Polygiene AB (publ.)

Interim Report
1 July–30 September 2018

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Polygiene®
STAYS FRESH

Contents

Q3 in brief

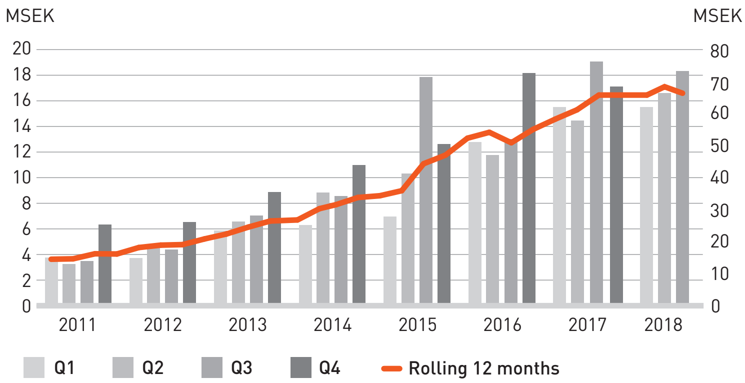
New product launch, continued improved earnings and positive cash flow

- In the third quarter, net sales amounted to MSEK 18.3 (19.0), which corresponds to a decrease of 3.7% compared to the same period last year.
- Operating profit/loss (EBIT) for the period amounted to MSEK 0.6 (0.7).
- The cash flow for the third quarter was positive MSEK 0.4 (-1.9).
- Gross margin amounted to 70.1% (70.1%).
- The company extends its product portfolio with new, patented technology.
- The organization is growing in North America as part of the new marketing strategy.

Key ratios	Jul–Sep 2018	Jul–Sep 2017	YTD 2018	YTD 2017	Rolling 12 months	Full year 2017
Net sales, MSEK	18.3	19.0	50.4	49.1	67.5	66.1
Operating profit EBIT, MSEK	0.6	0.7	-3.2	-6.1	-3.3	-6.1
Operating margin EBIT, %	3.5	3.5	-6.2	-12.1	-4.7	-9.0
Adjusted operating profit, MSEK	1.4	1.4	-1.3	-4.3	-0.6	-3.6
Adjusted operating profit, %	7.8	7.4	-2.4	-8.5	-0.1	-5.4
Profit after tax, MSEK	0.3	0.4	-3.0	-5.2	-3.2	-5.4
Operating margin after tax, %	1.7	1.8	-5.7	-10.4	-4.6	-8.0
Earnings per share, SEK	0.01	0.03	-0.15	0.30	-0.16	-0.26
Cash flow, MSEK	0.4	-1.9	-1.0	-4.6	-3.0	-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 Q3 2018 (July-September)

- Polygiene, world-leading provider of odor control for textiles, has signed an exclusive distribution agreement with Sweden-based material science company Prebona. The agreement extends initially over a period of three years and gives Polygiene access to Prebona's patented OdorControl technology.
- The Asia branch of the Los Angeles-based premium denim brand, Denim of Virtue, is now launching Polygiene treated jeans.
- The board of directors and the senior management of Polygiene AB are filing charges against Christian von Uthmann, former CEO of the company, for serious fraud and breach of trust. Uthmann is suspected of exploiting his position and company resources for improper personal gain.
- Polygiene expands into new areas within adidas. Stella McCartney launches a collection with Polygiene treated garments.
- New Korean partner, Pumchang is one of the largest sock suppliers in Korea with a turnover of 50 million USD in 2017 and sales of 30 million pairs of socks per year.
- Polygiene Stays Fresh Technology is now available in Y-3 Tech socks from the high-end brand adidas by Y-3. The brand is a collaboration between adidas and the Japanese fashion designer Yohji Yamamoto who creates revolutionary collections.

- Polygiene grows organization in North America with appointment of new Commercial Director, Bobby Howell. The collaboration with the former agent Concept III is terminated during the quarter.
- Untitled, one of the brands of the Japanese fashion group World, is launching a business performance suit for ladies.

Significant events after Q3

- Polygiene enters Brazil, the fifth largest textile producer in the world, with two Sao Paolo based key representatives brought on board to launch the global leader in Stays Fresh technology. In addition, Polygiene will sign an agreement with a local distributor to serve this dynamic market that mainly has a domestic fulfilment with their textile and apparel sector.
- Yonex co., Ltd, the world leading manufacturer of golf, tennis and badminton equipment and apparel, have signed an agreement to use Polygiene Stays Fresh Technology in their products.
- The appointment of Rebecka Harvyl as marketing manager will strengthen the marketing team with her additional skill set and professional background. Harvyl will be situated at the Polygiene headquarters in Malmö, Sweden.
- The first order from the new Polygiene Odor Control Technology is placed by one of the company's major brand partners for production next year.

Message from the CEO

New product launch, continued improved earnings and positive cash flow

Total operating revenues amounted to MSEK 18.3 (19.0) during the third quarter – the second most profitable quarter in company history. The best quarter ever was the same quarter last year, after which sales fell by 3.7%. Operating profit for the third quarter 2018 amounted to MSEK 0.6 (0.7) with a positive cash flow of MSEK 0.4 (-1.9).

Matching 2017's quarterly figures this year was difficult; September 2017 was a record sales month for Polygiene and sales during the same period this year were somewhat weaker. Last year, the fourth quarter was relatively weaker; this year, however, we anticipate that we will be able to recoup the difference from the third quarter during the last months of 2018. Our ambition for 2018 remains: to generate solid growth with a significant improvement in earnings before interest and taxes (EBIT) compared to 2017. EBIT through September of this year have improved by MSEK 2.8 compared to the first three quarters of last year, which indicates that we are on track.

New brand partners have joined the Polygiene fold in 2018 and there is a lot of positive news with regard to the market for Polygiene. The year to date, however, has not been without its challenges. One such challenge that we have seen is a slower development with some of our current brand partners. We believe this is due, in part, to the fact that, in a competitive market, we have neither been sufficiently clear about our offering nor have we been sufficiently quick in developing it further. Growing our business with our brand partners requires that they feel that Polygiene continuously adds value and competitive advantage to their brands and products. It is therefore extremely important that Polygiene succeed in further developing our offering and, at the same time, succeed in communicating the value of the benefits we offer. This will help ensure continued growth with our brand partners.

During this quarter, we have taken a critical step forward in developing our product offering. We have started to pre-launch a new non-biocidal, anti-odor product. This, in combination with our new marketing strategy to deepen collaboration with our brand partners, makes me extremely proud and confident that we will continue to accelerate growth.

Ulrika Björk
CEO Polygiene AB

New product, new possibilities

Big news for this quarter was a new agreement with Prebona AB, a Swedish material science company, which provides us with exclusive rights to market and sell a patented new odor control product. The product, called Odor Crunch, will be launched in 2019 under the Polygiene brand, which provides assurance of the highest quality and service.

We decided to soft launch the product to a select group of brand partners. The response to date has been overwhelmingly positive and testing is underway with several brand partners. In the coming months, we expect to receive their feedback and are confident that the product and its functionality will be highly rated. In fact, we have already received an order from a major brand partner for production next year. We are convinced that the new silicon-based product, which is a non-biocidal and very environmentally friendly, holds great potential. Its characteristics and functionality complement our current silver-based odor control technology and provide a sound alternative to brand partners who, for various reasons, require alternate forms of odor control.

A new marketing strategy

This spring, a new marketing strategy has been developed under the guidance of Polygiene CMO Mats Georgson. His solid experience and brand-based marketing expertise has contributed to a new strategy that began to be implemented in the third quarter. It is based on a much deeper collaboration with our brand partners.

Polygiene will now be able to deliver not only a physical product to our brand partners, but also highly relevant and valuable sales material that supports each identified step in our partners' sales processes. Our marketing strategy covers everything from pricing strategies, the design of in-store and POS material, training and support, our product offering and innovative marketing concepts. All activities have been standardized and bundled to ensure effective delivery to our brand partners. Moreover, we are going to reallocate resources from traditional marketing to modern digital activities. We expect this to increase and broaden our impact while reducing costs. Working closely with our brand partners, we can identify and exploit synergies that will strengthen our respective brands. To date, the new strategy has been presented to more than 40 of our brand partners and has received positive feedback.

Focus on segment-based sales

Customization is key to strengthening a successful ingredient brand. Delivering a comprehensive solution that is both relevant and valuable to each brand partner calls for Polygiene to be able to adapt our product offering and our activities to partner needs. This requires proactive brand partner segmentation based on various criteria. Polygiene has established a strong brand and a reputation as an innovative partner who delivers, putting us in a favorable position and one that leads to many inquiries for collaboration. We have not, however, always managed to dedicate the right resources to the right projects and brand partners. Effective segmentation and clear priorities will enable us to devote more resources to those brand partners who hold the greatest potential. We are – and will continue to be – a small, agile organization. To take advantage of economies of scale, we must prioritize those brand partners who believe in the Polygiene brand and the value we add to their brands – and those who are willing to invest in both volumes and co-branding.

Throughout the year, our sales organization has put much effort into laying the groundwork for future growth; because our sales cycles generally have long lead times, our sales efforts will become apparent the next year. Another positive

note is that our new market segments, such as Home Textiles and Fashion, have considerably shorter pre-sales cycles.

New and exciting collaboration

During the third quarter, we signed several agreements with new brand partners. In July, the Asia branch of the Los Angeles-based premium denim brand, Denim of Virtue, launched Polygiene-treated jeans in Korea; we believe this signals potential for expansion into all markets. Moreover, Pumchang, one of the largest sock distributors in Korea, announced that, this fall, they will begin treating 200,000 pairs of socks with Polygiene Stays Fresh Technology. Pumchang is the official distributor of major sports brands including Nike, New Balance, Adidas, Reebok and Asics. The company will co-brand its products with a Polygiene hangtag.

Adidas continued to extend its use of Polygiene into additional collections; its latest product launches that incorporate Polygiene include Stella McCartney's comfort styles as well as collaboration with the futuristic brand Y-3. Untitled, one of the brands of the Japanese fashion group World, successfully launched a functional Polygiene-treated suit for business-women and plans to extend its use of Polygiene odor control technology to its men's business wear collection. Two new and exciting partnerships that were signed toward the end of quarter were Yonex, an iconic sports brand known for tennis, golf and badminton.

Expansion to new markets

Over the past year, we have been actively working with a prospective agent to determine whether Brazil and its neighboring countries are suitable markets for Polygiene. Demand for odor control in Brazil is deemed to be large, driven by both consumption patterns and climate. The prospective agent is expected to soon, sign some new partner agreements, which are expected to result in significant sales in the coming years. During the quarter, we also signed an agreement with a local distributor, which makes it possible for us to kick off sales in 2019. All production will take place locally, which is why close collaboration with a reliable local distributor is of great importance.

Brand partner meeting in Asia

Polygiene held its annual brand partner meeting in October at the Embassy of Sweden in Tokyo, Japan. Brand partners from Japan and China were in attendance and shared best practices on sales and marketing strategies with Polygiene in focus. The meeting provided the opportunity to present the new developments, put forward future plans and discuss customer needs and expectations. Polygienes CMO Mats Georgson played an important role this year, communicating our new marketing strategy and discussing how to strengthen our relationship with our brand partners. As our largest and fastest growing market, Asia holds great potential, given the volumes that are both produced and consumed in the region. The region is the largest, fastest growing economy in the world and its consumers are highly aware about the importance of good personal hygiene. The future for Polygiene in Asia is therefore bright.

A year of change

To date, 2018 has been characterized by both challenges and opportunities. I anticipate that our new products, new partner brands and new markets will generate visible results in the coming years. Challenges this year were primarily a result of events that took place in the spring that spurred changes within the organization.

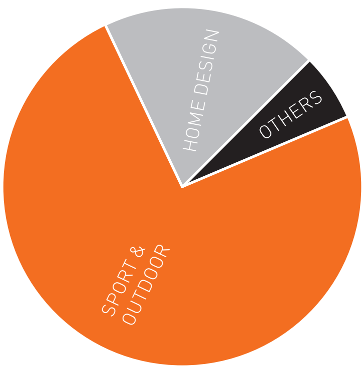
Looking back, I can say that change provided us with the opportunity to build a tighter, more focused team – and a team who shares the same values and vision of how Polygiene will achieve success in the years ahead. Recent additions to our team – Rebecka Harvyl, our new marketing manager at our headquarters in Malmö, and Bobby Howell, our new Commercial Director in North America – have been recruited as part of our new marketing strategy that is based on a much closer collaboration with our brand partners. The organization is, in principle, now in place, with the exception of strengthening our technology department with additional competence next year.

Implementing change requires a great deal of courage and strength – and it takes time. During this period of transformation, Polygiene has been able to lay a strong foundation based on sound values. The changes we have made thus far enable us to continue moving forward, and progress will be reflected in the company's results in the future. It is my ambition that increasingly more shareholders and partners will join us on the journey forward with Polygiene.

Ulrika Björk, CEO

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.

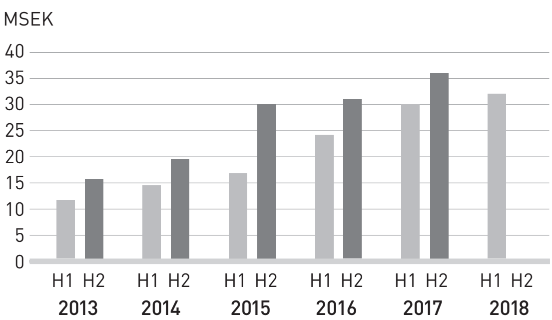


Operations

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

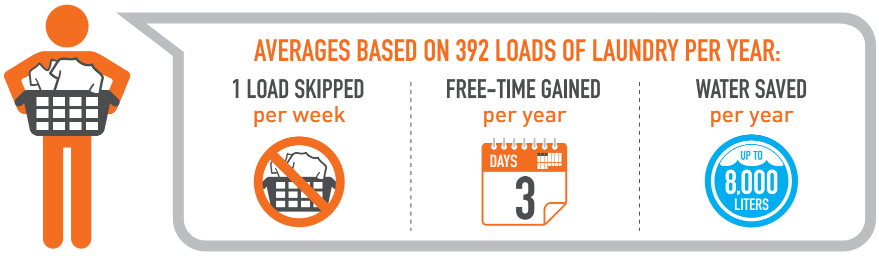
Financial targets

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.

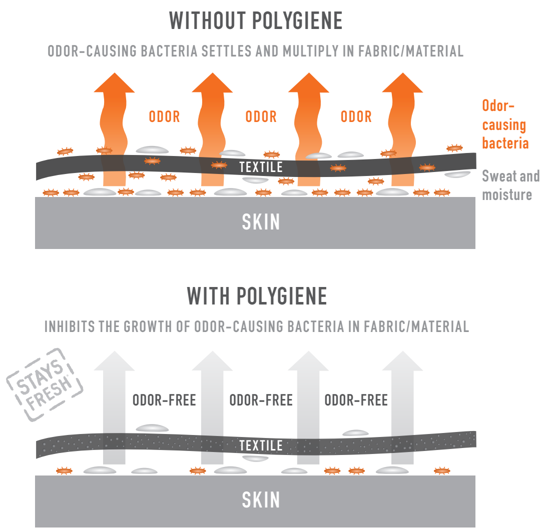
Stays Fresh

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.

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.



Financial performance

Net sales and profit

Operating revenue

The Group's net sales for the third quarter amounted to MSEK 18.3 (19.0), corresponding to a decrease of 3.7% compared to the same period last year.

Other operating income amounted to MSEK -0.7 (0.5) and consisted of negative exchange-rate effects. During the quarter, gross margin was 70.1 (70.1) percent, which is equal to the same period last year. The cost of goods sold amounted to MSEK -5.5 (-5.7) for the quarter.

Operating expenses

Other external costs for the quarter amounted to MSEK -7.9 (-7.7), which is a 3% increase over the same period last year and consists of the following items:

- *Sales costs* were MSEK -2.6 (-3.1), of which MSEK -1.7 (-2.3) was variable. The variable costs consist of commissions to agents and distributors. The cost decreases due to fewer agents and an updated commission model to the distributors.
- *Marketing expenses* were MSEK -2.0 (-2.1). A new marketing strategy in combination with a more efficient way of working is the main reason for the cost reduction.
- *Administrative expenses* were MSEK -1.8 (-1.3). The increase relates to the extraordinary costs in connection with the implementation of the new business system and investigation costs for new markets.
- *Technology and development expenses* were MSEK -0.5 (-0.3). The development of new products has contributed to an increase in expenses.
- *Contracted consultant* costs were MSEK -1.0 (-0.9).

Personnel expenses decreased during the third quarter to MSEK -3.1 (-3.2) due to a parental leave.

Foreign Withholding tax amounted to MSEK -0.8 (-0.8) during the quarter and is aligned with sales. The 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 withholding tax will be expensed during the year (2018).

Depreciation of intangible assets amounted to MSEK -0.2 (0.0) for the quarter.

Other operating expenses relate to exchange rate differences and amounted to MSEK 0.4 (-1.6).

Operating profit/loss

The quarterly earnings before interest and tax (EBIT) amounted to MSEK 0.6 (0.7), representing an operating margin of MSEK 3.5 (3.5) percent. The operating profit/loss after tax amounted to MSEK 0.3 (0.4).

Financial position

Financial assets

At the end of the quarter, the Group's financial fixed assets amounted to MSEK 6.2 (5.5) and primarily relate to a deferred tax asset for the carryforward of unused tax losses incurred in previous years. The total tax deficit amounted to MSEK 29.5 at the quarter's end.

Intangible assets

During the quarter, a total of MSEK 0.2 has been invested in a new business system and trademark registrations.

Equity

Equity at the end of the quarter amounted to MSEK 32.9 (36.0). The equity/assets ratio as of September 30, 2018, was 66.5 (69.2) percent.

Cash flow and liquidity

The cash flow from operating activities amounted to MSEK 0.4 (-1.9) for the quarter.

At the end of the quarter, the Group's cash and cash equivalents amounted to MSEK 9.9 (15.4).

Staff

At the quarter's end, the Group's operating organization consisted of 19 (18) people, of whom 15 (14) are employed and 4 (4) are consultants.

Income statement

Income statement in brief, TSEK	Note	Parent company/ Group Jul–Sep 2018	Parent company/ Group Jul–Sep 2017	Parent company/ Group YTD 2018	Parent company/ Group YTD 2017	Parent company/ Group Rolling 12 months	Parent company/ Group Full year 2017
Operating revenue							
Net sales	7	18,297	19,005	50,394	49,072	67,474	66,152
Other operating income		-726	546	1,661	1,145	1,750	1,234
Total operating revenue		**17,571**	**19,551**	**52,055**	**50,217**	**69,224**	**67,385**
Operating expenses							
Costs of goods sold		-5,460	-5,681	-16,869	-15,342	-22,787	-21,261
Other external expenses		-7,864	-7,662	-26,141	-25,692	-33,295	-32,845
Personnel expenses		-3,106	-3,161	-9,763	-9,962	-13,061	-13,260
Withholding tax		-759	-764	-1,984	-1,796	-2,683	-2,495
Depreciation and write-downs		-215		-552		-738	-186
Other operating expenses		446	-1,601	7	-3,503	71	-3,439
Total operating expenses		**-16,958**	**-18,869**	**-55,302**	**-56,295**	**-72,493**	**-73,486**
Operating profit/loss		**613**	**682**	**-3,247**	**-6,078**	**-3,269**	**-6,101**
Profit from financial items							
Interest expenses and similar items		–	-4	-2	-7	-4	-8
Profit after financial items		**613**	**678**	**-3,249**	**-6,085**	**-3,273**	**-6,109**
Tax income for the period		-309	-320	259	886	73	700
Profit/loss for the period		**304**	**358**	**-2,990**	**-5,199**	**-3,200**	**-5,409**
Earnings per share (after tax)		**0.01**	**0.02**	**-0.15**	**-0.25**	**-0.16**	**-0.26**

Balance sheet

Balance sheet in brief, TSEK	Note	Group 2018-09-30	Parent company 2017-09-30	Parent company 2017-12-31
ASSETS				
Fixed assets				
Intangible assets	8	3,749	1,535	2,533
Financial assets	9	6,237	5,537	6,287
Total fixed assets		**9,986**	**7,072**	**8,820**
Current assets				
Finished items and items for sale		759	235	313
Trade receivables		26,726	27,583	31,699
Other current assets		2,199	1,886	1,339
Cash and cash equivalents		9,891	15,391	10,930
Total current assets		**39,575**	**45,095**	**44,281**
TOTAL ASSETS		**49,561**	**52,167**	**53,101**
TOTAL EQUITY AND LIABILITIES				
Equity		**32,941**	**36,094**	**35,885**
Liabilities				
Accounts payable		11,905	10,050	12,150
Other current liabilities		4,715	6,023	5,066
Total short-term liabilities		**16,620**	**16,073**	**17,216**
Total liabilities		**16,620**	**16,073**	**17,216**
TOTAL EQUITY AND LIABILITIES		**49,561**	**52,167**	**53,101**

Statement of changes in equity

Statement of changes in equity, TSEK	Jul–Sep 2018	Jul–Sep 2017	Full year 2017	Full year 2016
Equity at period start	32,637	35,735	41,293	40,843
New share issues and warrants				3,614
Transactions with the owners	**32,637**	**35,735**	**41,293**	**44,457**
Annual earnings	304	358	-5,409	-3,164
Total annual earnings	**304**	**358**	**-5,409**	**-3,164**
Equity at period end	**32,941**	**36,094**	**35,884**	**41,293**

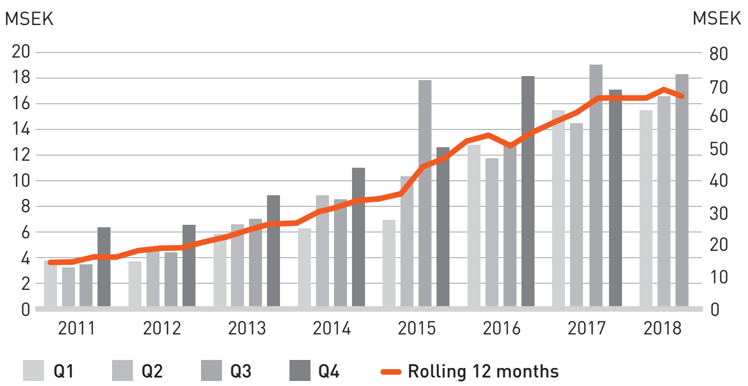
Cash flow statement

Cash flow statement, TSEK	Group Jul–Sep 2018	Parent company Jul–Sep 2017	Parent company Full year 2017
Profit/loss before financial items	613	682	-6,101
Depreciation	216	–	186
Depreciation interest received			-8
Interest paid		-4	
Cash flow from operating activities before changes in operating capital	**829**	**678**	**-5,923**
Changes in working capital			
Increase/decrease in inventory	-298	26	-94
Increase/decrease in inventory	1,303	-4,136	-1,498
Increase/decrease in current liabilities	-1,229	1,721	1,191
Cash flow from operating activities			
Net cash flow from current activities	**605**	**-1,711**	**-6,324**
Investment activities			
Acquisition of shares in subsidiaries, after deduction of liquid assets			-50
Acquisition of intangible assets	-230	-166	-2,719
Cash flow from investing activities	**-230**	**-166**	**-2,769**
Financing activities		0	
Annual cash flow	**375**	**-1,877**	**-9,093**
Cash and cash equivalents at period start	9,516	17,268	20,023
Cash and cash equivalents at period end	**9,891**	**15,391**	**10,930**

Multi-year overview

Multi-year overview	Jul–Sep 2018	Jul–Sep 2017	YTD 2018	YTD 2017	Full year 2017	Full year 2016
Net sales, TSEK	18,297	19,005	50,394	49,072	66,152	55,407
Sales growth, %	-4	44	3	27	19	18
Operating profit/loss EBIT, TSEK	613	682	-3,247	-6,078	-6,101	-3,392
Profit after tax, TSEK	304	358	-2,990	-5,199	-5,409	-3,164
Operating margin EBIT, %	3	3	-6	-12	-9	-6
Operating margin after tax, %	2	2	-6	-10	-8	-6
Cash flow, TSEK	375	-1,877	-1,040	-4,632	-9,093	-7,522
Equity, TSEK	32,941	36,094	32,941	36,094	35,885	41,293
Balance sheet total, TSEK	49,561	52,167	49,561	52,167	53,101	57,318
Equity/assets ratio, %	66.5	69.2	66.5	69.2	67.6	72.0
Number of shares at period-end, thousands	20,516	20,516	20,516	20,516	20,516	20,516
Average no. of shares at period-end, thousands	20,516	20,516	20,516	20,516	20,516	19,716
Earnings per share, SEK	0.01	0.03	-0.15	-0.30	-0.26	-0.16
Cash flow per share, SEK	0.02	-0.09	-0.05	-0.23	-0.44	-0.38
Equity per share, SEK	1.61	1.76	1.61	1.76	1.75	2.01
Share price at period end, SEK	6.36	11.50	6.36	11.50	11.45	12.50

Net sales per quarter and rolling 12 months



Supplementary Info and Notes

Note 1: Nature of the business
Polygiene is the world's leading provider of odor control and Stays Fresh solutions for clothing, sports equipment, textiles and other material, which aims to ensure that users will feel fresh, wherever they are and whatever they do. Today the Group has more than 140 global partners within various segments, such as Sport & Outdoor, Lifestyle, Home Textiles, Footwear, Workwear and Protective Surfaces. Polygiene is not only driving growth as a global ingredient brand, but also aims to change consumer behavior using the 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 IAS 34 compliance
This interim report covers the interim period from April 1 to June 30, 2018, and is presented in Swedish kronor (SEK), which is the functional currency of the parent company. The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting.

Beginning in 2018, the parent company will issue a consolidated financial statement. The initial consolidated financial statement as of December 31, 2018, will be prepared in accordance with IFRS. This interim report is therefore also prepared for the Group in accordance with IFRS.

The parent company is transitioning from K3 accounting standards to RFR 2 accounting standards in this interim report. The changes in these 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 has not yet entered 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 periods and 2017 calendar year have been included for comparison in this interim report.

All business in the Group is 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 2017 annual report, except for 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 covering April 1 to June 30, 2018, was approved for issuance by the Board on August 15, 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 preparation of the initial consolidated financial statement in accordance with IFRS, a review of the items in the income statement has been conducted. As previously communicated, the amounts for net sales, commodities and other external costs have been adjusted. In this interim report, the withholding tax, which the Group cannot reclaim today, has been reported separately in the income statement. In addition, foreign withholding tax has been separated from 'Other operating expenses' in all of the periods presented. A minor redistribution of unrealized exchange rate effects has also taken place between 'Other operating costs' and 'Other operating income'. 'Other operating income' has also increased by a small amount for government contributions for employees, which was 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 party to the instrument's contractual terms.

In the initial report, the financial assets are classified as valued at initial acquisition value, at fair value through other comprehensive income or at fair value through profit or loss. The Group only has financial assets or liabilities measured at initial acquisition valueaccrued acquisition value.

Classification of financial assets shall not be changed 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 measured at initial acquisition cost if both of the following conditions are met and it is determined that the asset is measured at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the asset give rise to cash flows consisting solely of capital amounts and interest on the outstanding capital amount.

Financial assets are measured after the initial reporting period as initial accrued cost using the effective interest method. The amortized cost is decreased by write-offs. Interest income, exchange rate differences and write-downs are reported in the income statement. Any gains or losses, when the asset is removed from the balance sheet, is reported on the income statement.

The Group removes a financial asset from the balance sheet when the contractual rights to receive cash flows from the financial asset ceases. The Group removes a financial liability from the balance sheet when the contractual obligations are paid or have expired.

The loss reserves for trade receivables and contract assets are always measured at the time an amount that corresponds to expected credit losses for the remaining term.

Income

Income refers to revenues from the sales of chemistry as well as 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 Determine the transaction price
4 Divide the transaction price by the performance commitments
5 Report the revenue at the time of fulfillment of the performance commitments

Revenues from the sales of chemistry at a fixed price is reported when the Group transfers control of the assets to the customer. Revenues from royalties are reported when the customer's production with the Group's chemistry has been completed and can be calculated on the basis of the quantity 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 be 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. Variations in exchange rates, such as those arising from the regulation or conversion of monetary items are reported in the income statement of the financial year in which 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 chief executive officer must, in accordance with the applicable accounting and valuation principles, make certain estimates, assessments and assumptions that affect the accounting and valuation of assets, provisions, liabilities, income and expenses. The outcome may deviate from these estimates and assessments, and seldom represents the same amount as the calculated outcome.

The estimates and assessments made in the interim report, including the assessment of the major factors that contribute to uncertainty, are the same as those applied in the annual report for 2017. The only difference is that the calculation of deferred tax provisions, as determined 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

The Swedish Parliament's decision in June 2018 regarding the new income tax rate, among other things, will affect the Group's calculation of the deferred tax on loss carryforwards, that is, the Group's deferred tax asset. The Group currently does not have sufficient information to reassess this deferred tax asset. The board of directors may, however, note that the value of the deferred tax assets will decrease due to a lower tax rate. The difficulty lies however in assessing the probability of when and at what rate the expected reversal of tax loss carryforwards may be expected. A new calculation will be made no later than closing day.

The 20th July 2018, the former CEO of the company, Christian von Uthmann is notified to the police for serious fraud and breach of trust.

The 9th October 2018 an agreement is signed with a Brazilian distributor.

Note 6: Seasonal variations/cyclic effects
Historically, sales are higher during the second half of the year.

Note 7 Net sales by geographical area

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

TSEK 18-09-30	Goods	Royalty	Total
Primary geographic markets			
Asia	2,942	3,300	**6,242**
Europe	3,554	3,088	**6,642**
North America	2,366	3,002	**5,368**
Rest of the world	5	40	**45**
	8,867	**9,430**	**18,297**

TSEK 17-09-30	Goods	Royalty	Total
Primary geographic markets			
Asia	3,380	3,150	**6,530**
Europe	5,365	2,183	**7,548**
North America	1,410	2,800	**4,210**
Rest of the world		717	**717**
	10,155	**8,850**	**19,005**

Note 8 Other intangible assets

Changes in the presented value for intangible assets are:

TSEK	Group 18-09-30	Parent company 17-09-30	Parent company 17-12-31
Opening acquisition value	**5,415**	**2,527**	**1,158**
Annual acquisition costs			
Acquisitions	230	166	**2,719**
Internally developed			
Sales/scrapping			
Exchange rate differences			
Reclassifications			
Closing accrued expenses	**5,645**	**2,693**	**3,877**
Opening accumulated depreciation	**-1,680**	**-1,158**	**-1,158**
Sales/scrapping			
Exchange rate differences			
Reclassifications			
Annual depreciation	-216	–	**-186**
Closing accumulated depreciation	**-1,896**	**-1,158**	**-1,344**
Opening accumulated write-downs			
Reversal of write-downs			
Sales/scrapping			
Exchange rate differences			
Reclassifications			
Annual write-downs			
Closing accumulated write-downs	**0**	**0**	**0**
Recognized value	**3,749**	**1,535**	**2,533**

Note 9 Deferred tax asset

TSEK	Group 18-09-30	Parent company 17-09-30	Parent company 17-12-31
Opening balance	6,223	5,523	**5,523**
Deferred tax reported in the profit for the year	259	886	**700**
Closing balance	**6,482**	**6,409**	**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 share class, and each share carries an equal right to dividend. Par value for each share is SEK 0.10.

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

In June 2018, the company issued 228,000 warrants to staff, which entitle the holders to subscribe to an equivalent number of shares. The warrants may be used during period from June 1 to June 30, 2021, and have the exercise price of SEK 16.50 per share.

For more information on the development of share capital, please refer to the Polygiene AB Annual Report 2017.

Shares

Shares in Polygiene AB (publ.) have been listed on Nasdaq First North, Stockholm, since March 14, 2016.

During the third quarter, the total number of shares traded was 1,169,299, which corresponds on average to 17,989 shares per trading day. The share price at the end of the period was SEK 6.36, which corresponds to market capitalization of MSEK 130. The highest and the lowest share prices during the period were SEK 8.34 and 5.70, respectively.

Ownership structure

The number of shareholders at the end of the period was 774 (774). The table below lists the 10 largest shareholders as of September 30, 2018.

Shareholders	Shares	Percent
Erik A i Malmö AB	1,348,800	6.60%
Clearstream Banking S.A. Luxembourg	1,207,554	5.90%
JP Morgan Bank Luxembourg	1,172,000	5.70%
Richard Tooby	1,016,350	5.00%
JPM Chase NA	940,000	4.60%
Jonas Wollin*	853,500	4.20%
Aktia Fund Management	846,008	4.10%
Lennart Holm*	830,620	4.00%
Mats Georgson*	707,000	3.40%
Peter Sjösten*	603,000	2.90%
Other	10,991,168	53.60%
Total	**20,516,000**	**100.00%**

* 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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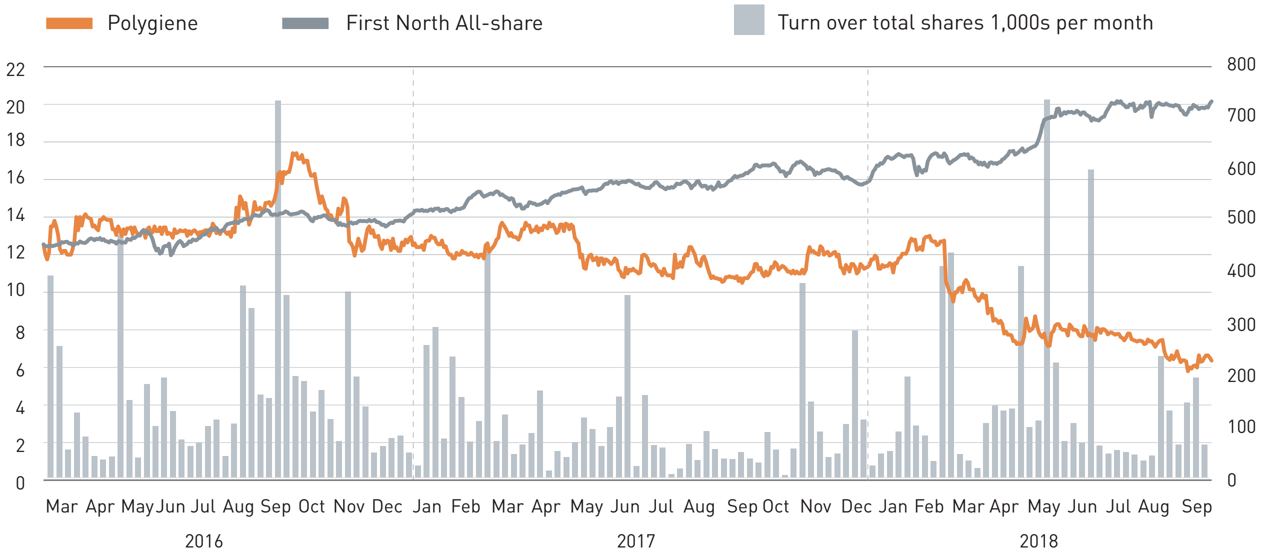

Risks and uncertainty factors

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

Year-end Report 2018	28 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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