

CRAYON GROUP HOLDING AS
FINANCIAL REPORT
Q2 2015

Management commentary – Q2 2015

Financials

Accumulated revenue YTD June 2015 grew 19% compared to the same period last year, which signifies that Crayon continues to gain worldwide market share as overall market growth was ~7% YoY.

Accumulated gross profit as of end June 2015 was MNOK 428.8 compared to MNOK 414.5 for the same period last year (+4% YoY growth or MNOK 14.3).

Accumulated EBITDA as of end June 2015 was MNOK 61.7 (excluding exceptional costs of MNOK 6.9), which is MNOK 6.3 below 2014 figures (-9% YoY growth). The company has experienced a growth in exceptional costs (compared to the same period last year) which is largely related to US entry and expanded scope of M&A activities. The negative EBITDA difference vs last year is mainly explained by:

- 1) Transition from capex to opex based licensing programs (i.e. cloud transition) which impacts distribution of profits in the short term
- 2) Start-up new countries last 12 months contributing with a negative EBITDA growth of MNOK 5.7
- 3) Ongoing org. restructuring in Denmark and relatively weak performance vs LY primarily driven by H1 2014 figure also includes profits generated on Iceland (H1 EBITDA of MNOK 1.1) which in 2015 is separated out. Overall EBITDA YoY decline for Denmark is MNOK 7.5.
- 4) Organizational ramp up (+34% YoY FTE growth) in Germany ahead of gross margin growth, in addition to a relatively competitive market and transition to new licensing programs causing EBITDA decline of MNOK 5.0 YoY
- 5) Ramp up of organization in France vs LY (+100% FTEs YoY) ahead of gross margin growth, leading to an EBITDA decline of MNOK 1.9 YoY

The primary drivers above are expected to be short term, and are considered by the company as an investment in future growth. The company's underlying performance is thus strong showing a YoY EBITDA increase of more than 20% when correcting for the above. Moreover, Norway, Finland, UK and Netherlands all show a strong YoY EBITDA change with MNOK 3.6, 5.8, 2.4 and 1.7 respectively.

Overall activity in Q2, and especially June, was high across the Company, with several major new and important customer wins both in the Nordics, Netherlands, Austria, Middle East and India. Gross profit for Q2 2015 amounted to MNOK 235.4 compared to MNOK 220.7 for same quarter in 2014 (+7% YoY growth). EBITDA for Q2 2015 amounted to MNOK 53.4 which is MNOK 1.4 better than last year (or +3% YoY).

The net cash position end June 2015 was MNOK 243.4; compared to MNOK 296.9 at the beginning of the year (MNOK -53.5), MNOK 123.4 as of end May 2015 (MNOK +120), MNOK 167.2 as of end Q1 2015 (MNOK +76.2) and MNOK 303.2 end June 2014 (MNOK -59.8). The positive cash flow in both June and Q2 2015 is largely related to net changes in working capital, while the primary reasons for negative cash position vs last year is higher working capital in addition to higher investing activities. As of 30 June 2015 the Company is within its bank/RCF covenants.

Business review

XSP was the fastest growing Business Area (BA) as of YTD June 2015, with a gross profit growth of 46% YoY, followed by SAM (17% YoY growth, and 20% if excluding Fast business in UK) and licensing (10% YoY growth). Both infra and solution consulting have been impacted by a slow start of the year in addition unwinding of solution consulting in Sweden (part of 2014 figure), which in total caused a negative 1% and 15% YoY gross profit growth respectively. The company's core offering (licensing and SAM) in its established markets (Nordics, Germany, UK and France) experienced a gross margin growth of 12%, which signify a strong underlying performance.

XSP and licensing have experienced a YoY EBITDA growth of 27% and 13% respectively. In addition to gross margin growth vs LY, consulting and SAM EBITDA growth has been impacted by new admin cost allocation principles, which yield a YoY EBITDA growth of +150% and -104% respectively. BA SAM's EBITDA vs LY has also been impacted by start-up in new countries, as SAM is used as primary service vehicle when entering new markets.

From a geographical segment perspective, Finland, UK and Germany were the fastest growing mature countries/established markets YTD (YoY gross profit growth of 24%, 29% and 12%, respectively), followed by Norway, Sweden and Denmark (with respective gross profit growth of -8%, -10%, -11% compared to the same period last year). The negative YTD numbers for Norway is primarily caused by solution consulting (-13% YoY) and infra consulting (-6% YoY), while Sweden is mainly affected by a current relatively weak market for the consulting business (-8% YoY) in addition to solution consulting is no longer part of 2015 gross margin (GP of MNOK 2.4 YTD 2014). Denmark is currently going through an organizational change which has negatively impacted profitability in the short term, in addition to gross margin generated on Iceland was part of H1 2014 figures (MNOK 3.4) which in 2015 is separated out.

The relatively newly established markets France and Middle East are still experiencing gross margin growth above 50%, signifying continued strong business momentum. Combined gross profit YTD June 2015 for the newly established countries (Netherlands, Austria, India, Singapore, Indonesia, Malaysia, Spain, Iceland, Portugal, USA) relative to the Group total, has grown from ~1% to ~5% last six months, showing strong global diversification growth.

Crayon Group Holding AS
 Condensed Consolidated Statement of Income

(In thousands of NOK)	Note	Quarter ended		Year to date ended		Year ended	
		30 June,		30 June,		31 December,	
		Un-audited 2015	Un-audited 2014	Un-audited 2015	Un-audited 2014	Audited 2014	Audited 2014
Operating revenue	2,5	1 422 598	1 234 197	2 382 737	2 003 099	3 731 813	
Materials and supplies		1 187 247	1 013 472	1 953 964	1 588 636	2 905 529	
Gross profit		235 352	220 725	428 774	414 463	826 284	
Payroll and related cost		153 541	150 937	304 536	303 881	586 340	
Other operating expenses		28 456	17 789	62 569	42 601	98 146	
EBITDA	5	53 355	51 998	61 668	67 981	141 798	
Exceptional items		2 154	1 948	6 875	2 546	3 958	
Depreciation and amortization	6	18 225	17 271	36 075	34 221	70 393	
Operating profit/EBIT		32 976	32 779	18 719	31 213	67 446	
Interest expense		17 499	13 697	33 541	27 267	64 628	
Other financial expense, net	7	69	8 584	7 398	12 082	(8 353)	
Ordinary result before tax		15 545	27 666	(7 424)	16 028	(5 534)	
Income tax expense on ordinary result		2 038	(6 271)	(10 038)	(4 861)	4 882	
Net income		13 507	33 936	2 614	20 889	(10 416)	
Comprehensive income		311	3 542	388	2 840	1 004	
Total comprehensive income		13 819	37 478	3 002	23 729	(9 412)	
Allocation of comprehensive income							
Owners of Crayon Group Holding AS		13 577	37 432	6 820	23 630	(4 983)	
Minority interest		242	46	(3 817)	99	(4 429)	
Total comprehensive income allocated		13 819	37 478	3 002	23 729	(9 412)	

Crayon Group Holding AS
 Condensed Consolidated Balance Sheet Statement

(In thousands of NOK)	Note	30 June		31 December		
		Un-audited 2015	Audited 2014	Un-audited 2015	Audited 2014	
ASSETS						
<i>Current assets:</i>						
Inventory		19 943	18 475			
Accounts receivable		740 830	651 019			
Other receivables		23 290	44 906			
Cash & cash equivalents		243 425	296 938			
Total current assets		1 027 488	1 011 338			
<i>Non-current assets:</i>						
Technology, software and R&D		35 041	35 749			
Contracts		151 290	178 096			
Software licenses		7 420	7 420			
Goodwill		745 584	745 585			
Deferred tax asset		-	-			
Property & equipment		24 465	23 106			
Investment in associates		8 900	538			
Other long-term receivables		2 042	2 815			
Total non-current assets		974 741	993 308			
Total assets		2 002 229	2 004 647			
LIABILITIES AND SHAREHOLDERS' EQUITY						
<i>Current liabilities:</i>						
Accounts payable		640 088	675 440			
Income taxes payable		(499)	5 474			
Public duties		187 728	149 803			
Dividends		-	-			
Other current liabilities		156 805	142 920			
Total current liabilities		984 122	973 637			
<i>Long-term liabilities:</i>						
Long-term debt	3,4	663 727	663 243			
Deferred tax liabilities		30 379	43 413			
Other long-term liabilities		1 422	3 552			
Total long-term liabilities		695 528	710 208			
<i>Shareholders' equity:</i>						
Share capital		52 476	52 476			
Own shares		(113)	(216)			
Share premium		261 813	262 303			
<i>Sum paid-in equity</i>		314 175	314 563			
Funds		15 127	8 889			
Minority interest		(6 723)	(2 650)			
Total shareholders' equity		322 579	320 801			
Total liabilities and shareholders' equity		2 002 229	2 004 647			

Crayon Group Holding AS
 Condensed Consolidated Statement of Cash Flows

(In thousands of NOK)	Quarter ended 30 June,		Year to date ended 30 June,		Year ended 31 December,
	Un-audited 2015	Un-audited 2014	Un-audited 2015	Un-audited 2014	Audited 2014
Cash flows provided by operating activities:					
Ordinary result before tax	15 545	27 666	(7 424)	16 028	(5 534)
Taxes paid	(6 739)	(5 250)	(9 678)	(7 836)	(14 575)
Depreciation and amortisation	18 225	17 271	36 075	34 221	70 393
Net interest to credit institutions	11 692	10 224	23 027	20 047	42 254
Changes in inventory, accounts receivable/payable	(25 672)	26 248	(123 982)	53 937	69 257
Changes in other current assets	84 552	23 758	74 683	(8 271)	2 036
Net cash flow from (used in) operating activities	97 603	99 917	(7 299)	108 126	163 831
Cash flows used in investing activities:					
Acquisition of assets	(5 304)	(3 775)	(10 891)	(7 427)	(19 153)
Acquisition of subsidiaries	(8 900)	1 651	(12 524)	-	(27 412)
Divestments	36	6 555	173	6 555	6 646
Repurchase of own shares	(415)	(75)	(415)	(75)	(89)
Net cash flow from (used in) investing activities	(14 581)	4 356	(23 656)	(947)	(40 007)
Cash flow used in financing activities:					
Net interest paid to credit institutions	(10 999)	(2 849)	(20 281)	(7 890)	(87 786)
New equity	-	-	-	-	-
Change in subsidiaries	1 257	(2 359)	1 257	(2 359)	(82)
Proceeds from issuance of interest bearing debt	-	-	-	-	650 000
Repayment of interest bearing debt	(198)	-	(131)	(18 825)	(624 442)
Change in other long-term debt	(433)	(407)	(2 130)	(788)	396
Net cash flow from (used in) financing activities	(10 374)	(5 615)	(21 286)	(29 862)	(61 915)
Net increase (decrease) in cash and cash equivalents	72 648	98 658	(52 240)	77 318	61 909
Cash and cash equivalents at beginning of period	167 169	202 105	296 938	225 329	225 329
Currency translation	3 608	2 431	(1 273)	547	9 700
Cash and cash equivalents at end of period	243 425	303 194	243 425	303 194	296 938

Crayon Group Holding AS
Condensed Consolidated Statement of Changes in Shareholders' Equity

Year to date period ending

30 June,

(In thousands of NOK)

Balance at January 1, 2014

	Attributable to equity holders of Crayon Group Holding AS					
	Share capital	Own shares	Share premium	Funds	Minority	Total equity
Balance at January 1, 2014	52 476	(202)	262 378	7 477	4 924	327 053

Net income

-	-	-	20 790	99	20 889
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Currency translation

-	-	-	2 840		2 840
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Other

-	(12)	(63)	(8 377)	(1 624)	(10 076)
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Balance as of end of period

52 476	(214)	262 315	22 730	3 400	340 706
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(In thousands of NOK)

Balance at January 1, 2015

	Attributable to equity holders of Crayon Group Holding AS					
	Share capital	Own shares	Share premium	Funds	Minority	Total equity
Balance at January 1, 2015	52 476	(216)	262 303	8 889	(2 650)	320 801

Adjustment

	162	(194)				(32)
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Opening balance new entities

			(522)	(256)	(778)
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Share repurchase (net)

	(59)	(296)	(59)		(415)
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Net income

-	-	-	6 161	(3 547)	2 614
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Currency translation

-	-	-	658	(270)	388
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Other

-	(0)	(0)	(0)	-	(0)
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Balance as of end of period

52 476	(113)	261 813	15 127	(6 723)	322 579
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Notes to the Condensed Interim Consolidated Financial Statements - Period ended 30 June, 2015

Note 1 - General

The Company is a Norwegian limited liability company and has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The consolidated condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") No. 34 "Interim Financial Reporting". The interim financial information has not been subject to audit or review.

The accounting policies applied by the Group in these interim financial statements are the same as those applied by the Group in its Consolidated Financial Statements for the year ended 31 December 2014. There are no changes in accounting policy effective from 1 January 2015 that have impact on the Group accounts.

Gross profit means operating income less direct cost, i.e. raw materials and supplies.

EBIT or "operating profit" means Operating Income less Total operating expenses. EBITDA, when used by the Company, means EBIT adjusted for exceptional items, impairment of non-current assets and depreciation and amortization. EBITDA may not be comparable to other similarly titled measures from other companies. The Company has included EBITDA as a supplemental disclosure because management believes it provides useful information regarding the Company's ability to service debt and to fund capital expenditures, and provides investors with a helpful measure for comparing its operating performance with that of other companies. Exceptional items is defined as extraordinary and non-recurring items in accordance with GAAP.

Note 2 - Seasonality

As with all licensing service providers, Crayon is heavily dependent upon successful sales during the final quarter of the year. Activity normally declines again at the beginning of the new year, before normally increasing again in the second quarter. However, usually the fourth quarter outweighs the second quarter, resulting in lower revenue for the first half year and increased revenue for the second half year.

Note 3 - Issue of new Bond

Crayon Group Holding AS issued in July 2014 a NOK 650 million Bond Issue (initial loan amount) with a potential tap issue of up to NOK 350m, with maturity in July 2017. The bond is to be repaid in full at the maturity date. Interest is set quarterly at NIBOR + 500bps. The proceeds from the initial loan amount was used for refinancing and for general corporate purposes. The proceeds from any tap issue shall be used for Permitted Acquisitions and for general corporate purposes of the Group. The outstanding bond principal (NOK) has been hedged against the relevant currencies comprising underlying cash flow of the company, and is booked as the actual value representing future liabilities based on the exchange rates at the balance sheet date. The bond is listed on the Oslo Stock Exchange. For further information about the Bond we refer to the Bond agreement.

Note 4 - Net interest-bearing debt

Net interest-bearing debt means interest bearing debt less cash. Net interest-bearing debt is not adjusted for normalized working capital.

(In thousands of NOK)	As of 30 June,	
	2015	2014
Long-term debt	663 727	609 330
Cash and cash equivalents	243 425	303 194
Net interest bearing debt	420 302	306 136

Note 5 - Segment information

"Other" includes Corporate administration costs and unallocated Global Shared Cost. For segment reporting by operating segment, "Other" also includes intercompany transactions. Depreciation and amortization, Interest expense, Other financial expense (net), income tax expense and Other comprehensive income are not included in the measure of segment performance.

Licensing is Crayon's license offering from its partners (e.g. Microsoft, Adobe, Symantec, Citrix, VMware, Oracle, IBM and others). The emphasis is towards standard software which customers use consistently year after year, and which play a key role in their technological platforms and critical commercial processes. XSP is Crayon's service offering towards hosters which include license advisory/optimization, software license sale and access to Crayon's reporting portal. Software Asset Management (SAM) services include process & tools for enabling clients to build in-house SAM capabilities, license spend optimization and support for clients in vendor audits.

Consulting services is related to deployment and application services. Crayon offers IT infrastructure services (planning and analysis support related to larger IT upgrade projects) and tailored software or application development.

Note 5 - Segment information cont.

Established markets is defined as markets where the Company has been operating for more than 24 months, while New markets is defined as markets where the Company has been operating for 24 months or less.

Gross profit by operating segment and country classification:

(In thousands of NOK)	Year to date ended	
	2015	2014
Gross profit by operating segment:		
- Licensing	184 113	166 868
- XSP	40 539	27 731
- SAM	76 472	65 299
- Consulting	147 201	159 639
Gross profit from operations	448 325	419 538
- Other	(19 551)	(5 075)
Total gross profit	428 774	414 463
Gross profit by country classification:		
- Established markets	409 817	413 242
- New markets	18 153	1 221
Gross profit from operations	427 970	414 463
- Other	803	(0)
Total gross profit	428 774	414 463

EBITDA by operating segment and country classification:

(In thousands of NOK)	Year to date ended	
	2015	2014
EBITDA by operating segment:		
- Licensing	86 324	76 636
- XSP	22 339	17 644
- SAM	(616)	16 849
- Consulting	15 303	6 114
EBITDA from operations	123 350	117 243
- Other	(61 682)	(49 263)
Total EBITDA	61 668	67 981
EBITDA by country classification:		
- Established markets	81 363	84 390
- New markets	(10 471)	(5 294)
EBITDA from operations	70 891	79 096
- Other	(9 223)	(11 116)
Total EBITDA	61 668	67 981

Note 6 -Depreciation and amortization

Depreciation and amortization consists of the following:

(In thousands of NOK)	Year to date ended		Quarter ended		Year ended 31 December, 2014
	2015	2014	2015	2014	
Depreciation	9 909	8 055	5 142	4 188	18 061
Amortization of goodwill	26 166	26 166	13 083	13 083	52 332
Total	36 075	34 221	18 225	17 271	70 393

Note 7 - Other financial expense, net

Other financial expense, net consists of the following:

(In thousands of NOK)	Year to date ended		Quarter ended		Year ended 31 December, 2014
	2015	2014	2015	2014	
Interest income	10 514	7 221	5 808	3 473	22 374
Other financial income	65 238	42 127	40 744	30 306	56 892
Other financial expenses	68 354	37 265	46 482	25 195	87 619
Total	7 398	12 082	69	8 584	(8 353)

END OF REPORT