# Q2 2019

## Crayon Group – Interim financial report

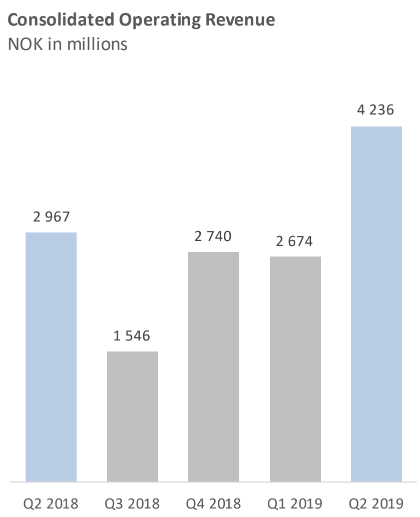
# Content

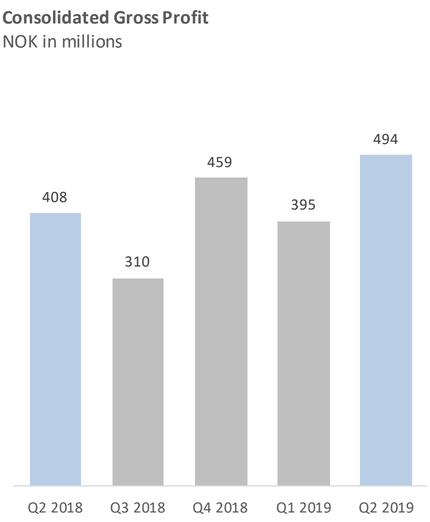


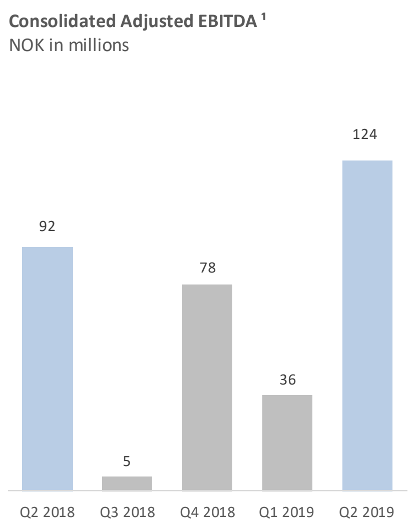
This document contains the un-audited consolidated quarterly financial statements and notes for Crayon Group Holding ASA. The below commentary should be read in conjunction with definitions and further disclosure as provided in the notes.

# Highlights

- Crayon experience strong commercial momentum across all business areas and market clusters in Q2 2019.Gross profit grew by 21.2% compared to the same quarter last year (year-over-year, “YoY”), driven by strong growth in the Software Direct (NOK 43.6m/ +23.2% YoY) and Software Indirect (NOK 15.1m/ +37.8% YoY) segments. From a market cluster perspective, all market clusters delivered solid gross profit growth, and the fact that the international markets delivered two thirds of the gross profit growth demonstrates the value of the historic investments into international expansion.
- Continuing the trend from previous quarters. Adjusted EBITDA continues to grow. In Q2 2019, adjusted EBITDA[1] increasing with NOK 32.5m YoY. The major contributor to the YoY EBITDA improvement was the Growth market cluster.




# Key consolidated figures

| (NOK in thousands, unless stated) | Q2 2019<br>Un-audited | Q2 2018<br>Un-audited | Year to date<br>Q2 2019<br>Un-audited | Year to date<br>Q2 2018<br>Un-audited | Full year<br>2018<br>Audited |
|---|---|---|---|---|---|
| Operating revenue | 4 235 733 | 2 966 946 | 6 909 879 | 4 762 028 | 9 047 526 |
| Gross profit | 493 732 | 407 528 | 888 985 | 717 264 | 1 486 108 |
| EBITDA | 105 455 | 91 155 | 134 771 | 101 666 | 177 055 |
| Adjusted EBITDA | 124 273 | 91 773 | 160 054 | 105 101 | 188 141 |
| Operating profit/EBIT | 76 521 | 72 700 | 79 400 | 65 499 | 100 576 |
| Net income | 45 883 | 49 186 | 36 870 | 36 997 | 11 000 |
| Cash flow from operations | 712 538 | 114 205 | 474 429 | (136 991) | 114 744 |
| Gross profit margin (%) | 11,7 % | 13,7 % | 12,9 % | 15,1 % | 16,4 % |
| Adjusted EBITDA margin (%) | 2,9 % | 3,1 % | 2,3 % | 2,2 % | 2,1 % |
| Adjusted EBITDA / Gross profit margin (%) | 25,2 % | 22,5 % | 18,0 % | 14,7 % | 12,7 % |
| Earnings per share (NOK per share) | 0,57 | 0,61 | 0,47 | 0,46 | 0,20 |
| | | | June 30, 2019 | June 30, 2018 | December 31, 2018 |
| Liquidity reserve | | | 841 739 | 319 408 | 515 708 |
| Net working capital | | | (717 910) | (182 190) | (343 216) |
| Average headcount (number of employees) | | | 1 298 | 1 059 | 1 128 |

(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. Please note that NOK 9.7 m improvement in adjusted EBITDA (Q2 2019) is driven by the implementation of IFRS 16, as detailed in note 13.

# Business review

Q2 2019 is another quarter of strong gross profit and EBITDA growth. Q2 2019 YoY revenue growth was +42.8% while gross profit growth was +21.2%/ NOK 86.2m, leading to a total Q2 2019 gross profit of NOK 493.7m. Adjusted EBITDA in Q2 2019 was NOK 124.3m (NOK 91.8m), an increase of NOK 32.5m compared with Q2 2018.

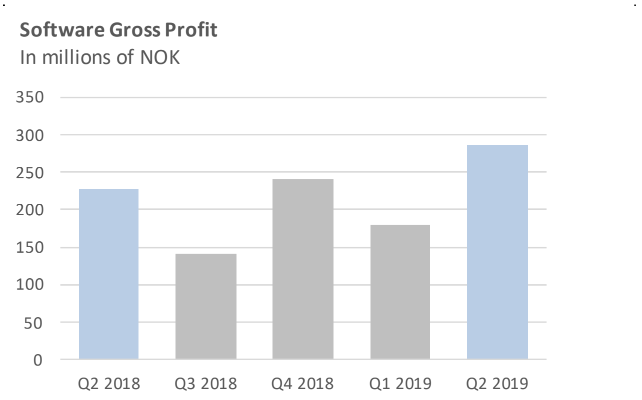
As outlined in note 8, Crayon has a strong underlying seasonality to its financial results driven by external factors, with Q2 and Q4 being the strongest quarters, while Q1 and Q3 are typically slower quarters. To compare the performance of the business across this seasonality the relevant comparison is YoY.

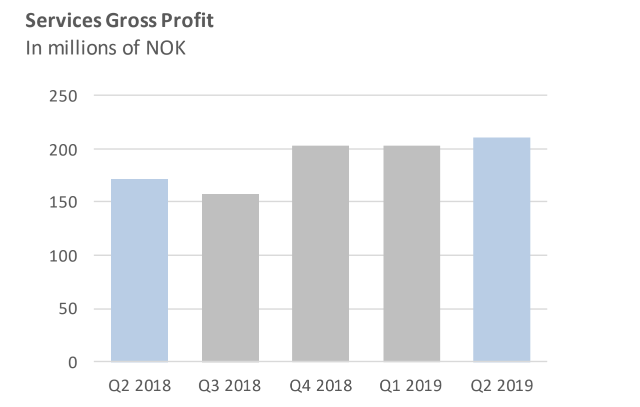
All market clusters (See Note 4 for additional information) had positive gross profit growth in Q2 2019 compared to Q2 2018. Nordics is the largest market cluster and delivered a +15.2% gross profit growth, reflecting the strong market position in the Nordics. Growth Markets and Start-Ups market cluster both delivered strong gross profit YoY growth of +24.9% and +49.0% respectively, while the US market cluster had a gross profit YoY development of +47.7%.

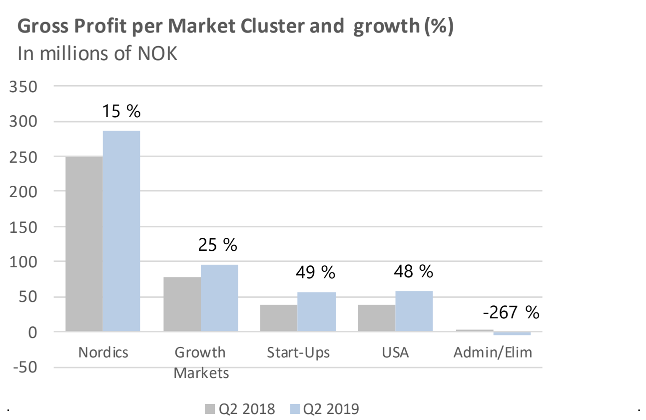
The Software division overall, had a strong growth of +25.8% YoY, composed of Software Direct with +23.2% gross profit growth YoY, and Software Indirect with +37.8% gross profit growth YoY. Within the Software segment, gross profit in Start-Ups grew with +59.8% YoY, Growth Markets +18.0% YoY and the Nordics +14.8% YoY. Software in the USA grew by +99.0% YoY, although from a small base of NOK 11.7m in Q2 2018. Across all market clusters, this represents solid commercial performance in the Software segment. Within the Services segment, the overall gross profit growth was +22.1%, driven by Consulting with +26.6% YoY growth and Software Asset Management ("SAM") of +16.4% YoY growth. Within the Services segment, Nordics grew by +17.5% YoY, while Growth Markets, Start-Ups and USA grew by +49.9% YoY, +17.8% YoY and +24.0% YoY respectively.

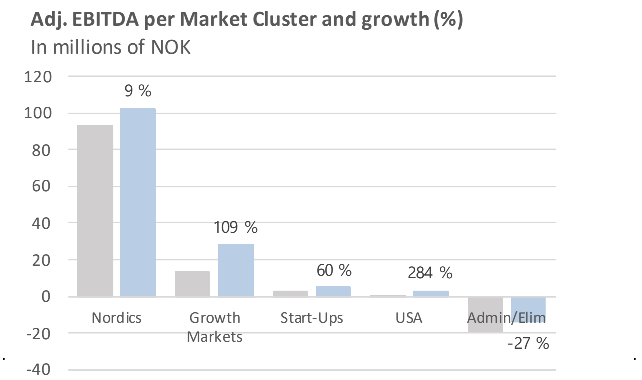
Q2 2019 adjusted EBITDA was NOK 124.3m (NOK +32.5m YoY). Of this improvement, NOK 9.7m is driven by the implementation of IFRS 16, leaving the direct comparable YoY improvement at NOK +22.8m*. The YoY adjusted EBITDA improvement was driven by the Nordics (NOK +8.7m YoY), Growth Markets (NOK +14.7m YoY), Start-Ups (NOK +1.8m YoY) and USA (NOK 2.2 YoY). USA is experiencing significant commercial momentum (gross profit +47.7% YoY), and Q2 2019 has a positive YoY development in adjusted EBITDA, which demonstrates the potential in the US market.In the business area segment, the adjusted EBITDA improvement was driven by Software Direct (NOK +31.7m YoY), Software Indirect (NOK +4.8 YoY) and Consulting (NOK +6.7m YoY), and SAM (NOK -2.5m).

In Q2 2019, Crayon acquired Sequint, a local player in the Software Indirect space in the Netherlands, and the results of Sequint are reported as part of Software Indirect segment and Growth market cluster. See note 16 for further information on acquisitions during Q2 2019.

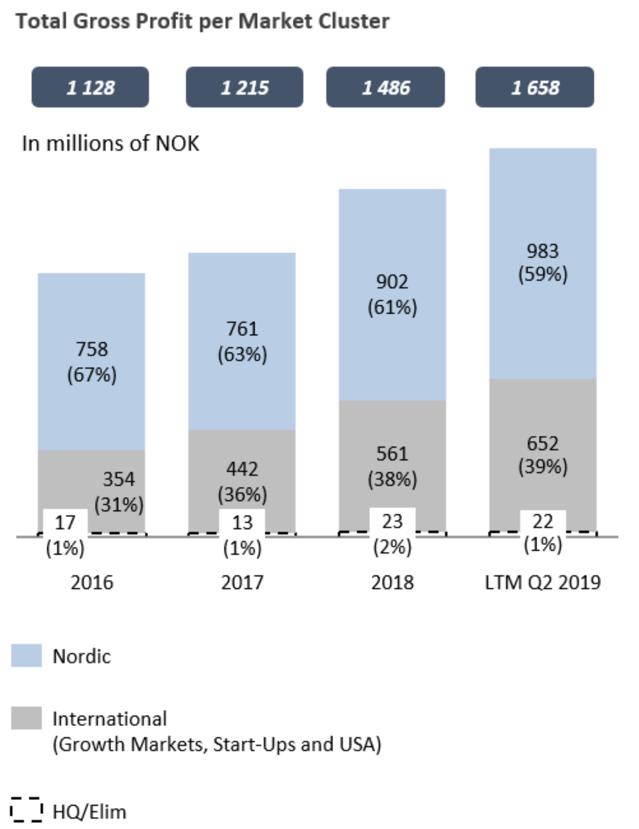


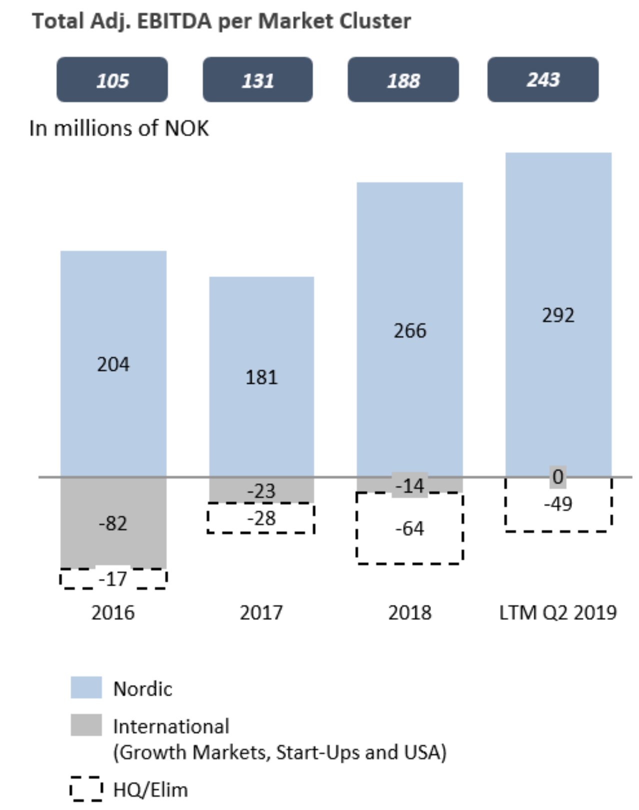




*The IFRS 16 impact is not allocated at either market or operating segment, but at consolidated level.




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 amortisation are in line with expectations, with the NOK 10.4 m YoY increase. The increase of depreciation is driven by higher investments in recent periods into platforms and ERP systems, but also impact from IFRS 16 of NOK 7.8m. (see note 13 for further explanation).

Interest expenses are increased YoY with NOK 3.6m, where IFRS 16 impact is NOK 2.6m.

Net income before tax decreases YoY by NOK -5.6m to NOK 59.2m, mainly due to higher net financial expenses. Income tax expense for Q2 2019 is NOK 13.3m.

Net income in the period was NOK 45.9m, a decrease from NOK 49.2m in Q2 2018.

Earnings per share decreased from 0.61 per share in Q2 2018 to 0.57 per share in Q2 2019.

## Adjusted EBITDA

Adjusted EBITDA is adjusted for share based compensation and other income and expenses, totaling NOK 18.8m in Q2 2019.

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

## Balance sheet

As of 30.06.2019 Crayon had assets of NOK 4 934m (NOK 3 509m on 30.06.2018) which is primarily composed of accounts receivables NOK 2 872m (NOK 2 171m), goodwill NOK 877m (NOK 828m) and Cash & cash equivalents NOK 708m (NOK 166m). Total liabilities as of 30.06.2019 is NOK 4 350m (NOK 2 916m), consisting primarily of accounts payables NOK 3 079m (NOK 1 913m) and a bond loan NOK 448m (NOK 445m). The bond loan is due in April 2020 and is therefore reclassified from long term to short term debt in the balance sheet as of 30.06.2019.

Trade working capital decreased YoY with NOK -477.6m, which is a strong achievement when comparing with the 42.8% YoY revenue growth.

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

## Leverage

Net interest-bearing debt as end of end June 2019 was NOK -225m with a net cash position of NOK 708m (the Company reports its cash balance net of drawdown on its revolving credit facility ("RCF")), corresponding to a leverage ratio of 2.5x EBITDA[1]. 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 2019 had positive cash flow from operations. Cash flow from operations in Q2 2019 was NOK 712.5m, compared with NOK 114.2m in Q2 2018. The improvement of NOK 598.3m is mainly driven by the change in the trade working capital. Implementation of IFRS 16 has a positive impact on cash flow from operations of NOK 9.7m, and a negative impact on cash flow from financing activities of NOK 9.7m.

The net cash position as of 30 June 2019 was NOK 707.8m (the Company reports its cash balance net of drawdown on its revolving credit facility ("RCF")) compared to NOK 165.5m as of 30 June 2018.

The liquidity position of the group remains strong, with a total liquidity reserve as of June 30, 2019 of NOK 841.7m, compared to NOK 319.4m as of June 30, 2018. For more information on the definition of liquidity reserve, please see 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 during Q2 2019 was 1 298, compared to an average during Q2 2018 of 1 059. This represents a YoY increase of 239 employees /+22.6%. The Software business division had a total increase in average employees of 77 YoY, representing a 20% increase. The average number of employees in the Services business division increased YoY by 120 employees [2], whilst other employees increased by 42 YoY.

[1] On a LTM basis, excluding share based compensation and other income and expenses and non-controlling interest. Also, adjusted for restricted cash of NOK 19.1m.

[2] Includes impact of organic growth and acquisitions.

# Condensed Consolidated Statement of Income

| (In thousands of NOK) | Note | Quarter ended 30-Jun Un-audited 2019 | Quarter ended 30-Jun Un-audited 2018 | Year to date ended 30-Jun Un-audited 2019 | Year to date ended 30-Jun Un-audited 2018 | Year ended 31-Dec Audited 2018 |
|---|---|---|---|---|---|---|
| Operating revenue | 4 | 4 235 733 | 2 966 946 | 6 909 879 | 4 762 028 | 9 047 526 |
| Cost of sales | | 3 742 001 | 2 559 418 | 6 020 893 | 4 044 764 | 7 561 419 |
| **Gross profit** | | **493 732** | **407 528** | **888 985** | **717 264** | **1 486 108** |
| Payroll and related cost | | 330 285 | 269 508 | 637 071 | 525 881 | 1 105 772 |
| Other operating expenses | | 39 174 | 46 247 | 91 861 | 86 282 | 192 194 |
| Share based compensation | | 2 800 | 849 | 3 695 | 1 684 | 3 261 |
| Other income and expenses | | 16 018 | (231) | 21 588 | 1 751 | 7 825 |
| **EBITDA** | | **105 455** | **91 155** | **134 771** | **101 666** | **177 054** |
| Depreciation and amortisation [1] | 6 | 28 934 | 18 455 | 55 371 | 36 167 | 76 479 |
| **Operating profit/EBIT** | | **76 521** | **72 700** | **79 400** | **65 499** | **100 575** |
| Interest expense | | 14 411 | 10 848 | 28 670 | 21 843 | 44 077 |
| Other financial expense, net | 7 | 2 953 | (2 891) | 1 143 | (2 896) | 2 727 |
| **Net income before tax** | | **59 158** | **64 744** | **49 587** | **46 552** | **53 773** |
| Income tax expense on ordinary result | | 13 275 | 15 557 | 12 717 | 9 555 | 42 773 |
| **Net income** | | **45 883** | **49 186** | **36 870** | **36 997** | **11 000** |
| **Allocation of net income** | | | | | | |
| Non-controlling interests | | 3 039 | 3 207 | 1 726 | 2 186 | (4 364) |
| Owners of Crayon Group Holding ASA | | 42 844 | 45 979 | 35 144 | 34 811 | 15 364 |
| **Total net income allocated** | | **45 883** | **49 186** | **36 870** | **36 997** | **11 000** |
| Earnings per share (NOK per share) | | 0,57 | 0,61 | 0,47 | 0,46 | 0,20 |
| **Comprehensive income** | | | | | | |
| Currency translation, net of tax | | (10 857) | (814) | (10 072) | (9 752) | 6 953 |
| **Total comprehensive income** | | **35 026** | **48 372** | **26 798** | **27 245** | **17 953** |
| **Allocation of Total comprehensive income** | | | | | | |
| Non-controlling interests | | 3 039 | 4 607 | 1 726 | 3 652 | (6 832) |
| Owners of Crayon Group Holding ASA | | 31 987 | 43 765 | 25 072 | 23 593 | 24 785 |
| **Total comprehensive income allocated** | | **35 026** | **48 372** | **26 798** | **27 245** | **17 953** |

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

[1] *Impact of IFRS 16, see note 13*

# Condensed Consolidated Balance Sheet Statement

| | | 30-Jun | | 31-Dec |
|---|---|---|---|---|
| | | Un-audited | Un-audited | Audited |
| (In thousands of NOK) | Note | 2019 | 2018 | 2018 |
| **ASSETS** | | | | |
| *Non-current assets:* | | | | |
| Development Costs | 9 | 79 628 | 76 754 | 77 556 |
| Technology and software | 9 | 29 294 | 35 924 | 33 601 |
| Contracts | 9 | 78 442 | 73 293 | 66 109 |
| Software licenses (IP) | 9 | 1 000 | 1 000 | 1 000 |
| Goodwill | 10 | 876 920 | 827 743 | 840 301 |
| Deferred tax asset | | 16 831 | 49 911 | 29 417 |
| **Total intangible assets** | | **1 082 114** | **1 064 625** | **1 047 983** |
| **Tangible assets** | | | | |
| Equipment | | 31 317 | 23 152 | 24 729 |
| Right of use assets | | 118 619 | - | - |
| **Total tangible assets** | | **149 935** | **23 152** | **24 729** |
| Other long-term receivables | | 18 389 | 10 964 | 22 658 |
| **Total financial assets** | | **18 389** | **10 964** | **22 658** |
| **Total non-current assets** | | **1 250 439** | **1 098 741** | **1 095 370** |
| *Current assets:* | | | | |
| Inventory | | 9 132 | 22 589 | 8 625 |
| **Total inventory** | | **9 132** | **22 589** | **8 625** |
| Accounts receivable | | 2 872 271 | 2 170 513 | 1 875 963 |
| Other receivables | 13 | 94 190 | 51 578 | 75 998 |
| **Total receivable** | | **2 966 461** | **2 222 092** | **1 951 961** |
| Cash & cash equivalents | 13 | 707 765 | 165 512 | 379 282 |
| **Total current assets** | | **3 683 357** | **2 410 193** | **2 339 867** |
| **Total assets** | | **4 933 796** | **3 508 934** | **3 435 237** |

| (In thousands of NOK) | Note | 30-Jun Un-audited 2019 | 30-Jun Un-audited 2018 | 31-Dec Audited 2018 |
|---|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| *Shareholders' equity:* | | | | |
| Share capital | | 75 394 | 75 394 | 75 394 |
| Own shares | | (10) | (3) | (35) |
| Share premium | | 588 414 | 588 051 | 588 051 |
| **Sum paid-in equity** | | **663 798** | **663 442** | **663 410** |
| | | | | |
| **Retained Earnings** | | | | |
| Other Equity | | (73 275) | (82 039) | (72 521) |
| **Total retained earnings** | | **(73 275)** | **(82 039)** | **(72 521)** |
| | | | | |
| **Total equity attributable to parent company shareholders** | | **590 522** | **581 403** | **590 889** |
| Non-controlling interests | | (6 483) | 11 060 | (4 581) |
| **Total shareholders' equity** | | **584 039** | **592 463** | **586 309** |
| | | | | |
| *Long-term liabilities:* | | | | |
| Bond loan | 11 | - | 445 280 | 446 558 |
| Derivative financial liabilities | | - | (3 020) | 3 260 |
| Deferred tax liabilities | | 31 588 | 32 925 | 30 336 |
| Lease liabilities | | 108 512 | - | - |
| Other long-term liabilities | | 46 011 | 14 415 | 24 982 |
| **Total long-term liabilities** | | **186 111** | **489 600** | **505 136** |
| *Current liabilities:* | | | | |
| Accounts payable | | 3 079 184 | 1 913 296 | 1 787 346 |
| Income taxes payable | | 14 489 | 6 701 | 20 311 |
| Public duties | | 311 159 | 254 206 | 209 594 |
| Current lease liabilities | | 11 470 | - | - |
| Other short-term interest bearing debt | 13 | 12 475 | - | 39 992 |
| Other current liabilities | | 288 671 | 252 668 | 286 549 |
| Bond loan, current liabilities | 11 | 447 882 | - | - |
| Derivative financial liabilities | | (1 683) | - | - |
| **Total current liabilities** | | **4 163 646** | **2 426 871** | **2 343 793** |
| **Total liabilities** | | **4 349 757** | **2 916 470** | **2 848 929** |
| **Total equity and liabilities** | | **4 933 796** | **3 508 934** | **3 435 237** |

# Condensed Consolidated Statement of Cash Flows

| | Quarter ended 30-Jun | | Year to date ended 30-Jun | | Year ended 31-Dec |
|---|---|---|---|---|---|
| | Un-audited | Un-audited | Un-audited | Un-audited | Audited |
| (In thousands of NOK) | 2019 | 2018 | 2019 | 2018 | 2018 |
| **Cash flows from operating activities:** | | | | | |
| Net income before tax | 59 158 | 64 744 | 49 587 | 46 552 | 53 773 |
| Taxes paid | (2 554) | (6 407) | (10 872) | (13 002) | (23 625) |
| Depreciation and amortisation [1] | 28 934 | 18 455 | 55 371 | 36 167 | 76 479 |
| Net interest to credit institutions and interest on bond loan [1] | 11 861 | 8 801 | 23 686 | 17 620 | 35 213 |
| Changes in inventory, accounts receivable/payable | 534 565 | (127 350) | 295 022 | (312 649) | (130 084) |
| Changes in other current accounts | 80 574 | 155 962 | 61 635 | 88 321 | 102 990 |
| **Net cash flow from operating activities** | **712 538** | **114 205** | **474 429** | **(136 991)** | **114 746** |
| **Cash flows from investing activities:** | | | | | |
| Acquisition of assets | (95 789) | (18 592) | (126 004) | (40 020) | (69 510) |
| **Net cash flow from investing activities** | **(95 789)** | **(18 592)** | **(126 004)** | **(40 020)** | **(69 510)** |
| **Cash flow from financing activities:** | | | | | |
| Net interest paid to credit institutions and interest to bond loan | (8 422) | (9 982) | (16 697) | (19 752) | (40 709) |
| Repayment of interest bearing debt [1] | (9 652) | - | (16 406) | - | - |
| Other Financial items | 24 809 | 7 105 | 21 889 | 7 105 | 616 |
| **Net cash flow from financing activities** | **6 735** | **(2 877)** | **(11 214)** | **(12 647)** | **(40 093)** |
| **Net increase (decrease) in cash and cash equivalents** | **623 484** | **92 737** | **337 211** | **(189 657)** | **5 143** |
| Cash and cash equivalents at beginning of period | 84 034 | 76 441 | 379 282 | 368 442 | 368 442 |
| Currency translation | 246 | (3 665) | (8 729) | (13 273) | 5 697 |
| **Cash and cash equivalents at end of period** | **707 764** | **165 512** | **707 764** | **165 512** | **379 282** |

*[1] Impact of IFRS 16, see note 13*

*Earn- out in relations to acquisitions informed in note 16 are included in both investing and financing activities.*

*The bond loan is due in April 2020, and has been classified as short term debt in the balance sheet as of 30.06.20.19. This has no impact in the cash flow as of 30.06.2019.*

# Condensed Consolidated Statement of Changes in Shareholder's Equity

| Year to date period ending June 30, 2018 | Attributable to equity holders of Crayon Group Holding ASA | | | | | |
|---|---|---|---|---|---|---|
| (In thousands of NOK) | Share capital | Own shares | Share premium | Other Equity | Non-controlling interests | Total equity |
| **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) | (883) |
| 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** |

| Year End 2018 | Attributable to equity holders of Crayon Group Holding ASA | | | | | |
|---|---|---|---|---|---|---|
| (In thousands of NOK) | Share capital | Own shares | Share premium | Other Equity | Non-controlling interests | Total equity |
| **Balance at January 1, 2018** | **75 394** | **(3)** | **588 051** | **(105 597)** | **8 153** | **565 998** |
| Adjustment | - | - | - | 194 | (750) | (556) |
| Share repurchase (net) | - | (32) | - | (520) | - | (552) |
| Share based compensation | - | - | - | 3 261 | - | 3 261 |
| Net income | - | - | - | 15 364 | (4 364) | 11 000 |
| Acquisitions & divestments | - | - | - | 5 357 | (5 152) | 205 |
| Currency translation | - | - | - | 9 421 | (2 468) | 6 953 |
| **Balance as of end of period** | **75 394** | **(35)** | **588 051** | **(72 520)** | **(4 581)** | **586 309** |

| June 30, 2019 | Attributable to equity holders of Crayon Group Holding ASA | | | | | |
|---|---|---|---|---|---|---|
| (In thousands of NOK) | Share capital | Own shares | Share premium | Other Equity | Non-controlling interests | Total equity |
| **Balance at January 1, 2019** | **75 394** | **(35)** | **588 051** | **(72 520)** | **(4 581)** | **586 309** |
| Adjustment [1] | - | - | - | (3 404) | 0 | (3 404) |
| Share repurchase (net) | - | 25 | 363 | - | - | 388 |
| Net income | - | - | - | 35 144 | 1 726 | 36 870 |
| Share based compensation | | | | 3 695 | | 3 695 |
| Acquisitions & divestments | - | - | - | (25 786) | (3 960) | (29 746) |
| Currency translation | - | - | - | (10 404) | 332 | (10 072) |
| **Balance as of end of period** | **75 394** | **(10)** | **588 414** | **(73 275)** | **(6 483)** | **584 039** |

[1] Adjustment to opening balance

# Notes

## Note 1 Corporate information

The Board of Directors approved the condensed first quarter interim financial statements for the three months ended 30 June 2019 for publication on August 13, 2019. 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 1,300 employees in 45 offices worldwide.

## Note 2 Basis of preparation and estimates

The consolidated condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS), IAS 34 "Interim Financial Reporting". The condensed interim financial statements do not include all information and disclosures required in the annual financial statement, and should be read in accordance with the Group's Annual Report for 2018, which has been prepared according to IFRS as adopted by EU.

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 2018.

Assessment of effects of implementation of IFRS 16, Leases (note 13), which was implemented in the Group with effect from 1 January 2019 are described in Note 2 – Summary of significant accounting principles – in the Annual report for 2018.

## Note 3 Significant accounting principles

The accounting policies applied in the preparation of the consolidated interim financial statement are consistent with those applied in the preparation of the annual IFRS financial statement for the year ended 31 December 2018.

New standards, amendments to standards, and interpretations that have been published, but not effective as of June 30, 2019, have not been applied in preparing these condensed financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

The Group adopted IFRS 16 1 January 2019 using the modified retrospective approach and has not restated comparative amounts for the year prior to first adoption, see note 13.

The main leases recognized in the balance sheet are the different office leases. The Group has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., copy machines, coffee machines etc.) that are considered of low value.

The present value of future lease payments is recognized as a financial liability. Lease payments are split into principal and interest portions, using the effective interest method.

The right-of-use asset is recognized within fixed assets and is set equal to the financial liability at the date of implementation. The right-of-use asset is depreciated on a straight line basis over the lease term or, if it is shorter, over the useful life of the leased asset.

If the expected lease payments change as a result of index-linked consideration, the liability is remeasured. The weighted-average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 was 7.00 % p.a.

## **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). (Further information is found in note 2 in the Annual report for 2018).

See note 14 regarding impact of Operating revenue, and Gross profit due to adjustments related to reported quarterly financial information.

- **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 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 June 30, 2019 | Operating Revenue per Market Cluster and Operating Segment | | | |
|---|---|---|---|---|
| (In thousands of NOK) | Software | Services | Admin/ Eliminations | Total Operating Revenue |
| - Nordics | 2 791 206 | 359 492 | 1 260 | 3 151 958 |
| - Growth | 1 953 846 | 53 927 | 1 127 | 2 008 900 |
| - Start-Ups | 1 103 830 | 29 885 | 2 360 | 1 136 075 |
| - USA | 803 842 | 74 375 | 756 | 878 973 |
| - HQ | 2 480 | 290 | 34 856 | 37 626 |
| - Eliminations | 0 | 0 | -130 080 | -130 080 |
| - Adjustments [1] | 0 | 0 | -173 573 | -173 573 |
| **Total Operating Revenue** | **6 655 204** | **517 969** | **-263 294** | **6 909 879** |

| Year to date ended June 30, 2018 | Operating Revenue per Market Cluster and Operating Segment | | | |
|---|---|---|---|---|
| (In thousands of NOK) | Software | Services | Admin/ Eliminations | Total Operating Revenue |
| - Nordics | 2 261 900 | 297 093 | 3 834 | 2 562 827 |
| - Growth | 1 234 936 | 42 435 | 1 785 | 1 279 156 |
| - Start-Ups | 737 754 | 17 771 | 1 228 | 756 753 |
| - USA | 292 212 | 60 434 | 36 | 352 682 |
| - HQ | -1 183 | 0 | 42 478 | 41 294 |
| - Eliminations | 0 | 0 | -127 585 | -127 585 |
| - Adjustments [1] | 0 | 0 | -103 099 | -103 099 |
| **Total Operating Revenue** | **4 525 619** | **417 732** | **-181 324** | **4 762 028** |

| Year to date ended June 30, 2019 | Gross Profit per Market Cluster and Operating Segment | | | |
|---|---|---|---|---|
| (In thousands of NOK) | Software | Services | Admin/ Eliminations | Total Gross Profit |
| - Nordics | 251 313 | 275 080 | 888 | 527 281 |
| - Growth | 105 469 | 48 633 | 1 101 | 155 203 |
| - Start-Ups | 76 703 | 24 212 | 1 514 | 102 429 |
| - USA | 33 246 | 66 137 | 756 | 100 139 |
| - HQ | -751 | -12 | 33 391 | 32 628 |
| - Eliminations | 0 | 0 | -28 695 | -28 695 |
| **Total Gross Profit** | **465 980** | **414 050** | **8 955** | **888 985** |

| Year to date ended June 30, 2018 | Gross Profit per Market Cluster and Operating Segment | | | |
|---|---|---|---|---|
| (In thousands of NOK) | Software | Services | Admin/ Eliminations | Total Gross Profit |
| - Nordics | 217 491 | 225 213 | 3 058 | 445 762 |
| - Growth | 89 067 | 37 936 | 1 787 | 128 790 |
| - 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 | 0 | 0 | -26 012 | -26 012 |
| **Total Gross Profit** | **370 692** | **334 834** | **11 738** | **717 264** |

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

[1] Impact of IFRS 15, ref. note 14

| (In thousands of NOK) | Quarter ended 30. jun. | | Year to date ended 30. jun. | |
|---|---|---|---|---|
| **Operating Revenue per Operating Segment** | 2019 | 2018 | 2019 | 2018 |
| - Software Direct | 3 273 310 | 2 238 017 | 5 028 468 | 3 380 448 |
| - Software Indirect | 884 042 | 619 444 | 1 626 736 | 1 145 171 |
| Total Revenue - Software | 4 157 352 | 2 857 460 | 6 655 204 | 4 525 619 |
| - SAM | 104 255 | 83 508 | 197 775 | 162 102 |
| - Consulting | 157 987 | 133 710 | 320 194 | 255 630 |
| Total Revenue - Services | 262 242 | 217 217 | 517 969 | 417 732 |
| Admin & shared services | 13 371 | 27 570 | 40 359 | 49 361 |
| Eliminations | -79 297 | -69 830 | -130 080 | -127 585 |
| Adjustments [1] | -117 935 | -65 471 | -173 573 | -103 099 |
| **Total Operating Revenue** | **4 235 733** | **2 966 947** | **6 909 879** | **4 762 028** |

| (In thousands of NOK) | Quarter ended 30. jun. | | Year to date ended 30. jun. | |
|---|---|---|---|---|
| **Gross Profit per Operating Segment** | 2019 | 2018 | 2019 | 2018 |
| - Software Direct | 231 456 | 187 875 | 361 727 | 295 422 |
| - Software Indirect | 54 986 | 39 906 | 104 253 | 75 270 |
| Total Gross profit - Software | 286 441 | 227 781 | 465 980 | 370 692 |
| - SAM | 88 381 | 75 902 | 169 322 | 148 605 |
| - Consulting | 122 093 | 96 428 | 244 728 | 186 230 |
| Total Gross profit - Services | 210 475 | 172 330 | 414 050 | 334 834 |
| Admin & shared services | 12 365 | 20 144 | 37 650 | 37 749 |
| Eliminations | -15 550 | -12 728 | -28 695 | -26 012 |
| **Total Gross Profit** | **493 732** | **407 528** | **888 985** | **717 264** |

| (In thousands of NOK) | Quarter ended 30. jun. | | Year to date ended 30. jun. | |
|---|---|---|---|---|
| **Adjusted EBITDA per Operating Segment** | 2019 | 2018 | 2019 | 2018 |
| - Software Direct | 138 689 | 106 968 | 186 655 | 137 785 |
| - Software Indirect | 21 113 | 16 308 | 41 811 | 27 760 |
| Total EBITDA - Software | 159 802 | 123 276 | 228 466 | 165 544 |
| - SAM | 3 877 | 6 368 | 5 586 | 13 430 |
| - Consulting | 19 867 | 13 572 | 42 059 | 23 044 |
| Total EBITDA - Services | 23 744 | 19 939 | 47 645 | 36 474 |
| Admin & shared services [2] | -59 274 | -51 443 | -116 056 | -96 918 |
| Eliminations | 0 | 0 | 0 | 0 |
| **Total Adjusted EBITDA** | **124 273** | **91 773** | **160 055** | **105 101** |

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

[1] Impact of IFRS 15, ref. note 14/ [2] IFRS 16 impact included i these numbers, ref. note 13

| (In thousands of NOK) | Quarter ended 30. jun. | | Year to date ended 30. jun. | |
|---|---|---|---|---|
| **Operating Revenue per Market Cluster:** | 2019 | 2018 | 2019 | 2018 |
| - Nordics | 1 598 405 | 1 434 914 | 3 151 958 | 2 562 827 |
| - Growth Markets | 1 462 084 | 935 548 | 2 008 900 | 1 279 156 |
| - Start-Ups | 733 682 | 483 639 | 1 136 075 | 756 753 |
| - USA | 627 230 | 225 550 | 878 973 | 352 682 |
| - HQ | 11 564 | 22 598 | 37 626 | 41 294 |
| - Eliminations | -79 297 | -69 830 | -130 080 | -127 585 |
| - Adjustments [1] | -117 935 | -65 471 | -173 573 | -103 099 |
| **Total Operating Revenue** | **4 235 733** | **2 966 947** | **6 909 879** | **4 762 028** |

| (In thousands of NOK) | Quarter ended 30. jun. | | Year to date ended 30. jun. | |
|---|---|---|---|---|
| **Gross Profit per Market Cluster** | 2019 | 2018 | 2019 | 2018 |
| - Nordics | 286 509 | 248 806 | 527 281 | 445 762 |
| - Growth Markets | 96 731 | 77 434 | 155 203 | 128 790 |
| - Start-Ups | 57 392 | 38 513 | 102 429 | 64 699 |
| - USA | 58 461 | 39 572 | 100 139 | 73 322 |
| - HQ | 10 189 | 15 931 | 32 628 | 30 702 |
| - Eliminations | -15 550 | -12 728 | -28 695 | -26 012 |
| **Total Gross Profit** | **493 732** | **407 528** | **888 985** | **717 264** |

| (In thousands of NOK) | Quarter ended 30. jun. | | Year to date ended 30. jun. | |
|---|---|---|---|---|
| **Adjusted EBITDA per Market Cluster** | 2019 | 2018 | 2019 | 2018 |
| - Nordics | 102 049 | 93 316 | 160 361 | 134 815 |
| - Growth Markets | 28 280 | 13 554 | 23 109 | 8 023 |
| - Start-Ups | 4 888 | 3 056 | 726 | -2 445 |
| - USA | 2 960 | 770 | -7 452 | -3 698 |
| - HQ [2] | -13 904 | -18 924 | -16 689 | -31 594 |
| - Eliminations | 0 | 0 | 0 | 0 |
| **Total Adjusted EBITDA** | **124 273** | **91 773** | **160 055** | **105 101** |

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

[1] Impact of IFRS 15, ref. note 14/ [2] IFRS 16 impact included i these numbers, ref. note 13

## Note 5 Share options

**Share incentive scheme:**
2.05 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 2.8 m (including accrued social security tax) has been charged as an expense in the profit and loss statement in Q2 2019. 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 0.5 million share options, respectively.

## Note 6 Depreciation and amortisation

Depreciation and amortisation consists of the following:

| | Quarter ended 30-Jun | | Year to date ended 30-Jun | | Year ended 31-Dec |
|---|---|---|---|---|---|
| (In thousands of NOK) | 2019 | 2018 | 2019 | 2018 | 2018 |
| Depreciation | 10 851 | 2 560 | 20 005 | 5 104 | 11 581 |
| Amortisation of intangibles (incl. impairment) | 18 083 | 15 896 | 35 366 | 31 063 | 64 897 |
| **Total** | **28 934** | **18 456** | **55 371** | **36 167** | **76 479** |

See note 9 for breakdown of intangible assets. See note 13 regarding impact of IFRS 16.

## Note 7 Other financial income and expenses

Other financial income and expenses, consists of the following:

| | Quarter ended 30-Jun | | Year to date ended 30-Jun | | Year ended 31-Dec |
|---|---|---|---|---|---|
| (In thousands of NOK) | 2019 | 2018 | 2019 | 2018 | 2018 |
| Interest income | 2 550 | 2 047 | 4 984 | 4 223 | 8 864 |
| Other financial income | 17 936 | 25 602 | 37 392 | 48 697 | 104 525 |
| Other financial expenses | -23 438 | -24 758 | -43 519 | -50 024 | -116 116 |
| **Other total financial income / (Expense)** | **-2 953** | **2 891** | **-1 143** | **2 896** | **-2 727** |

Foreign currency gain/loss is presented in the note on a gross basis. In the Consolidated Statement of Income 1.1-30.6 foreign currency is presented net.

## 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

| 2019 | Software licenses (IP) | Development costs | Contracts | Technology and software | Total |
|---|---|---|---|---|---|
| Aquisition cost 01.01 | 7 421 | 207 847 | 362 511 | 66 549 | 644 328 |
| Additions | - | 23 699 | 22 335 | - | 46 034 |
| FX translation | - | 432 | -564 | -436 | -568 |
| **Aquisitition cost at the end of the period** | **7 421** | **231 978** | **384 282** | **66 113** | **689 794** |
| | | | | | |
| Amortisation and impairment 01.01 | 6 421 | 130 292 | 296 402 | 32 948 | 466 063 |
| Amortisation | - | 22 057 | 9 439 | 3 870 | 35 366 |
| Impairment | - | | - | - | 0 |
| **Accumulated amortisation and impairment** | **6 421** | **152 349** | **305 841** | **36 818** | **501 429** |
| | | | | | |
| **Net value at the end of the period** | **1 000** | **79 628** | **78 441** | **29 295** | **188 364** |
| | | | | | |
| Amortisation period | None | 3-10 years | 5-10 years | 3-10 years | |
| Amortisation 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, Again and Sequint 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 | 890 440 |
| Additions | 41 080 |
| Currency translation | -4 461 |
| **Aquisition cost at the end of the period** | **927 059** |
| | |
| 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** | **876 920** |

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.

Additions of Goodwill are related to the acquisitions described in note 16.

**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 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 IFRS 9, 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 Q2 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-Jun | | Year ended 31-Dec |
|---|---|---|---|
| (In thousands of NOK) | 2019 | 2018 | 2018 |
| Long Term Interest bearing Debt | 1 399 | 454 197 | 452 798 |
| Bond loan, current liabilities | 450 000 | - | - |
| Other short-term interest bearing debt | 12 475 | - | 39 992 |
| Cash & cash equivalents | -707 765 | -165 512 | -379 282 |
| Restricted cash | 19 055 | 15 825 | 17 358 |
| **Net interest bearing debt** | **-224 835** | **304 510** | **130 866** |

**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 2018.

**Note 13 Right-of-use assets and lease liabilities**

IFRS 16 was implemented for the Group with effect as of 1 January 2019.

On transition to IFRS 16, the Group recognized NOK 118.6m in right-of-use assets and NOK 120.0m as lease liabilities. Profit for the period is not affected significantly. The change to IFRS 16 will have no significant effect on the estimated tax expense.

Accounting principles applied are described in the annual IFRS financial statements for the year ended 31 December 2018.

The Group leases several assets such as buildings, equipment and vehicles. In the annual IFRS financial statements for the year ended 31 December 2018 the discounted effect of IFRS 16 was estimated to NOK 129,1 million on implementation. The deviation from this projection is mainly related to renewed assessment and classification of the different leases due to practical expedients, i.e. leases below 12 months.

The Group leases several assets such as buildings, equipment and vehicles. The movements of the Group's right-of-use assets and lease liabilities are presented below:

| | |
|---|---|
| Right of use asset 01.01.2019 | 108 323 |
| Additions | 23 639 |
| Depreciation | -13 343 |
| **Right of use asset 30.6.2019** | **118 619** |
| | |
| Lower of remaning lease term or economic life | 0-12 years |
| Depreciation method | Linear |
| | |
| Total lease liabilities: | |
| Current lease liabilities <1 year | 11 470 |
| Non-current lease liability >1 year | 108 512 |
| **Total lease liabilities 30.6.2019** | **119 982** |

| IFRS 16 effects on the income statement 2019 | Quarter ended 30-Jun 2019 | Year to date ended 30-Jun 2019 |
|---|---|---|
| Operating expenses | 9 652 | 16 406 |
| Depreciation | -7 766 | -13 343 |
| Net interest to credit institutions | -2 591 | -4 427 |
| **Effect on profit before income tax in the period** | **-705** | **-1 363** |

## Note 14 Adjustment and reclassification

Adjustment to reported quarterly financial information:

*Reclassifications*:

1). Reclassification of loan from cash & cash equivalents to other interest-bearing short-term liabilities, see Alternative Performance section.

Credit facilty in India was in Q2 2018 reported as net Cash & cash equivalents. From Q4 2018 this is reported as short-term interest bearing debt. Due to immateriality Q2 2018 (NOK 32m) figures are not restated.

2). Amount previous classified as operating revenue, does not meet requirement in IFRS 15, and has been reclassified to cost of sales. See note 4.

3). Adjustment related to revised assessment of control over an entity within the group. Crayon has reassessed the ability to control a certain entity within the group and has concluded that control does not exist as at 31 December 2018. An adjustment has been made to the consolidated financial information to reflect the revised assessment impacting revenues, cost of sales and accounts receivable and payable.

| | As reported Q2 2018 | Q2 2018 | Change |
|---|---|---|---|
| Equipment | 23 193 | 23 152 | -41 |
| Accounts receivable | 2 263 783 | 2 170 513 | -93 270 |
| Other receivables | 54 550 | 51 578 | -2 972 |
| Accounts payable | 2 008 046 | 1 913 296 | -94 750 |
| Other current liabilities | 254 189 | 252 668 | -1 521 |

| | As reported Q2 2018 | Q2 2018 | Change |
|---|---|---|---|
| Operating revenue | 3 125 307 | 2 966 946 | -158 361 |
| Cost of sales | 2 716 853 | 2 559 418 | -157 435 |
| **Gross profit** | **408 454** | **407 528** | **-926** |
| | | | |
| Opex | 317 299 | 316 373 | -926 |
| **EBITDA** | **91 155** | **91 155** | **-** |

## Note 15 Events after the balance sheet

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers spread across several countries and industries. Accounts receivables increased from last quarter related to the cyclability of the business and some regions with higher days outstanding. Particularly India, Middle-East and France. As a consequence the provision for bad debt according to IFRS 9 is increased. However, we do not see any material change in the overall risk related to accounts receivables that diverge from previous quarters.

There were no other significant events that have occurred subsequent to the balance sheet date that would have an impact on the interim financial statements.

## Note 16 **Acquisitions of business**

**Complit**

On 12 March 2019 Crayon Group announced the acquisition of 100% of the shares in Complit AS, a leading Norwegian IT service desk company. Crayon acquired Complit at an equity value of approximately NOK 8.3m, out of which NOK 3.3m is related to an earn-out model based on the financial performance of the company during the next 12 months. For the FY 2018, Complit posted revenues of approximately NOK 10m and an EBITDA of NOK 2m, implying a EV/EBITDA multiple of x4 as the company was acquired on a cash-free and debt-free basis. Complit AS is a related party acquisition, and the acquisition is according to The Company Act 3-8. The goodwill in the transaction was assessed to NOK 3.8m.

**Sequint**

On 8 may 2019 Crayon Group announced the acquisition of 100% of the outstanding shares of Sequint, a leading Dutch IT channel software service provider. According to the SPA, Crayon Group acquired Sequint on an equity value of approximately NOK 62.0m, out of which NOK 38m relates to an earn-out model based on the financial performance of the company during the next 24 months. The earn-out are contingent consideration estimated to NOK 16.0m for 2019 performance and NOK 21.5 m for 2020 performance, and are classified as short and long-term liabilities, accordingly. The Goodwill in the transaction was assessed at EUR 3,8m which corresponds to NOK 37.5m.

# 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-Jun | | Year ended 31-Dec |
|---|---|---|---|
| (In thousands of NOK) | 2019 | 2018 | 2018 |
| EBITDA | 134 771 | 101 666 | 177 054 |
| Other Income and Expenses | 25 283 | 3 434 | 11 086 |
| **Adjusted EBITDA** | **160 054** | **105 101** | **188 140** |

**Other Income and expenses:** Speciafications of items defined as adjustments. See table below.

| | Year to date ended 30-Jun | | Year ended 31-Dec |
|---|---|---|---|
| (In thousands of NOK) | 2019 | 2018 | 2018 |
| Business development expenses and legal structuring | 21 222 | 191 | 961 |
| IPO Cost 2017 (Project Elevate) | 366 | 137 | 310 |
| Share based compensation | 3 695 | 1 684 | 3 261 |
| Extraordinary personell costs | - | 1 423 | 6 554 |
| **Other income and expenses** | **25 283** | **3 434** | **11 086** |

**Net Working Capital:** Non- interest bearing current assets 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-Jun | | Year ended 31-Dec |
|---|---|---|---|
| (In thousands of NOK) | 2019 | 2018 | 2018 |
| Inventory | 9 132 | 22 589 | 8 625 |
| Accounts receivable | 2 872 271 | 2 170 513 | 1 875 963 |
| Other receivables | 94 190 | 51 578 | 75 998 |
| Income taxes payable | -14 489 | -6 701 | -20 311 |
| Accounts payable | -3 079 184 | -1 913 296 | -1 787 346 |
| Public duties | -311 159 | -254 206 | -209 594 |
| Other current liabilities | -288 671 | -252 668 | -286 549 |
| **Net working capital** | **-717 910** | **-182 190** | **-343 216** |

**Cash & cash equivalents:** Cash & cash equivalents is presented net in Q2 2018. The credit facility in India has been reclassified as other interest bearing short-term liabilities in Q4 2018. Figures are not restated due to immateriality for Q2 2018.
**Free available cash:** Cash and cash equivalents less restricted cash.
**Liquidity reserve:** Freely available cash and credit facilities. Q2 2018 figures are changed compared to previously reported figures as they include an unused credit reserve in India.

| | Year to date ended 30-Jun | | Year ended 31-Dec |
|---|---|---|---|
| (In thousands of NOK) | 2019 | 2018 | 2018 |
| Cash & cash equivalents | 707 765 | 165 512 | 379 282 |
| Restricted cash | -19 055 | -15 825 | -17 358 |
| Free available cash | 688 709 | 149 687 | 361 923 |
| Available credit facility | 153 030 | 169 721 | 153 785 |
| **Liquidity reserve** | **841 739** | **319 408** | **515 708** |

**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 2019. 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 12, 2019

| | | |
|---|---|---|
| **Grethe Viksaas** | **Jens Rugseth**<br>**Chairman** | **Dagfinn Ringås** |
| **Eivind Roald** | **Camilla Magnus** | **Bjørn Rosvoll** |
| **Jan Henrik Emanuelsen** | **Torgrim Takle**<br>**CEO** | **Brit Smestad** |

Crayon Group Holding ASA
Sandakerveien 114A
P.O. box 4384 Nydalen, 0402 Oslo, Norway

Phone+ 47 23 00 67 00
Fax + 47 22 89 10 01

Org.nr 997 602 234
www.crayon.com

Investor relations:
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