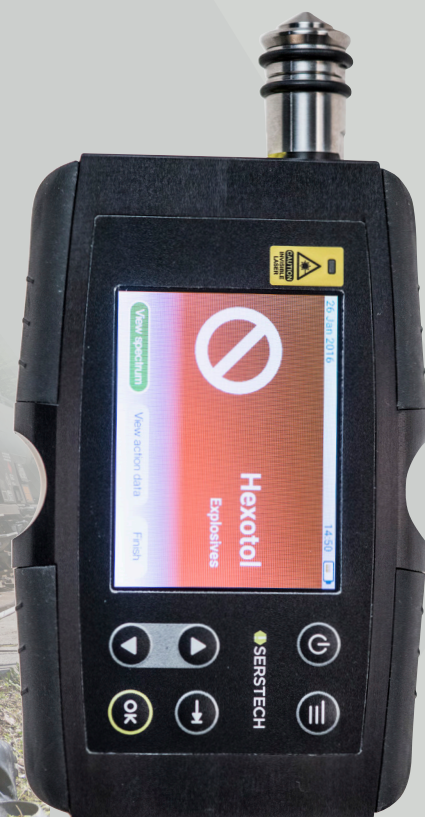


Year-end report January – December 2018

New Agreements Build Future Business



Fourth quarter 2018

Net sales: KSEK 5 093 (531)
Profit for the period: KSEK -181 (-7 215)
Earnings per share: SEK 0,00 (-0,17)
Earnings per average number of shares: SEK 0,00 (-0,17)

Period 1 January – 31 December 2018

Net sales: KSEK 10 588 (16 806)
Profit for the period: KSEK -12 331 (-2 547)
Earnings per share: SEK -0,20 (-0,06)
Earnings per average number of shares: SEK -0,23 (-0,06)

Message from the CEO

During 2018 we built the commercial foundation for Serstech and our goal was to identify and sign distribution agreements with 20 partners matching our requirements. By the end of the year, we had surpassed our goal by a wide margin and had 30 partners and thereby had gained access to most of our prioritized markets around the world. The goal for 2019 is to double this number and make sure each prioritized market is covered by at least one partner. The growing partner network will be under continuous evaluation and we expect that some of the partner agreements will be cancelled, as the network is refined and each partner either succeeds or fails to deliver according to expectations.

Prior to 2018, Serstech's sales team sold directly to end-customers but this was changed a year ago by the updated strategy. Selling through partners obviously scales much better and allows us to, through partners, approach new segments of the market. The new strategy paid off already in 2018 and resulted in net sales of 10.6 MSEK, compared to 2.2 MSEK in 2017, adjusted for the deliveries of the 2016 order to Indonesia. We expect the growth to further accelerate in 2019 as the partner network expands and gains more experience.

The importance of a partner network

The security market has long sales cycles and virtually all sales are done through tenders, some of which are made public and some only distributed among local companies with the adequate contacts and experience. Having a partner network in place with local representation is therefore an important first step to build

a sustainable business. During 2019, we will continue to grow, refine and prune the partner network in order to build and maintain the necessary access to the market. The partner network also lets us scale in terms of providing local support and training to the end-customers.

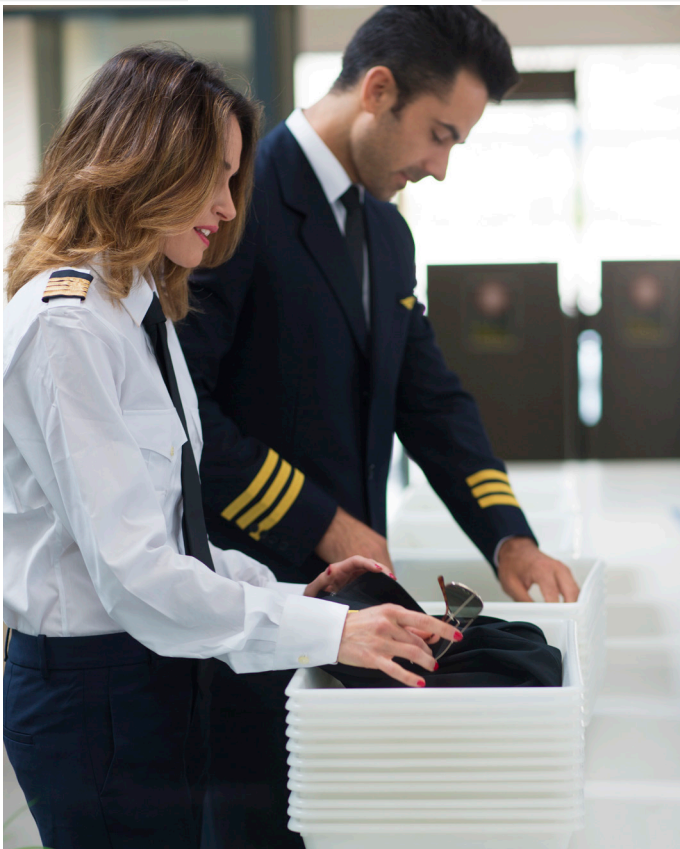
Most tenders in the security market are written with a certain product in mind and competing products are at a clear disadvantage in those tenders. Serstech's partners therefore need to educate, inform and influence the end-users to achieve preferential status for future tenders – a process that can take one or several years. Acquiring high-performing partners in all prioritized markets as quickly as possible remains a top priority for 2019 and onwards, since we intend to take market share from well-established competitors.

We do not offer exclusive partnership agreements for any market or segment, which means that we can add new partners to a market if the incumbent is underperforming. Our agreements further allow us to cancel them if the partner is not performing or if they behave unethically or not in our best interest.

Serstech today has two OEM agreements in place; one in Europe and one in the US. In 2019 and onwards, Serstech will continue to develop OEM relationships within both security and non-security to gain access to sales channels and markets otherwise inaccessible.

A strong starting point

Serstech has several advantages compared to the traditional Raman instrument manufacturers. Our typical competitor is a skilled instrument maker, with expertise in optics, mechanics and electronics. Serstech possesses these skills as well, but more importantly, we have a fundamentally different approach to the customers and users. Instead of simply providing another, stand-alone instrument, Serstech has developed a solution, based on a highly capable and modern software, that can solve a bigger set of the customers' problems. Serstech's ChemDash, which is available both as a PC-based software and as a cloud-based service, creates a solution that can leverage the technologies that are still relatively new to the security industry, such as connectivity, artificial intelligence and cloud-based computational power that no stand-alone instrument can match.



A conservative market ripe for disruption

The security market has always been conservative and typically adopts new technologies years later than other industries. As a comparison, the surveillance video industry is still dominated by analog devices, rather than the digital cameras, displays and storage solutions that replaced all analog counterparts many years ago in the consumer and broadcasting markets.

Many of the sensor and analysis devices that are sold today were developed up to twenty years ago and are missing many of the capabilities that we are used to taking for granted. Through our newly created partner network and our potential end-customers, we get clear indications that our modern, connected solution is the way of the future, especially in the civilian part of the security industry.

Favorable market conditions

Serstech's solution is one of the most cost-effective on the market, with minimal maintenance costs, no consumables and large potential synergies with other systems through our software solution. We see that security buyers are increasingly starting to understand the value of connectivity and modern technologies and we expect to see a shift towards solution acquisition rather than the current, uncoordinated buying of non-compatible, stand-alone devices over the next few years.

The price/performance ratio and ease-of-use of hand-held Ramman instruments make them increasingly attractive alternatives to the more expensive, benchtop laboratory equipment for some applications. We see a demand from pharmaceutical companies, which are primarily interested in using hand-held instruments for validation of incoming goods at their production sites. To be able to meet this demand, Serstech and its products must comply with certain FDA regulations and the work to become compliant is expected to be finished during the summer of 2019. We already have several partners addressing the pharmaceutical market and since sales cycles are considerably



Police and border control agents use Serstech's solutions to identify unknown substances and to share intelligence related to drugs and explosives.

shorter in this industry, we expect to see some sales in this segment towards the end of 2019.

Over the last 18 months, two of Serstech's competitors have been acquired and we believe that the consolidation of the market will continue. The merging of competitor sales organizations and partner networks will create opportunities for us and might disrupt some of their ongoing business. We have seen that the distribution partners of the companies being acquired, have shown an increased interest in working with us and we expect to add a number of them to our network in 2019. >>

‘We have clear indications that our modern, connected system solution is the way of the future in the security industry.’

>> The entrance barrier to the Raman spectroscopy market is high and we do not experience or expect any threats from new players in the market for the coming year. There are some new manufacturers from China, but these are still at a clear disadvantage outside China, due to their considerably lower quality, limited substance libraries and lack of software solutions. Inside China though, they are gaining some traction due to government procurement policies favoring domestic manufacturers.

Geared for the future

Our team evolved rapidly last year – we built a new sales team and strengthened R&D significantly, without increasing the average number of employees compared to 2017. The total number of employees was 13 by the end of the year and we will continue to strengthen the team in 2019.

Serstech is a highly agile player in the security industry and our modern portfolio, our optimized team, strong partner network and our approach to the market are slowly, but securely, starting to change the thinking of this conservative business. 2019 will be a very exciting year and with the considerable achievements of 2018, we have everything we need to reach our goal – achieving a rolling 12-month revenue of 150 MSEK, starting from the end of 2019.



Stefan Sandor, CEO



Financial comments

Sales and results

Net sales for the period January to December amounted to KSEK 10 588 (16 806).

The reported net sales in 2018 were lower than in 2017. The numbers for 2017 however included 14.6 MSEK related to a single order received in 2016, i.e. sales generated in 2017 was 2.2 MSEK, compared to 10.6 MSEK in 2018. Serstech's new strategy aims to create a solid partner network with recurring business from a large number of end-customers and this strategy got off to a good start in 2018.

The reported profit for the period was KSEK -12 331 (- 2 547). The profit is lower due to the lower sales and a write off for bad debts amounting to 2.6MSEK. Profits have been adjusted for depreciation and amortization of capitalized costs.

Earnings per share during the period January to December 2018 amounted to SEK -0.20 per share (-0.06). Earnings per average number of shares, due to the new share issue, amounted to to -0,23 (-0,06).

Depreciation and amortization

The result for the period January to December 2018 has been adjusted by KSEK 4 484 (4 473) for depreciation, of which KSEK 348 (344) depreciation of equipment, tools and installations, KSEK 4 136 (4 129) depreciation of previous year's capitalized development costs and KSEK 0 (0) in goodwill amortization.

“*Acquiring high-performing partners in all prioritized markets as quickly as possible remains a top priority for 2019 and onwards, since we intend to take market share from well-established competitors.*”

Investments

Serstech's total investments during the period January to December 2018 amounted to KSEK 3 719 (6 063) and relate to intangible fixed assets of KSEK 3 564 (6 054), such as capitalized expenditure for development work, and tangible fixed assets of KSEK 155 (9), such as inventory, tools and installations.

Liquidity and financing

At the end of the period, the company had KSEK 5 454 (1 763) in cash and banks and KSEK 1 000 in unutilized overdraft credit.

The Board has concluded 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 1 469 (1 750).

Equity, share capital and number of shares

As of December 31, 2018, Serstech's equity amounted to KSEK 42 309 (34 418).

The company's equity ratio amounted to 87 percent (69) on December 31, 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.

Significant events during the period

On January 8 2018, Serstech held an extra shareholders' meeting where a new share issue was decided together with new articles of association for the company. The share issue was made to facilitate the development of the partner network on existing and new markets.

The proceeds from the share issue was 24,6 MSEK before costs. The share issue was subscribed at a rate of 197%, hence the guarantee was not exercised.

During the first quarter of 2018, several important sales orders were received, where the Swedish National Forensic Center was important. A first delivery to China for quality control purpose was also encouraging as well as the first delivery to the pharma industry in the Middle East.

In March 2018, Serstech made the first delivery of instruments with its spectral library of chemical warfare agents. The delivery was made to Romania and Bulgaria and was dependent on export approval by the Swedish Inspectorate for Strategic Products. Serstech holds a manufacturer's permit for this library and a special export permit is required each time it is sold outside Sweden.



Serstech's ChemDash software solution allows for integrated management of multiple instruments and libraries. Sharing intelligence in real-time is often essential for police and border control.

“ *Identifying a substance is where it starts, but not where it ends, for that reason we created ChemDash. ChemDash can leverage technologies that are still relatively new to the security industry, such as connectivity, AI and cloud-computing.* ”

In April 2018, Serstech was awarded a patent for electronic auto-focus. The patent covers the use of electronic focus-adjustable lenses in Raman instruments and will bring Serstech's handheld Raman instruments even closer to the quality of 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 was 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 technologies, system solutions development and complex system sales. The Serstech 100 Indicator is the only Raman instrument in the partner's portfolio.

Serstech's AGM was held on May 8th, 2018. The current board was reelected, members of the board and the CEO were granted discharge for their management duties in 2017.

In May 2018, Serstech 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.

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 delivered the first products to the partner in September 2018 and the official launch was held in 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. The cooperation agreement will enable Environics to market Serstech's products as a package with Environics's 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.

At the end of August 2018, Serstech terminated the distribution agreement with the partner International Outsourcing Services Pte Ltd (IOS). The total value of delivered products and services so far to Indonesia is 30 MSEK, with the latest shipment in August 2017. By terminating the distribution agreement, the initial order, valued at 67 MSEK and received in May 2016, is also terminated. The termination will not have an impact on earlier reported results, but since full payment have not been received, 2.3 MSEK were written off in the third quarter.

In September 2018, Serstech appointed Johan Raneke VP for strategic alliances. Johan will be responsible for the acquisition and development of strategic partners.

In November 2018, Serstech reached a milestone of 20 new partners and by the end of the year, this number had grown to 30 new partners.



Hazardous chemicals can pose serious threats to humans and first responders need to quickly understand what they are dealing with.



In 2019, Serstech will start to address the pharmaceutical market, which is demanding handheld devices for rapid identification of incoming goods.

Significant events after the period

In July 2018, Serstech cancelled the agreement with International Outsourcing Services (IOS) in Indonesia and wrote off the remaining payment due for delivered products. After a legal process, Serstech re-possessed products with a sales value of more than 2 MSEK. The value of the repossessed products is higher than the amount owed by IOS and covers all costs Serstech has had related to the matter. The products will be included as an asset, valued at production cost, in Q4 2018.



The future

The goal is still to reach SEK 150 million in profitable revenue on a 12-month rolling basis by the end of 2019.

Personnel

As of December 31, 2018, Serstech had 13 (13) employees, among which 11 men and 2 women.

Accounting principles

The report has been prepared in accordance with BFNAR 2012: 1 Annual Report and Consolidated Financial Statements, K3.

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.

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 December 31, 2018 the company had approximately 2500 shareholders.

Income Statement

	2018-10-01 2018-12-31	2017-10-01 2017-12-31	2018-01-01 2018-12-31	2017-01-01 2017-12-31
Amounts in KSEK				
OPERATING INCOME				
Net sales	5 093	531	10 588	16 806
Capitalized work for own account	1 148	808	3 563	6 035
Other operating income	160	43	1 718	43
Total operating income	6 401	1 382	15 869	22 884
OPERATING EXPENSES				
Raw materials and consumables	-1 990	-2 771	-5 147	-5 812
Other external costs	-463	-2 420	-7 812	-6 689
Employee benefit expenses	-2 778	-1 799	-9 154	-8 230
Depreciation/amortization of tangible and intangible assets	-1 125	-1 120	-4 484	-4 473
Other operating costs	-201	0	-1 310	0
Total operating costs	-6 557	-8 110	-27 907	-25 203
Operating profit/loss	-156	-6 728	-12 038	-2 320
PROFIT FROM FINANCIAL ITEMS				
Interest income and similar	0	0	0	0
Interest expenses and similar	-25	-73	-293	-228
Exchange gains and losses	0	-414	0	0
PROFIT/LOSS AFTER FINANCIAL ITEMS	-181	-7 215	- 12 331	-2 547
Tax on this period's profit	0	0	0	0
Tax adjustments on previous results	0	0	0	0
NET PROFIT/LOSS FOR THE PERIOD	-181	-7 215	-12 331	-2 547

Balance Sheet – Assets

	2018-12-31	2017-12-31
Amounts in KSEK		
ASSETS		
Current new issue	0	0
INTANGIBLE ASSETS		
Goodwill	0	0
Intangible assets	33 845	34 417
Total intangible assets	33 845	34 417
TANGIBLE ASSETS		
Equipment, tools, fixtures and fittings	771	964
Total tangible assets	771	964
FINANCIAL ASSETS		
Financial assets	0	0
Total financial assets	0	0
TOTAL FIXED ASSETS	34 615	35 381
CURRENT ASSETS		
Inventories etc.		
Inventories	951	350
Total	951	350
CURRENT RECEIVABLES		
Accounts receivable - trade	3 022	8 520
Current tax assets	122	104
Other receivables	3 020	3 605
Prepaid expenses and accrued income	1 246	166
TOTAL CURRENT RECEIVABLES	7 410	12 395
Cash and bank balances	5 454	1 763
Total current assets	13 815	14 508
TOTAL ASSETS	48 430	49 889

Balance sheet – Equity and liabilities

	2018-12-31	2017-12-31
Amounts in KSEK		
EQUITY		
Equity	42 309	34 418
Total equity	42 309	34 418
Provisions	259	306
Deferred tax liability	0	0
NON-CURRENT LIABILITIES		
Liabilities to credit institutions	1 469	1 750
Total non-current liabilities	1 469	1 750
CURRENT LIABILITIES		
Liabilities to credit institutions	375	1 083
Work in progress on behalf of others	0	4 964
Accounts payable	2 538	1 131
Other current liabilities	479	5 117
Accrued expenses and deferred income	1 001	1 119
Total current liabilities	4 393	13 415
TOTAL EQUITY AND LIABILITIES	48 430	49 889

Change in Equity

	2018-10-01 2018-12-31	2017-10-01 2017-12-31	2018-01-01 2018-12-31	2017-01-01 2017-12-31
Amounts in KSEK				
Equity brought forward	42 490	41 633	34 418	36 965
Rights issue	0	0	24 579	0
Issue costs	0	0	-4 357	0
Profit for the period	-181	-7 215	-12 331	-2 547
Amount at end of period	42 309	34 418	42 309	34 418

Cash Flow Analysis

	2018-10-01 2018-12-31	2017-10-01 2017-12-31	2018-01-01 2018-12-31	2017-01-01 2017-12-31
Amounts in KSEK				
OPERATING ACTIVITIES				
- Operating profit	-156	-6 728	-12 038	-2 320
-Adjustment for items not included in cash flow	1 078	1 251	4 437	4 605
-Tax paid	0	0	0	0
-Interest received	0	0	0	0
-Interest paid	-25	-487	-293	-228
CASHFLOW FROM OPERATING ACTIVITIES BEFORE CHANGES TO WORKING CAPITAL	897	-5 964	-7 894	2 057
CASHFLOW FROM CHANGES IN OPERATING PROFIT				
- increase (-)/decrease (+) inventory	-467	753	-601	970
- increase (-)/decrease (+) account receivables	92	3 288	5 498	-1 970
- increase (-)/decrease (+) other short-term receivables	675	271	-513	1 175
- increase (+)/decrease (-) account payables	912	-967	1 407	145
- increase (+)/decrease (-) other short-term liabilities	415	4 875	-9 720	3 516
CASHFLOW FROM OPERATING ACTIVITIES	1 174	2 256	-11 823	5 893
INVESTMENT ACTIVITIES				
- Acquisition of subsidiaries	0	0	0	0
- Acquisition of property, plant and equipment	-35	0	-155	-9
- Refundable security deposits	0	0	0	0
- Acquisition of intangible fixed assets	-1 149	-807	-3 564	-6 054
- Contributions received development projects (change	0	0	0	0
CASHFLOW FROM INVESTMENT ACTIVITIES	-1 184	-807	-3 719	-6 063
FINANCING ACTIVITIES				
Overdrafts	0	0	0	0
Loans	-94	-1	-989	-1 021
Share issue costs paid	0	0	0	0
Rights issue	0	0	20 222	0
CASHFLOW FROM FINANCING ACTIVITIES	-94	-1	19 233	-1 021
CASHFLOW FOR THIS PERIOD	-104	1448	3 691	-1 191
Cash and cash equivalents at beginning of period	5 558	315	1 763	2 954
Cash and cash equivalents at end of period	5 454	1 763	5 454	1 763

Key Figures

	2018-10-01 2018-12-31	2017-10-01 2017-12-31	2018-01-01 2018-12-31	2017-01-01 2017-12-31
Amounts in KSEK				
PROFITABILITY AND RETURN				
Revenue growth (%)	859%	-93%	37%	-4%
Operating margin (%)	neg	neg	neg	neg
Profit margin (%)	neg	neg	neg	neg
Return on equity (%)	neg	neg	neg	neg
CAPITAL STRUCTURE				
Equity (KSEK)	42 309	34 418	42 309	34 418
Balance sheet (KSEK)	48 430	49 889	48 430	49 889
Capital employed (KSEK)	44 153	37 252	44 153	37 252
Interest-bearing net debt (KSEK)	-3 610	1 070	-3 610	1 070
Capital turnover rate (times)	0,11	0,01	0,22	0,46
Equity ratio (%)	87%	69%	87%	69%
Gearing ratio (%)	4,4%	10%	4,4%	8%
Interest coverage	neg	neg	neg	neg
CASH FLOW AND LIQUIDITY				
Cash flow before investments (KSEK)	1 174	-2 256	-11 823	5 893
Cash flow after investments (KSEK)	-10	1 449	-15 542	-170
Liquid funds (KSEK)	5 454	1 763	5 454	1 763
INVESTMENTS				
Acquisition of property, plant and equipment (KSEK)	-35	0	-155	-9
Acquisition of intangible fixed assets (KSEK)	-1 149	-807	-3 564	-6 054
Sales of property, plant and equipment (KSEK)	0	0	0	0
Acquisition of subsidiaries (KSEK)	0	0	0	0
Acquisition of shares and holdings (KSEK)	0	0	0	0
PERSONNEL				
Average number of employees	13	11	11	11
Revenue per employee (KSEK)	486	48	1 404	2 080
Number of employees	14	11	14	11
DATA PER SHARE				
Number of shares	64 119 306	42 746 204	64 119 306	42 746 204
Earnings per share	0,00	-0,17	-0,20	-0,06
Equity per share (SEK)	0,66	0,81	0,66	0,81
Average number of shares	64 119 306	42 746 204	53 432 755	42 746 204
Earnings per average number of shares	0,00	-0,17	-0,23	-0,06

Definitions

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
Capital turnover rate (times)	Equity as a percentage of total assets
Equity ratio (%)	Interest-bearing liabilities divided by equity
Gearing ratio (%)	Profit after financial items plus financial expenses divided by financial expenses
Interest coverage	

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 less change in working capital
Cash flow after investments (KSEK)	Profit after financial items plus items that do not affect cash flow less 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

Future reports

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

2019-04-24

Quarterly report (Jan-Mar)

2019-04-24

Annual shareholders meeting

2019-08-20

Half Year report (Jan-Jun)

2019-11-13

Quarterly report (Jan-Aug)

2020-02 -27

Year End report (Jan-Dec)

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The information in this report is such that 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 February 27, 2019. Certified advisor to Serstech is Västra Hamnen Corporate Finance AB, phone: 040-20 02 50, e-mail: ca@vhcorp.se.

About Serstech

Serstech delivers solutions for chemical identifications and has customers across the world, mainly in the safety and security industry. Typical customers are customs, police authorities, security organizations and United Nations. The solutions and technology are however not limited to security applications and potentially any industry using chemicals of some kind could be addressed by Serstech's solution. Serstech is traded at Nasdaq First North and you find more information about the company at: www.serstech.com.

