



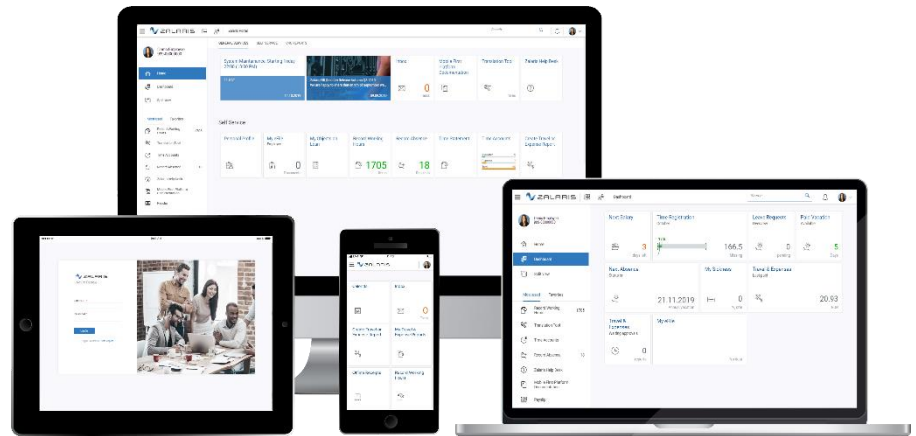
Interim report | Q3 2019

Presenter and agenda

1. Highlights
2. Financial performance in Q3-19
3. Market update and conclusion



Hans-Petter Mellerud
CEO and Founder



Margin improvements according to plan

1

Vision 2020 EBIT- program

- Program aiming for reduction of personnel costs and strengthening market-facing capacities
- Numerous initiatives implemented as planned for in order to **consolidate functions, reduce physical locations, right-size support functions and shift internally oriented roles to market-facing**

2

Key Highlights

- Net downsizing of ~6% of the Q1-19 employee base with planned personnel cost reduction of approximately 8%, due to notice periods and negotiated agreements the lion share of P&L impact will be reflected during Q4-19 and onwards
- Germany reported five renewals and new sales, e.g. Dräger and Eurowings
- UK and Ireland closed its first local Managed Services deals with Barden and ABB

3

Financial performance

- Operating revenues increased to NOK 190.7 million, up 8.2% relative to the same quarter previous year
- Operational EBIT and Adjusted EBIT for the period improved significantly to NOK 4.8 and 5.8 million respectively
- Adjusted EBIT margin for the quarter of 3.0%, up from -3.1% in the same quarter 2018

4

Outlook & Focus areas

- Consolidating internal SAP Hosting infrastructure well underway, with anticipated completion of Q1-20
- Supplier consolidation and re-negotiation completed, with gradual effect on financials from Q4-19
- Increasing implementation of Robotic Process Automation (RPA) projects
- Target monthly cost reductions of NOK 4.7 million relative to Q1-19 as base line by Q1-20

Encouraging renewals & new sales - Robust pipeline

- Revenues of 190.7 and Adjusted EBIT of 5.8
- Adjusted EBITdA of MNOK 19.4
- Long-term contracts renewed at good levels, onboarding of new customers
- Emphasis on expanding pipeline with focus on organic growth in market segments where we can best utilize existing capacity and scale



Financial figures are in converted in translation currency NOK and in millions

Improved financial performance Y-o-Y

- Revenues of 190.7 million, up 8.2% y-o-y
- Adjusted EBIT of NOK 5.8 million, up from NOK -5.5 million in Q3-19
 - Improvement driven by stabilized business post acquisitions
 - Several group-wide initiatives ongoing to reduce costs and increase utilization
- Seasonal variations traditionally negatively impact both revenues and profit in Q3

KEY FIGURES		
NOK million	Q3-19	Q3-18
Revenues	190.7	176.2
EBIT	4.8	(5.5)
Adjusted EBIT ¹	5.8	(5.5)
Adjusted EBITDA ²	29.7	10.2
Adjusted EBITdA ³	19.4	7.3
Profit for the period	(6.6)	(7.3)
Total Comprehensive Income	1.1	(10.1)
EPS (NOK)	(0.3)	(0.4)
Operating cash flow IFRS	8.8	8.4
Adj. Operating cash flow ⁵	30.2	6.0

1) EBIT adjusted for non-recurring elements

2) Adjusted EBIT with added back Depreciation and Amortization items

3) EBITdA is defined as EBITDA adjusted for P&L and Δ Balance Sheet items pertaining to customer projects

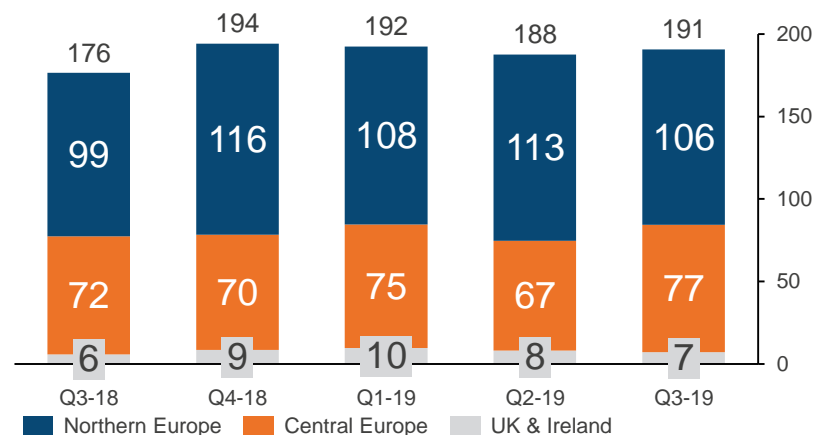
4) TCI is Total Comprehensive Income

5) IFRS reported Operating Cash Flow is adjusted by excluding Net Cash Interest, Investments in Customer projects and Short term debt payment from M&A activity

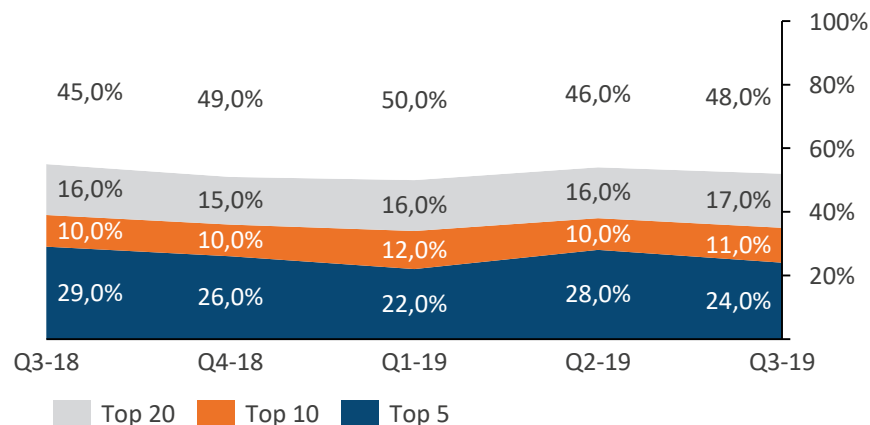
Revenue trending upwards Y-o-Y with growth rate of ~8%

Area	Comments
Northern Europe	<ul style="list-style-type: none"> Revenue growth of 7.4% Y-o-Y Driven by new sales in managed services Secured agreements for expanding services with existing customers; mobile and new HR cloud functionality Continued strengthening of pipeline
CE	<ul style="list-style-type: none"> Germany: Renewals and new sales, estimated at EUR 3 million Poland: Professional services with strong demand resulting in a healthy pipeline and 9% growth in Q3 YTD.
UK & Ireland	<ul style="list-style-type: none"> Closed first local Managed Services deals with Barden and ABB

Revenues geographical distribution¹



Revenues largest clients¹



1) Financial figures are in converted in translation currency NOK and in millions

Agenda

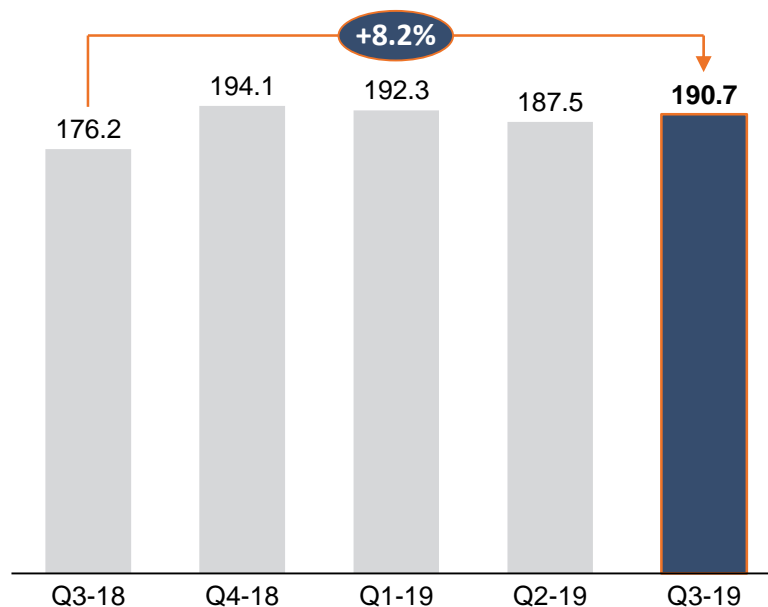
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|-----------------------------------------------------------|
| • Key financials - Group |
| • Key financials - Business segments |
| • Update on EBIT improvement program & concluding remarks |

Quarterly revenues with healthy growth in seasonally weak quarter

Comments

- Managed Services in Northern Europe is the main driver of revenue increase with signing of several large new contracts
- In Central Europe large new clients within public sector
- In UK & Ireland the increase has been driven by deliveries to new customers and increased scope for existing ones

Revenues¹



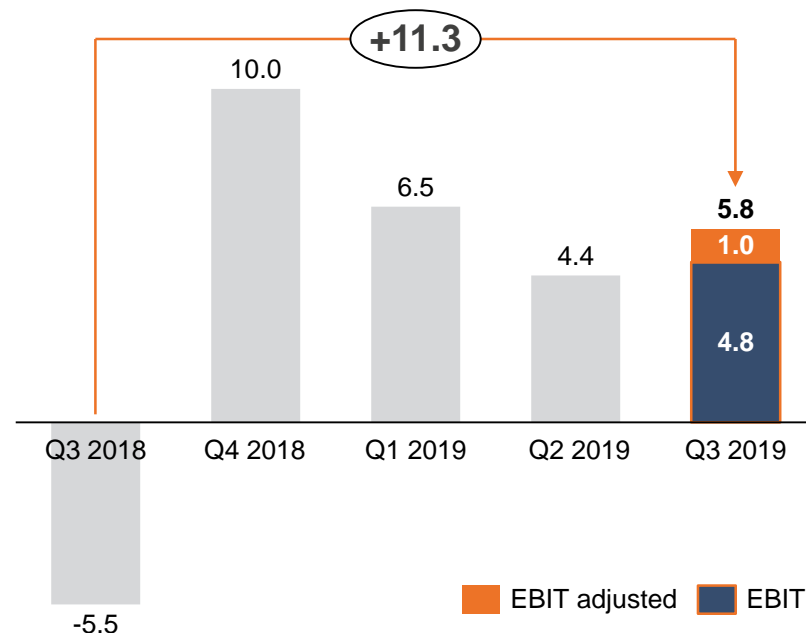
1) Financial figures are in converted in translation currency NOK and in millions

Group EBIT and Adjusted EBIT of NOK 4.8 and 5.8 million

Comments

- Increased profitability y-o-y despite the seasonality effect on business cycle
- Cost saving initiatives are implemented in all regions with some lagging effect on the profits
- E.g. UK & Ireland costs have reduced with 5% compared to the previous quarter and 10% compared with first quarter this year
- Northern Europe: Cost reduction in Q3 is the largest for Denmark which has shown 10% EBIT improvement compared to Q3-18
- Baltics: Rationalizing of operations financial results to be seen Q4-19 and onwards

EBIT adjusted¹



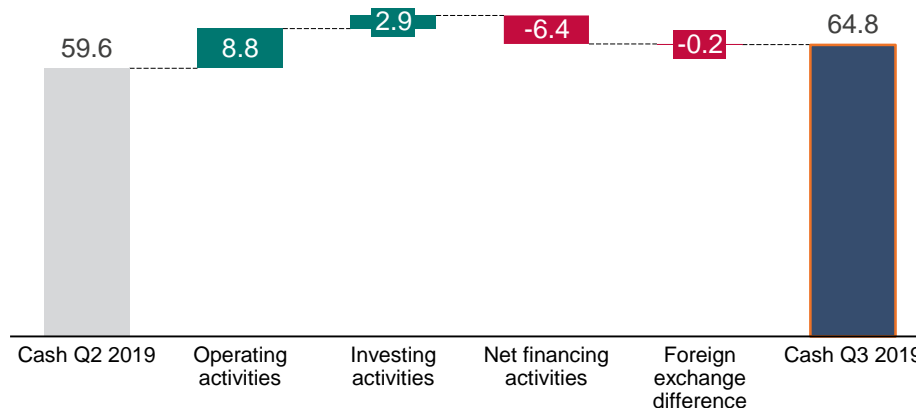
1) Financial figures are in converted in translation currency NOK and in millions

Operating cash flow development is healthy

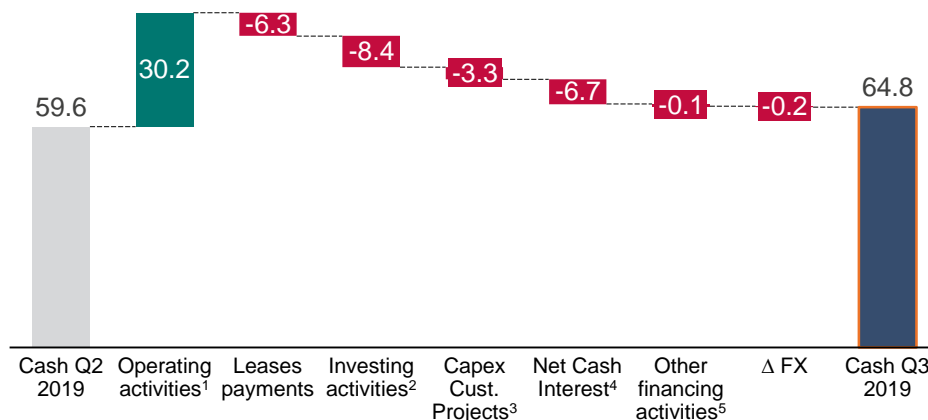
Comments

- Comments made on **Adjusted** cash flow:
 - Adjusting for e.g. outlays towards cash interest & investments in customer projects
- Operating Cash flow for quarter of NOK 30.2 million, before lease payments and after of 24.4 million
- Other short-term debt repayment of NOK 11.3 million pertaining to deferred M&A payment
- Investments in Customer projects yielded negative cash effect of NOK ~3 million
- Net cash interest payments of NOK ~7 million
- Outgoing cash balance is NOK 65 million reflecting a positive total cash movement of **positive** NOK ~5 million

Cash Flow IFRS reporting (NOK millions)



Cash Flow ADJUSTED reporting (NOK millions)



1) Excl. Net Cash Interest, Customer projects, M&A debt payment and share repurchase expenses

2) Includes M&A debt payment

3) Capex customer projects: Capitalized costs – Deferred Revenue

4) Cash interest on IRS and Bond financing

5) Lease down payments & interest is carved out

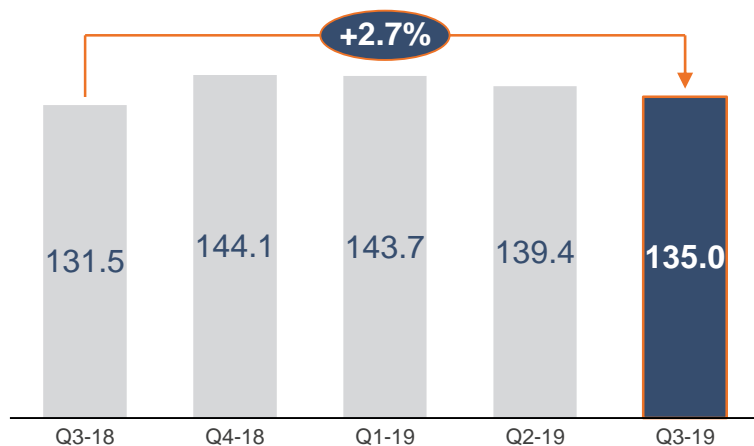
Agenda

- Key financials - Group
- **Key financials - Business segments**
- Update on EBIT improvement program & concluding remarks

Strong Y-o-Y revenue performance in both segments

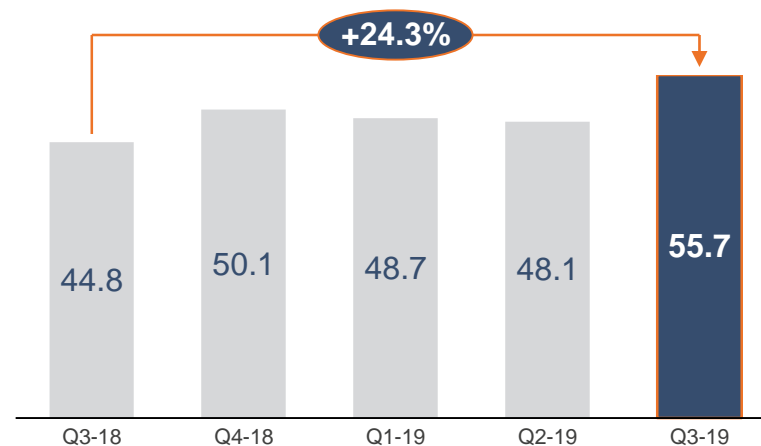
Managed Services

- Increased activity in the Nordics and new customer contracts with Aker BP, DNB, Aker Energy
- Germany: New sales and contract extensions are signed with value EUR 2 million with, e.g. Eurowings and Dräger
- UK & Ireland delivering stable services and new contracts with Barden and ABB



Professional Services

- Contracts signed in Germany in Q3 will secure revenue of EUR 1 million.
- Legislative changes in Polish payroll has generated additional revenue which is expected to increase through the end of the year.

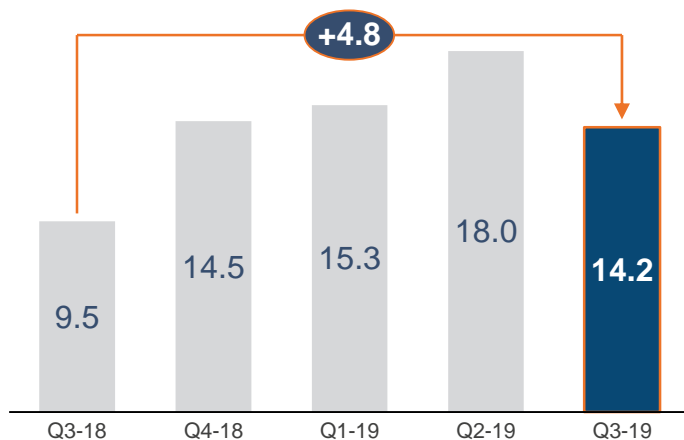


Financial figures are in converted in translation currency NOK and in millions

EBIT-improvement driven by new sales & Vision 2020 program

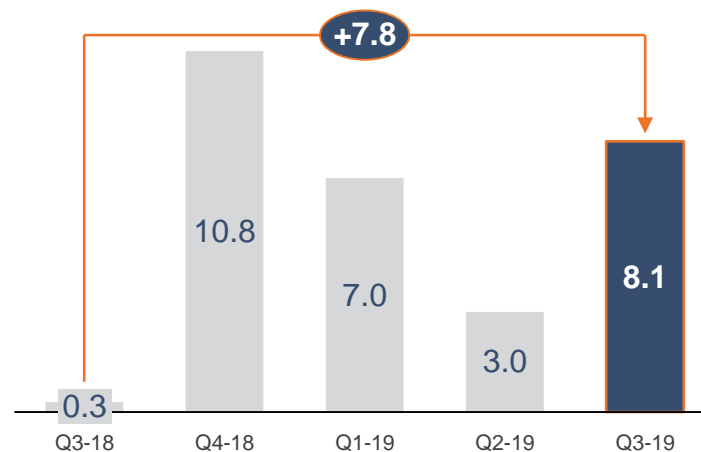
Managed Services

- Northern Europe: Growing share of new customers within HR Cloud space contributing positively on margin development
- Improved efficiency on deliveries to large well-established customers



Professional Services

- EBIT improvement in the Professional Services has been mainly driven by improved utilization
- Combined with shift in focus from internal activities to market facing



Financial figures are in converted in translation currency NOK and in millions

Agenda

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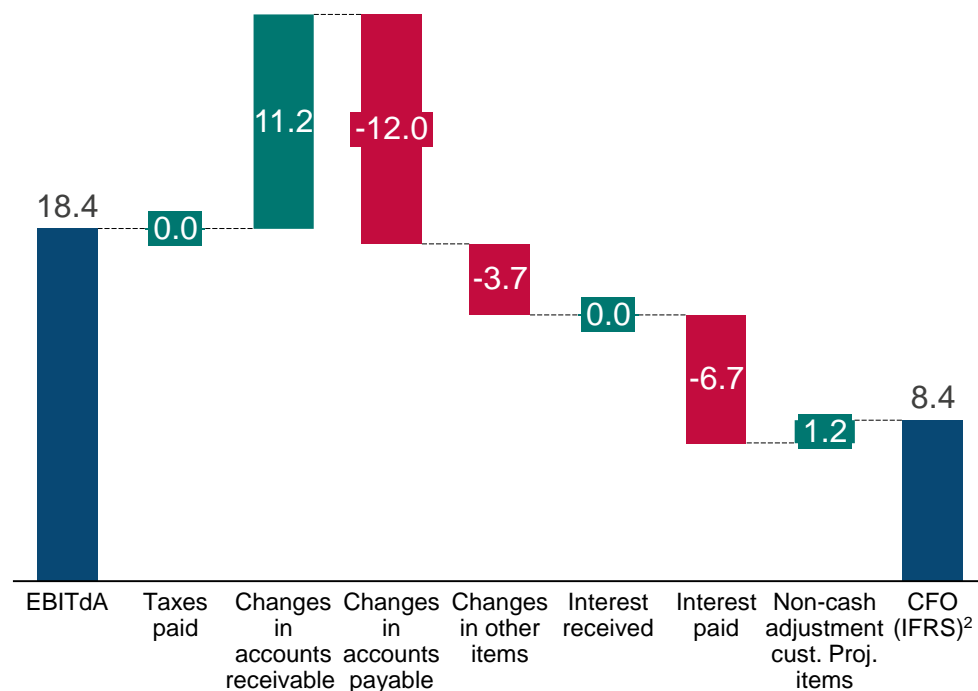
Vision 2020 - EBIT improvement program

- Several initiatives launched with full effect expected Q1-20

Area	Comments
EBIT-program	<ul style="list-style-type: none"> ▪ Targeting return to pre acquisition EBIT margin run rate of 10% going into 2020 ▪ Reduce monthly costs by NOK 4.7 million compared to Q1 baseline
Initiatives	<ul style="list-style-type: none"> ▪ Consolidated Lithuanian IT & Technology operations to Riga Service Center ▪ Consolidated Managed Services Operations in Lithuania and Estonia to Riga Service Center ▪ Consolidated office locations in Germany impacting three locations ▪ Consolidated Dresden SAP Application Maintenance Services (AMS) into our Leipzig Innovation Center ▪ Commenced process of organizational simplification with one legal entity per country = reduction of six legal entities <ul style="list-style-type: none"> ▪ Reduction of three entities expected to take effect for 2019 ▪ Reduction of three entities expected to take effect for 2020 ▪ Continued reduction of overhead costs with focus on finance function. Reduction of recurring costs expected to take gradual effect during Q4 and full P&L effect during Q1 2020. ▪ Renegotiated and/or eliminated external supplier costs with effects showing in Q4-19 ▪ Increased utilization of our near- and offshore capabilities ▪ Ongoing work focusing on reducing group overhead as % of revenue through focusing local capacity on market facing activities instead of supporting group functions.
Summary	<ul style="list-style-type: none"> ▪ Rightsizing support functions and shift to market-facing activities <ul style="list-style-type: none"> ▪ ~100 employees are impacted, with a net downsizing of 50 FTEs of 6% of employee base and 8% of personnel cost base ▪ Approx. 15% of cost reductions seen in Q3 financials with full impact to take effect during Q4-19 and Q1-20 ▪ Consolidation of internal IT infrastructure to deliver fully unified customer-facing platform by Q1-20 ▪ Re-negotiations with 3rd party suppliers completed and will gradually yield effect from Q4-19 and onwards ▪ Increasing implementation of Robotic Process Automation (RPA) projects

EBITdA as alternative performance measurement

- EBITdA gives a better picture of the cash generating properties of Zalaris
- EBITDA is adjusted for movements on balance sheet items pertaining to Customer projects¹
- Cash flow from operations (IFRS) can be found by adjusting EBITdA with movements on other Net Working Capital items³



1) EBITdA is defined as EBITDA adjusted for P&L and Δ Balance Sheet items pertaining to customer projects (Liabilities and Assets)

2) IFRS reported Cash Flow from Operations

3) Short term balance sheet items **not** related to Customer Project Assets and Liabilities

Strong Y-o-Y revenue performance in both segments

Managed Services

Focus on existing customers

- Supporting customers with expanded functional and geo scope of services
- Market place to plug innovation gap

Sharpen focus on core services

- Vendor agnostic Zalaris Payroll with seamless integration to all relevant global HR solutions
- Multi country, mobile solutions, RPA and Machine Learning
- Industry solutions for key stronghold segments to reduce implementation cost and time

Drive Managed Service sales in Germany and UKI

- Clear segmentation of mid- and large market customers
- Vertical solutions

Professional Services

Organize and Operate Professional Services as a Global Business Unit

- Strengthen capacity and capability to implement and support the **SAP portfolio** of cloud solutions as SuccessFactors, Fieldglass, Concur, Analytics and S4Hana.
- Strengthen **advisory** and capability to support customers **adopting** implemented solutions
- Improve **resource utilization across group** operations
- Utilize **offshore and nearshore** capabilities in delivery models
- Continue **recruiting and building capacity** to support demand
- Strengthen Professional Services **sales in the Nordics and Baltics**

Summary

Preparing to enter 2020 on a strengthened trajectory with renewed capacity, a more optimized cost structure and sharper overall focus on customer value, service and business growth

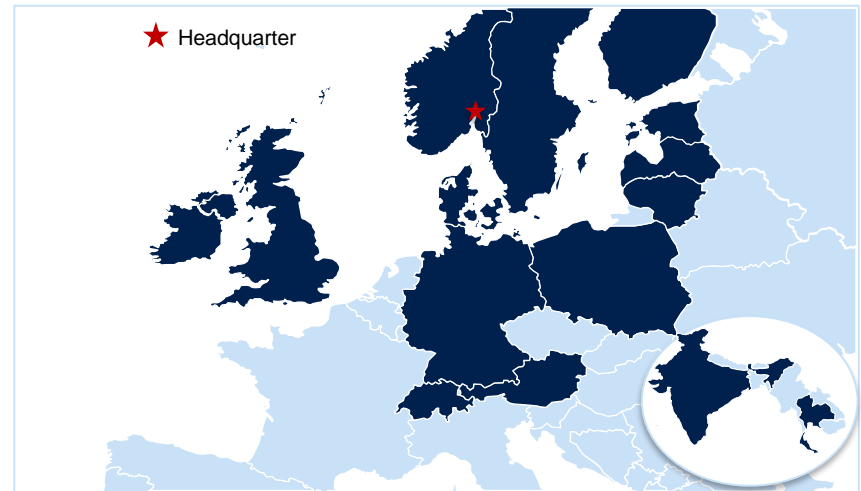
Area	Comments
EBIT-program	<ul style="list-style-type: none">▪ On track with Vision2020 including an approximately 6% reduction in FTEs and 8% reduction in personnel costs with full impact from Q1-20 with approx. 15% visible in Q3 results
Focus	<ul style="list-style-type: none">▪ Focus turning back to growth with the goal of delivering on our expectations of continuing our 18 years of uninterrupted growth
Managed Services	<ul style="list-style-type: none">▪ Key to growth in Managed Services is scaling own Zalaris Payroll SaaS and BPO models successfully into CE and UKI
Professional services	<ul style="list-style-type: none">▪ Growth in Professional Services will focus around developing Professional Services as a global business unit and to explore the potential of our solid partnership with SAP
Market	<ul style="list-style-type: none">▪ The market for HR solutions and Technology is more buoyant than ever and Zalaris is perfectly positioned to capitalize on our position as a leader in the space

We open for questions

European Payroll & HR Solutions that Value People

Zalaris at a glance – Local presence with one global platform

- Zalaris ASA is a leading provider of Payroll and Human Capital Management Services delivered through SaaS and BPaaS models
- Founded in 2000
- Supporting fully digital processes for Payroll and Human Capital Management
- One common Multi country solution satisfying GDPR requirements combined with competent resources serving customers in local markets and native language
- More than 280k employees served by Zalaris' BPO operations and >1m served by customers' systems that Zalaris maintain per month
- Services delivered on the basis of solutions from SAP and own IP. SAP Partner since 2001.
- Listed at Oslo Stock Exchange with ticker ZAL



More than 80% of Revenue is Recurring*

2018 Revenue:
EUR 77 million

18
years of experience
and continuous
growth

280,000
employees served
monthly by HRO

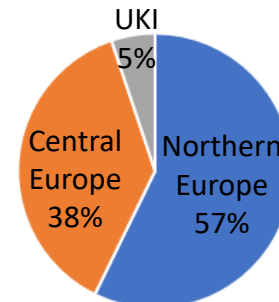
850
employees

Local service centers in
12
countries with top-notch
expertise in local laws
and regulations

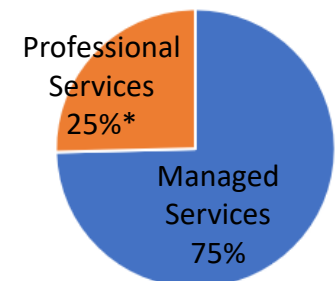


> 1,000,000
employees served
monthly across all
solutions

By geography

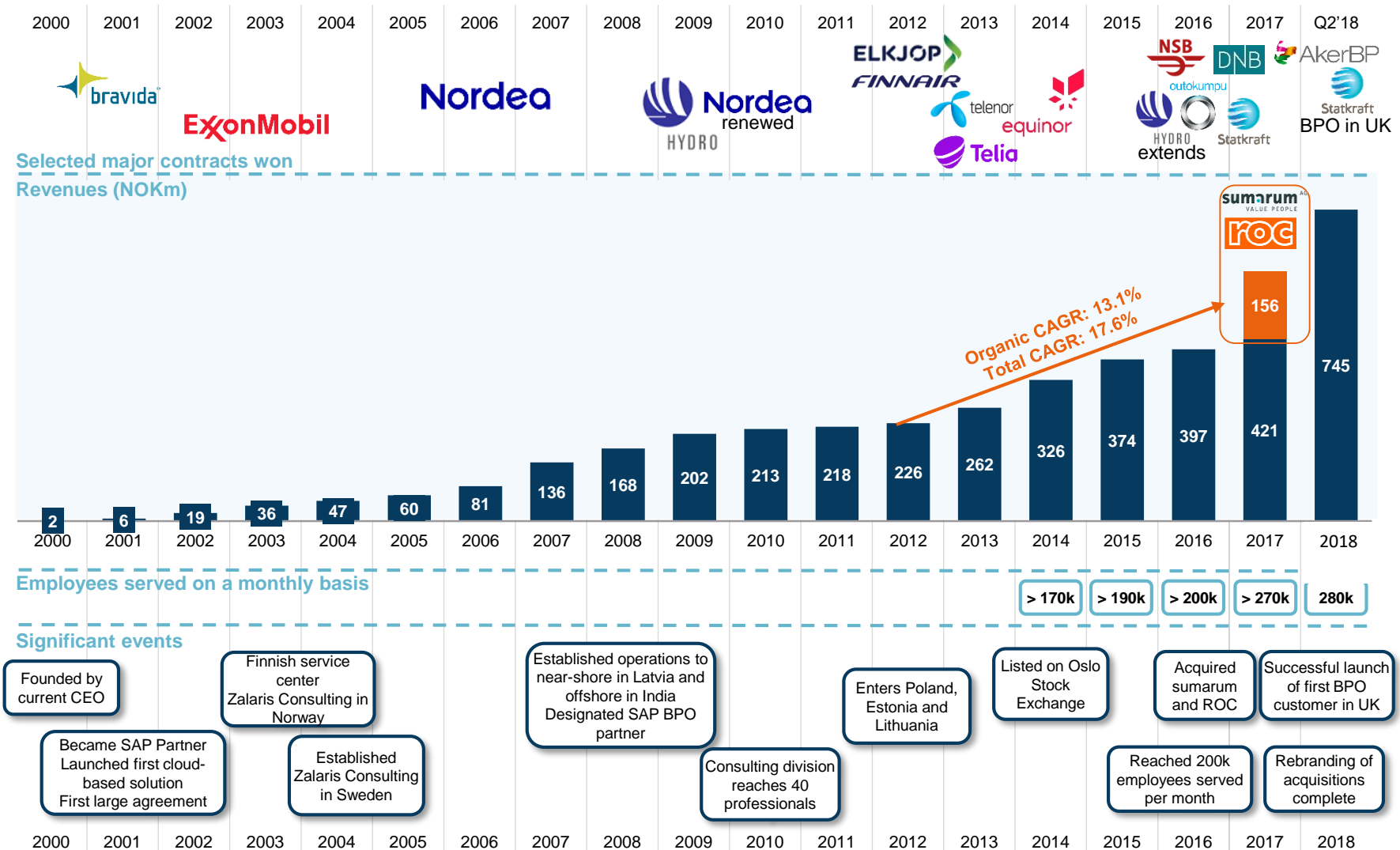


By segment



*) More than 90% of Managed Services and 60% of Professional Services Revenue is based on long term and recurring agreements

18 years of uninterrupted growth

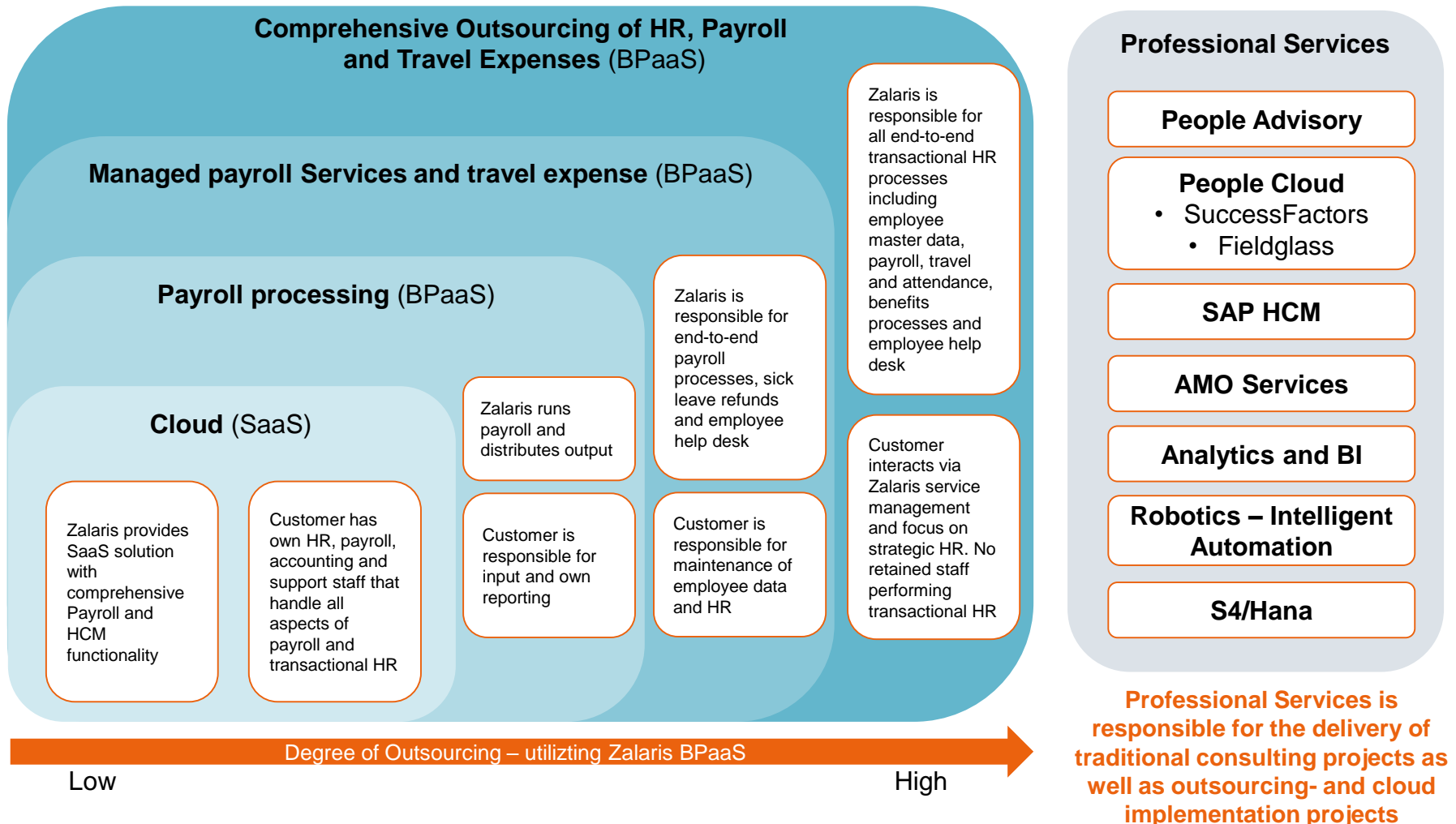


Digitizing Payroll and HCM Processes with the goal of Cost Reduction and Improved Employee Experience

- ✓ **Full-service outsourced payroll and personnel processes** enabling clients to focus on strategic HR
- ✓ **Enabler of cross-border organizations** through one common IT solution across geographies
- ✓ **Improved productivity** through automation of routine activities
- ✓ **Economies of scale** through servicing more than 300'000 employees on BPO platforms on a monthly basis
- ✓ **Reduced unit costs** through near- and off-shore centers
- ✓ **Integrations to all major global HR solutions** as SuccessFactors, Workday and Oracle



Our goal is to support the needs of the HR Director

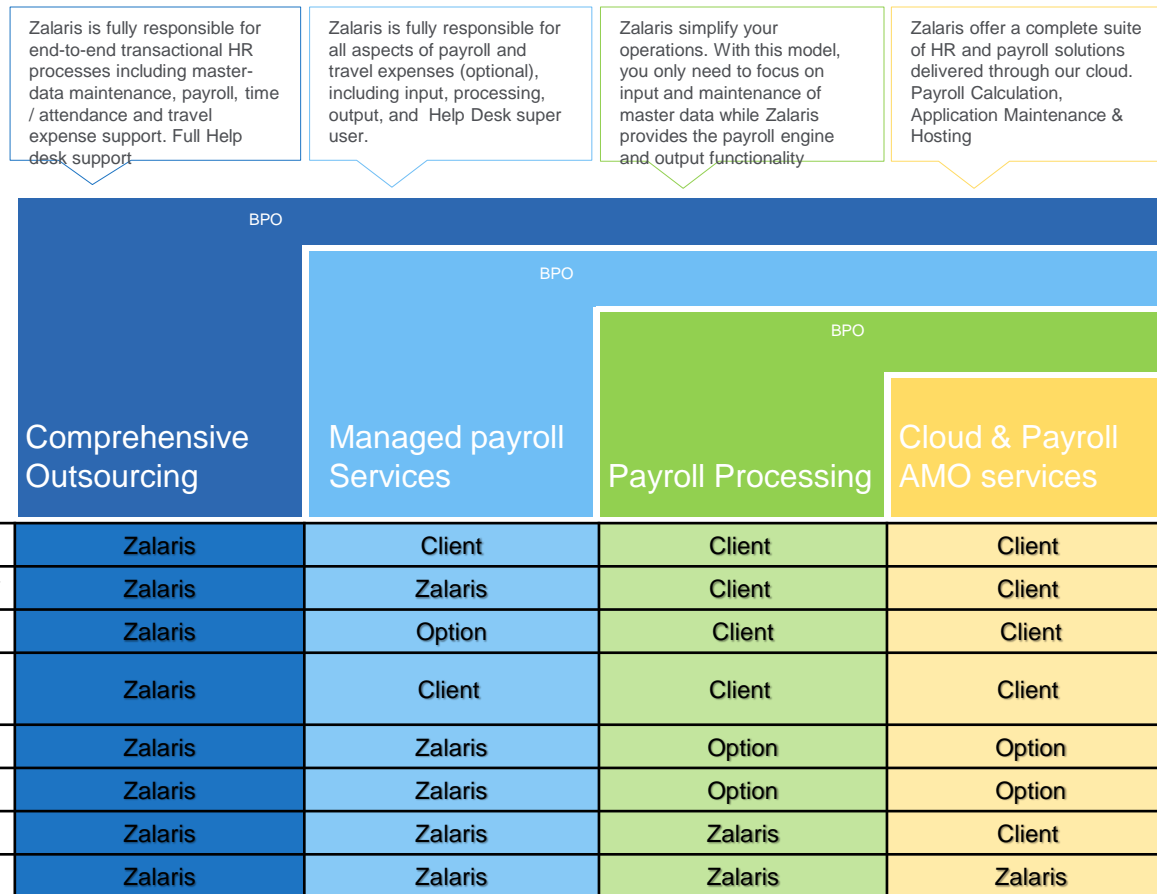


We are focusing on customers with complex needs

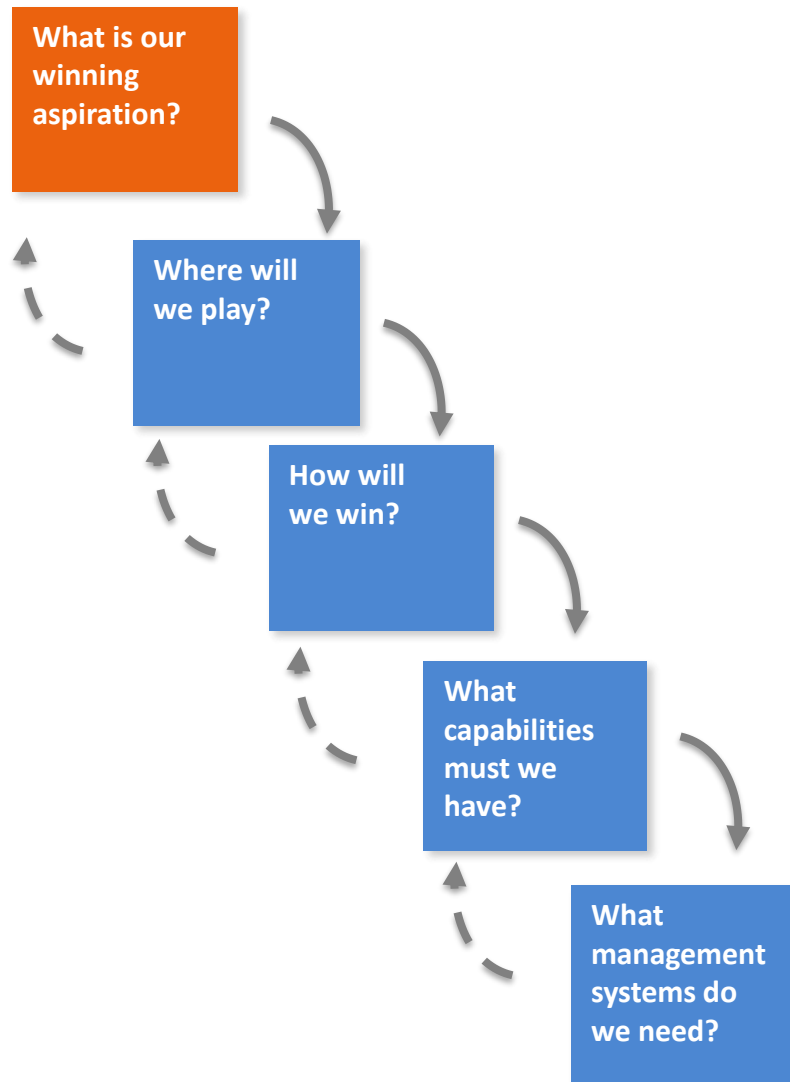
- **Customer:** Large & Medium size organizations and Multi National Enterprises with moderate to complex needs
- **Customer Verticals:** Bank & Insurance, Technology, Retail, Products, Energy, Public/Not for Profit, Higher Education
- **Offerings:** Comprehensive suite of Payroll and HR Services structured in Managed Services and Professional Services
- **Geography:** Europe and locations needed to support our European HQ customers' footprint

Our ambition is to be the leading European Provider of Cloud Based Outsourcing and Consulting Services that maximize the Value of Human Capital through efficient Digital processes

Zalaris HR & Payroll Service Offering



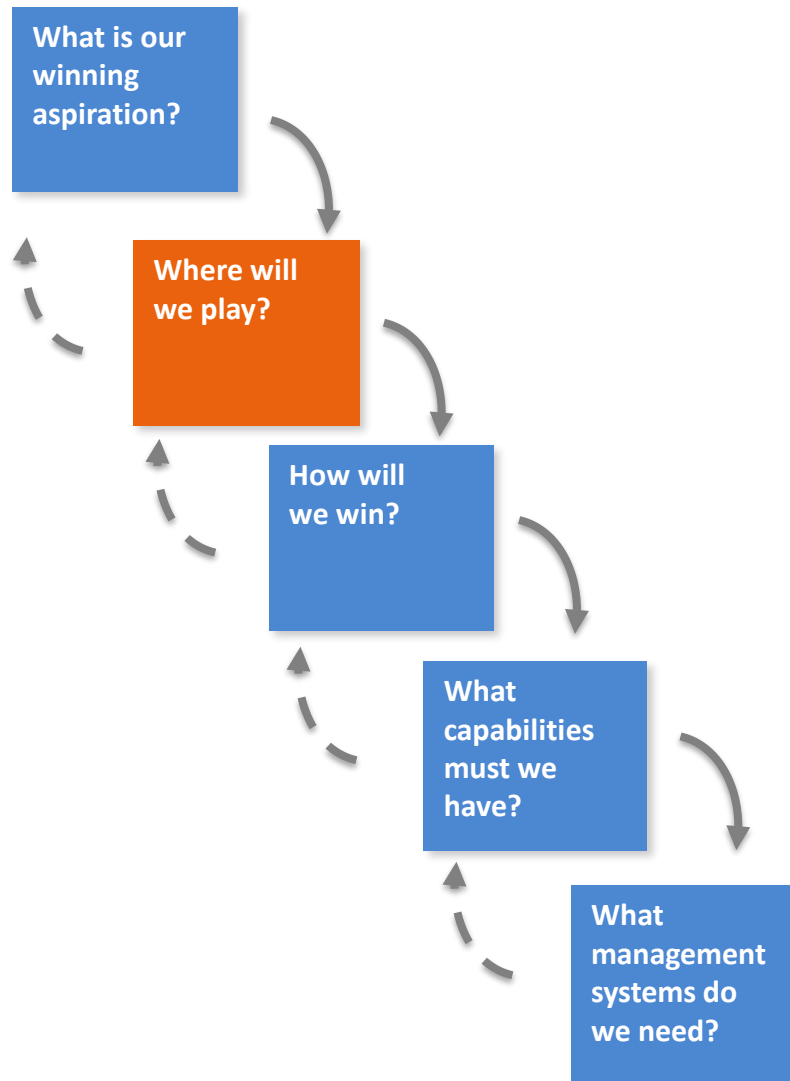
Zalaris Strategy: Playing to Win
Our focus for now is serving European Organizations



**The leading European
Provider of Outsourcing and
Consulting Services that
maximize the Value of Human
Capital through efficient
Digital processes**

Zalaris Strategy: Playing to Win

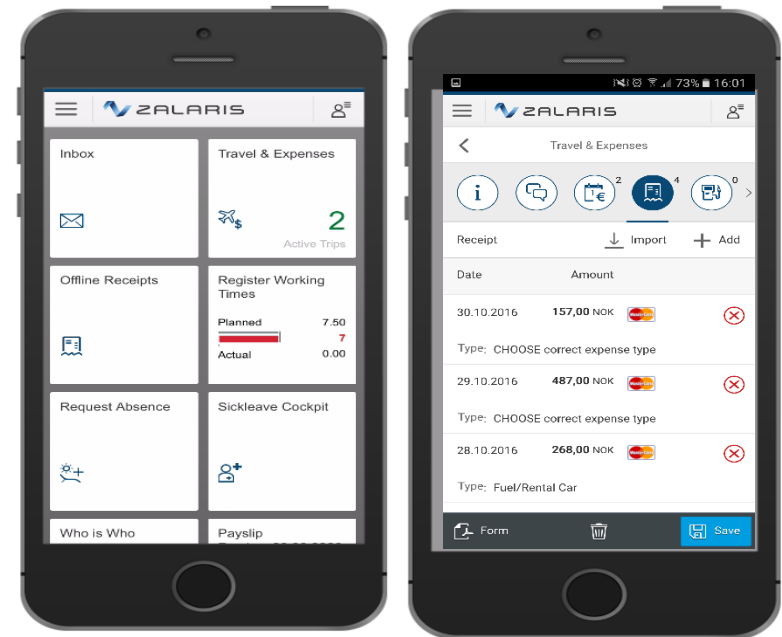
We are focusing on customers with complex needs



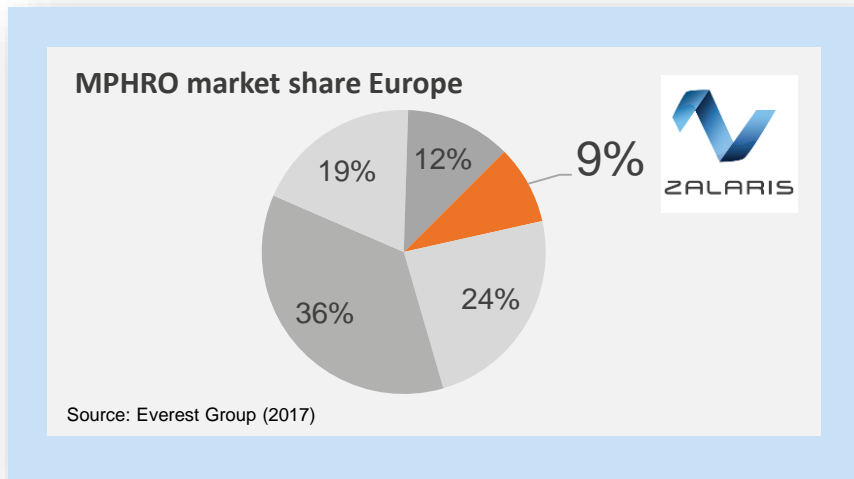
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Our Mobile first strategy is continuing to be key in supporting end2end digitization of processes

- Focus on simplifying day to day scenarios
- New functionality for Total Compensation and Help desk will be added
- Common user interface and experience across mobile and SuccessFactors



Everest estimates Zalaris to have approximately 9% of the number of HRO deals in the European Multi-process HR market

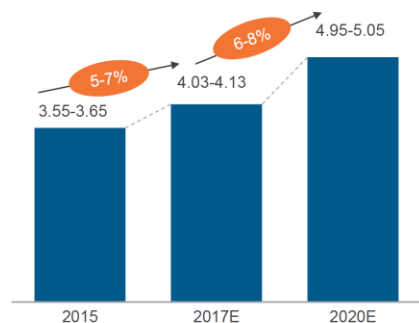


- Multi-process human resources outsourcing (MPHRO) market growth 6-7%
- Zalaris with a strong footprint in North and Central Europe with 9 % share of the European market
- Strong demand for products and services within SuccessFactors
- More than 50K SAP HCM and 10K SAP Payroll on premise installations worldwide that are target for conversion to cloud based solutions
- The future of HR outsourcing models have digital pillars such as Cloud and Mobile-based solutions

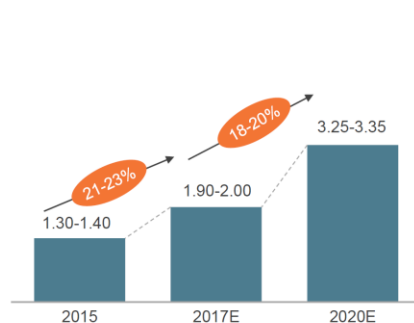
We are part of fast growing markets

Global Market

MPHRO market size
US\$ billion



MCPO market size
US\$ billion



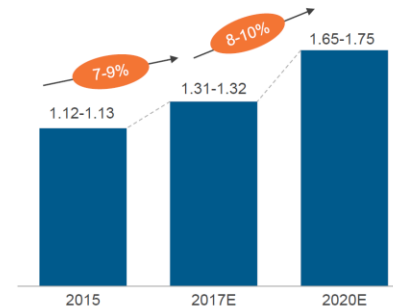
Source: Everest Group (2018)



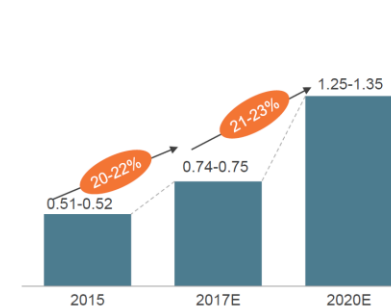
Proprietary & Confidential. © 2018, Everest Global, Inc.

European Market

MPHRO market size
US\$ billion



MCPO market size
US\$ billion



Source: Everest Group (2018)



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Source: Everest Group

NelsonHall positions Zalaris as a Leader in Cloud based HR Services



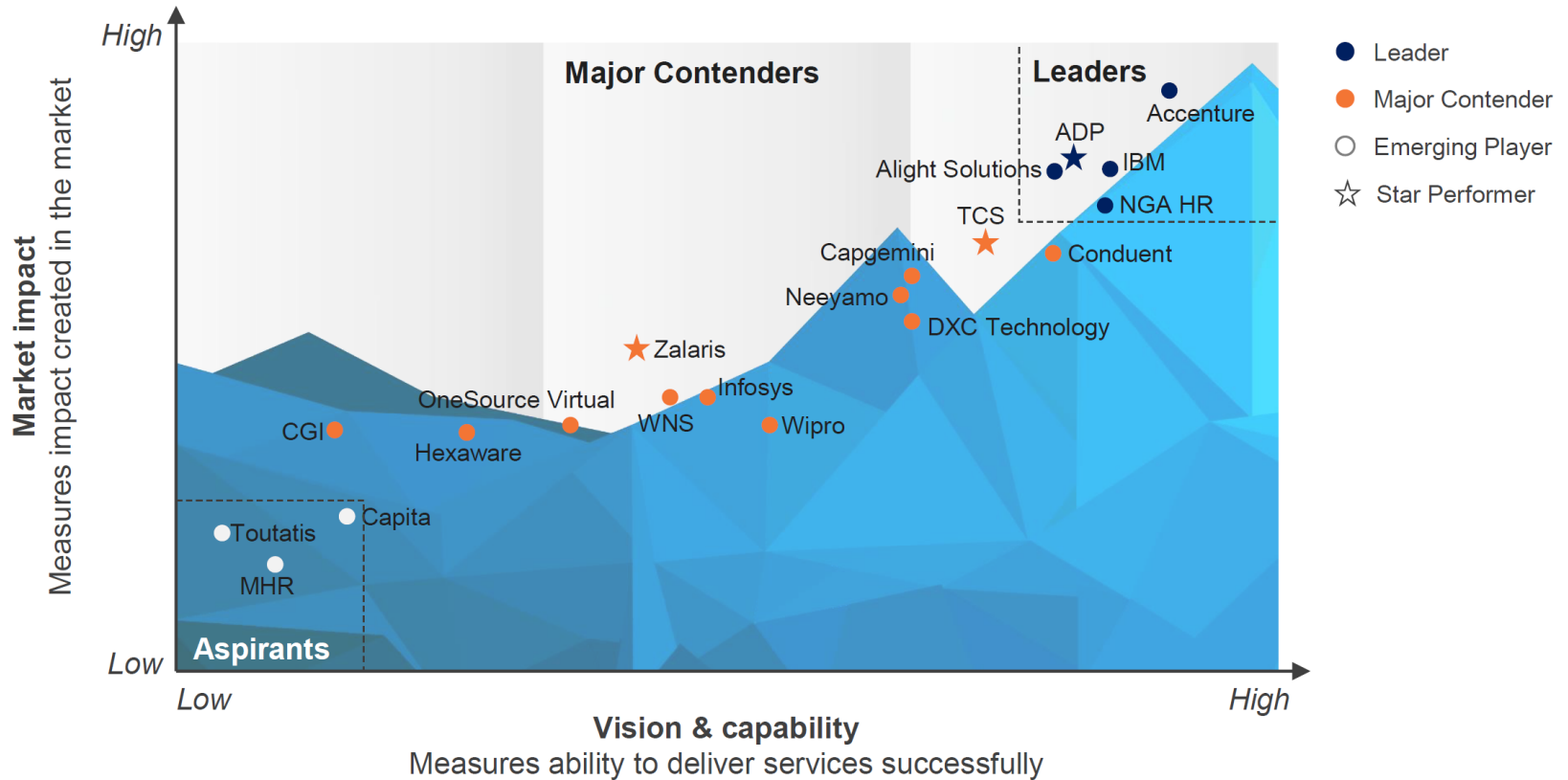
“As organizations adopt cloud HR technology, HR BPaaS capabilities necessarily become increasingly important along with corresponding cloud services. Zalaris has established itself as a leader for HR BPaaS services, especially in the Nordics, due to its strong partnership with SAP and SuccessFactors coupled with its payroll and transactional HR administration support.”

- Amy Gurchensky, NelsonHall

Source: Nelson Hall, NEAT, April 2016

Everest cites Zalaris a Star Performer in the Multi Process Outsourcing Provider Landscape

Everest Group Multi-Process Human Resource Outsourcing (MPHRO) – Service Provider Landscape with Services
PEAK Matrix™ Assessment 2019^{1,2}



1 PEAK Matrix specific to MPHRO services

2 Assessment for Capita, CGI, Hexaware, MHR, Toutatis, and Wipro excludes service provider inputs on this particular study, and is based on Everest Group's estimates which leverage Everest Group's proprietary Transaction Intelligence (TI) database, ongoing coverage, the service provider's public disclosures, and interaction with buyers

Everest Group also identified three service providers as the “2019 MPHRO Market Star Performers” – ADP, TCS, and Zalaris. This was based on the relative year-over-year movement of different service providers on the PEAK Matrix.

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Thank you!

Hans-Petter Mellerud

CEO
hans-petter.mellerud@zalaris.com
+47 928 97 276

Zalaris ASA

+47 4000 3300 www.zalaris.com

– Value people