



Half-year report 1 January - 30 June 2018

New Agreements Build Future Business

Second Quarter 2018

- Net sales: KSEK 1558 (6 618)
- Profit for the period: KSEK -2 166 (4 022)
- Earnings per share: SEK -0,03 (0,09)

Period 1 January - 30 June 2018

- Net sales: KSEK 2 768 (9 557)
- Profit for the period: KSEK -5 599 (3 299)
- Earnings per share: SEK -0,09 (0,08)

- Serstech signs distribution agreement in China
- Granted patent for electronic autofocus
- Signs agreement with American OEM partner
- Signs global distribution and OEM agreement with major European partner
- Signs agreement with one of the CBRN industry's strongest brands

Message from the CEO

During the second quarter, we made significant progress in the implementation of Serstech's renewed strategy. The focus was and remains on building the foundation for indirect, repeat sales and we signed several important agreements during the quarter. As previously communicated, sales remain low during at least the first half of 2018 and the quarter's net sales ended at just under SEK 1.6 million.

Serstech signed its first two OEM agreements in April and May - one in the US and one in Europe. The US agreement has so far resulted in two smaller transactions, with the US Coast Guard and Hungary. The European agreement includes rather extensive product customization, which will be completed in August, and the products will be ready for launch by our partner at the end of September. The development work is financed by the partner and will be invoiced during the third and fourth quarters of this year.

During the quarter further discussions were initiated with future OEM partners, and we expect significant and recurring business through the OEM channel in the future. The difference to selling through resellers is important as the scalability through the OEM channel is unlimited, with minimal recurrent input from Serstech and a geographic and industry coverage that Serstech could not have achieved on its own.

The reseller channel remains important for the company and during the quarter we have concluded agreements with partners in Malaysia, China, Indonesia, Myanmar, UK, Singapore, Thailand and Vietnam. We have also terminated several agreements with previous partners that do not meet our requirements for experience, capacity and competence. During the third and fourth quarter, Serstech will participate in several tradeshows worldwide and it is our intention to sign a large number of additional distribution agreements in the coming quarters and years. We expect revenues from the renewed reseller channel to materialize in the fourth quarter of this year and to continue to increase through 2019 and onwards.

During the quarter, an agreement was signed with Finnish company Environics, which has long and extensive experience in both military and civil security applications. Environics develops products that can identify and detect gases and radioactivity,

but lack the ability to identify liquid and solid chemicals. During the summer, a bundled solution that identifies solid, liquid and gaseous substances has been marketed in the US to evaluate demand. The initial feedback has been positive, and the intention is to launch the joint solution in the first half of 2019 through both Environics' and Serstech's channels.

Serstech continues to recruit, and during the second quarter four positions have been filled - two development engineers, an R&D manager and a sales person. All four will start their employment on September 3, and we expect to have 13 employees by the end of the year, which is in line with 2017.

In April, Serstech's patent application for handling autofocus in Raman Instruments was approved. The solution means that we can increase the performance of the instrument without introducing any moving parts, thus maintaining essential operational reliability and robustness.

The second quarter represented a decisive and successful take-off of our new strategy. With a renewed and expanding reseller channel, with global OEM partners and with an optimized organization, we are confident and very optimistic about the future.

Stefan Sandor, CEO, Serstech AB (publ)



Sales and results

Net sales amounted to KSEK 2,768 (9,557). The reported profit for the period was KSEK -5,599 (3,229), which is significantly lower than planned due to the fact that Serstech has chosen to focus on developing a distribution channel through new partnership agreements, which will give the company a broader and more solid base, with increased profitability in existing operations in the long term.

Profits have been adjusted for depreciation and amortization of capitalized costs.

The company's sales vary considerably between different quarters, as sales work is project-based with long cycles.

Earnings per share during the period January to December 2017 amounted to SEK -0.09 per share (0.8).

Investments

Serstech's total investments during the period January-June 2018 amounted to KSEK 1,750 (5,923) and relate to intangible fixed assets of KSEK 1,731 (4,701), such as capitalized expenditure for development work, and tangible fixed assets of KSEK19 (1,222), such as inventory, tools and installations.

Depreciation and amortization

The result for the period January to June 2018 has been adjusted by KSEK -2 240 (-2 237) for depreciation, of which KSEK 176 (163) depreciation of equipment, tools and installations, KSEK 2,064 (2,064) depreciation of previous years' capitalized development costs and KSEK 0 (0) in goodwill amortization.

Liquidity and financing

At the end of the period, the company had KSEK 8,616 (300) in liquid funds and KSEK 500 in unutilized loans. The Board has determined that the company has sufficient liquidity to implement its strategic plan. At the reporting date the company had long-term interest-bearing liabilities of KSEK 1,375 (1,312)

Equity, share capital and number of shares

As of June 30, 2018, Serstech's equity amounted to KSEK 49,041 (40,264). The company's equity ratio amounted to 85 percent (76) on June 30, 2018. The share capital is divided into 64 119 306 shares with a quota value of SEK 0.11. All shares belong to the

same series and have the same voting and profit rights in the company.

Listing

The shares have been traded since September 29, 2016 on Nasdaq OMX First North under the shortname SERT and with ISIN code SE0005365095. As of June 30, 2018 the company had approximately 2,000 shareholders.

Personnel

As of June 30, 2018, Serstech had 8 employees (12): 7 men and 1 woman.

Significant events during the period

In April 2018 Serstech appointed the Shenzhen-based Smile Electronics Ltd as distribution partner for the Chinese market. Smile is expert in high-tech products in the security and law enforcement fields and has developed a strong domestic network in the last 15 years with a primary focus on the central and coastal areas where most of the country's business is conducted.

Smile has placed and paid for its first order, delivered in early April 2018. The order contained demo instruments that will be used by the distributor's own sales force and have a relatively low value.

In April Serstech was awarded a patent for electronic auto-focus. The patent covers the use of electronic focus-adjustable lenses in Raman instruments and, when implemented, will bring Serstech's handheld Raman instruments another step closer to the large, non-portable instruments found in laboratories.

Serstech is currently in discussions with potential suppliers of focus-adjustable lenses and the launch of the new technology is scheduled for 2019.

Furthermore, in April 2018 Serstech signed an agreement with an American OEM partner. This is an agreement with a well-established, highly-specialized US systems integrator, offering advanced system solutions to the US military and several US authorities. The agreement includes both Serstech's software and hardware products and is the first distribution agreement in the US market.

The US partner has a significant distribution network from coast to coast and has long-term relationships within both civil and military defense authorities. The company's expertise covers a variety of chemical analysis techniques, system solutions development and complex system sales.

The Serstech 100 Indicator is the only Raman instrument in the partner's portfolio.

As part of the agreement, Serstech received a KSEK 400 order for customization of the products and this work was completed in May. The partner is already participating in several major public tenders, where Serstech's software and hardware are part of the solution on offer.

Serstech's AGM was held on May 8, 2018. In accordance with the Board's proposal, it was decided that no dividend should be paid.

Members of the Board and CEO were granted discharge for their management duties in 2017. Furthermore, it was decided that the Board should consist of four Board members without deputies.

Sophie Persson, Sverker Göranson, Thomas Pileby and Anna Werntoft were re-elected as board members until the end of the next AGM. The AGM further resolved that fees to the members of the Board shall total SEK 560,000, distributed as SEK 200,000 to the Chairman of the Board and SEK 120,000 each to the other members. Per-Arne Petersson was re-elected as auditor.

In May 2018 the Board announced that Serstech had appointed Johan Diedrichs to the newly created position of VP R&D and Products. Johan will be responsible for both R&D and product management and will be crucial for implementing the growth strategy.

Johan has most recently worked with product management at Axis Communications and has extensive experience as both R&D manager and in various positions within product management.

At the end of May 2018, it was announced that Serstech had signed a global distribution and OEM agreement with a major European instrument manufacturer. The new partner has a global sales organization and representation in more than 100 countries, with its own sales subsidiaries in almost a third of these.

The agreement, which includes both software and hardware, allows this partner to sell Serstech's products under its own brand throughout the world. The agreement is non-exclusive and will not limit Serstech's ability to conclude other sales or distribution agreements.

Serstech will deliver the first products to the new partner in September 2018 and the official launch is scheduled for Q4 2018.

In June 2018 Serstech signed an agreement with EnviroNics, one of the Chemical Biological Radiological Nuclear (CBRN) industry's strongest brands, with a long history of providing detection systems to military and civilian authorities around the world.

EnviroNics has industry-leading capabilities in gas detection systems and provides both handheld and fixed gas detectors. Serstech provides the Serstech 100 indicator, which can detect and identify more than 14000 substances in solid or liquid form.

The cooperation agreement will enable EnviroNics to market Serstech's products as a package with EnviroNics ChemPro100i handheld gas detector. The combination of products can detect and identify a wide range of chemicals in all phases of matter - gas, liquid and solid. Target markets are initially the 7,000 HazMat teams and the fire brigades in the United States.

The collaboration was launched at the IAFC HazMat 2018 Industry Fair in Baltimore, USA on June 7th.

The future

After fulfilling our first financial objective to be cashflow positive by the end of 2016, we are confident about the future. The goal to reach SEK 150 million in profitable revenue on a 12-month rolling basis by the end of 2019 remains.

Accounting principles

The report has been prepared in accordance with BFNAR 2012: 1 Annual Report and Consolidated Financial Statements, K3. However, the transition to K3 did not entail any significant change in the accounting principles applied by the company, with the exception of the classification of items under equity. Figures given for comparison have therefore not been recalculated.

The company's assets and liabilities are stated at cost or nominal value respectively unless otherwise stated.

This report has not been subject to review by the company's auditor.

Future reports

The company will provide continuing financial information according to the following schedule:

7 November 2018

Interim report January-September 2018

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The information in this report is such as Serstech AB (publ.) is required to publish under the EU Market Abuse Regulation. The information was provided by the above contact persons for publication at 8.45 am on August 16, 2018.

Certified Adviser to Serstech AB is Västra Hamnen Corporate Finance AB.

About Serstech

Serstech's products identify, handle and analyze chemicals that can affect safety in society - chemicals that are present in, for example, explosives, narcotics and other hazardous chemicals. Distributors and partners are located throughout the world. Serstech's head office is in Lund, and production takes place in Sweden. Serstech is listed on Nasdaq First North. For further information, visit www.serstech.com.

Income Statement

| | 2018-04-01 2018-06-30 | 2017-04-01 2017-06-30 | 2018-01-01 2018-06-30 | 2017-01-01 2017-06-30 | 2017-01-01 2017-12-31 |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| (Amounts in KSEK) | | | | | |
| Operating income | | | | | |
| Net sales | 1 558 | 6 618 | 2 768 | 9 557 | 16 806 |
| Capitalized work for own account | 837 | 2 403 | 1 731 | 3 907 | 6 035 |
| Other operating income | 713 | -146 | 1 263 | -65 | 43 |
| Total operating income | 3 108 | 8 875 | 5 762 | 13 399 | 22 884 |
| Operating expenses | | | | | |
| Raw materials and consumables | - 735 | -205 | -1 468 | -588 | -5 812 |
| Other external costs | -1 080 | -1 339 | -2 553 | -2 815 | -6 689 |
| Employee benefit expenses | -2 267 | -2 143 | -4 507 | -4 347 | -8 229 |
| Depreciation/amortization of tangible and intangible assets | -1 121 | -1 118 | -2 240 | -2 237 | -4 473 |
| Other operating costs | -41 | 0 | -353 | 0 | 0 |
| Total operating costs | - 5 244 | -4 805 | -11 121 | -9 987 | -25 203 |
| Operating profit | -2 136 | 4 070 | -5 359 | 3 412 | -2 319 |
| Profit from financial items | | | | | |
| Interest income and similar | 0 | 0 | 0 | 0 | 0 |
| Interest expenses and similar | -30 | -48 | -240 | -113 | -228 |
| Exchange gains and losses | 0 | 0 | 0 | 0 | 0 |
| Profit after financial items | -2 166 | 4 022 | -5 599 | 3 299 | -2 547 |
| Tax on this period's profit | 0 | 0 | 0 | 0 | 0 |
| Tax adjustments on previous results | 0 | 0 | 0 | 0 | 0 |
| Net profit for the period | -2 166 | 4 022 | -5 599 | 3 299 | -2 547 |

Balance sheet

(Amounts in KSEK)

| | 2018-06-30 | 2017-06-30 | 2017-12-31 |
|---|---------------|---------------|---------------|
| ASSETS | | | |
| Current new issue | 0 | 0 | 0 |
| Intangible assets | | | |
| Goodwill | 0 | 0 | 0 |
| Intangible assets | 34 085 | 34 354 | 34 417 |
| Total intangible assets | 34 085 | 34 354 | 34 417 |
| Tangible assets | | | |
| Equipment, tools, fixtures and fittings | 808 | 1 136 | 964 |
| Total tangible assets | 808 | 1 136 | 964 |
| Financial assets | | | |
| Financial assets | 0 | 0 | 0 |
| Total financial assets | 0 | 0 | 0 |
| Total fixed assets | 34 893 | 35 490 | 35 381 |
| CURRENT ASSETS | | | |
| Inventories etc. | | | |
| Inventories | 396 | 815 | 350 |
| Total | 396 | 815 | 350 |
| Current receivables | | | |
| Accounts receivable | 10 123 | 11 959 | 8 520 |
| Tax assets | 0 | 0 | 0 |
| Other receivables | 3 703 | 4 096 | 3 709 |
| Prepaid expenses and accrued income | 207 | 112 | 166 |
| Total current receivables | 14 033 | 16 167 | 12 395 |
| Cash and bank balances | 8 616 | 300 | 1 763 |
| Total current assets | 23 046 | 17 282 | 14 508 |
| TOTAL ASSETS | 57 938 | 52 772 | 49 889 |

Balance sheet

(Amounts in KSEK)

| | 2018-06-30 | 2017-06-30 | 2017-12-31 |
|---|---------------|---------------|---------------|
| EQUITY, PROVISIONS AND LIABILITIES | | | |
| Equity | | | |
| Equity | 49 041 | 40 264 | 34 418 |
| Total equity | 49 041 | 40 264 | 34 418 |
| Provisions | 306 | 175 | 306 |
| Deferred tax liability | 0 | 0 | 0 |
| Non-current liabilities | | | |
| Liabilities to credit institutions | 1 375 | 1 312 | 1 750 |
| Total non-current liabilities | 1 375 | 1 312 | 1 750 |
| Current liabilities | | | |
| Liabilities to credit institutions | 750 | 1 667 | 1 083 |
| Work in progress on behalf of others | 4 964 | 8 005 | 4 964 |
| Accounts payable | 359 | 593 | 1 131 |
| Other current liabilities | 290 | 106 | 5 118 |
| Accrued expenses and deferred income | 853 | 650 | 1 119 |
| Total current liabilities | 7 216 | 11 021 | 13 415 |
| TOTAL EQUITY AND LIABILITIES | 57 938 | 52 772 | 49 889 |

Change in Equity

(KSEK)

| | 2018-04-01 2018-06-30 | 2017-04-01 2017-06-30 | 2018-01-01 2018-06-30 | 2017-01-01 2017-06-30 | 2017-01-01 2017-12-31 |
|--------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Equity brought forward | 51 207 | 36 243 | 34 418 | 36 965 | 36 965 |
| Rights issue | 0 | 0 | 24 034 | | 0 |
| Issue costs | 0 | 0 | -3 812 | | 0 |
| Profit for the period | -2 166 | 4 022 | -5 599 | 3 299 | -2 547 |
| Amount at end of period | 49 041 | 40 264 | 49 041 | 40 264 | 34 418 |

Cash Flow Analysis

(Amounts in KSEK)

| | 2018-01-01 2018-06-30 | 2017-01-01 2017-06-30 | 2017-01-01 2017-12-31 |
|---|--------------------------|--------------------------|--------------------------|
| OPERATING ACTIVITIES | | | |
| Operating profit | -5 359 | 3 412 | -2 319 |
| Adjustment for items not included in cash flow | 2 240 | 2 412 | 4 604 |
| Tax paid | 0 | 0 | 0 |
| Interest received | 0 | 0 | 0 |
| Interest paid | -240 | -113 | -228 |
| CASHFLOW FROM OPERATING ACTIVITIES BEFORE CHANGES TO WORKING CAPITAL | -3 360 | 5 711 | 2 057 |
| CASHFLOW FROM CHANGES IN OPERATING PROFIT | | | |
| increase (-)/decrease (+) inventory | -47 | 505 | 970 |
| increase (-)/decrease (+) receivables | -1 638 | -2 071 | -795 |
| increase (-)/decrease (+) current liabilities | -5 093 | -3 413 | 3 516 |
| increase (+)/decrease (-) supplier liabilities | -772 | 4 288 | 145 |
| increase (+)/decrease (-) loans | -333 | -875 | -584 |
| CASHFLOW FROM OPERATING ACTIVITIES | -11 243 | 4 145 | 5 309 |
| INVESTMENT ACTIVITIES | | | |
| Acquisition of subsidiaries | 0 | 0 | 0 |
| Acquisition of property, plant and equipment | -19 | -1 222 | -9 |
| Refundable security deposits | 0 | 0 | 0 |
| Acquisition of intangible fixed assets | -1 731 | -4 701 | -6 054 |
| Contributions received development projects (change) | 0 | 0 | 0 |
| CASHFLOW FROM INVESTMENT ACTIVITIES | -1 750 | -5 923 | -6 063 |
| FINANCING ACTIVITIES | | | |
| Overdrafts | 0 | 0 | 0 |
| Loans | -375 | -875 | -437 |
| Share issue costs paid | -3 812 | 0 | 0 |
| Rights issue | 24 034 | 0 | 0 |
| CASHFLOW FROM FINANCING ACTIVITIES | 19 847 | -875 | -437 |
| CASHFLOW FOR THIS PERIOD | 6 853 | -2 653 | -1 191 |
| Cash and cash equivalents at beginning of period | 1 763 | 2 954 | 2 954 |
| Cash and cash equivalents at end of period | 8 616 | 300 | 1 763 |

Key Figures

| (SEK) | 2018-01-01 2018-06-30 | 2017-01-01 2017-06-30 | 2017-01-01 2017-12-31 |
|---|--------------------------|--------------------------|--------------------------|
| PROFITABILITY AND RETURN | | | |
| Revenue growth (%) | -71.04% | 1273.13% | -3.94% |
| Operating margin (%) | neg | 25.46% | neg |
| Profit margin (%) | neg | 24.62% | neg |
| Return on equity (%) | neg | 8.62% | neg |
| CAPITAL STRUCTURE | | | |
| Equity (KSEK) | 49 041 | 40 264 | 34 418 |
| Balance sheet (KSEK) | 57 938 | 52 772 | 49 889 |
| Capital employed (KSEK) | 51 166 | 44 730 | 37 252 |
| Interest-bearing net debt (KSEK) | -6 491 | 2 979 | 1 070 |
| Capital turnover rate (times) | 0.05 | 0.25 | 0.34 |
| Equity ratio (%) | 84.64% | 76% | 68.99% |
| Gearing ratio (%) | 4.33% | 7% | 8.23% |
| Interest coverage | neg | 30 | neg |
| CASH FLOW AND LIQUIDITY | | | |
| Cash flow before investments (KSEK) | -11 243 | 4 145 | 5 309 |
| Cash flow after investments (KSEK) | -12 993 | -1 778 | -754 |
| Liquid funds (KSEK) | 8 616 | 300 | 1 763 |
| INVESTMENTS | | | |
| Acquisition of property, plant and equipment (KSEK) | -19 | -1 222 | -9 |
| Acquisition of intangible fixed assets (KSEK) | -1 731 | -4 701 | -6 054 |
| Sales of property, plant and equipment (KSEK) | 0 | 0 | 0 |
| Acquisition of subsidiaries (KSEK) | 0 | 0 | 0 |
| Acquisition of shares and holdings (KSEK) | 0 | 0 | 0 |
| PERSONNEL | | | |
| Average number of employees | 10 | 12 | 11 |
| Revenue per employee (KSEK) | 576 | 1 117 | 2 080 |
| Number of employees | 8 | 12 | 11 |
| DATA PER SHARE | | | |
| Number of shares | 64 119 306 | 42 746 204 | 42 746 204 |
| Earnings per share | -0.09 | 0.08 | -0.06 |
| Equity per share (SEK) | 0.76 | 0.94 | 0.81 |
| Average number of shares | 53 432 755 | 42 746 204 | 42 746 204 |
| Earnings per average number of shares | -0.10 | -0.02 | -0.06 |

PROFITABILITY AND RETURN

| | |
|----------------------|--|
| Revenue growth (%) | Change in revenue as a percentage of previous period revenue |
| Operating margin (%) | Operating profit as a percentage of turnover |
| Profit margin (%) | Profit for the period as a percentage of turnover |
| Return on equity (%) | Profit for the period as a percentage of average equity |

CAPITAL STRUCTURE

| | |
|----------------------------------|---|
| Equity (KSEK) | Equity at the end of the period |
| Balance sheet (KSEK) | Total assets or total liabilities and equity |
| Capital employed (KSEK) | Balance sheet total less non-interest-bearing liabilities, including deferred tax |
| Interest-bearing net debt (KSEK) | Net interest-bearing provisions and liabilities less financial assets including liquid assets |
| Capital turnover rate (times) | Net revenue for the year divided by average balance sheet total |
| Equity ratio (%) | Equity as a percentage of total assets |
| Gearing ratio (%) | Interest-bearing liabilities divided by equity |
| Interest coverage | Profit after financial items plus financial expenses divided by financial expenses |

CASH FLOW AND LIQUIDITY

| | |
|-------------------------------------|---|
| Liquid funds (KSEK) | Bank balances and cash |
| Cash flow before investments (KSEK) | Profit before financial items plus items that do not affect cash flow minus change in working capital |
| Cash flow after investments (KSEK) | Profit after financial items plus items that do not affect cash flow minus changes in working capital and investments |

PERSONNEL

| | |
|-----------------------------|---|
| Average number of employees | Average number of employees during the period |
| Revenue per employee (KSEK) | Turnover divided by the average number of employees |
| Number of employees | Number of employees at the end of the period |

DATA PER SHARE

| | |
|--------------------------|---|
| Number of shares | Number of outstanding shares at the end of the period |
| Earnings per share (SEK) | Profit for the period divided by the number of shares |
| Equity per share (SEK) | Equity divided by the number of shares |