Nasdaq First North Premier: SDS

Interim report Q2

January–June 2019

Seamless
Distribution Systems

Interim report Q2
January–June 2019

SUMMARY
APRIL–JUNE 2019

- Net sales totalled MSEK 54.6 (18.9), an increase of 188.7% compared to the same period the preceding year.
- EBITDA was MSEK 3.3 (2.4).
- The EBITDA margin was 6.1% (12.6%)
- EBITDA excluding acquisition costs was MSEK 4.7.
- The EBITDA margin was 8.5% excluding acquisition costs.
- The loss after tax was MSEK 1.0 (Q2 2018 profit: 2.1).
- Profit after tax was MSEK 0.3 excluding acquisition costs.
- Earnings per share equalled SEK -0.13 (0.30).
- Total cash flow was MSEK -2.8 (2.9).

SUMMARY
JANUARY - JUNI 2019

- Net sales totalled MSEK 105.7 (31.1), an increase of 239.8% compared to the same period the preceding year.
- EBITDA was MSEK 9.5 (-0.6).
- The EBITDA margin was 9.0% (-2.1%).
- EBITDA excluding acquisition costs was MSEK 11.3.
- The EBITDA margin was 10.7% excluding acquisition costs.
- Profit after tax was MSEK 1.5 (H1 2018 loss: 4.2).
- Profit after tax was MSEK 3.2 excluding acquisition costs.
- Earnings per share equalled SEK 0.19 (-0.61).
- Total cash flow was MSEK -2.3 (1.4).

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
Net sales	54,574	18,901	105,678	31,104
Net sales excluding withholding tax	52,353	17,121	100,988	27,744
Operating profit/loss	236	121	3,699	-5,186
Operating margin (EBIT)	0.4%	0.6%	3.5%	-16.7%
Operating profit excluding acquisition costs	1,579	-	5,438	-
Operating margin (EBIT) excluding acquisition costs	2.9%	-	5.1%	-
EBITDA	3,318	2,374	9,521	-648
EBITDA margin	6.1%	12.6%	9.0%	-2.1%
EBITDA excluding acquisition costs	4,661	-	11,260	-
EBITDA margin excluding acquisition costs	8.5%	-	10.7%	-
Profit/Loss for the period after tax	-1,016	2,102	1,460	-4,209
Profit for the period after tax, excluding acquisition costs	327	-	3,199	-
Total cash flow	-2,795	2,858	-2,276	1,353
Earnings per share, before and after dilution	-0.13	0.30	0.19	-0.61
Equity/assets ratio	25.1%	26.1%	25.1%	26.1%

Seamless Distribution Systems

Seamless Distribution Systems AB

+46 8 58 63 34 69

sds.info@seamless.se

Vasagatan 7, SE-111 20 Stockholm, Sweden

www.seamless.se

FINANCIAL CALENDAR

Interim report Q3 2019	17 October 2019
Year-end Report 2019	13 February 2020

CEO's comments

It is my pleasure to report that SDS's long-term growth continued during the second quarter. Revenue surpassed MSEK 54, with a contribution of MSEK 29 from the distribution business we acquired last autumn. But even without that distribution revenue, quarterly revenue surpassed revenue in the same quarter one year earlier. We have benefited from healthy sales of short-term projects and a few major hardware projects. EBIT for comparable operations was MSEK 0.2, somewhat stronger than in the corresponding period of the preceding year. Earnings were held back by a change in the product mix, with more hardware than usual. In addition, costs of MSEK 1.3 were incurred for the acquisition of eServGlobal. Thus, we will show an EBIT for the quarter of MSEK 1.5.

Our Swedish distribution business is growing steadily and continues to recruit new resellers – retail chains as well as independent outlets – which shows that the market is reacting positively to us as a solid and qualified player. Now we plan to introduce new technology and products that we originally created for our advanced prepaid SIM card markets in Africa.

ACQUISITION OF ESERVGLOBAL

The big news this quarter is our acquisition of the French company eServGlobal, a global supplier of systems for electronic recharge of prepaid SIM cards and mobile financial services. This acquisition is an important part of our long-term growth strategy and at the same time will strengthen our operational efficiency. Through this acquisition, our physical presence in North Africa and the Middle East will grow. We will also reach new geographic markets in Southeast Asia, thus complementing our geographic presence with a virtually perfect fit. In addition, this acquisition will double SDS's sales of systems for digitalization of value transactions. The acquisition is expected to be completed on 25 July this year after the seller's extraordinary general meeting.

CONTRACT WITH THE LEADING MOBILE OPERATOR IN SOUTHERN AFRICA

We are also proud and pleased that during the quarter we received an order worth MSEK 7 from the leading operator in Eswatini (formerly Swaziland). This is the result of our long-term investment aimed at maximizing customer benefit. The delivery of our system, which manages digital distribution, helps us strengthen our presence in Africa's southern regions and demonstrates that the capital invested in the ERS 360° platform gives customers direct, additional earnings.

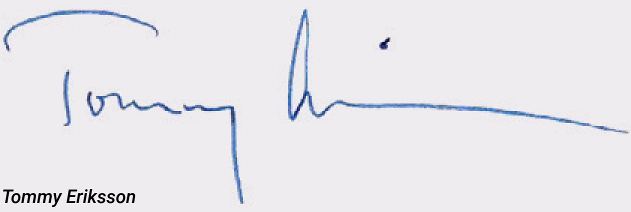
SUCCESS WITH SUPPLEMENTAL PRODUCTS

In addition to the contract with our customer in Eswatini and the acquisition of eServGlobal, we also had great success with our supplemental products for the ERS 360° platform, products that are now being launched on a wide scale. The needs of mobile operators to strengthen and further integrate their platforms will boost our organic growth and our revenue as early as this quarter. At the same time, this validates ERS 360° as a mission-critical channel to the market for mobile operators' sales of talk time and exponentially growing sales of mobile data. In this way, we are developing ongoing long-term relationships with customers, further enhancing profitability in the future.

GROWING PROPORTION OF RECURRING REVENUE

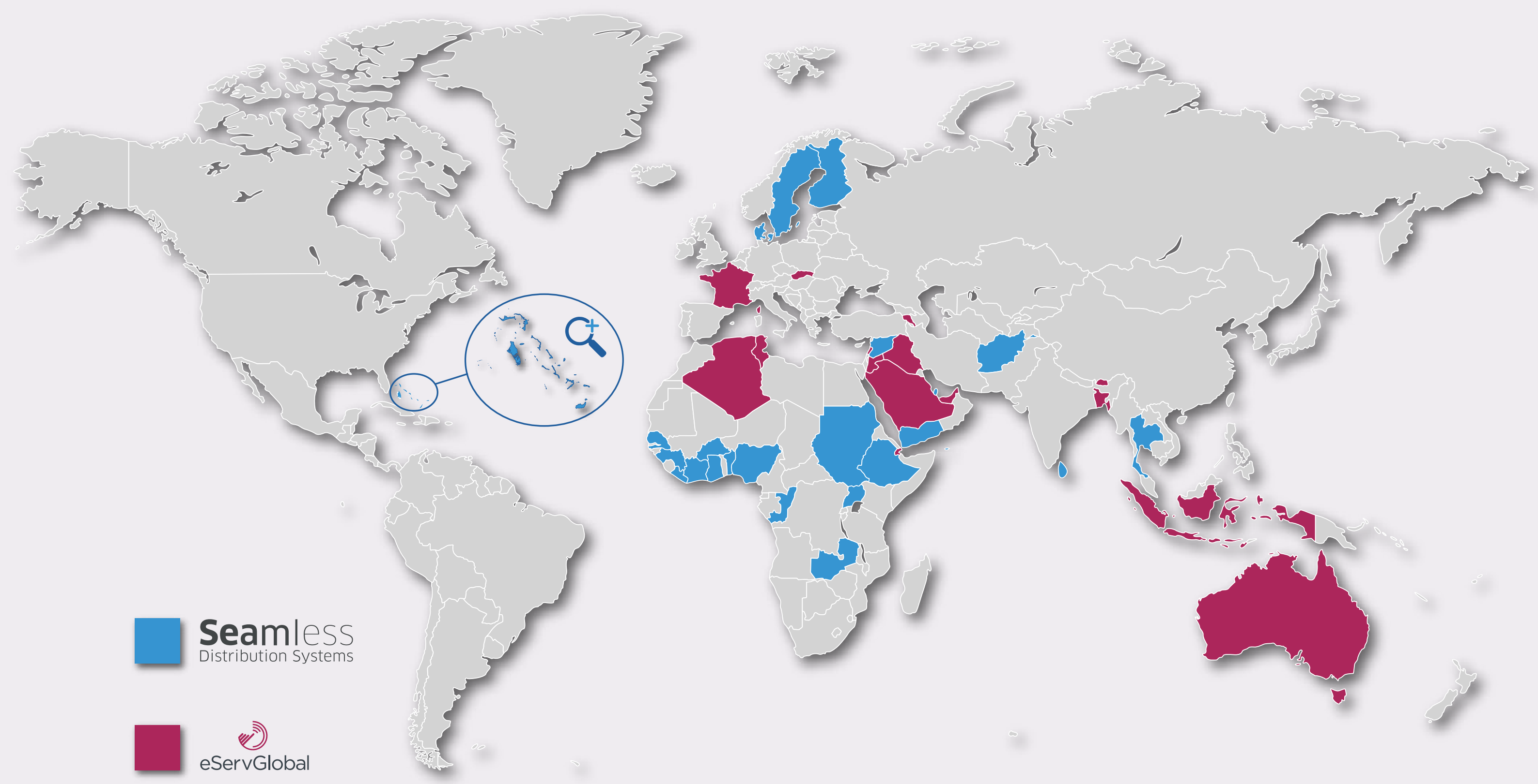
With the aim of smoothing out revenue flows, we continue efforts to expand the share of revenue that is recurring. One example of this is the agreement we signed last year with a distributor with a close relationship with Ethiopia's only mobile operator. With 66 million mobile customers, the operator previously distributed talk time using physical scratch cards. Now this will be increasingly digitalized. The contract with Smart Digital Technologies is different from previous undertakings with respect to the business model. The reason is that we are going to receive a share of the revenues that are generated by transactions via the ERS platform. Thus this acquisition is our first major undertaking to generate such recurring revenue.

SDS continues to advance ever further into the fintech world, with the eServGlobal acquisition being the latest proof. The journey of change that the company has made in recent years grants us a unique opportunity to create a successful merger with strategic benefits, economies of scale and significant synergies. We also see a continued need for consolidation in this sector and intend to play an active role in that process.



Tommy Eriksson

CEO, Seamless Distribution Systems AB



eServGlobal

eServGlobal is a global supplier of systems for electronic recharge of prepaid SIM cards and mobile financial services. The operating company is located in France, and development staff are in France and in Jakarta, Indonesia. Support staff are in a 50%-owned company in Romania. Like SDS, eServGlobal has its sales staff in Dubai. In 2018, eServGlobal had sales of MEUR 7, of which MEUR 4.3 were recurring support revenues.

ACQUISITION OF ESERVGLOBAL

The acquisition of eServGlobal will make SDS a major independent player in the electronic distribution market in Africa, Asia and the Middle East. SDS will expand its customer base with two new operator groups, thus reducing its dependence on MTN, Africa's biggest mobile operator. One of SDS's goals is to cover its fixed costs with recurring revenues, and this acquisition – which doubles recurring revenues – helps move SDS closer to that goal. SDS will also acquire in-depth expertise in the development of large volume distribution, which the company will be able to capitalize on when bringing out new products.

SDS and eServGlobal are a perfect geographic fit and have no overlapping customers, as illustrated by the map above. As for synergies in terms of revenue, SDS will work to achieve good relationships at the group level with eServGlobal's two operator groups, Zain and Oreedoo. In addition, the company wants to highlight the results already achieved with MTN. The five MTN customers that have not yet chosen SDS have increased their sales and transaction volumes 7%, while customers that chose SDS have increased them 46%. SDS also has a more advanced product portfolio than eServGlobal, with more supplemental services that can increase existing customers' profitability fast, because SDS's time-to-market is about 75% faster than eServ-Global's. As the merged company becomes a larger and more stable player in the market, the company will successfully conclude more of the sales processes it has initiated.

On the cost side, synergies exist chiefly in development, support and administration. The synergies in this acquisition, in terms of profitability and growth, are expected to arise as early as 2020, having full impact in 2021.

eServGlobal	Seamless Distribution Systems
Products	
PAYMOBILE - Digital value transactions and mobile financial services	**ERS 360 -** Digital value transactions and mobile financial services
VOMS - Voucher management	**CMS -** Precision marketing
PROMOMAX - Campaign management system	**MC -** Microcredits
IVR - Voice-activated customer service	**SFO -** Sales force optimization
SUPPORT, OPERATIONAL MANAGEMENT AND CONSULTANCY SERVICES	**BI -** Decision support system
	SUPPORT, OPERATIONAL MANAGEMENT AND CONSULTANCY SERVICES
Major customers	
ZAIN GROUP (4/9)	**MTN GROUP** (16/21)
OREEDOO GROUP (4/12)	**GLO GROUP** (2)
DU DUBAI (1)	**ETHIO TELECOM** (1)

The Group

'The Group' now refers to the new Group that contains the Seamless Distribution Systems AB (SDS) and Seamless Digital Distribution AB (SDD) segments.

NET SALES

Net sales for the second quarter totalled KSEK 54,574 (18,901), an increase of 188.7% compared to the same period the preceding year. Net sales excluding withholding tax totalled KSEK 52,353 (17,121), an increase of 205.8% compared to the preceding year. Other operating revenue totalled KSEK 2,063 (554).

Sales during the second quarter were almost three times as great compared to the same period the preceding year. The large increase in revenue was attributable to SDD's contribution, KSEK 29,255, and to SDS completing a large project in Eswatini during the second quarter. Additionally, the company completed two major deliveries of hardware and had recurring orders from existing customers.

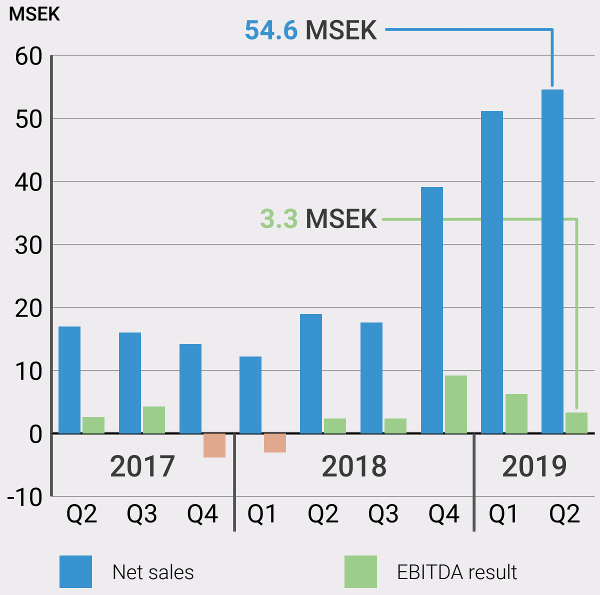
Net sales for the first six months of the year totalled KSEK 105,678 (31,104), an increase of 239.8% compared to the same period the preceding year. Net sales excluding withholding tax totalled KSEK 100,988 (27,744), an increase of 264.0% compared to the preceding year. Other operating revenue totalled KSEK 3,427 (1,405).

During the first six months, the company completed three major installations. SDS saw weaker incoming orders for major projects in the second quarter, but that was offset by two major deliveries of hardware. However, these two projects had gross margins inferior to the company's more traditional sales mix. SDD's sales have increased more than 27% since January and are expected to continue growing this year.

Business opportunities for both companies continue to expand, and the number of prospects remains at a very satisfying level.

Because of the company's business model, large projects impact revenue and earnings from quarter to quarter.

Net sales and EBIDTA result



OPERATING EXPENSES

Operating expenses for the second quarter totalled KSEK 56,401 (19,334), an increase of 191.7% compared to the same period last year. The increase was chiefly attributable to SDD's material expenses, which amounted to KSEK 27,937.

SDS's material expenses increased mainly because of two deliveries of hardware to Benin and Ethiopia.

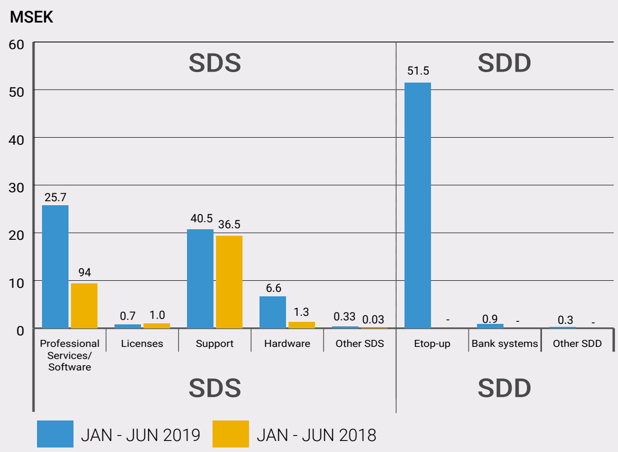
The increase in other external expenses was attributable to acquisition costs of KSEK 1,343 and that the Group had more consultants compared to the same period the preceding year. The increase in amortization resulted from the company having had high capitalized development costs throughout 2017 and the first half of 2018.

Personnel costs rose because the Group has more employees now than in the same period the preceding year.

The increase in other operating expenses was a consequence of increased sales by SDS in the first quarter, generating more withholding tax because withholding tax is a percentage of sales, and also a consequence of exchange rate losses, as the Swedish krona strengthened against the U.S. dollar the last few days of June.

Operating expenses for the six months totalled KSEK 105,407 (37,695), an increase of 179.6% compared to the same period last year. The increase was attributable to SDD's material expenses, which totalled KSEK 50,317, acquisition costs of KSEK 1,739, higher material expenses as SDS completed three major deliveries of hardware, and higher costs of employees and consultants, as the Group had more employees than in the same period the preceding year.

Net sales per product group



OPERATING PROFIT/LOSS

EBITDA for the second quarter totalled KSEK 3,318 (2,374). Excluding acquisition costs, EBITDA was KSEK 4,661.

Net financial items for the quarter totalled KSEK -1,159 (2,051). The positive net financial items in 2018 resulted from the new owner consortium, which took over Invuo's receivable, waiving accrued interest of KSEK 3,000.

The loss before tax was KSEK 923 (Q2 2018 profit: 2,172).

Excluding acquisition costs, profit before tax totalled KSEK 420.

Earnings per share were SEK -0.13 (0.30).

EBITDA for the six months totalled KSEK 9,521 (-648). Excluding acquisition costs, EBITDA was KSEK 11,260.

Net financial items totalled KSEK -2,034 (1,133).

Profit before tax was KSEK 1,665 (-4,053). Excluding acquisition costs, profit before tax totalled KSEK 3,404.

Earnings per share were SEK 0.19 (-0.61).

CAPITAL EXPENDITURE

During the second quarter, KSEK 4,609 (3,260) was invested in product development. Amortization of intangible assets totalled KSEK -2,664 (-2,076). Investment in property, plant and equipment totalled KSEK 486 (343). Depreciation on property, plant, and equipment totalled KSEK -242 (-285).

During the six months, KSEK 6,457 (5,661) was invested in product development. Amortization of intangible assets totalled KSEK -5,153 (-4,068). Investment in property, plant and equipment totalled KSEK 873 (343). Depreciation on property, plant, and equipment totalled KSEK -492 (-421).

Leases (IFRS 16)

In April 2019, the rental agreement for the new office premises in India took effect, subject to the new IFRS 16.

According to this new reporting standard, an asset (the right to use a leased asset) and a financial liability regarding the obligation to pay leasing fees must be recognized.

Thus a right-of-use of KSEK 3,533 was recognized in the Group along with amortization of KSEK 177 and an interest expense of KSEK 90, both replacing the rental expense. The financial liability equals KSEK 3,397 at end June.

NUMBER OF EMPLOYEES

The number of employees in the Group at the end of the period was 58 (61). Most of the employees are software developers. In addition to these employees, SDS has approximately 80 consultants, mainly in Pakistan and Ghana.

CASH FLOW AND FINANCIAL POSITION

Cash and cash equivalents at the end of the period totalled KSEK 2 (3,341). Of the total overdraft facility of KSEK 10,000, KSEK 0 had been used.

SDS has an interest-bearing liability of KSEK 35,000 which carries 10% interest. The liability must be repaid with the accrued interest in 2022.

Cash flow from operating activities for the second quarter was KSEK 1,384 (2,491). Total cash flow was KSEK -2,795 (2,858).

Cash flow from operating activities for the six months was KSEK 9,532 (2,535). Total cash flow was KSEK -2,276 (1,353).

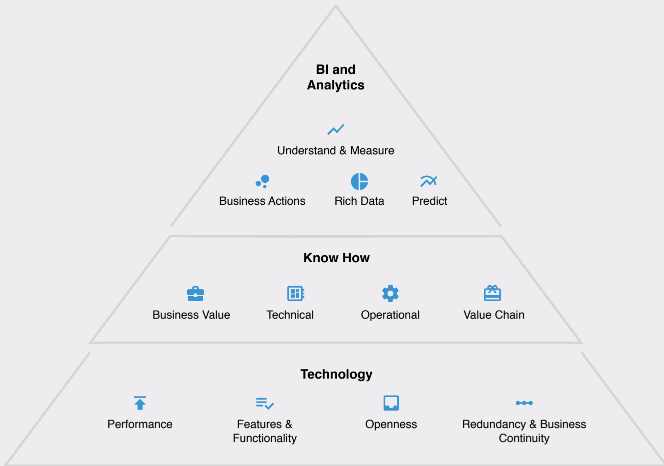
MATERIAL EVENTS IN THE SECOND QUARTER

- Seamless Distribution Systems AB (SDS) received an initial order, valued at MSEK 7, from the leading operator in Eswatini (formerly Swaziland) for the delivery of SDS's system for managing digital distribution. This order further strengthens SDS's presence in southern Africa.
- SDS AB signed an agreement to acquire all shares and assets in eServGlobal Holding SAS (eServGlobal). eServGlobal is a global supplier of systems for electronic recharge of prepaid SIM cards and mobile financial services. The price of the shares is MEUR 2, approximately MSEK 21.4. This gives SDS access to a complementary technology and doubles its geographic market presence. eServGlobal is headquartered in Paris, France, and has its own development, customer management and sales organizations in Bucharest, Romania, Dubai, UAE, and Jakarta, Indonesia. More than 90% of the company's revenue comes from the Middle East, North Africa and Southeast Asia. The company had sales of MEUR 7.1 in 2018, of which MEUR 4.3 were recurring annual support revenues. The product portfolio contains software solutions for distributing topups for prepaid SIM cards and mobile financial services. The acquisition of eServGlobal will initially be financed using an acquisition loan arranged by Svenska Handelsbanken and a bridge loan from private investors including the Chairman of the Board Gunnar Jardelöv and board member Martin Roos. The bridge loan is for a period of six months, from the transaction date, until a planned new share issue is completed based on the mandate the Board received at the Annual General Meeting held 25 April 2019. The bridge loan has an annual interest rate of 15% and can be repaid in full or in part in advance.

  Implementation of the acquisition is conditional on the formal approval of the transaction by the EGM of eServGlobal to be held on 22 July 2019.
- On 4 July in Addis Abeba, Ethiopia, SDS and Smart Digital Technology successfully performed their first digital sale and electronic recharge of a prepaid SIM card. The parties are strengthening their strategic partnership with Ethio Telecom and accelerating the introduction of digital services in the sales and distribution channel.

MARKET NEEDS AND OFFERING

Seamless works with the digitalization of logistics flows, which entails the distribution and management of electronic transactions.



Customer needs in the field of digital distribution irrespective of market are extensive. Seamless delivers products and services in all areas.

During the past 18 years, Seamless has developed a proprietary software platform which is now in its fourth generation. The platform encompasses a complete set of functions that manage the entire value chain for digital distribution, and their attendant monetary transactions, in connection with commerce in the value chain. The need extends from the stable handling of fundamental logistical flows, to advanced tools for precision marketing and enabling predictions based on the analysis of huge quantities of data.

Depending on the specific vertical application and market, the platform can be configured to manage current business flows and a combination of products, channels, end-user tools, payment methods, types of transactions, and advanced incentive models for all participants in the value chain.
Although there are similar consumer needs for some products – such as topping up prepaid SIM cards, paying bills, making calling plan payments – markets at different stages of maturity differ in fundamental ways. These differences affect distribution as well as monetary flows.
A developed market has well established retail infrastructures, with effective and reliable IT networks that can be used as the backbone for the distribution of digital products. In contrast, such retail networks are largely not available in emerging markets. In Africa, Seamless delivers a software product to telecommunications operators that build, manage and administrate using informal channels for selling and distributing digital products. In Sweden, which is a mature market, Seamless operates a business that distributes topups for prepaid SIM cards for all telecommunications operators active in the country. The channels used for distribution and payments are the retail trade and existing banking channels.

A holistic solution must facilitate the management of payments between different parties to a transaction in a market based primarily on cash payments. Thus the distribution system must be able to simplify the use of locally available digital payment methods, such as mobile money. For example, as part of Seamless's solution, a reseller can order digital products via their mobile phone and pay for them using digital funds (mobile money) in a fully automated flow much like placing and paying for an order on the Internet in a mature market.

Finally, all transactions managed by Seamless's system build on a huge quantity of information and data that can provide strategic insight into the enterprise, regarding what has already happened as well as what can be expected to happened. This information and data are processed by Seamless's reporting and business intelligence tools and shared with customers in strategic discussions about enterprise management and planning for the future.

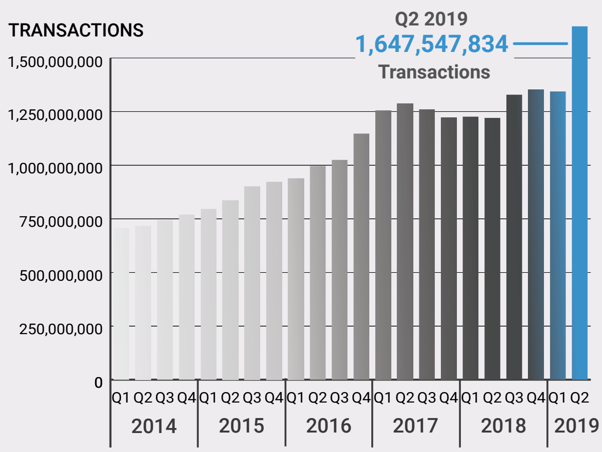
ERS 360°

The ERS 360° system manages many different types of transaction. The most common transactions are sales of talk time, mobile data or other digital products to end users, value transfers between distributors and resellers, and balance queries from distributors or resellers.

During the second quarter of 2019, the number of transactions managed by Seamless ERS 360° platforms increased more than 20% compared to the preceding quarter, which indicates increased usage and value added.

SDD also uses those ERS 360° platforms for managing its distribution of talk time. SDD has more than six million transactions in a year.

Number of customer transactions handled by the ERS 360 system per quarter



Growth in transactions is an indicator of increasing activity in digital channels and thus also value added for Seamless's customers.

MARKET TRENDS

The fundamental purpose of the value chain for digital distribution and electronic transactions is to manage the flow of product value, from the service provider (such as a mobile operator), through distributors/resellers, to the consumer, and the monetary flow in the other direction, from the consumer to the service provider.

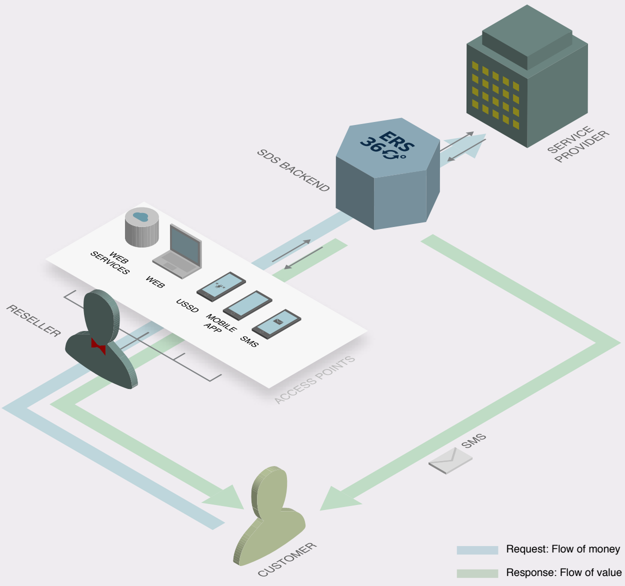
In developed markets, in most cases these flows take form in existing retail or banking network infrastructures. In emerging markets, these flows are built around the telecommunications operators' infrastructure. That is the principal reason that the product in focus for the past decade has been topping up talk time on a prepaid SIM card. This is one of the telecommunications operators' core products, and because the prepaid SIM card is by far the dominant type of calling plan in emerging markets, topping up talk time has been the biggest product. In 2018, prepaid SIM cards accounted for a total of 71% (5.7 billion) of all mobile connections and 32% (BUSD 265) of service revenues. In emerging markets, the numbers for prepaid SIM cards are even greater. For example, they account for 94% of connections and 80% of revenues in Africa.

Besides macroeconomic factors in emerging markets (such as population growth, GDP, mobile penetration, and higher utilization of mobile services), all of which contribute positively to Seamless's long-term development, during the past year we have observed rapidly growing interest in automating digital distribution channels and making them more efficient. This is most apparent in that new digital products are being added to the value flow, and automated processes related to payment and supply-chain management are increasing.

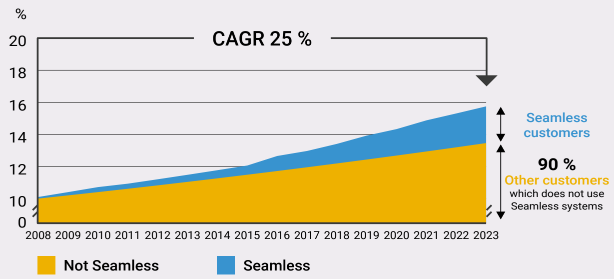
Now that smartphones are being sold in emerging markets for less than USD 50, mobile data has begun to rapidly expand its share. Mobile data now exceeds 20% of total sales of topups for prepaid SIM cards. This trend is critical to the development of the market and requires that operators have the capability to manage these new products in their distribution chain as well as the new user interfaces that users in developed countries have become used to.

Seamless has customers and platforms in operation in 15 African countries. These include Africa's two biggest countries in terms of population, Nigeria and Ethiopia, which together are home to almost 350 million people.
This means that Seamless's platforms and solutions facilitate sales of digital products to about 40% of Africa's total population and are currently available in about 25% of the countries in Africa.

Seamless is one of the leading global players delivering technical platforms as well as business knowhow for the distribution and sale of digital products, commanding a strong position in Africa in terms of the number of customers, markets, size and value management in its systems.
We see an opportunity to further strengthen this position, in Africa and in other places in the world, through consolidation of the industry. In the second quarter, Seamless announced the acquisition of eServGlobal, one of Seamless's peers and competitors. This acquisition augments Seamless's customer base and strength in multiple markets, especially in northern Africa, the Middle East and Southeast Asia, in part thanks to customer relationships with two of the regions' biggest mobile operator groups, Ooredoo and Zain.
For SDD, Seamless's distribution operations, the prepaid SIM card market in Sweden and Denmark was in a downtrend for many years. However, in the past year the decline stopped, and some operators have even seen an upturn.



Customers with Seamless system



Seamless's own surveys indicate significantly better annual growth among its own customers compared to customers with digital distribution solutions from other suppliers.

This is chiefly the result of an influx of people born abroad who have difficulty obtaining a calling plan but also because more and more products used by households today require a SIM card.

SDD has noted that the distribution market in Sweden and Denmark lags in this respect.

By transferring new advanced technology that SDS uses today in emerging markets, mature markets in Scandinavia can also be made more efficient and attractive. Thus, during the latter half of 2019, SDD will modernize its distribution so that operators will be able to communicate directly with resellers of the operators' products.

In addition, SDD sees great potential in selling vouchers from the operators that SDS works with in emerging markets, so that people in Sweden or Denmark can top up their relatives' and friends' prepaid SIM cards in their native countries.

MARKET AND SALES

During the second quarter, Seamless welcomed a new customer in the southern part of Africa, a business that is both strategically and financially significant. This business is the result of engagement over a long time and negotiations to replace another existing platform. It confirms yet again the value that customers see Seamless adding through its technology and business knowhow.

During the quarter, we continued the previous engagement and discussions with multiple potential new customers, and after feedback and the good response we have received, we are optimistic about the possibility of securing a few of these projects in the third quarter. Some of these new, anticipated undertakings are based on a business model that entails profit sharing or transaction fees, which would mean recurring revenue, moving one step closer to the strategic business mix that Seamless is aiming for.

At the same time, we have noticed increased activity in the market, and Seamless is involved continually in new procurement processes and business discussions. We consider this the consequence of two factors: Seamless is a well-known and respected company with stable and reliable systems and services, and we sense the approach of a period of new investment and system replacement for those types of solutions and services that Seamless delivers.

During the quarter, we saw a significant increase in and use of Seamless's transaction platform by multiple customers, corresponding to an increase in the number of transactions managed in all Seamless systems of almost 20%, compared to the first quarter of 2019. This has led and will continue to lead to needs for new functionality and services, and to strategic business planning and engagement between Seamless and many of its customers.

Systems and services for which delivery began in previous quarters were put into operation in the second quarter, leading to the start of support services and managed operations, as well as to new orders and thus recurring revenue.

Seamless's drive for new solutions addresses the needs of customers in multiple industries in existing and new verticals. One example is the optimization and automation of companies' logistics chains as well as activities surrounding sales and distribution. The company's innovative and graphically attractive digitalization solution has been received with great interest by multiple customers, some during formal procurement processes and others during discussions with customers. We see increased engagement with multiple existing and new customers, and also in parts of the world that can be regarded as new for SDS.

In the second quarter, SDD signed up more than 150 new resellers, and since its start in November 2018 the company has almost doubled its resale outlets. In July 2019, SDD signed an agreement with the retail chain EMAB, which has more than 200 shops. Sales have increased more than 27% and are expected to grow during the second half of 2019. During the third quarter, SDD will release more products that enable people in Sweden and Denmark to top up their relatives' and friends' prepaid SIM cards in emerging markets and will also modernize the company's distribution system, which will enable direct communication between telecommunications operators and resellers.

Financial information

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
Net sales	54,574	18,901	105,678	31,104
Other operating revenue	2,063	554	3,427	1,405
Total operating revenue	**56,637**	**19,455**	**109,105**	**32,509**
Material expenses	-33,222	-3,024	-60,734	-4,555
Other external expenses	-11,166	-8,801	-22,814	-15,956
Personnel costs	-4,406	-3,111	-8,493	-8,343
Depreciation and amortization	-3,083	-2,253	-5,822	-4,538
Other operating expenses	-4,525	-2,145	-7,543	-4,302
Total operating expenses	**-56,401**	**-19,334**	**-105,407**	**-37,695**
Operating profit/loss	**236**	**121**	**3,699**	**-5,186**
Financial income	-	3,000	-	3,000
Financial expenses	-1,159	-949	-2,034	-1,867
Net financial items	**-1,159**	**2,051**	**-2,034**	**1,133**
Profit/Loss before tax	**-923**	**2,172**	**1,665**	**-4,053**
Income tax	-93	-70	-204	-156
Net profit/loss for the period	**-1,016**	**2,102**	**1,406**	**-4,209**
OTHER COMPREHENSIVE INCOME				
Translation differences	7	242	202	330
Total comprehensive income attributable to Parent Company shareholders	**-1,009**	**2,344**	**1,662**	**-3,879**

CONSOLIDATED BALANCE SHEET

KSEK	30 JUNE 2019	30 JUNE 2018	31 DECEMBER 2018
ASSETS			
Intangible assets	46,353	44,740	44,272
– IP rights	*19,083*	*21,778*	*20,466*
– capitalized development costs	*27,270*	*22,962*	*23,805*
Property, plant and equipment	5,444	1,709	2,172
Financial assets	1,351	490	480
Inventories of finished goods	1,689	644	2,450
Trade receivables	27,842	13,783	30,444
Other receivables	1,874	3,250	949
Prepaid expenses and accrued income	16,787	6,648	8,509
Cash and cash equivalents	2	3,341	2,266
Total assets	**101,340**	**74,604**	**91,543**
EQUITY AND LIABILITIES			
Equity	25,418	19,462	23,756
Other long-term liabilities	42,772	35,750	37,625
Overdraft	-	2,312	6,079
Trade payables	15,601	2,879	10,876
Current tax liabilities	563	79	43
Other current liabilities	1,276	814	933
Accrued liabilities and deferred income	15,710	13,309	12,232
Total equity and liabilities	**101,340**	**74,604**	**91,543**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
At beginning of period	**26,427**	**10,118**	**23,756**	**16,340**
Comprehensive income for the period	-1,009	2,344	1,662	-3,879
New share issue	-	7,000	-	7,000
Shareholder contribution	-	-	-	-
At end of period	**25,418**	**19,462**	**25,418**	**19,462**

CONSOLIDATED CASH FLOW STATEMENT

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
Cash flow from operating activities before change in working capital	1,374	6,103	6,706	388
Change in working capital	10	-3,612	2,826	2,147
Cash flow from operating activities	1,384	2,491	9,532	2,535
Cash flow from investing activities	-8,450	-4,177	-10,875	-5,951
Cash flow from financing activities	4,271	4,544	-933	4,769
Cash flow for the period	-2,795	2,858	-2,276	1,353
Cash and cash equivalents at beginning of period	2,797	512	2,266	1,847
Exchange rate differences in cash and cash equivalents	0	-29	12	141
Cash and cash equivalents at end of period	**2**	**3,341**	**2**	**3,341**

KEY RATIOS AND FIGURES

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
Return on equity	-4.1%	38.0%	5.9%	-23.5%
Earnings per share SEK, before and after dilution	-0.13	0.76	0.19	-0.61
Operating profit/loss, KSEK	236	121	3,699	-643
Growth in net sales	188.7%	11.6%	239.8%	-22.9%
Growth in net sales excl. withholding tax	205.8%	19.0%	264.0%	-18.9%
Operating margin (EBIT)	0.4%	0.6%	3.5%	-16.7%
Average number of shares before and after dilution	7,691,343 7,691,343	6,913,565 7,263,565	7,691,343 7,691,343	6,913,565 7,263,565
Number of shares outstanding at end of reporting period	7,691,343	7,691,343	7,691,343	7,691,343
Quick ratio	140%	158%	140%	158%
Equity/assets ratio	25.1%	26.1%	25.1%	26.1%
Equity, KSEK	25,418	19,462	25,418	19,462
Equity per share	3.30	2.82	3.30	2.82
Number of employees at end of period	58	57	58	57

PARENT COMPANY INCOME STATEMENT

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
Net sales	25,933	18,901	54,182	31,104
Other operating revenue	2,048	554	3,398	1,405
Operating expenses	-28,453	-19,540	-55,104	-38,308
Operating profit/loss	-472	-85	2,476	-5,799
Net financial items	-1,065	2,057	-1,940	1,153
Profit/Loss after financial items	-1,537	1,972	536	-4,646
Income tax	-	-	-	-
Net profit/loss for the period	**-1,537**	**1,972**	**536**	**-4,646**

PARENT COMPANY BALANCE SHEET

KSEK	30 JUNE 2019	30 JUNE 2018	31 DECEMBER 2018
ASSETS			
Non-current assets	48,805	46,619	46,484
Current assets	35,218	25,897	38,977
Total assets	**84,023**	**72,516**	**85,461**
EQUITY AND LIABILITIES			
Equity	21,135	16,203	20,599
Long-term liabilities	39,250	38,062	37,500
Current liabilities	23,638	18,251	27,362
Total equity and liabilities	**84,023**	**72,516**	**85,461**
Pledged assets	10,000	10,000	10,000
Contingent liabilities	Inga	Inga	Inga

Segment information

Seamless's operations consist of two business units –
Seamless Distribution Systems AB (SDS) and **Seamless Digital Distribution AB (SDD)**

Net sales

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
SDS	25,933	18,901	54,182	31,104
SDD	29,255	-	52,704	-
Intra-Group support fee[1]	-614	-	-1,208	-
Seamless Group	**54,574**	**18,901**	**105,678**	**31,104**

Operating profit

KSEK	2019 APR-JUN	2018 APR-JUN	2019 JAN-JUN	2018 JAN-JUN
SDS	25	121	3,566	5,186
SDD	825	-	1,341	-
Intra-Group support fee[1]	-614	-	-1,208	-
Seamless Group	**236[2]**	**121**	**3,699[2]**	**5,186**

1) SDS invoices a support fee of USD 21,750 each month to SDD in line with market rates.
2) Acquisition costs of KSEK 1,343 are included in Q2 2019, KSEK 1,739 in H1 2019.

ABOUT SEAMLESS DISTRIBUTION SYSTEMS (SDS)

SDS supplies systems for the management of distribution networks for electronic topup of prepaid SIM cards and eProducts ranging from gift vouchers to mobile bank services. The company offers its corporate customers a holistic solution for digital transactions. The system is an addition to a sophisticated distribution system and a platform for a number of advanced functions for, amongst other things, campaign management and sales management. The hub of the business is the proprietary ERS 360° platform, which has been continuously developed to meet market needs since its first installation 15 years ago. The company has customers worldwide but primarily in Africa and the Middle East, where mobile operators constitute the largest customer group. Today the platform manages 5.3 billion transactions each year with a value exceeding BUSD 8 in 30 markets.

SDS has approximately 140 co-workers – employees and consultants – in Sweden, Belgium, Nigeria, Ghana, the United States, Pakistan, India, South Africa, Ecuador and the United Arab Emirates.

ABOUT SEAMLESS DIGITAL DISTRIBUTION (SDD)

SDD distributes electronic products via retailers, for example recharges of mobile prepaid SIM cards and funds for payment online, and uses SDS's proprietary ERS 360° platform for digital delivery. SDD also supplies the technology platform that enables topping up through the largest banks in Sweden. SDD's ERS platform manages approximately six million transactions annually with a value of MSEK 500 in the two markets where SDD operates, Sweden and Denmark. SDD has three co-workers – employees and consultants – and supports just over 2,000 sales sites.

Notes

Seamless Distribution Systems AB (publ) is a Swedish public company (corporate identity number 556979-4562) with its registered office in Stockholm, Sweden. The SDS share is listed on NASDAQ Stockholm, First North Premier.

NOTE 1 - RISKS AND ACCOUNTING PRINCIPLES

RISKS AND UNCERTAINTY FACTORS

Seamless' business is impacted by a number of external factors, where different risk factors can impact the company. These risk factors can impact the company's ability to achieve business goals and financial objectives. The risks that SDS has identified as material to the business are as follows. Market risks include political risks and dependence on a few large customers. Operative risks include increased competition, changes in laws and regulations, the ability to keep and attract key employees, technological developments, the ability to keep and attract customers, corruption and unethical business methods. Financial risks include financing, liquidity, credit, interest and currency risks.

For a detailed description of the risk factors that are assessed to be material to the Group's future development, please refer to the Annual Report for 2018, pages 27–28. Management deem that there were no material changes from the risk assessment made in the Annual Report for 2018.

ACCOUNTING PRINCIPLES

The consolidated accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. These have been presented in the Group's Annual Report for 2018. The Group's functional currency is Swedish krona (SEK), which is also the reporting currency. This report has been prepared in accordance with IAS 34, Interim Financial Reporting, and the Swedish Annual Accounts Act. The Parent Company's summary financial reports have been prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for legal entities.

CHANGED ACCOUNTING PRINCIPLES AS FROM 2019

The Group applies IFRS 16, Leases, as from 1 January 2019.

IFRS 16 Leases

IFRS 16 was published in January 2016 and is applied for financial years beginning on or after January 1, 2019. IFRS 16 Leases replaces existing IFRS related to the reporting of leases, such as IAS 17 Leases and IFRIC 4.

Implementation of the standard means that almost all lease contracts will be recognized in the lessee's balance sheet, as no distinction is made any longer between operating and finance leases. According to the new reporting standard, an asset (the right to use a leased asset) and a financial liability regarding the obligation to pay leasing fees must be recognized. Short-term leases and leases for which the underlying asset is of low value are exempt.

The Group has six rental contracts for office premises that are classified as operating leases. Otherwise, the Group has no other operating or finance leases. These obligations are recognized as short-term leases and will be recognized as a cost on a straight-line basis over the term of the lease. In addition, the Group has a new long-term lease for office premises that begins on 19 April 2019 and has a term of five years. The right of use regarding the new office premises will be recognized as from 19 April 2019.

The Group applies the simplified transition method and will not recalculate the comparative figures. Rights of use are measured at an amount corresponding to the lease liability adjusted for prepaid or accrued leasing fees.

NOTE 2 - ACQUISITION OF ESERVGLOBAL

On 4 June 2019, the SDS Group signed an agreement to acquire 100% of the share capital in eServGlobal Holding SAS. On 22 July 2019, an extraordinary general meeting of shareholders in eServGlobal will be held, and if the seller votes in favour of the sale, on 25 July 2019 the purchase consideration of MEUR 2 will be paid and the acquisition completed. The acquisition price is preliminary and will be updated after a final reconciliation of liquid assets, working capital and investments compared to the target for each item specified in the purchase agreement. Expenses totalling MSEK 1.7 related to the acquisition are included in operating profit in the SDS Group's income statement for 30 June 2019.

NOTE 3 - DISTRIBUTION OF NET SALES

KSEK	SDS 2019 JAN-JUN	2018 JAN-JUN
Professional services/software	25,707	9,439
Licences	740	952
Support	20,771	19,,377
Hardware	6,636	1,302
Other	329	35
SDS Total	**54,182**	**31,104**
Of which withholding tax	**4,690**	**3,360**

KSEK	SDD 2019 JAN-JUN	2018 JAN-JUN
Etop-up	51,457	-
Bank systems	939	-
Other	308	-
SDD Total	**52,704**	**-**

NOTE 4 - NET SALES BY GEOGRAPHIC AREA

KSEK	SDS 2019 JAN-JUN	2018 JAN-JUN
Africa	46,736	23,161
Middle East and Asia	4,493	5,340
Other	2,953	2,603
SDD Total	**54,182**	**31,104**

KSEK	SDD 2019 JAN-JUN	2018 JAN-JUN
Sweden	49,264	-
Denmark	3,440	-
Other	-	-
SDD Total	**52,704**	**-**

NOTE 5 - TRANSACTIONS WITH RELATED PARTIES

For information on related parties, please refer to the Group's Annual Report for 2018, page 64. No material changes occurred in related parties or in agreements with related parties during the second quarter.

NOTE 6 - MATERIAL EVENTS AFTER THE REPORTING PERIOD

- In July 2019, SDD signed an agreement with EMAB to distribute prepaid phone cards to EMAB's 200 retail outlets.

Other information

AUDIT
This report has not been reviewed by the company's auditors.

ADVISERS
The company's Certified Adviser is Mangold Fondkommission AB, telephone +46 8 5030 1550. CA@mangold.se

DISTRIBUTION OF INFORMATION
All information is published on the company website, www.sds.seamless.se, immediately after it has been made public.

Financial reports can also be ordered from SDS AB, Box 353, SE-101 27 Stockholm, Sweden, or by e-mail to sds.info@seamless.se

Seamless Distribution Systems' interim report for January to June has been approved for publication by a decision of the Board of Directors on 17 July 2019. The Board of Directors and the CEO of Seamless Distribution Systems AB (publ) certify that this interim report gives a fair view of the Parent Company's and Group's activities, position and results and describes material risks and uncertainty factors that the Parent Company and the companies that are part of the Group face.

Stockholm, 17 July 2019

Tomas Klevbo

Gunnar Jardelöv
Chairman of the Board

Leif Brandel

Martin Roos

Tommy Eriksson
VD

For further information, please contact:

Tommy Eriksson, CEO
tommy.eriksson@seamless.se
+46 (0) 705 68 47 86

Martin Schedin, CFO
martin.schedin@seamless.se
+46 (0) 704 381 442

ADDRESS (HEAD OFFICE)
Seamless Distribution Systems AB
Vasagatan 7, SE-111 20 Stockholm

Corporate ID number: 556979-4562
Tel: +46 8 58 63 34 69
E-mail: sds.info@seamless.se
Website: www.sds.seamless.se

Financial definitions and alternative performance measures

Return on equity	Profit after tax in relation to average equity.
EBITDA	Operating profit/loss before depreciation and amortization and financial items.
EBITDA margin	Operating profit/loss before depreciation and amortization and financial items as a percentage of revenue.
EBITDA excluding acquisition costs	Operating profit/loss before depreciation and amortization and financial items, less acquisition costs for the period.
EBITDA margin excluding acquisition costs	Operating profit/loss before depreciation and amortization and financial items, less acquisition costs for the period, as a percentage of revenue.
Equity per share	Equity in relation to the total number of shares outstanding.
Average number of shares	Weighted average number of shares outstanding during the period.
Quick ratio	Cash and cash equivalents including current investments and current receivables in relation to current liabilities.
Equity/assets ratio	Equity including minorities in relation to balance sheet total.
Growth in net sales	Net sales for the period in relation to net sales for the preceding period.
Earnings per share	Profit/Loss after tax in relation to the average number of shares.
Operating profit/loss (EBIT)	Profit/Loss before financial items and tax.
Operating margin (EBIT)	Profit/Loss before financial items and tax as a percentage of revenue.
Operating profit/loss (EBIT) excluding acquisition costs	Profit/Loss before financial items and tax, less acquisition costs for the period.
Operating margin (EBIT) excluding acquisition costs	Profit/Loss before financial items and tax, less acquisition costs for the period, as a percentage of revenue.
Profit/Loss after tax	Profit/Loss after financial items and tax.
Profit/Loss after tax excluding acquisition costs	Profit/Loss after financial items and tax, less acquisition costs for the period.
Withholding tax	Local withholding tax on sales of royalties, licences and consultancy services is charged in many of the African countries where SDS has customers. Withholding tax varies, at 10%–20% depending on the country, and is deducted from the invoiced amount before the customer pays the supplier. SDS recognizes net sales including withholding tax and deducts the corresponding amount as an expense under the item 'Other operating expenses'.
Profit/Loss for the period after tax excluding acquisition costs	Profit/Loss for the period after financial items and tax, less acquisition costs for the period.

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