Thinking Breakthroughs

Nagarro
Interim Financial Report for the nine months period ended September 30, 2020

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A. Company and Key Indicators at a glance

Nagarro SE together with its subsidiaries (hereinafter "Nagarro" or the "Group") is a leading global digital engineering company, domiciled in Germany, with a full-service portfolio offering of digital product engineering, digital commerce and client experience, New-Gen "ERP" consulting, managed services, and other services such as third-party testing. With over 8,400 technology specialists in 25 countries, Nagarro supports digital transformation with a focus on significant future technologies such as user interface/user experience, artificial intelligence/machine learning, the cloud, the Internet of Things (IoT), digital commerce/clients experience and mobility. Nagarro has a "thinking breakthroughs" methodology that helps to deliver pioneering technology solutions for industry leaders and aspiring companies all over the world.
Nagarro has a diverse blue-chip client base comprising more than 750 clients across a large variety of industries, leading to a globally diversified revenue base. Our clients include A1 Telekom, Amway, ASSA ABLOY, Audi, Austrian Post, BMW, dm – drogerie markt, Emirates NBD, the Erste Bank group, Fresenius, the Lufthansa group, Maruti Suzuki, New York City, Nokia, Roche, Seismic, Siemens, Twitter, Verizon, VF Corporation, Walmart Labs and two of the three leading management consulting firms.

Nagarro publishes performance indicators to highlight performance along certain aspects. Not all key performance indicators as well as selected cost items presented before depreciation and amortization and specific non-recurring items are measurements of Nagarro's performance under International Financial Reporting Standards as adopted by the European Union (IFRS) and, should not be considered in isolation or as a substitute for analysis of the Company's operating results as reported under IFRS. In the context of the strategic realignment it was intended to spin-off certain businesses from Allgeier group to a separate listed entity ("the Transaction"). The new stand-alone Nagarro is developed on the basis of the entrepreneurial organization model of Allgeier group's previous Nagarro division including Nagarro Holding GmbH, Munich, (until July 2020 Allgeier Nagarro Holding GmbH, Munich) and its subsidiaries (hereafter "Nagarro Base"). Nagarro consist of Allgeier Group's previous divisions iQuest group (hereafter "Nagarro iQuest") and Objectiva group (hereafter "Nagarro Objectiva"), as well as of the SAP services business (in the following "Nagarro ES").

Key Data

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	321,433	294,116	9.3%
Cost of revenues	215,728	201,590	7.0%
Gross Profit	105,858	92,973	13.9%
Adjusted EBITDA	58,234	41,815	39.3%
Revenue by country			
Germany	85,709	89,956	-4.7%
US	111,674	100,457	11.2%
Revenue by vertical (Industry)			
Automotive, Manufacturing and Industrial	45,310	38,056	19.1%
Energy, Utilities and Bldg Automation	27,750	31,336	-11.4%
Financial Services and Insurance	40,681	32,751	24.2%
Horizontal Tech	26,919	21,298	26.4%
Life Sciences and Healthcare	23,223	20,886	11.2%
Management Consulting and Business Information	25,530	19,100	33.7%
Public, Non-profit, Education	24,643	26,400	-6.7%
Retail and CPG	38,751	32,714	18.5%
Telecom, Media and Entertainment	30,893	34,319	-10.0%
Travel and Logistics	37,732	37,256	1.3%

Key Data

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue by contract type			
Time and expenses	258,726	235,648	9.8%
Fixed price	59,768	56,216	6.3%
Other revenues	2,939	2,252	30.5%
Revenue concentration			
Top 5	44,031	42,372	3.9%
Top 6-10	27,332	27,360	-0.1%
Outside of Top 10	250,069	224,385	11.4%
Revenue by segments			
Central Europe	119,639	122,727	-2.5%
North America	111,674	100,525	11.1%
Rest of Europe	47,866	43,294	10.6%
Rest of World	42,254	27,570	53.3%

Segment Information[1)]

Central Europe

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	119,639	122,727	-2.5%
Cost of revenues	83,398	86,141	-3.2%
Gross Profit	36,240	36,866	-1.7%

North America

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	111,674	100,525	11.1%
Cost of revenues	72,121	66,646	8.2%
Gross Profit	39,553	33,879	16.7%

Rest of Europe

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	47,866	43,294	10.6%
Cost of revenues	32,827	30,629	7.2%
Gross Profit	15,192	12,833	18.4%

Rest of World

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	42,254	27,570	53.3%
Cost of revenues	27,381	18,174	50.7%
Gross Profit	14,873	9,396	58.3%

[1)] Gross Profit is calculated on basis of Total Performance which is sum of Sales Revenue and Own work capitalized

Key Data

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue by currency			
AED	5,743	2,216	159.2%
AUD	2,901	1,982	46.3%
CAD	0	4	-100.0%
CHF	2,879	3,231	-10.9%
DKK	7,116	5,384	32.2%
EUR	146,007	143,113	2.0%
GBP	4,493	4,371	2.8%
INR	15,878	7,802	103.5%
JPY	1,858	1,265	46.8%
MXN	0	67	-100.0%
MYR	2,024	1,332	52.0%
NOK	3,748	3,932	-4.7%
RON	-123	300	-140.9%
SEK	2,997	3,120	-3.9%
SGD	30	44	-33.3%
THB	616	-	
USD	120,113	110,457	8.7%
ZAR	5,154	5,495	-6.2%

B. Interim Management Report on the nine months period ended September 30, 2020

1. Performance Nagarro

Business performance in the first three quarters of 2020

Revenue of Nagarro increased by 9 percent to kEUR 321,433 (previous year: kEUR 294,116). Our gross margin increased from 31.6 percent to 32.9 percent. Adjusted EBITDA for Nagarro increased by 39 percent to kEuro 58,234 (previous year: kEuro 41,815). EBITDA increased by 37 percent to kEUR 53,542 (previous year: kEUR 39,026). EBIT increased by 50 percent to kEUR 37,548 (previous year: kEUR 25,051).

We have been able to take measures to stem the fallout of any impact because of Covid19 and are in a good shape as the markets and client's businesses stabilize. Revenue growth has taken the biggest hit as some clients deferred, for a while, growth decisions related to IT. We have taken steps for temporary cost-cutting to support the gross margin and the bottom line.

Financial Performance

Total assets rose to kEUR 367,091 as of September 30, 2020, as against kEUR 342,011 as of December 31, 2019. Key reasons for the increase are higher cash balance with better receivable management.

The Group's non-current assets fell slightly from kEUR 184,853 as of December 31, 2019, to kEUR 181,215 as of the end of the reporting period. Within non-current assets, rights of use from leases decreased by kEUR 1,061 to kEUR 53,801. Intangible assets fell by kEUR 1,982 to kEUR 109,407 mainly due to decrease in goodwill on account of foreign currency revaluation of kEUR 3,276 and amortization during the period partially offset by increase in intangibles (products) of kEUR 3,152 due to GES asset deal.

Current assets increased by kEUR 28,717 to kEUR 185,876 from December 31, 2019 which is mainly due to an increase in cash balance by kEUR 35,747 to kEUR 79,505 (primarily due to better receivable management and increase in payables. Trade receivables, inventories and other current assets declined by kEUR 7,029 due to reduction in trade receivables by kEUR 9,780 (better receivable management).

Total equity dropped by kEUR 252,059 to kEUR -192,118 as of September 30, 2020. The decline is due to acquisition of Nagarro Holding GmbH, Nagarro iQuest, Nagarro Objectiva and minorities of Nagarro Allgeier ES from Allgeier Group for kEUR 252,226 and negative currency translation effects of kEUR 6,070 and other smaller equity movements. This is offset by increase in total comprehensive income of kEUR 16,031.

Non-current liabilities have decreased by kEUR 6,655 mainly due to decrease in acquisition liabilities by kEUR 4,843 (payment of Objectiva purchase price by Allgeier and payment of Nagarro MENA purchase price and revaluation impact) and lease liabilities by kEUR 1,999 mainly due to vacation of certain lease properties in India.

Current liabilities have significantly increased by kEUR 283,794 mainly due to increase in other current financial liabilities by KEUR 295,951 (on account of increase in liabilities to Allgeier against acquisitions with corresponding decrease in equity mentioned above) and decrease in acquisition liabilities by kEUR 6,673 (payment of Objectiva purchase price by Allgeier and payment of Nagarro MENA purchase price and revaluation impact).

The decline in the equity and increase in the liabilities is temporary. Both will be restored after elimination of intercompany transactions on the consolidation of Allgeier Connect AG with Nagarro at the time of spin off from Allgeier SE.

Development of cash flows

Our operating cashflow has grown strongly by 139 percent to kEUR 53,512 (previous year: kEUR 22,377). Our total cashflow has also grown strongly by 448 percent to kEUR 36,522 (previous year: kEUR 6,669). This has been enabled by focusing on receivable management and temporary measures taken to preserve liquidity in the COVID-19 situation. Further from September onwards, Nagarro have participated in factoring program which improved the cashflow by around kEUR 2,920.

2. Human resources

Employee growth

Nagarro continues its organic growth in financial year 2020 albeit with somewhat less momentum as compared to 2019 due to effects of the global COVID-19 pandemic. In total, Nagarro had 8,404 employees as of 30 September 2020 as compared to 7,832 employees on 30 September 2019. Of the 8,404 employees 7,580 are delivery professionals.

3. Acquisitions

Acquisition of GES (asset deal)

By way of purchase agreement dated December 17, 2019, Allgeier Midmarket Services GmbH, Kronberg im Taunus, Germany (from March 13, 2020: Nagarro Allgeier ES GmbH), acquired the GES division for SAP public sector consulting and development services (GES) from GES Systemhaus GmbH Co. KG, Wiesbaden, Germany. Allgeier Midmarket Services also took on certain GES employees. GES provides software solutions for municipal applications on the basis of its own software suite. kEUR 3,480 was agreed as the purchase price for the assets and clients agreements assumed and was paid in the first quarter of 2020. GES was included in consolidation for the first time as of January 1, 2020. kEUR 3,152 of the purchase price was attributed to the acquired software product "Public Sector," kEUR 550 to acquired clients agreements, kEUR 48 to property, plant and equipment and kEUR 270 to provisions in connection with the acquired employees

Acquisition of Maihiro

By way of purchase agreement dated September 21, 2020, Nagarro Allgeier ES GmbH, Kronberg im Taunus, acquired the Maihiro Products from Insolvency. Nagarro Allgeier ES GmbH also took over all employees of Maihiro. Maihiro is well-known for their established products maiConnect, maiTour und maiCatch at multi-national clients and the global SAP organization. kEUR 100 was agreed as the purchase price for the assets and clients agreements assumed and will be paid in the fourth quarter of 2020. Maihiro will be included in consolidation of Nagarro for the first time on October 1, 2020.

4. Segments

Client regions as segments

Nagarro has chosen Client Regions for its segments to reflect the primary approach by which we allocate our resources, especially our significant investments in M&A, and how we assess the financial performance of our investments. The chain of responsibility for a Client Region is established with the Sales & Marketing Unit leaders corresponding to the region tasked with driving the company's success with clients in that region. Nagarro recognized that the Client Regions are, given the nature of geography, rather stable in their definitions, whereas Nagarro is constantly re-organizing its global delivery units, both for internal reasons and for external reasons such as industry trends and technology changes.

Nagarro's segment performance includes third-party (non-intersegment) revenues and gross margins. Third-party revenues are categorized on the basis of the country of a clients's domicile and are then attributed to the appropriate segment. Cost of revenues is the total direct costs needed to service the revenue. It includes direct costs related to colleagues (employees and freelancers) allocated to engineering topics, costs related to travel of these colleagues, and other, smaller, reimbursable, and non-reimbursable cost components. The direct costs incurred by each legal entity are spread across the Client Regions it services proportionately to the volume of business it is supporting for each Client Region. The segment's gross margin is calculated as the difference between the total performance of the segment and the cost of revenues, expressed as a percentage of the Revenue of the segment. Given the definition of Client Regions and how revenues and costs are apportioned, the question of intersegment transactions does not arise.

Segment operations

Nagarro has four reportable operating Client Region segments: North America, Central Europe, Rest of Europe, and Rest of World. In our definition Central Europe consists of Austria, Croatia, Czech Republic, Germany, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, and Switzerland.

Figures are in kEUR (unless stated otherwise)
Gross Profit is calculated on basis of Total Performance which is sum of Sales Revenue and Own work capitalized

Central Europe
In the first nine months of the 2020 financial year, Nagarro generated 37% of its group revenue from Central Europe as compared to 42% in the comparable period of the previous financial year.

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	119,639	122,727	-2.5%
Cost of revenues	83,398	86,141	-3.2%
Gross Profit	36,240	36,866	-1.7%

North America
In the first nine months of the 2020 financial year, Nagarro generated 35% of its revenue from North America as compared to 34% in the comparable period of the previous financial year.

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	111,674	100,525	11.1%
Cost of revenues	72,121	66,646	8.2%
Gross Profit	39,553	33,879	16.7%

Rest of Europe
In the first nine months of the 2020 financial year, Nagarro generated 15% of its revenue from Rest of Europe as compared to 15% in the comparable period of the previous financial year.

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	47,866	43,294	10.6%
Cost of revenues	32,827	30,629	7.2%
Gross Profit	15,192	12,833	18.4%

Rest of World
In the first nine months of the 2020 financial year, Nagarro generated 13% of its revenue from Rest of World as compared to 9% in the comparable period of the previous financial year.

Nine months period ended September 30	2020 kEUR	2019 kEUR	Change in percent
Revenue	42,254	27,570	53.3%
Cost of revenues	27,381	18,174	50.7%
Gross Profit	14,873	9,396	58.3%

5. General economic and industry conditions

General economic forecast

According to the OECD's Economic Outlook* of September 2020, global outlook is slightly less pessimistic, but risks and uncertainty remain at a high level. Global output collapsed in the first half of 2020 as COVID-19 pandemic took hold, with the declines of more than one-fifth in some advanced and emerging-market economies. However, policy makers introduced support leading to contraction in effect of the pandemic on output. Output picked up swiftly following the easing of confinement measures and the initial re-opening of businesses but the pace of global recovery has lost some momentum in the first half of the year. Household spending on many durable goods has bounced back relatively quickly, but spending on services, especially those requiring close proximity between workers and consumers, or international travel, has remain subdued. Hours worked have fallen significantly everywhere, but government support schemes have helped to maintain household incomes. Corporate investments and international trade remain weak as well. OECD states that global GDP is projected to decline by 4.5% this year before picking up by 5% in 2021. In most economies, the level of output at end of 2021 is projected to remain below that at end of 2019, and considerably weaker than projected prior to the pandemic, highlighting the risks of long-lasting costs from the pandemic. Fiscal, monetary and structural policy support needs to be maintained to preserve confidence and limit uncertainty, but evolve with underlying economic condition. According to OECD, there are two scenarios about global recovery: On the upside, consumer and business confidence can improve more quickly than assumed. This would strengthen domestic demand and improve growth prospects. Illustrative simulations of this scenario suggest that a 1-2% decline in household savings rate in beginning of 2021, could strengthen global growth by around 2% in 2021, pushing it to 7% in 2021. On the downside, confidence could remain weak for an extended period and uncertainty continues. In such a case, precautionary savings by consumers will increase and business investment would weaken substantially. Illustrative simulations of this scenario suggest this could reduce global growth between 2-3% in 2021.

Source: OECD Economic Outlook (https://read.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2020/issue-1_34ffc900-en#page1)

Forecasts for the IT industry

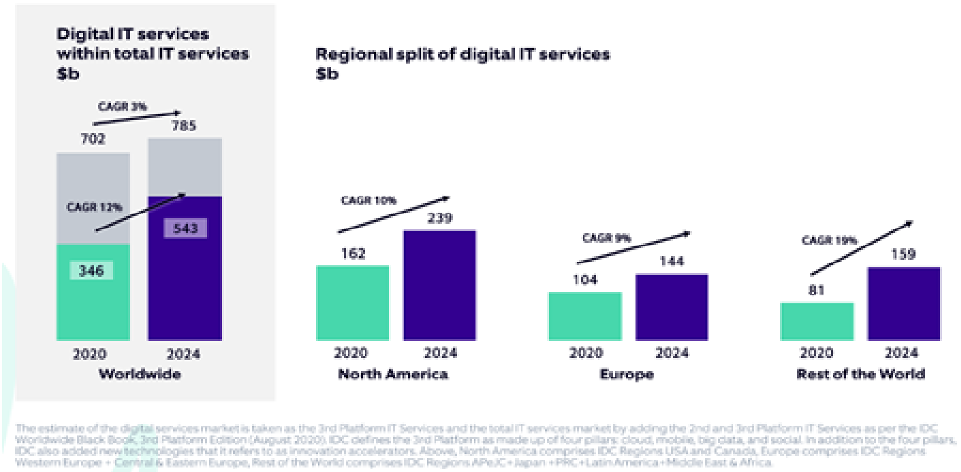
As society increasingly "goes digital", companies continue to face the challenges and opportunities of digital transformation and increasingly compete via software. The challenges include intensifying competition from digital disruptors, frequent pressure to push digital capabilities through products and services to end-clients as well as in organizational processes. These changes will impact all aspects of running a business, from how companies serve their clients to how their products and services are developed and marketed, and how they are organized. Given the inherent complexity involved in this transformation, companies are relying on partners to spearhead their digitalization efforts. Competent IT services partners can help companies to build a digital advantage over their competitors, with new product and service designs as well as more efficient digital operations, aligned to best meet the future demands of their clients.

In the digital engineering landscape, IT services providers such as Nagarro are positioned between a business' internal IT team and external software product and platform providers. The internal IT and R&D teams of companies are often constrained in size and focused largely on the individual company itself, possibly missing a broader view beyond the company or industry. Software product companies, on the other hand, are not well-suited to fulfill the demands from companies that are looking for vertical and situation-specific solutions or need tailored implementations.

Here lies the role of the IT services providers, where the market is covered by both global and regional players. The competition ranges from global vendors or service providers (e.g., CGI, IBM, Accenture, Tata Consultancy Services, Cognizant and Infosys) to local or niche players whose expertise is limited to specific regions, verticals or subjects. Nagarro views its competitors based on the inherent culture and origin of the firms and their resulting natural strengths (their "DNA"), segmenting the competitive landscape in three main categories: (1) Services DNA (e.g. CGI and Tata Consultancy Services), (2) Consulting DNA (e.g. Accenture and KPMG) and (3) Engineering DNA (e.g. EPAM, Globant and Endava). Nagarro views itself in the later of these categories, with a history and culture arising from agile product engineering, inspired by the Silicon Valley, rather than from managed services or management consulting.

According to IDC, an independent third-party research firm, global IT services spending is estimated to be USD 702 billion in 2020 and expected to grow to USD 785 billion in 2024. 3rd Platform IT services spend, broadly representing digital services spend, is estimated to be USD 346 billion in 2020, and to grow at 12% year-on-year to reach USD 543 billion by 2024. Regionally, North America comprises USD 162 billion of this 3rd Platform IT services market in 2020, growing to USD 239 billion in 2024 at a 10% CAGR, while Europe comprises USD 104 billion in 2020, growing to USD 144 billion in 2024 at a 9% CAGR, and the Rest of the World comprises USD 81 billion in 2020, growing to USD 159m in 2024 at a 19% CAGR.

Figure 1: Global and Regional Market Size



However, there are several areas of uncertainty around the economic and political developments in the near- and medium-term. In particular, it is difficult to predict the rate and timing of the recovery of the global economy and regional economies from the disruption due to COVID-19. Though IT spendings are widely expected to stay robust, uncertainty and instability in the world economy may lead to deferment of capital spend by existing or potential clients. The Company has attempted to factor in the impact of COVID-19 as per its own estimates and assumed a gradual recovery, with a near return to normalcy by the end of 2021. Most of the original economic outlooks for 2020 have predicted modest growth for Nagarro's key markets, such as the USA although the ongoing growth was expected to be slow in a number of economies.

[1] IDC defines the 3rd Platform as made up of four pillars: cloud, mobile, big data, and social. These pillars represent a new architecture for ICT, based on a cloud-first, mobile-first approach to the management and usage of devices, infrastructure, software, and services. In addition to the four pillars, IDC also added new technologies that it refers to as innovation accelerators, which include 3D printing, augmented reality/virtual reality (AR/VR), artificial intelligence, IoT, blockchain, robotics, and security. Above, North America comprises IDC Regions USA and Canada, Europe comprises IDC Regions Western Europe + Central & Eastern Europe, Rest of the World comprises IDC Regions APEJC plus Japan plus PRC plus Latin America plus Middle East & Africa.

Seasonal and cyclical effects

Nagarro is not directly impacted by change of seasons or cyclical nature of weather.

6. Risks and opportunities of future development

Risks

The following sections describe the main risks that could have a material adverse effect on the financial position and performance of Nagarro. The list of risks is not exhaustive. In addition to those stated, there can also be other risks to which Nagarro may be exposed and that could negatively affect the business of Nagarro. Moreover, there are other potential risks that we have not included below as we have identified them as non-material.

Market and strategic risks

Global economic and political environment

Global macroeconomic conditions have a significant effect on our business as well as the businesses of our clients. Volatile, negative or uncertain economic conditions could cause our clients to reduce, postpone or cancel spending on projects with us and could make it more difficult for us to accurately forecast client demand and the resources required to profitably address such client demand. The short-term nature of contracts in our industry means that actions by clients may occur quickly and with little warning, which may cause us in particular to incur extra costs where we have employed more professionals than client demand supports.

Our business is particularly susceptible to economic and political conditions in the markets where our clients are concentrated. We derive a significant portion of our revenues from clients located in Europe and the United States, which collectively accounted for 90% of our revenues in the 2019 financial year. The technology services industry is particularly sensitive to the economic environment, and tends to decline during general economic downturns. If the U.S. or European economies weaken or slow, pricing for our services may be depressed and our clients may reduce or postpone their technology spending significantly, which may, in turn, lower the demand for our services and negatively affect our revenues while costs of employment cannot be adjusted at the same speed. This may have a negative impact on our profitability.

Economic and political developments in India, where a significant majority of our operations and over 5,000 of our professionals are located, or in other countries where we maintain delivery operations, such as the United States, Germany, Romania and China, may also have a significant impact on our business and costs of operations. As a developing country, India has experienced and may continue to experience high inflation and wage growth, fluctuations in gross domestic product growth and volatility in currency exchange rates, any of which could materially adversely affect our cost of operations.

Despite economic liberalization policies, the Indian central and state governments remain a significant part of the Indian economy as producers, consumers and regulators. Although we believe that the process of economic liberalization will continue, the rate of economic liberalization could change, and specific laws and policies affecting technology companies, foreign investment, currency exchange and other matters affecting investment in our securities could change as well. Any change in policy or circumstances that results in the elimination of such benefits or degradation of the rule of law, or imposition of new adverse restrictions or costs on our operations could have a material adverse effect on our business, financial condition and results of operations.

Changing trends in the industry environment

Rapidly changing technologies, software development methodologies and evolving industry standards are inherent in the market for our products and services. Our ability to anticipate developments in our industry, enhance our existing services and products, develop and introduce new services and products, provide enhancements and new features for our products, and keep pace with changes and developments are critical to being an attractive partner for clients. Developing competitive solutions for our clients is extremely complex and is expected to remain challenging in the future due to the introduction of new platforms, operating systems, technologies and methodologies. Our ability to keep pace with, anticipate or respond to changes and developments is subject to a number of risks, including that:

- We may find it difficult or costly to update existing or develop new services and products, applications, tools and software quickly enough to meet our clients' needs and expectations;
- We may find it difficult or costly to update existing or develop new software, services, and products to keep pace with evolving industry standards, methodologies, and regulatory developments in the industries where our clients operate;
- We may find it difficult to maintain high quality levels with new technologies and methodologies; and
- We may find it difficult to stay relevant and competitive with innovations in the way software is developed, such as low-code platforms or the use of artificial intelligence.

We may not be successful in anticipating or responding to these developments in a timely manner. Even if we do respond in a timely manner, the services, products, technologies or methodologies we develop or implement may not be attractive to existing and prospective clients if our solutions are not ahead of the technological developments or state-of-the-art. Further, services, products, technologies or methodologies that our competitors develop may render our services or products non-competitive or obsolete. Our failure to enhance our existing services and products and to develop and introduce new services and products to promptly address the needs of our clients could have a material adverse effect on our business, financial condition and results of operations.

Acquisition, integration and spin-off

Strategic acquisitions have been, and will continue to be, part of our growth strategy. For example, from 2017 to 2019, we consummated a number of complementary business combinations, including the acquisitions of Nagarro Austria and Nagarro MENA, as well as our merger with Nagarro iQuest, Nagarro ES and Nagarro Objectiva in the course of the reorganization measures prior to the spin-off. However, this strategy involves significant risks, including, but not limited to:

- Competition for acquisition targets, which may lead to substantial increases in purchase prices or terms that are not attractive to us, including the use of our shares for payment of the purchase price;
- Dependence on external sources of capital, in particular to finance the purchase prices of acquisitions;
- Currency risk in earn-outs payable;
- Acquired companies may not advance our business strategy as expected or achieve anticipated returns on investment;
- Inability to retain management and personnel of the acquired companies and integrate their employees successfully;
- Increased outflows in terms of wages and benefits to equalize employment terms;
- Diversion of our management's attention from existing operations to the acquisition process and integration of acquired companies;
- A failure to accurately predict or realize expected cost savings and synergies; and
- Expenses, delays and difficulties in integrating acquired businesses into our existing organization.

These risks may manifest themselves even months or years after the completion of an acquisition. If not effectively managed, disruption of our business and the difficulty and complexity of effectively integrating acquired operations may materially adversely affect our growth strategy and profitability.

If we carry out acquisitions, there can be no assurance that we will be able to retain the clients, key personnel and know-how of the companies we acquire, generate expected margins or cashflows, or realize the anticipated benefits of such acquisitions, including expected growth or synergies. Acquisitions may also impact our ability to meet financial covenants under financing arrangements. Although we analyze acquisition targets on an ongoing basis and conduct customary due diligence, those assessments are subject to a number of assumptions concerning profitability, growth, interest rates and company valuations. There can be no assurance that our assessments and assumptions regarding acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations. For example, although the process of integrating Nagarro Allgeier ES GmbH, Nagarro iQuest and Nagarro Objectiva into the group is completed, the implementation of certain systems is still in process and is likely to continue until the second quarter of 2021.

Moreover, acquisition targets may be subject to risks or problems which we may not be aware of, which we may not detect or which have not been disclosed to us in the due diligence process. We may learn about such risks or problems only after consummation of the acquisitions or even much later, which could result in costly or ineffective litigation or legal proceedings. Such risks may include client contracts between acquisition targets and their clients that may lack terms and conditions that adequately protect us against the risks associated with the services we provide, which may increase our potential exposure to damages. This risk is even higher in countries in which we might not be able to enforce indemnity rights or existing court decisions or arbitration awards. If we fail to successfully identify and assess risks related to acquisitions, we may be exposed to legal, operational, market, reputational or other risks related to companies that we acquire, which could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

We believe that, as a listed company, we will be able to, among other things, better focus financial and operational resources on our specific business, bring visibility to the Nagarro brand via the capital markets, enhance management focus on the core business with fewer distractions, have the ability to raise equity and other financing and exploit the growth potential of the business, more effectively respond to industry dynamics and create effective incentives for our management and employees that are more closely tied to our business performance. However, by separating from Allgeier, we may be more susceptible to market fluctuations and other adverse events. In addition, we may be unable to achieve some or all of these benefits in the time we expect, if at all. If we fail to achieve some or all of such benefits, or do not achieve them in the time we expect, our business, financial condition, prospects and results of operations could be adversely affected.

Furthermore, comprehensive reorganization measures were implemented prior to the spin-off and we are still in the process to integrate our mergers with Nagarro Allgeier ES GmbH, Nagarro iQuest Holding GmbH and Nagarro Objectiva. We might not be successful in integrating these businesses as planned, due to additional demands from the spin-off, and therefore not be able to benefit from cost savings and synergies of the mergers as much as we expect to and may face additional expenses, delays and difficulties in integrating these acquired businesses into our existing organization.

We have historically operated as part of Allgeier’s corporate organization, and Allgeier has provided us with various services and corporate functions. Following the spin-off, Allgeier will have no obligation to provide us with assistance other than under certain transition services agreement. These services do not include every service that we have received from Allgeier in the past, and Allgeier is only obligated to provide these services for limited periods following completion of the spin-off. Accordingly, following the spin-off, we will need to provide internally or obtain from unaffiliated third parties the services we currently receive from Allgeier. These services include tax administration, treasury activities, technical accounting, insurance, legal, investor relations and ethics and compliance program assistance. The effective and appropriate performance of these services is critical to our operations. We may be unable to replace these services in a timely manner, in a way that guarantees the same quality of the service or on terms and conditions as favorable as those we received from Allgeier.

Because our business has historically operated as part of the wider Allgeier organization, we may be unable to establish successfully or in a timely manner all of the infrastructure or implement the changes necessary to operate independently, or may incur additional costs that could adversely affect our business. As part of Allgeier, we have benefited from Allgeier’s size and purchasing power in procuring certain goods and services such as insurance and health care benefits, and technology such as computer software licenses. If we fail to obtain the quality of services necessary to operate effectively or incur greater costs in obtaining goods and services, our business, financial condition, results of operations and prospects may be materially adversely affected.

In addition, we may seek to obtain financing from banks, public or private placements of debt, convertible or equity securities in the future. The cost of obtaining third-party financing could be higher than under the financing received under the Allgeier Group prior to the spin-off. Although we already have certain agreements in place, third-party providers of debt financing, such as banks, may not be willing or, due to internal thresholds or other limitations, be able to provide or extend credits or other forms of debt financing to us in the first several months after the spin-off because they have already provided similar financing to other entities of the Allgeier Group and it may take time to adjust credit lines and transfer such exposures.

Following the completion of the Spin-off, Nagarro expects to start using a new syndicated credit facility with five local and regional German credit institutions, with which Nagarro has, as of the date of this publication has signed the Syndicated Loan Agreement. The new credit facility will be in an amount of up to kEUR 200,000, comprising a term facility of kEUR 100,000 and a revolving facility of kEUR 100,000, and will have an original maturity date falling three years after the date of signing, which can be extended twice upon request, in each case by one year. The new credit facility will include customary financial and other covenants, and provide for a competitive interest rate. Nagarro intends to utilize the new credit facility to fully repay loans to the Allgeier Group arising from the purchase of three businesses from the Allgeier Group in connection with the spin-off, as well as for working capital and general corporate purposes.

Nagarro has always been a relatively independent company with most of the services running independently from Allgeier. Nonetheless, in the past the Company was able to profit to a certain extent from synergies between Allgeier's and Nagarro's business activities, primarily with respect to financial aspects (e.g. consolidation and accounting) as well as legal aspects. It cannot be ruled out that, following the spin-off, we will no longer benefit from such cooperation as much as we used to. We may also lose business opportunities we previously enjoyed because our business partners took into consideration other business opportunities relating to the entire Allgeier Group when they entered into business relations with us. The Company will be a smaller and less diversified company than Allgeier prior to the spin-off. As a separate, independent listed company, the Company may be unable to obtain all types of services and products at the same favorable prices and conditions as prior to the spin-off or be unable to leverage efficiencies accordingly. We face the risk that the new stand-alone position of Nagarro may be negatively perceived by potential technology partners, suppliers, clients and their lenders, employees and other stakeholders.

The loss of business opportunities and procurement advantages associated with being part of the Allgeier Group could have material adverse effects on the business and the financial condition and results of operations of the Company.

Brand and reputation

Since many of our client engagements involve highly tailored solutions, our corporate reputation is an important factor in our clients' and prospective clients' confidence in our capabilities and determination of whether to engage us. We believe the Nagarro brand name and our reputation are important corporate assets that help distinguish our services from those of our competitors and also contribute to our efforts to recruit and retain talented IT professionals. However, our corporate reputation is susceptible to damage by actions or statements made by current or former employees, clients, competitors, vendors and adversaries in legal proceedings, as well as members of the investment community and the media. There is a risk that negative information about the Company, even if based on false information, rumor or misunderstanding, could adversely affect our business. In particular, damage to our reputation could be difficult and time-consuming to repair, could make potential or existing clients reluctant to select us for new engagements, resulting in a loss of business, and could adversely affect our employee recruitment and retention efforts. Damage to our reputation could also reduce the value and effectiveness of the Nagarro brand name and could reduce investor confidence in us and adversely affect our business, prospects and results of operations.

Operational risks

Personnel

Hiring and retaining engineering and management professionals and engineering resources with diverse skill sets across our broad geography of operations is critical to maintaining existing engagements and obtaining new business. If we do not deploy those professionals and use computers, office space, and other related resources productively, our profitability may be significantly impacted. We must manage the utilization levels of the professionals that we hire and train by planning for future needs effectively and staffing projects appropriately while accurately predicting the changes in the general economy and our clients' need for our various services. If we are unable to attract, train, and retain highly skilled personnel and productively deploy them on client projects, we will jeopardize our ability to service and develop ongoing and future business and our financial condition and results of operations could be adversely affected. This is especially true for highly qualified and key personnel who cannot be easily replaced.

Competition for highly skilled professionals is intense in many of the markets where we operate, and we may experience significant employee turnover rates due to such competition. If we are unable to retain professionals with specialized skills, our revenues, operating efficiency and profitability may decline. Cost reductions, such as reducing headcount, or voluntary departures that result from our failure to retain the professionals we hire, could negatively affect our reputation as an employer and our ability to hire qualified personnel to meet our business requirements.

In addition, our ability to operate our business and implement our growth strategies depends, to a significant degree, on the continued contributions of our senior management and highly qualified software engineers, among others. The unplanned loss of the services of any of our members of senior management or other highly qualified personnel could materially adversely affect our business until a suitable replacement can be found and, may adversely impact client relationships as well as our organizational culture.

Our inability to attract and retain qualified personnel and senior management could have a material adverse effect on our business, financial condition, prospects and results of operations. Wages for technology professionals in the emerging markets where we have significant operations are typically lower than comparable wages in more developed countries. For example, of our more than 7,500 engineering professionals in total, approximately 5,100 are located in India. However, wages in the technology industry in the emerging market countries in which we operate may increase at a faster rate than in the past, which may make us less competitive unless accompanied by corresponding depreciation in the currencies of these countries with respect to our billing currencies or unless we are able to increase the efficiency and productivity of our personnel. If we increase operations and hiring in more developed economies, our compensation expenses will increase because of the higher wages demanded by technology professionals in those markets. Wage inflation, whether driven by competition for talent or ordinary course pay increases, may also increase our cost of providing services and reduce our profitability if we are not able to pass those increased costs on to our clients, move our operations to locations with lower wage levels or charge premium prices when justified by market demand, which could have a material adverse effect on our business, financial condition, prospects and results of operations.

Competition and clients

The market for our services and products is highly competitive, and we expect competition to persist and intensify due to, among other factors, relatively low barriers to entry. We face competition from specialized service providers and local service providers as well as competition from large, global consulting and outsourcing firms as well as in-house IT departments of large corporations. Clients tend to engage multiple IT services providers instead of using an exclusive IT services provider, which could place significant downward pressure on pricing among competing IT services providers, such as us, and lead to a loss of market share and lower revenues. Clients may prefer service providers that have more locations, more personnel, more experience in a particular country, market, vertical or with certain products or services, or that are based in countries that have the perception of being more stable than some of the emerging markets in which we operate, or that are based in countries that are geographically closer or in a closer time zone.

Current or prospective clients may also elect to perform certain services themselves or may be discouraged from transferring services from local to global service providers, which could harm our ability to compete effectively with competitors that provide services from within the countries in which our clients operate. In addition, some of our competitors may have substantially greater financial, marketing or technical resources than we do, which may make it difficult for us to retain existing clients or successfully attract new clients. Increased competition, our inability to compete successfully, pricing pressures or loss of market share could have a material adverse effect on our business, financial condition and results of operations.

Business expansion

We have significantly expanded our business over the past several years, both organically and through strategic acquisitions. Our growth has also resulted, in part, from managing larger and more complex engagements with our clients. Consequently, our growth in recent years places significant demands on our management and on our administrative, operational and financial infrastructure, and creates challenges for us, including:

- Recruiting, training and retaining sufficiently skilled professionals in engineering, administration and management
- Achieving high resource utilization rates on a consistent basis and efficiently using staffing across our global engineering team
- Controlling costs and minimizing cost overruns and project delays
- Effectively maintaining productivity levels and implementing process improvements across business units and service regions
- Effectively and efficiently marketing and selling to a diverse set of potential clients across a greater number of industries and locations
- Maintaining close and effective relationships with a larger number of clients in a greater number of industries and locations
- Improving our administrative and operational infrastructure.

We intend to continue our expansion and pursue available opportunities for the foreseeable future. As we introduce new services, enter into new markets, and take on increasingly large and complex projects and engagements, our business may face new challenges. If we do not effectively manage the budgeting and expenses of these projects, workforce requirements and other challenges, our reputation, business, and financial goals may be damaged. If the challenges identified above or new challenges associated with expansion negatively impact our anticipated growth and margins, our business, financial condition and results of operations could be materially adversely affected.

Projects and contracts

Our ability to maintain relationships with clients and successfully obtain payment for our services is essential to the growth and profitability of our business. However, the volume of work performed for any specific client is likely to vary from year to year, especially since we generally are not our clients' exclusive IT services provider and we generally do not have long-term commitments from clients to purchase our services. Therefore, we must seek to obtain new engagements when our current engagements end and we must maintain a good relationship with our clients who often are longstanding clients with recurring business. Our clients' ability to terminate engagements with or without cause and our clients' inability or unwillingness to pay for services we performed make our future revenues and profitability uncertain.

There are several factors relating to our clients, some of which are outside of our control and which may lead them to terminate or not renew a contract or project with us, or be unwilling or unable to pay us, including:

- Changes in strategic priorities or economic conditions, resulting in elimination of the impetus for the project or a reduced level of technology-related spending;
- Financial difficulties;
- Corporate restructuring, or mergers and acquisitions activity;
- Actual or perceived quality or other issues with our services and deliverables;
- Changes in procurement strategies resulting in moving more work to the client's in-house technology departments or to our competitors; and
- Replacements of existing software with packaged software supported by licensors.

Termination or non-renewal of a client contract could cause us to experience a higher than expected number of unassigned employees and thus compress our margins until we are able to reallocate our headcount. Clients that delay payment, request modifications to their payment arrangements or fail to meet their payment obligations to us could increase our cash collection time or cause us to incur bad debt expense. The risk of delayed payment could increase due to the economic disruption caused by COVID-19. While we may resort to alternative methods to pursue claims or collect receivables, these methods are expensive and time consuming and successful collection is not guaranteed.

The loss of a significant number of clients, a significant decrease in the volume of work they outsource to us or price they are willing or able to pay us, if not replaced by new service engagements and revenue, could materially adversely affect our business, financial condition, prospects and results of operations.

We generate revenues predominantly from services rendered under time-and-expense and fixed bid contracts, including those relating to acquisitions. Product engineering and consulting contracts are typically time-and-expense contracts. These contracts are generally of lower risk, since there is limited exposure to project misestimation and billing is predominantly on a monthly basis. In accordance with IFRS 15, service revenue is recognized depending on the contract provisions under consideration of the services provided, which is usually based upon the days and hours worked. Product implementation contracts are often fixed bid contracts. Contracts for the provision of various kinds of application management services and cloud services to our clients are also often fixed bid contracts, which may be annuity or ticket-based contracts. In accordance with IFRS 15, revenue from products is recognized as soon as control of the products sold has been passed on to the buyer along with the associated rewards and risks, which is usually the case upon delivery of the product and/or its components. Revenues from services provided on a fixed bid basis are recognized based on the percentage of order completion and under consideration of realized partial performance. Because we bear the risk of cost overruns and inflation with respect to fixed bid contracts, our operating results could be adversely affected by inaccurate estimates of contract completion costs and dates, including wage inflation rates and currency exchange rates that may affect cost projections.

Nagarro derives its revenue predominantly from the provision of software services to its clients. This type of work makes up for more than 95% of Nagarro's business. This is true for all the segments in which Nagarro operates. In 2020, Time and Expense accounted for about 80% of the total revenue, with almost all of the remaining being contracted on a Fixed Bid basis. We also generate revenues through the development and licensing of proprietary technologies. These accounted for very little of our total revenue in 2020. In accordance with IFRS 15, revenue from user fees (licenses) is recognized on an accrual basis in accordance with the commercial substance of the underlying contract.

Technology and security

Our software development solutions involve a high degree of technological complexity, have unique specifications and could contain design defects or software errors that are difficult to detect or correct. Errors or defects may result in the loss of current clients, revenues, market share, or client data, a failure to attract new clients or maintain market acceptance and could divert development resources and increase support or service costs. We cannot provide assurance that, despite testing by our clients and us, errors will not be found in the software products we develop or the services we perform. Any such errors could result in claims for damages against us, litigation, and reputational harm that could materially adversely affect our business, financial condition and results of operations.

In the ordinary course of business, we collect, store, process, transmit, and view sensitive or confidential data, including intellectual property, or proprietary business information or personally identifiable information belonging to us, our clients, respective employees and other end users. Physical security and the secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Some of our clients are seeking additional assurances for the protection of their sensitive information, including personally identifiable information, and attach greater liability in the event that their sensitive information is disclosed.

Despite the Company's security measures, information technology and infrastructure remain vulnerable to attacks by hackers or breaches due to human error, employee misconduct or malfeasance, system failure or other disruptions, and the Company has experienced minor incidents in the past. Any such breach could compromise our networks or the networks of our third-party providers and the information stored there could be accessed, publicly disclosed (or threatened to be disclosed unless a ransom is paid), misappropriated, lost or stolen. Such a breach, misappropriation, or disruption could also disrupt our operations and the services we provide to clients, damage our reputation, and cause a loss of confidence in our products and services, as well as require us to expend significant resources to protect against further breaches and to rectify problems caused by dings, liability under applicable laws, and regulatory penalties and could adversely affect our business, reputation, prospects and results of operations.

Our service model relies on maintaining active voice and data communications, online resource management, financial and operational record management, client service and data processing systems between our client sites, our delivery centers and various other locations including those of third-party cloud service providers. Our business activities may be materially disrupted in the event of a partial or complete failure of any of these technologies, which could be due to software malfunction, computer virus attacks, conversion errors due to system upgrades, damage from fire, earthquake, power loss, telecommunications failure, unauthorized entry, demands placed on internet infrastructure by growing numbers of users and time spent online, increased bandwidth requirements or other events beyond our control. Our crisis management procedures, business continuity, and disaster recovery plans may not be effective at preventing or mitigating the effects of such disruptions, particularly in the case of a catastrophic event. Loss of all or part of the infrastructure or systems for a period of time could hinder our performance or our ability to complete client projects on time which, in turn, could lead to a reduction of our revenues, payment of penalties or otherwise materially adversely affect our business, financial condition and results of operations.

Financial risks

Liquidity risk

Liquidity risk is the risk that the group may not have enough liquidity to meet obligations associated with its financial liabilities. With the aim to ensure that adequate liquidity is always available, we use instruments to control the cashflows and use debt instruments to finance our operations and our investment activities. As of September 30, 2020, the financial liabilities of the group amounted to kEUR 517,865 (December 31, 2019: kEUR 244,945), of which kEUR 466,005 are due within one year (December 31, 2019: kEUR 184,711).

As of September 30, 2020, 100% of the current financial liabilities excluding loans from the Allgeier group (December 31, 2019: 100%) were covered by current financial assets in the amount of kEUR 157,403 (December 31, 2019: kEUR 130,125). As of September 30, 2020, the value of loans from the Allgeier group included in the current financial liabilities was kEUR 405,174 (December 31, 2019: kEUR 119,829) out of which kEUR 244,603 (December 31, 2019: kEUR Nil) are relating to purchase price liabilities which will be eliminated on consolidation of Allgeier Connect AG at the time of spin- off transaction of Nagarro SE from Allgeier SE.

The Group has started participating in a factoring arrangement with a volume of kEUR 20,000 from September 2020 onwards. Also subsequent to the period end, the group has, on October 30, 2020 entered into a new syndicated credit facility with five European credit institutions. The new credit facility is in an amount of kEUR 200,000, comprising a term loan facility of kEUR 100,000 and a revolving credit facility of kEUR 100,000, which has an original maturity date falling three years after the date of entry that can be extended twice upon request, in each case by one year.

The net liabilities to the Allgeier Group after elimination of intercompany balances after consolidation of Allgeier Connect AG will be settled by the group through syndicated credit facility of kEUR 200,000 immediately after the spin-off.

Credit risk

For the group's financial assets, a general risk exists that clients or contracting parties may not meet their obligations and that contract assets, receivables and other financial assets may default. Credit risks in the group arise from operations and from certain financing activities. Receivables are managed, and incoming payments tracked on a partially decentralized basis in Nagarro companies. The theoretical maximum credit risk corresponds to the carrying amount, totaling kEUR 172,550 (December 31, 2019: kEUR 145,390). The group recognized impairments of kEUR 4,022 (December 31, 2019: EUR 2,182) on the gross amount of total customer receivables and other financial assets as of September 30, 2020. The impairment ratio on the gross amount was 2.28% (December 31, 2019: 1.7%). The Group categorizes its credit risks as those arising from contract assets and trade receivables, other financial assets, derivative assets and cash.

Interest rate risk

Certain of the group's financial liabilities have floating interest rates and are subject to the risk that interest rates can change, thereby impacting our results. Our floating-rate financial liabilities totaled kEUR 7,969 (December 31, 2019: kEUR 8,858).

Due to the European Central Bank's continuing low-interest policy and the slightly weakening economy, as well as the still very moderate inflation rates, our management does not expect any significant interest rate increases for the rest of 2020 and in 2021. We closely monitor the developments on the interest and capital markets and, if considered expedient, interest rate hedging could be contemplated.

Currency risk

Nagarro has registered offices in 25 countries and has functional currencies which are different from the presentation currency which is Euro. In order to manage the currency risk, the group enters into foreign exchange forward transactions to hedge some of its foreign currency risks of future cashflows which is mentioned in the below hedging policy.

Hedging

Nagarro hedges its receivables in India for Nagarro India which includes two legal entities and where, substantial foreign exchange currency risk is present due to currency exposure. Nagarro India has opted for forward contracts to hedge its foreign currency risk. In the past we have applied this policy to 5 currency pairs in which Nagarro India conducts its business. These are USD-INR, EUR-INR, SEK-INR, GBP- INR, and AUD-INR. As part of policy, more currency pairs will qualify for hedging as Nagarro India begins to conduct a reasonable part of its business in that particular currency and predictable currency flows start coming in that currency. Since currency market is volatile and unpredictable, Nagarro will continue to hedge regularly with the option of hedging other currency pairs in other countries of our operations.

Legal and regulatory risks

Fiscal, Political and Regulatory

Changes in the economic, political and regulatory environments in the countries in which our clients or our operations are located, in particular the U.S. and European countries as well as India, could result in substantial changes to existing laws and regulation, which could, in turn, adversely affect our business. For example, the current US-American administration has proposed and may continue to propose significant changes with respect to a variety of matters, including international trade agreements and conducting business offshore, know-how transfer, import and export regulations, tariffs and customs duties, foreign relations, labor and immigration laws and travel restrictions, and corporate governance laws, that could have a positive or negative impact on our business.

Companies that outsource services to organizations operating in other countries are a topic of political discussion in many countries. For example, proposed legislation in the United States could impose restrictions on our ability to obtain U.S. visas for employees and deploy employees holding US work permits to client locations, both of which could adversely impact our business. Legislative measures, in the United States as well as in other countries, could also broaden restrictions on outsourcing by federal and state government agencies or contracts and impact private industry with tax disincentives, intellectual property transfer restrictions and restrictions on the use or availability of certain work visas. Moreover, the process to obtain required visas and work permits can be lengthy and difficult and variations in the application and enforcement of legislation and rules due to political forces and economic conditions may cause delays or rejections.

Delays in obtaining visas or work permits, or an inability to source a sufficient number of visas or work permits, or significant additional costs for visas or work permits may result in a reduction in the ability of our personnel to travel to meet with and provide services to our clients or to continue to provide services on a timely basis or may result in a reduction in the efficiency or efficacy of our sales and delivery operations. Delays in, or the unavailability of, or increase in the costs related to visas and work permits could have an adverse effect on our business, financial condition and results of operations.

Country specific regulations

We are subject to various laws and regulations that restrict our international operations, including laws that prohibit activities involving restricted countries, organizations, entities and persons that have been identified as unlawful actors or that are subject to US sanctions. The U.S. Office of Foreign Assets Control, or OFAC, and other international bodies have imposed sanctions that prohibit companies from engaging in trade or financial transactions with certain countries, businesses, organizations and individuals. We are also subject to the FCPA and anti-bribery and anti-corruption laws in other countries, all of which prohibit companies and their intermediaries from bribing government officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. We operate in many parts of the world that have experienced government corruption to some degree, and, in certain circumstances, compliance with anti-bribery laws may conflict with local customs and practices.

Our compliance program contains controls and procedures designed to ensure our compliance with the FCPA, OFAC and other sanctions, and laws and regulations. However, we cannot exclude that such controls and procedures may not be successful in preventing violations by our employees. In addition, adherence to our compliance program and policies has resulted, in limited cases in the past, and may result in the future in lost business opportunities because of us declining to compete for certain projects or government tenders due to corruption concerns.

Any violation of these or other laws, regulations and procedures by our employees, independent contractors, clients, subcontractors and agents, including third parties we associate with or companies we acquire, could expose us to administrative, civil or criminal penalties, fines or business restrictions, or result in litigation costs, or be a drain on management time, which could have a material adverse effect on our results of operations, and financial condition and would adversely affect our reputation, our share price and the market for shares of our common stock and may require certain of our investors to disclose their investment in us under certain laws.

Privacy and Data protection

We are required to comply with increasingly complex and changing data security and privacy regulations in the European Union, the United States, India and in other jurisdictions in which we operate that regulate the collection, use and transfer of personal data, including the transfer of personal data between or among countries. For example, the European Union's General Data Protection Regulation ("GDPR") imposes stringent compliance obligations regarding the handling of personal data and has resulted in the issuance of significant financial penalties for non-compliance. In the United States, there have been proposals for federal privacy legislation and new state privacy laws are on the horizon. Recently enacted legislation imposes extensive privacy requirements on organizations governing personal information. In addition, in India, the Personal Data Protection Bill, 2019 was tabled in the Indian Parliament on December 11, 2019. If enacted in its current form, it would impose stringent obligations on the handling of personal data, including certain localization requirements for sensitive data. Other countries have enacted or are considering enacting data localization laws that require certain data to stay within their borders. We may also face audits or investigations by one or more domestic or foreign government agencies or our clients pursuant to our contractual obligations relating to our compliance with these regulations.

Businesses that handle personal data have been subject to investigations, lawsuits and adverse publicity. Enforcement actions taken by the European Union data protection authorities as well as audits or investigations by one or more individuals, organizations, or foreign government agencies can result in penalties and fines for non-compliance or direct claims against us in the event of any loss or damage as a result of a breach of these regulations. In the case of the GDPR, violations carry fines of up to 4% of the Company's global turnover and the GDPR grants individual data subjects the right to claim damages for violations of their rights under the GDPR. We have implemented procedures to comply with changing privacy and data protection regulations but cannot exclude that we will have to incur additional costs, that we may be exposed to potential regulatory action or litigation, and may require changes to our business practices in certain jurisdictions, all of which could materially adversely affect our business, financial condition, prospects and results of operations.

Intellectual Property

We rely on a combination of copyright, trademark, unfair competition and trade secret laws, as well as intellectual property assignment and confidentiality agreements and other methods to protect our intellectual property rights and those of our business partners. Protection of intellectual property rights and confidentiality in some countries in which we operate may not be as effective as in other countries with more developed intellectual property protections.

We typically require our employees and independent contractors to assign to us all intellectual property and work products they create in connection with their employment or engagement with us. These assignment agreements also typically obligate our personnel to keep proprietary information confidential. If these agreements are not entered into, or are not enforceable in any of the jurisdictions in which we operate, or are breached, we cannot ensure that we will own the intellectual property they create or that proprietary information belonging to us or to our clients or to our other business partners will not be disclosed. Our clients and certain vendors are generally obligated to keep our information confidential, but if these contractual obligations are not entered into, or are breached or deemed unenforceable, our trade secrets, know-how or other proprietary information may be subject to unauthorized use, misappropriation or disclosure. Reverse engineering, unauthorized copying, disclosure or other misappropriation of our and our clients' proprietary technologies, tools and applications could enable unauthorized parties to benefit from our or our clients' technologies, tools and applications without payment and may make us liable to our clients for damages and compensation, which could harm our business and competitive position.

We rely on our trademarks, trade names, service marks and brand names to distinguish our services and solutions from the services of our competitors. We have registered or applied to register many of these trademarks. Third parties may oppose our trademark applications, or otherwise challenge our use of our trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our services and solutions, which could result in loss of brand recognition, and could require us to devote additional resources to advertising and marketing new brands. Further, we cannot provide assurance that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks. If we try to enforce our trademarks and our other intellectual property rights through litigation, we may not be successful and the litigation may result in substantial costs and diversion of resources and management attention, which could, in turn, materially adversely affect our business, financial condition and results of operations.

Opportunities

Risks and opportunities go hand in hand. With risks being covered, Nagarro also has ample opportunities, not only in terms of service portfolio growth and business development but also arising out of global occurrences such as the Covid-19 pandemic. While pandemic has hit many countries and economies hard; it has also presented numerous opportunities to IT services companies by making companies think of being more digital and virtual. Nagarro anticipates numerous prospects towards enhancing their range and scope of offerings along with opportunities regarding the following aspects:

Acquisitions

The business plan for fiscal 2020 does not include any specific acquisition projects (except the acquisitions mentioned above which have already been implemented or covered in section 8.7). Inorganic growth, with synergy in place, is always an integral part of overall growth for Nagarro. While covering risks (as mentioned above), Nagarro envisions great opportunity of accelerated growth through strategic expansion and increasing footholds in the technology domain. Not limited to smart way of acquiring new technologies and products, acquisitions also aid in tapping the highly talented and qualified personnel with latest in-demand IT skills. Normally, acquisition opportunities are unplanned and cannot be penned down in the foreseeable strategic planning and specified as planned transactions in the ongoing fiscal year.

Employees

The employees have always been key stakeholders in the growth of Nagarro. Highly qualified and motivated employees are essential to Nagarro’s success. Nagarro is critically dependent on its employees' technical knowledge, competencies, loyal commitment, ethics and engagement. They are in constant contact with clients, providing the agreed consulting and other services, as well as developing innovative solutions to meet complex challenges. In the future as well, Nagarro’s success will depend on its continued ability to recruit new high-performing employees in the face of market competition, retain them, enable them to perform, effectively and provide them an environment for growth.

Equally, staff worldwide benefits from the company’s constant growth, advancing internationalization as well as its increasing size. New complex and aspiring requirements from interesting clients provide exciting technical perspectives and good possibilities for individual career development.

Technologies and markets

Nagarro continues to tap into new technologies, broaden its expertise along with extending reach to the global market. The prospect of organic growth in terms of broadening the technology base, tapping of niche and untapped global market segments, cross-selling, expanding clientele, etc. has always been top priority for us. With the impact of ongoing COVID-19 pandemic, companies are viewing the IT service industry as the drivers of the business value by helping them change the business. Our inorganic growth also facilitates in achieving technical expertise and making inroads in entirely new business areas with good growth prospect.

Processes and systems

Finally, we envisage continuous improvement of the existing processes and systems within the organization as an opportunity to support our growth. With the global presence of organization, usage of uniform systems such as ERP becomes a must. Such systems help us efficiently operate in a consistent manner across the organization. In parallel, it is pivotal to continuously look for process improvements and maintain synchronization among various internal processes. The resulting synergy not only aids in leveraging the shared expertise and potential but also increases the efficacy and effectiveness of the work we do for our clients. It also helps in being agile towards the changing market conditions, adapting the technology trend and be part of digital disruptions. Additionally, it also supports the complex product engineering requirements and helps businesses reduce time-to-market and not just costs.

7. Outlook

Partial relief from COVID-19 impact

While the COVID-19 pandemic has negatively affected revenue growth till the balance sheet date, many clients have subsequently started to ask us to resume delayed projects or ramp up new project teams. With the pipeline of demand that is visible, Nagarro now targets organic revenue growth rate in the region of 15% in 2021.

8. Nagarro share and dividend

It is planned that Nagarro will be listed in the Prime Standard of the Frankfurt Stock Exchange within December 2020. Nagarro currently intends to retain all available funds and any future earnings to support operations and to finance the growth and development of its business. Therefore, it currently does not intend to pay dividends in the foreseeable future. Any future decision to pay dividends will be made in accordance with applicable laws and will depend upon, among other things, the Company’s results of operations, financial condition, contractual restrictions and capital requirements.

C. Interim Condensed Consolidated Financial Statements for the nine months period ended September 30, 2020

Interim Condensed Consolidated Statements of Financial Position

ASSETS	**Note**	**September 30, 2020**	**December 31, 2019**
in kEUR			
Intangible assets	5.1	109,407	111,388
Property, plant and equipment	5.2	6,555	7,201
Right of use assets	5.3	53,801	54,862
Non-current contract costs		194	332
Other non-current financial assets	5.4	2,838	2,702
Other non-current assets		125	34
Deferred tax assets		8,296	8,332
Non-current assets		**181,215**	**184,853**
Inventories		222	9
Current contract costs		246	278
Contract assets		12,310	12,562
Trade receivables	5.5	70,539	80,320
Other current financial assets	5.4	7,359	6,047
Other current assets		6,541	8,964
Income tax receivables		9,153	5,219
Cash		79,505	43,758
Current assets		**185,876**	**157,158**
Total assets		**367,091**	**342,011**

Interim Condensed Consolidated Statements of Financial Position

EQUITY AND LIABILITIES	**Note**	**September 30, 2020**	**December 31, 2019**
in kEUR			
Share capital	5.6	120	50
Capital reserve	5.6	-	22,415
Retained earnings		67,030	47,673
Changes in equity recognized directly in equity	5.6	-228,816	-25,370
Other comprehensive income		-734	5,480
Equity attributable to the shareholders of Nagarro		-162,400	50,249
Equity attributable to non-controlling interests	5.7	-29,718	9,693
Total Equity		**-192,118**	**59,942**
Non-current liabilities to banks		275	244
Non-current lease liabilities		45,234	47,232
Long-term provisions for post-employment benefits		4,618	3,815
Other long-term provisions		249	236
Non-current contract liabilities		277	285
Other non-current financial liabilities	5.8	561	2,125
Non-current liabilities from acquisitions		5,791	10,633
Deferred tax liabilities		2,477	1,566
Non-current liabilities		**59,481**	**66,136**
Current liabilities to banks		5,380	5,252
Current lease liabilities		12,039	12,133
Short-term provisions for post-employment benefits		666	579
Other short-term provisions		10,917	9,927
Current contract liabilities		4,249	7,249
Trade payables		8,037	16,055
Current liabilities from acquisitions		4,314	10,988
Other current financial liabilities	5.8	436,234	140,283
Other current liabilities		6,070	2,480
Income tax liabilities		11,820	10,987
Current liabilities		**499,727**	**215,933**
Equity and liabilities		**367,091**	**342,011**

Interim Condensed Consolidated Statements of Comprehensive Income

Profit or loss

Nine months period ended September 30	Note	2020	2019
in kEUR			
Revenue	6.1	321,433	294,116
Own work capitalized		153	448
Other operating income	6.2	10,638	2,174
Cost of materials	6.3	36,922	36,978
Staff costs	6.4	201,137	185,426
Impairment of trade receivables and contract assets		2,271	689
Other operating expenses	6.5	38,352	34,619
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**53,542**	**39,026**
Depreciation, amortization and impairment		15,995	13,975
Earnings before interest and taxes (EBIT)		**37,548**	**25,051**
Finance income		306	103
Finance costs	6.6	6,555	4,222
Earnings before taxes (EBT)		**31,298**	**20,932**
Income taxes	6.7	-7,854	-6,371
Profit for the period		**23,444**	**14,561**
Profit for the period attributable to:			
Shareholders of Nagarro		19,357	12,098
Non-controlling interests		4,087	2,463

Other comprehensive income

Nine months period ended September 30	Note	2020	2019
in kEUR			
Items that will not be reclassified to profit or loss			
Actuarial gains (losses)		-239	-435
Tax effects		60	140
		-179	**-295**
Items that may be reclassified to profit or loss			
Foreign exchange differences		-7,234	3,145
		-7,234	**3,145**
Other comprehensive income for the period		**-7,413**	**2,850**
Total comprehensive income for the period		**16,031**	**17,412**
Total comprehensive income for the period attributable:			
Shareholders of Nagarro		13,143	14,393
Non-controlling interests		2,889	3,019
Basic earning per share:			
Numbers of shares after the spin-off (in numbers) [1)]		11,382,513	-
Earnings per shares in EUR		1.70	-

[1)] Refer note section 1.1 Background information. The comparative earning per share is not shown as the parent company in 2019 was Nagarro Holding GmbH which is different from current parent company Nagarro SE.

Interim Condensed Consolidated Statements of Changes in Equity

					Other Comprehensive income				
	Share capital	Capital reserve	Retained earnings	Changes in equity recognized directly in equity	Foreign exchange differences	Acturial gain or loss on pension provisions	Equity attributable to the shareholders of Nagarro	Equity attributable to Non-controlling interests	Total Equity
in kEUR									
Balance at January 1, 2019	**50**	**22,415**	**22,192**	**24,265**	**5,927**	**-316**	**74,533**	**14,377**	**88,910**
Profit for the period	-	-	12,098	-	-	-	12,098	2,463	14,561
Other comprehensive income for the period	-	-	-	-	2,637	-342	2,295	555	2,850
Total comprehensive income for the period	-	-	12,098	-	2,637	-342	14,393	3,019	17,412
Dividends	-	-	-	-	-	-	-	-	-
Other transactions with shareholders	-	-	-	-	-	-	-	-	-
Change in shares of Non-controlling interests	-	-	-	-	-	-	-	-	-
Balance at September 30, 2019	**50**	**22,415**	**34,290**	**24,265**	**8,564**	**-658**	**88,926**	**17,395**	**106,321**
Balance at January 1, 2020	**50**	**22,415**	**47,673**	**-25,370**	**6,169**	**-689**	**50,249**	**9,693**	**59,942**
Profit for the period	-	-	19,357	-	-	-	19,357	4,087	23,444
Other comprehensive income for the period	-	-	-	-	-6,065	-150	-6,214	-1,199	-7,413
Total comprehensive income for the period	-	-	19,357	-	-6,065	-150	13,143	2,889	16,031
Share capital isssued	120	-	-	-	-	-	120	-	120
Dividends	-	-	-	-	-	-	-	-	-
Other transactions with shareholders	-50	-22,415	-	-203,447	-	-	-225,912	-	-225,912
Change in shares of Non-controlling interests	-	-	-	-	-	-	-	-42,299	-42,299
Balance at September 30, 2020	**120**	**-**	**67,030**	**-228,816**	**104**	**-839**	**-162,400**	**-29,718**	**-192,118**

Interim Condensed Consolidated Statements of Cash Flows

Nine months period ended September 30	**Note**	**2020**	**2019**
in kEUR			
Cash flows from operating activities			
EBIT		37,548	25,051
Depreciation, amortization and impairments of non-current assets		15,995	13,975
Change in long-term provisions		697	350
Other non-cash income and expenses		2,780	1,352
Income taxes paid		-10,246	-7,898
Cash flows from changes in net working capital		6,738	-10,453
Net cash inflow from operating activities		**53,512**	**22,377**
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		-2,166	-2,236
Proceeds from sale of property, plant and equipment and intangible assets		11	405
Repayments from loans to Allgeier Group		0	0
Payments for loans to Allgeier Group		0	0
Acquisition of subsidiaries, net of cash aquired	7.1	-4,467	-2,863
Net cash outflow from investing activities		**-6,621**	**-4,693**
Cash flows from financing activities			
Proceeds from bank loans		30	-
Repayment of bank loans		-260	-387
Proceeds from shareholders of Nagarro		120	0
Principal elements of lease payments		-13,221	-10,797
Net cash inflow from factoring		2,920	285
Interest received		223	55
Interest paid		-181	-171
Net cash inflow (outflow) from financing activities		**-10,369**	**-11,015**
Total cash flow		**36,522**	**6,669**
Effects of exchange rate changes on cash and cash equivalents		-1,170	507
Total changes in cash and cash equivalents		**35,351**	**7,177**
Cash and cash equivalents at beginning of period		38,786	22,718
Cash and cash equivalents at end of period	7.2	74,137	29,895

D. Notes to the Interim Condensed Consolidated Financial Statements for the nine months period ended September 30, 2020

1. General Information

1.1 Background

Nagarro SE (the "Company"), a former shelf company, founded on January 17, 2020, was acquired by Allgeier SE on February 19, 2020 and renamed accordingly. After several legal reorganizations (described below) which were completed in July 2020, Nagarro SE was finally the ultimate parent company of the newly formed Nagarro Group.

The listing on the stock exchange is contemplated to take place simultaneously with the spin-off. The spin-off will be conducted by the way of a demerger into another company (*Abspaltung zur Aufnahme*) with the issuance of new shares to the shareholders of Allgeier SE in exchange for the spun-off net assets, and subsequent listing of those shares. Once the demerger has been entered into the commercial register of the District Court of Munich, it becomes effective retrospectively as per 1 January 2020. The issuer of the new shares and hence the parent company of the future stand-alone Nagarro will be Nagarro SE. Shares of Nagarro SE are to be admitted to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), Germany, with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange. The spin-off has been approved by the Shareholders' Meetings of Allgeier SE on September 24, 2020.

In connection with the Spin-Off, Allgeier intends to completely divest its share in Nagarro SE. Therefore, Allgeier will spin-off the 120,000 shares held by Allgeier SE in Nagarro along with all shares in Connect AG to Nagarro SE. In order to implement the Spin-Off, Nagarro SE will increase its share capital from Eur 120,000 by Eur 11,262,513 to Eur 11,382,513 by issuing 11,262,513 no-par value registered shares, each with a notional value in the share capital of the Company of Eur 1.00. The Spin-Off Capital Increase will be affected against contribution in kind. As contribution in kind, Allgeier SE will contribute the shares of Connect AG and the shares it holds in the Company to Nagarro SE.

It is expected, that the Spin-Off will take place in the second half of December 2020 with economic retroactive effect upon its entry into Allgeier's commercial register as of January 1, 2020.

As consideration for the Spin-Off, the shareholders of Allgeier will receive the spun-off shares in Nagarro SE and/or the New Shares from the Spin-Off Capital Increase in accordance with their shareholding in Allgeier SE. Allgeier SE, as the previous sole shareholder of Nagarro, will not receive any shares. As a result, Allgeier's shareholders will have a proportionate interest in Nagarro. Immediately after the Spin-Off becomes effective, the Shares shall be admitted to trading on the regulated market of the Frankfurt Stock Exchange (Frankfurter Wertpapierbörse).

After all legal reorganizations have been finished until September 30, 2020, Nagarro has due to the purchase of additional businesses from the remaining Allgeier group acquisition liabilities of kEUR 339,051 which lead temporarily to a high negative consolidated Nagarro group equity. The spin off vehicle Allgeier Connect AG, which will provide Nagarro's group additional equity financing with kEUR 243,619 simultaneously with the spin-off expected in December 2020, is not yet included in the interim condensed consolidated financial statements of September 30, 2020. The equity and the liabilities are shown including the spin-off of Allgeier Connect in the capitalization table in section *8.7 Events after the balance date*

1.2 Basis of accounting

The interim condensed consolidated financial statements reflect the group parent company Nagarro SE and the four business areas that are subject to the Transaction as historically conducted in the entities of the Allgeier group.

Nagarro SE is a European public limited company (Societas Europea, SE) with headquarters in Munich, Germany. The Company is registered in the Commercial Register of the District Court of Munich under number HRB 254410 with its registered offices at Einsteinstrasse 172, 81677 Munich.

In an internal reorganization within the group, in July 2020 Nagarro Software SAS, Paris, France merged into Nagarro Allgeier ES France SAS. This merger is considered to have taken place retrospectively from January 1, 2020.

The nine-month interim condensed consolidated financial statements as of September2020 of Nagarro SE and its subsidiaries were prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting (as adopted by the European Union). The nine-month interim condensed consolidated financial statements 2020 have been prepared in euro (€), which is the functional currency of the company. Unless noted otherwise, amounts are stated in thousands of euros.

The interim condensed consolidated financial statements were authorized for issue by the company's board of directors on November 13, 2020.

2. Basis of preparation of the interim condensed consolidated financial statements

2.1 Compliance with IFRS and other principles

These interim condensed consolidated financial statements were prepared using the same accounting and valuation methods as those on which the combined financial statements as of December 31, 2019 were based and which are described in detail in the notes contained therein.

In the opinion of the company's management, the nine months interim condensed consolidated financial statements reflect all accounting entries (in other words, normal recurring entries) necessary for a fair presentation of Nagarro's financial position and performance. Results presented for interim periods are not necessarily indicative of results that may be expected in future periods or for the full financial year.

In preparing the nine months interim condensed consolidated financial statements according to IFRS, management must make discretionary decisions, estimates and assumptions to a certain extent. These may affect the amount and presentation of assets and liabilities recognised in the balance sheet, disclosures of contingent assets and liabilities as of the reporting date, as well as disclosed income and expenses for the reporting period. Due to the currently unforeseeable global consequences of the Covid-19 pandemic, these estimates and discretionary decisions are subject to increased uncertainty. Actual amounts may vary from these estimates and assumptions; changes can have a significant impact on the nine months interim condensed consolidated financial statements.

All significant intercompany balances and transactions were eliminated.

3. General Accounting Principles

3.1 First time adoption of IFRS (IFRS 1)

With the planned spin-off and the stock market listing already in December 2020, Nagarro SE will be legally obliged to prepare the first annual financial statements for the year ending on December 31, 2020. IFRS 1 has to be applied. By using the predecessor accounting approach, the opening balance for the first consolidated annual financial statement and the interim condensed consolidated financial statements of 2020 is January 1, 2019.

A group, which has the calendar year as financial year, has to apply the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020:

STANDARD/INTERPRETATION	TITLE OF THE STANDARD, INTERPRETATION OR AMENDMENT
Amendments to IAS 1 and IAS 8	Amended by defenition of material
IFRS Framework	Changes in references to the Framework in IFRS Standards
Amendments to IFRS 3	Amended by definition of a business
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 1

As first-time adopter, Nagarro has to apply these new standards and interpretations according to IFRS 1 (note: IFRS 1.7) already in the previous financial year 2019. This adoption had no impact on the amounts reported in these interim condensed consolidated financial statements and on the disclosures for the previous year's figures extracted from Allgeier group financial statements (predecessor accounting approach).

3.2 Standards and interpretations not yet applied

At the date of authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

STANDARD/ INTERPRETATION	TITLE OF THE STANDARD, INTERPRETATION OR AMENDMENT	FIRST-TIME APPLICATION Jan 1
IFRS 17	Insurance Contracts	2023
Annual Improvements to IFRS Standards 2018-2019 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	2021
Amendments to IFRS 4	Insurance contracts - deferral of IFRS 9	2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2	2021
Amendments to IFRS 3	Reference to the Conceptual Framework	2022
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use	2022
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract	2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	2023

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

3.3 Composition of the Group

Scope of consolidation

The scope of consolidation of the group entities for the interim condensed consolidated financial statements of Nagarro was determined based on the legal reorganization concept. That is, the interim condensed consolidated financial statements reflect all businesses which, as a result of the legal reorganization under common control of Allgeier SE, have been transferred to Nagarro SE.

The following table represents an overview of the legal entities that are in scope of consolidation in the interim consolidated financial statement. Businesses that were acquired from a third party during the reporting periods of the interim consolidated financial statement were included from the date at which Allgeier SE obtained control.

	Sep 30, 2020	Dec 31, 2019
Nagarro Base		
Nagarro SE, Munich, Germany[1)]	100.00%	-
SPP Co-Investor Verwaltungs GmbH, Munich, Germany[2)]	100.00%	100.00%
SPP Co-Investor GmbH & Co. KG, Munich, Germany[2)]	16.41%	16.41%
Nagarro SPP GmbH, Munich, Germany	59.04%	59.04%
Nagarro Beteiligungs GmbH, Munich, Germany [2) & 3)]	50.01%	50.01%
Nagarro Holding GmbH, Munich, Germany [2), 4) & 5)]	83.83%	83.83%
Nagarro Inc., San Jose, USA	83.83%	83.83%
Nagarro Software Pvt. Ltd., Gurgaon, India	83.83%	83.83%
Nagarro Software GmbH, Frankfurt, Germany	83.83%	83.83%
Nagarro Software S.A., Monterrey, Mexico	83.83%	83.83%
Mokriya Inc., Cupertino, USA	83.83%	83.83%
Objectiva Software Solutions Inc., San Diego, USA[6)]	83.83%	-
Objectiva Software Solutions Co. Ltd., Beijing, China	83.83%	-
Objectiva Software Solutions Co. Ltd., Xi'an, China	83.83%	-
Allgeier Global Services Asia Pte. Ltd., Singapore	83.83%	83.83%
Nagarro Enterprise Services Pvt. Ltd., Jaipur, India	83.83%	83.83%
Nagarro SDN. BHD., Kuala Lumpur, Malaysia	83.83%	83.83%
Nagarro K.K., Tokio, Japan	83.83%	83.83%
Nagarro Software AB, Stockholm, Sweden	83.83%	83.83%
Nagarro GmbH, Vienna, Austria	83.83%	83.83%
Nagarro GmbH, Munich, Germany	83.83%	83.83%
Nagarro Software srl, Timisoara, Romania	83.83%	83.83%
Nagarro Software A/S, Copenhagen, Denmark	83.83%	83.83%
Nagarro Software Ltd., London, United Kingdom	83.83%	83.83%
Nagarro Software SAS, Paris, France [7)]	-	83.83%
Nagarro AS, Oslo, Norway	83.83%	83.83%
Nagarro Pty. Ltd., Sydney, Australia	83.83%	83.83%
Nagarro Oy, Espoo, Finland	83.83%	83.83%
Nagarro Ltd., Valetta, Malta	83.83%	83.83%
Nagarro Pty. Ltd., Pretoria, South Africa	83.83%	83.83%
Nagarro Inc., Toronto, Canada	83.83%	83.83%
Nagarro Company Ltd., Bangkok, Thailand	83.83%	83.83%
Nagarro Ltd., Port Luis, Mauritius	83.83%	83.83%
Nagarro MENA LL, Dubai, UAE [8)]	83.83%	83.83%
Solutions4Mobility LLC, Dubai, UAE	83.83%	83.83%
Nagarro Allgeier ES GmbH, Kronberg im Taunus, Germany [5) & 9)]	83.83%	-
Allgeier Consulting Services GmbH, Munich, Germany [10)]	-	-
Nagarro Allgeier ES France SAS, Entzheim, France [11)]	83.83%	-
Nagarro Allgeier Enterprise Services Denmark A/S, Bröndby, Denmark [12)]	83.83%	-
Nagarro iQuest Holding GmbH, Karlsruhe, Germany [5) & 13)]	83.83%	-
iQuest Technologies GmbH & Co. KG, Bad Homburg, Germany	83.83%	-
iQuest Verwaltungs GmbH, Bad Homburg, Germany	83.83%	-
iQuest Technologies srl, Cluj-Napoca, Romania	83.83%	-
iQuest Schweiz AG, Zürich, Switzerland	83.83%	-
iQuest SPZOO, Warschau, Poland	83.83%	-
Nagarro ES		
Nagarro Allgeier ES GmbH, Kronberg im Taunus, Germany [5) & 9)]	-	95.00%
Allgeier Consulting Services GmbH, Munich, Germany [10)]	-	95.00%
Nagarro Allgeier ES France SAS, Entzheim, France [11)]	-	95.00%
Nagarro Allgeier Enterprise Services Denmark A/S, Bröndby, Denmark [12)]	-	95.00%
Nagarro Objectiva		
Objectiva Software Solutions Inc., San Diego, USA[6)]	-	100.00%
Objectiva Software Solutions Co. Ltd., Beijing, China	-	100.00%
Objectiva Software Solutions Co. Ltd., Xi'an, China	-	100.00%
Nagarro iQuest		
Nagarro iQuest Holding GmbH, Karlsruhe, Germany [13)]	-	68.72%
iQuest Technologies GmbH & Co. KG, Bad Homburg, Germany	-	68.72%
iQuest Verwaltungs GmbH, Bad Homburg, Germany	-	68.72%
iQuest Technologies srl, Cluj-Napoca, Romania	-	68.72%
iQuest Schweiz AG, Zürich, Switzerland	-	68.72%
iQuest SPZOO, Warschau, Poland	-	68.72%

[1)] The company was acquired in 2020.

[2)] These companies were acquired by Nagarro SE, Germany in 2020.

[3)] The company name was changed from Allgeier Nagarro Beteiligungs GmbH, Munich, Germany, in 2020.

[4)] The company name was changed from Allgeier Nagarro Holding GmbH, Germany in 2020

[5)] These companies alongwith its subsidiaries were acquired by Nagarro Holding GmbH in 2020.

[6)] The company alongwith its subsidiaries were acquired by Nagarro Inc., USA in 2020.

[7)] The company was merged with Nagarro Allgeier ES France SAS, France in 2020.

[8)] The company name was changed from Farbi Technology Middle East LLC, UAE in 2020.

[9)] The company name was changed from Allgeier Midmarket Services GmbH, Germany in 2020.

[10)] The company was merged with Nagarro Allgeier ES GmbH in 2020.

[11)] The company name was changed from Allgeier ES France SAS in 2020

[12)] The company name was changed from Allgeier Enterprise Services Denmark A/S in 2020

[13)] The company name was changed from iQuest Holding GmbH, Karlsruhe, Germany, in 2020

As of September 30, 2020, the shares in Nagarro Holding GmbH were held by Nagarro SE (65.00%), Nagarro SPP GmbH (15.00%) and Nagarro Beteiligungs GmbH (20.00%), where shares in Nagarro SPP GmbH were held by SPP Co-Investor GmbH & Co KG (49.00%) and Nagarro SE (51.00%). Of the shares in Nagarro Beteiligungs GmbH 49.99% (December 31, 2019: 49.99%) were held by co-founders of Nagarro Inc. and of the shares in SPP Co-Investor GmbH & Co KG 83.59% (December 31, 2019: 83.59%) were held by members of management of Nagarro Base. In total, indirectly 16.17% of the shares of Nagarro Holding GmbH (December 31, 2019: 16.17%) were held by the co-founders and management of Nagarro Base. This indirect share of 16.17% remains unchanged since December 31, 2019. Nagarro Holding GmbH by itself, holds 100% of shares in its respective subsidiaries presented in the table above.

In the preparation of the Transaction all businesses that were considered to be part of Nagarro have already been transferred between December 2019 and July 2020 to Nagarro SE or its subsidiaries through a legal reorganization under common control of Allgeier SE prior to the demerger. Details on these legal reorganizations were as follows:

- 90% each of the shares held by Allgeier Enterprise Services AG in Allgeier Consulting Services GmbH and Nagarro Allgeier ES GmbH, the latter along with its shares in Nagarro Allgeier ES Denmark A/S and Nagarro Allgeier ES France SAS, were sold to Nagarro Holding GmbH in December 2019. Previously, the shares in Nagarro Allgeier ES Denmark A/S (100.00%) had been sold by Allgeier Enterprise Services AG to Nagarro Allgeier ES GmbH.
- 10% of the shares of Nagarro Allgeier ES GmbH were sold to Nagarro Holding GmbH in July 2020.
- 100% percent shares held by Allgeier Project Solutions GmbH in iQuest Holding GmbH ("iQuest") were sold to Nagarro Holding GmbH in July 2020.
- 100% of the shares held by Allgeier Project Solutions GmbH in Objectiva Software Solutions Inc. ("Objectiva") were sold to Nagarro Inc in July 2020
- 100% of the shares in Allgeier Nagarro Holding GmbH were sold to Nagarro SE in July 2020
- Subsequent to the above transfers all shares directly or indirectly held by Allgeier Project Solutions GmbH in SPP Co-Investor Verwaltungs GmbH, SPP Co-Investor GmbH & Co. KG, Nagarro SPP GmbH, Nagarro Beteiligungs GmbH and Nagarro Holding GmbH have been sold and transferred to Nagarro SE, including the related SPP.

When a company acquires other entities in third-party transactions, the accounting is usually defined by IFRS 3 "Business Combinations". However, when a company is acquired by another company within the same group, IFRS 3 does not apply. This situation also arises in a group reorganization in anticipation of spin off, and is referred to as a "Business Combination under Common Control" ("BCUCC"). Currently there is no guidance for BCUCC accounting in IFRS, In practice, there is a choice for the accounting methodology to apply for the acquisition between predecessor accounting and acquisition accounting according to IFRS 3, which is also approved by the German accounting standard IDW RS HFA 50: Modul IFRS 3-M2 (Nr. 4 case B).

As these legal transfers constitute business combinations under common control of Allgeier SE, Nagarro elected to apply the predecessor value approach by carrying forward the historical carrying amounts recorded by Allgeier Group without step up to fair value. Accordingly, as the IFRS book values of the respective companies have been already recorded in the interim condensed consolidated financial statements, the recognition and subsequent measurement of the purchase price liabilities totaling to kEUR 61,219 in December 2019 and kEUR 277,832 during September 30, 2020 totaling to kEUR 339,051, resulting in a corresponding decrease in equity, which is reported in "Net assets attributable to shareholders of Nagarro" under "Other transactions with shareholders" in the Interim Condensed Consolidated Statements of Changes in Equity in fiscal years 2019 and 2020. Further, for the purchase price liabilities totaling to kEUR 339,051, Nagarro has agreed for deferred payment with a fixed interest rate of 3.0% with Allgeier SE.

The predecessor accounting approach means that the interim condensed consolidated financial statements are considered to be an extract from the consolidated financial statements of the parent company Allgeier SE ("Extraction Method") and reflect the businesses attributable to Nagarro as they have been historically included in the IFRS consolidated financial statements of Allgeier SE. Hence, Nagarro is presented using the carrying amounts and historical costs that are also included in the IFRS consolidated financial statements of Allgeier SE. In general, the same accounting policies are applied by the entities in the scope of consolidation as they were used for the preparation of the IFRS consolidated financial statements of Allgeier SE, unless such accounting policies are not in accordance with IFRS when presenting Nagarro as a group of companies independent of the Allgeier Group. This approach is generally recognized for the preparation of interim condensed consolidated financial statements.

By applying this approach, the carrying amounts used from the IFRS consolidated financial statements of Allgeier SE for the preparation of the interim condensed consolidated financial statements of Nagarro SE also include historical amounts for acquired intangible assets, step ups from purchase price allocation and goodwill, which result from the acquisition of the businesses in scope of the consolidated financial statements from the Allgeier Group.

3.4 Currency translation

The functional currency of the entities located in the Eurozone is the euro. The functional currency of all other entities is the respective local currency. As part of the preparation of the Interim Condensed Consolidated Financial Statements, the interim financial statements of the entities prepared in a foreign currency were translated into euro, the reporting currency of Nagarro. The closing rates as of September 30, 2020 and December 31, 2019 were used for the translation of assets and liabilities, and the nine-month average rates for revenue and expenses for the nine-month period ended September 30, 2020 and September 30, 2019. Differences arising from translation to Nagarro’s reporting currency are reported directly in other comprehensive income not impacting profit or loss.

The following exchange rates applied for the translation of annual financial statements prepared in foreign currencies:

		Average rate per 1 EUR		Period-end rate per 1 EUR	
		9 month ended Sep 30, 2020	9 month ended Sep 30, 2019	Sep 30, 2020	Dec 31, 2019
Chinese yuan renminbi	CNY	7.906	7.685	7.979	7.823
Danish krone	DKK	7.455	7.464	7.445	7.469
Indian rupee	INR	83.470	78.459	86.255	79.823
Japanese yen	JPY	120.856	122.356	123.610	122.160
Canadian dollar	CAD	1.531	1.487	1.566	1.463
Mauritian rupee	MUR	43.140	38.319	45.469	39.499
Mexican peso	MXN	24.824	21.631	26.197	21.115
Malaysian ringgit	MYR	4.791	4.632	4.867	4.600
Polish zloty	PLN	4.439	4.308	4.553	4.258
Romanian leu	RON	4.827	4.742	4.866	4.781
Swiss franc	CHF	1.068	1.116	1.079	1.087
Singapore dollar	SGD	1.569	1.529	1.603	1.511
South African rand	ZAR	19.041	16.101	19.892	15.733
Thai baht	THB	35.671	34.898	36.987	33.574
US dollar	USD	1.129	1.120	1.171	1.120
UAE dirham	AED	4.149	4.114	4.299	4.113

4. Notes to the statements of financial position

The Interim Condensed Consolidated Statements of Financial Position are prepared in accordance with IAS 1 *Presentation of Financial Statements*. Assets that are realized within the next twelve months and liabilities that are due within one year are generally reported as current.

Derivatives and purchase price liabilities from business combinations are measured at fair value. All other assets and liabilities are accounted for at amortized cost.

Intangible assets

Orders on hand, customer lists, websites, and products acquired in business combinations are initially recognized at fair value and subsequently measured at its cost less accumulated amortization and any accumulated impairment. Amortization of orders on hand occurs concurrently with revenue recognition of the orders. Acquired products are amortized on a straight-line basis over four years. Customer lists are amortized on a straight-line basis over five years.

Inhouse developments are recognized as intangible assets, if the development costs can be measured reliably, and from which an economic benefit from a sale of the services anticipated in the future is probable. Capitalized costs for inhouse developments are measured at cost less accumulated amortization and impairment. Inhouse developments are amortized for the first time from the month of completion on a straight-line basis with a term of four years. Interest on borrowing is not included in the cost of production.

Purchased software, licenses and rights are measured at cost less any accumulated amortization and any accumulated impairment losses. Brands and domains are amortized on a straight-line basis over a term of 15 years. Otherwise software, licenses and rights are subject to amortization on a straight-line basis over three to six years.

Goodwill arising from business combinations is recognized as an intangible asset with an indefinite useful life. Goodwill, and other intangible assets with indefinite useful lives or intangible assets that are not yet available for use are subject to impairment tests at least once a year. For the aforementioned assets impairment tests are also performed whenever there is an indication or specific event ("triggering event") that an asset may be impaired. If the recoverability is no longer given as the carrying amount exceeds the recoverable amount of capitalized goodwill, an impairment loss must be recognized. This is also applicable for other intangible assets with indefinite useful lives or intangible assets that are not yet available for use. Assets in use and other intangible assets with finite useful live are tested for impairment only if there are specific indications that they may be impaired.

Property, plant and equipment

Non-current assets are recognized at cost of acquisition or production, less accumulated depreciation. For internally generated assets, cost of production includes costs that can be directly allocated, proportionate overhead costs and depreciation. Interest on borrowings directly attributable to the acquisition, construction or production of a 'qualifying asset' (one that necessarily takes a substantial period of time to get ready for its intended use or sale) are included in the cost of the asset. Repair and maintenance costs are recognized as expense directly. Straight-line depreciation is applied over the expected, estimated useful life of the assets. The carrying amounts of property, plant and equipment are subject to an impairment test as soon as this is indicated. Land, land rights and buildings, including constructions on third-party property, are measured using the cost model. Straight-line depreciation on buildings is recognized over a maximum useful life of 58 years. Other plant, operating and office equipment is subject to straight-line depreciation over a period of three to 15 years.

Leases

Nagarro applies IFRS 16 for lease accounting and assesses each individual lease contract as to whether it contains a lease in accordance with IFRS 16.

On the day of the inception of the lease Nagarro recognizes an asset for the right of use in this contract and a lease liability for the present value of future lease payments. The right of use asset corresponds to the present value at lease inception, adjusted for the payments made before the commencement date, plus initial direct costs incurred and estimated costs to dismantle or restore the underlying asset.

The right of use asset is depreciated on a straight-line basis over the useful life of the underlying asset, adjusted by impairments. The useful life of the right of use asset is determined as the shorter of the asset's economic useful life and the lease term on a straight-line basis.

The lease liability is measured at the present value of the lease payments that are not yet paid. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The incremental borrowing rate is the interest rate based on the Group's borrowing costs.

Assets are not recognized for leases with a useful life of less than twelve months (short-term leases) and for leases where the respective acquisition cost do not exceed kEUR 5 (leases of low-value assets). These leases are recognized in other operating expenses in the Consolidated Statements of Comprehensive Income.

For leases acquired in the course of a business combination Nagarro recognizes a lease liability at the present value of the remaining lease payments as if the acquired lease were a new lease at the acquisition date and the right-of-use asset at the same amount as the lease liability, adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

The Group leases land and buildings as well as equipment and vehicles. Lease contracts for equipment and vehicles are typically made for fixed periods of three to five years, for buildings up to 18 years, but several contracts have extension or termination options. These are used to maximize operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Deferred taxes

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of an asset or liability and its tax base as well as for tax loss carryforwards. Deferred tax assets are recognized to the extent that their utilization is deemed to be probable.

Deferred taxes are calculated at the applicable or expected tax rates at the time of realization according to the current legal situation in the respective countries. Deferred tax assets and liabilities are calculated using country-specific tax rates.

Deferred tax assets and liabilities are set off if the entity has a legally enforceable right to set off current tax positions and if the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority. Deferred tax assets and liabilities are reported under non-current assets and non-current liabilities.

Contract costs

Capitalized contract costs relate to the costs to fulfil a customer contract. If the costs to fulfil the contract are not within the scope of another standard (e.g. inventories, intangible assets or property, plant and equipment), they must be capitalized separately in the balance sheet if they create resources in connection with a customer contract and it is expected that the costs will be covered by future revenue. They are measured at direct costs plus proportionate production overheads. Capitalized costs are expensed according to the scheduled revenue recognition to which the asset relates. The amortization period must also include probable contract extensions in the future. If the expected revenue less expenses still to be incurred is lower than the contract costs, an impairment is recognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of purchased inventory are generally determined based on the weighted average method after deducting rebates and discounts. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Impairments are recognized if the cost of purchased inventory or net realizable value has decreased at the reporting date.

Contract assets and liabilities

With the fulfillment of contractual obligations of one of the contractual parties, either Nagarro or a customer, a contract asset or a contract liability is recognized, depending on the net balance of the performed contract work and the customer‘s advanced payment. Contract assets and contract liabilities are generally reported as current, as they generally arise within the normal operating cycle of less than one year.

Contract assets and contract liabilities include customer-specific fixed fee contracts that are accounted for using the percentage-of-completion method in accordance with IFRS 15. Revenue is recognized in line with the stage of completion at the reporting date. The stage of completion corresponds to the proportion of contract costs incurred for work performed to date and the estimated total contract costs as of the reporting date. After deduction of partial payments received, contract costs are recognized under contract assets if the contract balance is positive, and under contract liabilities if the contract balance is negative. Borrowing costs are not capitalized in customer-specific fixed fee contracts.

For contracts in which the period between the transfers of a promised good or service to a customer and the customer's payment for that good or service will be one year or less, the Group uses the practical expedient in IFRS 15.63 to not adjust the amount of consideration for the effects of a significant financing component.

Trade receivable

Trade receivables are recognized initially at the amount of consideration that is unconditional. They are subsequently measured at amortized cost using the effective interest method, less loss allowance. The Group applies the IFRS 9 simplified approach to measuring expected credit losses. The expected loss rates are based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade receivables are derecognized when they are assessed as uncollectible or with respect to factoring if essentially all risks and rewards associated with ownership are transferred.

Other financial assets

Other financial assets are recognized at nominal value, less impairments. For other financial receivables, expected credit losses are determined based on expected credit risks, either on the basis of defaults expected in the next twelve months or on the basis of the remaining term to maturity. Significant changes in credit risks are taken into account.

Nagarro uses foreign exchange forwards contracts as derivative financial instruments to reduce exchange rate risks. These hedging transactions are initially recognized and subsequently measured at each following reporting date at fair value. In the case of derivatives with quoted market prices, fair value is the positive or negative market price. Positive market values result in the recognition of a financial asset and negative market values in the recognition of a financial liability. Gains and losses due to changes in fair value are recognized through profit or loss. Derivatives are recognized on the respective trading day.

Other assets and income tax receivables

Other assets and income tax receivables are stated at their nominal amount.

Cash

Cash include cash balances, bank balances and current deposits with original terms of less than three months. They are stated at their nominal amount.

Provisions for post-employment benefits

The Indian companies have obligations for future gratuity payments to employees (gratuity obligations) who have worked with the company for a minimum period of five years that become payable when employees depart, regardless of termination by the employer or employee. These gratuity payments constitute a defined benefit plan according to IAS 19 and are measured using actuarial methods. Calculating the present value of defined benefit obligations is based on country-specific interest rates and mortality tables for India and the company's specific rate of staff turnover.

Other provisions

Other provisions are recognized when a legal or constructive obligation to a third party exists due to a past event, which is expected to result in a future outflow of resources to settle the obligation, and this future outflow of resources can be estimated reliably. The provisions are recognized for all identifiable risks as well as contingent liabilities acquired in a business combination at the expected amounts. The provisions are not offset against recourse claims. Warranty provisions are recognized based on past and/or estimated future claims experience. The cost for the recognition of provisions is reported as profit or loss after deducting expected reimbursements. Non-current portions of the provisions are discounted.

Liabilities to banks and other financial liabilities

Interest-bearing loans, which include liabilities to banks and loans to related parties, are recognized at the amount received on the date the loan is granted. Borrowing costs are recognized as an expense directly in the period in which they are incurred.

Other financial liabilities are initially recognized at settlement amount. Subsequently they are measured at amortized cost. Other financial liabilities include contingent liabilities from business combinations that are recognized and subsequently measured at fair value. The non-current portion of other financial liabilities is recognized at the present value of expected future payments. Market interest rates according to the term are used.

Trade payables

Trade payables are initially recognized at settlement amount. Subsequently they are measured at amortized cost.

Other liabilities

Other liabilities are initially recognized at the cost of acquisition. Subsequently they are measured at amortized cost.

Financial instruments

Financial assets

The financial assets include loans, receivables, derivatives with a positive present value and cash. Based on their characteristics and the purpose for which they were acquired, financial assets are allocated to the categories "financial assets measured at fair value", "financial assets not measured at fair value".

Financial assets are subsequently measured in accordance with IFRS 9 in the categories „at amortized cost (AC)", „at fair value through changes in other comprehensive income (FVOCI)" and „at fair value with changes in fair value through profit or loss (FVTPL)".

The classification of a financial instrument into one of these categories depends on the company‘s business model, taking into account the risks of the financial assets and the terms of the instrument. The examination of the conditions comprises the assessment of whether contractually agreed cash flows are solely interest and principal payments on the principal amount outstanding.

A financial asset is measured at amortized cost using the effective interest method if it is held within a business model whose objective is to collect the contractual cash flows and the terms of the contract result solely in interest and principal payments on the outstanding principal amount on specified dates. Changes in value are recognized through profit or loss.

The FVOCI category includes financial assets held within the framework of a business model whose objective is both to collect the contractual cash flows and to sell those assets, provided that the terms of the contract result solely in interest and principal payments on the outstanding principal on specified dates. Subsequent measurement is at fair value. Changes in value are recognized directly in other comprehensive income (OCI).

Equity instruments and derivative financial instruments are allocated to the FVTPL category and net gains or losses and dividends are recognized through profit or loss.

Impairment losses on financial assets in the category „measured at amortized cost" and on contract assets are recognized in the amount of the expected credit loss if the credit risk has increased significantly since initial recognition. For receivables and contract assets, this involves checking at each reporting date whether there is evidence of credit impairment and whether the credit risk has thereby increased significantly. Both quantitative and qualitative information and analyses such as the length of time past due, the nature and duration of financial difficulties or the geographical location are taken into account, and forward-looking assessments are made on the basis of past experience. Past due more than 90 days is considered objective evidence that the credit quality of an asset is impaired. If the asset is credit-impaired or defaulted, the expected credit losses are recognized as an impairment loss over the entire term of the financial asset. If the credit risk has increased significantly since initial recognition, but no credit impairment or default exists, the expected credit losses over the entire term are taken into account as impairment. In the case of trade receivables and contract assets, expected credit losses are measured with historical probabilities of default on the basis of an impairment matrix by maturity class. For all other financial assets, impairments are made in an amount equal to the share of the expected credit losses that are possible within twelve months of the reporting date or are expected to be incurred within the remaining term. The expected loss model of IFRS 9 requires discretionary decisions in forecasting the development of future economic conditions. However, the assumptions made are subject to uncertainties.

<u>Financial liabilities</u>

Financial liabilities include amounts due to financial institutions, trade payables, lease liabilities, liabilities from acquisitions and other financial liabilities. Based on their characteristics, financial liabilities are allocated to the categories „financial liabilities measured at fair value", „financial liabilities not measured at fair value".

Financial liabilities measured at amortized cost are non-derivative financial liabilities with payments that are fixed or can be determined. They are recognized and subsequently measured using the effective interest method. When liabilities are derecognized, the resulting gains are recognized under other operating income. The financial liabilities measured at fair value through profit or loss include contingent purchase price liabilities from business combinations that are classified as measured at fair value through profit or loss when they are recognized. Subsequently these financial liabilities are measured according to the assignment to this category. Effects from the remeasurement of contingent purchase price liabilities are recognized through profit or loss.

5. Notes to the Interim Consolidated Statement of Financial Position

5.1 Intangible assets

Intangible assets break down as follows:

	Sep 30, 2020 kEUR	Dec 31, 2019 kEUR
Customer lists	4,601	5,880
Products	3,061	577
Software, licences, rights	1,258	983
Inhouse developments	1,368	1,553
Goodwill	99,119	102,395
	109,407	111,388

With the exception of inhouse developments, all intangible assets were acquired.

The orders on hand were measured at its expected net amount determined as the order value for the orders less full costs.

To measure customer lists, historical revenues were analyzed for regular and other customers, in order to determine what revenue with regular customers can be expected within the next five years with. Customer lists were recognized at the amount of expected revenues less full costs and risk discounts, as well as amounts already recognized as orders on hand.

The acquired products are measured based on sales planning and the expected result for the products less risk discounts due to aging and technical obsolescence. A planning period of five years was used.

Current period addtitions mainly relates to acqusition of GES assets totaling to kEUR 3,702 out of which kEUR 550 were under customer list and kEUR 3,152 were under products.Refer *section 8.2 Business Combination.*

There is no impairment of goodwill and the decline in the goodwill is due to foregin currency revaluation.

5.2 Property, plant and equipment

Property, plant and equipment break down is as follows:

	Sep 30, 2020 kEUR	Dec 31, 2019 kEUR
Land and buildings	2,051	2,328
Other plant, vehicles, operating and office equipment	4,505	4,873
	6,555	7,201

5.3 Right of use assets

The right of use assets are composed as follows:

	Sep 30, 2020 kEUR	Dec 31, 2019 kEUR
Land use rights and buildings	35,386	39,962
Vehicles, operating and office equipment	18,415	14,901
	53,801	54,862

5.4 Other financial assets

Other financial assets break down as follows:

	Sep 30, 2020			Dec 31, 2019		
		of which:			of which:	
	Total kEUR	non-current kEUR	current kEUR	Total kEUR	non-current kEUR	current kEUR
Loans to Allgeier SE	3,287	-	3,287	2,009	-	2,009
Loans to Allgeier Project Solutions GmbH	-	-	-	1,205	-	1,205
Trade receivables from related parties	1,922	-	1,922	-	-	-
Related parties	5,209	-	5,209	3,215	-	3,215
Security deposits	3,350	2,628	722	2,900	2,493	408
Receivables from employees	360	-	360	756	-	756
Securities to suppliers	-	-	-	756	-	756
Derivative financial instruments	187	-	187	455	-	455
Creditors with debit balances	5	-	5	116	-	116
Other	1,085	210	875	552	210	342
Third parties	4,988	2,838	2,150	5,535	2,702	2,833
	10,197	2,838	7,359	8,750	2,702	6,047

Further information on receivables from Allgeier Group companies is provided in section *7.3 Related party transactions.*

5.5 Trade receivables

Trade receivables are composed as follows:

	Sep 30, 2020 kEUR	Dec 31, 2019 kEUR
Customer receivables	74,562	82,502
Impairment of customer receivables	-4,022	-2,182
	70,539	80,320

Till mid-September 2020, for financing customer receivables the Allgeier Group had a factoring volume of kEUR 60,000 (2019: kEUR 60,000), in which Nagarro also participated in the past which stands terminated as at September 30, 2020. Under this factoring program, Nagarro derecognizes customer receivables after the risk associated with the sold receivables is transferred. From September 2020, Nagarro has entered into a new factoring facility with a limit of kEUR 20,000 and has partially utilized it. Interest on the factored receivables is calculated at Euribor plus a margin of up to 1.3 percentage points under the Allgeier group factoring program till mid-September 2020 and 1.88 percentage points under the Nagarro factoring program thereafter. In September 2020 under the new facility, an interest rate of 1.43% p.a. was applied as a result of ongoing negative short-term interest rates (December 31, 2019: 0.94% p.a.).

As of September 30, 2020, kEUR 8,396 (December 31, 2018: kEUR 6,249) of the factoring volume was used. Of this amount, a portion of kEUR 7,507 (December 31, 2019: kEUR 4,586) was offset against trade receivables. The remaining portion of kEUR 591 (December 31, 2019: kEUR 1,663) paid by customers was recognized under liabilities to banks. The factor pays the submitted receivables lists on two specified days in the month. In cases in which the individual receivables are paid by customer in the period between payment by the factor and the end of the month, the amounts received by Nagarro are recognized as liability. The liabilities have floating interest rates. At the end of September 30, 2020 an interest rate of 1.43% p.a. was applied (December 31, 2019: 0.94% p.a.).

Impairment of customers receivables includes provision for bad debt amounting to kEUR 1,178 (December 31, 2019: kEUR Nil) made against receivable from one of the clients where legal proceedings have started with that client. Also refer section *8.5 Contingent liabilities and guarantees.*

5.6 Equity share capital

Equity is composed as follows:

	Sep 30,2020 kEUR	Dec 31, 2019 kEUR
Share capital	120	50
Capital reserve	-	22,415
Retained earnings	67,030	47,673
Changes in equity recognized directly in equity	- 228,816	- 25,370
Other comprehensive income		
Foreign currency reserve	104	6,169
Acturial gain or loss on pension provisions	- 839	- 689
Total equity attributable to shareholders of Nagarro	- 162,400	50,249
Equity attributable to Non-controlling interests	- 29,718	9,693
Total Equity	- 192,118	59,942

The negative equity is temporary due to pending legal reorganization of Allgeier Connect AG under Nagarro SE and would be positive once this legal reorganization is completed (refer to section 8.7. *Events after the balance sheet*).

Subscribed share capital

The subscribed share capital of Nagarro SE on the reporting date of September 30, 2020 of kEUR 120 was divided into 120,000 no-par bearer shares. In the previous year, the share capital represents the share capital of Nagarro Holding GmbH of kEUR 50 divided into 50,000 no-par bearer shares. Each share has a notional share in the share capital of EUR 1.00. All the company's no-par shares are of the same class. The shares are fully paid in.

Capital reserve

Capital reserve has been transferred to changes in equity recognized directly in equity due to change in equity holding from Nagarro Holding GmbH to Nagarro SE.

Changes in equity recognized directly in equity

The movement of Changes in equity recognized directly in equity is as follows:

Changes in equity recognized directly in equity	Sep 30,2020 kEUR	Dec 31, 2019 kEUR
Opening balance	-25,370	24,265
Share capital of Nagarro Holding GmbH transferred	50	0
Capital reserve of Nagarro Holding GmbH transferred	22,415	0
Acquisitions of companies from Allgeier Group	-232,906	-51,320
Objectiva earnout paid by Allgeier group	8,026	0
Changes in the shares of non-controlling interests of the Nagarro Group participation program	47	0
Other	-1,079	1,685
Closing balance	-228,816	-25,370

Also refer section *8.1 Financial instruments*.

5.7 Non-Controlling interest

The negative Non-Controlling Interest are calculated for Nagarro Holding group and the movement of Non-Controlling interest is as:

Equity attributable to Non-controlling interests	Sep 30,2020 kEUR	Dec 31, 2019 kEUR
Opening balance	9,693	14,377
Total Other comprehensive income for the period/year	2,889	5,037
Acquisitions of companies from Allgeier Group	-44,926	-9,899
Objectiva earnout paid by Allgeier group	1,547	0
Other	1,079	178
	-29,718	9,693

For the Objectiva earnout paid by Allgeier Group, refer section *8.1 Financial instruments*.

5.8 Other financial liabilities

Other financial liabilities are composed as follows:

	Sep 30, 2020			Dec 31, 2019		
		of which:			of which:	
	Total kEUR	non-current kEUR	current kEUR	Total kEUR	non-current kEUR	current kEUR
Liabilities to Allgeier Enterprise Services AG	1,129	-	1,129	61,219	-	61,219
Loan Allgeier Connect	244,603	-	244,603	-	-	-
Loan Allgeier SE	156,408	-	156,408	37,954	-	37,954
Loan Allgeier Management AG	595	-	595	-	-	-
Loan Allgeier Project Solutions GmbH	-	-	-	17,564	-	17,564
Loan Allgeier Enterprise Services AG	-	-	-	3,091	-	3,091
Trade payables to related parties	2,438	-	2,438	-	-	-
Related parties	405,174	-	405,174	119,829	-	119,829
Wages and salaries	8,882	-	8,882	7,956	-	7,956
Leave obligations	7,176	-	7,176	4,702	-	4,702
Outstanding incoming invoices	7,936	-	7,936	2,908	-	2,908
Social security liabilities	3,311	-	3,311	3,953	-	3,953
Derivative financial instruments	345	-	345	404	-	404
Working time accounts	345	-	345	345	-	345
Customers with credit balances	1	-	1	154	-	154
Other	3,625	561	3,064	2,157	2,125	33
Third parties	31,620	561	31,059	22,579	2,125	20,454
	436,795	561	436,234	142,408	2,125	140,283

Obligations arising from vacation days not yet taken and granted to employees of Nagarro companies as of the reporting date are recognized as leave obligations. Expenditure per vacation day is calculated according to the individual average salary (excluding one-time payments) of the employees in the fiscal year under review, including social security contributions.

Refer to section 8.3 *Related party transactions* for information on liabilities with the companies of the Allgeier Group and for information on business acquired from Allgeier Group.

The liabilities to Allgeier Connect AG of kEur 244,603 is temporary due to legal reorganization and would be set off once the legal reorganization of Allgeier Connect AG under Nagarro SE is completed (refer to section 8.6 *Events after the balance sheet*).

5.9 Provisions for spin off cost and restructuring cost

As at September 30, 2020, the Group has provisioned kEur 1,760 (December 31, 2019: Eur Nil) towards spin off cost and restructuring cost which is included in other operating expense in the Interim Consolidated Statement of Comprehensive income. There are more costs which are expected to be recognised as spin off costs in the fourth quarter of 2020.

6. Notes to the Interim Condensed Consolidated Statements of Comprehensive Income

6.1 Revenue

Almost all revenue is recognized with performance obligations satisfied over time from period-related services, the annual amount of which can be clearly derived from the contractual agreements, as well as from customer-specific orders (contracts for work and services) generally to be completed in the following year, the amount of which is derived from the unsatisfied, firmly agreed order values considering any updates.

More information on revenue is provided in section 8.4 *Segment information*.

6.2 Other operating income

The other operating income is composed as follows:

Nine months period ended September 30	2020 kEUR	2019 kEUR
Income from currency translation	9,238	1,594
Income from the sale of fixed assets	11	4
Reversal of value adjustments on receivables	191	1
Release of provisions	306	0
Miscellaneous	890	575
	10,638	2,174

6.3 Cost of material

The cost of material is composed as follows:

Nine months period ended September 30	2020 kEUR	2019 kEUR
Purchased services	29,943	31,237
Raw materials and supplies	6,978	5,741
	36,922	36,978

Purchased services include external temporary staff and subcontractors engaged on a project-specific basis.

6.4 Staff costs

Staff costs are composed as follows:

Nine months period ended September 30	2020 kEUR	2019 kEUR
Salaries and wages	172,416	158,793
Social security contributions	16,867	16,049
Bonuses	11,854	10,584
	201,137	185,426

6.5 Other operating expenses

Other operating expenses are composed as follows:

Nine months period ended September 30	2020 kEUR	2019 kEUR
Travel expenses	4,220	9,575
Vehicle costs	2,045	3,542
IT costs	3,643	2,845
Services	2,601	2,457
Land and building costs	1,682	2,274
Other staff costs	2,138	2,051
Advertising expenses	925	2,043
Communication expenses	1,420	1,291
Maintenance	2,463	1,195
Expense from currency translation	9,658	1,417
Insurance, contributions	1,100	946
Legal and consulting fees	797	703
Entertainment expenses	348	651
Office supplies	449	460
Expenses for statutory financial statements	466	354
Direct selling expenses	331	427
Miscellaneous	4,067	2,387
	38,352	34,619

Miscellaneous expense includes kEUR 1,760 (September 30, 2019 : Eur Nil) towards spin off cost and restructuring cost. Refer section 5.9 Provisions for spin off cost and restructuring cost

6.6 Finance cost

Finance cost is composed as follows:

Nine months period ended September 30	2020 kEUR	2019 kEUR
Interest on leases	1,710	2,125
Interest on loans from Allgeier Group	4,477	1,386
Interest on liabilities from acquisitions (net)	-3	375
Interest on bank loans	58	97
Factoring interest	86	50
Interest portion of additions to pension provisions	190	165
Other interest expenses	37	25
	6,555	4,222

Interest on loans from Allgeier Group has increased due to acquisition of businesses from Allgeier for which payment will be settled with the help of the syndicated loan as mentioned in section *8.7 Events after the balance sheet date*. Also refer section *8.2 Related party transactions* for the details of businesses acquired from Allgeier.

6.7 Income taxes

Income tax expense is recognized at an amount determined by multiplying the profit (loss) before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognized in full in the interim period. As such, the effective tax rate in the interim condensed consolidated financial statements may differ from management's estimate of the effective tax rate for the annual consolidated financial statements.

The Group's consolidated effective tax rate in respect of continuing operations for the nine months ended September 30, 2020 was 25.1% (nine months ended 30 September 2019: 30.4%). The change of effective tax rates – besides the changing profits of the single entities – was caused mainly by the following factors:

- For Indian entities the corporate income tax rate was reduced for tax years beginning on April 1, 2019 from 34.0% to 25.2%.
- After implementation of a profit and loss transfer agreement with Nagarro ES GmbH beginning with the financial year 2020, the carried forward tax losses of Nagarro Holding GmbH can be used through expected future profits and therefore deferred tax assets have been accrued. For carried forward tax losses until September 2019 no deferred tax asset has been accrued.
- Spin-off costs which primarily relate to external advice (especially by financial advisors, legal counsels and strategy consultants), auditing costs, transaction costs, costs for notarization, costs of the shareholders' meeting, costs of registrations with the commercial registers of around kEUR 1,760 are considered as non-deductible expenses. Therefore, these costs have an impact on raising the tax rate. For uncertainties about the taxable allocation of these costs, the principle of prudence was taken into account.
- Reversal of excess tax provisions at the time of acquisition of Nagarro Objectiva kEUR 2,177.

7. Notes to the Interim Condensed Consolidated Statements of Cash Flows

7.1 Net cash flows from business combination

Cash outflows for the acquisition of business from third party in current period of 2020 net of cash acquired, reconcile as follows:

	GES Asset details kEUR
Acquisition cost	3,480
Non cash share in 2020	-
Purchase price paid in cash in 2020	3,480
Acquired cash and cash equivalents	-
Outflow of cash and cash equivalents	3,480

Additionally, for the acquisition of subsidiary in 2019 kEUR 987 (Nagarro MENA), subsequently have been paid during the current period of 2020. Also refer section *8.1 Financial instruments*.

Cash outflows for the acquisition of business from third party in previous period of 2019 net of cash acquired, reconcile as follows:

	Nagarro MENA kEUR
Acquisition cost	5,313
Non cash share in 2019	-2,371
Purchase price paid in cash in 2019	2,942
Acquired cash and cash equivalents	-79
Outflow of cash and cash equivalents	2,863

7.2 Cash and cash equivalent

Cash and cash equivalent for the purpose of cashflow comprised of the below:

	Sep 30, 2019 kEUR	Dec 31, 2019 kEUR
Cash	79,505	43,758
Liabilities from factoring	-888	-1,663
Overdraft facilities	-4,479	-3,310
	74,137	38,786

8. Other disclosures

8.1 Financial instruments

The carrying amounts and fair values of financial instruments are classified as follows:

	Carrying amounts			Fair values			
Sep 30, 2020 kEUR	at fair value	at amortized costs	Total	Level 1	Level 2	Level 3	Total
Financial assets							
FVTPL							
Other financial assets							
Foreign exchange forward transactions	187	-	187	-	187	-	187
	187	-	187	-	187	-	187
AC							
Trade receivables	-	72,461	72,461				72,461
Other financial assets	-	8,088	8,088				8,088
Cash	-	79,505	79,505				79,505
	-	160,054	160,054				160,054
	187	160,054	160,241				160,241
Financial liabilities							
FVTPL							
Liabilities from acquisitions	9,882	-	9,882	-	-	9,882	9,882
Other financial liabilities							
Foreign exchange forward transactions	345	-	345	-	345	-	345
	10,227	-	10,227	-	345	9,882	10,227
AC							
Liabilities from acquisitions	-	223	223				223
Liabilities to banks	-	5,655	5,655				5,655
Trade payables	-	8,037	8,037				8,037
Other financial liabilities	-	436,450	436,450				436,450
	-	450,366	450,366				450,366
	10,227	450,366	460,593				460,593

Dec 31, 2019 kEUR	Carrying amounts at fair value	 at amortized costs	 Total	Fair values Level 1	 Level 2	 Level 3	 Total
Financial assets							
FVTPL							
Other financial assets							
Foreign exchange forward transactions	455	-	455	-	455	-	455
	455	-	455	-	455	-	455
AC							
Trade receivables	-	80,320	80,320				80,320
Other financial assets	-	8,295	8,295				8,295
Cash	-	43,758	43,758				43,758
	-	132,373	132,373				132,373
	455	132,373	132,828				132,828
Financial liabilities							
FVTPL							
Liabilities from acquisitions	21,398	-	21,398	-	-	21,398	21,398
Other financial liabilities							
Foreign exchange forward transactions	404	-	404	-	404	-	404
	21,802	-	21,802	-	404	21,398	21,802
AC							
Liabilities from acquisitions	-	223	223				223
Liabilities to banks	-	5,496	5,496				5,496
Trade payables	-	16,055	16,055				16,055
Other financial liabilities	-	142,004	142,004				142,004
	-	163,778	163,778				163,778
	21,802	163,778	185,580				185,580

For items for which fair value is not disclosed, the carrying amounts are deemed a fair representation of the fair value.

For determining the fair value of assets and liabilities, if possible, Nagarro uses prices that can be observed in the market. Depending on the input factors, the fair value is classified in different levels of the measurement hierarchy:

- Level 1: Prices for identical assets and liabilities are used that are available in active markets.
- Level 2: Other measurement factors are used for an asset or a liability that can be observed directly or indirectly, or that can be derived from market prices.
- Level 3: Measurement factors are used that are not based on observable market data.

In the periods under consideration there were no reclassifications between hierarchy levels.

Forward rate pricing: The fair value is determined using quoted forward rates on the balance sheet date and net present value calculations based on yield curves with high credit ratings in corresponding currencies.

Financial instruments categorized in Level 3 are derived as follow:

Contingent purchase price liabilities measured at fair value	Total kEUR
Balance as at Dec 31, 2018	25,202
Additions	2,370
Fair value changes recognized through profit or loss	-7,144
Interest effect	490
Reduction due to payments	-
Currency differences	480
Balance as at Dec 31, 2019	21,398
Additions	0
Fair value changes recognized through profit or loss	0
Interest effect	-3
Reduction due to payments	-987
Currency differences	-953
Transactions with Allgeier Group	-9,573
Balance as at Sep 30, 2020	9,882

Reduction due to payments relates to payment for acquisition to Nagarro MENA in the current period. Also refer section 8.*1 Net cash flows from business combination*.

Transactions with Allgeier Group relates to earnout relating to Objectiva paid by Allgeier Group. This has been reduced from the equity. Also refer section *5.6 Equity share capital and 5.7 Non-Controlling interest*.

8.2 Business combination

Acquisition of GES (asset deal)

By way of purchase agreement dated December 17, 2019, Allgeier Midmarket Services GmbH, Kronberg im Taunus (from March 13, 2020: Nagarro Allgeier ES GmbH), acquired the GES division for SAP public sector consulting and development services (GES) from GES Systemhaus GmbH Co. KG, Wiesbaden to extend its SAP business with the public sector and acquire qualified SAP engineering professionals to enhance the SAP business. GES provides software solutions for municipal applications on the basis of its own software suite. kEUR 3,480 was agreed as the purchase price for the assets and customer agreements assumed and was paid in the first quarter of 2020. GES was included in consolidation for the first time as of January 1, 2020. kEUR 3,152 of the purchase price was attributed to the acquired software product "Public Sector," kEUR 550 to acquired customer agreements, kEUR 48 to property, plant and equipment and kEUR 270 to provisions in connection with the acquired employees. In the period from January 1, 2020 to September 30, 2020, GES generated revenue of kEUR 3,021 and earnings before interest, taxes, depreciation and amortization of kEUR 910. In connection with the transaction there were costs of kEUR 55 which were recognized in other operating expenses.

Below is the break of net assets acquired of GES asset deal:

	Fair values kEUR
Intangible assets	3,702
Property, plant and equipment	48
Assets acquired	3,750
Other liabilities	270
Liabilities assumed	270
Net assets	3,480

8.3 Related party transactions

Transactions and outstanding balances with related parties exist between the consolidated Nagarro companies (see section *3.3 Composition of the Group*) and the companies of the remaining Allgeier Group, i.e. Allgeier SE and its direct and indirect subsidiaries outside the scope of combination, as well as with the members of Nagarro's key management personnel.

Outstanding balances with Allgeier Group companies

	Allgeier SE		Other Allgeier Group companies	
	Sep 30, 2020 kEUR	Dec 31, 2019 kEUR	Sep 30, 2020 kEUR	Dec 31, 2019 kEUR
Total assets				
Trade receivables	451	1	1,471	1,323
Other current financial assets	3,287	2,009	0	1,205
	3,738	2,010	1,471	2,528
Total liabilities				
Trade payables	2,000	1,605	438	2,320
Other current financial liabilities	156,408	37,954	246,327	81,875
	158,409	39,559	246,765	84,195

Loans taken from Allgeier Group companies

kEUR	Maturity	Interest rate	September 30, 2020	December 31, 2019
Allgeier Nagarro Holding				
from Allgeier SE	monthly	3% p.a.	116,735	37,954
from Allgeier Project Solutions GmbH	monthly	3% p.a.	-	5,206
from Allgeier Enterprise Services AG	monthly	3% p.a.	1,129	61,219
from Allgeier Connect AG	monthly	3% p.a.	50,204	-
Nagarro SPP GmbH				
from Allgeier SE	3 month's notice	EURIBOR plus 3%p.a.	6,870	-
from Allgeier Project Solutions GmbH	3 month's notice	EURIBOR plus 3%p.a.	-	6,719
Nagarro Inc. (USA)				
from Allgeier SE	monthly	3% p.a.	26,617	-
Allgeier Nagarro Beteiligungen GmbH				
from Allgeier SE	3 month's notice	3% p.a.	5,767	-
from Allgeier Project Solutions GmbH	3 month's notice	3% p.a.	-	5,640
Allgeier Midmarket Services GmbH				
from Allgeier Enterprise Services AG	monthly	3% p.a.	-	2,761
Allgeier Enterprise Services Denmark A/S				
from Allgeier Enterprise Services AG	monthly	3% p.a.	-	331
Nagarro SE				
from Allgeier SE	monthly	3% p.a.	419	-
from Allgeier Management AG	monthly	3% p.a.	595	-
from Allgeier Connect AG	monthly	3% p.a.	194,399	-
			402,736	119,830

Loans given and other receivables from Allgeier Group companies

kEUR	Maturity	Interest rate	September 30, 2020	December 31, 2019
Nagarro Inc. (USA)				
to Allgeier SE	monthly	3% p.a.	547	-
to Allgeier Project Solutions GmbH	monthly	3% p.a.	-	535
Nagarro GmbH (Germany)				
to Allgeier SE	monthly	3% p.a.	686	-
to Allgeier Project Solutions GmbH	monthly	3% p.a.	-	671
Nagarro iQuest Holding GmbH				
to Allgeier SE	monthly	3% p.a.	2,055	2,009
			3,287	3,215

Acquisitions from Allgeier Group

During the year 2019 and 2020, Nagarro Base has acquired the below entities for the purchase consideration mentioned therein. Nagarro has agreed for deferred payment with a fixed interest rate of 3.0% with Allgeier SE. Also refer section *3.3 Composition of the Group, 5.6 Equity share capital and 5.7 Non-controlling interest*.

Entity acquired from Allgeier Group	Entity acquired by	Sep 30, 2020 kEUR	Dec 31, 2019 kEUR
Nagarro Allgeier ES	Nagarro Holding GmbH		
'acquired 90% in 2019			61,219
'acquired 10% in 2020		6,802	
Nagarro iQuest	Nagarro Holding GmbH	50,974	-
		57,776	61,219
Nagarro Objectiva	Nagarro Inc	26,448	-
		26,448	-
Nagarro Holding GmbH	Nagarro SE	149,928	-
Nagarro Beteiligungs GmbH	Nagarro SE	23,093	-
Nagarro SPP GmbH	Nagarro SE	17,744	-
SPP Co-Investor GmbH & Co. KG	Nagarro SE	2,823	-
SPP Co-Investor Verwaltungs GmbH	Nagarro SE	21	-
		193,609	-
Acquisitions cost		277,832	61,219
Purchase price paid		-	-
Acquired cash and cash equivalents[1)]		-	-
Purchase price payable to Allgeier group		277,832	61,219

[1)] Acquired cash and cash equivalents has been recognised in the respective years of acquisition by Allgeier group as per predecessor accounting of IFRS 3.

Purchase price attributable to:		
Shareholders of Nagarro	232,906	51,320
Non-controlling interests	44,926	9,899

As at September 30, 2020, the total purchase price payable to Allgeier Group is kEUR 339,051 (December 31, 2019: kEUR 61,219).

Equity transactions with Allgeier Group

Transactions between Nagarro and remaining Allgeier Group directly impacting equity, either cash or non-cash, are reported as "Other transactions with shareholders" within "Net asset attributable to shareholders of Nagarro" in the Interim Condensed Consolidated Statements of Changes in Equity, and further discussed in section *5.6 Equity share capital*, if material.

Income and expense resulting from transactions with Allgeier Group

	Allgeier SE		Other Allgeier Group companies	
	Sep 20 kEUR	Sep 19 kEUR	Sep 20 kEUR	Sep 19 kEUR
Revenue and other income				
Revenue	3	14	4,444	3,604
Operating expenses				
Cost of materials	0	0	-1,029	-2,171
Staff costs	0	0	0	0
Other operating expenses	-356	-2	-1,639	-1,711
	-356	-2	-2,668	-3,883
Amorization and Depreciation				
Depreciation right-of-use assets	0	0	0	-572
Financial result				
Interest income	72	0	0	48
Interest expense	-2,304	-814	-2,172	-651
	-2,232	-814	-2,172	-603

Revenue

Revenues realized with remaining Allgeier Group predominantly relate to software development, consulting and managed services.

Operating expense

Cost of materials result predominantly from the purchase of services from remaining Allgeier Group with respect to delivering projects and managed services.

Other operating expenses relate to rental costs for buildings and vehicles not accounted for under IFRS 16 and other services rendered by the Allgeier Group, including e.g., legal and consulting fees. Expenses for such services include the allocation of corporate costs.

Financial result

Interest income and expense mainly relate to the loans to and from remaining Allgeier Group presented above as well as from the lease agreements with between Nagarro and the other Allgeier Group companies.

Depreciation

Depreciation of right-of-use assets result from the lease agreements.

8.4 Segment information

Segment reporting for the periods under consideration of the interim Condensed Consolidated Financial Statements is based on the management reporting established in August 2020.

The segment report for Nagarro has been prepared using the guiding principle of IFRS 8 and the Custodian of Entrepreneurship in the Organization of the company has been identified as the Chief Operating Decision Maker (CODM).

The company has chosen Client Region for its segments to reflect the primary approach by which Nagarro allocates its resources, especially the significant investments in M&A, and how it assesses the financial performance of the investments. Nagarro has acquired/merged with many companies over the years, including those domiciled in and mainly serving clients in Germany, Austria, USA, Norway, and the UAE. A major motivation for, and natural outcome of, this M&A activity has been the increased access to clients in the geographical area of the target company’s domicile. Assessing the performance of such investments is also therefore tied to Nagarro’s performance in relation to clients in that region, including in some cases for the purpose of “earn out” calculations for the final acquisition price. In addition, even besides the M&A, the chain of responsibility for a Client Region is established with the Sales & Marketing Unit leaders corresponding to the region tasked with driving the company’s success with clients in that region. Finally, the Client Regions are, given the nature of geography, rather stable in their definitions, whereas Nagarro is constantly re-organizing its global delivery units, both for internal reasons and for external reasons such as industry trends and technology changes.

There are four reportable operating Client Region segments: North America, Central Europe, Rest of Europe, and Rest of World. The definition of Central Europe used is Austria, Croatia, Czech Republic, Germany, Hungary, Poland, Romania, Serbia, Slovakia, Slovenia, and Switzerland. The other segments are rather self-explanatory.

The measures used to report to the CODM for assessing the segments’ performance are third-party (non-intersegment) revenues and gross margin. Third-party revenues are categorized on the basis of the country of a customer’s domicile and are then attributed to the appropriate segment. Cost of revenues is the total direct costs needed to service the revenue. It includes direct costs related to colleagues (employees and freelancers) allocated to engineering topics, costs related to travel of these colleagues, and other, smaller, reimbursable, and non-reimbursable cost components. The direct costs incurred by each legal entity are spread across the Client Regions it services proportionately to the volume of business it is supporting for each Client Region. The segment’s gross margin is calculated as the difference between the total performance of the segment and the cost of revenues, expressed as a percentage of the Revenue of the segment. Given the definition of Client Regions and how revenues and costs are apportioned, the question of intersegment transactions does not arise.

Certain items like sales expense, general and administrative expense, depreciation, results related to currency fluctuations, results unrelated to the accounting period, interest income and expense, goodwill, tax depreciation of intangible assets, income taxes, etc. are not allocated to any segment but are used to reconcile the net income for the segments to the net income of the company. The CODM does not review assets and liabilities at the reportable segment level, thus segment disclosure relating to total assets and liabilities is not included in the report.

Nine months period ended September 30	North America 2020 kEUR	Central Europe 2020 kEUR	Rest of Europe 2020 kEUR	Rest of World 2020 kEUR	Total 2020 kEUR
Revenue	111,674	119,639	47,866	42,254	321,433
Own work capitalized	-	-	153	-	153
Total performance	111,674	119,639	48,019	42,254	321,586
Costs of revenues	-72,121	-83,398	-32,827	-27,381	-215,728
Segment gross profit	39,553	36,240	15,192	14,873	105,858
as % of revenue	35%	30%	32%	35%	33%
Selling, General and Administrative expenses					-47,625
as % of revenue					-15%
Adjusted EBITDA					58,234
as % of revenue					18%
Special items					-4,691
EBITDA					53,542
as % of revenue					17%

Nine months period ended September 30	North America 2019 kEUR	Central Europe 2019 kEUR	Rest of Europe 2019 kEUR	Rest of World 2019 kEUR	Total 2019 kEUR
Revenue	100,525	122,727	43,294	27,570	294,116
Own work capitalized	-	280	168	-	448
Total performance	100,525	123,007	43,461	27,570	294,564
Costs of revenues	-66,646	-86,141	-30,629	-18,174	-201,590
Segment gross profit	33,879	36,866	12,833	9,396	92,973
as % of revenue	34%	30%	30%	34%	32%
Selling, General and Administrative expenses					-51,158
as % of revenue					-17%
Adjusted EBITDA					41,815
as % of revenue					14%
Special items					-2,789
EBITDA					39,026
as % of revenue					13%

The items "Costs of revenues" and "Selling, General and Administrative expenses", both not including depreciation and amortization, reconcile to income and expense presented in Interim Condensed Consolidated Statements of Comprehensive Income as follows:

Nine months period ended September 30	2020				
		thereof			
	Cost by nature kEUR	Costs of revenues kEUR	Selling, General and Administrative expenses kEUR	Special items kEUR	Total kEUR
Cost of materials	36,922	36,922	-	-	36,922
Staff costs	201,137	173,060	27,839	238	201,137
Other operating expenses	38,352	5,761	29,576	3,015	38,352
Impairment of trade receivables and contract assets	2,271	-	-	2,271	2,271
Other operating income	-10,638	-15	-9,790	-833	-10,638
Total	268,044	215,728	47,625	4,691	268,044

Nine months period ended September 30	2019				
		thereof			
	Cost by nature	Costs of revenues	Selling, General and Administrative expenses	Special items	Total
	kEUR	kEUR	kEUR	kEUR	kEUR
Cost of materials	36,978	36,978	-	-	36,978
Staff costs	185,426	155,044	30,032	349	185,426
Other operating expenses	34,619	9,568	23,363	1,689	34,619
Impairment of trade receivables and contract assets	689	-	-	689	689
Other operating income	-2,174	-	-2,237	63	-2,174
Total	255,537	201,590	51,158	2,789	255,537

The "Special items" relate to non-recurring items, purchase price adjustments and acquisition costs, and effects with respect to prior periods as discussed in the following.

Adjusted EBITDA is calculated according to economic criteria and is independent from IFRS rules. It provides information on the profitability of Nagarro and contain elements of the interim Consolidated Statement of Comprehensive Income relating to operating performance. It is adjusted for the "Special items". All items mentioned in the table below and qualifying as special items are generally eliminated irrespective of the amount. Therefore, Adjusted EBITDA is more suitable for comparing operating performance over several periods.

The reconciliation of EBITDA (as reported in the Interim Condensed Consolidated Statements of Comprehensive Income) to Adjusted EBITDA is presented below:

Nine months period ended September 30	2020	2019
	Total	Total
	kEUR	kEUR
EBITDA	53,542	39,026
Losses on the disposal of non-current assets (net)	20	56
Losses from impairments and write-offs of customer receivables (net)	2,080	688
Expense from purchase price adjustments	-	116
Expenses from acquisitions	47	126
Staff costs from restructuring and severance	238	349
Other non-recurring and prior periods related items	2,307	1,455
Adjusted EBITDA	58,234	41,815

8.5 Contingent liabilities and guarantees

No contingent liabilities and guarantees existed during the period ended September 30, 2020 and December 31, 2019.

Further, Nagarro Inc. ("NI"), a company of Nagarro, is subject to legal proceedings with one of its clients. NI had an outstanding debt against a client, who is incorporated in Ireland and has significant operations in India. For recovery of this outstanding debt, NI filed a winding up petition against it in Ireland in May 2020 which it later withdrew based on advice from local attorneys and has made a provision for bad debt of kEUR 1,178 during the year. Also refer section *5.5 Trade receivables.*

Subsequently, the client filed a counter claim of US$1.26 million against NI in India for recovery of amounts paid by them to NI under the agreement claiming that the deliverables were not fit for purpose. It has also demanded US$1 million as damages along with legal costs. The client intends to include Nagarro Software Private Limited ("NSPL"), the India subsidiary of NI into the proceedings. The case is in initial stages of hearing at Gurugram, India. In our understanding it is a wrongful claim and we are contesting it and believe that the client claim is not tenable.

8.6 Capital management

Nagarro ensures that there is always sufficient liquidity and a balanced capital structure. These objectives are achieved by focusing on a strong business performance and receivable management. Decisions regarding the acquisition of subsidiaries are made under consideration of the impact on the capital structure and the effects of the transactions on future years.

The key figures used for capital management are as follows with respect to Nagarro at the respective balances sheet dates.

	Sep 30, 2020		Dec 31, 2019	
	Total kEUR		Total kEUR	
Cash	79,505		43,758	
Loans to Allgeier Group companies	3,287		3,215	
Liabilities to banks	5,655		5,496	
Loans from Allgeier Group companies	402,736		119,829	
Lease liabilities	57,272		59,365	
Net debt	382,872		137,718	
Adjustment for Allgeier Connect	-244,603		-	
Net debt after adjustment of Allgeier Connect	138,268		137,718	
Adjusted EBITDA for first three quarters	58,234		41,815	
Adjusted EBITDA for the fourth quarter of 2019	15,882		15,882	
Adjusted EBITDA for the period	74,115	(1)	57,697	(2)

(1) This figure refers to the period October 1, 2019 to September 30, 2020
(2) This figure refers to the period January 1, 2019 to December 31, 2019

	Sep 30, 2020	Dec 31, 2019
Debt ratio (Net debt to adjusted EBITDA)	5.2	2.4
Debt ratio (Net debt to adjusted EBITDA) after adjustment of Allgeier Connect	1.9	2.4
Total assets	367,091	342,011
Equity	-192,118	59,942
Adjustment for Allgeier Connect	244,603	-
Equity after adjustment of Allgeier Connect	52,485	59,942
Equity ratio (% of total assets)	-52.3%	17.5%
Equity ratio (% of total assets) after adjustment of Allgeier Connect	14.3%	17.5%

Net debt and debt ratio excluding the effect of Allgeier Connect transaction mentioned in (refer to section 8.7. *Events after the balance sheet*) is kEur 138,268 and 1.9 respectively for the period ended September 30, 2020.

8.7 Events after the balance sheet date

In the period between September 30, 2020 and the date when the Interim Condensed Consolidated Financial Statements were authorized for issuance by the Board of Directors of Nagarro SE, the following events of particular importance exist:

Business Combination

Acquisition of Maihiro

By way of purchase agreement dated September 21, 2020, Nagarro Allgeier ES GmbH, Kronberg im Taunus, acquired the Maihiro Products from Insolvency. Nagarro Allgeier ES GmbH also took over all employees of Maihiro. Maihiro is well-known for their established products maiConnect, maiTour und maiCatch at multi-national clients and the global SAP organization. kEUR 100 was agreed as the purchase price for the assets and customer agreements assumed and will be paid in the fourth quarter of 2020. Maihiro will be included in consolidation of overall Group for the first time on October 1, 2020.

Acquisition of Livisi

By way of purchase agreement dated October 13, 2020, Nagarro iQuest Holding GmbH acquired Livisi GmbH from Innogy SE for which the deal closing is planned for January 2021. Livisi operates in the Smart Home/Home automation market. It offers an IoT AppStore providing a Smart Home ecosystem/platform for vertical partners, service partners and end customers.

Legal reorganization

Allgeier Connect AG, as such not being a business in accordance with IFRS 3 and therefore is not included in the Interim Condensed Consolidated Financial Statements. Allgeier Connect AG will become part of Nagarro when the demerger of its shares currently held by Allgeier SE becomes effective and Allgeier SE loses control over Nagarro. Contemplating the demerger to take place in December 2020 there will be a statutory requirement to prepare IFRS consolidated financial statements for Nagarro as of and for the fiscal year ending December 31, 2020, then including Allgeier Connect AG (the "stand-alone consolidated financial statements").

As in the interim condensed consolidated financial statements Allgeier Connect AG is not being included in the scope of consolidation, the equity contribution, hence, may not yet be considered in the consolidation. Therefore, due to the structure and timing of the legal reorganization equity has temporarily decrease by kEUR 277,832 in the interim condensed consolidated financial statements for Nagarro for the nine months period ended September 30, 2020.

For the purpose of the contemplated spin-off Allgeier Group simultaneously contributed its purchase price receivables from the sale and transfer of shares to Nagarro into equity of Allgeier Connect AG with a total amount of kEUR 243,608 as an increase of capital. In the consolidated financial statements post spin-off purchase price liabilities of Nagarro SE and receivables in Allgeier Connect AG would be offset in the course of the intercompany elimination. The remaining liability of kEUR 34,229 would result in a respective decrease in equity of Nagarro SE.

The below capitalization table shows the adjusted debt and equity position as of September 30, 2020 assuming the adjustment for the spin-off for transfer of Allgeier Connect AG has taken place as of September 30, 2020, other things remaining unchanged.

	Sep 30,2020 kEUR	Adjustment[1] kEUR	Sep 30,2020 kEUR
Debt			
Liabilities to banks	5,655		5,655
Loans from Allgeier Group companies	402,736	- 244,603	158,132
	408,391	- 244,603	163,788
Equity			
Share capital	120	11,263	11,383
Capital reserve	-		-
Retained earnings[2]	67,030	985	68,015
Changes in equity recognized directly in equity	- 228,816	232,356	3,540
Other comprehensive income			-
Foreign currency reserve	104		104
Acturial gain or loss on pension provisions	- 839		- 839
Total equity attributable to shareholders of Nagarro	- 162,400	244,603	82,203
Equity attributable to Non-controlling interests	- 29,718	-	- 29,718
Total Equity	- 192,118	244,603	52,485

1) Adjusted for the Spin-Off for Transfer of Allgeier Connect AG
2) Retained earnings includes profit during the period

Also refer to section 5.8 *Other financial liabilities* for the loan from Allgeier Connect.

Financing

Following the completion of the spin-off from the Allgeier Group, Nagarro has, as of October 30, 2020 entered into a new syndicated credit facility with five local and regional European credit institutions. The new credit facility is in an amount of kEUR

200,000, comprising a term loan facility of kEUR 100,000 and a revolving credit facility of kEUR 100,000, and with an original maturity date falling three years after the date of signing, which can be extended twice upon request, in each case by one year. The new credit facility includes customary financial and other covenants and provides for a competitive interest rate. Nagarro intends to utilize the new credit facility to repay loans to Allgeier Group arising from the purchase price payable under the spinoff and transfer agreement (Abspaltungs und Übernahmevertrag) from Allgeier Group and other outstanding loans to the Allgeier Group in connection with the spinoff, as well as for working capital and general corporate purposes.

Partial relief from COVID-19 impact

While the COVID-19 pandemic has negatively affected revenue growth till the balance sheet date, many clients have subsequently started to ask us to resume delayed projects or ramp up new project teams.

Munich, November 13, 2020

Nagarro SE, Munich

Annette Mainka
Director