

In a landmark acquisition, Zalaris advanced its growth strategy into German-speaking countries with ample opportunity for the company's cloud-based HR, HCM and payroll services.



Interim Report • Q2 & H1 2017 Highlights

- In a milestone quarter for Zalaris, the company announced the acquisition of sumarum AG in May. The following financial statement includes the acquired business from closing mid-May as well as pro forma numbers for the combined entity. Pro forma revenues for H1/17 was NOK 305.7 million, which compares with NOK 538.7 million as reported for the full year 2016. The integration project of sumarum is progressing according to plan.
- Growth continued, both organically and through the acquisition of sumarum. Quarterly revenues of NOK 126.9 million represented an increase of 33.2% from Q2/16. Zalaris Group, net of sumarum, generated YTD revenue of NOK 209.3 million, an 8.0% year-over-year growth.
- Profit in Q2 was marked by seasonal variations as usual for both Zalaris and sumarum. After a strong Q1/17, EBIT, excluding other acquisition related costs, reached NOK 7.2 million or a profit margin of 5.7% in the quarter.
- Five-year agreement signed with Statkraft – Europe's largest generator of renewable energy – to deliver a wide range of transactional and strategic HR services, including payroll, to approximately 3 000 employees.
- Zalaris' cloud business added five-year contract to deliver SAP SuccessFactors-based cloud services to China Euro Vehicle Technology, a Sweden-based automotive innovator with an estimated 2 000 employees and contractors. The company is owned by the Zhejiang Geely Group, which also owns the Volvo Cars Group.

Key Figures

All figures in NOK 1 000	2017	2016	2017	2016	2016
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Revenue	126 883	95 288	233 272	193 784	396 646
Growth (y-o-y)	33,2 %	3,1 %	20,4 %	3,9 %	6,1 %
Operating profit before other costs	7 225	7 146	17 971	14 849	37 980
Operating profit margin before other costs	5,7 %	7,5 %	7,7 %	7,7 %	9,6 %
Ordinary Profit before tax	(5 768)	6 412	1 224	13 640	33 260
Profit for the period	(4 573)	4 687	838	10 260	25 567
Earnings per share	(0,23)	0,21	0,04	0,47	1,34
Net cash from operating activities	36 441	10 813	32 301	(3 939)	14 266
Headcount end of the period	507	456	507	456	467



“The sumarum acquisition creates an HR Services powerhouse capable of bringing additional synergies and local-language support for enterprise customers in Germany, Austria and Switzerland.”

Q2 of 2017 has been a milestone quarter for Zalaris staking out a new direction for growth. We are ideally positioned to capitalize on a broad range of trends and developments specific to our expertise and our expanding international operations. The company’s strategy continues to create significant opportunities across both existing markets and in additional countries with promising outlooks.

Acquisition of sumarum AG opens up the German-speaking market to Zalaris services

In May, Zalaris closed the acquisition of sumarum AG, a leading human resources outsourcing and consulting company based in Germany. The additional business represents an increase of 50 % in pro forma revenues for the first six months this year. Sumarum’s HR Outsourcing services serves approx. 70’000 employees on a monthly basis. The company’s SAP HCM Application Maintenance Outsourcing and Consulting units maintain payroll systems with more than 1 million employees.

The acquisition unifies two leading SAP Human Capital Management (HCM) and SuccessFactors consulting partners, creating an SAP consulting powerhouse with more than 650 expert employees that will be bringing additional synergies and local-language support for enterprise clients in 11 countries, including Germany, Austria and Switzerland.

The acquisition gives Zalaris an immediate access into Germany, Europe’s largest economy with more than 80 million people and a high concentration of medium-size and large international companies.

The combined business will continue to serve medium and large private and public enterprises with the same, high-level SAP HCM and SuccessFactors cloud-based outsourcing and consulting services respectively provided by each company.

In addition to expanding our services and support to existing Zalaris customers in the German-speaking market, synergies are expected through increased organic growth. Joint operations will leverage our scalable cloud concept in the German (DACH) market with cost efficiencies related to combined back-office functions within Zalaris’ shared-service organization.

Integration on course, bolstering respective strengths

The Zalaris – sumarum integration activities are structured as a program with numerous individual projects to fully realize the efficiency, quality and revenue potential:

- Implementation of Zalaris’ finance and controlling processes and business-building framework
- People & Organization foundation with harmonized communication and procedures defining our new combined organization
- IT & Infrastructure activities as well as standards to consolidate and optimize systems and solutions
- Product/Service Offering and Capabilities integration to identify and realize revenue synergies

I am pleased to see that both customers and people from both organizations are enthused about coming together and driving unprecedented success. All related initiatives are progressing well in accordance with overall plans.

Organic growth continues with additional major deals and prospects

In the beginning of Q2 we signed a five-year agreement with Statkraft – Europe’s largest generator of renewable energy – to deliver a wide range of transactional HR services, including payroll, to approximately 3’000 employees globally. Estimated 2’300 employees in Norway, Sweden, UK and Germany will benefit from full HR outsourcing and payroll services.

Another recent great win for our cloud business pertains to Zalaris’ five-year contract to deliver SAP SuccessFactors-based cloud services to China Euro Vehicle Technology, a Sweden-based automotive innovator with approximately 2’000 employees and contractors. CEVT’s parent also owns the Volvo Cars Group.

Zalaris’ project helping existing and new customers to ensure GDPR compliance is on track.

Growth and margin expansion squarely in our sight as new digital HR opportunities unfold

With the sumarum acquisition, Zalaris can now deliver fully digitized HR services in local languages to enterprises in the Nordics, Baltics, Poland, Germany, Switzerland, Austria, Spain and India. We will continue to explore expansion opportunities that complement or augment the geographic footprint of our current and future customer base.

Whether looking internally at our operations or externally at market opportunities, we have never been in a better position to become a leading international provider of innovative cloud-based payroll and HR services. Zalaris is on the move and ready to capitalize!

Hans-Petter Møllerud, CEO

Financial Review

(Figures in brackets = same period or balance date last year, unless otherwise specified)

Group Revenue

Zalaris' total group revenue increased 33.2% in Q2/17 to NOK 126.9 million compared to the same quarter last year (NOK 95.3 million). This upturn is mainly attributable to the acquisition of sumarum, which increased Zalaris' total revenue in the quarter with NOK 24.0 million from closing date mid-May to end of June.

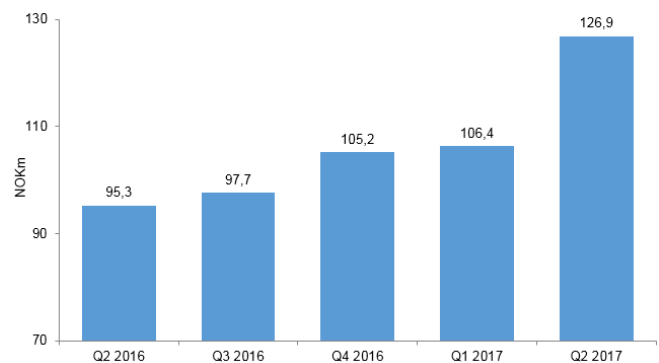
When excluding sumarum's results, Zalaris grew 7.9%, reaching NOK 102.9 million for the quarter. The largest contributor to this increase compared to Q2/16 was our Cloud services segment, which reached NOK 14.5 million quarterly revenues (NOK 6.0 million). A stable revenue level was maintained in our HR Outsourcing business segment at NOK 86.8 million (NOK 86.8), whereas the Consulting business segment decreased its revenue and reached NOK 0.9 million (NOK 2.4 million) as a consequence of a high utilization of consulting capacity in the Cloud services segment.

Total group revenue increased 19.3% compared to Q1/17. Zalaris revenues excluding sumarum, decreased from 106,4 million in Q1/17 to 102.2 million in Q2/17. The key reason is a lower than normal number of available workdays resulting from Easter vacation in April and public Holidays in May. HR Outsourcing segment revenue declined by NOK 3.8 million compared to Q1/17, mainly deriving from lower level of additional services delivered to our customers. This seasonal variation was expected. A NOK 0.9 million, or 6.8%, increase in our Cloud business segments mainly comes from new projects as well as additional services delivered to existing Cloud customers.

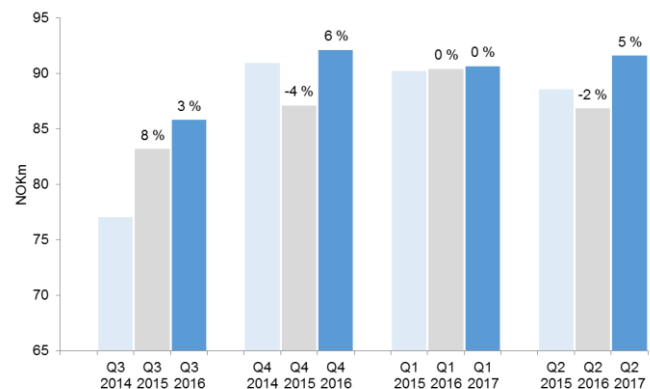
Excluding sumarum, Consulting revenue dropped to NOK 0.9 million, compared to NOK 2.2 million of the prior quarter. This further confirms the market shift from pure SAP HCM consulting services towards the increased demand of Cloud services.

H1/17 pro forma revenues for the combined entity were NOK 305.7 million, of which Zalaris' business represented NOK 209.3 million. The revenue growth for the combined entity was 15.4 per cent in H1/17 vs H1/16*. Sumarum acquired two companies Oct/16, implying revenues in H1/17 of NOK 19.8 million. Excluding this, the revenue growth for the two combined was 8.0% for H1/17.

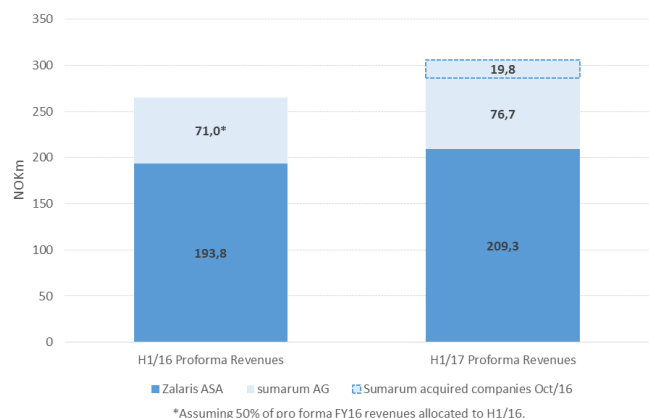
Q2/17 group revenue at NOK 126.9 million, including 24.0 million from the acquired sumarum group.



HR Outsourcing segment revenue grew by 5% y-o-y. This growth is fully attributable to the acquisition of sumarum Group.



H1/17 vs H1/16 pro forma revenues for the combined entity of Zalaris and sumarum*



Profit and Loss

Group operating profit for Q2/17 (excluding other costs) was NOK 7.2 million with a margin of 5.7% (NOK 7.1 million and 7.5%).

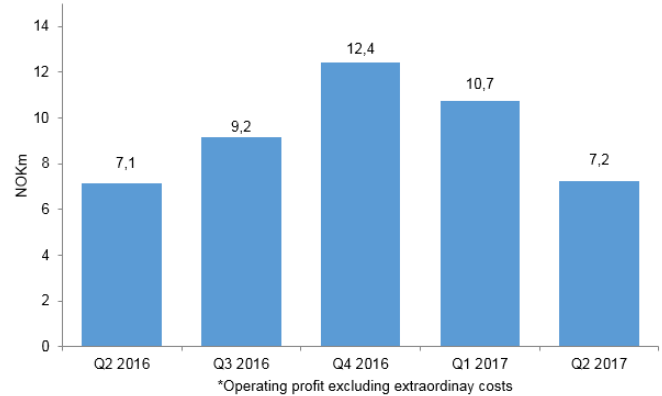
In Q2/17, operating expenses was NOK 130.5 million (NOK 88.1 million) including NOK 10.8 million in other costs related to the acquisition of sumarum. NOK 22.7 million is attributable to sumarum Group. Whereas the Norwegian krone was stronger to EURO in Q1/17, compared to the same period last year, the ratio has turned around in Q2/17 compared to Q2/16. Both group revenues and costs were impacted by a weaker Norwegian krone in Q1/17 compared to Q1/16. The operating margin decreased 0.8 percentage points due to currency effects. YTD currency effects have impacted the operating margin negatively by 0.5 percentage points.

Total license costs as percentage of revenue increased by 1% point in Q2/17 when compared to both Q2/16 and Q1/17. The main reason is higher license cost level as percentage of revenue within the sumarum Group.

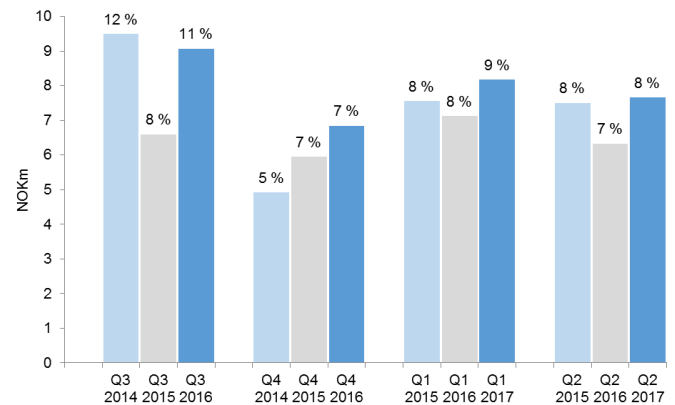
The increase in personnel expenses from previous quarter is mainly attributable to Zalaris' new employees in sumarum companies. In early FY 2016, Zalaris initiated a downsizing project within the HR outsourcing segment. Zalaris has completed and reached full cost effect of this project in Q2/17 amounting to NOK 5.5 million reduced quarterly costs. On the other hand, currency effect, salary increases and investments in capacity and competencies to meet customer demands as cloud consultants and salespeople, have increased the nominal value of personnel expenses with NOK 2.8 million compared with Q2/16.

New customers in Norway, Sweden and the Baltics in late Q1/17 and beginning of Q2/17 contributed to an increase in amortized customer projects. The increased cost level is accompanied by a higher level of recognized project revenue, but due to a drop in additional revenues, for seasonal reasons, the amortization as percentage of revenue increased.

Operating profit* in Q2/17 steadily growing compared to Q2/16, but slightly down compared to previous quarters mainly as a result of normal seasonal variations.



HR Outsourcing improved the operating profit both in nominal terms and as a percentage of revenues compared to same quarter previous years (Operating margin shown as labels at top of bars).



Financial Position and Liquidity

As of 30 June, total assets amounted to NOK 430.8 million (NOK 181.5 million) while total equity level was NOK 118.7 million (NOK 93.8 million). This equals an equity ratio of 27.5% (51.7%). Zalaris' financial position and liquidity was significantly affected by the acquisition of 97.32% of the shares of sumarum AG on the 18th of May. Payment was made as a combination of NOK 148.8 million in cash and 720,219 new Zalaris shares. The cash amount was financed by debt.

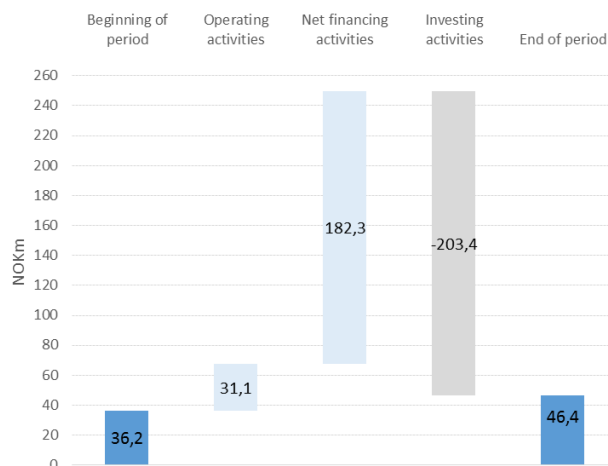
Group cash and cash equivalents was NOK 46.4 million (NOK 40.5 million) as of the end of Q2/17. Cash from operating activities amounted to NOK 31.1 million (NOK 10.8 million). This amount was positively influenced by a recategorization of long-term debt to short-term debt for repayments to be made within the next 12 months. Accounts receivables increased with 27.8 million due to the consolidation of sumarum companies. A dividend payment amounting to NOK 16.6 million was made in Q2/17.

Investment activities for the quarter were mainly related to preparing and testing the new seamless Zalaris Portal integration with SAP SuccessFactors Employee Central and mobile-ready portal for new customers going live in Q3/17. Zalaris also continued projects already in progress with the goal of making our systems and handling of sensitive HR master data and payroll records as secure as possible. Updating of the Zalaris Golden Client in Sweden and Poland continued from last quarter.

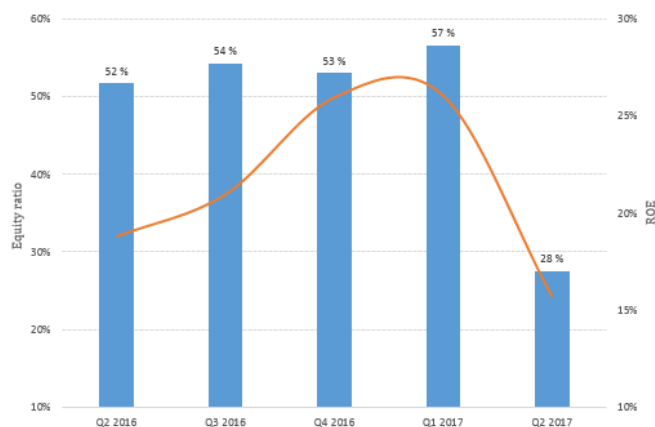
The Group had an unused credit facility of NOK 30.0 million at the end of the reporting period.

Interest-bearing debt amounted to NOK 161.8 million (NOK 1.4 million) at the end of Q2/17. The increased debt level derives from the acquisition of sumarum AG.

Cash decomposition, Q1/17 to Q2/17.



Equity ratio and return on equity (ROE).



¹⁾Net income LTM divided on Average Equity LTM

Operational KPIs

The HR Outsourcing division served an average of 272'000 employees per month during Q2/17.

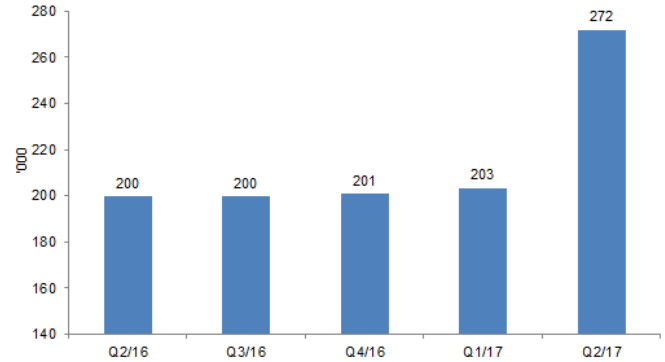
The number of customer employees served by the HR Outsourcing unit is an indication of the volume of transactions and services delivered. However, the scope of services provided varies for each customer. Number of employees served in Q2 increased due to the integration of sumarum.

In Q2/17, an average of 620 customers' employees was served by one FTE (full time equivalent) within Zalaris HR Outsourcing segment. The downward trend compared to previous quarters is explained by an increase in offshore FTEs and a minor decrease in employees served when excluding sumarum numbers. The increase in Zalaris local resources is explained by the FTEs joining from sumarum. Zalaris nearshore resources are on the same level as last quarter. When comparing with Q2/16, the efficiency is on the same level.

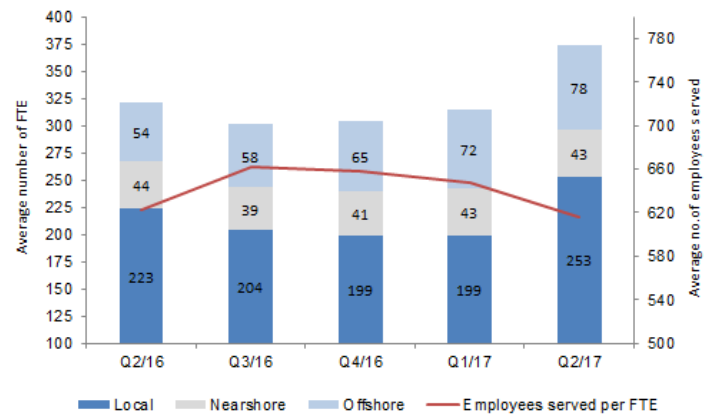
Total group headcount was 690 at the end of Q2/17. The increase of 196 headcount compared to previous quarter is mainly due to the 183 employees within sumarum organization. In addition 13 new employees have joined Zalaris in near- and offshore locations. As a result, Zalaris' aggregate offshore and nearshore presence was 38% of the total workforce at the end of Q2/17 when excluding employees in Germany and 28% of total number of employees per end of Q2/17.

At the end of Q2/17, total number of FTEs was 643.

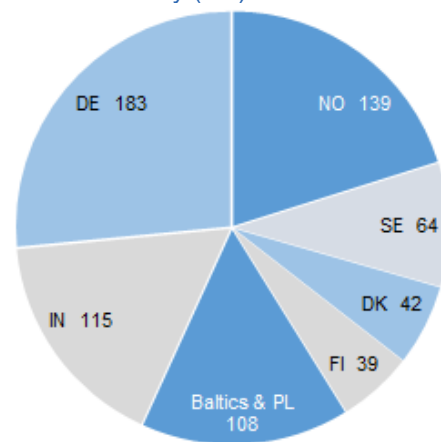
of employees served by Zalaris systems ('1000) with a significant increase due to the acquisition of sumarum AG.



of FTEs and employees served per FTE ('1000) on same level as Q2/16, but slightly down from previous quarter as a result of increased offshore resources.



Total headcount at the end of Q2/17 was 690 with increased presence in India, Baltics and geographical expansion into Germany (DE).



Outlook

Zalaris' acquisition of sumarum represents both geographic advantages as well as new revenue opportunities, opening new markets in German-speaking countries while strengthening Zalaris international service levels.

The company's new business pipeline remains strong and the company expects a positive effect from the integration of sumarum. Zalaris has grown, and will continue to focus on growing its business with existing customers by adding additional products and services

Companies and organizations are increasingly interested in the power and efficiency of cloud computing. Outsourcing of HR and payroll continue to represent significant long-term growth opportunities as companies increase their focus on core competencies. Zalaris is well positioned to take advantage of this development, due to the strength of its partnerships, such as with SAP, and the company's focus on innovation supporting the goal of digitization of the HR- and payroll processes.

Zalaris serves a wide range of industries with experienced consultants versed in increasingly complex HR and payroll standards and who are certified in technologies supporting high quality and efficient processes. Developments such as the anticipated enforcement of the EU's General Data Protection Regulation, GDPR, represent additional opportunities for Zalaris, which has developed a program supporting customer compliance in this area.

Oslo, 15 August 2017
The Board of Directors of Zalaris ASA



Lars Laier Henriksen
(chairman)



Karl Christian Agerup



Liselotte Hægertz Engstam



Tina Steinsvik Sund



Jan M. Koivurinta

*This interim report was not reviewed by
The Company's auditors*

Interim consolidated condensed financial statements

Consolidated Statement of Profit and Loss

(NOK 1000)	Notes	2017	2016	2017	2016	2016
		Apr-Jun <i>unaudited</i>	Apr-Jun <i>unaudited</i>	Jan-Jun <i>unaudited</i>	Jan-Jun <i>unaudited</i>	Jan-Dec
Revenue	2	126 883	95 288	233 272	193 784	396 646
Operating expenses						
License costs		9 808	6 484	16 983	12 871	29 353
Personell expenses	3	69 184	52 610	125 797	107 126	213 193
Other operating expenses		27 339	20 357	48 778	40 767	80 189
Depreciations		1 483	452	1 947	870	1 835
Amortisation intangible assets	4	2 560	2 353	4 937	4 536	9 434
Amortisation implementation	5	9 284	5 885	16 859	11 206	24 661
Other costs		10 809	-	13 876	1 558	1 558
Total operating expenses		130 466	88 142	229 177	178 935	360 224
Operating profit		(3 584)	7 146	4 095	14 849	36 422
Financial items						
Financial income		383	532	1 132	1 875	2 125
Financial expense		(2 567)	(1 266)	(4 003)	(3 085)	(5 287)
Net financial items		(2 185)	(734)	(2 871)	(1 210)	(3 162)
Ordinary profit before tax		(5 768)	6 412	1 224	13 640	33 260
Income tax expense						
Tax expense on ordinary profit		(1 196)	1 726	386	3 380	7 693
Total tax expense		(1 196)	1 726	386	3 380	7 693
Profit for the period		(4 573)	4 687	838	10 260	25 567
Profit attributable to:						
- Owners of the parent		(4 573)	3 979	838	8 889	25 567
- Non-controlling interests		-	707		1 371	-
Earnings per share:						
Basic earnings per share (NOK)		(0,23)	0,21	0,04	0,47	1,34

Consolidated Statement of Comprehensive Income

(NOK 1000)	Notes	2017	2016	2017	2016	2016
		Apr-Jun <i>unaudited</i>	Apr-Jun <i>unaudited</i>	Jan-Jun <i>unaudited</i>	Jan-Jun <i>unaudited</i>	Jan-Dec
Profit for the period		-4 573	4 687	838	10 260	25 567
Other comprehensive income						
Currency translation differences		6 205	(959)	6 895	(2 068)	(3 944)
Total other comprehensive income		6 205	(959)	6 895	(2 068)	(3 944)
Total comprehensive income		1 633	3 728	7 733	8 191	21 623
Total comprehensive income attributable to:						
- Owners of the parent		1 633	3 020	7 733	6 820	21 623
- Non-controlling interests			707	-	1 371	-

Consolidated Statement of Financial Position

(NOK 1000)	Notes	2017 31 Jun <i>unaudited</i>	2016 31 Jun <i>unaudited</i>	2016 31 Dec
ASSETS				
Non-current assets				
Intangible assets				
Other intangible assets	4	114 300		39 054
Goodwill		104 986	36 391	
Total intangible assets		219 286	36 391	39 054
Deferred tax asset		3 541	2 904	2 028
Fixed assets				
Office equipment		1 538	1 164	1 120
Property, plant and equipment		25 039	4 338	4 282
Total fixed assets		26 577	5 502	5 402
Total non-current assets		249 403	44 797	46 484
Current assets				
Trade accounts receivable		103 008	57 890	70 887
Customer projects	5	23 134	30 105	23 112
Other short-term receivables		8 838	8 249	8 021
Cash and cash equivalents		46 430	40 498	43 509
Total current assets		181 409	136 743	145 528
TOTAL ASSETS		430 813	181 540	192 012

Consolidated Statement of Financial Position

(NOK 1000)	Notes	2017 31 Jun <i>unaudited</i>	2016 31 Jun <i>unaudited</i>	2016 31 Dec
EQUITY AND LIABILITIES				
Equity				
Paid-in capital				
Share capital		1 984	1 912	1 912
Own shares - nominal value		(6)	(6)	(6)
Other paid in equity		740		122
Share premium		46 312	37 048	37 048
Total paid-in capital		49 030	38 954	39 076
Othe requity		(4 039)		
Retained earnings		68 987	48 858	61 548
Equity attributable to equity holders of the parent		113 979	87 812	100 624
Non-controlling interests		4 707	5 972	
Total equity		118 685	93 783	100 624
Non-current liabilities				
Deferred tax		24 013	2 222	2 792
Interest-bearing loans and borrowings		161 764	1 807	1 436
Employee defined benefit liabilities		-	460	103
Total long-term debt		185 777	4 490	4 331
Current liabilities				
Trade accounts payable		23 310	9 286	10 792
Interest-bearing loan from shareholders		7 560		
Income tax payable		6 473	6 745	4 613
Public duties payable		27 814	22 709	24 853
Other short-term debt		61 193	44 527	46 410
Total short-term debt		126 351	83 267	87 057
Total liabilities		312 128	87 757	91 388
TOTAL EQUITY AND LIABILITIES		430 813	181 540	192 012

Consolidated Statement of Cash Flow

(NOK 1000)	Notes	2017 Apr-Jun	2016 Apr-Jun	2016 Jan-Dec
Cash Flow from operating activities		<i>unaudited</i>	<i>unaudited</i>	
Profit before tax		(5 768)	7 146	33 260
Financial income		(261)		(1 108)
Financial costs		529		3 280
Depreciations and impairments		640	452	1 835
Amortisation intangible assets		3 435	2 353	9 434
Amortisation implementation costs customer projects		9 284	5 885	24 661
Customer projects		(10 117)	(6 388)	(21 450)
Taxes paid		719	5	(6 009)
Changes in accounts receivable and accounts payable		(20 988)	8 637	(15 359)
Changes in other short term debt and disposals		54 091	(7 278)	(12 808)
Interest received		28		20
Interest paid		(483)		(1 490)
Net cash flow from operating activities		31 108	10 813	14 266
Cash flows from investing activities				
Purchase of fixed and intangible assets		(98 396)	(4 328)	(14 078)
Purchase of goodwill		(104 986)		
Net cash flow from investing activities		(203 382)	(4 328)	(14 078)
Cash flows from financing activities				
Net financial items			(734)	
Buyback shares from minority		-		(5 983)
Changes minorities		4 707		
Stock purchase program		275	-	122
Issuance of new shares		25 893		
Proceeds from issue of new borrowings		168 250	-	-
Repayments of borrowings		(294)	(205)	(690)
Dividend payments		(16 557)	(16 177)	(16 177)
Dividend payments to non-controlling interest				(990)
Net cash flow from financing activities		182 273	(17 115)	(23 717)
Net changes in cash and cash equivalents		9 999	(10 630)	(23 529)
Net foreign exchange difference		187		(702)
Cash and cash equivalents at the beginning of the period		36 243	51 127	67 740
Cash and cash equivalents at the end of the period		46 430	40 498	43 509
Unused credit facilities		30 000	15 000	15 000

Consolidated Statement of Changes in Equity

(in NOK 1000)	Share capital	Own shares	Share premium	Other paid in equity	Total paid-in equity	Cumul. translation differences	Other equity	Non-controlling interests	Total equity
Equity at 01.01.2017	1 912	(6)	37 048	122	39 076	(2 662)	64 209	0	100 624
Profit of the period					-		838	-	838
Other comprehensive income					-	6 895	931		7 827
Buyback of shares					-				-
Share based payments				618	618				618
Issue of Share Capital	72		25 821		25 893		(3 958)	4 707	26 642
Other changes					-	36	(1 341)		(1 306)
Dividend			(16 557)		(16 557)				(16 557)
Equity at 30.06.2017	1 984	(6)	46 312	740	49 030	4 269	60 679	4 707	118 685
Equity at 01.01.2016	1 912	(6)	53 224		55 131	1 852	41 144	5 041	103 168
Profit of the period					-		8 889	1 371	10 260
Other comprehensive income					-	(2 070)			(2 070)
Buyback of shares					-				-
Share based payments					-				-
Other changes					-		(1 397)		(1 397)
Dividend			(16 177)		(16 177)				(16 177)
Equity at 30.06.2016	1 912	(6)	37 047		38 954	(218)	48 637	6 412	93 783
Equity at 01.01.2016	1 912	(6)	53 224	-	55 131	1 852	41 585	4 601	103 168
Profit of the period					-		25 567	-	25 567
Other comprehensive income					-	(3 944)			(3 944)
Buyback of shares					-		(1 383)	(4 601)	(5 983)
Share based payments				122	122				122
Other changes					-	(569)	(570)		(1 139)
Dividend			(16 177)		(16 177)		(990)		(17 167)
Equity at 31.12.2016	1 912	(6)	37 048	122	39 076	(2 662)	64 209	0	100 624

Notes to the interim consolidated condensed financial statements

Note 1 – General Information and basis for preparation

General information

Zalaris ASA is a public limited company incorporated in Norway. The Group's main office is located in Hovfaret 4, Oslo, Norway. The Group delivers full-service outsourced personnel and payroll services.

Zalaris' interim financial statements for the first quarter of 2017 were authorized for issue by the board of directors on 26 April 2017.

Basis for preparation

These interim consolidated condensed financial statements are prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (EU). The condensed interim financial statements do not include all of the information and disclosures required by International Financial Reporting Standards (IFRS) for a complete set of financial statements, and these condensed interim financial statements should be read in conjunction with the annual financial statements. The interim condensed consolidated financial statements for the three months ended 31 March, have not been audited or reviewed by the auditors.

A description of the significant accounting policies is included in Zalaris' annual financial statements for 2015, and applies to these interim consolidated condensed financial statements. New and amended standards applicable for the period starting 1 April 2016 did not have any effect for the Company.

Going concern

With reference to the Norwegian Accounting Act § 3-3, the Board confirms its belief that conditions exist for continuing operations and that these interim consolidated condensed financial statements have been prepared in accordance with the going concern principle.

Note 2 – Segment Information

The Company has three operating segments, which are Outsourcing, Cloud Services and Consulting Outsourcing, offering a full range of payroll and HR outsourcing services, including payroll processing, time and attendance and travel expenses. Consulting delivers turnkey projects based on Zalaris template or implementation of customer-specific functionality. They also assist customers with cost-effective maintenance and support of customers' own on-premise solutions. The Cloud services unit is offering additional cloud-based HR functionality to existing outsourcing customers as talent management, digital personnel archive, HR analytics, mobile solutions, etc..

Information is organized by business area and geography. The reporting format is based on the Group's management and internal reporting structure. Items that are not allocated are mainly intercompany sales, interest-bearing loans and other associated expenses and assets related to administration of the Group. The Group's key management is the chief decision maker in the Group. The investing activities comprise total expenses in the period for the acquisition of assets that have an expected useful life of more than one year.

2017 Jan-Jun

(NOK 1.000)	HR Outsourcing	Cloud- services	Consulting	Unallocated	Total
Other operating income, external	182 235	32 412	18 625		233 272
Other operating expenses	(147 212)	(28 087)	(16 260)		(191 558)
Depreciation and amortisation	(19 196)	(3 405)	(299)	(843)	(23 743)
Transaction related costs				(13 876)	(13 876)
Operating profit/(loss)	15 827	920	2 066	(14 719)	4 095
Net financial income/(expenses)				(3 051)	(3 051)
Income tax				(637)	(637)
Profit for the period	15 827	920	2 066	(18 408)	406
Cash flow from investing activities				(208 081)	(208 081)

2016 Jan-Jun

(NOK 1.000)	HR Outsourcing	Cloud- services	Consulting	Unallocated	Total
Other operating income, external	177 221	11 015	5 548		193 784
Other operating expenses	(147 490)	(9 645)	(3 629)		(160 764)
Depreciation and amortisation	(16 270)	(245)	(97)		(16 612)
Transaction related costs				(1 558)	(1 558)
Operating profit/(loss)	13 461	1 125	1 822	(1 558)	14 850
Net financial income/(expenses)				(1 210)	(1 210)
Income tax				(3 380)	(3 380)
Profit for the period	13 461	1 125	1 822	(6 148)	10 260
Cash flow from investing activities				(5 599)	(5 599)

2016 Jan-Dec

(NOK 1.000)	HR Outsourcing	Cloud- services	Consulting	Unallocated	Total
Other operating income, external	355 123	29 996	11 527		396 646
Other operating expenses	(289 950)	(25 235)	(7 550)		(322 736)
Depreciation and amortisation	(35 797)	(48)	(85)		(35 930)
IPO related costs				(1 558)	(1 558)
Operating profit/(loss)	29 376	4 713	3 891	(1 558)	36 422
Net financial income/(expenses)				(3 162)	(3 162)
Income tax				(7 693)	(7 693)
Profit for the period	29 376	4 713	3 891	(12 412)	25 567
Cash flow from investing activities				(14 078)	(14 078)

Geographic Information

The Group's operations are carried in several countries, and information regarding revenue based on geography is provided below. Information is based on location of the entity generating the revenue, which to a large extent, corresponds to the geographical location of the customers.

Revenue from external customers attributable to:

(NOK 1000)	as % of total	2017		2016		2016
		Apr-Jun	as % of total	Apr-Jun	as % of total	Jan-Dec
Norway	33 %	41 907	41 %	39 278	43 %	169 374
Sweden	20 %	25 285	25 %	24 093	25 %	98 721
DACH	19 %	24 022				
Denmark	13 %	16 011	16 %	14 800	15 %	60 406
Finland	11 %	14 081	14 %	13 286	13 %	52 095
Other	4 %	5 577	4 %	3 731	4 %	16 050
Total	100 %	126 883	100 %	95 189	100 %	396 646

Information about major customers

(NOK 1000)	as % of total	2017		2016		2016
		Apr-Jun	as % of total	Apr-Jun	as % of total	Jan-Dec
5 largest customer	39 %	49 317	47 %	44 863	48 %	191 760
10 largest customer	54 %	68 387	68 %	64 890	68 %	269 383
20 largest customer	68 %	86 206	83 %	79 123	82 %	326 253

Note 3 – Personnel Costs

(NOK 1000)	2017	2016	2017	2016	2016
	Apr-Jun	Apr-Jun	Jan-Mar	Jan-Mar	Jan-Dec
Salary	62 253	48 936	49 701	50 600	191 826
Bonus	903	46	470	-	4 678
Social security tax	7 982	6 208	7 807	7 084	27 343
Pension costs	4 877	4 849	4 532	5 078	18 472
Other expenses	3 581	3 052	2 999	2 324	9 773
Capitalised development expenses	-2 633	-1 997	-2 168	-1 033	-8 009
Capitalised implementation costs custor	-7 779	-8 483	-6 727	-9 537	-30 890
Total	69 184	52 610	56 613	54 516	213 193

Note 4 – Intangible Assets

(NOK 1000)	Licenses and software	Internally developed software	Internally developed software under construction	Customer Relationship & Contracts	Total
Book value 01.01.2016	8 140	23 974	4 117		36 230
Additions of the period	594		11 851		12 445
Reclassifications		6 380	(6 380)		-
Disposals and currency effects in the period	(36)	(151)			(188)
This period ordinary amortisation	(2 085)	(7 349)	-		(9 434)
Book value 31.12.2016	6 613	22 853	9 589		39 054
Book value 01.01.2017	6 613	22 853	9 589		39 054
Additions of the period	2 630	2 921	7 836	70 024	83 411
Reclassifications			(2 516)		(2 516)
Disposals and currency effects in the period	26	117	20	-	164
This period ordinary amortisation	(942)	(3 995)		(875)	(5 812)
Book value 30.06.2017	8 326	21 896	14 929	69 149	114 300
Book value 01.01.2016	8 140	23 974	4 117		36 230
Additions of the period	-		1 271		2 148
Reclassifications		877	(877)		-
Disposals and currency effects in the period	(13)	(60)	7		(944)
This period ordinary amortisation	(461)	(1 722)	-		(2 183)
Book value 30.06.2016	7 666	23 068	4 518		35 252

Note 5 – Customer Projects

Costs related to delivering outsourcing contracts are recognized as they are incurred. However, a portion of costs incurred in the initial phase of outsourcing contracts may be deferred when they are specific to a given contract, relate to future activity on the contract, will generate future economic benefits and are recoverable. These costs are capitalised as "customer projects" and any prepaid revenues by the client is recorded as a deduction from the costs incurred in the balance for customer projects. The deferred costs are expensed evenly over the period the outsourcing services are provided and included in the line item "Amortization implementation cost customer projects". Deferred revenue is recognized over the corresponding period.

(NOK 1000)	2016	2016	2016
	30 Jun	30 Jun	31 Dec
Deferred costs related to customer projects	90 535	85 845	83 440
Deferred revenue related to customer projects	(67 402)	(55 740)	(60 328)
Net customer implementation costs	23 134	30 105	23 112

Note 6 – Transactions with Related Parties

Related party	Transaction	2017	2016	2016
(NOK 1000)		Apr-Jun	Apr-Jun	Jan-Dec
Rayon Design AS ¹⁾	Management Services	269		162
Total		269	-	162

¹⁾ Hans-Petter Mellerud, CEO, is director of the board and Norwegian Retail AS, a company 100% owned by Hans-Petter Mellerud, owns 45% of the shares in Rayon Design AS since September 2016.

Note 7 – Acquisition of shares in sumarum AG

Zalaris ASA has acquired 97.32% of the total share capital and 98.64% of the voting shares in sumarum AG with its directly and indirectly owned subsidiaries. The closing date for the transaction was 18 May 2017. Total consideration of the acquisition was NOK 174.4 million, including a cash consideration of NOK 148.5 million, financed by new long term borrowings and the issuance of 720,219 shares in Zalaris with a value of NOK 25.9 million. Share purchase agreements with the shareholders of the remaining 2.68% share capital in sumarum AG have been signed. The price per share is equal to the price agreed for the already acquired shares and the acquisition is to be settled partly (90%) in cash and partly (10%) in new shares in Zalaris. It is expected to close this transaction before end of September 2017.

As Zalaris, sumarum provides cloud-based payroll and HR solutions on SAP's platform and a wide range of SAP HCM and SuccessFactors consulting services for entities in Germany, Austria and Switzerland. Today, the company has seven locations in Germany, and all specialize in different areas of the sumarum portfolio. sumarum has a broad spectrum of customers within public services, service providers, large industry players, energy companies and companies and trusts within the healthcare sector. End of June sumarum Group has 183 number of employees.

In FY 2016 sumarum Group revenue amounted to EUR 15.7 million (approx. NOK 145.7 million) with an operating profit of 1.7 million (approx. NOK 15.5 million).

Per June Zalaris has included fair value adjustment related to an office building in Leipzig and customer contracts and relations of total NOK 69.4 million and a goodwill of NOK 102.9 million related to the acquisition of sumarum Group. The fair value adjustments are preliminary.

Note 8 – Events after Balance Sheet Date

There have been no further events after the balance sheet date significantly affecting the Group's financial position.

Key Figures

Key financials	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
NOKm except per share figures									
Revenues	92,3	92,6	94,6	98,5	95,3	97,7	105,2	106,4	126,9
Revenue growth (y-o-y)	30 %	11 %	-2,8 %	4,6 %	3,2 %	5,4 %	11,2 %	8,0 %	33,2 %
EBITDA excl. Extraordinary items	10,9	8,3	11,4	11,9	10,0	11,3	16,2	13,6	11,3
EBITDA margin	12 %	9 %	12 %	12 %	10 %	12 %	15 %	13 %	9 %
EBIT excl. extraordinary items	8,9	6,3	8,9	9,3	7,1	9,2	12,4	10,7	7,2
EBIT margin	10 %	6,8 %	9,4 %	9,4 %	7,5 %	9,4 %	11,8 %	10,1 %	5,7 %
Profit Before Tax	8,3	5,0	8,4	7,2	6,4	8,5	11,1	7,0	-5,8
Income Tax Expense	2,1	1,1	1,6	1,7	1,7	2,3	1,6	1,6	
Non- Controlling Interests	0,6	0,0	0,6	0,7	0,7	0,2	-1,5		
Net income	5,5	3,8	6,2	4,9	4,0	6,0	11,0	5,4	-5,8
Profit margin	6,0 %	4,1 %	6,5 %	5,0 %	4,2 %	6,2 %	10,5 %	5,1 %	-4,5 %
Weighted # of shares outstanding (m)	19,0	19,0	19,0	19,0	19,0	19,0	19,0	19,2	19,6
Basic EPS	0,3	0,2	0,3	0,3	0,2	0,3	0,6	0,3	-0,2
Diluted EPS	0,3	0,2	0,3	0,3	0,2	0,3	0,6	0,3	-0,2
DPS	0,8				0,9				0,9
Cash flow items									
Cash from operating activities	9,1	6,2	21,6	-14,8	10,8	-0,9	21,5	-2,8	35,6
Investments	-6,3	-6,2	-3,1	-1,3	-4,3	-3,5	-5,0	-4,7	-203,4
Net changes in cash and cash equi.	-11,8	-1,5	16,6	-16,6	-10,6	-5,1	8,4	-7,3	5,7
Cash and cash equivalents end of period	52,6	51,2	67,7	51,1	40,5	35,4	43,5	36,2	42,2
Net debt	-49,8	-51,5	-58,1	-64,2	-49,0	-53,1	-54,1	-59,9	130,7
Equity	91,6	97,1	103,2	107,6	93,8	97,5	101,0	107,6	118,7
Equity ratio	47 %	49 %	51 %	54 %	52 %	54 %	53 %	57 %	28 %
ROE	16 %	20 %	22 %	20 %	19 %	21 %	26 %	26 %	16 %
Number of FTE (Period End)	378	374	419	426	444	419	427	461	643
Segment overview									
NOKm									
Revenues	92,3	92,6	94,6	98,5	95,3	97,7	105,2	106,4	126,9
HR Outsourcing	88,6	83,2	87,1	90,4	86,8	85,8	92,1	90,6	91,6
Consulting	2,9	3,2	4,6	3,1	2,4	2,4	3,5	2,2	16,4
Cloud Sourcing	0,8	6,2	2,9	5,0	6,0	9,4	9,6	13,6	18,9
Adjustments	-	-	-	-	-	-	-	-	-
EBIT	8,9	6,3	8,9	9,3	7,1	9,2	12,4	10,7	8,1
HR Outsourcing	7,5	6,6	6,0	7,1	6,3	9,1	6,8	8,2	7,7
Consulting	1,3	-1,3	2,4	1,0	0,8	-0,4	2,5	1,1	1,0
Cloud Services	0,1	1,0	0,5	1,1	-0,0	0,5	3,1	1,5	-0,6
Adjustments	-	-	-	-	-	-	-	-	-

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Financial information

Interim report Q3 2017 to be published on 25 October 2017

Interim report Q4 2017 to be published February 2018

All financial information is published on the Zalaris' website:

<http://www.zalaris.com/Investor-Relations/>

Financial reports can also be ordered at ir@zalaris.com .

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