# Q2 2018

## Crayon Group – Interim financial report

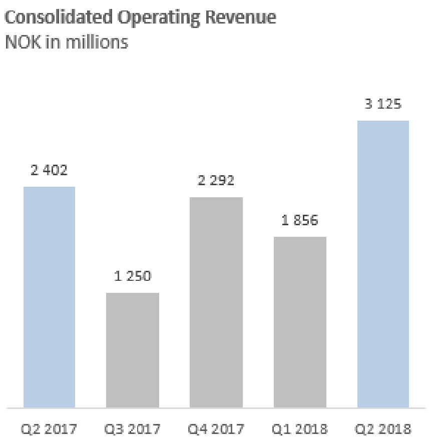
# Content

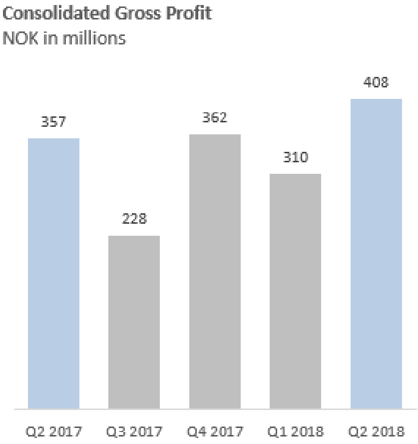


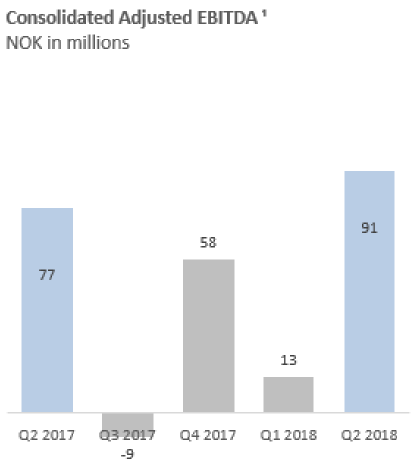
This document contains the un-audited consolidated quarterly financial statements and notes for Crayon Group Holding ASA. The below commentary should be read in conjunction with definitions and further disclosure as provided in the notes.

# Highlights

- Strong commercial momentum across all business areas and market clusters. Q2 2018 gross profit grew by 15% compared to the same quarter last year (year-over-year, “YoY”), driven by strong growth in the Software Direct and the Consulting business areas. From a market cluster perspective, Nordics was the most significant growth driver.
- Continued positive adjusted EBITDA development delivering a MNOK 14.5 improvement YoY, leading to last twelve months (“LTM”) adjusted EBITDA of NOK 153m. The major contributor to the YoY EBITDA improvement was the Nordics market cluster




# Key consolidated figures

| (NOK in thousands, unless stated) | Q2 2018<br>Un-audited | Q2 2017<br>Un-audited | Year to date<br>Q2 2018<br>Un-audited | Year to date<br>Q2 2017<br>Un-audited | Full year<br>2017<br>Audited |
|---|---|---|---|---|---|
| Revenue | 3 125 307 | 2 401 719 | 4 981 019 | 3 760 251 | 7 301 712 |
| Gross profit | 408 454 | 356 555 | 718 677 | 626 359 | 1 215 776 |
| EBITDA | 91 155 | 77 110 | 101 666 | 81 763 | 103 842 |
| Adjusted EBITDA | 91 773 | 77 312 | 105 101 | 82 238 | 130 600 |
| EBIT | 72 699 | 60 000 | 65 499 | 49 378 | 32 158 |
| Net income | 49 185 | 17 392 | 36 997 | (4 282) | (50 734) |
| Cash flow from operations | 114 204 | 152 314 | (136 991) | 13 214 | 152 859 |
| Gross profit margin (%) | 13,1 % | 14,8 % | 14,4 % | 16,7 % | 16,7 % |
| Adjusted EBITDA margin (%) | 2,9 % | 3,2 % | 2,1 % | 2,2 % | 1,8 % |
| Adjusted EBITDA / Gross profit margin (%) | 22,5 % | 21,7 % | 14,6 % | 13,1 % | 10,7 % |
| Earnings per share (Nok per share) | 0,61 | 0,28 | 0,46 | (0,07) | (0,59) |
| | | | 30 June 2018 | 30 June 2017 | 31 December 2017 |
| Liquidity reserve | | | 319 408 | 118 945 | 548 770 |
| Net working capital | | | (182 219) | (288 623) | (405 301) |
| Average headcount (number of employees) | | | 1 038 | 977 | 977 |

(See Alternative Performance Measures section in the note disclosure for definitions)

[1] Adjusted EBITDA is EBITDA excluding other income and expenses. Reference made to Alternative Performance Measures Section in note disclosure.



Crayon | The Software Experts

# Business review

Q2 2018 represents another quarter of continued gross profit and adjusted EBITDA growth for Crayon, demonstrating the value of the global footprint and the strong market position in Nordics. Q2 2018 YoY revenue growth was 30% while gross profit growth was 15%, leading to a total Q2 2018 gross profit of NOK 408.5m. Adjusted EBITDA in Q2 2018 was NOK 91.8m, an increase of NOK 14.5m compared with Q2 2017.

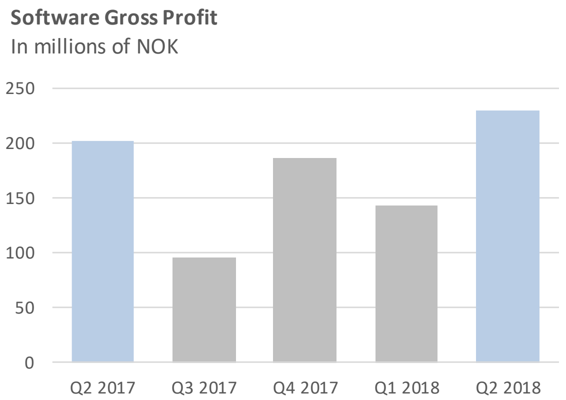
The Group regularly reports on operating segments and geographical market clusters. The market clusters are composed of operating countries with similar maturity from inception. See Note 4 for additional information.

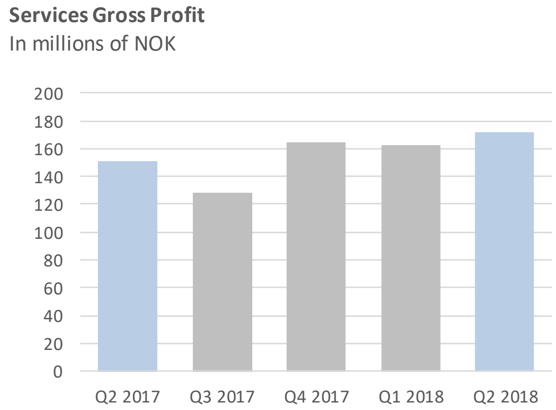
All market clusters, except from USA, had positive gross profit growth in Q2 2018 compared to Q2 2017. Nordics is the largest market cluster and delivered a strong 17% gross profit growth, while the Growth Markets and Start-Ups market cluster both delivered strong gross profit YoY growth of 14% and 11% respectively. The US market cluster had a gross profit YoY development rate of -2%.

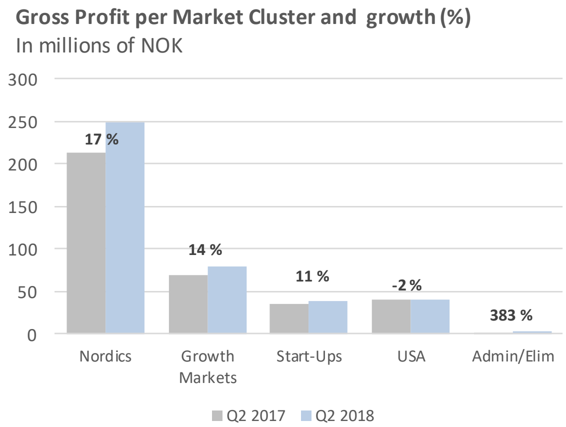
Overall, the Software division saw growth of 13% YoY, primarily driven by Software Direct with 13% gross profit growth YoY, but also the Software Indirect business contributed positively with 13% gross profit growth YoY. Within the Software division overall, Start-Ups, Growth Markets, and the Nordics grew its gross profit in Q2 2018 with +4% YoY, +17% YoY and +13% YoY respectively, representing solid commercial performance. Software in the USA grew by 27% YoY, but then again from a small base of NOK 9m in Q2 2017. Within the Services division, the overall gross profit growth was 14%, driven by Consulting with 29% YoY growth and Software Asset Management ("SAM") at the same level as Q2 2017. Within the Services division, Nordics grew by 21% YoY, while Growth Markets and Start-Ups grew by 10% YoY and 38% YoY respectively. Services gross profit in the USA decreased by -10%.

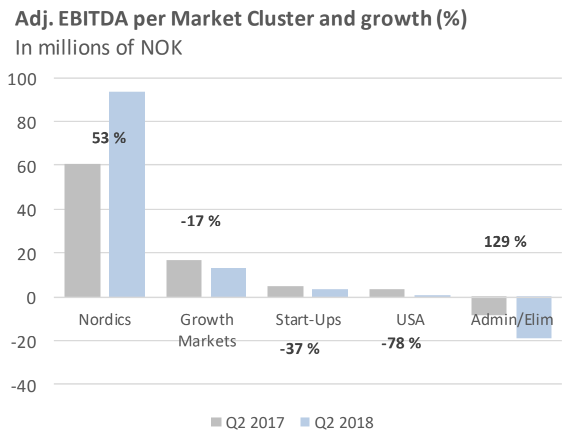
Q2 2018 adjusted EBITDA was NOK 91.8m (NOK +14.5m YoY). The YoY adjusted EBITDA improvement was driven by the Nordics (NOK +32m YoY), with slightly negative impact from Growth Markets (NOK -3m YoY) and Start-Ups (NOK -2m YoY). In the business area dimension, the adjusted EBITDA improvement was driven by Software Direct (NOK +13m YoY) and Consulting (NOK +12m YoY). SAM had a negative adjusted EBITDA development in Q2 2018 (NOK -6m), reflecting the investments in new services and customer acquisition.

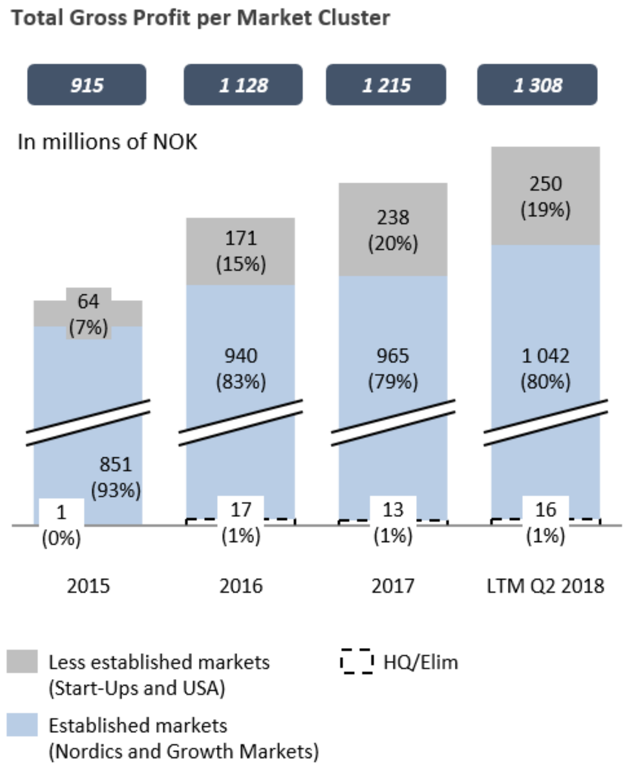
The strong 2018 Q2 results is a clear demonstration of the relevant of Crayons global scale and business model.



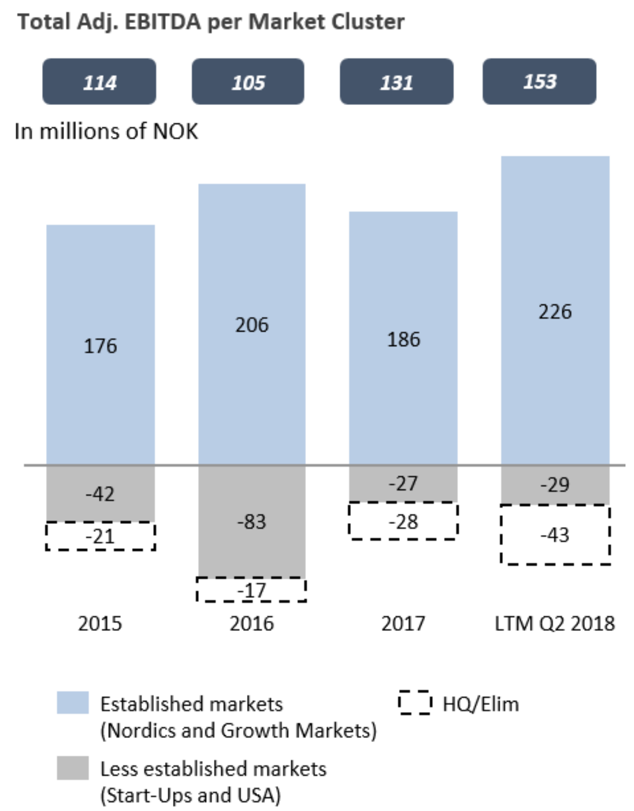






The figure above shows gross profit per Market Cluster and the percentage of total gross profit per period, with the total gross profit for the period in the box above each bar.




The figure above shows adjusted EBITDA per Market Cluster, with the total adjusted EBITDA for the period in the box above each bar.

# Financial review

## Items below the EBITDA line

Depreciation and amortization was in line with expectations, with the NOK 1.3m YoY increase in amortizations driven by investments in recent periods into platforms and ERP systems.

Interest expenses are reduced YoY with NOK 2.8m, primarily because of the refinancing of the bond in April 2017 and the deleveraging of the bond following the IPO in November 2017.

Other financial expenses, net is reduced YoY with NOK 25m due to cost relating to the refinancing of the bond loan in April 2017, and changes in the value of the swaps relating to the bond loan.

Taxes in the period was in line with management's expectations.

This results in net earnings in the period of NOK 49m, an improvement of NOK 32m from Q2 2017.

The improvement in net earnings is partly offset by a larger number of shares following the IPO in November 2017. Despite the effect from a larger number of shares, earnings per share improved from 0.28 per share in Q2 2017 to 0.61 per share in Q2 2018.

## Adjusted EBITDA

Adjusted EBITDA is adjusted for share based compensation and other income and expenses, totaling NOK 0.6 in Q2 2018. These items are one off items outside of the ordinary course of business, and are excluded from the Adjusted EBITDA.

For more details, see the 'Alternative Performance Measures' section in this report.

## Balance sheet

As of Q2 2018 Crayon had assets of NOK 3 605m which primarily is composed of accounts receivables NOK 2 264m and goodwill NOK 828m. Total liabilities as of Q2 2018 is NOK 3 013m, consisting primarily of accounts payable NOK 2 008m and a bond loan NOK 445m.

Trade working capital increased YoY with NOK 134m. The increase is primarily driven by the strong revenue growth, and was further compounded by the quarter closing ended on weekend, shifting payments from customers into early July.

Management is continuing its efforts to control working capital, in particular in light of the growth in emerging markets with different credit risks and payment cycles.

Crayon has also finalized a non-recourse factoring arrangement with BNP with a potential EUR 120m scope. As a first step, management is implementing a pilot during Q2 and Q3 for a set of customers in the Norwegian market to ensure the use of factoring does not interfere with our operations or customer relationships.

## Leverage

Net interest-bearing debt as end of end June 2018 was NOK 305m with a net cash position of NOK 166m (the Company reports its cash balance net of drawdown on its revolving credit facility (“RCF”), corresponding to a leverage ratio of 2.8x EBITDA[1]. The company had no drawdown on the RCF as of the end of Q2 2018, and the Group had significant headroom with regards to its bank covenants as of quarter end.

## Cash flow

In line with the underlying seasonality of the business, Q2 2018 had positive cash flow from operations. Cash flow from operations in Q2 2018 was NOK 114m, compared with NOK 152 in Q2 2017. The difference of NOK -38m is mainly explained by differences in change of NWC NOK -63m, partly offset by higher earnings in the period.

The net cash position as of 30 June 2018 was NOK 166m (the Company reports its cash balance net of drawdown on its revolving credit facility (“RCF”)) compared to NOK 368m at the beginning of the year and NOK 205m on 30 June 2017.

The liquidity position of the group remains strong, with a total liquidity reserve as of June 30, 2018 of NOK 319m, compared to NOK 549m as of 31 December 2017 and NOK 119m as of end Q2 2017. For more information on the definition of liquidity reserve, please the ‘Alternative Performance Measures’ section in this report.

## Employees

Crayon is a “people business” with teammates being our greatest asset. We strive to continuously attract, develop, and retain top talent, but perhaps even more importantly, we empower our employees to do their best every single day at work.

The average number of employees for Q2 2018 was 1 057, compared to an average for Q2 2017 of 984. This represents a YoY increase of 73 employees (an increase of 7.4%). The biggest increase was among client facing employees within the Software business division with a total increase in average employees of 41 YoY, representing a 11% increase. The average number of employees in the Services business division increased YoY by 14 employees, whilst other employees increased by 17 from an average of 143 in Q2 2017 to 160 in Q2 2018.

[1] On a LTM basis, excluding share based compensation and other income and expenses and non-controlling interest. Also, adjusted for restricted cash of MNOK 16.

# Condensed Consolidated Statement of Income

| (In thousands of NOK) | Note | Quarter ended 30 June, Un-audited 2018 | Quarter ended 30 June, Un-audited 2017 | Year to date ended 30 June, Un-audited 2018 | Year to date ended 30 June, Un-audited 2017 | Year ended 31 December, Audited 2017 |
|---|---|---|---|---|---|---|
| Operating revenue | 4 | 3 125 307 | 2 401 719 | 4 981 019 | 3 760 251 | 7 301 712 |
| Materials and supplies | | 2 716 853 | 2 045 164 | 4 262 342 | 3 133 892 | 6 085 935 |
| **Gross profit** | | **408 454** | **356 555** | **718 677** | **626 359** | **1 215 776** |
| Payroll and related cost | | 269 508 | 243 979 | 525 881 | 472 410 | 940 464 |
| Other operating expenses | | 47 173 | 35 264 | 87 695 | 71 712 | 144 711 |
| Share based compensation | | 849 | - | 1 684 | - | 3 945 |
| Other income and expenses | | (231) | 203 | 1 751 | 475 | 22 813 |
| **EBITDA** | | **91 155** | **77 110** | **101 666** | **81 763** | **103 842** |
| Depreciation and amortization | 6 | 18 456 | 17 109 | 36 167 | 32 386 | 71 684 |
| **Operating profit/EBIT** | | **72 699** | **60 000** | **65 499** | **49 378** | **32 158** |
| Interest expense | | 10 848 | 13 658 | 21 843 | 29 978 | 60 721 |
| Other financial expense, net | 7 | (2 891) | 22 525 | (2 896) | 22 355 | 25 109 |
| **Net income before tax** | | **64 742** | **23 817** | **46 552** | **(2 956)** | **(53 673)** |
| Income tax expense on ordinary result | | 15 557 | 6 425 | 9 555 | 1 327 | (2 939) |
| **Net income** | | **49 185** | **17 392** | **36 997** | **(4 282)** | **(50 734)** |
| **Allocation of net income** | | | | | | |
| Non-controlling interests | | 3 207 | 2 796 | 2 186 | (381) | **(6 105)** |
| Owners of Crayon Group Holding ASA | | 45 978 | 14 596 | 34 811 | (3 902) | **(44 629)** |
| **Total net income allocated** | | **49 185** | **17 392** | **36 997** | **(4 282)** | **(50 734)** |
| Earnings per share (NOK per share) | | 0,61 | 0,28 | 0,46 | (0,07) | (0,59) |
| **Comprehensive income** | | | | | | |
| Comprehensive income | | (814) | 4 306 | (9 752) | 4 910 | 9 263 |
| **Total comprehensive income** | | **48 371** | **21 698** | **27 245** | **627** | **(41 471)** |
| **Allocation of Total comprehensive income** | | | | | | |
| Non-controlling interests | | 4 607 | 2 450 | 3 652 | (957) | (6 873) |
| Owners of Crayon Group Holding ASA | | 43 764 | 19 248 | 23 593 | 1 584 | (34 598) |
| **Total comprehensive income allocated** | | **48 371** | **21 698** | **27 245** | **627** | **(41 471)** |

*For description of other income and expenses, see Alternative Performance Measures section*

# Condensed Consolidated Balance Sheet Statement

| | | 30 June | | 31 December |
|---|---|---|---|---|
| | | Un-audited | Un-audited | Audited |
| (In thousands of NOK) | Note | 2018 | 2017 | 2017 |
| **ASSETS** | | | | |
| *Non-current assets:* | | | | |
| Development Costs | 9 | 76 754 | 62 709 | 68 950 |
| Technology and software | 9 | 35 924 | 44 082 | 40 361 |
| Contracts | 9 | 73 293 | 92 191 | 83 324 |
| Software licenses (IP) | 9 | 1 000 | 7 421 | 1 000 |
| Goodwill | 10 | 827 743 | 828 445 | 831 044 |
| Deferred tax asset | | 49 911 | 28 714 | 45 252 |
| **Total intangible assets** | | **1 064 625** | **1 063 562** | **1 069 931** |
| **Tangible assets** | | | | |
| Equipment | | 23 193 | 20 387 | 20 204 |
| **Total tangible assets** | | **23 193** | **20 387** | **20 204** |
| Other long-term receivables | | 10 953 | 4 841 | 4 771 |
| **Total financial assets** | | **10 953** | **4 841** | **4 771** |
| **Total non-current assets** | | **1 098 771** | **1 088 789** | **1 094 906** |
| *Current assets:* | | | | |
| Inventory | | 22 589 | 24 042 | 26 287 |
| Accounts receivable | | 2 263 783 | 1 573 682 | 1 541 436 |
| Other receivables | | 54 550 | 45 936 | 55 815 |
| Income tax receivable | | - | 2 854 | - |
| **Total receivable** | | **2 340 921** | **1 646 514** | **1 623 539** |
| Cash & cash equivalents | | 165 512 | 204 721 | 368 442 |
| **Total current assets** | | **2 506 433** | **1 851 235** | **1 991 981** |
| **Total assets** | | **3 605 205** | **2 940 025** | **3 086 887** |

| (In thousands of NOK) | Note | 30 June Un-audited 2018 | 30 June Un-audited 2017 | 31 December Audited 2017 |
|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| *Shareholders' equity:* | | | | |
| Share capital | | 75 394 | 52 476 | 75 394 |
| Own shares | | (3) | (9) | (3) |
| Share premium | | 588 051 | 262 334 | 588 051 |
| **Sum paid-in equity** | | **663 442** | **314 800** | **663 442** |
| | | | | |
| **Retained Earnings** | | | | |
| Other Equity | | (82 039) | (49 963) | (105 597) |
| **Total retained earnings** | | **(82 039)** | **(49 963)** | **(105 597)** |
| | | | | |
| **Total equity attributable to parent company shareholders** | | **581 403** | **264 837** | **557 845** |
| Non-controlling interests | | 11 060 | 8 867 | 8 153 |
| **Total shareholders' equity** | | **592 463** | **273 704** | **565 998** |
| | | | | |
| *Long-term liabilities:* | | | | |
| Bond loan | 11 | 445 281 | 590 333 | 442 058 |
| Derivative financial liabilities | | (3 020) | 1 382 | 3 638 |
| Deferred tax liabilities | | 32 925 | 37 572 | 39 167 |
| Other long-term liabilities | | 14 415 | 1 398 | 7 188 |
| **Total long-term liabilities** | | **489 601** | **630 684** | **492 050** |
| *Current liabilities:* | | | | |
| Accounts payable | | 2 008 046 | 1 453 584 | 1 600 566 |
| Income taxes payable | | 6 701 | - | 4 800 |
| Public duties | | 254 206 | 254 545 | 229 057 |
| Other current liabilities | | 254 189 | 227 008 | 194 416 |
| Short-term debt | | - | 100 500 | - |
| **Total current liabilities** | | **2 523 141** | **2 035 637** | **2 028 839** |
| **Total liabilities** | | **3 012 741** | **2 666 321** | **2 520 889** |
| **Total equity and liabilities** | | **3 605 205** | **2 940 025** | **3 086 887** |

# Condensed Consolidated Statement of Cash Flows

| (In thousands of NOK) | Quarter ended 30 June, Un-audited 2018 | Quarter ended 30 June, Un-audited 2017 | Year to date ended 30 June, Un-audited 2018 | Year to date ended 30 June, Un-audited 2017 | Year ended 31 December, Audited 2017 |
|---|---|---|---|---|---|
| **Cash flows provided by operating activities:** | | | | | |
| Net income before tax | 64 742 | 23 817 | 46 552 | (2 956) | (53 673) |
| Taxes paid | (6 407) | (1 394) | (13 002) | (10 854) | (11 869) |
| Depreciation and amortization | 18 456 | 17 109 | 36 167 | 32 386 | 71 684 |
| Net interest to credit institutions and interest to bond loan | 8 801 | 15 081 | 17 620 | 27 348 | 50 645 |
| Changes in inventory, accounts receivable/payable | (127 095) | (63 860) | (311 168) | (143 919) | 33 064 |
| Changes in other current accounts | 155 707 | 161 561 | 86 839 | 111 209 | 63 008 |
| **Net cash flow from (used in) operating activities** | **114 204** | **152 314** | **(136 991)** | **13 214** | **152 859** |
| **Cash flows used in investing activities:** | | | | | |
| Acquisition of assets | (14 271) | (14 480) | (32 528) | (24 609) | (51 238) |
| Acquisition of subsidiaries | (4 320) | - | (7 492) | - | (22 656) |
| Divestments | - | - | - | - | 378 |
| **Net cash flow from (used in) investing activities** | **(18 591)** | **(14 480)** | **(40 019)** | **(24 609)** | **(73 516)** |
| **Cash flow used in financing activities:** | | | | | |
| Net interest paid to credit institutions and interest to bond loan | (9 982) | (14 912) | (19 752) | (27 632) | (56 982) |
| New equity | - | - | - | - | 348 612 |
| Proceeds from issuance of interest bearing debt | - | 591 600 | - | 591 600 | 589 746 |
| Repayment of interest bearing debt | - | (571 829) | - | (571 829) | (827 663) |
| Other Financial items | 7 105 | (9 658) | 7 105 | (9 554) | (3 405) |
| **Net cash flow from (used in) financing activities** | **(2 877)** | **(4 798)** | **(12 647)** | **(17 414)** | **50 308** |
| **Net increase (decrease) in cash and cash equivalents** | **92 736** | **133 036** | **(189 657)** | **(28 809)** | **129 651** |
| Cash and cash equivalents at beginning of period | 76 441 | 66 515 | 368 442 | 227 905 | 227 905 |
| Currency translation | (3 665) | 5 170 | (13 273) | 5 625 | 10 886 |
| **Cash and cash equivalents at end of period** | **165 512** | **204 721** | **165 512** | **204 721** | **368 442** |

# Condensed Consolidated Statement of Changes in Shareholder's Equity

**Year to date period ending**

**30 June, 2017**

| (In thousands of NOK) | Share capital | Own shares | Share premium | Other Equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Attributable to equity holders of Crayon Group Holding ASA | | | | | |
| **Balance at January 1, 2017** | **52 476** | **(12)** | **262 320** | **(53 605)** | **11 194** | **272 373** |
| Opening balance adj. | - | - | - | 920 | - | 920 |
| Share repurchase (net) | - | 3 | 14 | 3 | - | 20 |
| Net income | - | - | - | (3 902) | (381) | (4 282) |
| Currency translation | - | - | - | 5 486 | (576) | 4 910 |
| Other | - | - | - | 1 134 | (1 371) | (237) |
| **Balance as of end of period** | **52 476** | **(9)** | **262 334** | **(49 963)** | **8 867** | **273 704** |

**Year End 2017**

| (In thousands of NOK) | Share capital | Own shares | Share premium | Other Equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Attributable to equity holders of Crayon Group Holding ASA | | | | | |
| **Balance at January 1, 2017** | **52 476** | **(12)** | **262 320** | **(53 605)** | **11 194** | **272 373** |
| Opening balance adj. | - | - | - | 920 | - | 920 |
| Adjustment | | | | (13 467) | 3 832 | (9 635) |
| Share repurchase (net) | - | 9 | 38 | 29 | - | 76 |
| Capital increase expenses | - | - | - | (9 516) | - | (9 516) |
| Share based compensation | - | - | - | 4 639 | - | 4 639 |
| Net income | - | - | - | (44 629) | (6 105) | (50 734) |
| Share issues | 22 919 | - | 325 693 | - | - | 348 612 |
| Currency translation | - | - | - | 10 031 | (768) | 9 263 |
| **Balance as of end of period** | **75 394** | **(3)** | **588 051** | **(105 597)** | **8 153** | **565 998** |

**30 June, 2018**

| (In thousands of NOK) | Share capital | Own shares | Share premium | Other Equity | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | Attributable to equity holders of Crayon Group Holding ASA | | | | | |
| **Balance at January 1, 2018** | **75 394** | **(3)** | **588 051** | **(105 597)** | **8 153** | **565 998** |
| Opening balance adj. | - | - | - | 1 324 | - | 1 324 |
| Adjustment | - | - | - | (134) | (750) | (884) |
| Share based compensation | - | - | - | 1 684 | - | 1 684 |
| Net income | - | - | - | 34 811 | 2 186 | 36 997 |
| Acquisitions & divestments | | | | (2 908) | 4 | (2 904) |
| Currency translation | - | - | - | (11 218) | 1 466 | (9 752) |
| **Balance as of end of period** | **75 394** | **(3)** | **588 051** | **(82 039)** | **11 060** | **592 463** |

# Notes

**Note 1 Corporate information**

The condensed interim consolidated financial statements of Crayon Group Holding ASA for the three months ended 30 June 2018 were authorised for issue on 21 August 2018. These Group financial statements have not been subject to audit or review.

Crayon Group Holding ASA ("Crayon") is a public limited company registered in Norway. The Company is a leading IT advisory firm in software and digital transformation services. Crayon optimises its clients' return on investment ("ROI") from complex software technology investments by combining extensive experience within volume software licensing optimization, digital engineering, and predictive analytics. Headquartered in Oslo, Norway, the company has approximately 1,100 team members in 43 offices worldwide.

**Note 2 Basis of preparation**

The consolidated condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed by the EU.

They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year end 31 December 2017.

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 2017.

Assessment of effects of the new and revised International Financial Reporting Standards (IFRS) from 1 January 2018 are described in Note 2 – Summary of significant accounting principles – in the Annual report for 2017. The implementation of these accounting policies, IFRS 15, 'Revenue from Contracts with Customers' and IFRS 9, 'Financial instruments' do not have any significantly impact on the financial statement of Crayon Group.

The implementation of IFRS 16, Leases is mandatory from 1 January 2019. The new standard requires companies to bring most of its leases on-balance sheet. Preliminary assessment of this new standard indicates that a significant portion of the groups operational lease commitments disclosed in note 21 of the 2017 annual report will be presented as a financial lease in the balance sheet.

**Note 3 Estimates**

The preparation of interim financial statements requires the Group to make certain estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated by the company based on historical experience and other factors, including expectations of future events that are deemed to be reasonable under the circumstances. Actual results may differ from these estimates. The most significant judgments used in preparing these interim financial statements and the key areas of estimation uncertainty are the same as those applied in the consolidated annual report for 2017.

## Note 4 Segment information

The Group regularly reports revenue, gross profit and adjusted EBITDA in functional operating segments and geographical market clusters to the Board of Directors (the Group's chief operating decision makers). While Crayon uses all three measures to analyse performance, the Group's strategy of profitable growth means that adjusted EBITDA is the prevailing measure of performance.

The operating units that form a natural reporting segment are Software (Software Direct and Software Indirect), Services (SAM and Consulting) and Admin/Eliminations (Admin & Shared services and Eliminations).

- **Software Direct** is Crayon's licence offering from software vendors (e.g Microsoft, Adobe, Symantec, Citrix, Vmware, Oracle, IBM and others). The emphasis is towards standard software, which customers consistently use year after year, and which plays a key role in their technological platforms and critical commercial processes.
- **Software Indirect** is Crayon's offering towards hosters, system integrators and ISVs, which includes licence advisory/optimization, software licence sales and access to Crayons proprietary tools and IP.
- **Software Asset Management (SAM)** services include processes and tools for enabling clients to build in house SAM capabilities, licence spend optimisation and support for clients in vendor audits.
- **Consulting** consists of Cloud Consulting and Solution Consulting services related to infrastructure consulting, cloud migration and deployment, bespoke software deployment and follow-up of applications.
- **Admin & Shared services** includes administrative income and costs, corporate administrative costs (excluding other income and expenses), unallocated global shared costs and eliminations.
- The geographical market clusters are composed of operating countries with similar maturity. The Nordics is composed of Norway, Sweden, Denmark, Finland and Iceland (excluding Ice Distribution). Growth Markets is composed of Germany, Middle East, France and UK. Start-Ups is composed of markets with an inception point during 2014-2015 timeframe (i.e. India, Singapore, Malaysia, Philippines, Austria, Netherlands, Spain, Portugal, Switzerland and Ice Distribution). USA represents the post-closing financial contributions from the Anglepoint and SWI acquisitions, as well as Crayon US. HQ & Eliminations includes corporate admin costs (excluding other income and expenses), unallocated global shared cost and eliminations.

| **Year to date ended 30 June, 2018** (In thousands of NOK) | **Operating Revenue per Market Cluster and Operating Segment** | | | |
|---|---|---|---|---|
| | Software | Services | Admin/ Eliminations | Total Operating Revenue |
| - Nordics | 2 261 900 | 297 093 | 3 834 | 2 562 827 |
| - Growth | 1 331 164 | 42 800 | 1 785 | 1 375 749 |
| - Start-Ups | 737 754 | 17 771 | 1 228 | 756 753 |
| - USA | 292 212 | 60 434 | 36 | 352 682 |
| - HQ | (1 183) | - | 42 478 | 41 294 |
| - Eliminations | - | - | (108 286) | (108 286) |
| **Total Operating Revenue** | **4 621 847** | **418 098** | **(58 925)** | **4 981 019** |

| **Year to date ended 30 June, 2017** (In thousands of NOK) | **Operating Revenue per Market Cluster and Operating Segment** | | | |
|---|---|---|---|---|
| | Software | Services | Admin/ Eliminations | Total Operating Revenue |
| - Nordics | 1 724 010 | 248 070 | 4 402 | 1 976 482 |
| - Growth | 888 316 | 37 245 | 2 960 | 928 520 |
| - Start-Ups | 671 456 | 14 283 | 426 | 686 165 |
| - USA | 148 182 | 63 466 | 275 | 211 922 |
| - HQ | 60 | - | 33 412 | 33 472 |
| - Eliminations | - | - | (76 311) | (76 311) |
| **Total Operating Revenue** | **3 432 024** | **363 064** | **(34 837)** | **3 760 250** |

| **Year to date ended 30 June, 2018** (In thousands of NOK) | **Gross Profit per Market Cluster and Operating Segment** | | | |
|---|---|---|---|---|
| | Software | Services | Admin/ Eliminations | Total Gross Profit |
| - Nordics | 217 491 | 225 213 | 3 058 | 445 762 |
| - Growth | 90 214 | 38 202 | 1 787 | 130 203 |
| - Start-Ups | 47 911 | 16 168 | 620 | 64 699 |
| - USA | 17 760 | 55 526 | 36 | 73 322 |
| - HQ | (1 537) | (9) | 32 249 | 30 702 |
| - Eliminations | - | - | (26 012) | (26 012) |
| **Total Gross Profit** | **371 839** | **335 101** | **11 738** | **718 677** |

| **Year to date ended 30 June, 2017** (In thousands of NOK) | **Gross Profit per Market Cluster and Operating Segment** | | | |
|---|---|---|---|---|
| | Software | Services | Admin/ Eliminations | Total Gross Profit |
| - Nordics | 194 958 | 189 059 | 3 265 | 387 282 |
| - Growth | 72 146 | 35 706 | 2 923 | 110 775 |
| - Start-Ups | 40 587 | 12 652 | 412 | 53 651 |
| - USA | 13 843 | 58 462 | 274 | 72 579 |
| - HQ | 60 | - | 26 818 | 26 878 |
| - Eliminations | - | - | (24 806) | (24 806) |
| **Total Gross Profit** | **321 595** | **295 878** | **8 886** | **626 359** |

*See Alternative Performance Measures section in the note disclosure for definitions.*

| (In thousands of NOK) | Year to date ended 30 June, | | Quarter ended 30 June, | |
|---|---|---|---|---|
| **Operating Revenue per Operating Segment** | 2018 | 2017 | 2018 | 2017 |
| - Software Direct | 3 473 613 | 2 564 532 | 2 317 580 | 1 774 487 |
| - Software Indirect | 1 148 233 | 867 492 | 622 040 | 473 336 |
| Total Revenue - Software | 4 621 847 | 3 432 024 | 2 939 620 | 2 247 823 |
| - SAM | 162 467 | 160 652 | 83 675 | 85 435 |
| - Consulting | 255 630 | 202 412 | 133 710 | 101 438 |
| Total Revenue - Services | 418 098 | 363 064 | 217 384 | 186 873 |
| Admin & shared services | 49 361 | 41 474 | 27 570 | 20 435 |
| Eliminations | (108 286) | (76 311) | (59 267) | (53 411) |
| **Total Operating Revenue** | **4 981 019** | **3 760 251** | **3 125 307** | **2 401 719** |

| (In thousands of NOK) | Year to date ended 30 June, | | Quarter ended 30 June, | |
|---|---|---|---|---|
| **Gross Profit per Operating Segment** | 2018 | 2017 | 2018 | 2017 |
| - Software Direct | 296 379 | 253 905 | 188 596 | 166 398 |
| - Software Indirect | 75 459 | 67 690 | 40 044 | 35 550 |
| Total Gross profit - Software | 371 839 | 321 595 | 228 639 | 201 949 |
| - SAM | 148 871 | 144 669 | 75 969 | 76 257 |
| - Consulting | 186 230 | 151 209 | 96 428 | 74 860 |
| Total Gross profit - Services | 335 101 | 295 878 | 172 398 | 151 118 |
| Admin & shared services | 37 749 | 33 692 | 20 144 | 16 394 |
| Eliminations | (26 012) | (24 806) | (12 727) | (12 906) |
| **Total Gross Profit** | **718 677** | **626 359** | **408 454** | **356 555** |

| (In thousands of NOK) | Year to date ended 30 June, | | Quarter ended 30 June, | |
|---|---|---|---|---|
| **Adjusted EBITDA per Operating Segment** | 2018 | 2017 | 2018 | 2017 |
| - Software Direct | 137 785 | 113 351 | 106 968 | 93 472 |
| - Software Indirect | 27 760 | 29 164 | 16 308 | 15 620 |
| Total EBITDA - Software | 165 544 | 142 515 | 123 276 | 109 092 |
| - SAM | 13 430 | 21 137 | 6 368 | 12 653 |
| - Consulting | 23 044 | 7 163 | 13 572 | 1 216 |
| Total EBITDA - Services | 36 474 | 28 300 | 19 939 | 13 869 |
| Admin & shared services | (96 918) | (88 577) | (51 443) | (45 649) |
| Eliminations | - | - | - | - |
| **Total Adjusted EBITDA** | **105 101** | **82 238** | **91 773** | **77 312** |

*See Alternative Performance Measures section in the note disclosure for definitions.*

| (In thousands of NOK) | Year to date ended 30 June, | | Quarter ended 30 June, | |
|---|---|---|---|---|
| **Operating Revenue per Market Cluster:** | 2018 | 2017 | 2018 | 2017 |
| - Nordics | 2 562 827 | 1 976 482 | 1 434 914 | 1 106 683 |
| - Growth Markets | 1 375 749 | 928 520 | 1 017 874 | 697 774 |
| - Start-Ups | 756 753 | 686 165 | 483 639 | 483 346 |
| - USA | 352 682 | 211 922 | 225 550 | 139 620 |
| - HQ | 41 294 | 33 472 | 22 598 | 27 708 |
| - Eliminations | (108 286) | (76 311) | (59 267) | (53 411) |
| **Total Operating Revenue** | **4 981 019** | **3 760 250** | **3 125 307** | **2 401 719** |

| (In thousands of NOK) | Year to date ended 30 June, | | Quarter ended 30 June, | |
|---|---|---|---|---|
| **Gross Profit per Market Cluster** | 2018 | 2017 | 2018 | 2017 |
| - Nordics | 445 762 | 387 282 | 248 806 | 212 173 |
| - Growth Markets | 130 203 | 110 775 | 78 360 | 68 470 |
| - Start-Ups | 64 699 | 53 651 | 38 513 | 34 745 |
| - USA | 73 322 | 72 579 | 39 572 | 40 504 |
| - HQ | 30 702 | 26 878 | 15 931 | 13 569 |
| - Eliminations | (26 012) | (24 806) | (12 727) | (12 906) |
| **Total Gross Profit** | **718 677** | **626 359** | **408 454** | **356 555** |

| (In thousands of NOK) | Year to date ended 30 June, | | Quarter ended 30 June, | |
|---|---|---|---|---|
| **Adjusted EBITDA per Market Cluster** | 2018 | 2017 | 2018 | 2017 |
| - Nordics | 134 815 | 90 185 | 93 316 | 60 897 |
| - Growth Markets | 8 023 | 12 156 | 13 554 | 16 335 |
| - Start-Ups | (2 445) | (3 217) | 3 056 | 4 878 |
| - USA | (3 698) | (633) | 770 | 3 450 |
| - HQ | (31 594) | (16 253) | (18 924) | (8 248) |
| - Eliminations | - | - | - | - |
| **Total Adjusted EBITDA** | **105 101** | **82 238** | **91 773** | **77 312** |

*See Alternative Performance Measures section in the note disclosure for definitions.*

## Note 5 Share options

**Share incentive scheme:**
2.3 million share options have been allotted to management and selected key employees. Each share option allows for the subscription of one share in Crayon Group Holding ASA. The fair value of the options is calculated when they are allotted and expensed over the vesting period. A cost of NOK 0.8 m (including accrued social security tax) has been charged as an expense in the profit and loss statement in Q2 2018. The fair value at grant date is determined using an adjusted form of the Black Scholes Model, which considers the exercise price (NOK 15.50), the term of the option (5 years), the impact of dilution (where material), the share price at the grant date (NOK 15.50), expected price volatility of the underlying share and risk-free interest. The expected volatility is based on historical volatility for a selection of comparable listed companies. Risk free interest is based on treasury bond with same maturity as the option program. For further details, see stock exchange notifications regarding IPO, see www.newsweb.no. In total, the board of directors and management were allotted 0.4 million and 0.85 million share options, respectively.

## Note 6 Depreciation and amortization

Depreciation and amortization consists of the following:

| | Year to date ended 30 June, | | Quarter ended 30 June, | | Year ended 31 December, |
|---|---|---|---|---|---|
| (In thousands of NOK) | 2018 | 2017 | 2018 | 2017 | 2017 |
| Depreciation | 5 104 | 4 859 | 2 560 | 2 419 | 9 702 |
| Amortization of intangibles (incl. write-down) | 31 063 | 27 526 | 15 896 | 14 690 | 61 982 |
| Total | **36 167** | **32 386** | **18 456** | **17 109** | **71 684** |

## Note 7 Other financial expense, net

Other financial expense, net consists of the following:

| | Year to date ended 30 June, | | Quarter ended 30 June, | | Year ended 31 December, |
|---|---|---|---|---|---|
| (In thousands of NOK) | 2018 | 2017 | 2018 | 2017 | 2017 |
| Interest income | 4 223 | 2 630 | 2 047 | (1 422) | 7 829 |
| Other financial income | 4 019 | 153 | 2 902 | (705) | 1 445 |
| Other financial expenses | (5 346) | (25 138) | (2 058) | (20 398) | (34 383) |
| Total financial income / (Expense) | **2 896** | **(22 355)** | **2 891** | **(22 525)** | **(25 109)** |

## Note 8 Seasonality of operations

The groups result of operations and cash flows have varied, and are expected to continue to vary, from quarter to quarter and period to period. These fluctuations have resulted from a variety of factors including contractual renewals being skewed towards Q2 and Q4, year-end campaigns by key vendors (Microsoft's fiscal year ends 30 June, Oracle fiscal year ends 31 May) and the number of working days in a quarter resulting in shorter production periods for consultants.

## Note 9 Intangible assets

| 2018 | Software licences (IP) | Development costs | Contracts | Technology and software | Total |
|---|---|---|---|---|---|
| Aquisition cost 01.01 | 7 421 | 159 780 | 361 725 | 65 874 | 594 800 |
| Additions | - | 26 145 | - | - | 26 145 |
| FX translation | - | | (1 045) | (755) | (1 800) |
| **Aquisitition cost at the end of the period** | **7 421** | **185 925** | **360 680** | **65 119** | **619 145** |
| | | | | | |
| Amortization and impairment 01.01 | 6 421 | 90 830 | 278 401 | 25 513 | 401 165 |
| Amortization | - | 18 395 | 8 987 | 3 681 | 31 063 |
| Impairment | - | - | - | - | - |
| **Accumulated amortization and impairment** | **6 421** | **109 226** | **287 387** | **29 194** | **432 228** |
| | | | | | |
| **Net value at the end of the period** | **1 000** | **76 754** | **73 293** | **35 924** | **186 971** |
| | | | | | |
| Amortization period | None | 1-10 years | 1-10 years | 1-10 years | |
| Amortization method | None | Linear | Linear | Linear | |

The company recognises intangible assets in the balance sheet if it is likely that the expected future economic benefits attributable to the asset will accrue to the company and the assets acquisition cost can be measured reliably.

Intangible assets with a limited useful life are measured at their acquisition cost, minus accumulated amortization and impairments. Amortization is recognised linearly over the estimated useful life. Amortization period and method are reviewed annually. Intangible assets with an indefinite useful economic life are not amortized, but are tested annually for impairment. The company divides its Intangible Assets into the following categories in the balance sheet:

**Technology and software:**
Per IFRS 3, the Group has assessed if there are any identifiable intangible assets separable from Goodwill arising on business combinations. The Group has determined that intangible assets arising from the business combinations of Anglepoint and FAST meet the recognition requirements under IAS 38 as separately identifiable intangible assets. In the case of FAST, a set of technology and software primarily used in a subscription service to customers who need both software asset management (SAM) and IT compliance services was capitalized. This technology and software is expected to generate future economic benefits to the Group. In the case of the business combination with Anglepoint, the Group capitalized software and technology developed internally by Anglepoint. All qualifying intangible assets acquired during business combinations are recognized in the balance sheet at fair value at the time of acquisition. Technology, Software and R&D arising from business combinations are amortised linearly over the estimated useful life.

In addition to intangible assets recognized as part of business combinations, the Group also capitalizes expenses related to development activities if the product or process is technically feasible and the Group has adequate resources to complete the development. Expenses capitalized include material cost, direct wage costs and a share of directly attributable overhead costs. Capitalized development costs are depreciated linearly over the estimated useful life.

**Software licences (IP):**
Software Licences (IP) relates to intangible assets recognised in relation to Genova. Genova is part of Esito's developed software used as an internal tool to serve its customer base, and is expected to generate future economic benefits for the Group. The intangible assets have an indefinite life and therefore, are not amortized. The assets are tested annually for impairment.

**Contracts:**
Per IFRS 3, the Group has assessed if there are any identifiable intangible assets separable from Goodwill arising from business combinations.

The Group has determined that the contractual customer relationships identified in the business combinations of Anglepoint, Inmeta, FAST and Again meet the recognition requirements under IAS38 as separately identifiable intangible assets. These contractual relationships are all expected to generate future economic benefits to the Group.

Contractual customer relationships acquired in business combinations are recognized in the balance sheet at fair value at the time of acquisition. The contractual customer relationships have limited useful life and are stated at acquisition cost minus accumulated amortization. Linear amortization is carried over expected useful life.

## Note 10 Goodwill

Goodwill arising on business combinations is initially measured at cost, being the excess of the cost of an acquisition over the net identifiable assets and liabilities assumed at the date of acquisition and relates to the future economic benefits arising from assets which are not capable of being identified and separately recognised. Following initial recognition, Goodwill is measured at cost less accumulated impairment losses. Reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period is presented below:

| (In thousands of NOK) | Goodwill |
|---|---|
| Aquisition cost at 01.01 | 881 183 |
| Additions | 4 353 |
| Currency translation | (7 654) |
| **Aquisition cost at the end of the period** | **877 882** |
| | |
| Impairment at 01.01 | 50 139 |
| Impirment during the period | |
| **Accumulated Impairment at the end of the period** | **50 139** |
| | |
| **Net book value at the end of the period** | **827 743** |

The Group performs an impairment test for goodwill on an annual basis or when there are circumstances which would indicate that the carrying value of goodwill may be impaired. When assessing impairment, assets are grouped into cash generating units (CGU's), the lowest levels at which it is possible to distinguish between cash flows.

Impairment of goodwill is tested by comparing the carrying value of Goodwill for each CGU to the recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

The impairment assessment is built on a discounted cashflow model (DCF), with the model assumptions relating to WACCC and CAGR specified per CGU below.

## Note 11 Debt

In March 2017, the company successfully completed the issuance of a NOK 600m senior secured bond in the Nordic market, which has since been deleveraged to NOK 450m with proceeds from the IPO. Net proceeds from the bond issues were used to refinance the outstanding NOK 650m bond issued in July 2014.

In light of the refinancing mentioned above, the group also increased its revolving credit facility to NOK 200m in Q3 2017.

Settlement for the initial loan amount was 6 April 2017, with final maturity 6 April 2020. The initial loan amount has a coupon of 3 months NIBOR +550bps. p.a. Any outstanding bonds is to be repaid in full at maturity date. The bonds are in process to be listed on the Oslo Stock Exchange. For further information about the Bond, we refer to the Bond terms.

The outstanding bond principal (NOK) has been hedged against the relevant currencies comprising the 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. In accordance with IAS 39, the transactional costs (NOK ~ 10 million) related to the bond issue which was settled on April 6th 2017 are accretion expensed (i.e. added back) over the lifetime of the bond, thus reaching NOK 450m nominal value at maturity in FY 2020.

Net interest-bearing debt means senior debt to credit institutions and other interest-bearing debt less freely available cash. Net interest-bearing debt is not adjusted for normalized working capital.

| | Year to date ended 30 June, | | Year ended 31 December, |
|---|---|---|---|
| (In thousands of NOK) | 2018 | 2017 | 2017 |
| Long-term interest debt | 454 196 | 605 525 | 455 595 |
| Cash and cash equivalents | (165 512) | (204 721) | (368 442) |
| Restricted cash | 15 825 | 117 357 | 18 725 |
| **Net interest bearing debt** | **304 509** | **518 161** | **105 878** |


Crayon | The Software Experts

**Note 12 Financial Risk**

Crayon Group is exposed to a number of risks, including currency risk, Interest rate risk, liquidity risk and credit risk. For a detailed description of these risks and how the group manages these risks, please see the annual report for 2017.

**Note 13 Events after the balance sheet**

No significant events have occurred subsequent to the balance sheet date that would have an impact on the interim financial statements.

# Alternative Performance Measures

The financial information in this report is prepared under International Financial Reporting Standards (IFRS), as adopted by the EU. In order to enhance the understanding of Crayon's performance, the company has presented a number of alternative performance measures (APMs). An APM is defined as by ESMA guidelines as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the relevant accounting rules (IFRS).

Crayon uses the following APM's:

- **Gross profit:** Operating Revenue less materials and supplies
- **EBIT:** Earnings before interest expense, other financial items and income taxes
- **EBITDA:** Earnings before interest expense, other financial items, income taxes, depreciation and amortization
- **Adjusted EBITDA:** EBITDA adjusted for share based compensation and other income and expenses.

| | Year to date ended 30 June, | | Year ended 31 December, |
|---|---|---|---|
| (In thousands of NOK) | 2018 | 2017 | 2017 |
| EBITDA | 101 666 | 81 763 | 103 842 |
| Other Income and Expenses | 3 434 | 475 | 26 758 |
| **Adjusted EBITDA** | **105 101** | **82 238** | **130 600** |

**Other Income and expenses:** Income and expenses which are considered to be one off items outside the ordinary course of business. See table below.

| | Year to date ended 30 June, | | Year ended 31 December, |
|---|---|---|---|
| (In thousands of NOK) | 2018 | 2017 | 2017 |
| Refinancing | - | 102 | 152 |
| General M&A and strategy costs | 29 | 221 | 348 |
| IPO Cost 2017 (Project Elevate) | 137 | 152 | 16 149 |
| Share based compensation | 1 684 | | 3 945 |
| Extraordinary personell costs | 1 423 | - | 6 164 |
| Other | 162 | - | - |
| **Other income and expenses** | **3 434** | **475** | **26 758** |

**Net Working Capital:** Non- interest bearing current assets, net of cash less non- interest bearing current liabilities. Net Working Capital gives a measure of the funding required by the operations of the business.

| | Year to date ended 30 June, | | Year ended 31 December |
|---|---|---|---|
| (In thousands of NOK) | 2018 | 2017 | 2017 |
| Inventory | 22 589 | 24 042 | 26 287 |
| Accounts receivable | 2 263 783 | 1 573 682 | 1 541 436 |
| Other receivables | 54 550 | 45 936 | 55 815 |
| Income tax receivable/ payable | (6 701) | 2 854 | (4 800) |
| Accounts payable | (2 008 046) | (1 453 584) | (1 600 566) |
| Public duties | (254 206) | (254 545) | (229 057) |
| Other current liabilities | (254 189) | (227 008) | (194 416) |
| **Net working capital** | **(182 219)** | **(288 623)** | **(405 300)** |

**Freely available cash:** Cash and cash equivalents less restricted cash.

**Liquidity reserve:** Freely available cash and credit facilities. 2017 figures are changed compared to previously reported figures as they now include an unused credit reserve in India.

| | Year to date ended 30 June, | | Year ended 31 December |
|---|---|---|---|
| (In thousands of NOK) | 2018 | 2017 | 2017 |
| Cash and cash equivalents | 165 512 | 204 721 | 368 442 |
| Restricted cash | (15 825) | (117 357) | (18 725) |
| Freely available cash | 149 687 | 87 364 | 349 717 |
| Available credit facility | 169 721 | 31 581 | 199 053 |
| **Liquidity reserve** | **319 408** | **118 945** | **548 770** |

**Responsibility statement by the Board and CEO**

The Board and CEO have considered and approved the condensed set of financial statements for the period 1 January to 30 June 2018. We confirm to the best of our knowledge that the condensed set of financial statements for the above-mentioned period:

- Has been prepared in accordance with IAS 34 (Interim Financial Reporting)
- Gives a true and fair view of the Group's assets, liabilities, financial position, and overall result for the period viewed in in their entirety
- That the interim management report includes a fair review of any significant events that arose during the above-mentioned period and their effect on the financial report
- Gives a true picture of any significant related parties' transactions, principal risks and uncertainties faced by the Group

Oslo, August 21, 2018

**Grethe Viksaas**

**Jens Rugseth**
**Chairman**

**Dagfinn Ringås**

**Eivind Roald**

**Camilla Magnus**

**Bjørn Rosvoll**

**David Ulvær**

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