



Q2 2020 Interim Report

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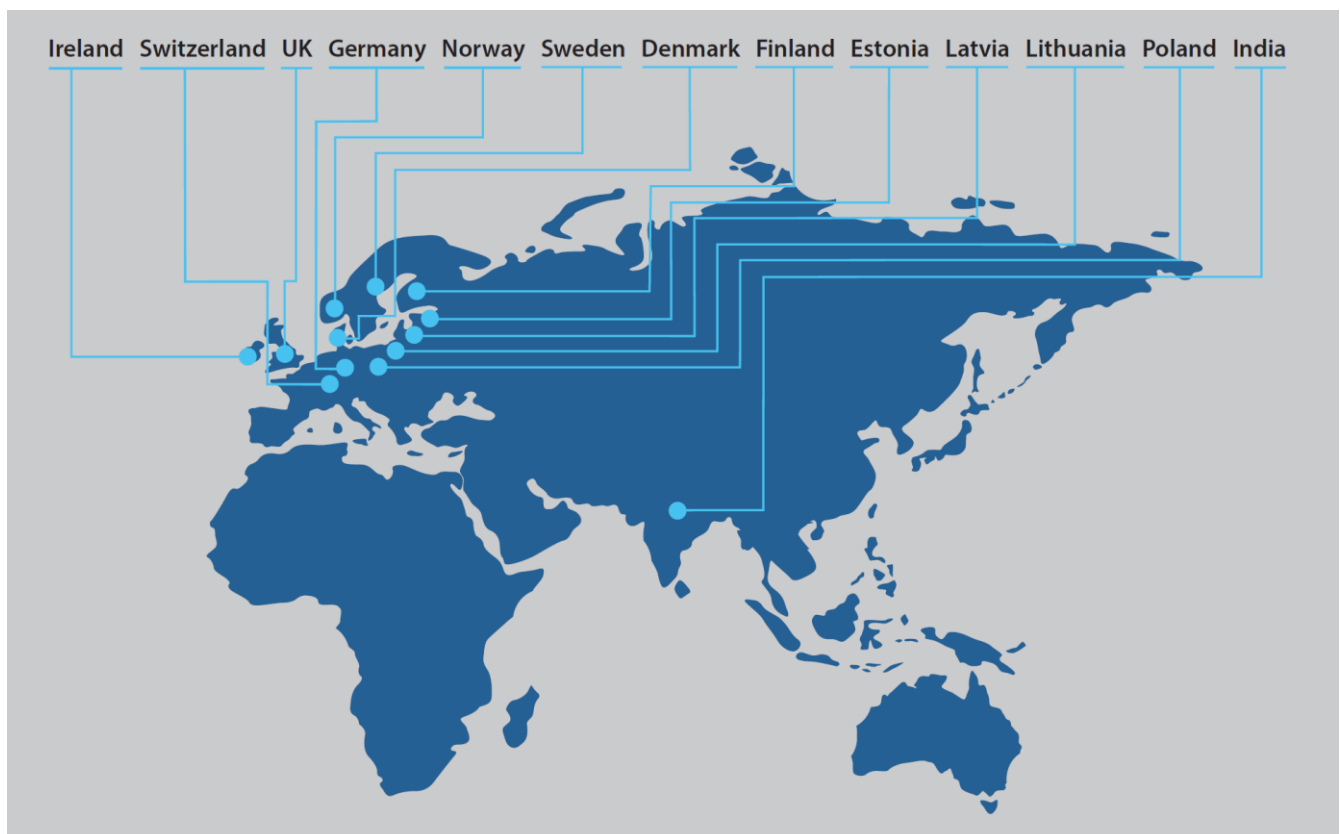
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About Zalaris

We simplify HR and payroll administration and empower organizations with useful information so that they can invest more in their people.

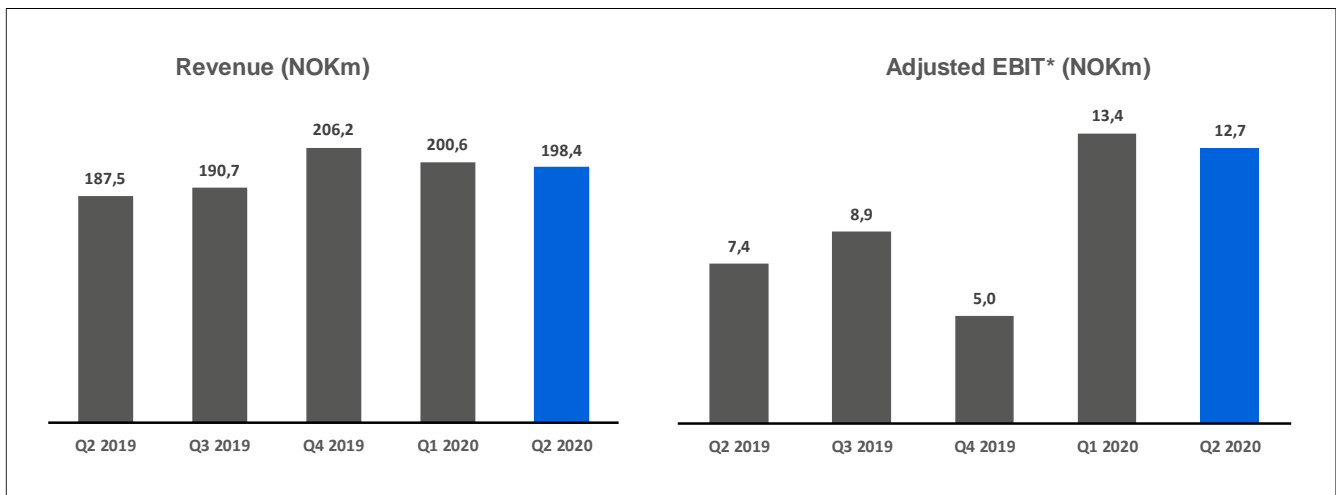
Our proven local and multi-country solutions for payroll and HR includes software and business process as a service (SaaS/BPaaS), and outsourcing (BPO). Our solutions integrate with customers global HR systems. Mobile apps enable people to work from anywhere. We can implement with remote project teams, addressing needs in times of Covid-19 pandemic. #teamZalaris has 800 competent team members across Europe and APAC serving customers from local language service centers. Our 300+ consultants have more than 20 years of experience across all industries and IT environments including on premise, cloud and integration services. Zalaris manage solutions serving over 1.5 million employees each month, across multiple industries and with many of Europe's most reputable employers.

Headquartered in Oslo, Norway, Zalaris is publicly traded on the Oslo Stock Exchange (ZAL).



Q2 Highlights

- Revenue of NOK 198.4 million (NOK 187.5 million) +5.8%
- Adjusted EBIT of NOK 12.7 million (NOK 7.4 million) +71.6%
- Cash and cash equivalents of NOK 129.0 million, +NOK 41.5 million (+47.4%) from previous quarter and +NOK 69.4 million from last year (+116.4%)
- Proactively and successfully servicing our customers in a challenging Covid-19 environment, the vast majority of team members worked from home. Signed several new agreements and expansions
- Covid-19 resulted in a slow-down in closing new contracts during the quarter. However, the pipeline remains strong, and is expected to grow due to an increased focus on outsourcing and digitalization
- Cost reduction initiatives carried out is having a positive effect on EBIT margins, and has strengthened cash generation. We continue to target 10% EBIT margin
- Based on the current financial performance of the Company the Board will propose a dividend of minimum NOK 0.5 per share for 2020



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

Key Figures

Q2 2020 financial summary

(NOK 1 000)	2020	2019	2020	2019	2019
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Revenue	198 445	187 548	399 056	379 899	776 792
Growth (YoY)	5,8 %	-0,7 %	5,0 %	1,3 %	4,2 %
EBITDA	29 318	26 352	60 171	54 171	103 381
Adjusted EBITDA ¹⁾	26 866	21 388	53 690	43 953	87 549
Adjusted EBITDA margin (as % of revenue)	13,5 %	11,4 %	13,5 %	11,6 %	11,3 %
EBIT	7 367	4 412	16 818	10 895	14 091
Adjusted EBIT ¹⁾	12 690	7 377	26 081	16 429	30 240
Adjusted EBIT margin (as % of revenue)	6,4 %	3,9 %	6,5 %	4,3 %	3,9 %
Profit/(loss) for the period	22 420	(3 324)	(26 132)	2 940	(7 011)
Earnings per share (EPS)	1,14	(0,17)	(1,33)	0,15	(0,36)
Total comprehensive income	(156)	(3 351)	3 700	(4 468)	(5 323)
Free cash flow ¹⁾	41 805	(2 140)	55 031	(28 414)	17 046
Net interest-bearing debt (NIBD) ¹⁾	(277 939)	(308 723)	(277 939)	(308 723)	(286 610)
Full time equivalents (FTEs) period end ¹⁾	723	825	723	825	753

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

Q2 2020 financial performance by business segment*

(NOK 1 000)	2020	2019	2020	2019	2019
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Revenue					
Managed services	137 109	133 869	279 457	270 110	553 691
Professional services	61 336	53 678	119 599	109 789	223 101
Group overhead and other	-	-	-	-	-
Total revenue	198 445	187 548	399 056	379 899	776 792
EBIT					
Managed services	16 005	15 770	32 742	29 412	54 957
Professional services	4 054	3 507	10 333	12 186	20 961
Group overhead and other	(12 692)	(14 865)	(26 256)	(30 704)	(61 828)
EBIT	7 367	4 412	16 818	10 894	14 090
EBIT margin (%)					
Managed services	11,7 %	11,8 %	11,7 %	10,9 %	9,9 %
Professional services	6,6 %	6,5 %	8,6 %	11,1 %	9,4 %
Group overhead and other	n/a	n/a	n/a	n/a	n/a
EBIT margin (%)	3,7 %	2,4 %	4,2 %	2,9 %	1,8 %

*Revenue from certain consulting services previously report as part of Managed Services have been moved to Professional Services from 1 January 2020. Business development costs previously included within Group Overhead has been allocated to the business segments from 1 January 2020. Comparable historical information has been updated accordingly.

CEO Insights

Continuing Positive Development in Margins and Cash

In a macro environment heavily impacted by the Covid-19 pandemic, we are pleased to announce that we, with almost all of #teamZalaris working from home, delivered Q2 with a Y-o-Y revenue growth of 5.8% to NOK 198.4 million and corresponding adjusted EBIT growth of 79% to NOK 12.7 million. At the same time, we saw our cash position increase with NOK 65 million compared with Q2 2019.

All our services have been delivered without disruption. A handful of our colleagues been infected with Covid-19 whilst working from home. They are now safe and back at work.

Our early offering of Covid-19 related services supporting our customers tackling the pandemic, were well received.

Our modern IT solutions and distributed service center infrastructure enabled us to move to home office within a few days. Our supportive team of colleagues did whatever needed to support customers in this difficult time.

Feedback from customers and employees on how we have handled the situation has resulted in all time high Net Promoter Scores.

Maintaining revenue with Zero Churn despite Covid-19.

Many of our customers are adjusting headcount and business volumes downward as a result of Covid-19. However, we have maintained overall revenue development through supporting customers with additional services resulting from the pandemic.

A functioning payroll and HR function is a “license to play” for all large companies. Our customer base is solid with typical five-year agreements. We have had no churn or Covid-19 related write-offs.

Working from anywhere has become the new normal driving the need for fully digitised people processes. This is the core of what we have been delivering for twenty years.

In Managed Services, we experienced increased interest resulting in a growing pipeline. During the quarter we signed several new agreements including: a five year agreement for SaaS based payroll with the Norwegian County Municipality of

Trøndelag with 5000+ employees, a ten year master services agreement for payroll and HR services to leading Nordic bank with 15'000+ employees, and a five-year agreement for SaaS based payroll with a 3000+ employee strong leading global energy company operating in Norway. We expanded our services with GlaxoSmithKline to cover Austria.

Resulting from Covid-19 we see companies scrambling to reduce and make costs variable. Based on our experience from previous crisis, we expect to see an increase in companies looking to outsourcing as a mean to achieve this.

Professional Services has seen postponement of some new projects as a result of Covid-19. These are expected to return when the situation settles. Covid-19 related Business Continuity Services are in high demand. This resulted in expanding services with existing customers. In Germany, we signed a landmark agreement together with SAP in the municipality sector for the delivery of a new SuccessFactors cloud HR solution to the City of Krefeld's services organization. More than 60% of our Professional Services agreements are long term and recurring like. This is reflected in 80% of the revenue in the quarter being with the same customers that we served in the same quarter the previous year.

Improved financial performance expected to continue with additional EBIT improvements realized

As a follow up to our Vision 2020 EBIT improvement program, we finalised additional measures in Q2 realizing cost savings of approximately NOK 1 million per month from Q4 and onwards. Realized savings are primarily related to further overhead reduction and capacity adjustments in our Nordic Professional Services unit.

Based on the current financial performance we have our communicated 10% EBT target in sight.

Growing interest in the Zalaris share

Our business model with long term agreements and recurring revenue combined with a solid diversified customer base is increasingly in favor among investors. Since the beginning of the year, the number of Zalaris investors has increased by almost 30%. On behalf of all of us in #teamZalaris, thank you for your confidence!

Financial Review

Revenue

Consolidated revenue for the second quarter 2020 amounted to NOK 198.4 million (Q2 2019: NOK 187.5 million), which was an increase of 5.8% from last year.

Nordics & Baltics

Revenue in the Nordic & Baltic region was NOK 111.4 million in the second quarter, which was marginally lower than the figure last year of NOK 112.8 million. The revenue growth during the quarter has been negatively impacted by Covid-19 in terms of new business generation and change orders from existing customers.

Central Europe

Revenue in the Central Europe region for the second quarter increased from NOK 66.5 million last year to NOK 76.5 million this year, an increase of 15%. The increase is explained by higher revenue from new and existing customers in Poland, as well as a higher EUR/NOK.

UK & Ireland

Revenue for the second quarter in the UK & Ireland region amounted to NOK 10.6 million, compared to NOK 8.2 million in the same quarter last year.

The region experienced an increase in sales from existing customers and an increase in opportunities from new potential customers.

Group Profits

Consolidated EBIT for the quarter was NOK 7.4 million (NOK 4.4 million).

Adjusted for one-off costs (NOK 2.0 million) relating to redundancies, calculated costs of the Company's share-based payment plan (NOK 0.5 million) and amortization of excess values on acquisition (NOK 2.8 million), the EBIT was NOK 12.7 million for the second quarter (NOK 7.4 million).

Through the EBIT-improvement program initiated in 2019, employee costs and other operating expenses have been reduced by approximately NOK 15 million for the quarter and NOK 27 million year-to-date compared to last year, when adjusted for currency effects. Thus, the Company's operational cost base has been significantly reduced, and has contributed to an increased operating cash flow. The full effect of these cost reductions on the profit and loss will materialise when new major customer projects are being implemented.

The Group had net financial income of NOK 19.8 million for the second quarter (net expense NOK 8.7 million), of which NOK 25.6 million (loss NOK 0.5 million) relates to an unrealized gain on the EUR 35 million bond loan and other foreign currency denominated balances.

The net profit for the quarter was NOK 22.4 million (loss NOK 3.4 million).

Total comprehensive income amounted to negative NOK 0.2 million (negative NOK 3.3 million), after currency translation difference of negative NOK 22.6 million.

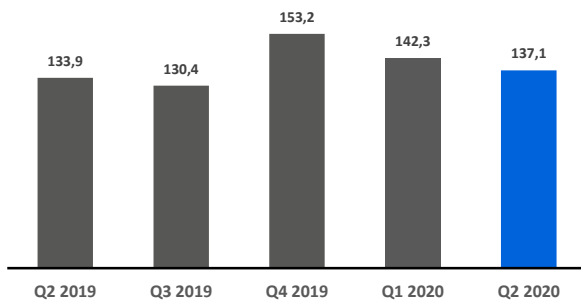
Adjusted EBIT for the first six months was NOK 26.1 million (NOK 16.4 million). Unrealized currency loss on the EUR 35 million bond loan and interest expenses resulted in a net loss for the first six months of NOK 26.1 million (NOK 2.9 million). Total comprehensive income amounted to NOK 3.7 million (negative NOK 4.5 million) for the first six months.

Business segment performance

Managed Services

The Managed Services segment grew by 2.4% during the second quarter 2020, compared to the same quarter last year, and amounted to NOK 137.1 million for the quarter. Managed service revenue contributed to 69.1% (71.4%) of total revenue for the Group.

Revenue Managed Services (NOKm):

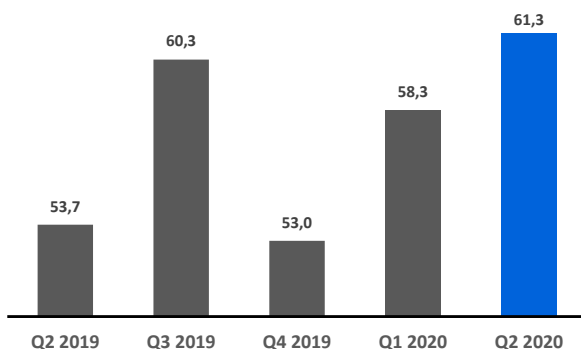


The EBIT for Managed Services for the second quarter 2020 was NOK 16.0 million (NOK 15.8 million).

Professional Services

Revenue in the Professional Services segment amounted to NOK 61.3 million for the second quarter 2020, an increase of 14.1% from last year.

Revenue Professional Services (NOKm):



The EBIT for Professional Services for the second quarter was NOK 4.1 million (NOK 3.5 million), including one-off redundancy costs of NOK 2.0 million.

Financial position and cash flow

Zalaris had total assets of NOK 750.4 million as of 30 June 2020, compared to NOK 772.5 million at 31 March 2020.

Cash and cash equivalents were NOK 129.0 million as of 30 June 2020, an increase of NOK 41.5 million from the end of the previous quarter.

Total equity as of 30 June 2020 was NOK 101.5 million, compared to NOK 95.9 million as of 31 March 2020. This corresponds to an equity ratio of 13.5% (12.4%).

The Company holds 503,521 own shares at 30 June 2020.

Net interest-bearing debt (interest-bearing debt less cash and cash equivalents) decreased from NOK 344.5 million at 31 March 2020 to NOK 277.9 million at 30 June 2020. The decrease is mainly due increased cash balances and a reduction in the NOK value of the EUR 35 million bond loan, as a result of the appreciation of NOK during the period.

Operating cash flow during the second quarter 2020 was NOK 45.4 million (NOK 5.0 million). The increase compared to last year is mainly due to a reduction in working capital, including NOK 8 – 10 million in deferred VAT payments (Covid-19 relief) and a lower cost base.

Net cash flow from investing activities for the second quarter was negative NOK 3.6 million (negative NOK 7.1 million), mainly relating to internal development projects. Net cash flow from financing activities for the second quarter was negative NOK 0.8 million (negative NOK 7.3 million).

Cash and cash equivalents balance at 30 June 2020 was NOK 129.0 million (NOK 59.6 million).

Based on the current financial performance of the Company the Board will propose a dividend of minimum NOK 0.5 per share for 2020.

EBIT improvement program

As communicated in previous reports, Zalaris launched an EBIT improvement program in 2019, Vision2020 targeting NOK 4,7 million monthly cost reductions by Q1 2020. This included streamlining of the organization, ramp-up of digitizing efforts, automating services and increasing Robotic Process Automation (RPA) projects, all aimed at increasing quality in deliveries and reducing costs. As part of the program the total number of FTEs was reduced by approximately 52 (-6%) from when the program was launched.

In Q2 we executed a follow up of Vision2020, realizing additional NOK 1 million in monthly cost reductions by Q4 2020 through a reorganizing of the Nordic Professional Services organization to align with the Professional Services organizations in our other regions. Key actions taken were:

- Moving consultants primarily working with Managed Services customers to the Managed Services Organization
- Realigning the Nordic Professional Services organization to focus on advisory and implementation of SAP Cloud based HR solutions.
- Adjusting capacity to demand resulting in the downsizing of approximately ten employees.

Other ongoing cost based EBIT initiatives focus on:

- Increased utilization of our near- and offshore capabilities
- Automation of standardized processes through digitization and Robotic Process Automation.

Outlook

The market fundamentals remain strong and Zalaris' key markets are expected to grow in the foreseeable future. The Company is well positioned to capture part of this growth through new customers and by expanding the service offering to existing customers. The Company's financial results are expected to improve from the levels observed in 2019, as a result of the cost reduction initiatives implemented in 2019 through the EBIT improvement program, and further optimization initiatives in 2020. This include

streamlining of the organization, ramp-up of digitizing efforts, automating services and increasing Robotic Process Automation (RPA) projects, all aimed at increasing quality in deliveries and reducing costs. The COVID-19 pandemic has had limited financial impact on the Company so far, but revenue could be impacted negatively in the time to come, depending on the scope and duration of COVID-19. However, the underlying market fundamentals remain strong, and the long-term outlook is positive.

The Board of Directors of Zalaris ASA
Oslo, 17 August 2020

Interim Consolidated Financial Statements

Consolidated Statement of Profit and Loss

(NOK 1 000)	Notes	2020	2019	2020	2019	2019
		Apr-Jun <i>unaudited</i>	Apr-Jun <i>unaudited</i>	Jan-Jun <i>unaudited</i>	Jan-Jun <i>unaudited</i>	Jan-Dec
Revenue	2	198 445	187 548	399 056	379 899	776 792
Operating expenses						
License costs		16 237	13 904	33 235	28 832	67 981
Personnel expenses	4	113 131	106 911	224 710	214 480	438 543
Other operating expenses		39 759	40 381	80 940	82 416	166 887
Depreciation and impairments		848	1 035	1 748	2 033	4 048
Depreciation right-of-use assets	7	4 941	5 456	10 232	10 800	21 932
Amortisation intangible assets	6	7 223	6 735	13 831	13 432	26 704
Amortisation implementation costs customer projects	3	8 939	8 714	17 541	17 011	36 606
Total operating expenses		191 078	183 136	382 238	369 005	762 701
Operating profit (EBIT)		7 367	4 412	16 818	10 895	14 091
Financial items						
Financial income	5	1 605	(196)	4 347	440	2 632
Financial expense	5	(7 380)	(8 003)	(15 820)	(15 787)	(29 057)
Unrealized foreign exchange gain/(loss)	5	25 560	(511)	(40 739)	7 775	2 375
Net financial items		19 785	(8 710)	(52 211)	(7 572)	(24 051)
Profit before tax		27 152	(4 298)	(35 393)	3 323	(9 960)
Tax expense		(4 733)	974	9 261	(383)	2 950
Profit for the period		22 420	(3 324)	(26 132)	2 940	(7 011)
Earnings per share:						
Basic earnings per share (NOK)		1,14	(0,17)	(1,33)	0,15	(0,36)
Diluted earnings per share (NOK)		1,11	(0,17)	(1,33)	0,15	(0,36)

Consolidated Statement of Comprehensive Income

(NOK 1 000)	Notes	2020	2019	2020	2019	2019
		Apr-Jun <i>unaudited</i>	Apr-Jun <i>unaudited</i>	Jan-Mar <i>unaudited</i>	Jan-Mar <i>unaudited</i>	Jan-Dec
Profit for the period		22 420	(3 324)	(26 132)	2 940	(7 011)
Other comprehensive income						
Items that will be reclassified to profit and loss in subsequent periods						
Currency translation differences		(22 576)	(27)	29 831	(7 408)	1 688
Total other comprehensive income		(22 576)	(27)	29 831	(7 408)	1 688
Total comprehensive income		(156)	(3 351)	3 700	(4 468)	(5 322)

Consolidated Statement of Financial Position

(NOK 1 000)	Notes	2020	2019	2019
		30. Jun <i>unaudited</i>	30. Jun <i>unaudited</i>	31. Dec
ASSETS				
Non-current assets				
Intangible assets		130 270	136 535	132 950
Goodwill		165 661	148 535	153 248
Total intangible assets	6	295 931	285 070	286 198
Deferred tax asset		11 728	6 096	11 710
Fixed assets				
Right-of-use assets	7	29 710	45 001	34 849
Property, plant and equipment		34 836	33 981	33 137
Total fixed assets		64 546	78 981	67 986
Total non-current assets		372 205	370 147	365 894
Current assets				
Trade accounts receivable		138 118	162 531	148 614
Customer projects	3	84 763	99 665	88 808
Other short-term receivables		26 391	32 869	27 275
Cash and cash equivalents	8	128 953	59 570	82 448
Total current assets		378 224	354 635	347 145
TOTAL ASSETS		750 430	724 783	713 038

Consolidated Statement of Financial Position

(NOK 1 000)	Notes	2020	2019	2019
		30. Jun	30. Jun	31. Dec
		<i>unaudited</i>	<i>unaudited</i>	
EQUITY AND LIABILITIES				
Equity				
Paid-in capital				
Share capital		1 962	2 006	1 957
Other paid in equity		4 958	2 609	3 804
Share premium		35 565	40 737	34 252
Total paid-in capital		42 485	45 352	40 014
Other equity		32 224	(7 980)	(374)
Retained earnings		26 813	62 722	52 526
Total equity		101 522	100 094	92 166
Liabilities				
Non-current liabilities				
Deferred tax		13 323	25 049	25 313
Interest-bearing loans	9	405 514	354 507	362 487
Lease liabilities	7	14 478	22 673	16 536
Total long-term liabilities		433 315	402 230	404 337
Current liabilities				
Trade accounts payable		17 638	17 319	29 845
Customer projects liabilities	3	52 255	60 645	55 740
Interest-bearing loans	9	1 378	13 786	6 571
Lease liabilities	7	16 483	21 802	19 099
Income tax payable		4 610	588	5 408
Public duties payable		48 067	31 595	37 314
Other short-term liabilities		74 054	75 112	61 464
Derivatives		1 108	1 613	1 095
Total short-term liabilities		215 592	222 459	216 535
Total liabilities		648 907	624 689	620 873
TOTAL EQUITY AND LIABILITIES		750 430	724 783	713 038

Consolidated Statement of Cash Flow

(NOK 1 000)	Notes	2020	2019	2020	2019	2019
		Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
		<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	
Cash Flow from operating activities						
Profit (Loss) before tax		27 152	(4 298)	(35 393)	3 323	(9 960)
Net financial items	5	(19 785)	8 709	52 211	7 571	24 051
Share-based payments		466	199	1 154	581	1 743
Depreciation and impairments		848	1 037	1 748	2 035	4 049
Depreciation right-of-use assets	7	4 940	5 456	10 232	10 800	21 932
Amortisation intangible assets	6	7 223	6 735	13 831	13 432	26 705
Depreciation implementation costs customer projects	3	8 939	8 714	17 541	17 011	36 606
Recognized customer projects assets	3	(4 994)	(11 004)	(9 214)	(22 246)	(29 505)
Recognized customer projects liabilities		(5 693)	(6 028)	(6 049)	(7 765)	(8 545)
Taxes paid		(1 808)	-	(1 256)	-	(6 356)
Changes in accounts receivable		23 795	11 411	10 496	(4 413)	9 504
Changes in accounts payable		(3 483)	300	(12 207)	(7 039)	5 487
Changes in other items		13 397	(11 734)	30 861	(20 332)	(8 313)
Interest received		56	23	109	140	162
Interest paid		(5 657)	(4 559)	(11 763)	(10 163)	(25 052)
Net cash flow from operating activities		45 398	4 961	62 301	(17 065)	42 508
Cash flows to investing activities						
Investment in fixed and intangible assets		(3 593)	(7 101)	(7 270)	(11 349)	(25 462)
Net cash flow from investing activities		(3 593)	(7 101)	(7 270)	(11 349)	(25 462)
Cash flows from financing activities						
Sale/(Buyback) of own shares		1 332	(2 061)	1 332	(4 419)	(10 934)
Payment of lease liabilities		(4 114)	(6 169)	(10 047)	(12 254)	(22 807)
Repayment of loan		1 940	935	(1 443)	(1 580)	(6 320)
Net cash flow from financing activities		(841)	(7 295)	(10 157)	(18 253)	(40 062)
Net changes in cash and cash equivalents		40 964	(9 435)	44 873	(46 667)	(23 016)
Net foreign exchange difference		497	(343)	1 630	(1 607)	(2 379)
Cash and cash equivalents at the beginning of the period		87 492	69 348	82 450	107 844	107 844
Cash and cash equivalents at the end of the period		128 953	59 570	128 953	59 570	82 450

Consolidated Statement of Changes in Equity

(NOK 1000)	Share capital	Share premium	Other paid in equity	Total paid-in equity	Other equity	Retained earnings	Total equity
Equity at 01.01.2019	2 003	45 140	2 061	49 204	(33)	59 733	108 905
Profit of the year						2 940	2 940
Other comprehensive income			(15)	(15)	(7 393)		(7 408)
Buyback of own shares		(4 419)		(4 419)			(4 419)
Share based payments			581	581			581
Other changes					(555)	49	(506)
Equity at 30.06.2019	2 003	40 721	2 627	45 351	(7 980)	62 722	100 094
Unaudited							
Profit of the year						(9 951)	(9 951)
Other comprehensive income			15	15	9 081		9 096
Buyback of own shares	(46)	(6 469)		(6 515)			(6 515)
Share based payments			1 162	1 162			1 162
Other changes					(1 476)	(245)	(1 720)
Equity at 30.12.2019	1 957	34 252	3 804	40 013	(375)	52 526	92 165
Profit of the year						(26 132)	(26 132)
Other comprehensive income					29 831		29 831
(Buyback)/sale of own shares	5	1 312		1 318			1 318
Share based payments			1 154	1 154			1 154
Other changes					2 767	419	3 186
Equity at 30.06.2020	1 962	35 565	4 958	42 485	32 224	26 813	101 522
Unaudited							

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 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 30 June 2020, 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, 2019.

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's operations are split into two main business segments; Managed Services and Professional Services.

Managed Services includes 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 includes deliveries of change projects based on Zalaris templates or implementation of customer-specific functionality. This business segment also assists 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.

2020 Apr-Jun

(NOK 1 000)	Managed Services	Professional Services	Gr.Ovhd & Unallocated	Total
Revenue, external	137 109	61 336	-	198 445
Operating expenses	(109 598)	(54 585)	(4 944)	(169 127)
EBITDA	27 511	6 751	(4 944)	29 318
Depreciation and amortisation	(11 506)	(2 696)	(7 748)	(21 950)
EBIT	16 005	4 054	(12 692)	7 367
Net financial income/(expenses)			19 785	19 785
Income tax			(4 733)	(4 733)
Profit for the period	16 005	4 054	2 360	22 420
Cash flow from investing activities				(3 593)

2019 Apr-Jun*

(NOK 1 000)	Managed Services	Professional Services	Gr.Ovhd & Unallocated	Total
Revenue, external	133 869	53 678	-	187 548
Operating expenses	(105 818)	(47 673)	(7 705)	(161 196)
EBITDA	28 051	6 005	(7 705)	26 352
Depreciation and amortisation	(12 282)	(2 499)	(7 160)	(21 940)
EBIT	15 770	3 507	(14 865)	4 412
Net financial income/(expenses)			(8 710)	(8 710)
Income tax			974	974
Profit for the period	15 770	3 507	(22 601)	(3 324)
Cash flow from investing activities				(11 349)

2020 Jan-Jun

(NOK 1 000)	Managed Services	Professional Services	Gr.Ovhd & Unallocated	Total
Revenue, external	279 457	119 599	-	399 056
Operating expenses	(223 059)	(104 361)	(11 466)	(338 885)
EBITDA	56 398	15 239	(11 466)	60 171
Depreciation and amortisation	(23 656)	(4 906)	(14 790)	(43 352)
EBIT	32 742	10 333	(26 256)	16 818
Net financial income/(expenses)			(52 211)	(52 211)
Income tax			9 261	9 261
Profit for the period	32 742	10 333	(69 206)	(26 132)
Cash flow from investing activities				(7 270)

2019 Jan-Jun*

(NOK 1 000)	Managed Services	Professional Services	Gr.Ovhd & Unallocated	Total
Revenue, external	283 082	96 818	-	379 899
Operating expenses	(224 961)	(82 730)	(18 038)	(325 728)
EBITDA	58 121	14 088	(18 038)	54 171
Depreciation and amortisation	(24 925)	(4 062)	(14 289)	(43 277)
EBIT	33 196	10 026	(32 327)	10 894
Net financial income/(expenses)			(7 571)	(7 571)
Income tax			(383)	(383)
Profit for the period	33 196	10 026	(40 281)	2 940
Cash flow from investing activities				(11 349)

2019 Jan-Dec*

(NOK 1.000)	Managed Services	Professional Services	Gr.Ovhd & Unallocated	Total
Revenue, external	553 691	223 101	-	776 792
Operating expenses	(446 455)	(192 606)	(34 351)	(673 411)
EBITDA	107 236	30 495	(34 351)	103 380
Depreciation and amortisation	(52 279)	(9 534)	(27 477)	(89 290)
EBIT	54 957	20 961	(61 828)	14 090
Net financial income/(expenses)			(24 051)	(24 051)
Income tax			2 950	2 950
Profit for the period	54 957	20 961	(82 929)	(7 011)
Cash flow from investing activities				(25 462)

*Revenue from certain consulting services previously report as part of Managed Services have been moved to Professional Services from 1 January 2020. Business development costs previously included within Group Overhead has been allocated to the business segments from 1 January 2020. Comparable historical information has been updated accordingly.

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 1 000)	2020	2019	2020	2019	2019
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Northern Europe	111 364	112 833	225 033	220 746	449 893
Central Europe	76 496	66 507	153 880	141 322	294 135
UK & Ireland	10 585	8 208	20 143	17 831	32 764
Total	198 445	187 548	399 056	379 899	776 792

Note 3 – 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 1 000)	2020	2019	2019
	30. Jun	30. Jun	31. Dec
Trade receivables	138 624	162 721	148 614
Customer project assets	84 763	99 665	88 808
Customer project liabilities	(52 255)	(60 645)	(55 740)
Prepayments from customers	(13 295)	14 800	(9 608)

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 1 000)	2020	2019	2020	2019	2019
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	31. Dec
Opening balance in the period	90 103	97 741	88 808	97 272	97 272
Cost capitalized	4 994	11 004	9 214	22 246	29 505
Amortization	(8 939)	(8 714)	(17 541)	(17 011)	(36 606)
Disposals & currency	(1 396)	(365)	4 282	(2 841)	(1 363)
Customer projects assets end of period	84 763	99 667	84 763	99 667	88 808

Movements in customer project liabilities through the period:

(NOK 1 000)	2020	2019	2020	2019	2019
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Opening balance in the period	(55 383)	(61 501)	(55 740)	(64 284)	(64 284)
Revenue deferred	(3 083)	(6 538)	(5 358)	(10 373)	(17 188)
Revenue recognized	5 546	6 028	11 407	11 600	28 505
Disposals & currency	664	1 365	(2 565)	2 411	(2 773)
Customer project liabilities end of period	(52 255)	(60 645)	(52 255)	(60 645)	(55 740)

Note 4 – Personnel expenses

(NOK 1 000)	2020	2019	2020	2019	2019
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Salary	94 642	92 408	186 873	188 663	366 516
Tantieme and variable compensation	6 405	6 360	8 962	9 814	19 437
Social security tax	11 844	12 837	25 766	27 017	54 099
Pension costs	4 918	5 080	9 819	10 318	19 333
Other expenses	2 279	4 589	7 173	8 417	24 953
Capitalised development expenses	(1 962)	(3 361)	(4 669)	(7 504)	(16 290)
Capitalised implementation costs customer projects	(4 994)	(11 003)	(9 214)	(22 245)	(29 505)
Total personnel expenses	113 131	106 911	224 710	214 480	438 543

Note 5 – Finance income and finance expense

(NOK 1 000)	2020	2019	2020	2019	2019
	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Interest income on bank accounts and receivables	56	34	109	69	160
Currency gain	1 335	273	3 943	1 008	1 916
Other financial income	215	-503	296	-637	556
Finance income	1 605	-196	4 347	440	2 632
Interest exp. on financial liab. measured at amortised cost	5 145	5 320	10 928	9 951	19 253
Currency loss	773	597	2 260	2 445	3 377
Unrealised foreign currency loss	-25 559	511	40 739	-7 775	-2 375
Interest expense on leasing	402	-602	847	-	2 126
Other financial expenses	1 060	2 688	1 786	3 390	4 302
Finance expenses	-18 179	8 514	56 559	8 011	26 683
Net financial items	19 785	-8 710	-52 211	-7 571	-24 051

Note 6 – Intangible assets

(NOK 1 000)	Licenses and software	Intern. developed software	Internally developed AuC	Customer Relation & Contracts	Goodwill	Total
Book value 01.01.2020	4 505	34 652	17 889	75 905	153 248	286 198
Additions of the period	-	(659)	2 971	4 628	-	6 940
Reclassifications	-	15 009	(15 009)	-	-	-
Disposals and currency effects	248	2 081	740	1 142	12 413	16 623
This period ordinary amortisation	(944)	(7 394)	-	(5 494)	-	(13 831)
Book value 30.6.2020	3 808	43 689	6 592	76 181	165 660	295 930
Book value 01.01.2019	9 057	28 768	19 937	85 302	151 996	295 059
Additions of the period	101	915	8 705	-	-	9 721
Reclassifications	-	17 262	(17 262)	-	-	0
Disposals and currency effects	(79)	(69)	(766)	(1 903)	(3 461)	(6 278)
This period ordinary amortisation	(1 634)	(6 846)	-	(4 953)	-	(13 433)
Book value 30.6.2019	7 445	40 031	10 614	78 446	148 535	285 070
Book value 01.01.2019	9 057	28 768	19 937	85 302	151 996	295 059
Additions of the period	135	1 579	21 389	-	-	23 103
Reclassifications	-	18 055	(18 055)	-	-	-
Disposals and currency effects	(1 744)	(39)	(5 381)	652	1 253	(5 259)
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	286 198
Useful life	3-10 years	5 years	N/A	10 years	N/A	
Depreciation method	linear	linear		linear		

Note 7 – Right-of-use assets and lease liabilities

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

Right-of-use assets (NOK 1 000)	2020 30. Jun	2019 30. Jun	2019 31. Dec
Opening balance	34 849	52 326	52 326
Adjustments and additions	3 911	3 474	4 455
Depreciation and impairments	10 232	10 800	21 932
Terminations	43	-	-
Foreign currency transaction gain/(loss)	-1 224	-1	-
Closing balance	29 710	45 001	34 849

Lower of remaining lease term or economic life. Linear depreciation 1-10 years

Lease liabilities (NOK 1 000)	2020 30. Jun	2019 30. Jun	2019 31. Dec
Opening balance	35 635	52 326	52 326
Additions and lease modifications	3 911	3 474	4 455
Lease payments including interest	10 894	11 097	20 683
Foreign currency transaction gain/(loss)	2 310	-228	-463
Closing balance	30 962	44 475	35 635

Lease liabilities (NOK 1 000)	2020 30. Jun	2019 30. Jun	2019 30. Jun
Short-term	16 483	21 802	19 099
Long-term	14 478	22 673	16 536
Total lease liabilities at 30 June 2020	30 961	44 475	35 635

Note 8 - Cash and cash equivalents and short term deposits

(NOK 1 000)	2020 30. Jun	2019 30. Jun	2019 31. Dec
Cash in hand and at bank - unrestricted funds	122 873	41 667	75 182
Deposit accounts - guarantee rent obligations - restricted funds	2 552	14 689	2 480
Employee withheld taxes - restricted funds	3 528	3 214	4 787
Cash and cash equivalents	128 953	59 570	82 448

Note 9 – Interest-bearing loans and borrowings

(NOK 1 000)	Annual interest	Maturity	2020	2019	2019
			30. Jun	30. Jun	31. Dec
Bond loan	3 m Euribor + 4.75%	28.09.2023	380 421	339 494	345 188
Loan fees bond		28.09.2023	(5 859)	(6 654)	(6 760)
Commerzbank - DE	1.3%	31.12.2031	13 340	13 322	13 834
Landesbank Baden-Württemberg	4.0%	31.12.2022	2 019	-	2 200
Landesbank Baden-Württemberg	1.95 %	31.12.2031	11 101	13 786	9 270
MBG	From 5.0% to 6.5%	2020-2026	5 869	7 057	5 326
SG Finance loans	From 4.0% to 6.7%	2019-2023	-	1 287	-
Total interest-bearing loans			406 892	368 293	369 058
Total long-term interest-bearing loans			405 514	354 507	362 487
Total short-term interest-bearing loans			1 378	13 786	6 571
Total interest-bearing loans			406 892	368 293	369 058

The Company's bond loan of EUR 35 million is listed on the Oslo Stock Exchange. The loan in Commerzbank DE relates to the office building in Leipzig, which is owned by the Company.

Note 10 – Transactions with Related Parties

Purchase from related parties:

(NOK 1 000)	Transaction	2020	2019	2020	2019	2019
		Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Rayon Design AS 1)	Management Services	815	411	953	558	1 556
Haug Advisory AS 2)	Management Services	-	-	-	100	200
Total		815	411	953	658	1 756

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

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

Note 11 – Events after Balance Sheet Date

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

Responsibility statement

We confirm, to the best of our knowledge, that the condensed set of financial statements for the period from January 1 to June 30 2020 has been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the Group’s assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

Oslo, 17 August 2020
The Board of Directors of Zalaris ASA

Adele Norman Pran
sign.

Liselotte Hægertz Engstam
sign.

Corinna Schäfer
sign.

Erik Langaker
sign.

Jon Erik Haug
sign.

Stefan Charette
sign.

Jan Koivurinta
sign.

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. 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.

	2020	2019	2020	2019	2019
(NOK 1 000)	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
EBITDA	29 318	26 352	60 171	54 171	103 381
Restructuring costs	2 022	-	2 598	-	4 259
Share-based payments	467	492	1 154	581	1 841
Depreciation right-of-use assets (IFRS 16 effect)	(4 941)	(5 456)	(10 232)	(10 800)	(21 932)
Adjusted EBITDA	26 866	21 388	53 690	43 953	87 549

	2020	2019	2020	2019	2019
(NOK 1 000)	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
EBIT	7 367	4 412	16 818	10 895	14 091
Restructuring costs	2 022	-	2 598	-	4 259
Share-based payments	467	492	1 154	581	1 841
Amortization of excess values on acquisition	2 834	2 473	5 511	4 953	10 049
Adjusted EBIT	12 690	7 377	26 081	16 429	30 240

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.

	2020	2019	2020	2019	2019
(NOK 1 000)	Apr-Jun	Apr-Jun	Jan-Jun	Jan-Jun	Jan-Dec
Net cash flow from operating activities	45 398	4 961	62 301	(17 065)	42 508
Investment in fixed and intangible assets	(3 593)	(7 101)	(7 270)	(11 349)	(25 462)
Free cash flow	41 805	(2 140)	55 031	(28 414)	17 046

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.

	2020	2019	2019
(NOK 1 000)	30.Jun	30.Jun	31.Dec
Cash and cash equivalents	128 953	59 570	82 448
Interest-bearing loans and borrowings - long-term	(405 514)	(354 507)	(362 487)
Interest bearing loans and borrowings - short-term	(1 378)	(13 786)	(6 571)
Net interest-bearing debt (NIBD)	(277 939)	(308 723)	(286 610)

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).

Key Figures

(NOKm unless otherwise stated)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenues	192,4	187,5	190,7	206,2	200,6	198,4
Revenue growth (YoY)	3,3 %	-0,7 %	8,2 %	6,2 %	4,3 %	5,8 %
EBITDA adjusted	22,9	21,4	24,7	18,9	26,8	26,9
EBITDA margin	11,9 %	11,4 %	12,9 %	9,2 %	13,4 %	13,5 %
EBIT adjusted	9,3	7,4	8,9	5,0	13,4	12,7
EBIT margin	4,9 %	3,9 %	4,6 %	2,4 %	6,7 %	6,4 %
Profit Before Tax	7,6	(4,3)	(9,3)	(4,0)	(62,5)	27,2
Income Tax Expense	(1,4)	1,0	2,7	0,7	14,0	(4,7)
Net income	6,3	(3,3)	(6,6)	(3,3)	(48,6)	22,4
Profit margin	3,3 %	-1,8 %	-3,5 %	-1,6 %	-24,2 %	11,3 %
Weighted # of shares outstanding (m)	19,9	19,9	19,8	19,7	19,6	19,6
Basic EPS (NOK)	0,31	(0,17)	(0,34)	(0,17)	(2,48)	1,14
Diluted EPS (NOK)	0,28	(0,17)	(0,34)	(0,17)	(2,48)	1,11
Cash flow items						
Cash from operating activities	(22,0)	(17,1)	(8,2)	50,7	16,9	62,3
Investments	(4,2)	(11,3)	(8,4)	(17,1)	(3,7)	(7,3)
Net changes in cash and cash equi.	(37,2)	(46,7)	41,3	18,2	3,9	44,9
Cash and cash equivalents end of period	69,3	59,6	64,8	82,4	87,5	129,0
Net interest-bearing debt	299,0	308,7	311,0	286,6	344,5	277,9
Equity	105,3	100,1	101,6	92,2	95,9	101,5
Equity ratio	13,9 %	13,8 %	14,3 %	12,9 %	12,4 %	13,5 %
Number of FTE (Period End)	822	825	803	753	728	723
Segment overview*	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Revenues	192,4	187,5	190,7	206,2	200,6	198,4
Managed Services	136,2	133,9	130,4	153,2	142,3	137,1
Professional Services	56,1	53,7	60,3	53,0	58,3	61,3
EBIT	6,5	4,4	4,8	(1,6)	9,5	7,4
Managed Services	13,6	15,8	10,6	14,9	16,7	16,0
as % of revenue	10,0 %	11,8 %	8,2 %	9,7 %	11,8 %	11,7 %
Professional Services	8,7	3,5	9,1	(0,3)	6,3	4,1
as % of revenue	15,5 %	6,5 %	15,1 %	-0,6 %	10,8 %	6,6 %
Gr.ovhd & Unallocated	(15,8)	(14,9)	(15,0)	(16,2)	(13,6)	(12,7)

*Revenue from certain consulting services previously report as part of Managed Services have been moved to Professional Services from 1 January 2020. Business development costs previously included within Group Overhead has been allocated to the business segments from 1 January 2020. Comparable historical information has been updated accordingly.

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Financial information

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.**Zalaris ASA**

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