CRAYON GROUP HOLDING AS

FINANCIAL REPORT
Q3 2015

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Management commentary – Q3 2015

Crayon continues to invest in geographic expansion and cloud transition, and solidify a global no. 1 Software Asset Management (SAM) position. The recent majority stake taken in SAM and ITAM experts Anglepoint catalysts the global no. 1 SAM position, and gives a strong foothold in the important US market. Anglepoint has grown rapidly since its launch in 2009 on the back of industry leading licensing and SAM expertise, complimented by a targeted suite of analytic and tooling capabilities, positioning it as a perfect partner to Crayon's extensive existing global capabilities in SAM, Cloud, and Licensing. On a pro-forma basis, last twelve months (LTM) EBITDA[1] has increased with MNOK ~22 following recent acquisitions in the US.

The buildup of new capabilities in wake of the ongoing cloud transition in core markets is achieved while delivering same underlying LTM EBITDA[1] compared to the same period last year. Crayon continues to invest in new markets and service offerings centered around SAM and cloud, and is among the global leaders in driving the cloud agenda for many of the major global vendors. As an example, the company is among Microsoft's best global licensing solution partners in driving cloud sales with ~35% of Microsoft revenue generated from cloud products.

Financials

Crayon Group achieved solid YoY revenue growth of 29% in the third quarter, resulting in an accumulated revenue growth per September 2015 of 21% compared to the same period last year (LY). The achieved growth is a result of strong sales in the Group's core business segments.

In line with the seasonal nature of the business, Q3 2015 was a relatively slow financial quarter, with a gross profit of MNOK 162.2, in line with Q3 2014. Accumulated gross profit was up with 2% YoY from MNOK 578.1 in 2014 to MNOK 590.9 per September 2015.

Q3 2015 EBITDA[1] decreased to MNOK -2.2 from MNOK 16.1 in Q3 2014. Hence, EBITDA per September 2015 amounted to MNOK 59.5, which is MNOK 24.6 below comparable period in 2014.

There are two principal drivers for the decreased profitability compared to last year, both per September 2015 and for Q3 2015; 1) The ongoing industry transition from capex to opex based licensing programs (i.e., cloud transition), and 2) continued investments in the Group's market expansion across geographies, skillset and service areas, in addition to related start-up costs of new countries.

1) The ongoing transition from capex to opex based licensing programs effects distribution of profits in the short term as profits are spread out in time, thus impacting both gross profit and EBITDA[1] adversely in the short term. Gross profit per September 2015 for business area licensing was MNOK 225.7, which represents a YoY growth of 0.4%. The Group experienced strong positive growth from new countries within licensing, while established licensing markets (Nordics, Germany and France) had a negative growth of 2% per September, which signify the ongoing transition within licensing.

Traditional licensing players are no longer generating significant profits from pure transactional activities, as both software vendors and end-customers are demanding additional value-added capabilities from its trusted cloud licensing partners (e.g. consultancy). Compared to many traditional licensing players, Crayon is uniquely positioned to capitalize on the cloud transition with about 60% of it's customer facing employees (excl. admin personnel) being advisors and consultants, which supports customers in activities that are in demand, e.g., cloud readiness assessment, cloud enablement & deployment and cost/consumption monitoring of the cloud solutions implemented. Furthermore, the value proposition of SAM becomes even stronger in the cloud and hybrid environment, both from a compliance, cost and control point of view. As an example, SAM in the cloud support the customers in having tools and processes to address both the dynamic and real-time nature of cloud provisioning, in addition to keeping cost control of the cloud products provisioned as the pricing model is normally consumption based.

2) Amid the transition to cloud, established Nordic markets still represents a strong financial foundation with a last twelve months (LTM) EBITDA[1] of MNOK 159.7 compared to FY 2014 EBITDA[1] of MNOK 159.0. Prioritized growth markets (Germany, France, UK and Middle East) yielded a LTM EBITDA[1] of MNOK -1.7, decreasing from MNOK 13.3 in FY 2014. The profitability decline is mainly due to investments made into organizational ramp up and increased market presence, which is reflected in a LTM gross profit growth of +13% compared to FY 2014. Newly established markets last 24 months show at triple digit LTM gross profit growth, but affecting LTM EBITDA with MNOK -32.1 compared to MNOK -18.6 in FY 2014.

Looking at Q3 2015 performance alone, established markets such as Denmark (MNOK +2.3 vs LY), Middle East (MNOK +2.3 vs LY) and newly established markets such as Austria (MNOK +0.4 vs LY) and Malaysia (MNOK +0.3 vs LY) all show a strong YoY EBITDA growth. This underpins the embedded future EBITDA coming from both newly established markets (e.g. Austria) and completed restructuring initiatives (e.g. Denmark, which has been mentioned in previous earning releases) which has negatively impacted the result in the short term.

Long-term debt has increased from MNOK 665.1 in Q2 2015 to MNOK 707.9 as of end Q3 2015. The increase is driven by both new acquisition debt and depreciation of NOK which causes the value of the Company's cross-currency swaps to increase (i.e. mark to market).

The net cash position as of 30 September 2015 was MNOK 122.4, compared to MNOK 296.9 at the beginning of the year (MNOK -177.6), MNOK 243.4 as of end Q2 2015 (MNOK -122.1), and MNOK 133.3 end September 2014 (MNOK -11.0). The negative cash flow in Q3 2015 is largely related to changes in net working capital in line with the seasonal nature of the business, in addition to higher investing activities. As of 30 September 2015 the Company is within its financial covenants.

Business areas - Review

XSP is the fastest growing Business Area (BA) per September 2015, with a gross profit growth of 53% YoY, followed by SAM with a 14% YoY growth. Consulting has experienced gross profit growth of -7% YoY, which is due to weak performance within Solution consulting. Solution consulting was impacted by a slow start of the year in addition to unwinding of Solution consulting in Sweden (part of 2014 figure), which in total has resulted in a negative YoY gross profit growth of 13%. Nevertheless, the underlying trend for Solution consulting has been positive throughout the year with a YoY gross profit improvement of more than 10 percentage points since the beginning of the year, and a YoY EBITDA growth of +12% per September 2015.The growth is primarily driven by supporting clients in implementing vendor technology. Cloud consulting has experienced a positive gross profit growth of +3% YoY, where gross profit per headcount growth is up with 11% YoY. This signifies that Crayon is capable to capitalize on its knowhow, market position and intellectual property across various business lines beyond licensing during the ongoing cloud transition.

1. Excluding non-recurring costs

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Crayon Group Holding AS
Condensed Consolidated Statement of Income

(In thousands of NOK)	Note	Quarter ended 30 September, Un-audited 2015	Quarter ended 30 September, Un-audited 2014	Year to date ended 30 September, Un-audited 2015	Year to date ended 30 September, Un-audited 2014	Year ended 31 December, Audited 2014
Operating revenue	2,5	761 824	592 241	3 144 561	2 595 340	3 731 813
Materials and supplies		599 651	428 575	2 553 615	2 017 211	2 905 529
Gross profit		**162 172**	**163 666**	**590 946**	**578 129**	**826 284**
Payroll and related cost		137 989	124 590	442 525	428 471	586 340
Other operating expenses		26 362	22 950	88 931	65 551	98 146
EBITDA	5	**(2 178)**	**16 126**	**59 490**	**84 107**	**141 798**
Exceptional items		5 223	400	12 097	2 946	3 958
Depreciation and amortization	6	18 640	17 174	54 715	51 395	70 393
Operating profit/EBIT		**(26 041)**	**(1 447)**	**(7 322)**	**29 766**	**67 446**
Interest expense		21 562	16 054	55 103	43 322	64 628
Other financial expense, net	7	2 119	(4 559)	9 518	7 524	(8 353)
Ordinary result before tax		**(45 484)**	**(22 060)**	**(52 908)**	**(6 032)**	**(5 534)**
Income tax expense on ordinary result		(14 362)	(2 041)	(24 399)	(6 902)	4 882
Net income		**(31 122)**	**(20 019)**	**(28 508)**	**870**	**(10 416)**
Comprehensive income		789	(1 256)	1 177	1 584	1 004
Total comprehensive income		**(30 333)**	**(21 275)**	**(27 331)**	**2 454**	**(9 412)**
Allocation of comprehensive income						
Owners of Crayon Group Holding AS		(26 118)	(21 310)	(19 298)	2 320	(4 983)
Minority interest		(4 216)	35	(8 033)	134	(4 429)
Total comprehensive income allocated		**(30 333)**	**(21 275)**	**(27 331)**	**2 454**	**(9 412)**

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Condensed Consolidated Balance Sheet Statement

(In thousands of NOK)	Note	30 September Un-audited 2015	31 December Audited 2014
ASSETS			
Current assets:			
Inventory		16 648	18 475
Accounts receivable		415 252	651 019
Other receivables		25 716	44 906
Cash & cash equivalents		122 372	296 938
Total current assets		**579 989**	**1 011 338**
Non-current assets:			
Technology, software and R&D		45 780	35 749
Contracts		138 996	178 096
Software licenses		7 421	7 420
Goodwill		828 801	745 585
Deferred tax asset		-	-
Property & equipment		17 208	23 106
Investment in associates		1 642	538
Other long-term receivables		2 156	2 815
Total non-current assets		**1 042 004**	**993 308**
Total assets		**1 621 993**	**2 004 647**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		361 974	675 440
Income taxes payable		(5 163)	5 474
Public duties		90 454	149 803
Dividends		-	-
Other current liabilities		158 052	142 920
Total current liabilities		**605 317**	**973 637**
Long-term liabilities:			
Long-term debt	3,4	676 270	663 243
Deferred tax liabilities		15 299	43 413
Other long-term liabilities		31 623	3 552
Total long-term liabilities		**723 193**	**710 208**
Shareholders' equity:			
Share capital		52 476	52 476
Own shares		(43)	(216)
Share premium		262 162	262 303
Sum paid-in equity		314 595	314 563
Funds		(10 422)	8 889
Minority interest		(10 689)	(2 650)
Total shareholders' equity		**293 484**	**320 801**
Total liabilities and shareholders' equity		**1 621 993**	**2 004 647**

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Crayon Group Holding AS
Condensed Consolidated Statement of Cash Flows

(In thousands of NOK)	Quarter ended 30 September, Un-audited 2015	Quarter ended 30 September, Un-audited 2014	Year to date ended 30 September, Un-audited 2015	Year to date ended 30 September, Un-audited 2014	Year ended 31 December, Audited 2014
Cash flows provided by operating activities:					
Ordinary result before tax	(45 484)	(22 060)	(52 908)	(6 032)	(5 534)
Taxes paid	(4 739)	(2 085)	(14 417)	(9 921)	(14 575)
Depreciation and amortisation	18 640	17 174	54 715	51 395	70 393
Net interest to credit institutions	10 673	11 891	33 700	31 938	42 254
Changes in inventory, accounts receivable/payable	40 898	(49 075)	(83 084)	4 862	69 257
Changes in other current assets	(107 278)	(77 172)	(32 595)	(85 443)	2 036
Net cash flow from (used in) operating activities	**(87 290)**	**(121 328)**	**(94 588)**	**(13 201)**	**163 831**
Cash flows used in investing activities:					
Acquisition of assets	(7 491)	(2 027)	(18 382)	(9 454)	(19 153)
Acquisition of subsidiaries	(44 659)	(21 223)	(57 183)	(21 223)	(27 412)
Divestments	-	-	173	6 555	6 646
Repurchase of own shares	300	-	(115)	(75)	(89)
Net cash flow from (used in) investing activities	**(51 850)**	**(23 250)**	**(75 506)**	**(24 197)**	**(40 007)**
Cash flow used in financing activities:					
Net interest paid to credit institutions	(11 376)	(69 559)	(31 657)	(77 449)	(87 786)
New equity	-	-	-	-	-
Change in subsidiaries	13 526	2 277	14 783	(82)	(82)
Proceeds from issuance of interest bearing debt	-	650 000	-	650 000	650 000
Repayment of interest bearing debt	(476)	(605 617)	(607)	(624 442)	(624 442)
Change in other long-term debt	3 421	197	1 291	(591)	396
Net cash flow from (used in) financing activities	**5 096**	**(22 703)**	**(16 190)**	**(52 565)**	**(61 915)**
Net increase (decrease) in cash and cash equivalents	**(134 045)**	**(167 281)**	**(186 285)**	**(89 962)**	**61 909**
Cash and cash equivalents at beginning of period	243 425	303 194	296 938	225 329	225 329
Currency translation	12 992	(2 574)	11 719	(2 027)	9 700
Cash and cash equivalents at end of period	**122 372**	**133 340**	**122 372**	**133 340**	**296 938**

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Condensed Consolidated Statement of Changes in Shareholders' Equity

Year to date period ending 30 September,

(In thousands of NOK)	Share capital	Own shares	Share premium	Funds	Minority	Total equity
	Attributable to equity holders of Crayon Group Holding AS					
Balance at January 1, 2014	**52 476**	**(202)**	**262 378**	**7 477**	**4 924**	**327 053**
Net income	-	-	-	736	134	870
Currency translation	-	-	-	1 584		1 584
Other	-	(12)	(63)	(5 189)	(1 623)	(6 887)
Balance as of end of period	**52 476**	**(214)**	**262 315**	**4 608**	**3 435**	**322 620**

(In thousands of NOK)	Share capital	Own shares	Share premium	Funds	Minority	Total equity
	Attributable to equity holders of Crayon Group Holding AS					
Balance at January 1, 2015	**52 476**	**(216)**	**262 303**	**8 889**	**(2 650)**	**320 801**
Adjustment		162	(194)			(32)
Opening balance new entities				(23)	(6)	(29)
Share repurchase (net)		11	54	11		75
Net income	-	-	-	(21 401)	(7 108)	(28 508)
Currency translation	-	-	-	2 102	(925)	1 177
Other	-	(0)	(1)	(0)	0	(1)
Balance as of end of period	**52 476**	**(43)**	**262 162**	**(10 422)**	**(10 689)**	**293 484**

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Notes to the Condensed Interim Consolidated Financial Statements - Period ended 30 September,2015

Note 1 - General

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

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

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

Note 2 - Seasonality

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

Note 3 - Issue of new Bond

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

Note 4 - Net interest-bearing debt

Net interest bearing debt means long-term debt less cash. Long-term debt is composed of interest bearing debt incl. other long-term liabilities.
Net interest-bearing debt is not adjusted for normalized working capital.

	As of 30 September,	
(In thousands of NOK)	2015	2014
Long-term debt	707 893	645 751
Cash and cash equivalents	122 372	133 340
Net interest bearing debt	**585 521**	**512 411**

Note 5 - Segment information

"Other" includes Corporate administration costs and unallocated Global Shared Cost. For segment reporting by operating segment, "Other" also includes intercompany transactions. Depreciation and amortization, Interest expense, Other financial expense (net), income tax expense and Other comprehensive income are not included in the measure of segment performance.
Licensing is Crayon's license offering from its partners (e.g. Microsoft, Adobe, Symantec, Citrix, VMware, Oracle, IBM and others). The emphasis is towards standard software which customers use consistently year after year, and which play a key role in their technological platforms and critical commercial processes. XSP is Crayon's service offering towards hosters which include license advisory/optimization, software license sale and access to Crayon's reporting portal. Software Asset Managment (SAM) services include process & tools for enabling clients to build in-house SAM capabilities, license spend optimization and support for clients in vendor audits.
Consulting services is related to deployment and application services. Crayon offers IT infrastructure services (planning and analysis support related to larger IT upgrade projects) and tailored software or application development.

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Note 5 - Segment information cont.

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

Gross profit by operating segment and country classification:

(In thousands of NOK)	Year to date ended 30 September, 2015	Year to date ended 30 September, 2014
Gross profit by operating segment:		
- Licensing	225 732	224 845
- XSP	65 804	43 112
- SAM	109 699	96 179
- Consulting	205 638	220 422
Gross profit from operations	**606 873**	**584 558**
- Other	(15 928)	(6 429)
Total gross profit	**590 946**	**578 129**

(In thousands of NOK)	Year to date ended 30 September, 2015	Year to date ended 30 September, 2014
Gross profit by country classification:		
- Established markets	564 513	575 346
- New markets	26 433	2 783
Gross profit from operations	**590 946**	**578 129**
- Other	0	(0)
Total gross profit	**590 946**	**578 129**

EBITDA by operating segment and country classification:

(In thousands of NOK)	Year to date ended 30 September, 2015	Year to date ended 30 September, 2014
EBITDA by operating segment:		
- Licensing	81 577	94 554
- XSP	36 193	26 465
- SAM	(3 948)	24 125
- Consulting	26 175	11 339
EBITDA from operations	**139 997**	**156 482**
- Other	(80 507)	(72 376)
Total EBITDA	**59 490**	**84 107**

(In thousands of NOK)	Year to date ended 30 September, 2015	Year to date ended 30 September, 2014
EBITDA by country classification:		
- Established markets	94 935	109 218
- New markets	(22 759)	(9 259)
EBITDA from operations	**72 177**	**99 959**
- Other	(12 686)	(15 852)
Total EBITDA	**59 490**	**84 107**

Note 6 -Depreciation and amortization

Depreciation and amortization consists of the following:

(In thousands of NOK)	Year to date ended 30 September, 2015	Year to date ended 30 September, 2014	Quarter ended 30 September, 2015	Quarter ended 30 September, 2014	Year ended 31 December, 2014
Depreciation	15 466	12 146	5 557	4 091	18 061
Amortization of goodwill	39 249	39 249	13 083	13 083	52 332
Total	**54 715**	**51 395**	**18 640**	**17 174**	**70 393**

Note 7 - Other financial expense, net

Other financial expense, net consists of the following:

(In thousands of NOK)	Year to date ended 30 September, 2015	Year to date ended 30 September, 2014	Quarter ended 30 September, 2015	Quarter ended 30 September, 2014	Year ended 31 December, 2014
Interest income	21 403	11 384	10 889	4 163	22 374
Other financial income	102 900	55 986	37 662	13 859	56 892
Other financial expenses	114 785	59 846	46 431	22 581	87 619
Total	**9 518**	**7 524**	**2 119**	**(4 559)**	**(8 353)**

*****END OF REPORT*****