

Interim Report for Q4 2019 and preliminary full-year 2019

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About Zalaris

Zalaris ranks among Europe's top providers of human capital management (HCM) and payroll solutions, addressing the entire employee lifecycle, from recruiting and onboarding to compensation, time and attendance, travel expense, performance management and learning.

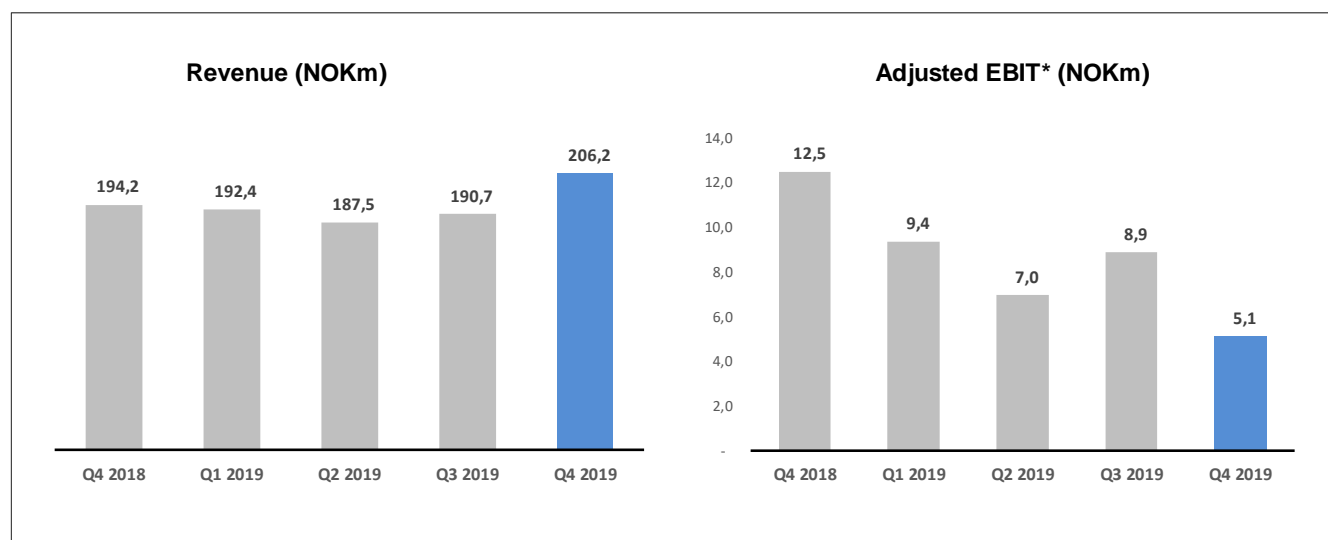
The Group's proven local and multi-country delivery models include on-premise implementations, software as a service (SaaS), integrated cloud and business process outsourcing (BPO). Zalaris' experienced consultants and advisors cover all industries and IT environments.

After 18 years of uninterrupted growth Zalaris has reached almost NOK 800 million in annual revenue, and has ~800 competent employees in the Nordics, Baltics, Poland, Germany, India, Ireland and the UK. The Group serves more than one million employees each month, across multiple industries and with many of Europe's most reputable employers, such as Nordea, DNB, Telenor, Telia, Hydro, Yara, NSB, Ericsson, Equinor, AkerBP, Kongsberg Maritime, Finnair, SAS, Germanwings, Statkraft, Elkjøp, CircleK, Die Zeit, Glaxosmithkline, Carlsberg and a number of German states, with our innovative payroll, HR and professional services.

Zalaris is headquartered in Oslo, Norway, and the shares are listed on the Oslo Stock Exchange (ZAL).

Q4 Highlights

- All time high revenue of NOK 206.2 million for the quarter (+6.2%) and NOK 776.8 million for the full-year (+4.2%) - the 19th year of uninterrupted growth
- Adjusted EBIT of NOK 5.1 million (NOK 12.5 million), and adjusted EBIT for the full-year of NOK 30.4 million (NOK 27.9 million)
- EBIT-improvement initiatives launched in 2019, resulting in a reduction of 52 FTEs at year-end, of which 48 FTEs were within support and admin. functions, will reduce the cost base going forward
- Several large blue-chip long-term renewals during the quarter
- Cash and cash equivalents of NOK 82.4 million, an increase of NOK 17.6 million from the previous quarter



*Defined in separate section: Alternative Performance Measure (APMs)

Key Figures

Q4 2019 financial summary

(NOK 1 000)	2019	2018	2019	2018
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Revenue	206 235	194 153	776 807	745 434
Growth (YoY)	6,2 %	0,3 %	4,2 %	29,1 %
EBITDA	20 748	25 999	103 536	80 496
Adjusted EBITDA ¹⁾	19 076	25 999	87 704	81 261
Adjusted EBITDA margin (as % of revenue)	9,2 %	13,4 %	11,3 %	10,9 %
EBIT	(1 420)	10 021	14 250	17 339
Adjusted EBIT ¹⁾	5 118	12 491	30 399	27 891
Adjusted EBITDA margin (as % of revenue)	2,5 %	6,4 %	3,9 %	3,7 %
Profit/(loss) for the period	(1 323)	(4 225)	(5 025)	(1 273)
Adj. profit/(loss) for the period ¹⁾	2 880	8 015	8 770	19 084
Earnings per share (EPS)	(0,07)	(0,21)	(0,25)	(0,06)
Adj. earnings per share (adj. EPS) ¹⁾	0,15	0,41	0,44	0,95
Total comprehensive income	51	12 395	(3 332)	815
Free cash flow ¹⁾	36 385	(7 085)	19 762	(16 130)
Net interest-bearing debt (NIBD) ¹⁾	(286 610)	(271 552)	(286 610)	(271 552)
Full time equivalents (FTEs) period end ¹⁾	753	779	753	799

¹⁾ Defined in separate section Alternative Performance Measure (APMs)

Q4 2019 financial performance by business segment

(NOK 1 000)	2019	2018	2019	2018
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Revenue				
Managed services	156 459	144 489	574 518	549 971
Professional services	49 777	49 664	202 288	195 463
Group overhead and other	-	-	-	-
Total revenue	206 235	194 153	776 807	745 434
EBIT				
Managed services	19 932	14 474	63 535	60 040
Professional services	33	10 787	18 180	18 046
Group overhead and other	(21 385)	(15 240)	(67 465)	(60 747)
EBIT	(1 420)	10 021	14 250	17 339
EBIT margin (%)				
Managed services	12,7 %	10,0 %	11,1 %	10,9 %
Professional services	0,1 %	21,7 %	9,0 %	9,2 %
Group overhead and other	n/a	n/a	n/a	n/a
EBIT margin (%)	-0,7 %	5,2 %	1,8 %	2,3 %

Letter from the CEO

“We ended FY2019 – our 19th year of uninterrupted growth – in an encouraging position to continue strengthening customer partnerships, recurring revenue and profitability.”



We completed fiscal 2019 with a new high in annual revenue – NOK 777 million – up 4,2% over the previous year. It was our 19th year of uninterrupted growth. Q4/19 sales increased to NOK 206 million, up 6,2% compared to this period last year. Adjusted EBIT for the year increased to NOK 30,4 million, up 9% from NOK 27,9 million in the previous year.

EBIT program on track

Vision 2020 – our EBIT improvement program communicated in May 2019 and targeting monthly cost reductions of 4.7 million by Q1-20 – remains on track. The program resulted in restructuring costs of NOK 3.2 million in our fourth quarter. We will continue applying corresponding actions and standards to further drive margin improvements, including through additional digitalization and automation initiatives as well as sharp focus on leveraging our cost-effective nearshore/offshore service center infrastructure.

Fortifying recurring revenue streams

During the fourth quarter, our customers continued extending contracts with us, such as the state of North Rhine-Westphalia, which selected Zalaris to continue providing SAP Application Management Services securing payroll accuracy and efficient digital processes to their Payroll and Pension Shared Service Center. Leading natural gas transporter Gassco, a Zalaris customer since 2003, renewed its agreement for payroll, time & attendance and travel expense management. Yara, among the largest fertilizer companies in the world, upped its commitment for transactional HR services across Norway, Sweden, Denmark – powered by Zalaris’ proven cloud solution.

The renewals reflect Zalaris’ successful long-term business model in securing recurring revenue streams and low historic churn. New customers are just as relevant, of course, and we recently signed the PEKAO bank in Poland, for implementation of a new global HR solution for their 16,000 employees.

The five-year agreement covers performance and goals management, succession, learning, recruiting and onboarding services.

Grow 2020: Full focus on customer value

Profitable growth is our resolute focus in 2020. Recurring revenue and agreements with existing customers already account for approximately 80% of our business (90% of Managed Services and 60% of Professional Services are recurring). This combines with a historic low churn of 1.5-3% per annum. We want to build on this proven business model and acquire new customers with particular emphasis on expanding platform-based payroll and HR services in Central Europe, UK and Ireland. Customer satisfaction is equally a focus area.

Attracting new investors looking for strategic long-term value

We saw heightened interest from new investor groups in Q4, recognizing Zalaris as a unique investment opportunity with attractive fundamentals:

- 1) Diversified business with blue-chip client base
- 2) Attractive growing market, historically resilient as payroll and HR is a “license to play” for all organizations
- 3) Regional Payroll and HR Outsourcing leader
- 4) High degree of recurring/contracted revenues
- 5) Clear value proposition that also fuels substantial upsell potential
- 6) 19 years of uninterrupted growth with scalable business model in market with organic and non-organic growth opportunities
- 7) Last, but not least... a stable and experienced management team

Our goal for 2020 is besting ourselves by staying close to our values of Aiming high, Teamwork and Endurance – and to deliver on our stakeholders’ expectations. It will be our 20th year in business, and we look forward to making it a memorable one!

– Hans-Petter Møllerud, CEO

Financial Review

Revenue

Consolidated revenue for the fourth quarter 2019 amounted to NOK 206.2 million, compared to NOK 194.2 million in the same quarter of 2018, which is an increase of 6.2%.

Revenue for the full-year 2019 amounted to NOK 776.8 million, up from NOK 745.4 million for the same period last year, a growth of 4.2%.

Nordics & Baltics

Revenue in the Nordic & Baltic region grew by 6.1%, from NOK 115.8 million in the fourth quarter last year to NOK 122.9 million in the same quarter this year. The revenue growth is due to new customers, such as AkerBP, and increased business from existing customers.

Revenue for the full-year 2019 amounted to NOK 449.9 million, up from NOK 430.9 million for the same period last year, a growth of 4.4%.

Central Europe

Revenue in the Central Europe region for the fourth quarter amounted to NOK 75.5 million, compared to NOK 69.9 million in the same quarter last year. The increase in revenue of 8.0% from last year was primarily driven by increased license sales, as well as a stronger EUR vs. NOK.

Revenue for the full-year 2019 amounted to NOK 294.1 million, compared to NOK 288.2 million for the same period last year, a growth of 2.1%.

UK & Ireland

Revenue for the fourth quarter in the UK & Ireland region amounted to NOK 7.8 million, compared to NOK 8.5 million in the same quarter last year.

Revenue for the full-year 2019 amounted to NOK 32.8 million, up from NOK 26.3 million for the same period last year, a growth of 24.7%.

Revenue increase has been driven by new sales and increased scope of work for existing customers.

Group Profits

Consolidated EBIT for the quarter was negative NOK 1.4 million, compared to NOK 10.0 million for the same quarter last year. The lower EBIT is mainly due to restructuring costs of NOK 3.2 million, and a reversal of bonus previously expensed of approximately NOK 4 million in the fourth quarter last year. Higher use of temporary external consultants in the quarter also contributed to the variance.

EBIT for the full year amounted to NOK 14.2 million (EBIT margin 1.8%), compared to NOK 17.3 million (2.3%) last year.

Adjusted for restructuring costs (NOK 3.1 million), calculated costs of the company's Restricted Stock Unit (RSU) and option schemes (NOK 0.7 million) and amortization of excess values on acquisition (NOK 2.6 million), the EBIT was NOK 5.1 million for the fourth quarter, compared to NOK 12.5 million in the same quarter last year.

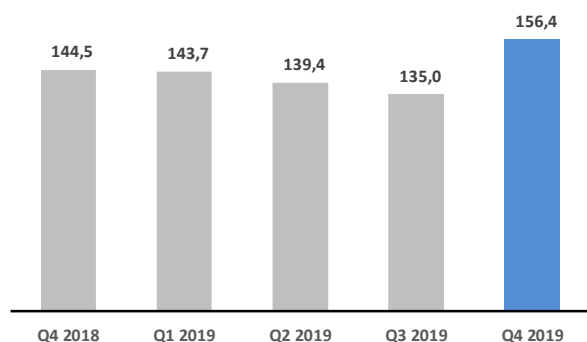
Cost saving initiatives were implemented in all regions in 2019, and the number of FTEs has been reduced by approximately 52, since the program was initiated. Of these, 48 FTEs were employed within support and admin. functions. Included in the EBIT for 2019 was severance pay and other restructuring costs of approximately NOK 4.3 million, relating to the employee reductions. The cost saving initiatives are expected to have a positive impact on operating expense from the first quarter 2020 and onwards.

Business segment performance

Managed Services

The Managed Services segment grew by 8.2% during the fourth quarter 2019, compared to the same quarter last year, and amounted to NOK 156.4 million for the quarter. Managed service revenue contributed to 75.8% (74.4%) of total revenue for the Group.

Revenue Managed Services (NOKm):



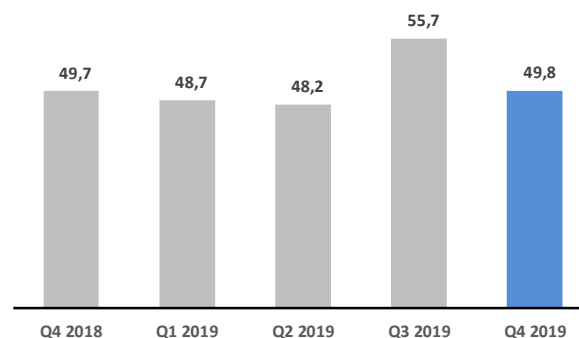
This growth in the fourth quarter, when compared to last year, was mainly a result of new and renewed customer contracts during 2019, as well as additional sale of licenses, which will result in recurring maintenance fees (income) going forward.

The EBIT for Managed Services for the fourth quarter 2019 was NOK 16.1 million, compared to NOK 14.5 million for the same quarter last year.

Professional Services

Revenue in the Professional Services segment amounted to NOK 49.8 million for the fourth quarter, which was in line with the same quarter last year.

Revenue Professional Services (NOKm):



The EBIT for Professional Services for the fourth quarter was NOK 0.03 million, compared to NOK 10.8 million for the same quarter last year. The negative variance was partly due to the timing of expenses, both in the fourth quarter this year, and last year. Lower utilization and higher use of temporary external consultants in Germany resulting from the consolidation of physical locations - particularly in Germany, also contributed to the negative variance. The EBIT for the second half-year period 2019 was NOK 11.1 million, compared to NOK 8.1 million in the same period last year.

Financial position and cash flow

Zalaris had total assets of NOK 705.0 million as of 31 December 2019, compared to NOK 709.1 million at 30 September 2019.

Cash and cash equivalents were NOK 82.4 million as of 31 December 2019, an increase of NOK 17.6 million from the end of the previous quarter. The increase in cash and cash equivalents is mainly the result of favourable movements in working-capital.

Total equity as of 31 December 2019 was NOK 107.3 million, compared to NOK 101.6 million as of 30 September 2019. This corresponds to an equity ratio of 15.2 percent (14.3 percent).

The Company holds 554,627 own shares at 31 December 2019.

Net interest-bearing debt (interest-bearing debt less cash and cash equivalents) decreased from NOK

311.0 million at 30 September 2019 to NOK 286.6 million at 31 December 2019.

Operating cash flow during the fourth quarter 2019 was NOK 48.2 million. The positive operating cash flow was contributed to by a large net reduction in working capital of NOK 39.7 million. Net cash flow from operating activities in the same quarter last year was negative NOK 3.7 million.

Net cash flow from investing activities for the fourth quarter was negative NOK 11.8 million, mainly relating to internal development projects. Net cash flow from

financing activities for the fourth quarter was negative NOK 18.1 million, including the purchase of own shares of NOK 6.5 million, and IFRS 16 lease payments. The cash flow from financing activities in the fourth quarter last year was positive 2.9 million.

Cash and cash equivalents balance at 31 December 2019 was NOK 82.4 million (NOK 107.4m).

EBIT improvement program

As previously communicated, Zalaris launched an EBIT improvement program in 2019, Vision2020. As part of the program the total number of FTEs has been reduced by approximately 52 (-6%) from when the program was launched, which is according to targets previously communicated. Key elements executed during 2019, which is expected to have a positive financial effect from the first quarter 2020, were:

- Consolidated Lithuanian IT & Technology operations to Riga Service Center
- Consolidated Managed Services Operations in Lithuania and Estonia to our Riga Service Center
- Consolidated office locations in Germany impacting three locations
- Consolidated Dresden SAP Application Maintenance Services (AMS) Team into our Leipzig Service Center
- Commenced process of organizational simplification targeting one legal entity per country resulting in the reduction of six legal entities.
- Reduction of overhead costs
- Renegotiated and/or eliminated external supplier costs
- 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

Outlook

Zalaris' key markets are expected to continue to grow in the foreseeable future. Zalaris plan to capture part of this growth through new customers and by expanding the service offering to existing customers. The market fundamentals for the Group remain advantageous. The Company's margins are expected to improve from the levels observed in 2019, as a result of the cost

reduction initiatives implemented in 2019 through the "EBIT Vision 2020" project. This include streamlining of the organization, ramp-up of digitizing efforts, automating services and increasing Robotic Process Automation (RPA) projects all aiming at increasing quality in deliveries and reducing costs.

The Board of Directors of Zalaris ASA
Oslo, 27 February 2020



Lars Laier Henriksen
(chairman)



Jon Erik Haug



Liselotte Hægert Engstam



Adele Norman Pran



Corinna Schäfer



Kenth Erland Eriksson



Jan M. Koivurinta

Interim consolidated condensed financial statements

Consolidated Statement of Profit and Loss

(NOK 1000)	Notes	2019 Oct-Dec <i>unaudited</i>	2018 Oct-Dec <i>unaudited</i>	2019 Jan-Dec <i>unaudited</i>	2018 Jan-Dec
Revenue	2	206 235	194 153	776 807	745 434
Operating expenses					
License costs		23 911	18 636	67 981	60 492
Personell expenses	3	117 158	104 258	438 403	426 623
Other operating expenses		44 418	45 259	166 887	177 823
Depreciation and impairments		972	943	4 048	3 635
Depreciation right-of-use assets	8	5 620	-	21 932	-
Amortisation intangible assets	4	6 733	6 025	26 704	23 575
Amortisation implementation costs customer projects	5	8 844	9 010	36 602	35 947
Total operating expenses		207 655	184 131	762 557	728 094
Operating profit (EBIT)		(1 420)	10 021	14 250	17 339
Financial items					
Financial income		1 564	1 748	2 632	9 675
Financial expense		(6 604)	(8 316)	(29 057)	(18 442)
Unrealised foreign currency profit/loss		2 070	(12 688)	1 784	(12 734)
Net financial items		(2 971)	(19 256)	(24 642)	(21 501)
Profit before tax		(4 391)	(9 235)	(10 391)	(4 161)
Income tax expense					
Tax expense on ordinary profit		3 067	5 010	5 366	2 888
Total tax expense		3 067	5 010	5 366	2 888
Profit for the period		(1 323)	(4 225)	(5 025)	(1 273)
Profit attributable to:					
- Owners of the parent		(1 323)	(4 225)	(5 025)	(1 273)
- Non-controlling interests		-	-	-	-
Earnings per share:					
Basic earnings per share (NOK)		(0,07)	(0,21)	(0,25)	(0,06)
Diluted earnings per share (NOK)		(0,07)	(0,21)	(0,25)	(0,06)

Consolidated Statement of Comprehensive Income

(NOK 1000)	Notes	2019	2018	2019	2018
		Oct-Dec <i>unaudited</i>	Oct-Dec <i>unaudited</i>	Jan-Dec <i>unaudited</i>	Jan-Dec
Profit for the period		(1 323)	(4 225)	(5 025)	(1 273)
Other comprehensive income					
Items that will be reclassified to profit and loss in subsequent periods					
Currency translation differences		1 374	16 620	1 694	2 088
Total other comprehensive income		1 374	16 620	1 694	2 088
Total comprehensive income		51	12 395	(3 332)	815

Consolidated Statement of Financial Position

(NOK 1000)	Notes	2019 31. Dec	2018 31. Dec
		<i>unaudited</i>	
ASSETS			
Non-current assets			
Intangible assets	4	132 950	143 064
Goodwill		153 248	151 996
Total intangible assets		286 198	295 059
Deferred tax asset		15 083	6 468
Fixed assets			
Office equipment		1 761	1 737
Right-of-use assets	8	34 849	-
Property, plant and equipment		31 376	33 455
Total fixed assets		67 986	35 192
Total non-current assets		369 267	336 720
Current assets			
Trade accounts receivable		148 596	158 118
Customer projects	5	88 808	97 272
Other short-term receivables		15 839	25 653
Cash and cash equivalents		82 448	107 844
Total current assets		335 691	388 887
TOTAL ASSETS		704 958	725 607

Consolidated Statement of Financial Position

(NOK 1000)	Notes	11. Jul	2018 31. Dec
EQUITY AND LIABILITIES			
Equity			
Paid-in capital			
Share capital		2 012	2 012
Own shares		(10 941)	(6)
Other paid in equity		4 651	2 061
Share premium		45 138	45 138
Total paid-in capital		40 860	49 205
Other equity		11 946	(33)
Retained earnings		54 512	59 733
Equity attributable to equity holders of the parent		107 318	108 905
Non-controlling interests		0	
Total equity		107 318	108 905
Liabilities			
Non-current liabilities			
Deferred tax		25 313	25 776
Interest-bearing loans and borrowings		362 487	355 746
Lease liabilities	8	16 536	-
Total long-term debt		404 337	381 522
Current liabilities			
Trade accounts payable		30 913	24 358
Customer projects liabilities	5	51 920	64 284
Interest-bearing loan from shareholders		5 326	7 867
Interest-bearing loans		1 245	14 817
Lease liabilities	8	19 099	-
Income tax payable		(12 845)	4 801
Public duties payable		36 626	36 517
Other short-term debt		59 923	81 655
Derivatives		1 095	882
Total short-term debt		193 302	235 180
Total liabilities		597 639	616 702
TOTAL EQUITY AND LIABILITIES		704 958	725 607

Consolidated Statement of Cash Flow

(NOK 1000)	Notes	2019	2018	2019	2018
		Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Cash Flow from operating activities		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	
Profit (Loss) before tax		(4 391)	(9 235)	(10 391)	(4 161)
Financial income		(3 633)	5 328	(4 416)	3 059
Financial costs		6 604	13 929	29 057	18 442
Share based payments		727	945	1 841	945
Depreciation and impairments		6 593	943	25 981	3 635
Amortisation intangible assets		6 733	6 026	26 705	23 575
Amortisation implementation costs customer projects ¹⁾	5	8 844	9 010	36 602	35 947
Recognized customer projects assets ¹⁾	5	(1 374)	(4 333)	(29 486)	(36 872)
Recognized customer projects liabilities (net) ¹⁾	5	(5 560)	(12 048)	(12 365)	(9 203)
Taxes paid		-	(249)	-	(4 996)
Changes in accounts receivable		2 781	(2 652)	9 522	(624)
Changes in accounts payable		25 604	3 879	6 555	148
Changes in other items ¹⁾		11 305	(9 998)	(16 887)	(12 260)
Interest received		37	74	162	212
Interest paid		(6 100)	(5 365)	(22 926)	(12 645)
Net cash flow from operating activities		48 170	(3 747)	39 954	5 200
Cash flows to investing activities					
Fixed and intangible assets		(11 785)	(3 339)	(20 192)	(21 330)
Net cash flow to investing activities		(11 785)	(3 339)	(20 192)	(21 330)
Cash flows from financing activities					
Purchase of own shares		(6 515)	-	(10 934)	-
Transaction costs related to issuance of new shares		-	(765)	-	-
Bank overdraft		-	(0)	-	(25 135)
Proceeds from issue of new borrowings		-	15 451	-	340 282
Payment of lease liabilities		(6 403)	-	(24 933)	-
Repayment of loan		(5 229)	(11 681)	(6 911)	(244 736)
Dividend payments to owners of the parent		-	(60)	-	(13 080)
Net cash flow from financing activities		(18 148)	2 945	(42 778)	57 331
Net changes in cash and cash equivalents		18 237	(4 140)	(23 016)	41 201
Net foreign exchange difference		(602)	3 339	(2 380)	3 851
Cash and cash equivalents at the beginning of the period		64 812	108 646	107 844	62 792
Cash and cash equivalents at the end of the period		82 448	107 844	82 448	107 844

¹⁾ Comparable 2018 numbers are restated for presentation purposes

Consolidated Statement of Changes in Equity (unaudited)

(NOK 1000)	Share capital	Own shares	Share premium	Other paid in equity	Total paid in equity	Other equity	Retained earnings	Total equity
Equity at 01.01.2019	2 012	(6)	45 137	2 061	49 205	(32)	59 733	108 905
Profit of the year					-		(5 025)	(5 025)
Other comprehensive income				748	748	945		1 694
Buyback of own shares		(10 934)			(10 934)			(10 934)
Share based payments				1 841	1 841			1 841
Other changes					-	11 033	(196)	10 838
Equity at 31.12.2019	2 012	(10 940)	45 137	4 651	40 860	11 946	54 512	107 318
Equity at 01.01.2018	2 012	(6)	58 217	1 116	61 339	(2 114)	60 461	119 687
Profit of the year					-		(1 273)	(1 273)
Other comprehensive income					-	2 088		2 088
Share based payments				945	945			945
Issue of Share Capital					-			-
issue of new shares					-		-	-
Other changes					-	(7)	545	537
Dividend			(13 080)		(13 080)			(13 080)
Equity at 31.12.2018	2 012	(6)	45 137	2 061	49 205	(33)	59 733	108 905

Notes to the condensed interim consolidated condensed financial statements

Note 1 – General Information and basis for preparation

General information

Zalaris ASA (the Group) 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.

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 consolidated interim financial statements do not include all 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 December 2019, have not been audited or reviewed by the auditors.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except from the adoption of the new standards effective as of January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued not yet effective.

The Group applies, for the first time, IFRS 16 Leases. As required by IAS 34, the nature and effect of these changes are disclosed. IFRS 16 supersedes IAS 17, IFRIC 4, SIC-15 and SIC 27. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The group adopted IFRS 16 using the modified retrospective method of adoption with the initial application of January 1, 2019. The group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of the initial application. The group also decided to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The effect of adopting IFRS 16 is disclosed in note 8.

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 changed its reporting of business segments with effect from 1 January 2019. HR Outsourcing and Cloud Services have been merged into one segment now reported as Managed Services. Consulting has been renamed to Professional Services. The changes are made to improve visibility and reflect market trends, especially the increasingly overlapping sales and deliveries of HR Outsourcing and Cloud services to the same customers. Managed Services will be organized as a group wide business unit to speed growth and adaptation in key markets.

Managed services include a full range of payroll and HR outsourcing services, such as payroll processing, time and attendance, travel expenses as well as related cloud system solutions and services. This includes additional cloud-based HR functionality to existing outsourcing customers as talent management, digital personnel archive, HR analytics, mobile solutions, etc.

Professional Services is a segment that has grown significantly through our acquisitions. Professional services include deliveries of change projects based on Zalaris templates or implementation of customer-specific functionality. This business unit also assists customers with cost-effective maintenance and support of customers' own on-premise solutions. A large portion of these services are of recurring nature and much of the services are based on long-term customer relationships.

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 executive 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. The operating assets and liabilities of the Group are not allocated between segments.

(NOK 1 000)	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
Revenue				
Managed services	156 459	144 489	574 518	549 971
Professional services	49 777	49 664	202 288	195 463
Group overhead and other	-	-	-	-
Total revenue	206 235	194 153	776 807	745 434
EBIT				
Managed services	19 932	14 474	63 535	60 040
Professional services	33	10 787	18 180	18 046
Group overhead and other	(21 385)	(15 240)	(67 465)	(60 747)
EBIT	(1 420)	10 021	14 250	17 339

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 by region

(NOK 1 000)	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
Nordic & Baltics	122 941	115 760	449 908	430 897
Centra Europe	75 498	69 869	294 135	288 213
UK & Ireland	7 796	8 524	32 764	26 324
Total revenue	206 235	194 153	776 807	745 434

Note 3 – Personnel costs

(NOK 1000)	2019 Oct-Dec	2018 Oct-Dec	2019 Jan-Dec	2018 Jan-Dec
Salary	93 067	97 971	371 316	367 842
Tantieme and variable compensation	5 037	(1 208)	19 278	19 198
Social security tax	13 709	13 934	54 099	54 679
Pension costs	3 983	4 723	19 333	19 905
Other expenses	11 832	1 779	24 953	19 796
Capitalised development expenses	(4 296)	(5 353)	(16 290)	(17 924)
Capitalised implementation costs customer projects	(6 174)	(7 588)	(34 286)	(36 872)
Total salary expenses	117 158	104 258	438 403	426 623

Note 4 – Intangible assets

(NOK 1000)	Licenses and software	Intern. developed software	Intern. developed AuC	Customer Relation & Contracts	Goodwill	Total
Book value 01.01.2019	9 057	28 768	19 937	85 302	151 996	295 059
Additions of the period	135	1 579	16 119	-	-	17 833
Reclassifications	-	18 055	(18 055)	-	-	-
Disposals and currency effects	(1 744)	(39)	(111)	652	1 253	11
This period ordinary amortisation	(2 944)	(13 711)	-	(10 049)	-	(26 705)
Book value 31.12.2019	4 505	34 652	17 889	75 905	153 248	286 199
Book value 01.01.2018	8 940	31 458	10 555	94 794	151 075	296 822
Additions of the period	2 608	-	18 097	-	-	20 705
Reclassifications	-	8 715	(8 715)	-	-	-
Disposals and currency effects	582	(690)	-	295	921	1 107
This period ordinary amortisation	(3 073)	(10 715)	-	(9 787)	-	(23 575)
Book value 31.12.2018	9 057	28 768	19 937	85 302	151 996	295 059
Useful life	3-10 years	5 years	N/A	10 years	N/A	
Depreciation method	linear	linear		linear		

Note 5 – Revenue from contracts with customers

Disaggregated revenue information

The Group's revenue from contracts with customers has been disaggregated and presented in note 2.

Contract balances

(NOK 1000)	2019	2018
	31. Dec	31. Dec
Trade receivables	149 101	158 118
Customer project assets	88 808	97 272
Customer project liabilities	(51 920)	(64 284)
Prepayments from customers	(8 325)	18 021

Trade receivables are non-interest bearing and are on general terms of from 14 to 90 days credit. In 2019 NOK 0.5 million (2018: NOK 0.5 million) was recognized as provision for expected credit losses on trade receivables.

Customer project assets are costs specific to a given contract, generate or enhance the Group's resources that will be used in satisfying performance obligations in the future, and are recoverable. These costs are deferred and amortized evenly over the period the outsourcing services are provided.

Customer project liabilities are prepayments from customer specific to a given contract and are recognized as revenue evenly as the Group fulfills the related performance obligations over the contract period.

Prepayments from customers comprises a combination of short- and long-term advances from customers. The short-term advances are typically deferred revenues related to smaller projects or change orders related to the system solution. The long-term liabilities relate to initial advances paid upon signing the contract. These advances are contracted to be utilized by the customer to either transformation-, change- or other projects. These advances are open for application until specified, or when the contract is terminated, where the eventual remainder of the amount become the property of Zalaris and is hence rendered as income by the Group.

Movements in customer project assets through the period:

(NOK 1000)	2019	2018	2018
	Jan-Dec	Jan-Dec	31. Dec
Opening balance in the period	97 272	95 284	95 284
Cost capitalized	29 486	36 872	36 872
Amortization	(36 602)	(35 947)	(35 947)
Disposals & currency	(1 348)	1 063	1 063
Customer projects assets end of period	88 809	97 273	97 273

Movements in customer project liabilities through the period:

(NOK 1000)	2019	2018	2018
	Jan-Dec	Jan-Dec	Jan-Dec
Opening balance in the period	(64 284)	(73 487)	(73 487)
Revenue deferred	(13 368)	(24 296)	(24 296)
Revenue recognized	24 701	33 499	33 499
Disposals & currency	1 032	-	-
Customer project liabilities end of period	(51 918)	(64 283)	(64 284)

Note 6 – Transactions with Related Parties

a) Purchase from related parties

(NOK 1000)		2019	2018	2019	2018
Related party	Transaction	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Rayon Design AS ¹⁾	Management Services	684	670	1 556	1 677
Haug Advisory AS ²⁾	Management Services	-	-	200	-
Total		684	670	1 756	1 677

¹⁾ Hans-Petter Mellerud, CEO, owns 40% of Rayon Design AS through his company Norwegian Reta

²⁾ Jon Erik Haug, Board Member of Zalaris ASA, owns 100% of Haug Advisory AS

Note 7 – Interest bearing loans and borrowings

Long term liabilities

The Company has secured a bond listed at Oslo Stock Exchange, loan in Commerzbank DE related to office building in Leipzig. The financial leasing loans in SG Finance (IAS 17) is not in the scope of IFRS 16 and has been reclassified in 2019.

(NOK 1000)	Value	Interest	Maturity	2019 31. Dec	2018 31. Dec
Bond loan	EUR 35 000 000	3 m Euribor + 4.75 %	28.09.2023	345 188	346 544
Loan fees bond			28.09.2023	(6 760)	(6 262)
Commerzbank - DE	EUR 1 636 430	1,3 %	31.12.2031	12 681	27 665
Landesbank B-W*	EUR 300 000	4 %	31.12.2022	9 179	-
Landesbank B-W*	EUR 1 030 100	1,95 %	31.12.2031	2 200	-
SG Finance loans	NOK 5 000 348	From 4,0 % to 6,7 %	2019-2023	-	2 616
Total loans				362 487	370 563

* These loans were in 2018 classified as short term debt

Note 8 – Right of use assets and lease liabilities

Zalaris as a lessee

Right-of-use assets

Zalaris leases several assets such as buildings, equipment and vehicles. The Group's right-of-use assets are categorised and presented in the table below:

Right-of-use assets	Buildings	Equipment	Vehicles	Total
Acquisition cost 1 January 2019	42 218	3 428	6 680	52 326
Addition of right-of-use assets	3 402	747	305	4 455
Disposals	-	-	-	-
Transfers and reclassifications	-	-	-	-
Currency exchange differences	-	-	-	-
Acquisition cost 31 December 2019	45 620	4 175	6 985	56 781
Accumulated depreciation and impairment 1 January 2019				
Depreciation	16 653	1 629	3 650	21 932
Impairment losses in the period	-	-	-	-
Disposals	-	-	-	-
Transfers and reclassifications	-	-	-	-
Currency exchange differences	-	-	-	-
Accumulated depreciation and impairment 31 December 2019	16 653	1 629	3 650	21 932
Carrying amount of right-of-use assets 31 December 2019	28 967	2 547	3 335	34 849
Lower of remaining lease term or economic life	1 - 10 years	3 - 6 years	3 - 6 years	
Depreciation method	Linear	Linear	Linear	

Lease liabilities

Undiscounted lease liabilities and maturity of cash outflows	Total
Less than 1 year	17 913
1-2 years	10 237
2-3 years	5 278
3-4 years	2 129
4-5 years	77
More than 5 years	0
Total undiscounted lease liabilities at 31 December 2019	35 635

Summary of the lease liabilities in the financial statements	Statement of:	Total
At initial application 01.01.2019		52 326
New lease liabilities recognised in the year		4 455
Cash payments for the principal portion of the lease liability	Cash flows	-22 807
Cash payments for the interest portion of the lease liability	Cash flows	-2 126
Interest expense on lease liabilities	Profit and loss	2 126
Reassessment of the discount rate on previous lease liabilities	Profit and loss	-
Currency exchange differences	P&L and Other compr. income	-463
Total lease liabilities at 31 December 2019		33 511
Current lease liabilities	Financial position	19 099
Non-current lease liabilities	Financial position	16 536
Total cash outflows for leases	Cash flows	-24 933

The leases do not contain any restrictions on Zalaris' dividend policy or financing. Zalaris does not have significant residual value guarantees related to its leases to disclose.

Summary of other lease expenses recognised in profit or loss	Total
Variable lease payments expensed in the period	22 807
Operating expenses related to short-term leases	155
Operating expenses period related to low value assets	453
Total lease expenses included in other operating expenses	23 415

Practical expedients applied

Zalaris has elected to apply the practical expedient of low value assets and does not recognise lease liabilities or right-of-use assets. The leases are instead expensed when they incur. Zalaris has also applied the practical expedient to not recognise lease liabilities and right-of-use assets for short-term leases, presented in the table above.

Variable lease payments and other lease commitments

In addition to the lease liabilities above, Zalaris is committed to pay variable lease payments for its buildings, equipment and vehicles, mainly due to annual inflation adjustments.

Extension options

Zalaris' lease of buildings have lease terms that vary from 1 years to 10 years, and several agreements involve a right of renewal which may be exercised during the last period of the lease terms. Zalaris doesn't assesses at the commencement whether it is reasonably certain to exercise the renewal right. This is because the Group is not expecting the terms for the extension period to be lower than the current market price at the time of execution of an extension period compared to similar lease agreements. Zalaris continuously evaluates more cost-effective leases as the business does not consider these assets to be particularly important.

Note 9 – Events after Balance Sheet Date

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

Alternative Performance Measures (APMs)

Zalaris' financial information is prepared in accordance with IFRS. In addition, financial performance measures (APMs) are used by Zalaris to provide supplemental information to enhance the understanding of the Group's underlying financial performance. These APMs take into consideration income and expenses defined as items regarded as special due to their nature and include among others restructuring provisions and write-offs. Financial APMs should not be considered as a substitute for measures of performance in accordance with IFRS. Disclosures of APMs are subject to established internal control procedures.

Adjusted EBITDA and EBIT

EBIT, earnings before interest and tax is defined as the earnings excluding the effects of how the operations were financed, taxed and excluding foreign exchange gains & losses. EBIT is used as a measure of operational profitability. EBITDA is before depreciation, amortization and impairment of tangible assets and in-house development projects. In order to abstract non-recurring or income not reflective of the underlying operational performance, the Group also lists the adjusted EBIT and EBITDA. Adjusted EBIT is defined as EBIT excluding non-recurring costs, costs relating to share based payments to employees, and amortization of excess values on acquisition. Adjusted EBITDA is EBITDA excluding non-recurring costs and costs relating to share based payments to employees, but after depreciation of right-of-use assets.

	2019	2018	2019	2018
(NOK 1 000)	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
EBIT	(1 420)	10 021	14 250	17 339
Restructuring costs	3 221	-	4 259	-
Share based payments	726	-	1 841	765
Amortization of excess values on acquisition	2 591	2 470	10 049	9 787
Adjusted EBIT	5 118	12 491	30 399	27 891

	2019	2018	2019	2018
(NOK 1 000)	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
EBITDA	20 748	25 999	103 536	80 496
Restructuring costs	3 221	-	4 259	-
Share based payments	726	-	1 841	765
Depreciation right-of-use assets (IFRS 16 effect)	-5 620	-	-21 932	-
Adjusted EBITDA	19 076	25 999	87 704	81 261

Free cash flow

Free cash flow represents the cash flow that Zalaris generates after capital investments in the Group's business operations have been made. Free cash flow is defined as operational cash flow.

	2019	2018	2019	2018
(NOK 1 000)	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Net cash flow from operating activities	48 170	(4 751)	39 954	4 195
Investment in fixed and intangible assets	(11 785)	(3 339)	(20 192)	(21 330)
Free cash flow	36 385	(8 090)	19 762	(17 134)

Adjusted earnings per share (adjusted EPS)

Adjusted earnings per share is calculated as profit/-loss for the year attributable to shareholders (owners of the parent company) adjusted for any other income and expenses after tax, costs relating to share based payments to employees, amortization of excess values on acquisition, and unrealized currency gain/loss on the EUR denominated bond loan, divided by the average number of shares outstanding over the year.

(NOK 1 000)	2019	2018	2019	2018
	Oct-Dec	Oct-Dec	Jan-Dec	Jan-Dec
Profit/(loss) for the period	(1 323)	(4 225)	(5 025)	(1 273)
Restructuring costs	3 221	-	4 259	-
Share based payments	726	-	1 841	765
Amortization of excess values on acquisition	2 591	2 470	10 049	9 787
Unrealized (gain)/loss on EUR bond loan	(2 070)	12 688	(1 784)	12 734
Tax effect	(265)	(2 918)	(569)	(2 929)
Adjusted profit/(loss) for the period	2 880	8 015	8 770	19 084
Weighted average number of shares outstanding	19 568	19 729	20 030	20 030
Adjusted earnings per share	0,15	0,41	0,44	0,95

Net interest-bearing debt (NIBD)

Net interest-bearing debt (NIBD), consists of interest-bearing liabilities, less cash and cash equivalents.

The Group risk of default and financial strength is measured by the net interest-bearing debt.

(NOK 1 000)	31.12.19	31.12.18
Cash and cash equivalents	82 448	106 880
Interest-bearing loans and borrowings - long-term	(362 487)	(355 665)
Interest bearing loans and borrowings - short-term	(6 571)	(22 766)
Net interest-bearing debt (NIBD)	(286 610)	(271 552)

Full time equivalents (FTEs)

The ratio of the total number of normal agreed working hours for all employees (part-time or full-time) by the number of normal full-time working hours in that period (i.e. one FTE is equivalent to one employee working full-time).

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Financial information

Annual report 2019 to be published 24 April 2020

Interim report Q1 2020 to be published 8 May 2020

Interim report Q2 2020 to be published 18 August 2020

Interim report Q3 2020 to be published 29 October 2020

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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