Q3 2019

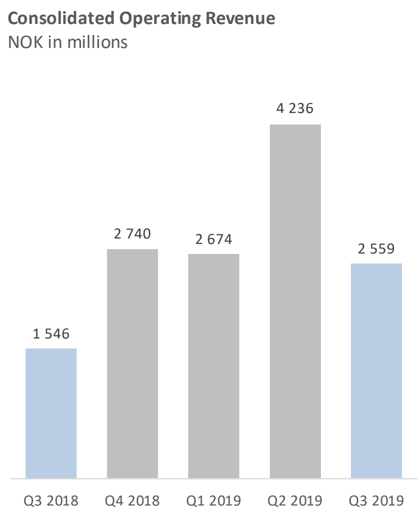
Crayon Group – Interim financial report

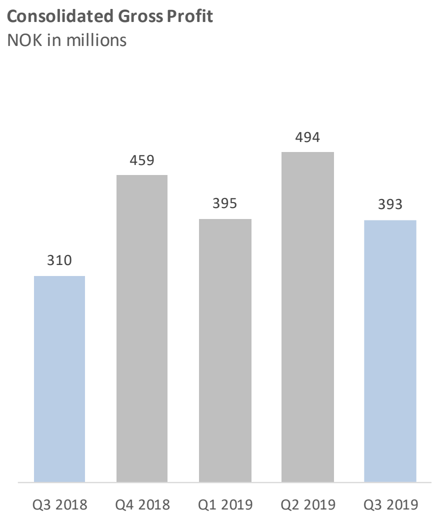
Content

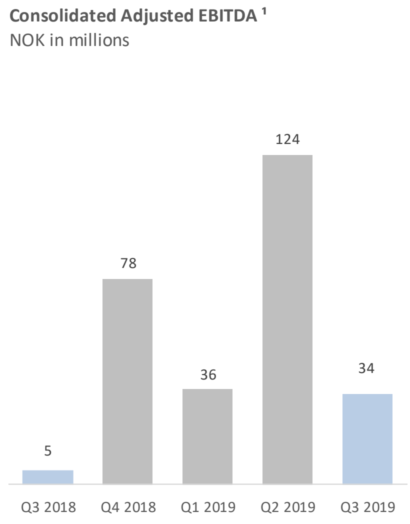
This document contains the un-audited consolidated quarterly financial statements and notes for Crayon Group Holding ASA. The below commentary should be read in conjunction with definitions and further disclosure as provided in the notes.

Highlights

- Crayon experienced strong commercial momentum across all business areas and market clusters in Q3 2019. Gross profit grew by 26.9% compared to the same quarter last year (year-over-year, "YoY"), driven by strong growth in the Software Direct (NOK 49.1m/ +51.5% YoY) and Software Indirect (NOK 11.9m/ +26.8% YoY) segments. From a market cluster perspective, all market clusters delivered solid gross profit growth, and the fact that the international markets delivered 75% of the gross profit growth demonstrates the value of the historic investments into international expansion
- Adjusted EBITDA continues to grow. In Q3 2019, adjusted EBITDA[1] increased with NOK 29.0m YoY, with the Nordic market cluster as the major contributor, also supported by a strong improvement in the US







Key consolidated figures

	Q3 2019	Q3 2018	Year to date Q3 2019	Year to date Q3 2018	Full year 2018
(NOK in thousands, unless stated)	Un-audited	Un-audited	Un-audited	Un-audited	Audited
Operating revenue	2 558 860	1 545 932	9 468 739	6 307 960	9 047 526
Gross profit	393 146	309 845	1 282 131	1 027 109	1 486 108
EBITDA	31 171	(752)	165 942	100 914	177 055
Adjusted EBITDA	34 307	5 348	194 362	110 449	188 141
Operating profit/EBIT	3 228	(20 203)	82 628	45 296	100 576
Net income	(18 048)	(30 687)	18 822	6 310	11 000
Cash flow from operations	(639 547)	(101 045)	(165 118)	(238 036)	114 744
Gross profit margin (%)	15,4 %	20,0 %	13,5 %	16,3 %	16,4 %
Adjusted EBITDA margin (%)	1,3 %	0,3 %	2,1 %	1,8 %	2,1 %
Adjusted EBITDA / Gross profit margin (%)	8,7 %	1,7 %	15,2 %	10,8 %	12,7 %
Earnings per share (NOK per share)	(0,21)	(0,34)	0,25	0,12	0,20
			September 30, 2019	September 30, 2018	December 31, 2018
Liquidity reserve			88 977	148 577	515 708
Net working capital			(24 914)	(81 119)	(343 216)
Average headcount (number of employees)			1 311	1 102	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 7.6 m improvement in adjusted EBITDA (Q3 2019) is driven by the implementation of IFRS 16, as detailed in note 13.

Business review

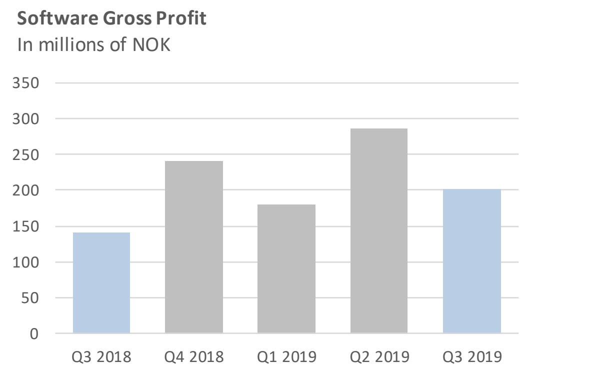
Q3 2019 is another quarter of strong gross profit and EBITDA growth. Q3 2019 YoY revenue growth was +65.5% while gross profit growth was +26.9%/ NOK 83.3m, leading to a total Q3 2019 gross profit of NOK 393.1m. Adjusted EBITDA in Q3 2019 was NOK 34.3m (NOK 26.7m), an increase of NOK 29.0m compared with Q3 2018.

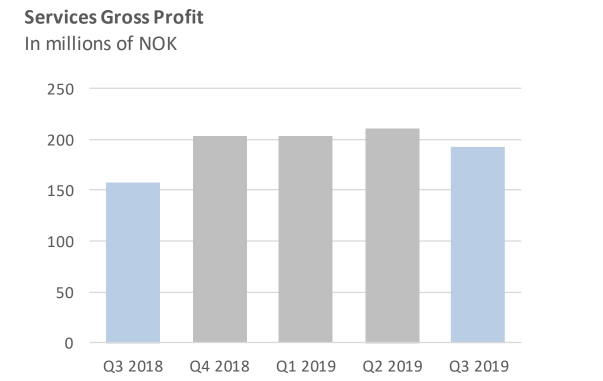
As outlined in note 8, Crayon has a strong underlying seasonality to its financial results driven by external factors, with Q2 and Q4 being the strongest quarters, while Q1 and Q3 are typically slower quarters. To compare the performance of the business across this seasonality the relevant comparison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

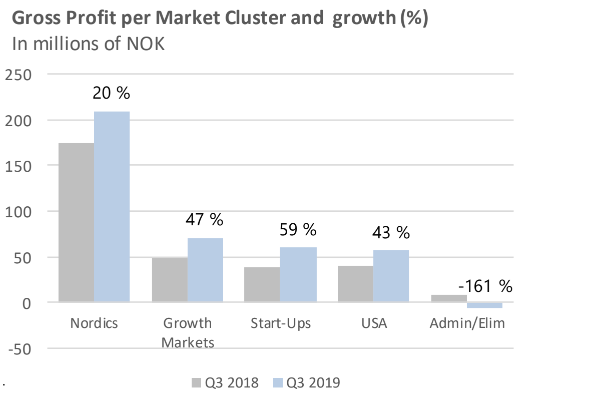
All market clusters (See Note 4 for additional information) had positive gross profit growth in Q3 2019 compared to Q3 2018. Nordics is the largest market cluster and delivered a +20.0% gross profit growth, reflecting the strong market position in the Nordics. Growth Markets and Start-Ups market clusters both delivered strong gross profit YoY growth of +47.4% and +58.7% respectively, while the US market cluster had a gross profit YoY development of +43.0%.

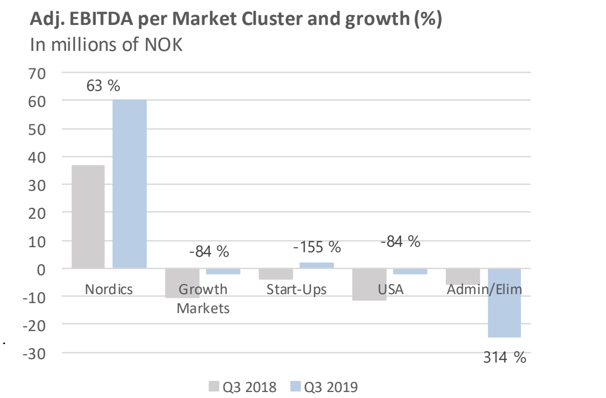
The Software division overall had a strong growth of +43.6% YoY, composed of Software Direct with +51.5% gross profit growth YoY and Software Indirect with +26.8% gross profit growth YoY. Within the Software segment, gross profit in Start-Ups grew with +59.9% YoY, Growth Markets +68.5% YoY and the Nordics +21.8% YoY. Software in the USA grew by +91.5% YoY, although from a small base of NOK 8.7m in Q3 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 +29.0% YoY growth and Software Asset Management ("SAM") of +14.0% YoY growth. Within the Services segment, Nordics grew by +18.3% YoY, while Growth Markets, Start-Ups and USA grew by +16.7% YoY, +42.1% YoY and +31.7% YoY respectively.

Q3 2019 adjusted EBITDA was NOK 34.3m (NOK +29.0m YoY). Of this improvement, NOK 7.6m is driven by the implementation of IFRS 16, leaving the direct comparable YoY improvement at NOK +21.4m*. The YoY adjusted EBITDA improvement was driven by the Nordics (NOK +23.4m YoY), Growth Markets (NOK +8.9m YoY), Start-Ups (NOK +5.6m YoY) and USA (NOK 9.6 YoY). USA is experiencing significant commercial momentum (gross profit +43.0% YoY), and Q3 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 +40.2m YoY), Software Indirect (NOK +0.2 YoY), SAM (NOK +2.0 YoY) and Consulting (NOK +8.7m YoY).

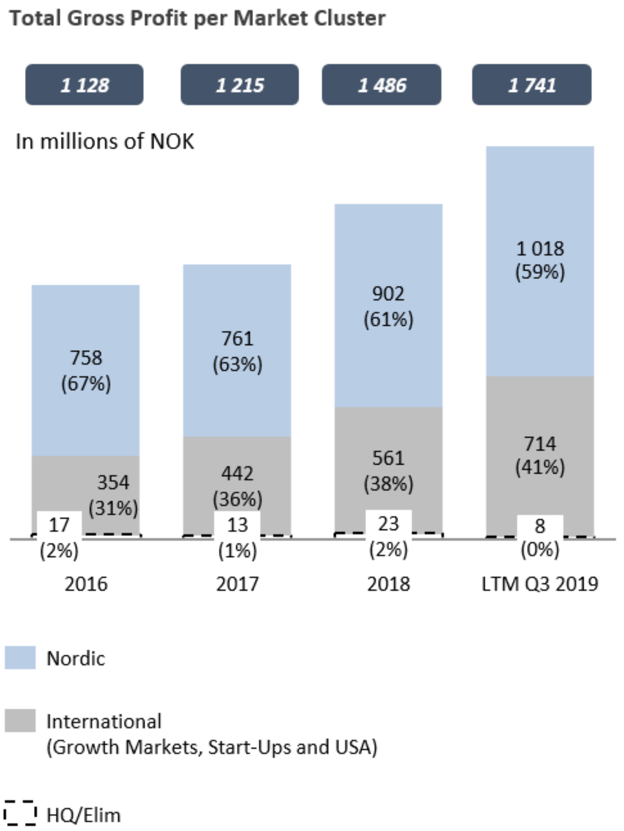




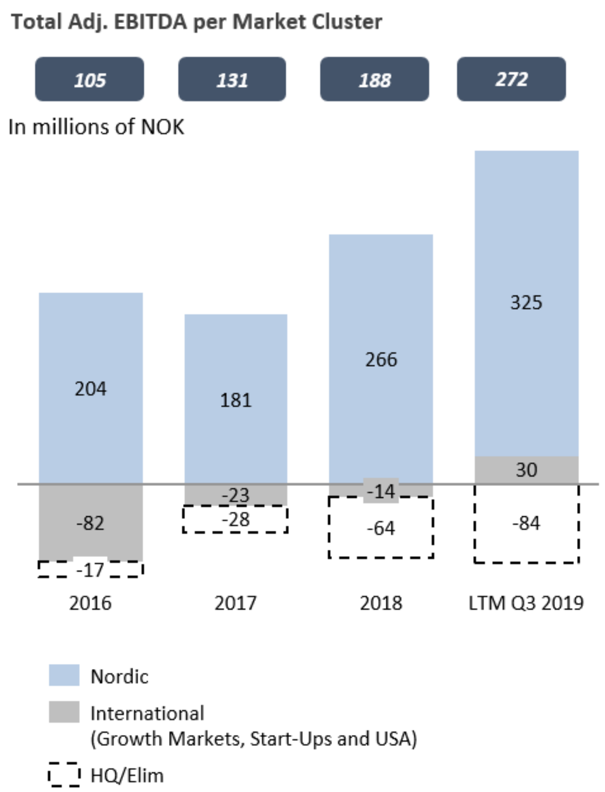




*The application of IFRS 16 at Adj. EBITDA is done per market cluster and as part of the Admin in the operating segment.



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 8.5 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 6.1m. (see note 13 for further explanation).

Interest expenses are increased YoY with NOK 3.8m, where IFRS 16 impact is NOK 2.1m.

Net income before tax increases YoY by NOK 26.6m to NOK -8.2m, mainly due to gross profit and financial items. Income tax expense for Q3 2019 is NOK 9.9m.

Net income in the period was NOK -18.0m, an increase from NOK -30.7m in Q3 2018.

Earnings per share increased from -0.34 per share in Q3 2018 to -0.21 per share in Q3 2019.

Adjusted EBITDA

Adjusted EBITDA is adjusted for share based compensation and other income and expenses, totaling NOK 3.1m in Q3 2019.

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

Balance sheet

As of 30.09.2019 Crayon had assets of NOK 3 097m (NOK 2 291m on 30.09.2018) which is primarily composed of accounts receivables NOK 1 682m (NOK 1 084m), goodwill NOK 889m (NOK 824m) and Cash & cash equivalents NOK 40m (NOK 34m). Total liabilities as of 30.09.2019 is NOK 3 097m (NOK 2 291m), consisting primarily of accounts payables NOK 1 288m (NOK 934m) and a bond loan NOK 449m (NOK 446m). The bond loan is due in April 2020 and is therefore reported as short term debt in the balance sheet as of 30.09.2019.

Trade working capital increased YoY with NOK 241m, comparing with the 65.5% 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.

There is no specific 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 decreased from last quarter related to the cyclability of the business, while the provision for bad debt increased. This is mainly due to specific provisions, and 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 assessment related to accounts receivables that diverge from previous quarters.

Leverage

Net interest-bearing debt as end of end September 2019 was NOK 470.4m with a net cash position of NOK 40.1m (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 company had a NOK 92.3m drawdown on the RCF as of the end of Q3 2019. From a seasonality perspective, end of September represents a quarter with lower cash flow and thus lower liquidity, as Software sales in Q1 and Q3 are typically lower than Q2 and Q4. 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, Q3 2019 had negative cash flow from operations. Cash flow from operations in Q3 2019 was NOK -639.5m, compared with NOK -101.6m in Q3 2018. The decrease of NOK -538.0m 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 7.6m, and a corresponding negative impact on cash flow from financing activities of NOK 7.6m.

The net cash position as of 30 September 2019 was NOK 40.1m (the Company reports its cash balance net of drawdown on its revolving credit facility (“RCF”)) compared to NOK 33.9m as of 30 September 2018.

The liquidity position of the group remains strong, with a total liquidity reserve as of September 30, 2019 of NOK 89.0m, compared to NOK 148.6m as of September 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 Q3 2019 was 1 311, compared to an average during Q3 2018 of 1 102. This represents a YoY increase of 209 employees /+19.0%. The Software business division had a total increase in average employees of 66 YoY, representing a 16.5% increase. The average number of employees in the Services business division increased YoY by 105 employees [2], whilst other employees increased by 39 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 10.9m.

[2] Includes impact of organic growth and acquisitions.

Condensed Consolidated Statement of Income

(In thousands of NOK)	Note	Quarter ended 30-Sep Un-audited 2019	Quarter ended 30-Sep Un-audited 2018	Year to date ended 30-Sep Un-audited 2019	Year to date ended 30-Sep Un-audited 2018	Year ended 31-Dec Audited 2018
Operating revenue	4	2 558 860	1 545 932	9 468 739	6 307 960	9 047 526
Cost of sales		2 165 714	1 236 087	8 186 608	5 280 851	7 561 419
Gross profit		**393 146**	**309 845**	**1 282 131**	**1 027 109**	**1 486 108**
Payroll and related cost		306 211	253 034	943 282	778 916	1 105 772
Other operating expenses		52 627	51 462	144 488	137 744	192 194
Share based compensation		2 831	641	6 526	2 324	3 261
Other income and expenses		306	5 460	21 894	7 211	7 825
EBITDA		**31 171**	**(752)**	**165 942**	**100 914**	**177 054**
Depreciation and amortisation [1]	6,13	27 943	19 451	83 314	55 618	76 479
Operating profit/EBIT		**3 228**	**(20 203)**	**82 628**	**45 296**	**100 575**
Interest expense	13	15 790	12 028	44 460	33 871	44 077
Other financial expense, net	7	(4 374)	2 577	(3 232)	(319)	2 727
Net income before tax		**(8 188)**	**(34 808)**	**41 399**	**11 744**	**53 773**
Income tax expense on ordinary result		9 860	(4 121)	22 577	5 434	42 773
Net income		**(18 048)**	**(30 687)**	**18 822**	**6 310**	**11 000**
Allocation of net income						
Non-controlling interests		(1 970)	(4 883)	(245)	(2 697)	(4 364)
Owners of Crayon Group Holding ASA		(16 078)	(25 804)	19 067	9 007	15 364
Total net income allocated		**(18 048)**	**(30 687)**	**18 822**	**6 310**	**11 000**
Earnings per share (NOK per share)		(0,21)	(0,34)	0,25	0,12	0,20
Comprehensive income						
Currency translation, net of tax		27 742	(4 289)	17 670	(14 041)	6 953
Total comprehensive income		**9 694**	**(34 976)**	**36 492**	**(7 731)**	**17 953**
Allocation of Total comprehensive income						
Non-controlling interests		(1 970)	(5 200)	(245)	(1 548)	(6 832)
Owners of Crayon Group Holding ASA		11 664	(29 776)	36 736	(6 183)	24 785
Total comprehensive income allocated		**9 694**	**(34 976)**	**36 492**	**(7 731)**	**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-Sep		31-Dec
		Un-audited	Un-audited	Audited
(In thousands of NOK)	Note	2019	2018	2018
ASSETS				
Non-current assets:				
Development Costs	9	75 845	75 978	77 556
Technology and software	9	28 803	33 851	33 601
Contracts	9	75 054	68 537	66 109
Software licenses (IP)	9	1 000	1 000	1 000
Goodwill	10	889 280	824 451	840 301
Deferred tax asset		16 115	54 512	29 417
Total intangible assets		**1 086 097**	**1 058 328**	**1 047 983**
Tangible assets				
Equipment	14	33 169	24 487	24 729
Right of use assets	13	120 460	-	-
Total tangible assets		**153 630**	**24 487**	**24 729**
Other long-term receivables		21 754	8 813	22 658
Total financial assets		**21 754**	**8 813**	**22 658**
Total non-current assets		**1 261 481**	**1 091 628**	**1 095 370**
Current assets:				
Inventory		18 773	23 071	8 625
Total inventory		**18 773**	**23 071**	**8 625**
Accounts receivable	14	1 682 470	1 083 885	1 875 963
Other receivables	14	94 471	58 547	75 998
Total receivable		**1 776 940**	**1 142 432**	**1 951 961**
Cash & cash equivalents	14	40 119	33 855	379 282
Total current assets		**1 835 833**	**1 199 358**	**2 339 867**
Total assets		**3 097 313**	**2 290 986**	**3 435 237**

		30-Sep		31-Dec
		Un-audited	Un-audited	Audited
(In thousands of NOK)	Note	2019	2018	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		**663 797**	**663 442**	**663 410**
Retained Earnings				
Other Equity		(59 149)	(111 173)	(72 521)
Total retained earnings		**(59 149)**	**(111 173)**	**(72 521)**
Total equity attributable to parent company shareholders		**604 648**	**552 269**	**590 889**
Non-controlling interests		(10 593)	6 215	(4 581)
Total shareholders' equity		**594 055**	**558 484**	**586 309**
Long-term liabilities:				
Bond loan	11	-	445 914	446 558
Derivative financial liabilities		-	(2 747)	3 260
Deferred tax liabilities		31 205	31 155	30 336
Lease liabilities	13	117 964	-	-
Other long-term liabilities		38 229	11 560	24 982
Total long-term liabilities		**187 398**	**485 882**	**505 136**
Current liabilities:				
Accounts payable	14	1 287 718	934 478	1 787 346
Income taxes payable		22 115	1 792	20 311
Public duties		204 896	88 697	209 594
Current lease liabilities	13	4 504	-	-
Other short-term interest bearing debt	14	42 470	-	39 992
Other current liabilities	14	305 899	221 654	286 549
Bond loan, current liabilities	11	448 561	-	-
Derivative financial liabilities		(303)	-	-
Total current liabilities		**2 315 860**	**1 246 620**	**2 343 793**
Total liabilities		**2 503 258**	**1 732 502**	**2 848 929**
Total equity and liabilities		**3 097 313**	**2 290 986**	**3 435 237**

Condensed Consolidated Statement of Cash Flows

	Quarter ended 30-Sep		Year to date ended 30-Sep		Year ended 31-Dec
(In thousands of NOK)	Un-audited 2019	Un-audited 2018	Un-audited 2019	Un-audited 2018	Audited 2018
Cash flows from operating activities:					
Net income before tax	(8 188)	(34 808)	41 399	11 744	53 773
Taxes paid	(3 305)	(3 909)	(14 177)	(16 911)	(23 625)
Depreciation and amortisation [1]	27 943	19 451	83 314	55 618	76 479
Net interest to credit institutions and interest on bond loan [1]	11 553	9 754	35 239	27 374	35 213
Changes in inventory, accounts receivable/payable	(611 306)	107 329	(316 284)	(205 320)	(130 084)
Changes in other current accounts	(56 245)	(199 407)	5 390	(111 086)	102 990
Net cash flow from operating activities	**(639 547)**	**(101 591)**	**(165 118)**	**(238 582)**	**114 746**
Cash flows from investing activities:					
Acquisition of assets	(22 456)	(14 193)	(148 460)	(54 212)	(69 510)
Net cash flow from investing activities	**(22 456)**	**(14 193)**	**(148 460)**	**(54 212)**	**(69 510)**
Cash flow from financing activities:					
Net interest paid to credit institutions and interest to bond loan	(11 831)	(11 888)	(28 528)	(31 640)	(40 709)
Repayment of interest bearing debt [1]	(7 559)	-	(23 965)	-	-
Other Financial items	5 007	(2 907)	26 896	4 199	616
Net cash flow from financing activities	**(14 383)**	**(14 794)**	**(25 597)**	**(27 441)**	**(40 093)**
Net increase (decrease) in cash and cash equivalents	**(676 385)**	**(130 578)**	**(339 174)**	**(320 235)**	**5 143**
Cash and cash equivalents at beginning of period	707 765	165 512	379 282	368 442	368 442
Currency translation	8 740	(1 079)	11	(14 352)	5 697
Cash and cash equivalents at end of period	**40 119**	**33 855**	**40 119**	**33 855**	**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 is classified as short term debt in the balance sheet as of 30.09.20.19. This has no impact in the cash flow as of 30.09.2019.

Condensed Consolidated Statement of Changes in Shareholder's Equity

Year to date period ending September 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)	(884)
Share based compensation	-	-	-	2 324	-	2 324
Net income	-	-	-	9 006	(2 697)	6 310
Acquisitions & divestments	-	-	-	(2 908)	359	(2 549)
Currency translation	-	-	-	(15 189)	1 149	(14 041)
Balance as of end of period	**75 394**	**(3)**	**588 051**	**(111 173)**	**6 215**	**558 484**

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**	**(72 521)**	**(4 581)**	**586 309**

September 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)	-	(3 404)
Share repurchase (net)	-	25	363	-	-	388
Net income	-	-	-	19 067	(245)	18 822
Share based compensation				1 058		1 058
Acquisitions & divestments	-	-	-	(25 290)	(5 620)	(30 910)
Currency translation	-	-	-	21 941	(147)	21 794
Balance as of end of period	**75 394**	**(10)**	**588 414**	**(59 149)**	**(10 593)**	**594 055**

[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 September 2019 for publication on October 29, 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 50 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 2014-2019 timeframe (i.e. India, Singapore, Malaysia, Philippines, Austria, Netherlands, Spain, Portugal, Switzerland, Ice Distribution, Sri Lanka, Serbia, Mauritius, Macedonia, Australia and South Africa). 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 September 30, 2019	Operating Revenue per Market Cluster and Operating Segment			
(In thousands of NOK)	Software	Services	Admin/ Eliminations	Total Operating Revenue
- Nordics	3 637 407	514 044	2 280	4 153 732
- Growth	2 618 653	76 004	1 578	2 696 235
- Start-Ups	1 665 784	47 322	4 268	1 717 374
- USA	1 142 391	118 620	1 058	1 262 070
- HQ	2 479	290	46 458	49 227
- Eliminations	0	0	-199 602	-199 602
- Adjustments [1]	0	0	-210 296	-210 296
Total Operating Revenue	**9 066 714**	**756 281**	**-354 256**	**9 468 739**

Year to date ended September 30, 2018	Operating Revenue per Market Cluster and Operating Segment			
(In thousands of NOK)	Software	Services	Admin/ Eliminations	Total Operating Revenue
- Nordics	2 898 565	431 773	4 437	3 334 776
- Growth	1 649 369	59 945	4 274	1 713 587
- Start-Ups	1 005 610	29 328	1 745	1 036 683
- USA	403 961	95 839	788	500 589
- HQ	-1 521	0	69 043	67 522
- Eliminations	0	0	-195 457	-195 457
- Adjustments [1]	0	0	-149 740	-149 740
Total Operating Revenue	**5 955 984**	**616 885**	**-264 910**	**6 307 960**

Year to date ended September 30, 2019	Gross Profit per Market Cluster and Operating Segment			
(In thousands of NOK)	Software	Services	Admin/ Eliminations	Total Gross Profit
- Nordics	338 707	396 399	1 887	736 993
- Growth	157 381	67 451	1 536	226 369
- Start-Ups	123 136	37 104	2 807	163 047
- USA	49 852	106 219	1 058	157 130
- HQ	-2 137	-12	44 751	42 602
- Eliminations	0	0	-44 010	-44 010
Total Gross Profit	**666 940**	**607 161**	**8 030**	**1 282 131**

Year to date ended September 30, 2018	Gross Profit per Market Cluster and Operating Segment			
(In thousands of NOK)	Software	Services	Admin/ Eliminations	Total Gross Profit
- Nordics	289 221	327 772	3 523	620 516
- Growth	119 869	54 067	3 131	177 067
- Start-Ups	76 943	25 239	707	102 890
- USA	26 432	85 968	788	113 188
- HQ	-1 866	-37	52 865	50 962
- Eliminations	0	0	-37 515	-37 515
Total Gross Profit	**510 600**	**493 010**	**23 499**	**1 027 109**

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. sep.		Year to date ended 30. sep.	
Operating Revenue per Operating Segment	2019	2018	2019	2018
- Software Direct	1 391 483	837 376	6 419 951	4 217 824
- Software Indirect	1 020 026	592 989	2 646 762	1 738 160
Total Revenue - Software	2 411 510	1 430 365	9 066 714	5 955 984
- SAM	98 728	85 377	296 503	247 479
- Consulting	139 584	113 776	459 778	369 406
Total Revenue - Services	238 312	199 153	756 281	616 885
Admin & shared services	15 283	30 926	55 642	80 287
Eliminations	-69 523	-67 871	-199 602	-195 457
Adjustments [1]	-36 722	-46 640	-210 296	-149 740
Total Operating Revenue	**2 558 860**	**1 545 932**	**9 468 739**	**6 307 960**

(In thousands of NOK)	Quarter ended 30. sep.		Year to date ended 30. sep.	
Gross Profit per Operating Segment	2019	2018	2019	2018
- Software Direct	144 617	95 488	506 344	390 910
- Software Indirect	56 343	44 420	160 596	119 690
Total Gross profit - Software	200 960	139 908	666 940	510 600
- SAM	83 256	73 024	252 578	221 628
- Consulting	109 856	85 151	354 584	271 381
Total Gross profit - Services	193 111	158 175	607 161	493 010
Admin & shared services	14 389	23 265	52 039	61 014
Eliminations	-15 314	-11 504	-44 010	-37 515
Total Gross Profit	**393 146**	**309 845**	**1 282 131**	**1 027 109**

(In thousands of NOK)	Quarter ended 30. sep.		Year to date ended 30. sep.	
Adjusted EBITDA per Operating Segment	2019	2018	2019	2018
- Software Direct	55 385	15 220	242 040	153 005
- Software Indirect	19 446	19 200	61 257	46 959
Total EBITDA - Software	74 830	34 420	303 296	199 964
- SAM	411	-1 568	5 997	11 862
- Consulting	19 324	10 659	61 383	33 703
Total EBITDA - Services	19 736	9 091	67 381	45 565
Admin & shared services [2]	-60 259	-38 162	-176 316	-135 080
Eliminations	0	0	0	0
Total Adjusted EBITDA	**34 307**	**5 349**	**194 361**	**110 449**

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. sep.		Year to date ended 30. sep.	
Operating Revenue per Market Cluster:	2019	2018	2019	2018
- Nordics	1 001 774	771 948	4 153 732	3 334 776
- Growth Markets	687 335	434 431	2 696 235	1 713 587
- Start-Ups	581 299	279 930	1 717 374	1 036 683
- USA	383 097	147 907	1 262 070	500 589
- HQ	11 601	26 228	49 227	67 522
- Eliminations	-69 523	-67 871	-199 602	-195 457
- Adjustments [1]	-36 722	-46 640	-210 296	-149 740
Total Operating Revenue	**2 558 860**	**1 545 932**	**9 468 739**	**6 307 960**

(In thousands of NOK)	Quarter ended 30. sep.		Year to date ended 30. sep.	
Gross Profit per Market Cluster	2019	2018	2019	2018
- Nordics	209 712	174 754	736 993	620 516
- Growth Markets	71 166	48 277	226 369	177 067
- Start-Ups	60 618	38 191	163 047	102 890
- USA	56 991	39 866	157 130	113 188
- HQ	9 974	20 260	42 602	50 962
- Eliminations	-15 314	-11 504	-44 010	-37 515
Total Gross Profit	**393 146**	**309 844**	**1 282 131**	**1 027 109**

(In thousands of NOK)	Quarter ended 30. sep.		Year to date ended 30. sep.	
Adjusted EBITDA per Market Cluster [2]	2019	2018	2019	2018
- Nordics	60 244	36 852	231 075	171 667
- Growth Markets	-1 718	-10 545	25 319	-2 522
- Start-Ups	2 000	-3 627	3 707	-6 072
- USA	-1 863	-11 447	-8 312	-15 145
- HQ	-24 355	-5 885	-57 427	-37 479
- Eliminations	0	0	0	0
Total Adjusted EBITDA	**34 307**	**5 349**	**194 361**	**110 449**

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 Q3 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-Sep		Year to date ended 30-Sep		Year ended 31-Dec
(In thousands of NOK)	2019	2018	2019	2018	2018
Depreciation	9 634	3 015	29 639	8 124	11 581
Amortisation of intangibles (incl. impairment)	18 309	16 434	53 675	47 494	64 897
Total	**27 943**	**19 450**	**83 314**	**55 618**	**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-Sep		Year to date ended 30-Sep		Year ended 31-Dec
(In thousands of NOK)	2019	2018	2019	2018	2018
Interest income	4 237	2 274	9 221	6 497	8 864
Other financial income	84 634	21 674	122 026	70 372	104 525
Other financial expenses	-84 497	-26 526	-128 016	-76 550	-116 116
Other total financial income / (Expense)	**4 374**	**-2 577**	**3 232**	**319**	**-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	-	31 261	22 869	-	54 130
FX translation	-	423	544	1015	1982
Aquisitition cost at the end of the period	**7 421**	**239 531**	**385 924**	**67 564**	**700 440**
Amortisation and impairment 01.01	6 421	130 292	296 402	32 948	466 063
Amortisation	-	33 395	14 468	5 813	53 675
Impairment	-		-	-	0
Accumulated amortisation and impairment	**6 421**	**163 687**	**310 870**	**38 761**	**519 738**
Net value at the end of the period	**1 000**	**75 845**	**75 054**	**28 803**	**180 702**
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	41 971
Currency translation	7 008
Aquisition cost at the end of the period	**939 419**
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	**889 280**

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-Sep		Year ended 31-Dec
(In thousands of NOK)	2019	2018	2018
Long Term Interest bearing Debt	7 156	452 798	452 798
Bond loan, current liabilities	450 000	-	-
Other short-term interest bearing debt	42 470	-	39 992
Cash & cash equivalents	-40 119	-33 855	-379 282
Restricted cash	10 903	9 584	17 358
Net interest bearing debt	**470 410**	**428 527**	**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	31 598
Depreciation	-19 460
Right of use asset 30.9.2019	**120 461**
Lower of remaning lease term or economic life	0-12 years
Depreciation method	Linear
Total lease liabilities:	
Current lease liabilities <1 year	4 504
Non-current lease liability >1 year	117 964
Total lease liabilities 30.9.2019	**122 468**

IFRS 16 effects on the income statement 2019	Quarter ended 30-Sep 2019	Year to date ended 30-Sep 2019
Operating expenses	7 559	23 965
Depreciation	-6 118	-19 460
Net interest to credit institutions	-2 062	-6 489
Effect on profit before income tax in the period	**-621**	**-1 984**

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 Q3 2018 reported as net Cash & cash equivalents. From Q4 2018 this is reported as short-term interest bearing debt. Due to immateriality Q3 2018 (NOK 42m) 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. Please see note 16 for assessment from 1st of July 2019.

	As reported Q3 2018	Q3 2018	Change
Equipment	24 762	24 487	-275
Accounts receivable	1 119 278	1 083 885	-35 393
Other receivables	65 227	58 547	-6 680
Accounts payable	976 417	934 478	-41 939
Other current liabilities	221 501	221 654	153

	As reported Q3 2018	Q3 2018	Change
Operating revenue	1 611 796	1 545 932	-65 864
Cost of sales	1 301 819	1 236 087	-65 732
Gross profit	**309 977**	**309 845**	**-132**
Opex	310 729	310 597	-132
EBITDA	**-752**	**-752**	**-**

Note 15 Events after the balance sheet

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

Saudi-Arabia

Crayon Group has acquired control over a Company operating in Saudi-Arabia indirectly through a Fund-structure that are present and governed by the laws of Saudi-Arabia. The third quarter revenue, gross profit and EBITDA are NOK 52.8m, NOK 4.5m and NOK-0.6m, respectively. The time of control was set to 1 July 2019, where the Group acquired control over the company by entering the Fund arrangement according to IFRS 10.

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-Sep		Year ended 31-Dec
(In thousands of NOK)	2019	2018	2018
EBITDA	165 942	100 914	177 055
Other Income and Expenses	28 419	9 535	11 086
Adjusted EBITDA	**194 362**	**110 449**	**188 141**

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

	Year to date ended 30-Sep		Year ended 31-Dec
(In thousands of NOK)	2019	2018	2018
Business development expenses and legal structuring	21 413	347	961
IPO Cost 2017 (Project Elevate)	481	310	310
Share based compensation	6 526	2 324	3 261
Extraordinary personell costs	-	6 554	6 554
Other income and expenses	**28 419**	**9 535**	**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-Sep		Year ended 31-Dec
(In thousands of NOK)	2019	2018	2018
Inventory	18 773	23 071	8 625
Accounts receivable	1 682 470	1 083 885	1 875 963
Other receivables	94 471	58 547	75 998
Income taxes payable	-22 115	-1 792	-20 311
Accounts payable	-1 287 718	-934 478	-1 787 346
Public duties	-204 896	-88 697	-209 594
Other current liabilities	-305 899	-221 655	-286 549
Net working capital	**-24 914**	**-81 119**	**-343 216**

Cash & cash equivalents: Cash & cash equivalents is presented net in Q3 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 Q3 2018.
Free available cash: Cash and cash equivalents less restricted cash.
Liquidity reserve: Freely available cash and credit facilities. Q3 2018 figures are changed compared to previously reported figures as they include an unused credit reserve in India.

	Year to date ended 30-Sep		Year ended 31-Dec
(In thousands of NOK)	2019	2018	2018
Cash & cash equivalents	40 119	33 855	379 282
Restricted cash	-10 903	-9 584	-17 358
Free available cash	29 216	24 271	361 923
Available credit facility	59 761	124 306	153 785
Liquidity reserve	**88 977**	**148 577**	**515 708**

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