Annual Report

2019

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Index

About Pexip

Our Mission

Empower people to be seen and to engage with each other in a better way

Our Vision

To make virtual meetings better than meeting in-person

Our Promise

Meet the World with video communications as it should be

A Global Technology Company

Pexip is a global technology company that delivers a video-first meeting platform.

Our vision is to make virtual meetings even better than meeting in-person, by empowering people to see and engage with each other in a better way.

We offer flexible deployment models; that means a cloud-native platform provided as a service or deployed as a self-hosted solution either on-premises or in any cloud environment, all built on Pexip's proprietary Infinity technology.

Both offerings are delivered as a recurring subscription-based model. 97% of revenues are generated from recurring subscription fees, demonstrating a high net retention rate and strong customer loyalty. Additional revenues are one-off fees related to set-up and professional services.

We sell through a global network of 300 reseller partners located in 75 countries. Pexip currently serves more than 3400 customers with headquarters in 73 countries and users in 190 countries.

Our Story

Pexip is the result of a merger between Pexip (founded in 2012), specializing in video software infrastructure and Videxio (founded in 2011), a cloud video service provider. The respective companies were started by a group of visionary industry veterans and were built on an ambition to break down communication barriers and provide a video-first meeting experience. Based on their extensive experience from video conferencing, the founders of the two companies had identified a need among users and IT administrators to remove the obstacles which were making enterprise video conferencing expensive, and difficult to use, manage and scale.

The merger between the two companies was approved at the end of 2018 and came into force in January 2019. It presented a unique opportunity to address the enterprise segment with a consistent user experience across all deployment options, both self-hosted and as-a-service.

Technology and workplace habits have come a long way in the years since the original companies were founded but the challenge of connecting devices and platforms remains.

Pexip solves this by providing best-in-class interoperability, including Microsoft Teams, Skype for Business and Google Hangouts Gateway interop, video system device registration, integrations/API's for 3rd party developers of B2C video applications and a world-class meeting and calling service.

Our aim is to help break down the communication barriers across teams and applications by providing a solution that is easy to use and manage. The key applications are:

- Group video meetings including dedicated applications on web, desktop, tablets and smartphones
- Video conferencing infrastructure including 3rd party video conferencing endpoint registration and management with call control
- Video conferencing interoperability solutions that enable professional video conferencing systems to join Microsoft and Google native meetings

"The merger of Pexip with Videxio at the end of 2018 has created a scalable VC solution that provides a unified experience across mobile, desktop and conference room endpoints"

Magic Quadrant for
Meeting Solutions 2019

Gartner

2011

Videxio AS (pre-merger entity) founded

2012

Pexip AS (pre-merger entity) founded

Launch of the Videxio video communication service

Business established in the United States through Pexip Inc. (2012) and Videxio Inc (2013)

2013

Launch of the Pexip Infinity software platform

2017

Video interoperability solution for Microsoft Teams and Skype for Business Server launched, as well as interoperability for Google Hangouts Meet

2018

Merger between Pexip AS and Videxio AS approved

2019

New company HQ in Oslo opened

What makes us unique

On our mission to empower people to be seen and to engage with each other in a better way, Pexip is unique in the choice we provide to customers, whether they be those using Pexip on a daily basis or IT administrators deploying and managing the platform.

With Pexip, customers enjoy:

- A feature-rich and easy-to-use group video meeting and calling solution with business quality HD video, voice, chat and content sharing providing the best video first experience for any user across conference rooms, desktop, tablets and smartphones.
- Flexible deployment options enabling customers to consume Pexip as a service (SaaS) or deploy it as a self-hosted solution either on-premises or in any cloud environment such as Microsoft Azure, Google Cloud or Amazon Web Services.
- A highly secure collaboration platform with security certifications such as JITC, FIPS 140-2 and 508 compliance used by US military. Pexip is also compliant with the General Data Protection Regulation (GDPR) for data protection and privacy, and supports HIPAA compliance for healthcare applications.
- The possibility to replace legacy call control and video infrastructure and to register and manage video conferencing devices from a single platform. Intuitive IT management dashboards & tools makes it easy to manage the complete network infrastructure, meetings and video conferencing devices from one place.
- The ability to mix solutions from more than one vendor, where Pexip enables users to schedule native Microsoft Teams or Google Hangouts meetings and have internal or external participants join from video conferencing rooms from vendors such as Cisco and Poly.
- Access to bleeding edge technology within video communication, such as Pexip's AI-driven Adaptive Composition. This is the latest in a long line of industry firsts including the first virtualized and distributed video communication platform and the first plug-in free web browser interoperability.

"Pexip has a clear vision of customers' desired outcomes and executes with its innovative solutions. Not only does the company allow customers to prolong the use of their video conferencing solutions, but it also allows them to implement services that are tailored to their specific needs ... With its deployment and consumption flexibility, Pexip is virtually unmatched in the enterprise video conferencing market"

Entrepreneurial Company of the Year Award 2020

FROST & SULLIVAN

"The video conferencing company Pexip has shown consistent high growth, and increased their annual recurring revenue in four years from 37 MNOK to more than 300 MNOK at the end of 2018"

Entrepeneurial Company of the Year Award 2019

DN Årets gründere

Vinner i klassen vekstselskaper rettet mot bedrifter

#WeArePexip

The Pexip team is distributed across many countries. Our development teams are located in Norway and the UK. Our sales, sales engineers, support and administration teams are spread throughout Europe, APAC and North America. Our headquarters are in Oslo, and we have offices in London, New York, Washington DC, Sydney, Stockholm and Paris.

The Pexip Way

Professional and Fun

We are committed to our partners and customers.
We are passionate and fun to work with.
We strive for excellence.

No Bullshit

We say it as it is.
We do what needs to be done.
We stand for honesty and integrity.

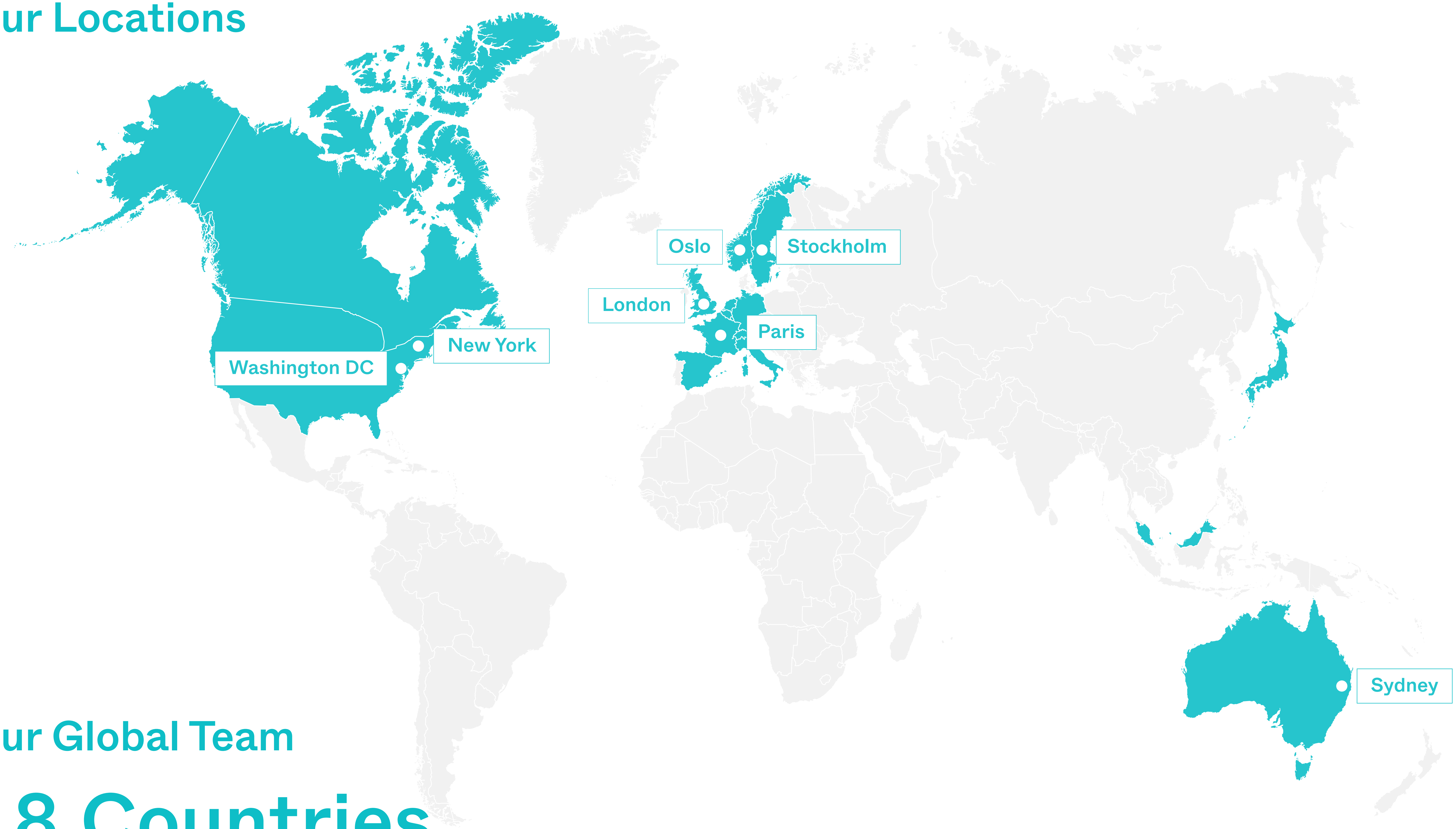
Freedom and Responsibility

We encourage initiative and innovation.
We are all leaders.
We act like owners.

One Team

We make each other better.
We respect, support and care for each other.
We appreciate diversity.

Our Locations



Our Global Team

18 Countries
27 Nationalities

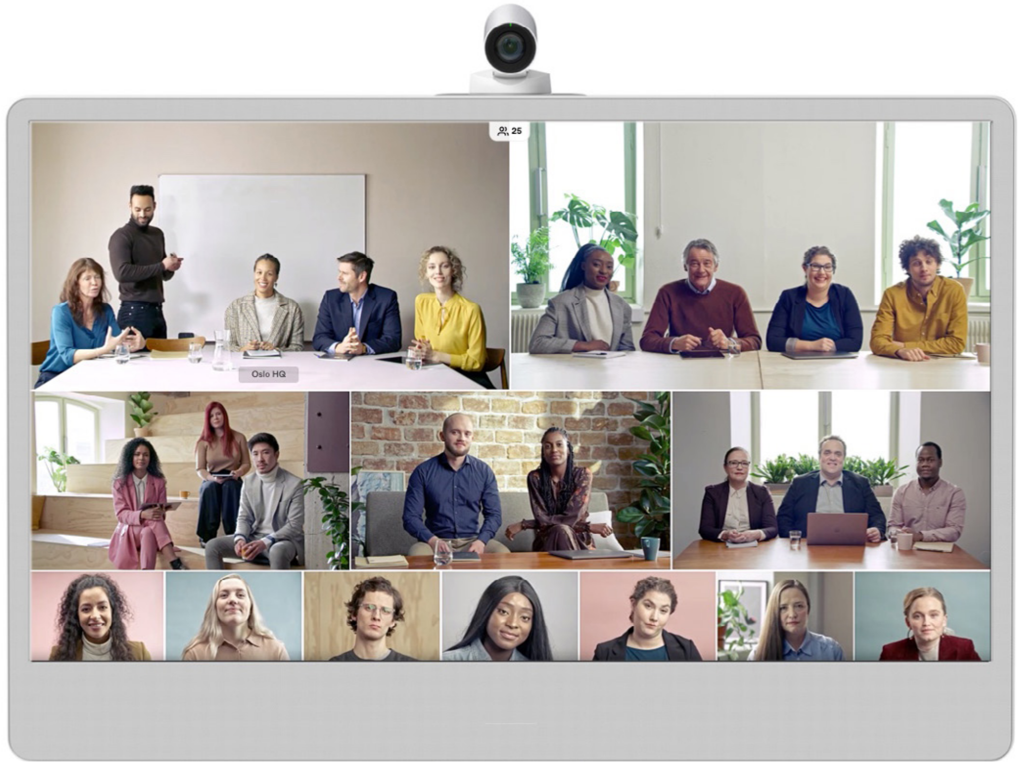
The Pexip Booth at ISE in Amsterdam, The Netherlands

Solving The Escape Games at the Pexip Kick-off

The Pexip engineering team in Malaga, Spain

“Each day that goes by there is a sense that we are working towards a grand, achievable vision and I proudly see us making concrete strides towards that”

Christopher Smith, Solutions Architect



With Adaptive Composition, Pexip is the first to bring AI-powered auto-framing and intelligent layout to any meeting participant

Pexip Infinity Connect Application

"I really appreciate the freedom and flexibility of working at Pexip - it makes juggling life as a working mum that much easier!"

Juliet Durdle, Technical Writer

Promoting the brand at InfoComm 2019

Evaluating the latest beta update to the Pexip service

Key numbers

Contracted Annual Recurring Revenue (ARR, MUSD)

36 ↗ 47

2018 2019

ARR from Net New Customers (MUSD)

7.4 ↗ 11.7

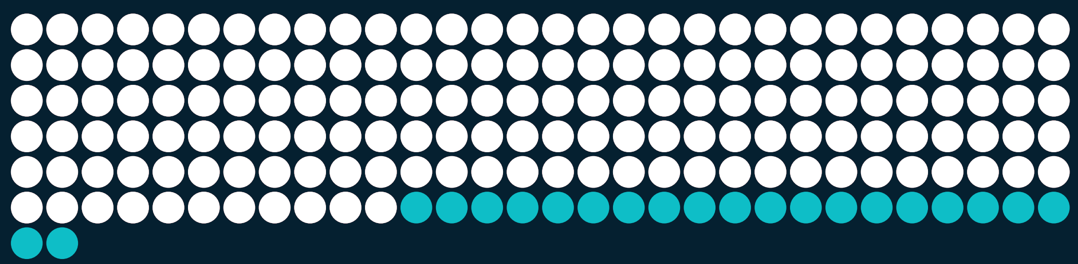
2018 2019

Customer Net Retention Rate (% of ARR)

97% ↗ 99%

2018 2019

Employees



21 new employees (182 total)

Revenue (MNOK)

370

EBITDA Margin

21%

Gross Margin

95%

Geographical Distribution ARR 2019

Letter from the CEO

As we round off 2019, we have built a solid platform for growth based on the foundation from both companies. We are now truly one team.

One Team

What a year 2019 was for Pexip. It started with the merger of Pexip and Videxio and we implemented various projects and initiatives throughout the year to make sure the merger was a success. As we round off 2019, we have built a solid platform for growth based on the foundation from both companies. We are now truly one team.

One Team is in fact one of our four company values, the other three being Freedom & Responsibility, Professional & Fun, and No Bullshit. One of the key initiatives of 2019 has been the emphasis on creating a shared culture, The Pexip Way, which defines how we interact with each other, customers and partners on a daily basis. The aim is to have our values guide our business, our product development, and our brand. As Pexip continues to evolve and grow, we use the values actively to remind us of who we are, where we came from and where we are going. Defining the Pexip Way has been employee-led and has generated enthusiasm and engagement across the Company.

A Combined Product Portfolio Fueled Sales Success

From a sales perspective, the merger has put us in a unique position to offer a product portfolio that meets the needs of a broader range of customers. Our main focus is on large enterprise customers and we are delighted to have 20% of the Global Fortune 50, and 15% of the Global 500 companies as our customers, including the likes of GE and Accenture. In addition, we have a range of public sector customers such as the US Veterans Affairs. Pexip is unique in being able to offer a total solution that allows customers to deploy our solution as they choose, whether that be a cloud-native platform provided as a service or deployed as a self-hosted solution on-premises or in any cloud environment. Being able to deliver on this important requirement for many large organizations is a testament to Pexip's technology leadership within video communication.

In June, we launched a new brand identity and a new website, which symbolised the creation of the new company. The new brand has been well received and has helped position Pexip for the future with a clear visual and communications identity. The awards and recognition we have received from industry analyst firms throughout the year also speak to the unique position Pexip holds in the market in terms of our product portfolio and the combined efforts of the Pexip team and our channel partners.

In February 2019, we ranked number one in an independent Net Promoter Score (NPS) survey run by Wainhouse Research. The survey is based on respondents' answers to the question of how likely they are to recommend a company/product/service to a friend or colleague. The answer to this one question reveals how happy customers are with our product, whether their expectations are met, what they think about the Company's future growth potential, how loyal they are, how they feel about our brand, and more – all wrapped up into one tidy number. In this case, the survey showed overall sentiment towards 17 enterprise video companies with Pexip leading the way, a true testament to our technology and the tireless work of our employees and partners.

In September, we were delighted to be named in Gartner's Magic Quadrant for Meeting Solutions. Gartner's Magic Quadrant is widely recognized as the world's most influential market analysis for IT buyers. Pexip came into the Quadrant in a strong position as a Visionary. Gartner evaluates companies on their ability to execute and completeness of vision. We believe our inclusion in the Magic Quadrant is a testament to Pexip's unique product offering, broad customer base, and established growth record.

Finally, Frost & Sullivan named Pexip Entrepreneurial Company of the Year for the global business video conferencing industry (2020).

The new Pexip brand identity was launched in 2019

Strategic partnerships with Microsoft and Google provide real value to our customers

Channel and Strategic Partnerships Enabled Growth and Scale

We continue to sell exclusively through channel partners and we work closely with our 300 channel partners to scale our sales and marketing efforts and promote brand recognition globally. We focused heavily on channel enablement in 2019, including holding a large number of training and certification courses at Pexip Academy. In 2019 more than 750 participants went through Pexip training courses, up more than 70% from 2018.

We have also found success co-marketing and selling with ecosystem partners like Microsoft and Google, and we are focused on building the Pexip brand and driving demand for our offerings together. As one of three certified vendors to offer a Microsoft Teams video interoperability solution, we have brought the capability to market and worked in close partnership with Microsoft to break down the barriers in organizations where they were challenged by the migration from Skype for Business to Teams, or when the customer had a deployment of traditional video conferencing devices that they wanted to provide access to the Teams experience. Pexip works closely with Microsoft to engage with Microsoft customers through sales calls, joint webinars, local roadshows, and trade shows such as Microsoft Ignite and Microsoft Inspire.

Similarly, we have worked closely with Google to commercialize a Google Hangouts Meet gateway solution. Pexip was the first to offer this and is currently the only vendor with a solution for this use case. Pexip is being invited to meet with Google customers in sales calls and through joint webinars, local roadshows and trade shows such as Google Cloud Next. Google links to the Pexip website on their G Suite website and drives significant demand for our interoperability solution.

In September, we were delighted to be named in Gartner's Magic Quadrant for Meeting Solutions

Providing Customer Value through Technology Leadership

It was also an exciting an exciting year for our engineering team with the merging of two teams bringing together experts in signal processing, micro services, highly scalable systems, AI, networking and UI.

Combining the Pexip and Videxio product portfolios has created a unique offering for our customers and prospects. In addition, and perhaps even more importantly from an engineering perspective, the merger presented the team with an opportunity to take a step back and define the full potential of the combined product portfolio. In November, close to a hundred of our engineers met for a summit in Malaga, Spain. A week of brainstorming and hacking resulted in a clear product and also corporate vision to make virtual meetings even better than meeting in-person.

With this strong foundation now in place, I couldn't be more excited about the year to come and the technology leadership position we are taking - a more complete end-to-end Pexip offering, a brand new UX and a redefined video first experience is on the menu.

Strong Financial Performance

All of the topics I have touched on here have contributed to the strong financial performance we achieved in 2019.

We finished the year with a significant increase in annual recurring revenue (ARR), increasing our contracted ARR with 32% during the year. We enter 2020 with an ARR of 47.2 MUSD.

Pexip continues to have a good geographical spread. At the end of 2019, 55% of the ARR originated from EMEA, 33% from Americas and 12% from APAC, reflecting a similar distribution in 2018.

A key metric for Pexip as our ARR base grows is our net retention rate, i.e. how much of the recurring revenue from our existing customers is renewed. For 2019 our net retention rate landed above target at 99% per annum, significantly above our 2018 performance of 96%. We are proud and honoured to have some of the largest global enterprises as long-term customers of our technology.

Geographical Distribution
Annual Recurring Revenue 2019

Pexip has a dual focus on growth and profitability. For the financial year 2019 that lead to revenues of NOK 370 million, and EBITDA of NOK 76 million and a positive cash flow of NOK 16 million. Our platform of strong growth and solid financials makes us well positioned to capture even more of the growth opportunities we see in the market.

In Summary

As we round off 2019 and look ahead, I am excited about what lays in store both for us as a company and for the users of our technology. Starting the year with roughly 150 people, we are at the time of writing over 200 Pexipers, and I am extremely proud of the knowledge and dedication demonstrated by the Pexip team, our partner-led business model and our technology, which furthers communication in a user-focused and sustainable manner.

Driven by our core values, we look forward to continuing to work hard to meet the needs of our customers across the globe. We will focus on our mission to empower people to be seen and engage with each other in a better way, guided by our vision to make virtual meetings better than being there in person. By continuing balancing growth and equity efficiency, we aim for increased shareholder value - for employees and our broader investor base.

We are ready to continue rocking the collaboration industry in 2020!

Odd Sverre Østlie
CEO

The Management Team

Karl Hantho
President Americas

Giles Chamberlin
CTO & Co-founder

John Harald Grønningen
President EMEA

Ingrid Woodhouse
VP People & Development

Nico Cormier
COO

Øystein Hem
CFO

Odd Sverre Østlie
CEO

Tom Erik Lia
CCO & Co-founder

Åsmund Fodstad
EVP Sales & BD

Customer Testimonials

The Pexip video communication platform has been developed to meet both the requirements of IT administrators and the expectations and needs of everyday users within large enterprises.

Enterprise IT needs include

- Data ownership and security, privacy and compliance
- Integrations with existing workplace tools and IT workloads
- Interoperability between a range of video meeting solutions and devices
- Scalability based on usage
- Deployment flexibility, ranging from self-hosted to as a service
- The ability to determine when internal upgrades are made

Enterprise users' requirements include

- Intuitive, easy to use solution
- Workflow integration with existing tools
- Rich functionality including content sharing and outstanding audio and video

"Pexip is disturbingly reliable. I have been working with video conferencing for more than 15 years and I have never experienced infrastructure that is so stable."

vodafone

A leader in technology communications through mobile, fixed, broadband and TV

"With Pexip we were able to easily connect the Cisco video conferencing systems we use at Kayak to the Google Hangouts Meet platform used by our sister company, Open Table. This had made us feel more like one company, rather than two separate companies"

KAYAK

A world leader in travel information search with more than 2 billion searches through its sites every year

"Amnesty International relies on Pexip to connect our staff located around the world, from the United Kingdom to Lima to Kenya. With Pexip, it's easy for our employees to join meetings from anywhere, regardless of whether they are using video conferencing systems, telephones, web browsers, or laptops. We are very pleased to see Pexip named a Visionary in the Gartner Magic Quadrant for Meeting Solutions and believe it speaks to the powerful video platform it has developed today, and the potential it has for tomorrow. With Pexip, we can improve our communications in our mission to fight for human rights for all."

AMNESTY INTERNATIONAL

A non-governmental organization focused on human rights

"We have a huge on-premise deployment of Skype for Business and Cisco video conferencing systems. We chose Pexip because we wanted a product that could scale and move with us as we start our transition from on-premise to hybrid and then ultimately to having our entire deployment in the cloud."

accenture

A multinational professional services company that provides services in strategy, consulting, digital, technology and operations

"Pexip Infinity was the only platform that offered virtualized bridging and a licensing model that supported providing video conferencing to every attorney that wanted it."

BRYAN CAVE LEIGHTON PAISNER

An international law firm with 25 offices worldwide

"We needed a secure solution where participants could join meetings without the need to download a plug-in and it was essential that we maintained total control over sensitive patient information and confidential communications. The solution was Pexip."

HUS Helsinki University Hospital

The largest university hospital in Finland, and one of the largest hospitals in Europe

Letter from the Chairman

2019 has been a defining year for Pexip. The foundation has been created for future growth with a strong team, a unique product portfolio that breaks down the silos to workplace communication, and an extensive and knowledgeable channel and strategic partner network.

First of all, I would like to thank Kjell Skappel who has been Chairman of both Videxio and Pexip since 2013 and 2015 respectively and until December 2019. Kjell has been instrumental for the two companies through their formative years and has guided us through the merger of Videxio and Pexip in 2018. I am happy to report that Kjell will continue to be on the Pexip board, and will be as active as before. I see the continued involvement of original board members and company founders as being extremely valuable, not least from a corporate governance perspective.

I am honoured to take on the full-time role as newly elected Chairman and look forward to taking a directional role in the next phase of Pexip's development.

Capitalizing on Industry and Macro Trends

Based on what we have seen in 2019, I believe that Pexip is in a strong position to capitalize on many of the trends that are prevalent both in our own industry and in the world as a whole. These include the opportunities and challenges faced by many organizations deriving from a globally distributed workforce and increased workplace flexibility, as well as an increased focus on social and environmental sustainability.

Breaking Down the Barriers in Workstream Collaboration

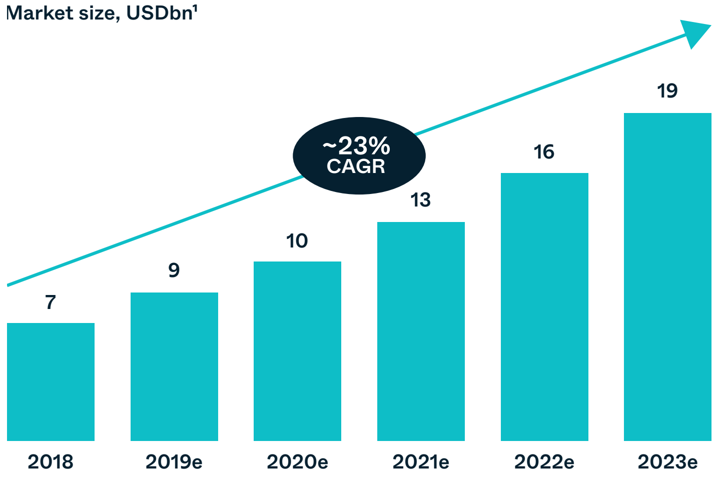
From an industry perspective, we see that digital transformation means that organizations expect a simple, easy to use meeting platform that works where their employees do. The growth of workstream collaboration tools has made interoperability more important than ever. Users do not want to have to learn a new technology or workflow; they simply want to join a meeting. We see a clear trend towards users not only bringing their own device to meetings, but also their own application.

As industry analyst firm, Wainhouse Research reported, "62% of organisations use more than three video communication solutions." (The State of Group VC 2018, Wainhouse Research). This creates interoperability issues, something Pexip is in a unique position to solve by connecting hardware and software technology from a variety of vendors.

Investment Protection

Aging infrastructure is also creating a new opportunity for cloud-based solutions. Many companies today have aging video infrastructure and are looking for a replacement that will help them future-proof their video conferencing infrastructure with a high level of control and management capabilities. With Pexip, customers can choose their deployment model, configure and monitor the entire implementation using a single interface, and maintain full control over data and workflows.

Market size, USDbn[1]



1) Wainhouse Research: Market Sizing & Forecast: UC Cloud Services - Worldwide 2019.

Key market drivers

- Affordable technology
- Internet accessibility
- Ease of use
- Global workforce
- Workplace flexibility
- Video customer meetings
- Social responsibility
- Environmental sustainability
- Business continuity

Growth in Business to Consumer Usage

We are also seeing new applications of video conferencing for business-to-consumer use cases. In education, finance and healthcare, and customer service in general, video based services are starting to play a key role in enabling organizations to broaden the scale of their individual services to maintain or to build trust with their clients, whether they be students, consumers or patients. We have seen several examples of this trend among our customers.

Organizations such as Ontario Telehealth Network and American Well are using Pexip to facilitate video-powered telehealth visits that are more convenient for patients, while reducing costs and improving efficiency. Patients can easily join video consults with a web browser, while providers can join from any device (including telehealth carts) and integrate with their EHR systems using Pexip APIs.

In the banking space, the largest financial group in the Nordics introduced the option for video visits instead of branch visits and was overwhelmed by its success, having to hire 60 new financial advisors to keep up with the demand.

Many colleges and universities rely on Pexip to deliver distance learning and live stream/ record lectures. This helps education organizations to increase attendance.

I believe that this is just the start and we will see many more examples of such applications in the years to come.

Social and Environmental Responsibility

Video makes our customers greener. With increased globalisation and distributed workforces, combined with growing concerns for the environment, the Pexip video communication platform offers an ideal solution to bring teams together without the need for travel. It also has the added benefit of allowing companies to employ the best employees, regardless of location. We also see a fairly new trend developing where some companies are going fully remote with no offices at all.

Pexip makes a clear contribution to several of the UN's sustainable development goals particularly in the areas highlighted here:

Goal 4: Quality Education

Video increases the reach of educational institutes, enabling students in remote locations to gain access to higher education.

Goal 5: Gender Equality

Video meetings allow for the ability to work at home for increased job flexibility, encouraging mothers to return to the workplace earlier.

Goal 9: Industry Innovation and Infrastructure

High-quality video conferencing solutions allow for less travel as meetings can take place virtually.

Goal 11: Sustainable Cities and Communities

Video conferencing enables high-quality meetings without the need for physical presence, reducing traffic (by road and air) related to business and customer meetings.

Goal 12: Responsible Consumption and Production

Pexip's unique architecture enables efficient and responsible energy consumption and the flexibility to choose host servers powered by renewable energy. Corporations can increase the lifespan of aging technologies by enabling integration with new ones to reduce e-waste.

Pexip's unique architecture enables efficient and responsible energy consumption and the flexibility to choose hosting servers powered by renewable energy. Corporations can increase the lifespan of aging technologies by enabling integration with new ones to reduce e-waste.

In addition to providing environmentally-friendly communication at scale, Pexip is also internally committed to making environmentally responsible business decisions and makes the following sustainability efforts:

- Video is our preferred way to meet, and regular meetings with customers and remote colleagues are held over video; this has a positive impact on the environment, as well as reducing wear and tear on our employees
- The possibility to work-from-home using video provides flexibility and has a positive effect on unnecessary transportation
- Electric car charging stations and a bike garage encourage green commutes
- Recycling facilities are widely available in each office to make recycling easy and top of mind

Strong Financial Performance

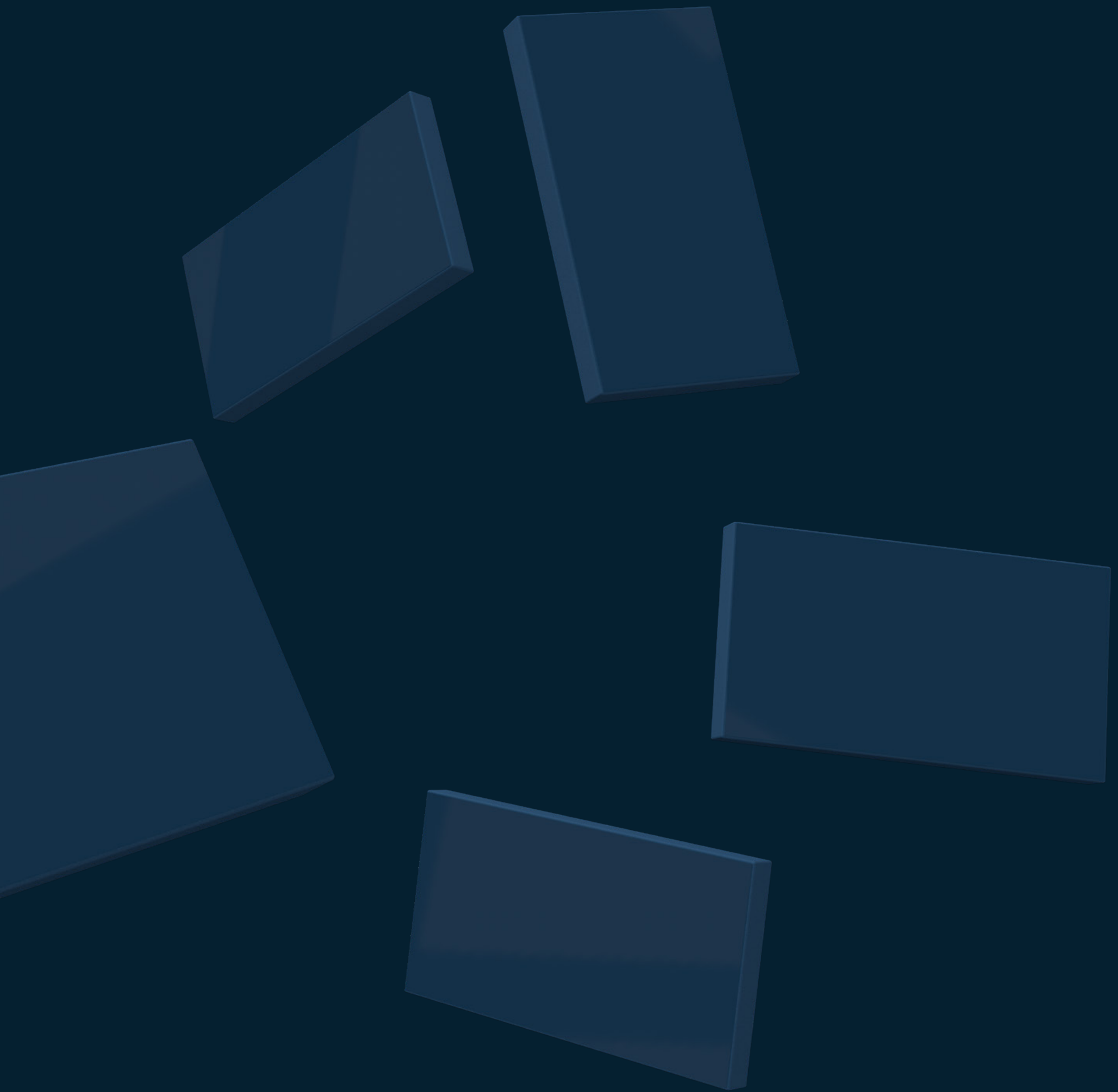
The merger of Pexip and Videxio put us in a position to really capitalize on the potential brought about by a broader product portfolio. This has been a strong growth year for Pexip, with a significant increase in annual recurring revenue of 32%. With revenues of NOK 370 million and an EBITDA margin of 21%, we are in a position of strength to make the investments in continued growth that we plan for 2020.

Foundation for the Future

2019 has been a defining year for Pexip. The foundation has been created for future growth with a strong team, a unique product portfolio that breaks down the silos to workplace communication, and an extensive and knowledgeable channel and strategic partner network. Combined with many macro- and industry trends that are favourable to us, I am excited about the years to come and the potential to introduce video communication as it should be to even more enterprises around the world.

Michel Sagen
Chairman of the Board

Statement from the Board of Directors



2019 was an important year for Pexip. The group has successfully executed on the merger plan from 2018 to generate stronger growth and more innovation.

The Contracted Annual Recurring Revenue (ARR) at the end of 2019 was USD 47.2 million, up 32% from the end of 2018. The group continues to have a balanced focus on both growth and profitability and delivered a positive cash flow in the year.

In 2020 we aim to further accelerate our growth and market position within the rapidly growing video communications market, strengthen our cooperation with our strategic partners as well as our channel partners, and continue to scale the organization.

Pexip Holding AS simplifies video communication across borders, businesses and platforms, enabling everyone to be seen, heard and included. The group develops scalable, distributed videoconferencing software for collaboration, delivered both as Software-as-a-Service and as a software application. The products are sold to corporates and organizations in large parts of the world through partners. The portfolio of software customers is growing through annual renewal and upsell of existing customers, and by acquiring new customers. Our as-a-service offering is built on top of the Pexip Infinity platform, and is highly scalable, both in terms of number of users and cost. The business model of the group is based on selling subscriptions, providing a recurring yearly revenue stream. The annual value of the contracted subscription portfolio — Annual Recurring Revenue — is an important metric for the group.

The board is satisfied with the momentum of the group. The product development and releases are going according to plan. The group has seen a solid increase in its customer base and in revenue throughout the quarters in 2019, and is increasingly getting recognition among customers and industry analysts. In 2019 Pexip made its first appearance in the Gartner Magic Quadrant for Meeting Solutions as a Visionary. Pexip was also ranked number one in the Wainhouse Research brand perception study for Video Meeting Solutions. During 2020 new products and features will be launched, which will further strengthen the group's market position. The group has experienced solid organic growth over the past years. Churn throughout 2019 has been stable and low, which indicates that our products are becoming an integrated part of customers' daily workflows.

The consolidated accounts include business activities in Pexip AS, Pexip Inc., Pexip Ltd., Videxio Inc. and Videxio Asia Pacific Ltd. The legal entities Pexip Inc. and Videxio Inc. were merged in October 2019, and are continued as Pexip Inc.

The group's headquarters are situated in Oslo, Norway and it has activities across EMEA, North America and APAC.

Key Financials and Review of the Annual Accounts

During 2019, the group has converted the consolidated annual accounts to the International Financial Reporting Standards (IFRS), and as such the 2018 financials have been re-stated to give corresponding figures. Consolidated operating revenue for 2019 is NOK 370 million, up from NOK 215 million in 2018. Pexip merged with Videxio AS and its subsidiaries on 22 October 2018, and the 2018 P&L statement does not contain Videxio before the merger. For 2019, EMEA was the largest region with NOK 189 million in revenue, followed by Americas with 124 million, and APAC with 57 million. Revenue from sales of the Infinity software application was NOK 268 million, and revenue from the cloud services was NOK 102 million. 97% of the revenue for 2019 is recurring revenue from own products and services.

The group has limited variable costs, and gross margin for 2019 was 95% of revenue. EBITDA for 2019 was NOK 76 million (21% of revenue), up from NOK 32 million in 2018 (15% of revenue). Operating profit for 2019 was NOK 32 million (9% of revenue). The group has one global reporting segment. Net income for the year was NOK 12 million. The group has an overall equity ratio of 77%. The equity ratio in the parent company is 85%. The liquidity is satisfactory, and the group had a cash flow of NOK 15.8 million during 2019. The net cash flow arose from a cash flow from operating activities of NOK 57.5 million, cash flow from investing activities of NOK -35.1 million and cash flow from financing activities of NOK -6.6 million.

During the year, various measures were taken to strengthen the operational performance. Following the launch of two major interoperability capabilities with Microsoft Teams and Google Hangouts Meet late 2018, the group has had significant market traction with this offering in 2019. The group has also continued to focus on increased sales, particularly in North America. Development in sales, gross margin and equity ratio is according to plan.

The board confirms that the report of the board of directors and financial statements give a true and fair view of the group's assets, liabilities and financial position.

Parent Company

The annual accounts for the parent company have been prepared according to Norwegian GAAP. The parent company had NOK 0 million in revenue for 2019, with NOK 0.2 million in operating costs. The parent company's equity is NOK 861 million as of 31 December 2019. During 2019 the parent company converted a loan to Pexip AS related to the merger of Pexip AS and Videxio AS in 2018 of NOK 1,023 million to equity in Pexip AS.

Risk and Risk Management

Risk management in the Pexip Group is based on the principle that risk evaluation is an integral part of all business activities. Pexip's ability to implement the group's strategic and operational plans is influenced by various commercial, technological and operational risk factors summarized here.

Market Risk

The group is exposed to market risk, including, but not limited to, the following: access and ability to keep qualified employees; access to technology used in product development; ability to remain innovative; ability to execute on development schedules and secure customer contracts; protection of own patents and potential conflicts with third party patents; liquidity and access to funding; attractiveness of product platforms offered; ability to engage with and enter into contracts with partners; market perception of product platform; the relative competitiveness in the market etc. The importance of each risk factor will likely change over time and depend on the market environment and relative competitiveness of the group.

Revenue (MNOK)

370

EBITDA Margin

21%

Contracted ARR (MUSD)

36	47
2018	2019

Gross Margin

95%

Financial Risk

The group is exposed to liquidity risk and credit risk. The liquidity risk is mitigated via a diversified customer portfolio where no end-customer exceeds over 5% of recurring revenues. Net Retention Ratio (NRR) shows net development in the customer portfolio and measures upsell versus churn at subscription renewal over a period. NRR for the group is 99% for 2019, which is a 2 p.p. improvement compared with 2018. The Board believes that cash flow from new sales and renewals will be sufficient to cover the liquidity requirement in 2020.

The group's exposure to credit risk is limited as purchase orders from partners are placed based on orders received from end-customers, and payment is contractually independent from end-customer payments. Variable costs beyond sales commission to employees and cost of service is minimal. As the group holds limited interest-bearing debt, the exposure to interest rate fluctuations and credit availability is limited.

Foreign Currency Risk

The Group's main invoicing currency is USD, while its cost base is mainly in NOK, USD and GBP. As such it is exposed to foreign exchange risk which can impact profit margin. The group does not use financial instruments to hedge this risk.

Research and Development (R&D)

Pexip's core activity is R&D related to distributed software platforms for videoconferencing and collaboration. At the end of 2019 the Engineering team consisted of 70 employees. The continued momentum and the results achieved in this area have been excellent. The product development strategy was assessed throughout the year. The technology is developed with the aim to make the group a supplier of comprehensive collaboration software with increased focus on sales to large international corporations and a strong video-first focus. Of the total R&D in 2019, Pexip capitalized NOK 29 million and the remaining cost has been classified as operating expenses.

Going Concern

The board confirms that the group qualifies as a going concern and the financial statements have been prepared on this basis.

Work Environment and Equal Opportunities

The group had 182 full-time employees at the end of 2019, of which 21 were female, equaling 12%. The policies of the group are deemed to be gender neutral in all respects. Pexip appreciates diversity, as underlined in the Pexip Way, and believes in equal opportunity regardless of gender, language, ethnicity, sexual orientation, religion or faith. Any form of discrimination is unacceptable in Pexip. The group has regularly conducted employee NPS surveys during 2019 to monitor employee satisfaction and guide actions from management, providing employees with an anonymous feedback channel. The overall results have been presented to the board.

Sick leave was in total 582 days in 2019, which equals 1.5% of work hours. The board considers this to be satisfactory and no special measures are taken. The working environment in Pexip is good, and during 2019 there have been no accidents or injuries related to the operations.

At the end of the year, the parent company had no employees.

Environment

Reducing both Pexip's and our customers' impact on the environment is an important focus for Pexip and the Board, and it will become even more important in the future. The board considers Pexip's operations to have an overall positive effect on the global environment. Contributing to the global sustainability agenda is important to Pexip. The group delivers videoconferencing services, which can be used as a substitute for business travel and commuting, thereby reducing carbon emission and improving the environment. The group's software also allows enterprises to increase the lifetime of their technical equipment through interoperability, giving the opportunity to reduce e-waste. The group only produces software and software-as-a-service and does not use products or materials which are harmful to the natural environment in the production of its services. Pexip uses waste sorting and recycling schemes for supplies and materials.

Allocation of Net Profit in the Parent Company

Pexip has a strategy for growth and has several attractive investment opportunities available to it. The group reinvests its growth in revenues to seize these opportunities and does not have a policy to distribute an annual dividend in the medium-term.

The loss for the year of Pexip Holding AS of NOK -185 336 has been allocated in its entirety to other equity.

Outlook and Events after end of 2019

No events have occurred after year-end which have a material impact on the 2019 accounts. Activity into 2020 has been good, and cash flow from operations has been as expected. The group is well positioned to generate increasing revenue and operating profits for the year.

The board is continuously evaluating if further investments are needed to enable the group to grow at a faster pace and capture more of the available growth opportunities. As part of this evaluation the board decided at the end of 2019 to take steps towards listing the parent company on a public stock exchange. This will benefit the group by adding additional capital for investments and increase the overall market awareness for the group, in addition to giving investors access to a more liquid market.

Oslo, 11 March 2020

Michel Sagen

Michel Sagen
Chairman of the Board

Odd Sverre Østlie
CEO

Per Haug Kogstad
Board Member

John Wylie
Board Member

Håkon Dahle
Board Member

Kjell Skappel

Tom Erik Lia
Board Member

Kjell Skappel
Board Member

Aril Resen
Board Member

Financial Statements

Consolidated statement of profit or loss

(NOK 1.000)	Note	Year ended 31 December 2019	2018
Revenue	3	**369 954**	215 037
Cost of sale		**18 779**	7 661
Salary and personnel expenses	4,23,24	**190 234**	119 315
Other operating expenses	5	**84 611**	55 716
EBITDA		**76 330**	32 346
Depreciation and amortization	9,10,12	**44 470**	14 494
Operating profit or loss		**31 860**	17 852
Financial income	6	**14 897**	9 038
Financial expenses	6	**-30 093**	-12 172
Financial income/(expenses) - net		**-15 196**	-3 134
Profit or loss before income tax		**16 664**	14 718
Income tax expense	7	**4 427**	-24 002
Profit or loss for the year		**12 237**	38 719
Profit or loss is attributable to:			
Owners of Pexip Holding AS		**12 237**	38 719
Earnings per share			
Basic earnings per share	8	**0,15**	0,60
Diluted earnings per share	8	**0,15**	0,59

Consolidated statement of other comprehensive income

(NOK 1.000)	Note	Year ended 31 December 2019	2018
Profit or loss for the year		**12 237**	38 719
Items that may be reclassified to profit or loss:			
Exchange difference on translation of foreign operations		**35**	-1 114
Total comprehensive income for the year		**12 272**	37 606
Total comprehensive income is attributable to:			
Owners of Pexip Holding AS		**12 272**	37 606

The notes are an integral part of these consolidated financial statements.

Consolidated statement of financial position

ASSETS

(NOK 1.000)	Note	31.12.2019	31.12.2018	01.01.2018
Non-current assets				
Property, plant and equipment	3,9	**7 201**	3 317	2 016
Right-of-use assets	3,10	**52 419**	10 070	10 902
Goodwill	11	**598 998**	598 998	-
Other intangible assets	3,12	**101 783**	110 356	9 789
Deferred tax asset	7	**27 553**	27 348	18 225
Contract costs	3,18	**74 235**	41 433	22 341
Receivables	4,13,19	**1 715**	1 628	2 575
Other assets		**-**	206	-
Total non-current assets		**863 905**	793 356	65 848
Current assets				
Trade and other receivables	4,13,19	**105 552**	77 448	52 244
Contract assets	18	**14 015**	8 164	7 664
Other current assets	14	**11 098**	9 093	7 070
Cash and cash equivalents	15,19	**75 515**	59 421	29 489
Total current assets		**206 179**	154 125	96 467
TOTAL ASSETS		**1 070 085**	947 481	162 315

EQUITY AND LIABILITIES

(NOK 1.000)	Note	31.12.2019	31.12.2018	01.01.2018
Equity				
Share capital	16	**799**	795	611
Share capital increase not registered	16	**399**	-	-
Share premium		**860 073**	856 568	90 302
Other equity		**-37 194**	-58 389	-39 083
Total equity		**824 077**	798 975	51 830
Non-current liabilities				
Borrowings	17,19	**8 500**	6 000	7 500
Lease liabilities	10,19	**45 464**	7 084	7 642
Derivative financial liability	19, 21, 30	**-**	60 784	54 384
Total non-current liabilities		**53 964**	73 869	69 526
Current liabilities				
Trade and other payables	19	**51 075**	36 285	22 856
Contract liabilities	18	**47 880**	28 133	14 302
Current tax liabilities	7	**3 781**	279	41
Borrowings	17,19	**2 500**	6 500	500
Derivative financial liability	19, 21, 30	**76 784**	-	-
Lease liabilities	10,19	**10 024**	3 441	3 260
Total current liabilities		**192 044**	74 638	40 959
Total liabilities		**246 008**	148 507	110 485
TOTAL EQUITY AND LIABILITIES		**1 070 085**	947 481	162 315

The notes are an integral part of these consolidated financial statements.
The financial statements were authorized for issue by the Board of Directors on 11 March 2020.

Michel Sagen
Chairman of the Board

Odd Sverre Østlie
CEO

Per Haug Kogstad
Board Member

Håkon Dahle
Board Member

Kjell Skappel
Board Member

Aril Resen
Board Member

Tom Erik Lia
Board Member

John Malcolm Rodney Wylie
Board Member

Consolidated statement of changes in equity

(NOK 1.000)	Note	Share capital	Share capital not registered	Share premium	Translation differences	Retained earnings	Total equity
Balance at 1 January 2018		611		90 302	-	-39 083	51 830
Profit or loss for the year						38 719	38 719
Currency translation differences					-1 114		-1 114
Merger	16	184		766 267		-62 133	704 317
Share-based payments	24					5 222	5 222
Balance at 31 December 2018		**795**	**-**	**856 568**	**-1 114**	**-57 275**	**798 975**
Profit or loss for the year						12 237	12 237
Currency translation differences					35		35
Contribution of equity net of transaction costs		4		3 504			3 508
Increase in par value of shares			399			-399	-
Share-based payments	24					9 321	9 321
Balance at 31 December 2019		**799**	**399**	**860 073**	**-1 078**	**-36 116**	**824 077**

The notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(NOK 1.000)	Note	Year ended 31 December 2019	2018
Cash flow from operating activities			
Profit or loss before income tax		**16 664**	14 718
Adjustments for			
Depreciation, amortization and net impairment losses	9,10,12	**44 470**	14 494
Non-cash - share based payments	24	**9 321**	5 222
Fair value adjustment to derivatives		**16 000**	6 400
Interest income/expenses - net		**2 821**	1 267
Net exchange differences		**-1 510**	-1 769
Change in operating assets and liabilities			
Change in trade, other receivables and other assets		**-65 010**	-35 279
Change in trade, other payables and contract liabilities		**34 537**	15 305
Interest received	6	**466**	396
Income taxes paid		**-279**	-41
Net cash inflow/outflow from operating activities		**57 480**	20 713
Cash flow from investing activities			
Payment for acquisition of subsidiary, net of cash acquired		**-**	23 968
Payment for property, plant and equipment	9	**-6 369**	-1 661
Payment of software development cost	12	**-28 729**	-5 332
Net cash inflow/outflow from investing activities		**-35 098**	16 975
Cash flow from financing activities			
Proceeds from issuance of ordinary shares		**3 508**	1 676
Proceeds from borrowings	17,20	**5 000**	-
Repayment of borrowings	17,20	**-6 500**	-5 500
Principal element of lease payments	10,20	**-5 334**	-2 760
Interest paid	6	**-3 286**	-1 664
Net cash inflow/outflow from financing activities		**-6 612**	-8 248
Net increase/(decrease) in cash and cash equivalents		**15 770**	29 441
Cash and cash equivalents 1 January		**59 421**	29 489
Effects of exchange rate changes on cash and cash equivalents		**324**	491
Cash and cash equivalents 31 December	15	**75 515**	59 421

The notes are an integral part of these consolidated financial statements.

Note 1. General

Pexip Holding AS is the parent company in the Pexip Group. The Group includes the parent company Pexip Holding and its wholly owned subsidiary Pexip AS, which have the wholly owned subsidiaries Pexip Inc, Pexip Ltd and Videxio Asia Pacific Ltd. The Group`s head office is located at Lilleakerveien 2a, 0283 OSLO, Norway.

Pexip is a global technology company that delivers a leading, end-to-end video conferencing platform and digital infrastructure. Pexip offers both self-hosted software application and as-a-service deployment options for enterprise video conferencing, built on Pexip's proprietary Infinity technology. Both offerings are delivered as a recurring subscription-based model.

The consolidated financial statements of Pexip Holding AS and its subsidiaries (collectively, the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 11 March 2020.

1.1 Adoption of new and revised accounting standards

IFRS 16 Leases shall be applied for annual reporting periods beginning on or after 1 January 2019. As this is the group's first financial statements in accordance with IFRS, IFRS 16 is adopted with effect for the opening balance as of 1 January 2018. Refer to note 31 for more information about the impact of the transition to IFRS.

1.1.2 New and revised IFRS standards in issue but not yet effective

The Group has not applied the following revised standards, which have been issued by the IASB and not yet been endorsed by the EU:

Amendments to IFRS 3 Business combinations	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The Group does not expect that the adoption of these Standards will have a material impact on the financial statements in future periods.

1.1.3 Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

1.1.4 Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

1.1.5 Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

Note 2. Accounting principles

2.1 Basis for preparation

The financial accounts for Pexip Holding AS “the Parent company” together with its subsidiary Pexip AS, and its wholly-owned and controlled subsidiaries, together called “the Group” have been prepared in accordance with International Financial Reporting Standards as adopted by the EU(IFRS), relevant interpretations, and the Norwegian Accounting Act.

For all periods up to and including the year ended 31 December 2018, the Group prepared its financial statements in accordance with Norwegian generally accepted accounting principles (Norwegian GAAP). These financial statements for the year ended 31 December 2019 are the first the Group has prepared in accordance with IFRS. Refer to Note 31 for information on how the Group adopted IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except where IFRS explicitly requires use of other values.

As the Parent company has NOK as its functional currency, the financial accounts are presented in NOK, rounded off to the nearest thousand, if nothing else is noted. As a result of the rounding differences, it is possible that amounts and percentages do not add up to the total.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of 31 December 2019.

Control is established when the Parent Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Consolidation is done using the acquisition method and begins when control over the subsidiary is obtained. The consolidation stops when the control ceases.
Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group’s accounting policies.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the transferred asset.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 Summary of significant accounting policies

2.3.1 Business combinations and goodwill

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

On the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognised at their fair value, except for:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 - Income taxes.
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree, are measured in accordance with IFRS 2 at the acquisition date.
- the value of a reacquired right is recognised as an intangible asset based in the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals when measuring its fair value.

Acquisition-related costs are recognised in profit or loss as incurred.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as financial liabilities are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill arising in a business combination is not amortised. Initially, goodwill is recognised at cost. Subsequently, goodwill is measured at cost less accumulated impairment. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. The carrying amount of goodwill is tested for impairment at least annually. Impairment losses are recognised directly in profit for the year and are not subsequently reversed.

2.3.2 Foreign currencies

Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Differences arising on settlement or translation of monetary items are generally recognised in profit or loss.
Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined.

Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively.)

Group companies

The Group’s presentation currency is NOK. The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

2.3.3 Significant accounting judgements, estimates and assumptions

Judgements
In the process of applying the Group’s accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal options – Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has one lease contract for the US office that includes an extension option. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to extend. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option.

The Group has not included the renewal period as part of the lease term for the lease of the office as the options is not reasonably certain to be exercised. Refer to note 10 for information on potential future rental payments relating to periods following the exercise date of the extension option that is not included in the lease term.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Share-based payments
Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them.

For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses the Black-Scholes-Merton option pricing model. The assumptions used for estimating fair value for share-based payment transactions are disclosed in Note 24.

Deferred tax assets from tax losses
The Group has recognised deferred tax assets from tax losses in the US (NOK 16.6 million) and in the UK (NOK 15.2 million). The amount of deferred tax assets is based on management estimation about future recoverability of these tax losses. Refer to note 7 for further disclosures.

Fair value of financial derivative liability
The fair value of the Group's financial derivative liabilities cannot be measured based on quoted prices in active markets, and a degree of judgement is required in establishing fair values. Refer to note 21 for information about input used and a sensitivity analysis for the estimate.

Leases - Estimating the incremental borrowing rate
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities.
The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Business combinations – fair value of assets acquired, liabilities assumed and allocation of excess value
Refer to note 27 for information about the business combination.

2.3.4 Current versus non-current classification

An asset is classified as current when it is expected to be realised, or is intended for sale or consumption in the Group's normal operating cycle, it is held primarily for the purpose of being traded, or it is expected/due to be realised or settled within twelve months after the reporting date. Other assets are classified as non-current.

A liability is classified as current when it is expected to be settled in the Group's normal operating cycle, is held primarily for the purpose of being traded, the liability is due to be settled within twelve months after the reporting period or if the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.3.5 Revenue from contracts with customers

Revenue from contract with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

Revenue from sale of software licenses
Infinity software licenses are classified as software licences where the customer is provided with a right to use the software as it exists when made available to the customer. Revenue from distinct software licenses is recognised at the point in time when the software is made available to the customer and the right to use the software has commenced. The majority of the Infinity license agreements with customers are annual contracts. Invoices are generated when the license key is made available to the customers (at a point in time) and most invoices are payable within 30 days.

Revenue from sale of cloud services
Cloud service licenses, "software as a service", entitle the customers to use the Pexip software together with the Group's IP and production network over the contract period. Revenues from sale of Cloud Services are recognised over time on a straight-line basis over the license period. Approximately 60% of the Cloud service license agreements with customers are monthly ongoing contracts, the rest are mainly yearly contracts. Invoices are generated on a monthly or yearly basis and most invoices are payable within 30 days.

Partner fees

The Group has a partner program that provides the partner with the right to sell The Group's services. The partner receives support, training and access to the service, and the performance obligations related to partner fees are satisfied on an ongoing basis. Revenue related to partner fees are thus recognised on a linear basis over time.

The majority of the partner fees are invoices as are annual agreements. Invoices are generated at contract inception and payable within 30 days.

Revenue from the sale of support and maintenance

The Group offers support and maintenance services to its customers. For services related to the Infinity Licences, the performance obligations related to support and maintenance are satisfied on an ongoing basis, and revenue related to the sales of services are thus recognised on a linear basis over time.

The majority of maintenance and support agreements are related to the license period. Proof of concept (POC) is a professional service offered with a duration up to 6 months. The Group also has customers with service contracts of 1-3 months. Revenues related to the sale of services are recognised on a linear basis over time.

Transaction price

The Group determines the transaction price to be the amount of consideration which it expects to be entitled in exchange for transferring the promised goods and services to the customer, net of discounts and sales related taxes. Sales related taxes are regarded as collected on behalf of the authorities. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.

Contract balances

Contract balances consist of client-related assets and liabilities. Contract assets relate to consideration for work complete, but not yet invoiced at the reporting date. The contract assets are transferred to trade receivables when the right to payment has become unconditional, which usually occurs when invoices are issued to the customers.

When a client pays consideration in advance, or an amount of consideration is due contrac-tually before transferring of the license or ser¬vice, then the amount received in advance presented as a liability. Contract liabilities rep¬resent mainly prepayments from clients for unsatisfied or partially satisfied performance obligations in relation to licenses and services.

Contract assets are within the scope of impairment requirements in IFRS 9. For con¬tract assets the simplified approach is applied, and the expected loss provision is measured at the estimate of the lifetime expected credit losses.

Costs of obtaining or fulfilling contracts with customers

The Group pays sales commission to its employees based on actual sales. Commissions that are incremental costs of obtaining a contract with a customer are recognised as an asset if the costs are expected to be recovered. Subsequently, the asset is amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This is usually the expected total contract period and includes expected renewals. The expected contract period is approximately 8 years for Infinity licenses and approximately 7 years for Cloud services.

2.3.6 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognised in profit or loss over the useful life of the depreciable asset by way of a reduced depreciation charge.

2.3.7 Share-based payment transactions

The Group provides incentives to employees in the form of equity-settled share-based instruments. The Company has two kinds of incentive programs which are share-based programs for employees and for management and key employees.

Equity-settled share options are measured at fair value at grant date and recognised in the income statement under salary and personnel expenses over the period in which the final right of the options vest. The balancing item is recognised directly in equity.

On initial recognition of share options, the number of options expected to vest at expiry is estimated. Subsequently the estimated number of vested options is revised for changes, so that the total recognition is based on the actual number of vested options.
The fair value of the options granted is estimated using the Black-Scholes model with the parameters stated in Note 24.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 8).

Share-based payment transactions of the acquiree in a business combination

In the 2018 business combination, the Group mandatorily issued replacement awards to employees of the acquiree. When the share-based payment awards held by the employees of an acquiree (acquiree awards) are replaced by the Group's share-based payment awards (replacement awards), both the acquiree awards and the replacement awards are measured in accordance with IFRS 2 ("market-based measure") at the acquisition date. The portion of the replacement awards that is included in measuring the consideration transferred in a business combination equals the market-based measure of the acquiree awards multiplied by the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the acquiree award. The excess of the market-based measure of the replacement awards over the market-based measure of the acquiree awards included in measuring the consideration transferred is recognised as remuneration cost for post-combination service.

2.3.8 Other intangible assets

Intangible assets other than goodwill acquired separately are measured on initial recognition at cost. Other intangible assets include software, trademarks and client contracts. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The amortisation expense is recognised in the statement of profit or loss. The estimated useful life and amortisation method is reviewed at the end of each reporting period, with the effect of any changes on estimates being accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

The estimated useful lives of intangible assets are as follows:

- Software: 5 years
- Client contracts: 5 years
- Trademarks: 5 years

Research and development costs

Development expenditures are capitalised only when the criteria for recognition is met, i.e. that it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity, management has committed itself to complete the asset, the technical feasibility of completing the asset has been demonstrated and the cost can be measured reliably. The assets are amortised over their expected useful life once the assets are available for use. During the period of development, the asset is tested for impairment annually. Development costs that do not meet the criteria for capitalisation are expensed as incurred.

2.3.9 Property, plant and equipment

Tangible assets are recorded at historical cost less accumulated depreciation and possible impairment. Depreciation is recorded on a straight-line basis over the estimated useful life of an asset, which are as follows:

- Land and buildings: 5 years
- Plant and machinery: 3 to 5 years
- Fittings and fixtures: 3 to 5 years

Gains or losses on disposal of tangible assets are included in the statement of profit or loss. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.3.10 Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. For arrangements entered into prior to 1 January 2018, the date of inception is deemed to be 1 January 2018 in accordance with IFRS 1 First-time Adoption of International Reporting Standards.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The Group presents interest expense on lease liabilities under finance expenses and the depreciation charge on the right-of-use asset under depreciation and amortisation in the statement of profit and loss.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Buildings: 2-10 years
- Equipment: 3-5 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section *2.3.11 Impairment of intangible assets and property, plant and equipment.*

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

At the commencement date, the Group assesses whether they are reasonably certain to exercise an option to extend the lease or to purchase the underlying asset, or not to exercise an option to terminate the lease. This assessment is reflected in the initial measurement of the lease contract.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.
The lease liability and right-of-use asset are presented as separate lines in the consolidated statement of financial position.

2.3.11 Impairment of intangible assets and property, plant and equipment

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the carrying amount might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets, other than goodwill, that have historically been impaired are reviewed for possible reversal of the impairment at the end of each reporting period. Disclosures relating to impairment testing are found in *Note 11.*

2.3.12 Taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences, and for unused tax losses.

Current income tax

The current income tax charge is calculated based on the tax laws enacted, or substantively enacted, at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns, with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the end of the reporting period, and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise the temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities, and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income, or directly in equity.

2.3.13 Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.
Financial assets and financial liabilities are initially measured at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs.

For purpose of subsequent measurement, the Group has classified its financial instruments as either measured at amortised cost or at fair value through profit or loss. The classification depends on the Group's business model for managing them and the contractual cash-flow characteristics of the instrument.

Financial liabilities subsequently measured at fair value through profit or loss include the line item Derivative financial liability in the statement of financial position. Derivative financial liabilities are measured at fair value at the end of each reporting period and the gains or losses arising from the change in fair value are recognised in the statement of profit or loss.

Financial assets at amortised cost are financial assets held to collect the contractual cash-flow and where the cash-flows are solely payment of principal and interest on the outstanding principal. The category is included in the consolidated statement of financial position financial line items Trade and other receivables (current and non-current), Other assets, Other current assets and Cash and cash equivalents. Non-current assets are measured at amortised cost using the effective interest method, reduced by any impairment loss. The carrying amounts of line items classified as current are assumed to be the same as their fair values, due to their short-term nature. Short-term loans and receivables are for practical reasons not amortised, unless the effect is material.

The category financial liabilities at amortised cost is included in the consolidated statement of financial position line items Borrowings (current and non-current), and Trade and other payables. Non-current financial liabilities are measured at amortised cost using the effective interest method. Effective interest is recognised in the income statement as financial expenses. Current items in the category are for practical reasons not amortised, unless the effect is material.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire and the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Any rights and obligations created or retained in such a transfer are recognised separately as assets or liabilities.

For trade receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments is based on quoted prices as at the balance sheet date in an active market, if such markets exist. If an active market does not exist, fair value is established by using valuation techniques that are expected to provide a reliable estimate of the fair value.

Financial instruments measured at fair value are classified according to the valuation method:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Valuation based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3: Valuation based on inputs for the asset or liability that are unobservable market data.
If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Changes in fair value are presented in profit or loss in the line item Financial expenses.

2.3.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks.

2.3.15 Cash flow statement

The Group presents the statement of cash flows using the indirect method. Cash inflows and outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash line items. Interest paid is classified as cash flows from financing activities and interest received as cash flows from operating activities.

2.3.16 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:
- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:
- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Note 3 - Revenue and segment information (NOK 1.000)

The Group has one segment, sale of collaboration services. The market for Pexip's software and services is global. The chief decision maker will therefore follow up revenue and profitability on a global basis. This is consistent with the internal reporting submitted to the chief operating decision maker, defined as the Management Group. The Management Group is responsible for allocating resources and assessing performance as well as making strategic decisions.

Principles of revenue recognition are stated in accounting principles to consolidated financial statements, section 2.3.5 Revenue from contracts with customers.

Disaggregation of revenue
In the following table, revenue is disaggregated by primary service line, geography and timing of revenue recognition. In presenting the geographic information, revenue has been based on the geographic location of customers.

Year ended 31 December 2019

	EMEA	Americas	APAC	Total
Cloud services	68 010	27 628	6 086	101 724
Infinity	121 333	96 484	50 413	268 230
Total revenue	189 343	124 112	56 499	369 954

Year ended 31 December 2018

	EMEA	Americas	APAC	Total
Cloud services	10 202	4 280	834	15 316
Infinity	94 970	73 379	31 372	199 721
Total revenue	105 172	77 659	32 206	215 037

	2019	2018
Timing of revenue recognition	225 756	15 316
Products and services transferred at a point in time	144 198	199 721
Products and services transferred over time	369 954	215 037

Information about major customers

The Group conducts its sales through channel partners. No channel partner represent more than 10% of the Group's revenue. Of the Group's total channel partner base as at 31 December 2019, the five largest represent approximately 27% (25% in 2018) of total revenue in 2019, and the ten largest represent approximately 41% (40% in 2018) of total revenue.

Information about share of recurring revenue from own products

Recurrring revenue from own products is defined as revenue from time-limited contracts where the purchase is recurring in nature. Revenue from time-limited software subscriptions and related mandatory maintenance contracts are considered recurring. Revenue from third-party software licences, perpetual software-licences and project-based professional services, such as a customer-specific proof-of-concept project or installation project, are considered non-recurring. For 2019, 97% of revenue was recurring revenue from own products vs 98% in 2018.

Non-current assets

The following geographic information of non-current assets is based on the geographic location of the assets.

	31.12.2019	31.12.2018	01.01.2018
Norway	183 760	133 245	22 721
Europe (other than Norway)	12 182	9 609	8 123
Americas	39 589	21 999	13 664
APAC	108	324	539
Total non-current operating assets	**235 638**	**165 176**	**45 047**

Non-current assets for this purpose consist of property, plant and equipment, right-of-use assets, other intangible assets and contract costs.

Note 4 - Salary and personnel expense and management remuneration NOK (1.000)

	2019	2018
Wages and salaries	152 899	91 396
Social security tax	20 027	8 441
Commission employees	8 606	5 140
Share-based payment expense (note 24)	9 321	5 222
Pension costs (note 23)	4 703	2 842
Other personnel cost	14 725	11 089
Salary cost capitalised	-20 047	-4 815
Total	**190 234**	**119 315**
Average number of employees during the year	176	146

Loan to employees
The Group provided unsecured loans to employees of NOK 268 thousand at 31 December 2019 (2018: NOK 522 thousand). The repayment schedule is 2 years and the interest rate is 2%.

Management remuneration
The Group Management consists of members of the Board, CEO and the rest of C-level management.

Year ended 31 December 2019

	Salary	Bonus and other remuneration	Pension cost	Share-based payments[1]	Total remuneration
Odd Sverre Østlie (CEO)	1 843	539	55	914	3 351
Linda Christin Hoff (CFO)[2]	1 435	103	55	160	1 753
Michel Sagen (COO and member of the Board)[4]	1 396	310	55	-	1 761
Tom Erik Lia (CCO and member of the Board)	1 305	440	55	193	1 994
Giles Chamberlin (CTO)	1 634	221	175	193	2 223
Øystein Hem (CFO)[3]	1 123	390	55	321	1 889
Total remuneration	8 736	2 004	449	1 781	12 970

Year ended 31 December 2018

	Salary	Bonus and other remuneration	Pension cost	Share-based payments[1]	Total remuneration
Odd Sverre Østlie (CEO)	1 362	444	52	931	2 790
Linda Christin Hoff (CFO)	1 315	107	53	290	1 765
Michel Sagen (COO and member of the Board)	1 215	4	22	-	1 241
Tom Erik Lia (CCO and member of the Board)	1 215	4	22	-	1 241
Håkon Dahle (CTO and member of the Board)[5]	1 244	199	51	-	1 494
Giles Chamberlin (CTO)	1 578	326	93	-	1 997
Total remuneration	**7 929**	**1 085**	**293**	**1 221**	**10 528**

1) Share-based payment refers to the expense recognised in the financial statement.
2) Linda Christin Hoff changed role from CFO to financial advisor during June 2019.
3) Øystein Hem changed role from VP Strategy to CFO during June 2019.
4) Michel Sagen assumed the role of Chairman of the Board from 1 January 2020.
5) Håkon Dahle was employed until October 2018.

Bonus agreements and severance pay

There is a a bonus scheme for Group Management based on development in annual recurring revenue (ARR) and cash flow. The bonuses to management are based on Group performance. Group Management are comprised by the ordinary pension schemes of the group (refer to note 23) and no additional pension scheme for management is in place. There has been no severance payments in 2019.

Remuneration to board of directors in the parent company

The annual board remuneration amounted to NOK 0 (NOK 0 in 2018).

Share option plan

The Group has share-based payment programs to employees. The share option plan is further presented in note 24. Below is an overview of management share options:

	2019 Weighted average exercise price	2019 Number	2018 Weighted average exercise price	2018 Number
Outstanding 1 January	21,46	855 000	14,50	125 000
Granted	38,00	960 000	22,66	730 000
Forfeited	14,50	-62 500	-	-
Exercised	14,50	-65 000	-	-
Oustanding 31 December	**31,40**	**1 687 500**	**21,46**	**855 000**

Of the management options outstanding 31 December 2019, 197.500 expire in 2023, the rest have no expiry date.

Note 5 - Other operating expenses (NOK 1.000)

	2019	2018
Sales and marketing	28 591	14 580
Computers and software	18 691	11 455
Fees for external services	17 845	11 220
Travel expenses	16 919	10 196
Other operating expenses	2 566	8 265
Total	**84 611**	**55 716**

Auditor's fees

The remuneration breakdown (excl. VAT) paid to the group's auditor is as follows:

	2019	2018
Statutory audit	1 022	576
Other certification services	72	325
Tax advisory services	98	57
Other services	417	75
Total	**1 608**	**1 033**

Note 6 - Financial Income and expenses (NOK 1.000)

	2019	2018
Interest income	466	396
Exchange gains	14 431	8 547
Other financial income	-	95
Financial income	**14 897**	**9 038**
Interest expense	-1 323	-1 185
Interest expense on lease liabilities (note 10)	-1 963	-479
Exchange losses	-9 642	-3 579
Other financial expenses	-1 165	-530
Fair value adjustments on derivative financial liabilities (note 19)	-16 000	-6 400
Financial expenses	**-30 093**	**-12 172**
Net financial income(expense)	-15 196	-3 134

Note 7 - Income tax expense (NOK 1.000)

Specification of income tax expense:	2019	2018
Current tax on profits for the year	3 827	208
Changes in deferred tax	2 775	-18 936
Adjustments for current tax of prior periods	222	71
Effect of changes in tax rules and rates	-2 396	-5 345
Tax on profit/(loss)	**4 427**	**-24 002**

Reconciliation from nominal to effective income tax rate:	2019	2018
Profit/(loss) before tax	16 664	14 718
Estimated income tax according to nominal tax rate of 22 % (2018: 23 %)	3 666	3 385
Effect from different tax rate in other countries	-148	-456
Effect of changes in tax rules and rates	-2 396	-5 345
The tax effect of the following items:		
Net income before the merger date	-	-2 374
Non-deductible expenses	4 737	2 490
Non-taxable income	-934	-824
Share-based payment expenses	2 051	1 201
Change in unrecognised deferred tax assets	-	-22 147
Adjustments for prior period tax	-1 750	-
Other items	-798	69
Income tax expense	**4 427**	**-24 002**
Effective income tax rate	27%	-163%

Changes in tax rate

In accordance with the tax agreement in the Norwegian Parliament the tax rate was reduced from 23% in 2018 to 22% in 2019. The net deferred tax asset was revalued at 31 December 2018 and NOK 5.4 million was recognised as a negative tax expense in 2018.

The tax rate for the US business changed in 2019 due to a merger between two subsidiaries and changes in state tax in the US. The tax rate for US business is 26.35% in 2019 (2018: 23.30% and 25.74%). The net deferred tax asset was revalued at 1 January 2019 and NOK 2.4 million was recognised as a negative tax expense in 2019.

The UK Government has announced that the Corporation Tax main rate will be reduced from 19% in 2019 to 17% effective for the year starting 1 April 2020. It had previously announced in the 2015 Finance Act that the rate would be set to 18% for the year starting 1 April 2020. A new budget is expected in March 2020 and the reduction to 17% is anticipated to be reversed and will either revert to 19% or be set at 18% as announced in the 2015 Finance Act. Due to the uncertainty at the reporting date, the Management Group has used the tax rate of 18% at the end of the reporting period for calculation of deferred tax.

Deferred tax balances:	31.12.2019	31.12.2018	01.01.2018
Deferred tax assets:			
Tax losses	31 815	31 197	32 815
Tangible and intangible assets	8 314	26	12 761
Receivables	613	9 115	614
Contract liabilities	29 654	3 449	14 122
Current liabilities	11 587	14 102	6 756
Other	366	101	-
Set-off tax	-54 796	-30 641	-26 156
Net deferred tax assets after set-off	27 553	27 348	40 912
Unrecognised deferred tax assets	-	-	-22 687
Net deferred tax assets	**27 553**	**27 348**	**18 225**
Deferred tax liabilities:			
Tangible and intangible assets	4 121	8 547	872
Current assets	16 284	7 532	3 167
Contract liabilties	34 391	10 292	20 110
Other differences	-	4 271	2 007
Set-off tax	-54 796	-30 641	-26 156
Net deferred tax liabilities	-	-	-

Utilisation of taxable temporary differences are assessed by taxation authority and by taxable entity if the temporary differences can't be utilised across different entities within the same taxation authority. As of 31 December 2019 and 2018 a deferred tax asset is recognised for all the individual taxation authorities where the Group conduct business.

The deferred tax asset is included in the balance sheet based on an assessment of the probability that sufficient taxable profit will be available in the future to allow the deferred tax asset to be utilised.

Deferred tax assets on tax losses arising in the US and UK in total NOK 31.8 million as at 31 December 2019 (Norway, US and UK in 2018: NOK 31.2 million) have been recognised base on the same assessment of the probability for sufficient taxable profit in the future.

At the beginning of 2018 only deferred tax asset originating from the Norwegian business was fully recognised. Later in 2018, but before the merger (business combination) management assessed that sufficient taxable profits in future periods would be available to utilize the potential deferred tax asset in UK and it was fully recognised. After the merger in 2018 the same assessment was made for the US operation, now including the acquired business in US as well as the pre-merger operated US business. As a consequence of this a tax asset of NOK 5.3 million originating from losses carried forward in the US part of the acquired business was recognised.

Tax losses carried forward	31.12.2019	31.12.2018	01.01.2018
Expire (2033 and forward)	60 741	60 111	43 644
Never expires	86 752	86 981	113 621
Total tax losses carried forward	147 493	147 092	157 266
Tax losses for which deferred tax asset is recognised	147 493	147 092	26 442
Tax losses for which no deferred tax asset is recognised	-	-	130 823
Potential tax benefit	-	-	25 729

Tax losses incurred in the US after 1 January 2018 do not expire, but are limited to 80% usage in one year. Tax losses carried forward from the US business with no expiration date amount to NOK 2.3 million at 31 December 2019. The expiring tax losses have priority over the never-expiring losses and are used earliest-first.

Note 8 - Earnings per share (NOK 1.000)

Earnings	2019	2018
Earnings for the purpose of basic earnings per share being net profit attributable to the owners of the company	12 237	38 719
Effect of dilutive potential ordinary shares	0	0
Earnings for the purpose of diluted earnings per share	**12 237**	**38 719**
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	79 614 472	64 670 217
Effect of dilutive potential ordinary shares:		
Share options	1 124 520	946 491
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**80 738 992**	**65 616 708**
Earnings per share		
Basic earnings per share	0,15	0,60
Diluted earnings per share	0,15	0,59

Overview of outstanding share options	31.12.2019	31.12.2018
Share-based payments awards (refer to note 24)	6 740 432	3 471 384
Option over own equity instruments (refer to note 21)	1 600 002	1 600 002
Total options outstanding	8 340 434	5 071 386

Dilutive potential ordinary shares of 1.124.520 for 2019 (2018: 946.491) differs from total outstanding options at 31 December 2019 (and 31 December 2018). The main reasons for this is that potential ordinary shares used to calulated diluted earnings per share are a weighted average for the year, the use of the treasury method when calculating dilutive potential ordinary shares and that the options over own equity instruments are anti-dilutive.

Note 9 - Property, plant & equipment (NOK 1.000)

	Plant and machinery	Fittings and fixtures	Total
Acquisition cost 1 January 2018	-	5 857	5 857
Additions	263	1 398	1 661
Disposals	-	-2 575	-2 575
Acquisition through business combination (note 27)	749	-	749
Transfers and reclassifications	680	-680	-
Exchange differences	42	28	70
Acquisition cost 31 December 2018	**1 734**	**4 028**	**5 762**
Additions	2 167	4 202	6 369
Disposals	-	-73	-73
Exchange differences	14	111	124
Acquisition cost 31 December 2019	**3 915**	**8 267**	**12 182**

Accumulated depreciation and impairment losses 1 January 2018		3 841	3 841
Disposals	-	-2 583	-2 583
Transfers and reclassifications	113	-113	
Depreciation for the period	312	846	1 158
Exchange differences	16	14	30
Accumulated depreciation and impairment losses 31 December 2018	**441**	**2 004**	**2 445**
Disposals	-	-73	-73
Depreciation for the period	842	1 698	2 540
Exchange differences	9	60	69
Accumulated depreciation and impairment losses 31 December 2019	**1 292**	**3 689**	**4 981**
Carrying value at 1 January 2018	-	2 016	2 016
Carrying value at 31 December 2018	1 293	2 023	3 317
Carrying value at 31 December 2019	2 623	4 578	7 201
Estimated useful life and depreciation plan is as follows:			
Useful life	3 - 5 years	3 - 5 years	
Depreciation plan	Linear	Linear	

The right-of-use asset is presented separately in note 10 - Leases.
Property, plant and equipment is pledged as security for liabilities, refer to note 17 - Borrowings.

Note 10 - Leases (NOK 1.000)

Set out below are the carrying amount of right-of-use assets recognised and the movements during the period:

	Land and Buildings	Plant and machinery	Total
As at 1 January 2018	10 902	-	10 902
Acquisition through business combination (note 27)	-	2 383	2 383
Depreciation expense	-3 302	-136	-3 438
Exchange differences	223	-	223
As at 31 December 2018	7 822	2 248	10 070
Additions	50 196	101	50 297
Depreciation expense	-7 962	-302	-8 263
Exchange differences	315	-	315
As at 31 December 2019	**50 372**	2 047	52 419
Lower of remaining lease term or useful life	2-10 years	3-5 years	
Depreciation method	Linear	Linear	

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2019	2018
As at 1 January	10 525	10 902
Additions	50 297	-
Acquisition through business combination (note 27)	-	2 383
Principal element of lease payments	-5 334	-2 760
Exchange differences	-	-
As at 31 December	55 488	10 525

Maturity analysis of lease liabilities	31.12.2019	31.12.2018	01.01.2018
Less than 6 months	5 091	1 832	1 598
6-12 months	5 134	1 695	1 748
1-2 years	9 964	3 180	2 724
2-5 years	21 607	4 725	5 955
Over 5 years	21 193	-	-
Total face value	**62 990**	**11 432**	**12 026**
Carrying amount	**55 488**	**10 525**	**10 902**
Current	10 024	3 441	3 260
Non-current	45 464	7 084	7 642

The following are the amounts recognised in profit or loss:

	2019	2018
Depreciation expense for the right-of-use asset	8 263	3 438
Interest expense on lease liabilities	1 963	479
Exchange difference (included in OCI)	-142	-223
Exchange difference (included in financial income)	-173	-
Expense related to short-term leases (included in other operating expenses)	381	268
Total amount recognised in profit or loss	10 291	3 962

The Group had total cash outflows for leases of NOK 7.8 million in 2019 (NOK 3.5 million in 2018).

Extension and purchase options

The Group's lease of lands and buildings have lease terms that vary from 2 years to 10 years, and some agreements involve a right of renewal which may be exercised during the last period of the lease terms. The Group assesses at the commencement date whether it is reasonably certain to exercise the renewal right. The Group's potential future lease payments not included in the lease liabilities related to extension options is NOK 1 million (gross) at 31 December 2019.

The Group leases plant and machinery with lease terms of 3 to 5 years. Some of these contracts includes a right to purchase the assets at the end of the contract term. The Group assesses at the commencement date whether it is reasonably certain to exercise the purchase option. The Group has assessed that all the purchase options will be exerise and there are no potential future lease payments not included in the lease liabilities related to purchase options at 31 December 2019.

Note 11 - Goodwill (NOK 1.000)

	Goodwill
Acquisition cost 1 January 2018	-
Acquisition through business combination (note 27)	598 998
Acquisition cost 31 December 2018	598 998
Acquisition cost 31 December 2019	598 998

Recognised goodwill in the Group amounts to NOK 599 million as of 31 December 2019. Goodwill is derived from the acquisition of Videxio AS which was completed in 2018 (see note 27 - Business Combinations). Goodwill is tested for impairment based on cash flow from the highest level which is the group. Goodwill is tested on the highest level since the synergies stemming from the business combination willl materialize on the group level.

Goodwill is tested for impairment annually, or more frequently if there are indications that goodwill might be impaired. Testing was most recently conducted in December 2019. The recoverable amount is set to the estimated value in use. The value in use is the net present value of the estimated cash flow before tax, using a discount rate reflecting the timing of the cash flows and the expected risk.

Revenue development and operating profits is estimated based on past performance, as well as managements expectations for the years 2021 to 2024. The expectations for the overall economic conditions and market outlook are in line with industry analysts, expecting continued strong growth within the collaboration market. Capital investments and depreciation are estimated to be in line with historic values relative to revenues.

Cash flows were discounted to a weighted average cost of capital (WACC) corresponding to 9.89% before taxes. The asset beta is based on average of peer companies in the segment with a small company premium. Risk-free interest rate appplied is the average monthly interest rate for 10-year Norwegian government bonds from 2009 to 2019. The long-term optimal weight of equity of 95% is applied in the calculation of WACC.

Cash flows beyond the five-year forecast period have been extrapolated using a steady 5% per annum growth rate. The collaboration industry are expected to grow significantly faster than the terminal growth rate used in impairment testing. The industry is expected to grow by 15% anually over the forecast period.

Sensitivity analysis

The Group has prepared a sensitivity analysis of the impairment tests to changes in the key assumptions which are terminal growth rate and discount rate. Any reasonably possible changes in the key assumptions would not cause the aggregate carrying amount exceeding the recoverable amount. A sensitivity analysis indicates that goodwill values would be justifiable even if the discount rate were to be raised by three percentage points or if the terminal growth rate were to fall to two percent. Impairment testing has indicated no existing impairment requirements for goodwill.

Note 12 - Intangible assets (NOK 1.000)

	Software	Customer contracts	Patents	Re-aquired rights	Total
Acquisition cost 1 January 2018	35 084	-	-	-	35 084
of which internally generated	*35 084*	-	-	-	*35 084*
Additions *(internally generated)*	5 332	-	-	-	5 332
Acquisition through business combination (note 27)	70 626	30 115	238	5 354	- 106 334
Government grants	-1 200	-	-	-	-1 200
Acquisition cost 31 December 2018	**109 841**	**30 115**	**238**	**5 354**	**145 549**
of which internally generated	*39 215*	-	-		*39 215*
Additions *(internally generated)*	28 729	-	-	-	28 729
Government grants	-3 635	-	-	-	-3 635
Acquisition cost 31 December 2019	**134 935**	**30 115**	**238**	**5 354**	**170 643**
of which internally generated	*64 309*	-	-		*64 309*
Accumulated amortisation and impairment losses 1 January 2018	25 295	-	-	-	25 295
of which internally generated	*25 295*	-	-	-	*25 295*
Amortisation of internally generated assets	5 232	-	-	-	5 232
Amortisation of other assets	2 332	1 150	76	1 108	4 666
Accumulated amortisation and impairment losses 31 December 2018	**32 860**	**1 150**	**76**	**1 108**	**35 194**
of which internally generated	*30 527*	-	-	-	*30 527*
Amortisation of internally generated assets	5 638	-	-	-	5 638
Amortisation of other assets	17 650	6 023	109	4 246	28 028
Accumulated amortisation and impairment losses 31 December 2019	**56 148**	**7 173**	**185**	**5 354**	**68 860**
of which internally generated	*36 165*	-	-	-	*36 165*
Carrying value as at 1 January 2018	**9 789**	**-**	**-**	**-**	**9 789**
of which internally generated	*9 789*	-	-	-	*9 789*
Carrying value as at 31 December 2018	**76 981**	**28 966**	**162**	**4 246**	**110 356**
of which internally generated	*8 688*	-	-	-	*8 688*
Carrying value as at 31 December 2019	**78 787**	**22 942**	**53**	**0**	**101 783**
of which internally generated	*28 144*	-	-	-	*28 144*

Estimated useful life and amortisation plan is as follows:

	Software	Customer contracts	Patents	Re-aquired rights
Useful life amortisation plan	5 years straight-line	5 years straight-line	5 years straight-line	1 year straight-line

The development expenditures that do not meet the criteria for capitalisation are recognised as salary and personnel expenses and other operating expenses in profit and loss. The aggregate amount for 2019 is NOK 53.2 million (2018: NOK 38.1 million).

The Group has received government grants related to development of software of NOK 1.2 million in 2018 and NOK 3.6 million in 2019. The grants have been subtracted from the carrying amount of internally generated software.

Note 13 - Trade and other receivables (NOK 1.000)

	31.12.2019	31.12.2018	01.01.2018
Trade receivables	104 669	77 276	51 562
Provisions for bad debt	-3 112	-2 609	-190
Public taxes and funds	3 724	2 679	872
Other current receivables	271	101	-
Total current trade and other receivables	**105 552**	**77 448**	**52 244**
Deposits	1 715	1 628	1 242
Public taxes and funds	-	-	1 334
Total non-current trade and other receivables	**1 715**	**1 628**	**2 575**

Aging of trade receivables	**31.12.2019**	**31.12.2018**	**01.01.2018**
Current and guaranteed 1)	66 303	49 390	38 595
1-30 days past due	9 008	7 242	1 544
31-60 days past due	5 048	3 628	3 732
61-90 days past due	10 224	1 583	1 964
More than 90 days past due	14 086	15 433	5 727
Less provision for bad debt	-3 112	-2 609	-190
Total	**101 557**	**74 667**	**51 372**

1) The Group has a Securitization Facility agreement with Sparebank 1 Factoring. This is a legacy agreement related to the accounts receivables in old Pexip AS. This agreement has been continued for the accounts receivables related to sale of the Infinity products. The amount of receivables covered by the guarantee is NOK 18 milllion at 31 December 2019 (31 Dec 2018: NOK 14.2 million, 1 Jan 2018: NOK 13.6 million). Sparebank 1 Factoring covers 90% of the credit loss for the guaranteed receivables, which amounts to NOK 16.2 million at 31 December 2019 (31 Dec 2018: NOK 12.8 million, 1 Jan 2018: NOK 12.3 million). The Group retains the credit risk for the remaining 10%. Sparebank 1 Factoring finances up to 80% of the accounts receivables which have been accepted as guaranteed. The financing covers NOK 8.8 million (31 Dec 2018: NOK 5.7 million; 1 Jan 2018: NOK 5 million) which is recognised as a reduction in the carrying amount of receivables. The amount of non-financed receivables where Sparebank 1 Factoring retains the credit risk (31 Dec 2019: NOK 7.5 million, 31 Dec 2018: NOK 7.2 million, 1 Jan 2018: NOK 7.3 million) is presented as a current receivable in the table above. The 10% of guaranteed receivables where Pexip retains the credit risk are included in the aging table above together with the non-guaranteed receivables. The Securitization facility has an interest rate based on the 3 months interest rate in the individual currency with the additional margin of 2.95%. In addition Pexip pays a provision on the limit of 0.060% of the granted credit limit per month. The credit limit is NOK 25 million.

Movements in the provision for impairment of trade receivables	**31/12/2019**	**31/12/2018**
Opening balance provision for bad debt as at 1 January	2 609	190
Change in provision for the year	2 213	2 910
Receivables written off during the year	-1 735	-451
Translation differences	26	-41
Closing balance provision for bad debt as at 31 December	**3 112**	**2 609**

Note 14 - Other current assets (NOK 1.000)

	31.12.2019	31.12.2018	01.01.2018
Other prepayments	11 098	8 051	6 124
Other current assets	-	1 042	946
Total	**11 098**	**9 093**	**7 070**

Note 15 - Cash and cash equivalents (NOK 1.000)

	31.12.2019	31.12.2018	01.01.2018
Bank deposits	75 515	59 421	29 489
Cash equivalents	-	-	-
Total cash and cash equivalents	**75 515**	**59 421**	**29 489**

Restricted cash

These deposits are subject to regulatory restrictions and are therefore not available for general use.

	31.12.2019	31.12.2018	01.01.2018
Taxes withheld	3 159	3 038	1 273
Other restricted cash	-	-	-
Total restricted cash	**3 159**	**3 038**	**1 273**

Note 16 - Share capital, shareholder information and dividend (NOK 1.000)

The Parent Company's registered share capital as at 31 December 2019 was NOK 798 683 divided into 79 868 262 ordinary shares with a par value of NOK 0.01. All issued shares have equal voting rights.

The par value of shares was increased to NOK 0.015 at 12 December 2019 as decided by the general meeting. The increase in share capital of NOK 0.4 million was not registrered as at 31 December 2019 and is reclassified from other equity to share capital increase not registered in the statement of financial position.

Development in the number of issued and outstanding shares

	Number of shares (1.000)	Share capital
Outstanding at 1 January 2018	61 068	611
Issued during the year	18 425	184
Outstanding at 31 December 2018	79 493	795
Issued during the year	375	4
Outstanding at 31 December 2019	79 868	799

For capital issued during 2018 related to the business combination, refer to note 27 for more information.

The development in share capital and other paid-in equity is set out in the consolidated statement of changes in equity.

Ownership structure

The 20 largest shareholders as of 31 December 2019:

	Shares	Ownership
STAVANGER VENTURE AS	7 969 716	9,98%
BJØBERG EIENDOM AS	5 058 989	6,33%
TAMORER LTD. ATF WYLIE FAMILY TRUST	5 015 100	6,28%
T.D. VEEN AS	4 323 637	5,41%
PLATAA VENTURE AS	2 905 000	3,64%
VEEN EIENDOM A/S	2 528 213	3,17%
XFILE AS	2 390 000	2,99%
SYNESI AS	2 208 952	2,77%
LIA INVESTMENTS LIMITED	2 183 053	2,73%
SAGEN TELECOM AS	2 138 315	2,68%
HAMACHI AS	2 027 666	2,54%
GILES CHAMBERLIN	1 986 580	2,49%
PEBRIGA AS	1 828 320	2,29%
SIRIUS AS	1 750 873	2,19%
SANDNES INVESTERING AS	1 525 000	1,91%
CITYBANK, N.A.	1 269 004	1,59%
LIKIDA INVEST AS	1 101 747	1,38%
KRISTIANS AND AS	1 035 422	1,30%
RIISALLEEN INVEST AS	1 009 670	1,26%
HANI BANANI AS	804 000	1,01%
Total top 20 shareholders	51 059 257	64%
Others	28 809 005	36%
Total	79 868 262	100%

Number of shares owned directly or indirectly by the Management Group and Board of Directors at 31 December 2019:

	Shares	Ownership
Kjell Skappel (Board Member)	12 293 353	15,39%
Per Haug Kogstad (Board Member)	5 092 989	6,38%
John M.R. Wylie (Board Member)	5 015 100	6,28%
Aril Resen (Board Member)	2 390 000	2,99%
Tom Erik Lia (CCO and Board Member)	2 183 053	2,73%
Michel Sagen (Chairman)	2 138 315	2,68%
Håkon Dahle (Board Member)	2 027 666	2,54%
Giles Chamberlin (CTO)	1 986 580	2,49%
Odd Sverre Østlie (CEO)	150 000	0,19%
Øystein Hem (CFO)	0	0,00%
Total	33 277 056	41,7%

Dividend paid and proposed

Proposed for approval at AGM for financial year 2019 is that no dividend will be paid. No dividend was paid for financial year 2018.

Treasury shares

The Group does not hold any treasury shares.

Note 17 - Borrowings (NOK 1.000)

The Group's interest-bearing liabilities consists of:

	Interest rate	Year of maturity	Carrying amount 31.12.2019	31.12.2018	01.01.2018
Loan from Innovasjon Norge	5.45%	2021	500	1 000	1 500
Loan from Innovasjon Norge	5.20%	2024	8 000	5 000	-
Bond loan	See below*	2019	-	-	6 000
Total long-term debt			**8 500**	**6 000**	**7 500**
Loan from Innovasjon Norge	5.45%	2020	500	500	500
Loan from Innovasjon Norge	5.20%	2020	2 000	-	-
Bond loan	See below*	2019	-	6 000	-
Total short-term debt			**2 500**	**6 500**	**500**

*) 3-month NIBOR + 8%

The leasing liabilities are presented separately in note 10 - Leases.

The fair value of external borrowings does not materially differ from the carrying amount since interest payable is close to current market rates.

Pledged as security

The Group's loans to Innovasjon Norge are secured borrowings. The carrying amount of assets pledged as collateral are as follows:

	31.12.2019	31.12.2018	01.01.2018
Property, plant and equipment	7 201	3 317	2 016
Trade receivables	101 557	74 667	51 372
Total	**108 758**	**77 984**	**53 388**

Factoring agreement

The Group has a Securitization Facility agreement with Sparebank 1 Factoring where Sparebank 1 finances parts of the Group's trade receiveables. Refer to note 13 for more information about the agreement.

Note 18 - Contract costs, contract assets and contract liabilities (NOK 1.000)

Contract assets	**2019**	**2018**
Balance at 1 January	8 164	7 664
Additions	11 238	4 450
Reclassifications to accounts recievables	-5 385	-3 950
Balance at 31 December	14 015	8 164

Contract assets are presented as other current assets. Refer to note 14.

Contract liabilities	**2019**	**2018**
Balance at 1 January	28 133	14 302
New contract liabilities	44 193	25 675
Revenue recognised from liability opening balance	-24 446	-11 844
Balance at 31 December	47 880	28 133

For impairment of contract assets the simplified approach is used and the expected loss provision is measured at the estimate of the lifetime expected credit losses. The provision matrix is disclosed in Note 21 - Financial risk. In accordance with the provision matrix no loss allowance or impairment is recognised for contract assets in 2019 or 2018.

Significant changes in contract assets and liabilities

Of the contract liabilities as of 31 December 2018 NOK 24.4 (2017: NOK 11.8) has been recognised as revenue in 2019 and 2018 respectively corresponding to 87% (2018: 83%) of the contract liability the preceding year end. The increase of the contract liability in 2018 is mainly due to the merger with Videxio, and the increase in 2019 is due to increase in sales.

Of the contract assets as of 31 December 2018 NOK 5.4 million is reclassified to accounts receivables in 2019 (2018: NOK 3.9 million). Of the remaining NOK 2.8 million of the original NOK 8.1 million, NOK 1.5 million is expected to be reclassified to accounts receivables in 2020 and NOK 1.3 million in 2021.

The definition of contract assets and contract liabilities, together with a description of the relevant accounting principles can be found under the headline Contract balances in the description of the group's accounting principles (section 2.3.5).

Contract costs

The definition of contract costs, together with a description of the relevant accounting principles can be found under the headline Costs of obtaining or fulfilling contracts with customers in the description of the group's accounting principles (section 2.3.5).

In 2019, amortization of contract costs amounting to NOK 7.2 was recognised as part of salary and personnel expenses and NOK 0.9 as cost of sale. For 2018 the amounts were NOK 3.6 and NOK 0.6 respectively.

Note 19 - Categories of financial assets and financial liabilities (NOK 1.000)

Financial assets	**31.12.2019**	**31.12.2018**	**01.01.2018**
Financial assets at amortised cost:			
Cash & cash equivalents (note 15)	75 515	59 421	29 489
Trade and other receivables (note 13)	103 272	76 295	52 614
	178 787	**135 716**	**82 102**

Financial liabilities	**31.12.2019**	**31.12.2018**	**01.01.2018**
Liabilities at amortised cost:			
Borrowings (note 17)	11 000	12 500	8 000
Trade and other payables	34 824	24 183	16 905
Lease liabilities (note 10)	55 488	10 525	10 902
Derivative financial liabilities (note 30)	76 784	60 784	54 384
	178 096	**107 992**	**90 191**

Non-financial assets and liabilities are excluded from the table.

Note 20 - Reconciliation for liabilities arising from financing activities (NOK 1.000)

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

For the year ended 31 December 2019	**01.01.2019**	**Net cash flows**	**New liabilities**	**31.12.2019**
Borrowings (note 17)	12 500	-1 500	-	11 000
Lease liabilities (note 10)	10 525	-5 334	50 297	55 488
Total liabilities from financing activities	**23 025**	**-6 834**	**50 297**	**66 488**

Proceeds from issuance of ordinary shares of NOK 3.5 million is recognised in equity.

For the year ended 31 December 2018	**01.01.2018**	**Net cash flows**	**Aquired liabilities**	**31.12.2018**
Borrowings (note 17)	8 000	-5 500	10 000	12 500
Lease liabilities (note 10)	10 902	-2 760	2 383	10 525
Total liabilities from financing activities	**18 902**	**-8 260**	**12 383**	**23 025**

1) Relates to aquisitions through business combination, refer to Note 27.

Proceeds from issuance of ordinary shares of NOK 1.7 million is recognised in equity.

Note 21 - Financial risk

The most significant financial risks which affect the group are credit risk, liquidity risk and market risk related to foreign exchange rate risk, described further below. Management performs continuous evaluations of these risks and related processes established to manage them within the group.

Credit risk

The group is exposed to credit risk from its operating activities, primarily trade receivables. The group does not have a specific procedure for assessing credit risks for its customers before transactions are entered. The group does not have significant credit risk associated by a single counterparty.

The group has a Securitization Facility agreement with Sparebank 1 Factoring where Sparebank 1 covers 90% of the credit loss for guaranteed receivables. Refer to note 13 for more information about this agreement.

The majority of customer contracts are with channel partners with which Pexip has multiple engagements. Such contracts are mostly invoiced yearly in advance or monthly in advance with standard payment terms of 30 days. The group has a collection policy in place to ensure overdue invoices are taken action on.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, and the historical loss rate has been adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables and contract assets as at 31 December 2019 and 2018:

Trade receivables and contract assets	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Loss rate	0,00%	0,00%	0,02%	1,51%	7,68%

In addition to using the simplified approach, the Group has made an individual assessment of trade receivables above a certain value and adjusted the provision with specific allowances for doubtful accounts. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

Cash and cash equivalents: The counterparts for the groups cash deposits are large banks which are considered to be solid. The group assesses that there is no material credit risks associated with these deposits.

Liquidity risk

The group monitors liquidity centrally across the group. It is the group's strategy to have sufficient cash and cash equivalents to at any time fund operations and investments according to the company's strategic plans. During 2019 the Group has largely been funded through its own revenue and related cash flow. The group monitors its liquidity risk through a short-term and a long-term liquidity forecast to manage the target of a minimum position of cash imposed by the Board of Directors.

The groups financial liabilities are mainly trade payables and derivative financial liabilities that are considered short-term. In addition, the group has a long-term loan to Innovation Norway, as well as multi-year leases on offices.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed in the table are the contractual undiscounted cash flows. The derivative financial liabilities are not in scope of maturity analysis because issue of own shares does not give rise to liquidity risk. The maturity profile of the Group's leasing liabilities can be found in note 10.

For the year ended 31 December 2019

	Current		Non-current		
(NOK 1.000)	1-6 months	6-12 months	1-2 years	2-5 years	Later than 5 years
Borrowings	1 529	1 497	2 895	6 508	-
Trade and other payables	34 824	-	-	-	-
Total liabilities	36 353	1 497	2 895	6 508	-

For the year ended 31 December 2018

	Current		Non-current		
(NOK 1.000)	1-6 months	6-12 months	1-2 years	2-5 years	Later than 5 years
Borrowings	419	6 899	1 786	3 928	1 033
Trade and other payables	24 183	-	-	-	-
Total liabilities	24 603	6 899	1 786	3 928	1 033

As at 1 January 2018

	Current		Non-current		
(NOK 1.000)	1-6 months	6-12 months	1-2 years	2-5 years	Later than 5 years
Borrowings	570	559	7 059	1 062	-
Trade and other payables	16 905				
Total liabilities	17 475	559	7 059	1 062	-

Market risk

Foreign exchange rates

The group operates globally and is exposed to foreign exchange risk, both with regards to trade receivables and trade payables as well as cash and cash equivalent holdings. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the group, which is NOK.

The carrying NOK amounts of the Group's financial assets and liabilities at the reporting date are as follows (in 1.000 NOK):

Financial assets	**2019**	**% of total**	**2018**	**% of total**
NOK	25 218	14,1 %	20 803	16 %
USD	119 120	66,5 %	99 334	77 %
GBP	23 757	13,3 %	8 628	7 %
Other currencies	10 963	6,1 %	7 054	5 %
Total	179 058	100%	135 819	100%

Financial liabilities	**2019**	**% of total**	**2018**	**% of total**
NOK	152 416	85,6 %	90 884	84 %
USD	17 178	9,6 %	11 421	11 %
GBP	5 522	3,1 %	5 056	5 %
Other currencies	2 981	1,7 %	631	1 %
Total	178 097	100 %	107 993	100 %

Sensitivity analysis

Based on the net exposure of the Group, the hypothetical impact of exchange rate fluctuations on the profit before tax for the year is as follows if all other variables are held constant:

Foreign currency	**Change in rate**	**2019**	**2018**
		Effect on profit before tax (in 1.000 NOK)	Effect on profit before tax (in 1.000 NOK)
USD	+/- 7%	7 136	6 154
GBP	+/- 7%	1 276	250

Financial derivative liabilities

Pexip Holding AS has an outstanding option on own shares of a total of 1,600,002 shares with a strike price of 0.01 NOK, which is released by an exit event such as a trade sale or an IPO. As Pexip Holding AS has the flexibility to settle the option in own stock or in cash it is classified as a financial derivative. The fair value of financial derivative liabilities is estimated based on share price at the reporting date, which is 48 NOK at 31 December 2019 (2018: NOK 38). As the share is not widely traded the valuation method is classified in Level 3 of the valuation hierarchy. The fair value of the liabilities is sensitive to changes in the input and the table below illustrates the effect of a reasonably possible changes in share price on the Group's profit or loss and equity (all other variables held constant).

		2019	2019	2018	2018
Share price estimate (NOK)	Change in price	Effect on equity (in 1.000 NOK)	Effect on profit before tax (in 1.000 NOK)	Effect on equity (in 1.000 NOK)	Effect on profit before tax (in 1.000 NOK)
38	+/- 29.35%			17 845	17 845
48	+/- 30.18%	23 178	23 178		

The expected volatility is the same as used in the Black-Scholes option pricing model for options granted during the year, refer to Note 24.

Note 22 - Capital management

The Group's objectives for capital management is to ensure that it maintains sufficient free liquidity with regards to cash and cash equivalents in order to support its business and obligations as well as having sufficient flexibility to invest in attractive investment opportunities. The group manages its capital structure in light of changes in economic and actual conditions, and the development in the groups underlying business.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

Note 23 - Pensions and other long-term employee benefits (NOK 1.000)

The employees of the group are covered by different pension schemes that vary from country to country and between the different companies in accordance with local law. All the plans are assessed to be defined contribution plans. The period's contributions are recognised in the income statement as salary and personnel costs.

The Norwegian company in the group is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension ("lov om obligatorisk tjenestepensjon"). The company's pension arrangements fulfil the requirements of the law.

The pension plans in the group require that the company pays premiums to public or private administrative pension plans on a mandatory, contractual or voluntary basis. There are no further obligations once the annual premiums are paid. The premiums are accounted for as salary and personnel expenses as soon as they are incurred. Prepaid premiums are accounted for as an asset to the extent that future benefits can be determined as plausible.

	2019	2018
Pension cost	4 703	2 842

Long-term employee benefits comprise loans to employees (refer to Note 4) and share-based payments (refer to Note 24).

Note 24 - Share-based payments

There are several valid option programmes in Pexip. Some programs are directed towards employees while others are directed towards management. For one of the programs directed towards employees the options vested over three years and expires in 2020. The exercise of the options is conditioned of beeing employed at the time of exercise. A second option program for employees vested over 4 years from grant date and expires between 2020 and 2023. The employees are allowed to exercise vested options in the first exercise window after the potential termination of employment. The last program for employees vest over 4 years from grant date and expires between 2024 and 2025. The exercise of the share options is conditioned of beeing employed at the time of exercise. Programs directed towards management have an exit event as a vesting condition. For some of the management programs Pexip has an option to settle in either cash or equity. These options are however treated as equity settled since Pexip has the intention and a past history of only settling in equity. Option programs for management are dependent upon beeing employed at the time of vesting.

	2019	2019	2018	2018
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at 1 January	15,32	3 471 384	11,31	2 092 381
Granted during the year	35,26	3 980 000	21,10	1 432 500
Forfeited during the year	14,55	-313 418	13,34	-53 496
Exercised during the year	9,70	-375 034	-	-
Expired during the year	0,01	-22 500	0,01	-1
Outstanding at 31 December	**27,49**	**6 740 432**	**15,32**	**3 471 384**

The exercise price of options outstanding at 31 December 2019 ranged beetween NOK 0.01 and NOK 38 (2018: NOK 0.01 and NOK 25) and their weighted average contractual life was 3.6 years (2018: 3.2 years).

Of the total number of options outstanding at 31 December 2019, 451.447 (2018: 378.670) had vested and were excercisable.

The weighted average fair value of each option granted during the year was NOK 7.92 (2018: NOK 12.15).

The total expense recognised for the period airising from equity-settled share-based payment transactions was NOK 9.3 million (2018: NOK 5.2 million).

The following information is relevant in the determination of the fair value of options granted during the year.

	2019	2018
Option pricing model used	Black-Scholes	
Weighted average share price at grant date (in NOK)	32	25
Excercise price (in NOK)	35	25
Weighted average contractual life (in days)	1 827	1 827
Expected volatility	30,18%	29,35%
Risk-free interest rate	1,57%	1,71%

The expected volatility is based on the volatility for a selection of comparable listed companies.

As there are no expected dividend payments, the dividend parameter is not included in the calculations.

Note 25 - Government grants (NOK 1.000)

The Group is eligible for government grants of NOK 3.6 million in 2019 (2018: NOK 1.2 million) which has been deducted from the carrying amount of other intangible assets (software).

In 2019 government grants have been received for two SkatteFUNN projects. In one of the projects the Group has developed a service platform in which the videoconferencing services were better protected against external at-tacks and with a dynamic scaling of the micro-services. The other project was focused on making the Pexip Infinity platform easier to deploy and manage in cloud services such as Mirosoft Azure, Google Compute Platform and Amazon Web Services.

All conditions and contingencies attached to the grants have been fulfilled.

Note 26 - List of subsidiaries

The consolidated financial statements for 2019 include the following subsidiaries:

Company	Registered office	Voting share	Ownership share
Pexip AS	Oslo, Norway	100%	100%
Pexip Ltd.	Twyford, England	100%	100%
Pexip Inc. (1)	New York, USA	100%	100%
Videxio Asia Pacific Ltd.	Kuala Lumpur, Malaysia	100%	100%

1) Videxio Inc was merged into Pexip Inc as from 1 November 2019.

The consolidated financial statements for 2018 include the following subsidiaries:

Company	Registered office	Voting share	Ownership share
Pexip AS	Oslo, Norway	100%	100%
Pexip Ltd.	Twyford, England	100%	100%
Pexip Inc.	New York, USA	100%	100%
Videxio Inc. (1)	Virginia, USA	100%	100%
Videxio Asia Pacific Ltd. (1)	Kuala Lumpur, Malaysia	100%	100%

1) Consolidated as from 22 October 2018.

Note 27 - Business combinations (NOK 1.000)

On 22 October 2018, 100% of the voting shares of Videxio AS were acquired. Videxio is a cloud video service provider and was acquired to have a broader product portfolio and to offer videoconferencing as a cloud service.

Assets aquired and liabilities assumed

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

Assets	Fair value
Property, plant and equipment (note 9)	749
Right-of-use assets (note 10)	2 383
Other intangible assets (note 12)	106 334
Deferred tax asset	1 884
Other assets	206
Trade and other receivables	9392
Cash and cash equivalents	23 968
Total assets	**144 916**
Borrowings	10 000
Deferred tax liability	16 934
Trade and other payables	11 955
Lease liabilities (note 10)	2 383
Total liabilities	**41 273**
Total identifiable net assets at fair value	103 644
Non-controlling interest measured at fair value	-
Goodwill arising on aquisition (note 11)	598 998
Purchase consideration transferred	**702 641**
Shares issued, at fair value	694 423
Cash	-
Replacement share-based payment awards	8 218
Total consideration	**702 641**
Paid in cash	-
Cash received	-23 968
Net decrease/(increase) in cash	**-23 968**

The acquired unit has from the date of acquisition until 31 December 2018 contributed to the group's revenues and profit before taxes by NOK 16.6 milion and negative NOK 4.8 million, respectively.

Had the acquisition occurred on 1 January 2018, management estimates that consolidated revenue for 2018 would have been NOK 281 million and consolidated profit before taxes would have been negative NOK 15 million including amortization of acquired intangible assets. Fair values of acquired net assets are assumed to have been the same on 1 January 2018 as at acquisition on 22 October 2018 when determining these amounts.

The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities. The terms of the leases are assessed, in all material aspects, to be equal to the market conditions at the acquisition date.

Acquisition-related costs of NOK 1.6 million that were not directly attributable to the issue of shares are included in other operating expenses in the statement of profit or loss and in operating cash flows in the statement of cash flows.

The fair value of acquired trade receivables is NOK 4.2 million. The gross contractual amount for trade receivables due is NOK 4.3 million, with a loss allowance of NOK 0.13 million recognised on acquisition. The goodwill is attributable to a highly skilled workforce as well as syngergies available for combining operations in providing collaboration services. None of the goodwill recognised is deductible for income tax purposes.

As no active market exits for the assets and liabilities acquired, especially in regard to intangible assets, management has estimated the fair value. The methods applied are based on present value of future cash flows calculated based on client contracts and other expected cash flows related to the assets.

Fair values of acquired identifiable intangible assets at the date of acquisition:

- Software: NOK 70.8 million
- Customer contracts and -relationships NOK 30.1 million

The identifiable intangible assets are amortised over five years.

Replacement share-based payment awards

In accordance with the terms of the acquisition agreement, the Group exchanged equity-settled share-based payment awards held by employees of Videxio AS (the acquiree's awards) for equity-settled share-based payment awards of Pexip Holding AS (the replacement awards). The details of the acquiree's awards and replacement awards were as follows:

Terms and conditions	Aquiree's awards	Replacement awards
Options to management and key employees		
Grant date	8 January 2016	22 October 2018
Vesting date	8 January 2021	Same as original
Condition	Service and exit event	Service and exit event
Fair value at date of aquisition	NOK 7.1 million	NOK 7.1 million
Options to employees		
Grant date	From 19 December 2017 to 1 July 2018	22 October 2018
Vesting date	From 22 January 2018 to 22 January 2020	Same as original
Condition	Service	Service
Fair value at date of aquisition	NOK 7.9 million	NOK 7.9 million

The value of the replacement awards is NOK 14.9 million. The consideration for the business combination includes NOK 8.2 million transferred to employees of Videxio AS when the acquiree's awards were substituted by the replacement awards, which relates to past service. The balance of NOK 6.7 million is recognised as post-acquisition compensation.

Note 28 - Transactions with related parties

The Group's related parties include Parent Company and subsidiaries, as well as members of the Board, Management Group and their related parties. Related parties also include companies in which the individuals mentioned above have significant influence.

The Group is not part in any agreements, deals, or other transactions in which the Parent company's Board of Directors or Management Group had a financial interest, except for transactions following from the employment relationship. Remuneration to key personnel is disclosed in note 4.

Transactions and balances and between the parent company and its subsidiaries, and between the subsidiaries, have been eliminated on consolidation, and are not disclosed in this note. The Group does not have other transactions with related parties, except for remuneration to key personnel.

Pexip AS own 20% of the shares in Videxio Technology Hong Kong, who operated the data centre in China. This agreement was terminated in 2019. The carrying value of the shares in the company is NOK 0.

Note 29 - Events after the balance sheet date

No events that have significantly affected or may significantly affect the operations of the Group have occurred after 31 December 2019.

Note 30 - Fair value of financial instruments

Financial instruments measured at fair value comprise derivative financial liabilities. The liabilities are derivatives over own equity categorised within level 3 of the fair value hierarchy. Fair value is determined as the difference between the excercise price of the derivative (NOK 0.01) and the estimated share price at each reporting date (At 31 December 2019: NOK 48, at 31 December 2018: NOK 38, at 1 January 2018: NOK 34). As the shares are not widely traded, Management's best estimate for the fair value of is based on the observed share price for trades in the period leading up to each reporting date. Unrealised losses from change in fair value of the liability of NOK 16 million (2018: NOK 6.4 million) are recognised in financial expense. A sensitivity analysis for the estimate is disclosed in Note 21 - Financial risk.

Note 31 - First-time adoption of IFRS (NOK 1.000)

The financial statement for the year ended 31 December 2019, are the first the group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2018, the group prepared its financial statements in accordance with generally accepted accounting principles in Norway (N-GAAP).

Accordingly, the group has prepared financial statements that comply with IFRS, applicable as of 31 December 2019, together with the comparative period data for the year ended 31 December 2018. In preparing the financial statements, the group's opening statement of financial position was prepared as of 1 January 2018, the group's date of transition to IFRS. This note explains the principal adjustments made by the group in restating its N-GAAP financial statement, including the statement of financial position as of 1 January 2018 and the income statement for the year ended 31 December 2018.

Pexip AS was merged into the Pexip Holding group in 2018. At the time of the merger the Pexip Holding group did not constitute a business and the transaction was a capital reorganisation with the effect that Pexip AS continued and that values in Pexip Holding was remeasured.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the restrospective application of certain requirements under IFRS. The group has applied the following exemptions:

- IFRS 3 Business Combinations has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2018. Use of this exemption means that the N-GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position.

- The Group has assessed whether a contract existing at the date of transition to IFRSs contains a lease by applying paragraphs 9–11 of IFRS 16 to those contracts on the basis of facts and circumstances existing at that date. The Group has applied the following exemptions at the date of transition to IFRS:

1) The Group has elected not to recognise a lease liability and right-of-use asset for leases for which the lease term ends within 12 months of the date of transition to IFRSs. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

2) The Group has elected to use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

3) The Group has excluded initial direct costs from the measurement of the right-of-use asset.

- Cumulative currency translation differences for all foreign operations are deemed to be zero at 1 January 2018.

Estimates

The estimates at 1 January 2018 and at 31 December 2018 are consistent with those made for the same dates in accordance with N-GAAP, with the exception of the estimate for lease liabilities where the Group has elected to use hindsight in determining the lease term for contracts that contain options to extend or terminate the lease.

Reconciliation of equity as of 1 January 2018 (date of transition to IFRS)

(NOK 1.000)	Notes	N-GAAP	Adjustments	IFRS
ASSETS				
Non-current assets				
Property, plant and equipment		2 016		2 016
Right-of-use assets	B		10 902	10 902
Goodwill				-
Other intangible assets	C	55 464	-45 675	9 789
Deferred tax asset	H	20 322	-2 097	18 225
Contract costs	E, I		22 341	22 341
Receivables	I	1 724	851	2 575
Other assets		-		-
Total non-current assets		**79 527**	**-13 679**	**65 848**
Current assets				
Trade and other receivables	I	55 816	-3 572	52 244
Contract assets	F,I		7 664	7 664
Other current assets	I	20 765	-13 695	7 070
Cash and cash equivalents		29 489		29 489
Total current assets		**106 070**	**-9 603**	**96 467**
TOTAL ASSETS		**185 596**	**-23 281**	**162 315**

(NOK 1.000)	Notes	N-GAAP	Adjustments	IFRS
EQUITY AND LIABILITIES				
Equity				
Share capital		611		611
Share premium		90 302		90 302
Other equity		-37 906	-1 177	-39 083
Total equity		**53 006**	**-1 177**	**51 830**
Non-current liabilities				
Borrowings	I	8 000	-500	7 500
Lease liabilities	B	-	7 642	7 642
Derivative financial liability	K	-	54 384	54 384
Total current liabilities		**8 000**	**61 526**	**69 526**

Current liabilities				
Trade and other payables	G,I	26 285	-3 429	22 856
Contract liabilities	F	98 264	-83 962	14 302
Current tax liabilities		41		41
Borrowings	I	-	500	500
Lease liabilities	B	-	3 260	3 260
Total current liabilities		**124 590**	**-83 631**	**40 959**
Total liabilities		**132 590**	**-22 105**	**110 485**
TOTAL EQUITY AND LIABILITIES		**185 596**	**-23 281**	**162 315**

Reconciliation of equity as of 31 December 2018

(NOK 1.000)	Notes	N-GAAP	Adjustments	IFRS
ASSETS				
Non-current assets				
Property, plant and equipment		3 317		3 317
Right-of-use assets	B	-	10 070	10 070
Goodwill	D,J	571 044	27 954	598 998
Other intangible assets	C,J	166 838	-56 481	110 356
Deferred tax asset	H	45 232	-17 883	27 348
Contract costs	E, I		41 433	41 433
Receivables		1 628		1 628
Other assets		206		206
Total non-current assets		**788 264**	**5 093**	**793 356**
Current assets				
Trade and other receivables	I, J	105 651	-28 203	77 448
Contract assets	F, I		8 164	8 164
Other current assets	I	-	9 093	9 093
Cash and cash equivalents		59 421		59 421
Total current assets		165 072	-10 947	154 125
TOTAL ASSETS		**953 336**	**-5 854**	**947 481**

(NOK 1.000)	Notes	N-GAAP	Adjustments	IFRS
EQUITY AND LIABILITIES				
Equity				
Share capital		795		795
Share premium		856 568		856 568
Other equity		-93 214	34 825	-58 389
Total equity		**764 149**	**34 825**	**798 975**

Non-current liabilities				
Borrowings		6 000		6 000
Lease liabilities	B	-	7 084	7 084
Derivative financial liability	K	-	60 784	60 784
Total current liabilities		**6 000**	**67 869**	**73 869**
Current liabilities				
Trade and other payables	G,I	39 269	-2 984	36 285
Contract liabilities	F	137 138	-109 005	28 133
Current tax liabilities		279		279
Borrowings		6 500		6 500
Lease liabilities	B	-	3 441	3 441
Total current liabilities		**183 186**	**-108 548**	**74 638**
Total liabilities		**189 186**	**-40 680**	**148 507**
TOTAL EQUITY AND LIABILITIES		**953 336**	**-5 854**	**947 481**

Reconciliation of total comprehensive income for the year ended 31 December 2018

(NOK 1.000)	N-GAAP	Note A	Sum N-GAAP	Adjustments	IFRS
Revenue	51 597	140 122	191 719	23 319	215 037
Cost of sale	4 741	4 265	9 006	-1 345	7 661
Salary and personnel expenses	28 309	70 096	98 405	20 910	119 315
Other operating expenses	17 292	42 063	59 354	-3 639	55 716
EBITDA	1 256	23 698	24 954	7 392	32 346
Depreciation and amortisation	32 877	19 871	52 747	-38 254	14 494
Operating profit or loss	**-31 621**	**3 828**	**-27 793**	**45 645**	**17 852**
Financial income	8 060	953	9 013	25	9 038
Financial expenses	-617	-4 676	-5 293	-6 879	-12 172
Financial income/(expenses) - net	**7 443**	**-3 723**	**3 719**	**-6 854**	**-3 134**
Profit/loss before income tax	**-24 178**	**104**	**-24 074**	**38 792**	**14 718**
Income tax expense	-22 917	-15 295	-38 212	14 210	-24 002
Profit/loss for the year	**-1 261**	**15 399**	**14 138**	**24 581**	**38 719**
Other comprehensive income (net of tax):					
Exchange differences on translation					
of foreign operations					**-1 114**
Total comprehensive income for the year				**24 581**	**37 606**

Notes to the reconciliation of equity as of 1 January 2018 and 31 December 2018 and total comprehensive income for the year ended 31 December 2018

A: Income statement for the period 1 January 2018 to 22 October 2018
The 2018 consolidated N-GAAP financial statement for Pexip Holding had an opening balance 22 October 2018 and comprised the period from this date to 31 December 2018 without any comparative numbers. The date of transition to IFRS is 1 January 2018. The purpose of this note is to explain how the transition from previous GAAP to IFRSs affected the reported financial position, financial performance and cash flows. In order to meet this requirement we have adjusted the reported income statement for the Pexip Holding group for 2018 with the income statement for the pre-merger Pexip group from 1 January 2018 to 22 October 2018 and then showed how the full year N-GAAP income statement have been effected by the transition to IFRS.

B: Leasing
Under N-GAAP leases were classified as either financial leases or operating leases. With effect for the 2018 N-GAAP financial statement all the leases of the group were classified as operating leases and the lease payments were recognised as cost of sales and operating expenses. In 2018 the group recognised lease payments of 156 as cost of sales and 3.306 as operating expense in the N-GAAP financial statement. This amount is adjusted in the IFRS financial statement.

IFRS 16 is adopted with effect for the opening balance as of 1 January 2018. Except for leases with a remaining lease term of 12 months or less at the date of transition to IFRS the group have recognised a right-of-use asset and a corresponding lease liability. The lease liability is measured at the date of transition at the present value of the future lease payments. The total lease liability and right-of use-asset at the date of transition to IFRS were 10.902. The right-of-use assets are depreciated over the lease term or the useful life of the asset. In the 2018 IFRS financial statements such depreciations are recognised with an amount or 3.438. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. In the 2018 IFRS financial statements interest on the lease liability is recognised with 479. As at 31 December 2018 the right-of-use asset has a carrying value of 10.070 and the lease liability has a carrying value of 7.084 (non-current) and 3.441 (current). In addition a foreign exchange gain on a lease denominated in a currency different from the functional currency of the lessee of 25 is recognised as financial income.

C: Capitalised development
Under N-GAAP expenses relating to development of intangible assets, including research and development expenses, are capitalised when it becomes probable that the future economic benefits arising from the assets will accrue to the company, and the cost of the asset can be reliably measured. According to IFRS an intangible asset is recognised when the asset is identifiable, the entity controls it, it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured. At transition the group has applied the recognition criteria of IAS 38 retrospectively. This has led to a reduction in the carrying value at the date of transition to IFRS and less capitalised development expenses and amortisations during 2018. The reduction in the carrying value of capitalised development at 1 January 2018 is 45.675. The increase in salary and personnel expenses due to less capitalised development is 35.188. The decrease in amortisation in 2018 is 20.216 and the reduction in the carrying value of capitalised development at 31 December 2018 is 61.312.

D: Goodwill amortisation
There was not recognised any goodwill in the N-GAAP financial statement for 2017 and therefore not in the opening balance according to IFRS 1 January 2018. The goodwill comes from a 2018 acquisition and is amortised over 5 years under N-GAAP. According to IFRS goodwill is not amortised but is reviewed for impairment at least annually. The depreciation and amortisation expense are reduced and the carrying value of goodwill 31 December 2018 is increased by 22.663.

E: Contract costs, prepaid commissions
Commissions are paid to sellers and agents based on actual sales. Under N-GAAP prepaid commissions were recognised as assets and amortised over the contract period, without taking renewals into consideration, typically 12 months. Under IFRS commissions that are incremental costs of obtaining a contract with a customer will be recognised as an asset if the costs are expected to be recovered. The asset will be amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This is usually the expected total contract period and includes expected renewals. The increase in prepaid commissions on the statement of financial position 1 January 2018 is 11.007, the reduction in salary and personnel expenses in 2018 is 16.211, the reduction in cost of sales in 2081 is 1.189, and the increase in prepaid commission on the statement of financial position 31 December 2018 is 29.194.

F: Revenue recognition
Under N-GAAP Infinity software licence revenue was recognised over time if the licence was for a period. For perpetual licences revenue was recognised at a point in time – when the software was made available for the customer. In accordance with IFRS all Infinity software licence revenue is recognised at a point in time. This has led to a reduction of deferred revenue, under IFRS labelled contract liabilities, of 83.962 1 January 2018. Contract assets are increased by 7.533 at 1 January 2018. The revenue for 2018 has increased with 23.319 and deferred revenue/contract liabilities at 31 December 2018 is reduced by 109.005. Contract assets have increased with 8.162 at 31 December 2018.

G: Share-options
Share-options was accounted for under N-GAAP and the regulation is in all material respects the same as IFRS. In the groups first IFRS financial statement the treatment of share-options differs from the previous treatment on three points.

i) Share-options that previously was not classified as share-based payment transaction but are classified as such under IFRS.

ii) Under IFRS the 2018 business combination the share-based payment replacement award is measured at the acquisition date in accordance with IFRS 2. Therefore, the post-merger expenses for these share-options are higher than under N-GAAP.

iii) Under N-GAAP social security tax on the share-options was recognised as an expense, but in the same way as the option expense, equity was increased. Under IFRS the estimated social security tax is expensed and recognised as a liability.

H: Deferred tax asset
"The various transitional adjustments lead to different temporary differences. According to the accounting policies in Note 2, the Group has to account for such differences. Deferred tax adjustments are recognised in correlation to the underlying transaction either in retained earnings or a separate component of equity."

I: Reclassifications
"Under IFRS contract costs and contract assets are presented as separate lines. In addition to differences between N-GAAP and IFRS amounts recognised in accordance with N-GAAP is reclassified from existing reporting lines to contract costs and contract assets.

Assets: In the opening balance 1 January 2018 an amount of 11.464 are reclassified to contract costs and contract assets, in addition to some smaller reclassification of assets. A total of 4.952 is offset against trade payables at 1 January 2018. At 31 December 2018 21.322 are reclassified to contract costs and contract assets. The offset against trade payables at 31 December 2018 is 5.649.

Liabilities: In the opening balance 1 January 2018 4.952 is offset against trade receivables and 500 of non-current borrowing is presented as current. At 31 December 2018 5.649 is offset against trade receivables."

J: Business combinations
Reaquired rights
In accordance with IFRS the acquirer shall measure the value of a reacquired right recognised as an asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals when measuring its fair value. The fair value of licences granted to the aquiree of 5.354 were recognised as an intangible asset at the aquisition date, reducing the carrying amount of goodwill aquired through business combinations by 2.927 and reducing other current assets (prepayment of license) by 1.553. The reaquired right is amortised over the contract period from 22 October 2018 to 30 September 2019.

Share-based payment replacement award
Under IFRS the 2018 business combination the share-based payment replacement award is measured at the acquisition date in accordance with IFRS 2. The market value of pre-combination services is allocated to the consideration transferred for the business. The increase in consideration of 8.218 is recognised in equity and carrying amount of goodwill.

K: Derivative financial liability
The Group has an outstanding option on own shares, which is released by an exit event. In accordance with IAS 32 a derivative on own equity is classified as a financial asset or financial liability unless it meets the fixed-for-fixed condition or meets an exception for particular foreign currency derivatives. The fixed-for-fixed condition is not met as the contract gives the group a choice of how to settle the option, and the derivative is classified as a financial liability measured at fair value through profit or loss. The fair value of the liability at the date of transition to IFRS was 54.384. At 31 December 2018 the liability was remeasured to fair value of 60.784. In the 2018 IFRS financial statements the fair value adjustment of 6.400 is recognised as financial expense.

Cash flow
Except for small reclassification changes, the transition to IFRS has not had any material impact on the statement of cash flows.

Financial Statements
Pexip Holding AS
2019

Profit and loss statement

NOTE	OPERATING REVENUE AND OPERATING EXPENSES	01.01.19-31.12.19	20.10.17-31.12.18
	Revenue	-	-
	Total operating revenue	**-**	**-**
2, 9	Other operating expenses	237 734	-
	Total operating expenses	**237 734**	**-**
	Operating loss	**-237 734**	**-**
	FINANCIAL INCOME AND FINANCIAL EXPENSES		
	Other financial income	124	3
	Other financial expenses	-	-
	Financial items, net	**124**	**3**
	Loss before taxation	**-237 610**	**3**
8	Income tax	-52 274	-7 188 573
	LOSS FOR THE FINANCIAL YEAR	**-185 336**	**7 188 576**
	ALLOCATION OF NET LOSS AND EQUITY TRANSFERS		
6	Transferred to / from other equity	-185 336	7 188 576
	Total allocations and equity transfers	-185 336	7 188 576

Balance sheet at 31 December

NOTE	ASSETS	31.12.2019	31.12.2018
	Non-current assets		
	Financial non-current assets		
3, 7	Investments in group companies	1 032 051 722	30 000
	Total financial non-current assets	1 032 051 722	30 000
	Total non-current assets	**1 032 051 722**	**30 000**
	Current assets		
	Receivables		
	Trade and other receivables	3 098	-
	Other receivables	-	1 022 700 541
	Total receivables	3 098	1 022 700 541
	Cash and cash equivalents	3 503 400	13 003
	Total current assets	**3 506 498**	**1 022 713 544**
	TOTAL ASSETS	**1 035 558 220**	**1 022 743 544**

NOTE	SHAREHOLDERS EQUITY AND LIABILITIES	31.12.2019	31.12.2018
	Shareholders equity		
	Paid-in equity		
5,6	Share capital	798 683	794 932
5,6	Share capital, increase not registered	399 341	-
6	Share premium	860 072 826	856 568 404
	Total paid-in equity	861 270 850	857 363 336
	Retained earnings		
6	Other equity	15 909 967	7 173 463
	Total retained earnings	15 909 967	7 173 463
	Total shareholders equity	**877 180 817**	**864 536 799**
	Liabilities		
	Provisions for liabilities and charges		
	Deferred tax	-	158 148 631
	Total non-current liabilities	-	158 148 631
	Current liabilities		
5	Debt to group Company	154 618 027	-
8	Current tax liabilities	3 759 376	-
	Other current liabilities	-	58 114
	Total current liabilities	158 377 403	58 114
	Total liabilities	**158 377 403**	**158 206 745**
	TOTAL SHAREHOLDERS EQUITY AND LIABILITIES	1 035 558 220	1 022 743 544

Oslo, 11 March 2020
The Board of Pexip AS

Michel Sagen
Chairman

Per Haug Kogstad
Board Member

Håkon Dahle
Board Member

Kjell Skappel
Board Member

Aril Resen
Board Member

Tom Erik Lia
Board Member

John Wylie
Board Member

Odd Sverre Østlie
CEO

Cash flow statement

	2019	2018
CASH FLOW FROM OPERATIONS:		
Profit/(loss) before taxation	-237 610	3
Change in other current liabilities	-58 114	0
Change in trade receivables	-3 098	
Net cash flow from operations	**-298 822**	**3**
CASH FLOW FROM INVESTMENT ACTIVITIES:	-	
Net cash flow from investment activities	-	-
CASH FLOW FROM FINANCING ACTIVITIES:		
Inflow from share exercise	3 508 173	
Inflow due to loan from Pexip AS	281 047	
Net cash flow from financing activities	**3 789 220**	**-**
Net change in bank deposits, cash and equivalents	**3 490 397**	**3**
Bank deposits, cash and equivalents at 1 January 2019	**13 003**	**13 000**
Bank deposits, cash and equivalents at 31 December	**3 503 400**	**13 003**

Notes to the accounts, year ended 31 December 2019

Note 1 - Accounting Policies

The financial statements have been prepared in accordance with the Norwegian Accounting Act of 1998 and generally accepted accounting principles in Norway.

Valuation and classification of assets and liabilities
Assets intended for permanent ownership or use in the business are classified as non-current assets. Other assets are classified as current assets. Receivables due within one year are classified as current assets. The classification of current and non-current liabilities is based on the same criteria.

Current assets are valued at the lower of historical cost and fair value.

Fixed assets are carried at historical cost, but are written down to their recoverable amount if this is lower than the carrying amount and the decline is expected to be permanent. Fixed assets with a limited economic life are depreciated on a systematic basis in accordance with a reasonable depreciation schedule.

Other long-term liabilities, as well as short-term liabilities, are valued at nominal value.

Foreign currency
All balance sheet items denominated in foreign currencies are translated into NOK at the exchange rate prevailing at the balance sheet date.

Intangible fixed assets
Expenses relating to the development of intangible assets, including research and development expenses, are capitalized when it becomes probable that the future economic benefits arising from the assets will accrue to the company, and the cost of the assets can be reliably measured.

Intangible assets that are acquired separately, are recognised at historical cost. Intangible assets acquired in a business combination, are recognised at historical cost when the criteria for balance sheet recognition have been met.

Intangible assets with a limited economic life are amortised on a systematic basis. Intangible assets are written down to the recoverable amount if the expected economic benefits are not covering the carrying amount and any remaining development costs.

Shares in subsidiaries and associates
Subsidiaries and investments in associates are carried at cost. A write-down to fair value will be performed if the impairment is not considered to be temporary, and an impairment charge is deemed necessary according to generally accepted acccounting principles. Received dividends and group contributions are recognised as other financial income. The same applies for investments in associates.

Revenue
Revenue is recognised when it is earned, i.e. when the claim to remuneration arises. This occurs when the service is performed, as the work is being done. The revenue is recognised with the value of the remuneration at the time of transaction. The company developes and sells software licences and amortises the revenue over the contract period.

Receivables
Trade receivables and other receivables are recognised at nominal value, less the accrual for expected losses of receivables. The accrual for losses is based on an individual assessment of each receivable.

Cash and cash equivalents
Cash and cash equivalents include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase.

Income taxes
Tax expenses are matched with operating income before tax. Tax related to equity transactions e.g. group contribution, is recognised directly in equity.

Tax expense consists of current income tax expense and change in net deferred tax. Deferred tax liabilities and deferred tax assets are presented net in the balance sheet.

Merger in 2018
“The company was founded on 20 October 2017 with the company name INCEPTUM 1042 AS. On 24 August 2018 the company changed name to Bourgogne Holding AS. On 21 September 2018 the board of directors of the company, Pexip AS (reg.no 898 209 962), Videxio AS (reg. no. 996 814 343) and Pexip Holding AS (reg.no 919 850 175) signed a merger plan. According to the merger plan all assets, rights and obligations in Pexip AS and Videxio AS (the “”Transferring Companies””) should be transferred to Nye Bourgogne I AS (the “”Acquiring Company””), with compensation to redeeming shareholders in the Transferring Companies issued by the parent company of the Acquiring Company, Pexip Holding AS (the “Share Issuer”) . On 22 October 2018 the general meeting in the Transferring Companies, the Acquiring Company and the Share Issuer approved the merger plan.

Upon completion of the merger 20 December 2018, Bourgogne Holding AS changed name to Pexip Holding AS.

The merger transaction was carried out as two separate triangular mergers, combined in one joint merger plan, both performed in accordance with the Norwegian Private Limited Liability Companies Act Section 13-2 second paragraph et seq. Thus Pexip AS and Videxio AS was at the same time but in succession merged into the Acquiring Company, and the consideration to the shareholders in the Transferring Companies was issued by the Share Issuer through two capital increases. The Transferring Companies ceased to exist upon the effective date of the mergers.

The first part of the transaction, where Pexip AS was merged into the Acquiring Company, was completed with accounting continuity, implying that the book value of assets, rights and obligations from Pexip AS was continued unchanged in the Acquiring Company for accounting purposes. The second part of the transaction, where Videxio AS was merged into the Acquiring Company, was completed in accordance with the transaction principle for accounting purposes, meaning that transferred assets, rights and liabilities were recorded at fair market value in the Acquiring Company. The mergers was completed with tax continuity pursuant to Chapter 11 of the Norwegian Taxation Act, implying that tax value of all transferred asset, rights and obligations was continued unchanged in the Acquiring Company.

Transactions in the Transferring Companies in relation to the items transferred to the Acquiring Company by the mergers was for accounting purposes regarded as carried out at the cost of the Acquiring Company as of 22 October 2018. Assets etc. was transferred with accounting effect from 22 October 2018, and hence, the Acquiring Company has attributed income and costs as of this date.

In accordance with the Norwegian Accounting Act, Section 1-7 second paragraph, the companies accounting year is from 20 October 2017 to 31 December 2018. The Group Accounting Year for 2018 was from 22 October 2018 to 31 December 2018 corresponding to when the group was founded.

Note 2 - Payroll costs, number of employees, benefits, loans to employees etc.

Average number of employees during the year	-

Directors' remuneration	Salaries, fees	Pensions	Other benefits
Chief Executive Officer	-	-	-

Chief Executive Officer is compensated from Pexip AS.

Auditor

Remuneration to Deloitte AS and their associates is as follows:

	2 019	2018
Statutory audit	47 850	-
	47 850	-

Amounts are excl. of VAT

Note 3 - Investments in subsidiaries and associated companies

Company	Date of acquisition	Registered office	Voting share	Ownership share
Pexip AS	22/10/2018	Lysaker, Norway	100%	100%

Company	Equity latest financial statements	Profit/loss latest financial statements
Pexip AS	831 955 882	-157 082 863

Note 4 - Liabilities to group companies

	2019	2018
Inter-company loans	154 618 027	-

Note 5 - Share capital and shareholder information

The share capital in the company at 31 December 2019 consists of the following classes:

	Number	Nominal amount	Carrying value
Ordinary shares	79 868 262	0,015	1 198 024
Total	**79 868 262**		**1 198 024**

Ownership structure

Largest shareholders as of 31 December 2019:

	Total	Ownership share	Voting share
STAVANGER VENTURE AS	7 969 716	9,98%	9,98%
BJØBERG EIENDOM AS	5 058 989	6,33%	6,33%
TAMORER LTD ATF WYLIE FAMILY TRUST	5 015 100	6,28%	6,28%
T.D. VEEN AS	4 323 637	5,41%	5,41%
PLATAA VENTURE AS	2 905 000	3,64%	3,64%
VEEN EIENDOM AS	2 528 213	3,17%	3,17%
XFILE AS	2 390 000	2,99%	2,99%
SYNESI AS	2 208 952	2,77%	2,77%
LIA INVESTMENTS LIMITED	2 183 053	2,73%	2,73%
SAGEN TELECOM AS	2 138 315	2,68%	2,68%
HAMACHI AS	2 027 666	2,54%	2,54%
Other shareholders	41 119 621	51,48%	51,48%
Total number of shares	**79 868 262**	**100%**	**100%**

-

Shares and options held by members of the board and the managing director/CEO:

Name	Title	Shares	Ownership share
Kjell Skappel	Board member	12 293 353	15,39%
Håkon Dahle	Board member	2 027 666	2,54%
Per Haug Kogstad	Board member	5 092 989	6,38%
Aril Resen	Board member	2 390 000	2,99%
Tom Erik Lia	Board member	2 183 053	2,73%
Michel Sagen	Chairman	2 138 315	2,68%
Odd Sverre Østlie	CEO	150 000	0,19%

Own shares:

Pexip Holding AS holds 15.000 own shares

Note 6 - Equity

Paid-in equity	Share capital	Share capital not registered	Share premium	Retained earnings	Total Equity
Equity at 01.01.2019	794 932		856 568 404	7 173 463	**864 536 799**
Capital increase	3 750		3 504 423		3 508 173
Profit/(loss) of the year				-185 336	-185 336
This year's change in equity:					-
Increase in par value of shares		399 341		-399 341	-
Share based payments				9 321 181	9 321 181
Equity at 31 December 2019	**798 682**	**399 341**	**860 072 827**	**15 909 967**	**877 180 817**

Note 7 - Related party transactions and balances

Related party transactions, profit and loss

Related party balance items

Counterpart	Relationship to the counterpart	Intercompany borrowings 2019	Intercompany borrowings 2018
Pexip AS	Subsidiary	154 618 027	-
Total		**154 618 027**	**-**

Note 8 - Income tax expense

Specification of income tax expense:	2019	2018
Current income tax payable	3 759 376	1
Changes in deferred tax	-158 148 631	-
Tax on given group contribution	154 336 980	
Effect of changes in tax rules	-	-7 188 574
Tax on profit/(loss)	**-52 274**	**-7 188 573**

Allocation of income tax expense between Norway	2019	2018
Tax on profit/(loss)	**-52 274**	**-**

Specification of current income tax payable:	2 019	2 018
This year's payable income tax expense	3 759 376	-
Income tax on given group contribution	-	-
Too little/much income tax allocation pervious years	-	-
Current income tax payable in the balance sheet	**3 759 376**	**-**

Reconciliation from nominal to real income tax rate:

	2019	2018
Profit/(loss) before taxation	**-237 610**	**3**
Estimated income tax according to nominal tax rate (22%23%)	-52 274	1
The tax effect of the following items:	-	-
Other non-deductible expenses	-	-
Other non-taxable income	-	-
Change in the disparagement of the deferred tax benefit	-	-
Effect of changes in tax rules and rates	-	-7 188 574
Other items		-
Income tax expense	-52 274	-7 188 573
Effective income tax rate	**22%**	**-**

The size of the current income tax payable and deferred tax related to items recorded directly against equity:

Specification for the tax effect of temporary differences and losses carried forward

	2019 Liability	2018 Liability
Receivables	-	158 148 631
Total	**-**	**158 148 631**

The deferred tax benefit for 2018 was included in the balance sheet on the basis of future income.

Note 9 - Operating expenses

Other operating expences	2019	2018
Other operating costs	237 734	-
Total	**237 734**	**-**

Note 10 - Share-based payments

There are several valid option programmes in Pexip. There are programmes from the pre-merger entities, as well as new programs from the merged company Pexip. Some programs are directed towards employees while others are directed towards management. The program for earlier Videxio employees is vested over three years and expires in 2020. The exercise of the options is conditioned of beeing employed at the time of exercise. The programs for Pexip pre-merger employees vested over 4 years from grant date and expires between 2020 and 2023. The employees are allowed to exercise vested options in the first exercise window after the potential termination of employment. The post-merger program for employees vest over 4 years from grant date and expires between 2024 and 2025.
The exercise of the options is conditioned of beeing employed at the time of exercise. Programs directed towards management have an exit event as a vesting condition. These programs are dependent upon the employees beeing employed at the time of vesting.

	2019 Weighted average exercise price	2019 Number	2018 Weighted average exercise price	2018 Number
Outstanding at 1 January	15,32	3 471 384	11,31	2 092 381
Granted during the year	35,26	3 980 000	21,10	1 432 500
Forfeited during the year	14,55	-313 418	13,34	-53 496
Exercised during the year	9,70	-375 034	-	-
Expired during the year	0,01	-22 500	0,01	-1
Outstanding at 31 December	**27,49**	**6 740 432**	**15,32**	**3 471 384**

The exercise price of options outstanding at 31 December 2019 ranged beetween NOK 0.01 and NOK 38 (2018: NOK 0.01 and NOK 25) and their weighted average contractual life was 3.6 years (2018: 3.2 years).

Of the total number of options outstanding at 31 December 2019, 451.447 (2018: 378.670) had vested and were excercisable.

The weighted average fair value of each option granted during the year was NOK 7.92 (2018: NOK 12.15).

The total expense recognised for the period airising from equity-settled share-based payment transactions was NOK 9.3 million (2018: NOK 5.2 million).

The following information is relevant in the determination of the fair value of options granted during the year.

	2019		2018
Option pricing model used		Black-Scholes	
Weighted average share price at grant date (in NOK)	32		25
Excercise price (in NOK)	35		25
Weighted average contractual life (in days)	1 827		1 827
Expected volatility	30,18%		29,35%
Risk-free interest rate	1,57%		1,71%

The expected volatility is based on the volatility for a selection of comparable listed companies.

As there are no expected dividend payments, the dividend parameter is not included in the calculations.

Auditor's Report

Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel.: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

To the General Meeting of Pexip Holding AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pexip Holding AS, which comprise:

- The financial statements of the parent company Pexip Holding AS (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Pexip Holding AS and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 11 March 2020
Deloitte AS

Eivind Ungersness

Eivind Ungersness
State Authorised Public Accountant (Norway)

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