CRAYON GROUP HOLDING AS

FINANCIAL REPORT
Q3 2016

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Management commentary – Q3 2016 / YTD September 2016

In Q3 2016, Crayon continued its strong gross profit, signified with its gross profit growing +33% year-over-year ("YoY") and +20% YoY pro-forma adjusted[1]. The gross profit growth has been fuelled by investments in geographic expansion, in addition to continued strong growth in the established Nordic markets. During the past years Crayon has invested significantly in geographic expansion, and expects to continue to do so going forward in a sustainable manner focusing on capitalizing on investments done.

Investments in geographic expansion are centred on Software Asset Management (SAM) and cloud first, providing customers and key strategic vendors global reach with local execution concentrated around value adding products and services. With the majority of its customer facing employees being advisors and specialist, Crayon is increasingly becoming the trusted advisor for enterprises. Enterprises need expertise to assess their current technology and software estate, and decision making support regarding their future environment. Further, enterprises require assistance with deployment and compliance requirements of the technology and software procured.

In October 2016, Crayon released the study "Software Asset Management, Cloud Transformation and the Cost of Compliance in 2016: Enterprises exposed to a 'Black hole' of Risk". The study, based on 575 interviews across US and Europe with IT decision makers, clearly underpins the value of SAM from a cost, compliance and cloud enablement point of view. As an example, almost half of the respondent's organizations have been found non-compliant, with an average cost of USD 750,000 in addition to spending 129 internal resource days to provide necessary documentation. With enterprises deploying an average of three software publishers' products in their IT environments, they are running the risk of being audited three times a year and exposed to fines in excess of USD 2m in addition to tying up internal resources. Furthermore, 72% of respondents say their organisation's investment in cloud technology has increased following the deployment of a SAM environment, yet two thirds of the respondents believe a migration to the cloud complicates software licencing. This is an obvious catch-22, which Crayon is well positioned to help its clients mitigate. Through its unique asset base of people, tools and systems, Crayon can support enterprises in navigating through the complexity of cloud software licensing, while ensuring compliance and avoiding costly audit fines and significant internal resource days which can be used differently.

Financials
Q3 2016
The nature of Crayon's business is cyclical through the calendar year with stronger performance in Q2 and Q4, and similarly weaker performance in Q1 and Q3 (driven by customers' general purchasing behavior), and thus the Q3 results needs to be interpreted in this context.

The gross profit growth in Q3 2016 was strong across all markets and business segments, totalling up to gross profit in Q3 2016 of MNOK 216.0 vs. MNOK 162.2 in Q3 2015, i.e. +33% YoY and +20% YoY pro-forma adjusted[1]. Gross profit growth YoY in Q3 2016 from a geographical perspective was primarily driven by:
1) Established Nordic Markets[3] grew from MNOK 123.9 in Q3 2015 to MNOK 137.3 in Q3 2016, i.e. +11% YoY.
2) Growth Markets[4] grew from MNOK 32.3 in Q3 2015 to MNOK 35.5 in Q3 2016, i.e. +10% YoY.
3) Start-ups 2014[5] grew from MNOK 10.7 in Q3 2015 to MNOK 17.2 in Q3 2016, i.e. +61% YoY.
4) Start-ups 2015 excl. US[6] grew from MNOK 0.2 in Q3 2015 to MNOK 2.2 in Q3 2016, i.e. +1,239% YoY.
5) US (incl. Anglepoint) grew from MNOK 18.0[1] in Q3 2015 to MNOK 22.2 in Q3 2016, i.e. +24%[1] YoY.

Q3 2016 EBITDA[2] was MNOK -11.4 compared to MNOK -2.2 in Q3 2015 (MNOK -9.3, or -425% YoY). The YoY decrease in Q3 2016 EBITDA was primarily driven by:
1) Increased investments in US (incl. Anglepoint). EBITDA decreased from MNOK 3.4[1] in Q3 2015 to MNOK -16.7 in Q3 2016.
2) Increased investments Start-ups 2015 excl. US[6]. EBITDA decreased from MNOK -3.4 in Q3 2015 to MNOK -5.7 in Q3 2016.

The above negative Q3 YoY drivers were partially offset by:
1) Increased profitability in the Established Nordics Markets[3], growing EBITDA from MNOK 18.8 in Q3 2015 to MNOK 22.1 in Q3 2016.
2) Increased profitability in Start-ups 2014[5], growing EBITDA from MNOK -5.6 in Q3 2015 to MNOK 0.5 in Q3 2016. The positive YoY development is in line with historical vintage development of new countries, signifying the future embedded EBITDA among the relatively new markets entered.

YTD Sep. 2016
Gross profit growth as of YTD Sep. 2016 was strong across all markets and business segments, growing from MNOK 590.9 YTD Sep. 2015 to MNOK 795.9 YTD Sep. 2016, i.e. +35% YoY and +22% YoY pro-forma adjusted[1]. From a geographical perspective, the newly established markets (Start-ups 2014[5] and 2015[6]) are growing fastest, while the Established Nordic Markets[3] continue to show strong double digit growth numbers which underpins Crayon's unique offering and go to market model across all markets independent of maturity. Gross profit growth YoY YTD Sep. 2016 from a geographical perspective was primarily driven by:
1) Established Nordic Markets[3] grew from MNOK 477.0 YTD Sep. 2015 to MNOK 531.0 YTD Sep. 2016, i.e. +11% YoY.
2) Growth Markets[4] grew from MNOK 112.3 YTD Sep. 2015 to MNOK 133.2 YTD Sep. 2016, i.e. +19% YoY.
3) Start-ups 2014[5] grew from MNOK 24.9 YTD Sep. 2015 to MNOK 44.8 YTD Sep. 2016, i.e. +80% YoY.
4) Start-ups 2015 excl. US[6] grew from MNOK 0.3 YTD Sep. 2015 to MNOK 7.1 YTD Sep. 2016, i.e. +2,005% YoY.
5) US (incl. Anglepoint) grew from MNOK 61.8[1] YTD Sep. 2015 to MNOK 70.0 YTD Sep. 2016, i.e., +13%[1].

YTD Sep. 2016 EBITDA[2] was MNOK 41.5 compared to MNOK 59.5 YTD Sep. 2015 (MNOK -17.9 or -30% YoY). The YoY decrease in YTD Sep. 2016 EBITDA was primarily driven by:
1) Increased investments in the US (incl. Anglepoint), reducing EBITDA from MNOK 14.7[1] YTD Sep. 2015 to MNOK -40.8 YTD Sep. 2016.
2) Increased investments Start-ups 2015 excl. US[6], reducing EBITDA from MNOK -5.7 YTD Sep. 2015 to MNOK -15.7 YTD Sep. 2016.

The above negative YoY YTD Sep. EBITDA drivers were partially offset by the following:
1) Increased profitability in the Established Nordics Markets[3], growing EBITDA from MNOK 104.1 YTD Sep. 2015 to MNOK 120.5 YTD Sep. 2016.
2) Increased profitability in Growth Markets[4], growing EBITDA from MNOK -7.6 YTD Sep. 2015 to MNOK -1.5 YTD Sep. 2016.
3) Increased profitability in Start-ups 2014[5], growing EBITDA from MNOK -18.2 YTD Sep. 2015 to MNOK -6.2 YTD Sep. 2016. The positive YoY development is in line with historical vintage development of new countries, signifying the future embedded EBITDA among the relatively new markets entered.

As mentioned in previous earnings releases, Crayon has initiated a cost leadership program in order to amongst other, strengthen the Group's competitive position, and best position the Company for the upcoming refinancing in 2017. As per Q3 2016, the cost leadership program is delivering according to plan, and the ambition of total savings of MNOK ~20 in 2016 stays firm. Additionally, the Company is assessing other potential levers to be in best position for the upcoming refinancing and has already implemented a set of actions across the Group which will materialize into Q4 2016 and onwards.

Business areas - Review
Per September 2016, all business areas demonstrated a positive YTD gross profit growth, where SAM (+73%), licensing (+28%) and XSP[7] (+22%) showed the largest YoY growth. Consulting experienced a gross profit growth of +7% YoY, driven by both Cloud and Solution consulting. Cloud consulting grew its gross profit from MNOK 89.1 YTD Sep. 2015 to MNOK 94.2 YTD Sep. 2016 (+6% YoY), while Solution consulting grew its gross profit from MNOK 116.6 YTD Sep. 2015 to MNOK 124.9 YTD Sep. 2016 (+7% YoY).

Balance sheet items
The net cash position as of 30 September 2016 was MNOK 23.4 compared to MNOK 236.3 at the beginning of the year, and MNOK 122.4 as of end Q3 2016. During the year the Company has increased its focus to address the working capital build up which has continued to yield positive results. As of 30 September 2016, the net trade trade working capital (incl. public duties) was at a comparable level as September 2015 (MNOK +16.7 YoY increase). The Company continues to focus on optimizing the working capital level.

Net interest bearing debt incl. Anglepoint's interest bearing promissory note, as of end September 2016 was MNOK 646.8 (excluding restricted cash), corresponding to a leverage ratio of 5.85x EBITDA[8]. The Company had headroom with regards to its bank covenants.

1 Pro-forma adjusted for the Anglepoint acquisition
2 Excluding non-recurring costs
3 Norway, Sweden, Finland, Denmark and Iceland
4 Germany, France, UK and Middle East
5 Newly established markets with inception point in 2014 (e.g. Austria, Netherlands, India, Malaysia and Singapore)
6 Newly established markets (excl. US) with inception point in 2015 (e.g. Spain, Portugal and Switzerland)
7 Crayon's offering towards hosters, system integrators and ISVs
8 On a LTM pro-forma basis, excluding non-recurring costs and minority interest

Note: Un-eliminated numbers are applied to both market cluster performance and business area performance in above commentary.

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Crayon Group Holding AS
Condensed Consolidated Statement of Income

(In thousands of NOK)	Note	Quarter ended 30 September, Un-audited 2016	Quarter ended 30 September, Un-audited 2015	Year to date ended 30 September, Un-audited 2016	Year to date ended 30 September, Un-audited 2015	Year ended 31 December, Audited 2015
Operating revenue	2,5	995 408	761 824	4 188 101	3 144 561	4 687 943
Materials and supplies		779 380	599 651	3 392 179	2 553 615	3 773 034
Gross profit		**216 028**	**162 172**	**795 922**	**590 946**	**914 909**
Payroll and related cost		192 502	137 989	640 356	442 525	668 332
Other operating expenses		34 972	26 362	114 020	88 931	132 829
EBITDA	5	**(11 446)**	**(2 178)**	**41 545**	**59 490**	**113 748**
Exceptional items		10 450	5 223	11 507	12 097	16 283
Depreciation and amortization	6	21 445	18 640	65 151	54 715	118 443
Operating profit/EBIT		**(43 341)**	**(26 041)**	**(35 113)**	**(7 322)**	**(20 978)**
Interest expense		18 490	21 562	48 197	55 103	62 796
Other financial expense, net	7	19 375	2 119	29 716	9 518	39 273
Ordinary result before tax		**(42 455)**	**(45 484)**	**(53 595)**	**(52 908)**	**(44 501)**
Income tax expense on ordinary result		(17 345)	(14 362)	(29 068)	(24 399)	(11 581)
Net income		**(25 110)**	**(31 122)**	**(24 526)**	**(28 508)**	**(32 920)**
Comprehensive income		(12 518)	789	(49 429)	1 177	35 079
Total comprehensive income		**(37 629)**	**(30 333)**	**(73 955)**	**(27 331)**	**2 159**
Allocation of comprehensive income						
Owners of Crayon Group Holding AS		(27 393)	(26 118)	(59 491)	(19 298)	10 564
Minority interest		(10 236)	(4 216)	(14 464)	(8 033)	(8 404)
Total comprehensive income allocated		**(37 629)**	**(30 333)**	**(73 955)**	**(27 331)**	**2 159**

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Crayon Group Holding AS
Condensed Consolidated Balance Sheet Statement

(In thousands of NOK)	Note	30 September Un-audited 2016	31 December Audited 2015
ASSETS			
Current assets:			
Inventory		16 358	21 424
Accounts receivable		637 046	962 359
Other receivables		35 631	35 102
Cash & cash equivalents		23 382	236 293
Total current assets		**712 416**	**1 255 178**
Non-current assets:			
Technology, software and R&D		100 215	98 655
Contracts		112 455	158 723
Software licenses		7 421	7 421
Goodwill		831 845	862 203
Deferred tax asset		-	-
Property & equipment		19 138	19 691
Investment in associates		-	0
Other long-term receivables		2 555	3 535
Total non-current assets		**1 073 629**	**1 150 228**
Total assets		**1 786 046**	**2 405 406**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		554 984	905 795
Income taxes payable		(7 085)	(2 662)
Public duties		102 283	180 776
Dividends		-	-
Other current liabilities		178 481	191 024
Total current liabilities		**828 662**	**1 274 933**
Long-term liabilities:			
Long-term debt	3,4	656 080	679 956
Deferred tax liabilities		1 519	41 365
Other long-term liabilities		2 713	37 425
Total long-term liabilities		**660 312**	**758 746**
Shareholders' equity:			
Share capital		52 476	52 476
Own shares		(11)	(43)
Share premium		262 320	262 163
Sum paid-in equity		314 784	314 595
Funds		(7 129)	54 612
Minority interest		(10 584)	2 520
Total shareholders' equity		**297 071**	**371 727**
Total liabilities and shareholders' equity		**1 786 046**	**2 405 406**

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Crayon Group Holding AS
Condensed Consolidated Statement of Cash Flows

(In thousands of NOK)	Quarter ended 30 September, Un-audited 2016	Quarter ended 30 September, Un-audited 2015	Year to date ended 30 September, Un-audited 2016	Year to date ended 30 September, Un-audited 2015	Year ended 31 December, Audited 2015
Cash flows provided by operating activities:					
Ordinary result before tax	(42 455)	(45 484)	(53 595)	(52 908)	(44 501)
Taxes paid	(4 456)	(4 739)	(14 665)	(14 417)	(21 436)
Depreciation and amortisation	21 445	18 640	65 151	54 715	118 443
Net interest to credit institutions	14 151	10 673	38 947	33 700	44 395
Changes in inventory, accounts receivable/payable	38 510	40 898	(10 270)	(83 084)	(97 113)
Changes in other current assets	(130 928)	(107 278)	(108 907)	(32 595)	45 725
Net cash flow from (used in) operating activities	**(103 734)**	**(87 290)**	**(83 337)**	**(94 588)**	**45 513**
Cash flows used in investing activities:					
Acquisition of assets	(11 223)	(7 491)	(38 990)	(18 382)	(34 639)
Acquisition of subsidiaries	(21 075)	(44 659)	(29 293)	(57 183)	(64 698)
Divestments	20	-	100	173	1 197
Repurchase of own shares	-	300	-	(115)	(115)
Net cash flow from (used in) investing activities	**(32 278)**	**(51 850)**	**(68 183)**	**(75 506)**	**(98 254)**
Cash flow used in financing activities:					
Net interest paid to credit institutions	(13 582)	(11 376)	(39 450)	(31 657)	(43 888)
New equity	-	-	-	-	
Change in subsidiaries	-	13 526	-	14 783	19 298
Proceeds from issuance of interest bearing debt	-	-	-	-	-
Repayment of interest bearing debt	-	(476)	(73)	(607)	(607)
Change in other long-term debt	(4 090)	3 421	(8 796)	1 291	6 072
Net cash flow from (used in) financing activities	**(17 672)**	**5 096**	**(48 319)**	**(16 190)**	**(19 125)**
Net increase (decrease) in cash and cash equivalents	**(153 684)**	**(134 045)**	**(199 839)**	**(186 285)**	**(71 866)**
Cash and cash equivalents at beginning of period	180 153	243 425	236 293	296 938	296 938
Currency translation	(3 087)	12 992	(13 072)	11 719	11 221
Cash and cash equivalents at end of period	**23 382**	**122 372**	**23 382**	**122 372**	**236 293**

Crayon Group Holding AS

Condensed Consolidated Statement of Changes in Shareholders' Equity

Year to date period ending 30 September,

(In thousands of NOK)	Share capital	Own shares	Share premium	Funds	Minority	Total equity
	Attributable to equity holders of Crayon Group Holding AS					
Balance at January 1, 2015	**52 476**	**(216)**	**262 303**	**8 889**	**(2 650)**	**320 801**
Net income	-	-	-	(20 475)	(8 033)	(28 508)
Currency translation	-	-	-	1 177		1 177
Other	-	173	(141)	(13)	(6)	14
Balance as of end of period	**52 476**	**(43)**	**262 162**	**(10 422)**	**(10 689)**	**293 484**

(In thousands of NOK)	Share capital	Own shares	Share premium	Funds	Minority	Total equity
	Attributable to equity holders of Crayon Group Holding AS					
Balance at January 1, 2016	**52 476**	**(43)**	**262 163**	**54 613**	**2 520**	**371 729**
Opening balance adj.	(0)	-	1	(923)	(1)	(923)
Adjustment	-	-	-	(1 329)	1 362	33
Share repurchase (net)	-	31	156	-	-	188
Net income	-	-	-	(8 667)	(15 859)	(24 526)
Currency translation	-	-	-	(50 823)	1 395	(49 429)
Other	0	0	0	-0	-	0
Balance as of end of period	**52 476**	**(11)**	**262 320**	**(7 129)**	**(10 584)**	**297 071**

Notes to the Condensed Interim Consolidated Financial Statements - Period ended 30 September,2016

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 AccountingStandards ("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 2015.

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

	As of 30 September,	
(In thousands of NOK)	2016	2015
Long-term interest debt	661 605	676 270
Cash and cash equivalents	23 382	122 372
Net interest bearing debt	**638 223**	**553 898**

Note 5 - Segment information

"Other" includes administration costs, unallocated Global Shared Cost, intercompany transactions and corrections for exceptional items.

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 Managment (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.

Established markets is defined as markets where operations begun before FY 2014, while New markets is defined as markets where the Company has been operating since FY 2014.

Gross profit by operating segment and country classification:

	Year to date ended 30 September,	
(In thousands of NOK)	2016	2015
Gross profit by operating segment:		
- Licensing	288 777	225 732
- XSP	80 389	65 804
- SAM	189 873	109 699
- Consulting	219 088	205 638
Gross profit from operations	**778 127**	**606 873**
- Other	17 795	(15 928)
Total gross profit	**795 922**	**590 946**

	Year to date ended 30 September,	
(In thousands of NOK)	2016	2015
Gross profit by country classification:		
- Established markets	664 214	589 274
- New markets	121 879	25 261
Gross profit from operations	**786 093**	**614 535**
- Other	9 829	(23 589)
Total gross profit	**795 922**	**590 946**

EBITDA by operating segment and country classification:

	Year to date ended 30 September,	
(In thousands of NOK)	2016	2015
EBITDA by operating segment:		
- Licensing	79 948	81 577
- XSP	36 153	36 193
- SAM	5 482	(3 948)
- Consulting	21 962	26 175
EBITDA from operations	**143 544**	**139 997**
- Other	(101 999)	(80 507)
Total EBITDA	**41 545**	**59 490**

	Year to date ended 30 September,	
(In thousands of NOK)	2016	2015
EBITDA by country classification:		
- Established markets	119 075	96 472
- New markets	(70 349)	(24 295)
EBITDA from operations	**48 726**	**72 177**
- Other	(7 180)	(12 686)
Total EBITDA	**41 545**	**59 490**

Note 6 -Depreciation and amortization

Depreciation and amortization consists of the following:

(In thousands of NOK)	Year to date ended 30 September, 2016	Year to date ended 30 September, 2015	Quarter ended 30 September, 2016	Quarter ended 30 September, 2015	Year ended 31 December, 2015
Depreciation	12 485	15 466	4 606	5 557	18 114
Amortization of intangibles (incl. write-down)	52 666	39 249	16 840	13 083	100 329
Total	**65 151**	**54 715**	**21 445**	**18 640**	**118 443**

Note 7 - Other financial expense, net

Other financial expense, net consists of the following:

(In thousands of NOK)	Year to date ended 30 September, 2016	Year to date ended 30 September, 2015	Quarter ended 30 September, 2016	Quarter ended 30 September, 2015	Year ended 31 December, 2015
Interest income	9 250	21 403	4 338	10 889	18 400
Other financial income	81 559	102 900	46 115	37 662	112 993
Other financial expenses	61 094	114 785	31 079	46 431	92 120
Total	**29 716**	**9 518**	**19 375**	**2 119**	**39 273**

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