Polygiene AB (publ.)

Interim Report
1 April–30 June 2018

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STAYS FRESH

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Q2 in brief

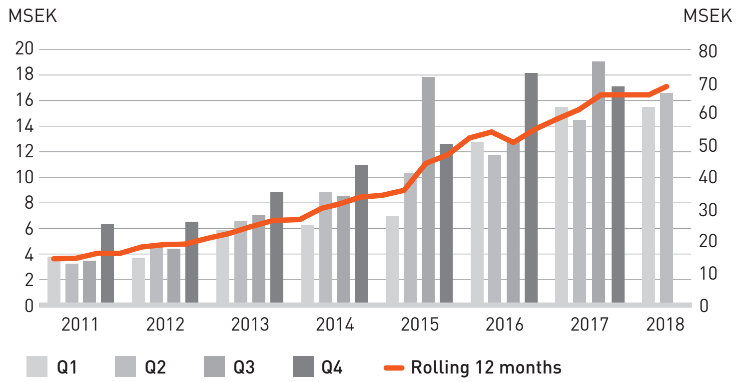
Strong growth in April and May and earnings improve

- In the second quarter, net sales were to MSEK 16.6 (14.6), which corresponds to a 14% increase compared to the same period last year.
- The operating profit/loss (EBIT) for the period improved compared to the same period last year and amounted to MSEK -1.9 (-3.7).
- Cash flow for the second quarter was MSEK -4.2 (-3.5).
- The gross margin amounted to 63% (65%).
- Strong growth during the first two months of the quarter temporarily slackened off in June. The third quarter initially shows signs of strong growth.
- Establishment of a dedicated sales force in North America.
- Focus on increasing brand partners' repeat purchase and penetration rates.

Key ratios	Apr–Jun 2018	Apr–Jun 2017	YTD 2018	YTD 2017	Rolling 12 months	Full year 2017
Net sales, MSEK	16.6	14.6	32.1	30.1	68.2	66.1
Operating profit EBIT, MSEK	-1.9	-3.7	-3.9	-6.8	-3.2	-6.1
Operating margin EBIT, %	-10.7	-25.1	-11.2	-22.1	-4.5	-9.0
Adjusted operating profit, MSEK	-1.3	-3.2	-2.6	-5.7	-0.5	-3.6
Adjusted operating profit, %	-7.5	-21.6	-7.5	-18.7	-1.0	-5.4
Profit after tax, MSEK	-1.6	-3.0	-3.3	-5.6	-3.2	-5.4
Operating margin after tax, %	-9.1	-20.0	-9.6	-18.1	-4.4	-8.0
Earnings per share, SEK	-0.08	-0.15	-0.16	-0.27	-0.15	-0.26
Cash flow, MSEK	-4.2	-3.5	-1.5	-2.8	-7.8	-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 Q2 2018 (April-June)

- The Kickstarter success Organic Basics launched Silvertech 2.0 with Polygiene Stays Fresh Technology.
- Newly appointed management team for Polygiene as a result of the 100-day situational analysis after the change of CEO at yearend.
- All Polygiene board members and the new CEO acquired shares in the Company in connection with a block transaction, May with a total value of MSEK 1.2, executed on 25-28.
- Polygiene has signed a liquidity agreement with Erik Penser AB in accordance with stock exchange regulations.
- A new business system was implemented.
- Appointment of to Grant Thornton as the new auditor in connection with the annual general meeting.
- A warrant program for the entire Polygiene staff was launched in June.
- The employment of Christian von Uthmann, previously CEO and last responsible for developing new markets, was terminated with immediate effect in April.

Polygiene keeps retail staff uniforms fresh and odor free. Shown here: New staff uniforms for Japanese telecom companies Softbank and Y! Mobile.

Significant events after Q2

- The Los Angeles-based premium brand, Denim of Virtue, launched a jeans collection with Polygiene odor control through the VTV Hyundai Home Shopping Network.
- Polygiene signed an exclusive distribution agreement with Swedish material science company Prebona. The agreement initially extends over a three-year period and provides Polygiene access to Prebona's patented OdorControl technology, which is expected to complement Polygiene's product portfolio and broaden its offering to brand partners.
- Polygiene pressed charges against former CEO Christian von Uthmann for gross fraud and disloyalty to principal. Charges were filed with Malmö police authorities and the Company is awaiting a decision whether authorities will initiate a preliminary investigation.
- Polygiene expanded its sales organization in North America to get closer to our brand partners and to increase repeat purchase rates.
- Polygiene exhibited for the first time with its own booth at the Outdoor Retailer trade show in Denver, Colorado. This is in line with the Company's updated strategy for the North American market.

Message from the CEO

Strong growth initially and earnings improvement

The total net sales during the second quarter of 2018 amounted to MSEK 16.6 (14.6), a 14% increase compared to the same period last year. The adjusted operating profit/loss was MSEK -1.9 (-3.7) and the cash flow ended at MSEK -4.2 (-3.5).

Ulrika Björk
CEO Polygiene AB

The second quarter began with strong growth, driven in part by delays in deliveries due to the late timing of the Chinese New Year. During the quarter's first two months, growth exceeded 30%. However, by the third month, the rate of growth slackened, resulting in a 14% increase in total net sales for the quarter. The gross margin of 63% (65%) was somewhat influenced by quarterly fluctuations in the sales and product mix. Sales costs amounted to MSEK-3.9 (-1.5); however, the increase is related, in part, to the new accounting method for variable renumeration to distributors. In the past, these have been reported as the cost of goods.

At the same time, previously announced investments in increased internal efficiencies and reduced staff costs contributed to significant improvements in operating profits of MSEK -1.9 (-3.7).

Home Textiles continue to grow

Asia and, above all, China is playing an increasingly important role for Polygiene. Compared to the same period last year, we have succeeded in more than doubling sales in the region. We see the order intake with our largest Chinese customers continues to be strong. We continue to expand our presence within the Home Textiles segment. This segment influences market growth for odor control functionality in Asia and is less seasonal than the Sport & Outdoor segment, which is our main market segment in North America.

The initiative to extend our business to brand partners in new application segments has gained momentum. During this quarter we have been able to add several key Lifestyle brands, such as Denim of Virtue and TK Shop, to our list of brand partners. We have been successful in duplicating our go-to-market strategy from the Sport & Outdoor segment by taking a holistic approach in these new segments. The response from our international brand partners is very positive.

We note, however, that the different market segments have different sales cycles. For instance, the sales cycle for Footwear has proven to be much more complex and time-consuming than expected. We will therefore allocate additional resources and put greater focus on penetrating the Footwear market. Our collaboration with adidas Terrex earlier this year was an important milestone; however, to align with our long-term plan, we want to be able to work with several new brand partners within the segment.

In the Sport & Outdoor segment, which represents about 60% of our total sales, we saw a slight decline during the quarter, despite the fact that we continued to add new partners. The repeat purchase rate of our brand partners, especially in North America, has not been on par with expectations. Our analysis indicates that, within this market segment, we must further strengthen our ability to collaborate continuously with our brand partners and provide them with relevant tools to convey the value of our offering through to the end consumer. Our new CMO, Mats Georgson, has carried out extensive studies this spring that indicate a change in our strategy for marketing activities is needed. Polygiene builds its brand based on odor control functionality and adds value to our partners' brands by delivering not only the best odor control solution available today, but also a comprehensive sales and marketing program that gives our brands partner a competitive advantage.

Focus on internal efficiencies

Polygiene has had a strong focus on acquiring new brand partners without giving repeat business from current brand partners the same degree of attention. During this quarter, we have implemented several measures to further improve repeat purchase rates, work that was initiated by the new management group. The team is now collectively responsible for brand partner, market and production strategies. At the same time, the group will drive the professionalization of the business by eliminating bottlenecks, streamlining business processes, developing and improving the sales process structure, increasing cost control, and driving digital transformation in marketing. All these measures are necessary to achieve full scalability in the business.

We have carefully analyzed how we can strengthen relationships with our key brand partners with the goal of increasing the share of sales based on repeat purchase rates. This also means encouraging our brand partners to increase the number of Polygiene-treated articles in their product ranges. As a result of the analysis, we inaugurated in July a Polygiene trade show booth at the outdoor recreation exposition, Outdoor Retailer, in the U.S. This enabled us to meet our brand partners directly instead of working through former agents with whom the cooperation has been terminated. The time is right to establish our own sales organization in North America as market surveys conducted last winter confirmed. This will provide us with a dedicated team that can focus 100% on strengthening the Polygiene brand. The investment is our own North American sales organization will be cost neutral as we will no longer have to pay agent commissions.

A new product platform

Polygiene has worked with broadening our product portfolio to maintain and strengthen our position as the market leader within odor control. Our product prevents odor by stopping the growth of bacteria on textiles through the addition of a silver salt solution in the final stage of textile production.

We are now on a quest to make Polygiene the obvious choice for all requirements of odor control applications.

In other words, we are not locked into or restricted by any specific technology. What is important to us is that our odor control functionality is effective, of a high standard and environmentally sound and sustainable solutions for our brand partners as well as their customers.

Subsequent to extensive evaluation, Polygiene has signed after the quarter's close an exclusive long-term distribution agreement with the Swedish company Prebona. Prebona's patented OdorControl technology is an excellent complement to Polygiene's core product. Polygiene treatment prevents the growth of bacteria on textiles; Prebona technology encapsulates and breaks down odor that arises once bacteria attach to textiles. The technologies may be used separately or in combination to offer enhanced protection. Overall, Polygiene's product offering is expanding, which opens up new opportunities for increased market penetration.

Police report filed against former CEO

As mentioned, the employment of the company's former CEO, Christian von Uthmann, was terminated with immediate effect during the second quarter. After termination of employment, an internal investigation was carried out, which indicated serious shortcomings and irregularities in von Uthmann's accounting of his personal expenses during the period from 2012 to 2017. Given the information that was brought to light, the Company and its Board deemed it necessary and unavoidable to press charges against von Uthmann for gross fraud and disloyalty to principal. A formal report has been filed with the appropriate police authorities on July 20.

It is the Company's opinion that there is well-documented evidence that clearly shows that von Uthmann used company resources for significant personal and economic gain of at least half a million Swedish kronor. The authorities involved are expected to drive the process, while the Company focuses on its continued growth journey.

Outlook

During the first half of the year, we have devoted most of our efforts to best ensure and prepare the Company for its continued growth journey. The situational analysis finalized after my appointment as CEO at yearend clearly shows that the Company has now reached a sufficient size and complexity, which means that we need to organize better and to implement a more structured and efficient way of working where we get closer to the brand partners.

Initiatives to improve internal efficiencies and cost control also mean that we must free up crucial financial resources, which I am convinced will contribute to improvements in earnings. Today Polygiene employs 16 (18) people but we are staffing up our sales force, primarily in North America; at the same time, we are phasing out our agent. The strategy is to get closer to our brand partners; however, we expect to see the initial results of this strategy first in 2019.

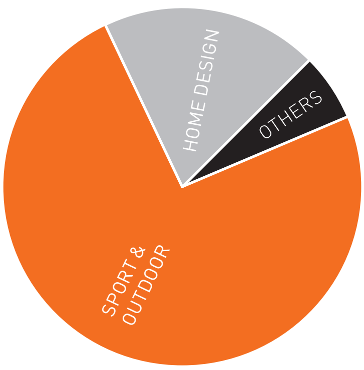
The second quarter clearly indicates the enormous market potential for Polygiene. New markets, primarily in Asia, are becoming increasingly important and growth in new segments, such as Home Textiles, is accelerating and already accounts for a significant part of our sales. Feedback from the summer's major trade shows in Germany and the U.S. clearly indicate that odor control is increasingly becoming more established and is on the way to becoming an integral part of global brand product offerings.

The best two sales quarters of the year lie ahead of us. I believe that Polygiene is well equipped to take advantage of the new business opportunities on offer in Asia, North America and Europe.

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.

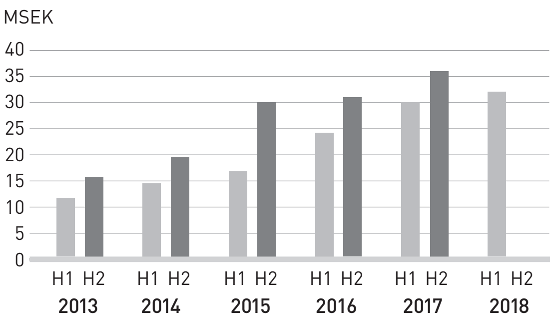


Operations

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

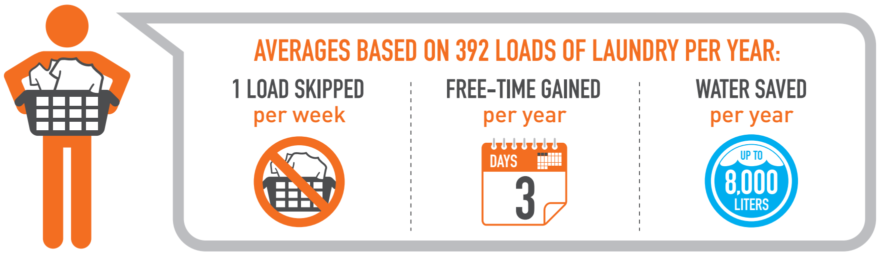
Financial targets

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

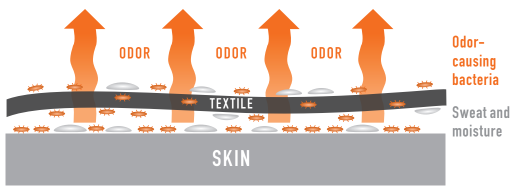
Polygiene focuses mainly on manufacturers of leading premium brands and their customers, and actively works throughout the entire value chain–from development and manufacturing, to marketing, distribution and customer support. Polygiene has a global network of agents, distributors and regional offices.

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.

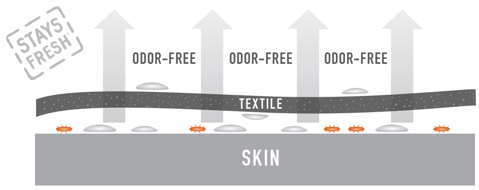
WITHOUT POLYGIENE

ODOR-CAUSING BACTERIA SETTLES AND MULTIPLY IN FABRIC/MATERIAL



WITH POLYGIENE

INHIBITS THE GROWTH OF ODOR-CAUSING BACTERIA IN FABRIC/MATERIAL



Financial performance

Net sales and profit

Operating revenue

The Group's net sales for the second quarter amounted to MSEK 16.6 (14.6), corresponding to an increase of 14% compared to the same period last year.

Other operating income amounted to MSEK 1.2 (0.2) and consisted of positive exchange-rate effects.

Gross margin

During the quarter, gross margin was 62.5 (64.7) percent, which is somewhat lower than the same period last year. This is due to quarterly fluctuations in the cost of goods sold and the sales mix as a result of variations in the pricing model, depending on the brand partner, product and market.

The cost of goods sold amounted to MSEK -6.2 (-5.2) for the quarter.

Operating expenses

Other external costs for the quarter amounted to MSEK -9.9 (-8.2), which is a 21% increase over the same period last year and consists of the following items:

- *Sales costs* were MSEK -3.9 (-1.5), of which MSEK -2.4 (-0.9) was variable. The variable costs consist of commissions to agents and distributors. The cost increase is due to, among other things, a new commission model in China and investments in new markets.
- *Marketing expenses* were MSEK -1.9 (-3.1). A reduction in the number of marketing consultants is the main reason for the cost reduction.
- *Administrative expenses* were MSEK -2.3 (-2.0). The increase relates to the extraordinary costs in connection with the internal investigation and filing formal charges with authorities against the former chief executive officer.
- *Technology and development expenses* were MSEK -0.9 (-0.3). The development of new products and new markets have contributed to an increase in expenses.
- *Contracted consultant costs* were MSEK -0.9 (-1.3).

Personnel expenses decreased during the second quarter to MSEK -3.2 (-3.6) due to the termination of the former chief executive officer and parental leave.

Foreign Withholding tax amounted to MSEK -0.6 (-0.5) 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) for the quarter.

Other operating expenses relate to exchange rate differences and amounted to MSEK 0.4 (-1.0).

Operating profit/loss

The quarterly earnings before interest and tax (EBIT) amounted to MSEK -1.9 (-3.7), representing an operating margin of MSEK -10.7 (-25.1) percent. The operating profit/loss after tax amounted to MSEK -1.6 (-3.0).

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 31.5 at the quarter's end.

Intangible assets

During the quarter, a total of MSEK 1.0 (0) has been invested in a new business system and trademark registration in new markets. The expenses have been 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 32.6 (35.7). The equity/assets ratio as of June 30, 2018, was 64.6 (71.3) percent.

Cash flow and liquidity

The cash flow from operating activities amounted to MSEK -4.2 (-3.5) for the quarter.

At the end of the quarter, the Group's cash and cash equivalents amounted to MSEK 9.5 (17.3).

Staff

At the quarter's end, the Group's operating organization consisted of 16 (18) people, of whom 12 (14) are employed and 4 (4) are consultants.

Income statement

Income statement in brief, TSEK	Note	Group Apr–Jun 2018	Parent company Apr–Jun 2017	Parent company Rolling 12 month	Parent company Full year 2017
Operating revenue					
Net sales	7	16,618	14,593	68,182	66,152
Other operating income		1,157	177	3,022	1,234
Total operating revenue		**17,775**	**14,770**	**71,204**	**67,385**
Operating expenses					
Costs of goods sold		-6,234	-5,155	-23,008	-21,261
Other external expenses		-9,870	-8,241	-33,093	-32,845
Personnel expenses		-3,220	-3,565	-13,116	-13,260
Withholding tax		-567	-515	-2,689	-2,495
Depreciation and write-downs		-192		-522	-186
Other operating expenses		389	-995	-1,986	-3,439
Total operating expenses		**-19,694**	**-18,471**	**-74,414**	**-73,486**
Operating profit/loss		**-1,919**	**-3,701**	**-3,210**	**-6,101**
Profit from financial items					
Interest expenses and similar items		-1	-1	-7	-8
Profit after financial items		**-1,920**	**-3,702**	**-3,217**	**-6,109**
Tax income for the period		284	678	62	700
Profit/loss for the period		**-1,636**	**-3,024**	**-3,155**	**-5,409**
Earnings per share (after tax)		**-0.08**	**-0.15**	**-0.15**	**-0.26**

Balance sheet

Balance sheet in brief, TSEK	Note	Group 2018-06-30	Parent company 2017-06-30	Parent company 2017-12-31
ASSETS				
Fixed assets				
Intangible assets	8	3,735	1,369	2,533
Financial assets	9	6,237	5,537	6,287
Total fixed assets		**9,972**	**6,906**	**8,820**
Current assets				
Finished items and items for sale		461	260	313
Trade receivables		27,894	23,149	31,699
Other current assets		2,643	2,502	1,339
Cash and cash equivalents		9,516	17,269	10,930
Total current assets		**40,514**	**43,180**	**44,281**
TOTAL ASSETS		**50,486**	**50,086**	**53,101**
TOTAL EQUITY AND LIABILITIES				
Equity		**32,637**	**35,735**	**35,885**
Liabilities				
Accounts payable		13,835	10,375	12,150
Other current liabilities		4,014	3,976	5,066
Total short-term liabilities		**17,849**	**14,351**	**17,216**
Total liabilities		**17,849**	**14,351**	**17,216**
TOTAL EQUITY AND LIABILITIES		**50,486**	**50,086**	**53,101**

Statement of changes in equity

Statement of changes in equity, TSEK	Apr–Jun 2018	Apr–Jun 2017	Full year 2017	Full year 2016
Equity at period start	34,217	38,759	41,293	40,843
New share issues and warrants	56			3 614
Transactions with the owners	**34,273**	**38,759**	**41,293**	**44,457**
Annual earnings	-1,636	-3,024	-5,409	-3,164
Total annual earnings	**-1,636**	**-3,024**	**-5,409**	**-3,164**
Equity at period end	**32,637**	**35,735**	**35,884**	**41,293**

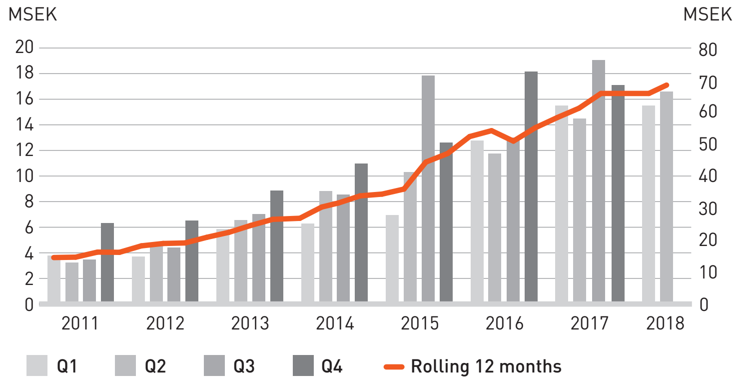
Cash flow statement

Cash flow statement, TSEK	Group Apr–Jun 2018	Parent company Apr–Jun 2017	Parent company Full year 2017
Profit/loss before financial items	-1,911	-3,702	-6,101
Depreciation	192	–	186
Depreciation interest received			-8
Interest paid	-1		
Cash flow from operating activities before changes in operating capital	**-1,720**	**-3,702**	**-5,923**
Changes in working capital			
Increase/decrease in inventory	-166	-45	-94
Increase/decrease in inventory	-2,781	2,173	-1,498
Increase/decrease in current liabilities	1,440	-555	1,191
Cash flow from operating activities			
Net cash flow from current activities	**-3,227**	**-2,129**	**-6,324**
Investment activities			
Acquisition of shares in subsidiaries, after deduction of liquid assets			-50
Acquisition of intangible assets	-965	-1,369	-2,719
Cash flow from investing activities	**-965**	**-1,369**	**-2,769**
Financing activities		0	
Annual cash flow	**-4,192**	**-3,498**	**-9,093**
Cash and cash equivalents at period start	13,707	20,767	20,023
Cash and cash equivalents at period end	**9,515**	**17,269**	**10,930**

Multi-year overview

Multi-year overview	**apr-jun 2018**	**apr-jun 2017**	**YTD 2018**	**YTD 2017**	**Full year 2017**	**Full year 2016**
Net sales, TSEK	16,618	14,593	32,097	30,067	66,152	55,407
Sales growth, %	14	26	7	24	19	18
Operating profit/loss EBIT, TSEK	-1,921	-3,702	-3,872	-6,760	-6,101	-3,392
Profit after tax, TSEK	-1,636	-3,024	-3,304	-5,558	-5,409	-3,164
Operating margin EBIT, %	-11	-25	-11	-22	-9	-6
Operating margin after tax, %	-9	-20	-10	-18	-8	-6
Cash flow, TSEK	-4,192	-3,498	-1,454	-2,754	-9,093	-7,522
Equity, TSEK	32,637	35,735	32,637	35,735	35,885	41,293
Balance sheet total, TSEK	50,486	50,085	50,486	50,085	53,101	57,318
Equity/assets ratio, %	65	71	65	71	68	72
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	-0.08	-0.15	-0.16	-0.27	-0.26	-0.16
Cash flow per share, SEK	-0.20	-0.17	-0.07	-0.13	-0.44	-0.38
Equity per share, SEK	1.59	1.74	1.59	1.74	1.75	2.01
Share price at period end, SEK	7.7	10.8	7.7	10.8	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'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.

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

On April 9, 2018, an agreement was reached with the former chief executive officer, Christian von Uthmann, that his employment should be terminated with immediate effect. No obligation for severance pay exists.

On July 20, 2018, Polygiene filed charges against former CEO, Christian von Uthmann, for gross fraud and disloyalty to principal.

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.

During the quarter, a new business system has been purchased. Implementation is underway and is expected to be completed by October.

Replacement of auditor to Grant Thornton occurred in conjunction with the annual general meeting.

A warrants program for all employees was introduced during the second quarter 2018.

Polygiene has signed a liquidity agreement with Erik Penser AB in accordance with stock exchange regulations.

A new management group was appointed during the second quarter 2018 as a result of the 100-day situational analysis after the CEO replacement at yearend.

Polygiene has signed an exclusive distribution agreement with the Swedish material science company Prebona. The three-year agreement gives Polygiene access to Prebona's patented OdorControl technology.

All Polygiene board members and CEO have acquired shares in the parent company in conjunction with a block transaction, valued at MSEK 1.2 and executed between May 25 and May 28, 2018.

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 18-06-30	**Goods**	**Royalty**	**Total**
Primary geographic markets			
Asia	4,266	3,259	7,525
Europe	3,319	1,718	5,037
North America	1,108	2,076	3,184
Rest of the world	21	851	872
	8,714	**7,904**	**16,618**

TSEK 17-06-30	**Goods**	**Royalty**	**Total**
Primary geographic markets			
Asia	5,656	1,124	6,780
Europe	2,038	2,095	4,133
North America	625	2,520	3,145
Rest of the world		535	535
	8,319	**6,274**	**14,593**

Note 8 Other intangible assets

Changes in the presented value for intangible assets are:

TSEK	**Group 18-06-30**	**Parent company 17-06-30**	**Parent company 17-12-31**
Opening acquisition value	4,450	1,158	**1,158**
Annual acquisition costs			
Acquisitions	965		**2,719**
Internally developed			
Sales/scrapping			
Exchange rate differences			
Reclassifications			
Closing accrued expenses	**5,415**	**1,158**	**3,877**
Opening accumulated depreciation	-1,488	-1,158	**-1,158**
Sales/scrapping			
Exchange rate differences			
Reclassifications			
Annual depreciation	-192	–	**-186**
Closing accumulated depreciation	**-1,680**	**-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	**3,735**	**0**	**2,533**

Note 9 Deferred tax asset

TSEK	**Group 18-06-30**	**Parent company 17-06-30**	**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 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 second quarter, the total number of shares traded was 2,949,716, which corresponds on average to 49,162 shares per trading day. The share price at the end of the period was SEK 7.70, which corresponds to market capitalization of MSEK 158. The highest and the lowest share prices during the period were SEK 9.96 and 6.94, respectively.

Ownership structure

The number of shareholders at the end of the period was 797 (785). The table below lists the 10 largest shareholders as of June 30, 2018.

Shareholders	Shares	Percent
Richard Tooby	1,553,700	7.5%
Erik A i Malmö AB	1,348,800	6.6%
Clearstream Banking S.A. Luxembourg	1,233,048	6.0%
JP Morgan Bank Luxembourg	1,172,000	5.7%
JPM Chase NA	940,000	4.6%
Jonas Wollin*	853,500	4.2%
Aktia Fund Management	846,008	4.1%
Lennart Holm*	830,620	4.0%
Mats Georgson*	707,000	3.4%
Nomura Securities Co Ltd	560,000	2.7%
Other	10,490,324	51.1%
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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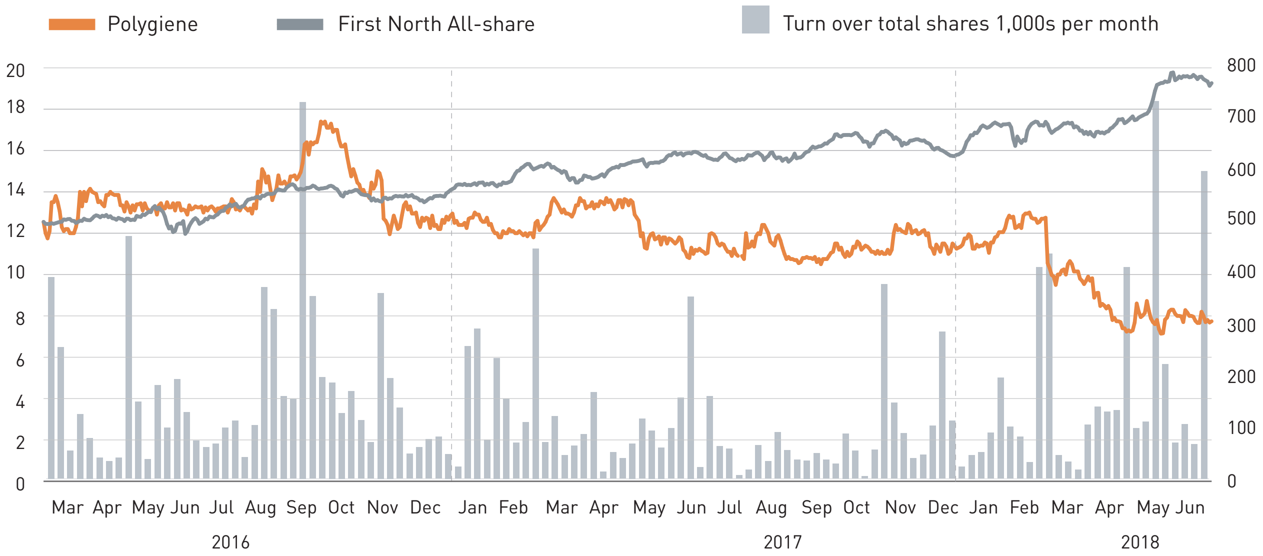

Risks and uncertainty factors

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 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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