene shares are listed on Nasdaq First North.

The interim report has not been subject to review by the Group's auditors.

The Interim Report for the interim period, 1 January to 31 March 2018, was approved for issue by the Board on May 3, 2018.

Note 3: Significant accounting and valuation principles

The interim report has been prepared in accordance with IFRS, which complies with the accounting and valuation principles as applied in the parent company's annual report for 2017, that is, K3.

In connection with the establishment of this first consolidated financial statement according to IFRS, a review of the items in the income statement had been conducted. As previously communicated, the amounts for net revenue, commodities and other external costs have been adjusted. In this interim report, withholding tax, which the Group today cannot reclaim, has been reported separately in the income statement. In addition, withholding tax has been separated from 'Other operating expenses' in all of the periods presented. A minor redistribution of unrealized exchange rate differences has also taken place between 'Other operating expenses' and 'Other operating income'. 'Other operating income' has also increased by a small amount for government contributions for employees previously reported against expenses for employee benefits. All the periods here have also been recalculated.

Below is a summary of the most important IFRS accounting and valuation principles applied by the Group.

Financial instruments

Trade receivables are reported when they arise. Other financial assets and financial liabilities are reported when the Group becomes a party to the instrument's contractual terms.

In the first report, financial assets are classified as measured at the accrued acquisition value, at fair value through other comprehensive income or at fair value via the results. The Group has only financial assets and liabilities valued at the accrued acquisition value.

The classification of financial assets does not change in subsequent periods unless the Group changes its business model for financial asset management, whereby all financial assets affected by this change are reclassified on the first day of the first fiscal year following the change in the business model.

A financial asset is valued at the accrued acquisition value if both of the following conditions are met and the asset is not determined to be measured at fair value through the results:

- The asset is held according to a business model whose goals are to hold assets to obtain the contractual cash flows, and
- The contractual terms of the agreement give rise to cash flows, which consist solely of capital and interest on the outstanding amount principal.

Financial assets are valued after the first reporting period to accrued acquisition value using the effective rate method. Accrued acquisition values are reduced by write-downs. Interest income, exchange rate differences and write-downs are recognized in the income statement. Any gains or losses when the asset is removed from the balance sheet are reported in the income statement.

The Group removes a financial asset from the balance sheet when the agreed rights to cash flow from the financial asset ceases. The Group removes a financial liability from the statement of financial position/balance sheet when the contractual obligations of the liability are paid or have expired.

The loss reserve for accounts receivable and contractual assets are always valued at an amount that corresponds to expected credit losses for the remaining term.

Income

Income refers to revenues from sales of chemistry as well royalties.

To determine if revenue should be reported, the group follows a five-step process:

1 Identify the agreement with the customer
2 Identify performance commitments
3 Determination of transaction price
4 Distribute the transaction price on performance commitments
5 Report the revenue at the time of fulfillment of the performance commitment

Revenues from the sale of chemistry at a fixed price are reported when the Group transfers control of the assets to customers. Revenues from royalties are reported when the customer's production with the Group's chemistry has been completed and can be calculated based on the amount of finished fabric or the number of garments produced. At the same time, the cost of this chemistry is reported in the income statement. Invoices for transferred goods or services shall paid when the customer receives the goods.

Transactions in foreign currency

Monetary receivables and liabilities in foreign currency have been calculated at the exchange rates of the closing day. Exchange rate differences, such as those arising from the regulation or translation of monetary items, are recognized in the income statement in the financial year they arise, either as an operating item or as a financial item based on the underlying business event.

Note 4: Significant estimates and assessments

When interim reports are prepared, the Board and the CEO must, in accordance with the applicable accounting and valuation principles, make certain estimates, assessments and assumptions that affect accounting and valuation of assets, provisions, liabilities, income and expenses. The outcome may differ from these estimates and assessments, and seldom amounts to the same amount as the calculated outcome.

The estimates and assessments made in the interim report, including the assessment of the mayor uncertainty factors, are the same as that applied in the annual report for 2017. The only difference is that the calculation of deferred tax liability, as in the interim report, are determined by using an average tax rate calculated on an annual basis.

Note 5: Significant events and transactions during and after the period

On April 9, 2018, an agreement was reached with the former CEO that the employment should be terminated with immediate effect. No obligation for severance pay exists.

Note 6: Seasonal variations/cyclic effects

Sales are historically higher in H2 than in H1.

Note 7 Net sales by geographical area

Group revenues from contracts with customers can be broken down as follows:

TSEK 18-03-31	Goods	Royalty	Total
Primary geographic markets			
Asia	4,347	2,357	**6,704**
Europe	1,410	1,585	**2,995**
North America	977	3,575	**4,552**
Rest of the world	31	1,197	**1,228**
	6,765	**8,714**	**15,479**

TSEK 17-03-31	Goods	Royalty	Total
Primary geographic markets			
Asia	6,066	1,124	**7,190**
Europe	2,288	2,095	**4,383**
North America	815	2,520	**3,335**
Rest of the world		566	**566**
	9,169	**6,305**	**15,474**

Note 8 Other intangible assets

Changes in the presented value for intangible assets are:

TSEK	18-03-31	17-03-31	17-12-31
Opening acquisition value	3,877	1,158	**1,158**
Annual acquisition costs			
Acquisitions	573		**2,719**
Internally developed			
Sales/scrapping			
Exchange rate differences			
Reclassifications			
Closing accrued expenses	**4,450**	**1,158**	**3,877**
Opening accumulated depreciation	-1,344	-1,158	**-1,158**
Sales/scrapping			
Exchange rate differences			
Reclassifications			
Annual depreciation	-144	–	**-186**
Closing accumulated depreciation	**-1,488**	**-1,158**	**-1,344**
Opening accumulated write-downs			
Reversal of write-downs			
Sales/scrapping			
Valutakursdifferenser			
Reclassifications			
Annual write-downs			
Closing accumulated write-downs	**0**	**0**	**0**
Recognized value	**2,962**	**0**	**2,533**

Note 9 Deferred tax asset

TSEK	Group 18-03-31	Parent company 17-03-31	Parent company 17-12-31
Opening balance	6,223	5,290	**5,523**
Deferred tax reported in the profit for the year	284	527	**700**
Closing balance	**6,507**	**5,817**	**6,223**

Share capital, the share and ownership structure

Share capital

Equity in Polygiene totals SEK 2,051,600 allocated to 20,516,000 outstanding shares. The company has a single class of share and each share carries an equal right to dividend. Par value for each share is SEK 0.10.

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. For more information regarding changes in equity, see the company's 2017 Annual Report.

Share

The Polygiene AB (publ.) share was listed on Nasdaq First North in Stockholm on 14 March 2016.

Total turnover for the Polygiene share in Q1 was 1,577,175 shares, corresponding to an average of 25,438 shares per trading day. The share price at the end of the period was SEK 9.70 corresponding to market capitalization of MSEK 199.0. Highest and lowest prices during the period were SEK 13.35 and 9.26, respectively.

Ownership structure

The company had a total of 790 (795) shareholders at the period end. The table below lists the 10 largest shareholders as of 31 March 2018.

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Shareholders	Shares	Percent
Richard Tooby*	2,065,800	10.1%
JP Morgan Bank Luxembourg	1,375,661	6.7%
Erik A i Malmö AB	1,348,800	6.6%
Clearstream Banking S.A. Luxembourg	1,332,847	6.5%
JPM Chase NA	940,000	4.6%
Aktia Fund Management	846,008	4.1%
Jonas Wollin*	813,500	4.0%
Lennart Holm*	800,220	3.9%
Mats Georgson*	707,000	3.4%
Nomura Securities Co Ltd	560,000	2.7%
Other	9,716,164	47.4%
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.

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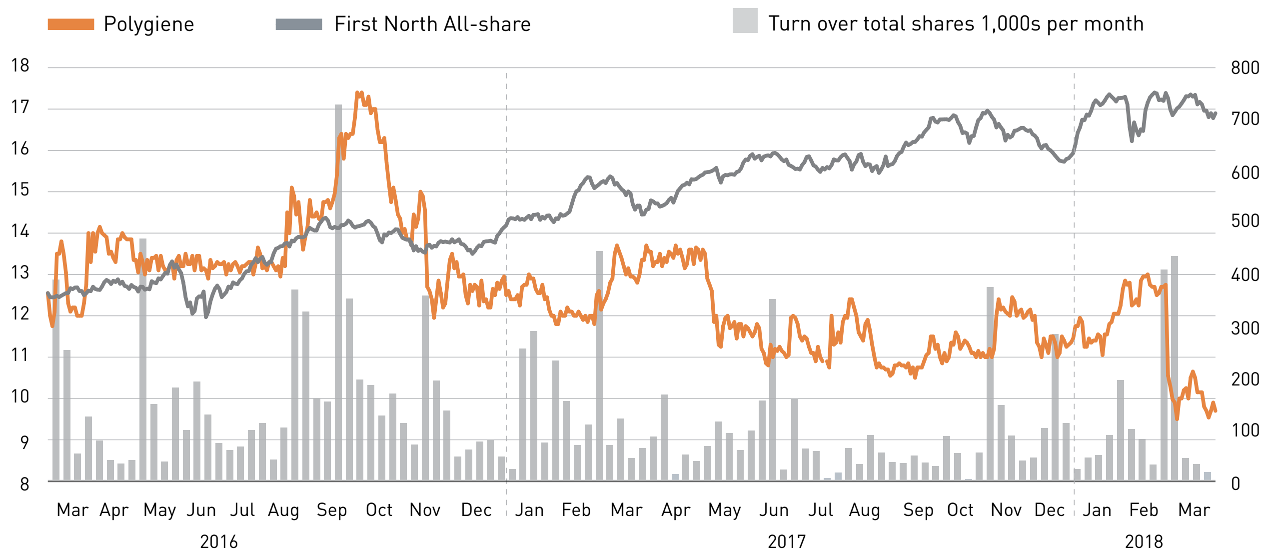

Risks and uncertainty factors

Company operations are affected by several factors which can involve risks to the company's operations and profit. For more information, please refer to the company's 2017 Annual Report.

Financial calendar

Interim Report Q2 2018	23 August 2018
Interim Report Q3 2018	8 November 2018
Year-end Report 2018	February 2019

Definitions

Operating profit EBIT: Earnings before interest and tax.

Operating margin EBIT: Earnings for the period before interest and tax as a percentage of net revenues for the period.

Operating margin after tax: Earnings for the period after tax as a percentage of net revenues for the period.

Adjusted operating profit: Adjusted operating profit is after foreign exchange effects and withholding tax.

Earnings per share: Earnings for the period after tax divided by the average number of shares.

Equity/assets ratio: Equity in relation to balance sheet total.

Equity per share: Equity per share divided by the total number of shares outstanding at period end.

Cash flows per share: Cash flows for the period divided by the average total shares outstanding.

Contact information

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About Polygiene
Polygiene is the world-leading provider of odor control technology and Stays Fresh solutions for clothing, sports equipment, lifestyle, textiles and other materials to help people stay fresh and confident. Polygiene brings the Scandinavian values of quality and care for the environment to life through its products and services. More than 140 global premium brands have chosen to use Polygiene Stays Fresh Technology in their products. Polygiene was established in 2006 and is listed on Nasdaq First North in Stockholm, Sweden. Erik Penser Bank AB acts as its Certified Advisor.

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