Q2 2020

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 delivers gross profit growth across all business areas and market clusters in Q2 2020. Gross profit grew by 34.9% compared to the same quarter last year (year-over-year, "YoY"), driven by strong growth in the segments Software & Cloud Direct (NOK 63.3m/ +27.3% YoY) and Consulting (NOK 52.2m/ +42.7% YoY). All market clusters delivered solid gross profit growth, and in particular international markets (e.g., outside Nordics) delivered 63% of the gross profit growth
- Adjusted EBITDA has a positive development, and in Q2 2020 adjusted EBITDA[1] increased with NOK 46.9m YoY to NOK 171.2m, with the Nordic and APAC&MEA segments as the main contributor.

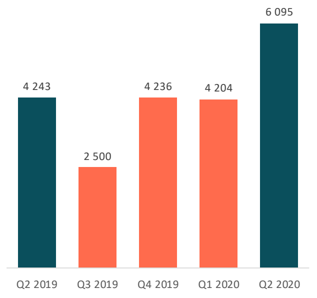
Key consolidated figures

(NOK in thousands, unless stated)	Q2 2020 Un-audited	Q2 2019 Un-audited	Year to date Q2 2020 Un-audited	Year to date Q2 2019 Un-audited	Full year 2019 Audited
Operating revenue	6 095 044	4 242 654	10 298 997	6 881 991	13 618 020
Gross profit	665 839	493 732	1 181 045	888 985	1 808 711
EBITDA	164 425	105 455	202 921	134 771	249 926
Adjusted EBITDA	171 187	124 273	211 789	160 054	292 242
Operating (loss)/profit/EBIT	129 816	76 521	135 684	79 400	77 057
Net (loss) income	102 552	45 883	50 965	36 870	(19 289)
Cash flow from operations	1 090 001	674 541	1 206 756	436 432	190 977
Gross profit margin (%)	10,9 %	11,6 %	11,5 %	12,9 %	13,3 %
Adjusted EBITDA margin (%)	2,8 %	2,9 %	2,1 %	2,3 %	2,1 %
Adjusted EBITDA / Gross profit margin (%)	25,7 %	25,2 %	17,9 %	18,0 %	16,2 %
Earnings per share (NOK per share)	1,22	0,57	0,63	0,47	(0,16)

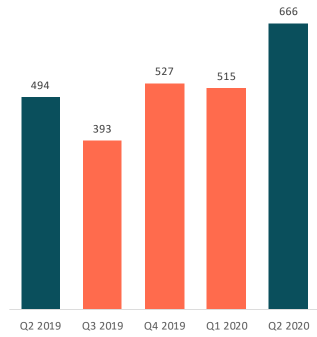
	June 30, 2020	June 30, 2019	December 31, 2019
Liquidity reserve	1 946 778	841 739	466 646
Net working capital	(1 363 154)	(717 910)	(337 712)
Average headcount (number of employees)	1 653	1 298	1 354

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

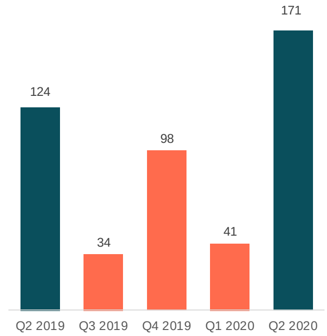
Consolidated Operating Revenue
In millions of NOK



Consolidated Gross Profit
In millions of NOK



Consolidated Adjusted EBITDA[1]
In millions of NOK



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

Business review

Crayon continues on a strong growth trajectory, with a record high quarter of gross profit and EBITDA growth. Q2 2020 YoY revenue growth was +43.7% while gross profit growth was +34.9%/ NOK 172.1m, leading to a total Q2 2020 gross profit of NOK 665.8m. Adjusted EBITDA in Q2 2020 was NOK 171.2m), an increase of NOK 46.9m compared with Q2 2019.

As outlined in note 13, 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 6 for additional information) had positive gross profit growth in Q2 2020 compared to Q2 2019. Nordics is the largest market cluster and delivered a +22.7% gross profit growth. Europe and US market clusters both delivered strong gross profit YoY growth of +42.4% and +39.9% respectively, while APAC & MEA had a gross profit YoY development of +79.0%.

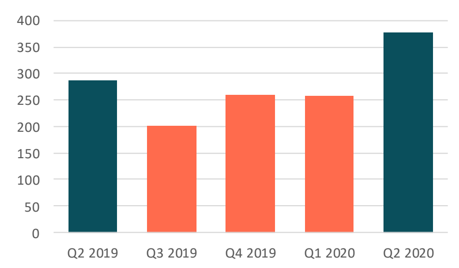
The Software & Cloud division overall had a growth of +32.1% YoY, composed of Software & Cloud Direct with +27.3% gross profit growth YoY and Software & Cloud Channel with +52.0% gross profit growth YoY.

Within the Software & Cloud segment, gross profit in Europe grew with +46.3% YoY and the US Markets +14.3% YoY. Gross profit in the Nordics increased with 18.6% YoY, and APAC & MEA increased with 63.2%. Within the Services segment, the overall gross profit growth was +36.8%, driven by Consulting with +42.7% YoY growth and Software & Cloud Economics ("SAM") of +28.6% YoY growth. Within the Services segment, Nordics grew by +25.7% YoY, while Europe, APAC & MEA and US grew by +33.9% YoY, +129.3% YoY and +53.9% YoY respectively.

Q2 2020 adjusted EBITDA was NOK +171.2m (2019: NOK +124.3m YoY). The YoY adjusted EBITDA improvement was driven by the Nordics (NOK +34.3m YoY), Europe (NOK -1.1m YoY), APAC & MEA (NOK +23.5m YoY) and US (NOK -3.9 YoY). In the business area segment, the adjusted EBITDA improvement was driven by Software & Cloud Direct (NOK +27.8m YoY), Software & Cloud Channel (NOK +10.7m YoY), Software & Cloud Economics (NOK +3.5m YoY) and Consulting (NOK +12.0m YoY).

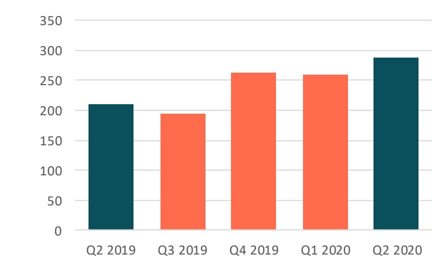
Software Gross Profit

In millions of NOK



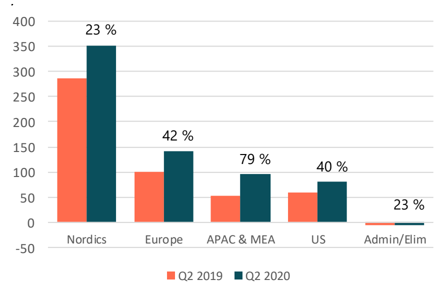
Services Gross Profit

In millions of NOK



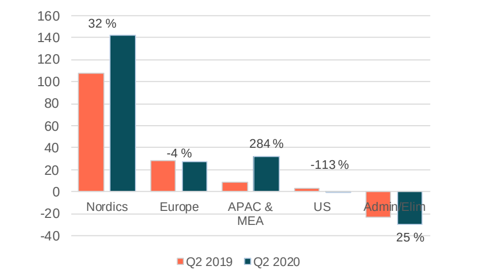
Gross Profit per Market Cluster and Growth

In millions of NOK



Adj. EBITDA per market cluster and growth (%)

In millions of NOK



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Business review

COVID- 19 Business impact

The outbreak of the SARS-CoV-2 virus is by now well established as a global pandemic situation, commonly referred to as the Covid-19 pandemic. The pandemic and the responses to contain it continues to affect businesses globally and the duration and impact of the pandemic is currently unknown, causing uncertainty on the future overall economic outlook and significant divergence of growth rates between different sectors of the economy. In particular, the demand for software, cloud infrastructure and related services has increased as the overall digitalization of the economy is accelerating in order to cope with the demands of remote work, reduced travel and new forms of virtual collaboration.

While Crayon is exposed to the overall global economic situation like all businesses, Crayon's business model is structurally well suited for the current economic environment as the accelerating digitalisation increases the demand for the software, cloud infrastructure and services provided by Crayon. Furthermore, Crayons operating model is fully compatible with remote work and does not relay on international or domestic travel. Finally, Crayon has a lean balance sheet and is well capitalized to ensure a going concern in all relevant scenarios.

In order to support the efforts to contain the pandemic and ensure the well-being of all our employees, Crayon has taken all relevant measures to protect employees and support the ongoing efforts to contain the Covid-19 pandemic in line with recommendations from local and global health authorities. Management will continue to monitor the situation, and implement any actions deemed necessary to support the containment of the pandemic and ensure the safety and well-being of our employees.

The future impact from the Covid-19 pandemic on the global economy is still uncertain with multiple scenarios. Management will continue to monitor the development in order to both address any new market opportunities and implement mitigating measures on our business if deemed necessary.

See note 11 for further information of financial risk assessment.

Financial review

Items below the EBITDA line

Depreciation and amortisation increased NOK 5.7m YoY. The increase of depreciation is primarily driven by higher investments in recent periods into platforms and ERP systems.

Interest expenses decreased YoY with NOK 6.6m, primarily due to a lower interest on borrowings, while other financial expenses decrease with NOK 12.8m due to favourable currency movements. The net income before tax increases YoY by NOK 72.7m to NOK 131.8m, mainly due to increase of gross profit of NOK 172.1m and corresponding increase in Adjusted EBITDA. Income tax expense for Q2 2020 amounts to NOK 29.3m, mainly related to the Nordic and APAC&MEA market clusters.

Net profit in the period was NOK 102.6m, an increase from NOK 45.9m in Q2 2019. Earnings per share increased from NOK 0.57 per share in Q2 2019 to NOK 1.22 per share in Q2 2020.

Adjusted EBITDA

Adjusted EBITDA is adjusted for share based compensation and other income and expenses, totaling NOK 6.8m in Q2 2020.

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

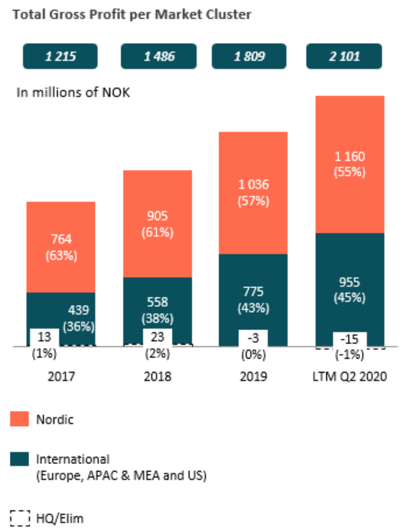
Balance sheet

As of June 30, 2020 Crayon had assets of NOK 7 163m (2019: NOK 4 934m) which is primarily composed of accounts receivables NOK 4 031m (2019: NOK 2 872m), goodwill NOK 870m (2019: NOK 877m) and Cash & cash equivalents NOK 1 689m (2019: NOK 708m). Total liabilities as of June 30, 2020 amounts to NOK 6 155m (2019: NOK 4 350m), consisting primarily of accounts payables NOK 4 703m (2019: NOK 3 079m) and a bond loan NOK 294m (2019: NOK 448m). There was a refinancing done in November 2019, where CRAYON02 was replaced with CRAYON03. Please see note 10 for further information.

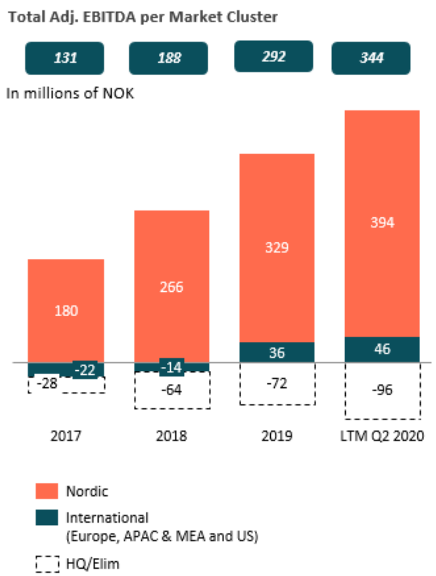
Trade working capital decreased YoY with NOK 455m, compared to the 43.7% YoY revenue growth. This improvement is driven by a combination of improved credit and collection performance with customers and temporary renegotiation of supplier terms in light of the Covid-19 situation.

Management is continuing its efforts to control working capital, particular in light of the growth in emerging markets with varying credit risks and payment cycles and the overall credit risk implied by the COVID-19 situation.

There is no specific concentration of credit risk with respect to trade receivables, but in general the APAC & MEA region has a higher credit risk. The Group has a large number of customers spread across several countries and industries. Accounts receivables increased from last quarter related to the cyclicality of the business. The provision for bad debt increased with NOK 35m compared to Q2 2019. This is due to provisions for specific customers at risk, general provisions and currency translation from depreciation of NOK against foreign currencies. See note 11 for updated information on credit risk.



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

In 2018 Crayon finalized a non-recourse factoring agreement with BNP. This has been implemented for a set of customers in Norway and in Denmark. As of June 30, 2020, factoring is improving our accounts receivables of NOK 159m (2019: NOK 138).

Equity increased by NOK 422m from year-end 2019 consisting primarily issued share capital amounting NOK 296m, a total net income of NOK 51m and a currency translation on net investments in subsidiaries of NOK 60m. NOK has depreciated against most major currencies at June 30, 2020 resulting in increased value of net investments in subsidiaries.

Leverage

Net interest-bearing debt as end of June 30, 2020 was NOK -1 305m with a net cash position of NOK 1 689m (the Company reports its cash balance net of drawdown on its revolving credit facility ("RCF")), corresponding to a leverage ratio of -3.8x EBITDA[1]. The Group had significant headroom with regards to its bank covenants as of quarter end.

Cash flow

Cash flow from operations in Q2 2020 was NOK 1 090.0m, compared with NOK 674.5m in Q2 2019 with the improvement primarily driven by an improvement in net profit before taxes and net working capital.

The net cash position as of June 30, 2020 was NOK 1 689m (the Company reports its cash balance net of drawdown on its revolving credit facility ("RCF")) compared to NOK 708m as of June 30, 2019. Between June 30 2019 and 2020 the bond was refinanced and reduced with NOK 150m through a corresponding increase of the RCF, and as such the improvement in the cash posh position is NOK 150m higher than indicated by the comparison of cash position between June 30 2019 and 2020.

The liquidity position of the group remains strong, with a total liquidity reserve as of June 30, 2020 of NOK 1 947m, compared to NOK 842m as of June 30, 2019. For more information on the definition of liquidity reserve, please see the 'Alternative Performance Measures' section in this report. See note 11 for updated information of liquidity risk.

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 2020 was 1 653, compared to an average during Q2 2019 of 1 298. This represents a YoY increase of 355 employees /+27.3%. The Software & Cloud business division had a total increase in average employees of 87 YoY, representing a 18.8% increase. The average number of employees in the Services business division increased YoY by 178 employees [2], whilst other employees increased by 90 YoY. At the date of this report, all Crayon employees are safe and remains productive. Crayon has taken measures to protect employees and support ongoing efforts to contain the COVID-19 pandemic in line with local and global health authorities. The transition to remote work has so far been seamless for our employees, customers and business partners.

[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 23.4m.
[2] Includes impact of organic growth and acquisitions.

Condensed Consolidated Statement of Income

(In thousands of NOK)	Note	Quarter ended 30-Jun Un-audited 2020	Quarter ended 30-Jun Un-audited 2019	Year to date ended 30-Jun Un-audited 2020	Year to date ended 30-Jun Un-audited 2019	Year ended 31-Dec Audited 2019
Operating revenue	6	6 095 044	4 242 654	10 298 997	6 881 991	13 618 020
Cost of sales		5 429 205	3 748 922	9 117 952	5 993 005	11 809 309
Gross profit		665 839	493 732	1 181 045	888 985	1 808 711
Payroll and related cost		443 129	330 285	836 793	637 071	1 292 875
Other operating expenses		51 523	39 174	132 464	91 861	223 594
Share based compensation		6 751	2 800	8 574	3 695	19 813
Other income and expenses		12	16 018	294	21 588	22 503
EBITDA		164 425	105 455	202 921	134 771	249 926
Depreciation and amortisation	4	34 608	28 934	67 237	55 371	113 491
Impairment		-	-	-	-	59 378
Operating (loss)/profit/EBIT		129 816	76 521	135 684	79 400	77 057
Interest expense		7 845	14 411	23 243	28 670	59 810
Other financial expense, net	5	(9 837)	2 953	22 096	1 143	7 658
Net (loss) income before tax		131 809	59 158	90 345	49 587	9 589
Income tax expense on ordinary result		29 256	13 275	39 380	12 717	28 878
Net (loss) income		102 552	45 883	50 965	36 870	(19 289)
Comprehensive income						
Items that are or may be reclassified subsequently to profit or loss						
Currency translation		(56 784)	(10 850)	60 112	(10 065)	8 859
Total comprehensive income -net of tax		45 768	35 033	111 077	26 805	(10 430)
Allocation of net income						
Non-controlling interests		3 607	3 039	(440)	1 726	(7 054)
Owners of Crayon Group Holding ASA		98 945	42 844	51 405	35 144	(12 235)
Total net income (loss) allocated		102 552	45 883	50 965	36 870	(19 289)
Earnings (loss) per share (NOK per share)		1,22	0,57	0,63	0,47	(0,16)
Allocation of Total comprehensive income						
Non-controlling interests		3 607	2 980	(2 284)	2 042	(4 576)
Owners of Crayon Group Holding ASA		42 161	32 053	113 361	24 763	(5 854)
Total comprehensive income allocated		45 768	35 033	111 077	26 805	(10 430)

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

Condensed Consolidated Balance Sheet Statement

(In thousands of NOK)		30-Jun Un-audited 2020	30-Jun Un-audited 2019	31-Dec Audited 2019
ASSETS				
Non-current assets:				
Development Costs	8	87 611	79 628	86 552
Technology and software	8	24 273	29 294	26 797
Contracts	8	68 115	78 442	69 810
Software licenses (IP)	8	2 366	1 000	1 000
Goodwill	9	869 533	876 920	829 341
Deferred tax asset		29 623	16 831	23 195
Total intangible assets		1 081 520	1 082 114	1 036 695
Tangible assets				
Equipment		39 057	31 317	35 415
Right of use assets		120 375	118 619	118 291
Total tangible assets		159 433	149 935	153 706
Other long-term receivables		21 693	18 389	25 617
Total financial assets		21 693	18 389	25 617
Total non-current assets		1 262 646	1 250 439	1 216 018
Current assets:				
Inventory		19 016	9 132	13 968
Total inventory		19 016	9 132	13 968
Accounts receivable		4 030 650	2 872 271	2 553 506
Other receivables		160 871	94 190	156 327
Total receivable		4 191 522	2 966 461	2 709 832
Cash & cash equivalents	10	1 689 361	707 765	238 817
Total current assets		5 899 899	3 683 357	2 962 617
Total assets		7 162 544	4 933 796	4 178 636

(In thousands of NOK)		30-Jun Un-audited 2020	30-Jun Un-audited 2019	31-Dec Audited 2019
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity:				
Share capital		81 239	75 394	76 624
Own shares		(10)	(10)	(10)
Share premium		914 175	588 414	622 150
Sum paid-in equity		995 404	663 798	698 764
Retained Earnings				
Other Equity		19 315	(73 275)	(105 292)
Total retained earnings		19 315	(73 275)	(105 292)
Total equity attributable to parent company shareholders		1 014 719	590 522	593 472
Non-controlling interests		(6 961)	(6 483)	(8 059)
Total shareholders' equity		1 007 758	584 039	585 413
Long-term liabilities:				
Bond loan	10	294 028	-	293 188
Derivative financial liabilities		(0,0)	-	114
Deferred tax liabilities		28 365	31 588	29 703
Lease liabilities		95 780	108 512	95 517
Other long-term liabilities		76 173	46 011	41 958
Total long-term liabilities		494 346	186 111	460 480
Current liabilities:				
Accounts payable		4 702 574	3 079 184	2 361 188
Income taxes payable		39 533	14 489	24 405
Public duties		286 380	311 159	235 188
Current lease liabilities		29 622	11 470	26 142
Other short-term interest bearing debt	10	57 127	12 475	45 088
Other current liabilities		545 205	288 671	440 730
Bond loan, current liabilities	10	-	447 882	-
Derivative financial liabilities		-	(1 683)	-
Total current liabilities		5 660 441	4 163 646	3 132 742
Total liabilities		6 154 787	4 349 757	3 593 223
Total equity and liabilities		7 162 544	4 933 796	4 178 636

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Condensed Consolidated Statement of Cash Flows

(In thousands of NOK)		Quarter ended 30-Jun Un-audited 2020	Quarter ended 30-Jun Un-audited 2019	Year to date ended 30-Jun Un-audited 2020	Year to date ended 30-Jun Un-audited 2019	Year ended 31-Dec Audited 2019
Cash flows from operating activities:						
Net (loss) income before tax		131 809	59 158	90 345	49 587	9 589
Taxes paid		(5 138)	(2 554)	(15 371)	(10 872)	(30 495)
Depreciation, amortisation and impairment		34 608	28 934	67 237	55 371	172 869
Net interest expense		4 666	11 861	17 019	23 686	48 122
Changes in inventory, accounts receivable/payable		760 458	534 565	859 193	295 022	(109 044)
Changes in other current accounts		163 598	42 577	188 334	23 638	99 937
Net cash flow from operating activities		1 090 001	674 541	1 206 756	436 432	190 977
Cash flows from investing activities:						
Payment for capitalised assets		(17 196)	(15 071)	(34 930)	(34 442)	(76 336)
Acquisition of subsidiaries - net of cash acquired		(3 614)	(7 452)	(4 614)	(7 452)	(8 852)
Business combinations		(8 000)	-	(8 000)	-	-
Net cash flow from investing activities		(28 810)	(22 523)	(47 544)	(41 894)	(85 188)
Cash flow from financing activities:						
Net interest paid to credit institutions and interest to bond loan	*	(21 078)	(8 422)	(31 548)	(16 697)	(55 561)
Share issues		296 641	-	296 641	-	34 966
Acquisition/disposal of non-controlling interest		-	(10 460)	7 756	(21 304)	(31 547)
Proceeds from issuance of interest bearing debt		33 922	-	33 922	-	300 000
Repayment of interest bearing debt		(10 481)	(9 652)	(20 307)	(16 406)	(488 848)
Other Financial items		968	-	662	(2 920)	(2 706)
Net cash flow from financing activities		299 971	(28 534)	287 126	(57 327)	(243 696)
Net increase (decrease) in cash and cash equivalents		1 361 162	623 484	1 446 338	337 212	(137 906)
Cash and cash equivalents at beginning of period		330 433	84 034	238 817	379 282	379 282
Currency translation		(2 234)	246	4 206	(8 729)	(2 559)
Cash and cash equivalents at end of period		1 689 361	707 765	1 689 361	707 765	238 817

** NOK 13.5m is related to settlement of currency and interest swap in Q2 2020.*

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Condensed Consolidated Statement of Changes in Shareholder's Equity

Year to date period ending
June 30, 2019

(In thousands of NOK)	Share capital	Own shares	Share premium	Other Equity	Total	Non-controlling interests	Total equity
	Attributable to equity holders of Crayon Group Holding ASA						
Balance at January 1, 2019	75 394	(35)	588 051	(72 520)	590 890	(4 581)	586 309
Net (loss) income	-	-	-	35 144	35 144	1 726	36 870
Currency translation	-	-	-	(10 404)	(10 404)	332	-10 072
Total comprehensive income	-	-	-	24 740	24 740	2 058	26 798
Share repurchase (net)	-	25	363	-	388	-	388
Share based compensation	-	-	-	3 695	3 695	-	3 695
Transactions with non-controlling interests	-	-	-	(25 786)	(25 786)	(3 960)	(29 746)
Transactions with owners	-	25	363	(22 091)	(21 703)	(3 960)	(25 663)
Balance as of end of period	75 394	(10)	588 414	(73 275)	590 523	(6 483)	584 039

Year End 2019

(In thousands of NOK)	Share capital	Own shares	Share premium	Other Equity	Total	Non-controlling interests	Total equity
	Attributable to equity holders of Crayon Group Holding ASA						
Balance at January 1, 2019	75 394	(35)	588 051	(72 520)	590 890	(4 581)	586 309
Adjustment [1]	-	-	-	(5 049)	(5 049)	-	(5 049)
Net (loss) income	-	-	-	(12 235)	(12 235)	(7 054)	(19 289)
Currency translation	-	-	-	6 381	6 381	2 478	8 859
Total comprehensive income	-	-	-	(5 854)	(5 854)	(4 576)	(10 430)
Share repurchase (net)	-	25	363	-	388	-	388
Share issues	1 230	-	33 736	-	34 966	-	34 966
Share based compensation	-	-	-	10 763	10 763	384	11 147
Transactions with non-controlling interests	-	-	-	(32 632)	(32 632)	714	(31 918)
Transactions with owners	1 230	25	34 099	(21 869)	13 485	1 098	14 582
Balance as of end of period	76 624	(10)	622 150	(105 292)	593 472	(8 059)	585 413

June 30, 2020

(In thousands of NOK)	Share capital	Own shares	Share premium	Other Equity	Total	Non-controlling interests	Total equity
	Attributable to equity holders of Crayon Group Holding ASA						
Balance at January 1, 2020	76 624	(10)	622 150	(105 292)	593 472	(8 059)	585 413
Adjustment [1]	-	-	-	(103)	(103)	-	(103)
Net (loss) income	-	-	-	51 405	51 405	(440)	50 965
Currency translation	-	-	-	61 956	61 956	(1 844)	60 112
Total comprehensive income	-	-	-	113 361	113 361	(2 284)	111 077
Share issues	4 615	-	292 025	-	296 641	-	296 641
Share based compensation	-	-	-	5 998	5 998	209	6 207
Transactions with non-controlling interests	-	-	-	5 351	5 351	3 173	8 524
Transactions with owners	4 615	-	292 025	11 349	307 989	3 382	311 371
Balance as of end of period	81 239	(10)	914 175	19 315	1 014 719	(6 962)	1 007 757

[1] Mainly adjustment to opening balance

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Notes

Note 1 – Corporate information

The Board of Directors approved the condensed interim financial statements for the six months ended June 30, 2020 for publication on August 11, 2020. 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 1.653 employees in 50 offices worldwide.

Note 2 – Basis of preparation

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 2019, 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 judgements 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 2019.

The annual report for 2019 provides a description of the uncertainties and potential business impact from the COVID-19 pandemic outbreak. The Business Review section of this report describes updated information of the COVID-19 situation and how Crayon can be impacted. The extraordinary situation and risk which the COVID-19 pandemic represents, affects estimates and judgments of future outlook, and thus significant estimates and judgments applied in these interim financial statements. See note 9 and 11 for further information related to potential risk of impairment of goodwill and increased credit risk affecting provisions for bad debt.

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 December 31, 2019.
New standards, amendments to standards, and interpretations that have been published, but not effective as of December 31, 2019, have not been applied in preparing these condensed financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

Note 4 – Depreciation, amortisation and impairment

Depreciation, amortisation and impairment consists of the following:

	Quarter ended 30-Jun		Year to date ended 30-Jun		Year ended 31-Dec
(In thousands of NOK)	2020	2019	2020	2019	2019
Depreciation	13 142	10 851	25 636	20 005	40 624
Amortisation of intangibles	21 466	18 083	41 601	35 366	72 866
Impairment	-	-	-	-	59 378
Total	**34 608**	**28 934**	**67 237**	**55 371**	**172 869**

See note 8 for breakdown of intangible assets. See note 12 for more information on Right-of-use-assets.

Note 5 – 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)	2020	2019	2020	2019	2019
Interest income	3 179	2 550	6 225	4 984	11 688
Other financial income	85 345	17 936	210 845	37 392	153 669
Other financial expenses	(78 686)	(23 438)	(239 166)	(43 519)	(173 015)
Other total financial income / (Expense)	**9 837**	**(2 953)**	**(22 096)**	**(1 143)**	**(7 658)**

Foreign currency gain/loss is presented in the note on a gross basis. In the Consolidated Statement of Income 1.1-30.06 foreign currency is presented net.

Note 6 – 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 & Cloud Direct, Software & Cloud Channel, Software & Cloud Economics and Consulting in addition to Admin/Eliminations (Admin & Shared services and Eliminations). (Further information is found in note 2 in the Annual report for 2019).

- Software & Cloud 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 & Cloud Channel 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 & Cloud Economics services include processes and tools for enabling clients to build in house SAM (SAM: Software Asset Management) 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 in the different geographical areas. The Nordics is composed of Norway, Sweden, Denmark, Finland, Iceland and Ice Distribution. Europe is composed of Austria, Switzerland, Germany, Netherlands, Spain, France, Portugal, UK, Bulgaria, Macedonia, Serbia, Russia, Czech, Ukraine, Poland and Latvia. APAC & MEA is composed of India, Malaysia, Philippines, Singapore, Middle East, Sri Lanka, Mauritius, Australia and South Africa. US 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.

Operating revenue for last year has been made comparable with Operating revenue presented in the Annual Report 2019. Previously reported segment note had a line for adjustments for operating revenue, see note 3 in the Annual Report 2019. This has been allocated to the different operating segments and market clusters. Some amount does not meet requirement in IFRS 15 and has been classified to cost of sales. No impact on gross profit.

Operating revenue from the operating segments Software & Cloud Economics and Consulting are recognised over time as explained under IFRS accounting principles in note 2. Operating revenue from the operating segments Software & Cloud Direct and Software & Cloud Channel are recognised point in time for software licenses and over time for cloud licenses, see note 2 for additional information.

(In thousands of NOK)	Quarter ended 30-Jun		Year to date ended 30-Jun	
Adjusted EBITDA per Operating Segment	2020	2019	2020	2019
- Software & Cloud Direct	166 403	138 635	227 197	186 610
- Software & Cloud Channel	31 782	21 116	59 960	41 814
Total Adjusted EBITDA - Software & Cloud	198 185	159 751	287 157	228 424
- Software & Cloud Economics	7 334	3 866	6 093	5 575
- Consulting	31 862	19 867	54 231	42 059
Total Adjusted EBITDA - Services	39 196	23 733	60 324	47 634
Admin & shared services	-66 194	-59 211	-135 692	-116 004
Total Adjusted EBITDA	**171 187**	**124 273**	**211 789**	**160 054**

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

(In thousands of NOK)	Quarter ended 30-Jun		Year to date ended 30-Jun	
Adjusted EBITDA per Market Cluster	2020	2019	2020	2019
- Nordics	142 099	107 795	236 211	171 181
- Europe	27 165	28 254	15 950	18 645
- APAC & MEA	31 812	8 289	27 062	9 749
- US	-446	3 463	-10 764	-6 449
- HQ	-29 442	-23 529	-56 670	-33 072
Total Adjusted EBITDA	**171 187**	**124 273**	**211 789**	**160 054**

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

Segmentinformation June, 30, 2020, Quarter ended

(In thousands of NOK)	Software & Cloud		Services			
	Software & Cloud Direct	Software & Cloud Channel	Software & Cloud Economics	Consulting	Admin & Eliminations	Total
Operating revenue						
Nordics	1 497 865	428 474	32 716	226 293	1 982	2 187 330
Europe	1 316 878	254 094	26 635	13 153	14 207	1 624 967
APAC & MEA	899 246	387 283	11 272	31 508	797	1 330 105
US	628 938	343 903	52 614	5 443	290	1 031 188
HQ	-	62	-	-	13 392	13 454
Eliminations	-	-	-	-	-92 001	-92 001
Operating revenue	4 342 927	1 413 815	123 237	276 398	-61 332	6 095 044
Gross profit						
Nordics	141 465	38 024	28 015	142 361	2 095	351 959
Europe	82 533	19 762	25 972	13 614	578	142 459
APAC & MEA	50 931	18 943	9 297	15 331	1 800	96 302
US	19 774	6 814	50 409	2 938	1 859	81 794
HQ	-	62	-	-	15 048	15 110
Eliminations	-	-	-	-	-21 784	-21 784
Gross profit	294 702	83 605	113 692	174 244	-404	665 839
Operating expenses	128 299	51 823	106 358	142 382	72 552	501 414
EBITDA	166 403	31 782	7 334	31 862	-72 956	164 425
Adjustments	-	-	-	-	6 763	6 763
Adjusted EBITDA	166 403	31 782	7 334	31 862	-66 194	171 187

Segmentinformation June, 30, 2020

(In thousands of NOK)	Software & Cloud		Services			
	Software & Cloud Direct	Software & Cloud Channel	Software & Cloud Economics	Consulting	Admin & Eliminations	Total
Operating revenue						
Nordics	2 704 405	791 051	71 634	439 621	10 349	4 017 060
Europe	1 909 403	468 546	46 289	36 724	14 776	2 475 739
APAC & MEA	1 351 744	752 023	19 476	43 381	1 768	2 168 392
US	965 213	693 321	101 695	6 876	542	1 767 648
HQ	-	62	-0	2	27 258	27 322
Eliminations	-	-	-	-	-157 163	-157 163
Operating revenue	6 930 765	2 705 003	239 093	526 604	-102 469	10 298 997
Gross profit						
Nordics	242 183	68 696	55 066	283 925	1 991	651 860
Europe	126 705	35 321	45 816	22 116	1 664	231 621
APAC & MEA	76 407	39 514	15 084	23 647	3 029	157 682
US	33 101	13 535	97 878	3 916	620	149 050
HQ	-	136	353	2	29 282	29 773
Eliminations	-	-	-	-	-38 940	-38 940
Gross profit	478 396	157 202	214 197	333 606	-2 355	1 181 045
Operating expenses	251 199	97 242	208 104	279 375	142 205	978 124
EBITDA	227 197	59 960	6 093	54 231	-144 560	202 921
Adjustments	-	-	-	-	8 868	8 868
Adjusted EBITDA	227 197	59 960	6 093	54 231	-135 692	211 789

Segmentinformation June, 30, 2019, Quarter ended

(In thousands of NOK)	Software & Cloud		Services			
	Software & Cloud Direct	Software & Cloud Channel	Software & Cloud Economics	Consulting	Admin & Eliminations	Total
Operating revenue						
Nordics	1 100 190	320 473	33 725	136 845	-128	1 591 106
Europe	874 433	160 655	27 157	5 071	387	1 067 703
APAC & MEA	726 484	304 646	6 552	5 616	517	1 043 815
US	508 372	61 105	35 900	2 788	173	608 338
HQ	42	-	-	-	11 446	11 488
Eliminations	-	-	-	-	-79 795	-79 795
Operating revenue	3 209 521	846 880	103 334	150 319	-67 400	4 242 655
Gross profit						
Nordics	124 478	26 812	25 047	110 482	3	286 822
Europe	58 300	11 617	25 234	4 328	581	100 060
APAC & MEA	27 442	15 379	5 932	4 811	243	53 806
US	21 217	2 047	32 187	2 476	535	58 462
HQ	2	-857	-	-3	11 046	10 188
Eliminations	-	-	-	-	-15 606	-15 606
Gross profit	231 438	54 998	88 401	122 093	-3 198	493 732
Operating expenses	92 803	33 882	84 535	102 226	74 831	388 277
EBITDA	138 635	21 116	3 866	19 867	-78 029	105 455
Adjustments	-	-	-	-	18 817	18 817
Adjusted EBITDA	138 635	21 116	3 866	19 867	-59 211	124 273

Segmentinformation June, 30, 2019

(In thousands of NOK)	Software & Cloud		Services			
	Software & Cloud Direct	Software & Cloud Channel	Software & Cloud Economics	Consulting	Admin & Eliminations	Total
Operating revenue						
Nordics	2 184 674	605 390	63 941	281 555	956	3 136 516
Europe	1 169 557	277 597	52 805	9 912	1 010	1 510 882
APAC & MEA	914 991	551 687	10 255	9 974	977	1 487 884
US	661 188	118 786	69 385	4 732	301	854 392
HQ	108	-0	-	-	22 788	22 895
Eliminations	-	-	-	-	-130 578	-130 578
Operating revenue	4 930 518	1 553 460	196 386	306 172	-104 545	6 881 991
Gross profit						
Nordics	202 275	49 667	50 860	224 220	929	527 951
Europe	85 292	19 190	47 231	8 281	1 014	161 008
APAC & MEA	44 523	32 541	9 261	8 090	1 595	96 010
US	29 560	3 687	61 989	4 148	756	100 140
HQ	68	-819	-	-12	33 391	32 627
Eliminations	-	-	-	-	-28 750	-28 750
Gross profit	361 717	104 265	169 341	244 728	8 935	888 986
Operating expenses	175 107	62 451	163 766	202 669	150 222	754 215
EBITDA	186 610	41 814	5 575	42 059	-141 287	134 771
Adjustments	-	-	-	-	25 283	25 283
Adjusted EBITDA	186 610	41 814	5 575	42 059	-116 004	160 054

Note 7 – Share options

Share incentive scheme:

1.92 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. An income of NOK 3.6m (including accrued social security) has been posted as an income in the profit or loss statement in Q2 2020. 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, out of the 1.92 million options, the board of directors and management were allotted 0.4 million and 0.7 million share options, respectively.

Employee share purchase program (ESPP):

In connection with the share incentive program, all employees in the Company and its subsidiaries in which an offer could be lawfully made, have been offered to participate in an employee share purchase program (ESPP). On 23 December 2019, 1.23 million shares were allotted to employees at a subscription price of NOK 30 per share. The subscription price was equal to 3-month average share price at the start of the subscription period with a 20% discount. The employees have been offered to subscribe for amounts between NOK 10,000 to NOK 100,000 (all amounts including the 20% discount). In aggregate, 407 employees participated in the share incentive program. The new shares issued to the employees are subject to a lock-up period of 2 years in which the employees cannot sell, dispose of or otherwise transfer shares received under the program. Additional bonus shares will be granted to employees participating in the ESPP and remaining employed by Crayon by the end of the lock-up period. One bonus share will then be granted for every third share subscribed for under the program. The bonus shares vest over two years. The fair value of the shares was calculated at the grant date. A cost of NOK 1.8m (including accrued social security) has been charged as an expense in the profit or loss statement in Q2 2020. The fair value at grant date is determined using an adjusted form of the Black Scholes Model, which considers the subscription price (NOK 30), the term of the lock-up (2 years), the impact of dilution (where material), the share price at the grant date (NOK 52), expected price volatility of the underlying share and risk-free interest. The expected volatility is based on historical volatility for listed Crayon shares from 8 November 2017 up until the grant date. Risk free interest is based on treasury bond with same maturity as the option program. For further details, see stock exchange notifications regarding mandatory notifications of trade on 23 December 2019, see www.newsweb.no. In total, the board of directors and management were allotted 78.3 thousand and 115 thousand shares, respectively.

Management share options program:

The group has implemented a new share-based incentive scheme to management were maximum 1.48 million share options can be allotted. The program includes both employment and performance vesting conditions. The fair value of the options is calculated at grant date and expensed over the vesting period. A cost of NOK 1.3m (including accrued social security tax) has been charged as an expense in the profit or loss statement in Q2 2020. The fair value at grant date is determined using an adjusted form of the Black Scholes Model, which considers the exercise price (NOK 53.60), the term of the option (5 years), the impact of dilution (where material), the share price at the grant date (NOK 53.60), expected price volatility of the underlying share and risk-free interest. In addition, expected performance and employment conditions are included to conclude on the expected number of options. 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.

Note 8 – Intangible assets

2020	Software licenses (IP)	Development costs	Contracts	Technology and software	Total
Aquisition cost 01.01	7 421	262 269	385 797	67 600	723 087
Additions	1 366	26 100	5 262	-	32 727
FX translation	-	921	4360	1799	7080
Aquisitiion cost at the end of the period	**8 787**	**289 290**	**395 419**	**69 399**	**762 894**
Amortisation and impairment 01.01	6 421	175 718	315 987	40 803	538 929
Amortisation	-	25 960	11 318	4 323	41 601
Impairment	-		-	-	0
Accumulated amortisation and impairment	**6 421**	**201 678**	**327 305**	**45 126**	**580 530**
Net value at the end of the period	**2 366**	**87 612**	**68 114**	**24 273**	**182 365**
Amortisation period	0-5 years	3-10 years	5-10 years	3-10 years	
Amortisation method	Linear	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 amortised but are tested annually for impairment. See note 9 for additional information of impairment testing at June 30, 2020.

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 & Cloud Economics (previous SAM) and IT compliance services was capitalised. 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 and from the acquisition of Navicle. Genova is part of Esito's developed software (with an indefinite lifetime), equally for the IP allocated for Navicle and used as an internal tool to serve its customer base and is expected to generate future economic benefits for the Group.

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, Sequint and Techstep 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 9 – 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	938 858
Additions	18 537
Currency translation	21 655
Aquisition cost at the end of the period	**979 050**
Impairment at 01.01	109 517
Impairment during the period	
Accumulated Impairment at the end of the period	**109 517**
Net book value at the end of the period	**869 533**

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 WACC and CAGR.

Future cash flows are discounted to present value using a discount rate based on a calculation of a weighted average cost of capital (WACC). As a general principle, the Group pre-tax WACC is used for most CGUs in the model applying the US interest rate. However, when there are material differences in the local market where the CGU operates (e.g. the interest risk, or the general market conditions), the WACC is adjusted accordingly.
Crayon assess indications of impairment at each reporting date. At June 30, 2020, such indications have been identified as a result of the COVID-19 pandemic outbreak. The COVID-19 pandemic is considered a significant event with potential adverse effect on markets and economic environments in which Crayon operates.

Future cash flows applied in the DCF model at year-end 2019 may be impacted by such potential adverse effects. As described in the business outlook section of this report, Crayon has not yet experienced any significant adverse effects and future outcome is highly uncertain. Accordingly, Crayon has not revised estimates for future cash flows but is continuously monitoring the development closely.

Market interest rates and other market rates of return on investment are more volatile due to the uncertainty of the impact of COVID-19 pandemic. Crayon has reviewed the WACC assumptions and the pre-tax WACC for the second quarter 2020. Risk-free interest rates and beta value have decreased and assumed offset by increased market risk premium, resulting in pre-tax WACC assumption which is unchanged from year-end 2019 (12.2%).
No impairment losses are recognised at June 30, 2020 from the COVID-19 pandemic as future cash flows and pre-tax WACC are unchanged. As estimates and assumptions are more volatile and uncertain, a sensitivity analysis has been prepared. The value in use for each CGU is still significantly higher than the carrying amount of tested goodwill and intangible assets with indefinite useful lives, except for Crayon UK which was partially impaired in 2019. The calculation is most sensitive to changes in EBITDA margins and gross profit growth. Reductions in EBITDA margins by 5 percentage points and gross profit growth of 10 percentage points would still not indicate any impairment losses, except for Crayon UK which would be subject for additional impairment.

Note 10 – Debt

In November 2019, the company successfully completed the issuance of a NOK 300m senior unsecured bond, with a NOK 600m borrowing limit.

The bonds have a floating coupon rate of 3 months NIBOR + 350 bps. p.a. (CRAYON 03). Any outstanding bonds is to be repaid in full at maturity date. The bond was listed on the Oslo Stock Exchange April 3, 2020.

The net proceeds from the bond issue was used to refinance CRAYON02 in November 2019, with a total principal of NOK 450m at a coupon of 3 months NIBOR +550bps. p.a.

Considering the refinancing mentioned above, the group also increased its revolving credit facility from NOK 200m to NOK 350m in November 2019.

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 ~ 7 m) related to the bond issue which was settled on November 22, 2019 are accretion expensed (i.e. added back) over the lifetime of the bond, thus reaching NOK 300m nominal value at maturity in Q4 2022.

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 normalised working capital.

	Year to date ended 30-Jun		Year ended 31-Dec
(In thousands of NOK)	2020	2019	2019
Long Term Interest bearing Debt	303 761	1 399	303 395
Bond loan, current liabilities	-	450 000	-
Other short-term interest bearing debt	57 127	12 475	45 088
Cash & cash equivalents	(1 689 361)	(707 765)	(238 817)
Restricted cash	23 381	19 055	20 522
Net interest bearing debt	(1 305 091)	(224 835)	130 188

Note 11 – 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 2019, note 2 and 23.

The COVID-19 pandemic is considered a significant event with potential adverse effect on markets and economic environments in which Crayon operates, affecting financial risk considerations. As described in the business outlook section of this report, the software reseller and software consulting industries are so far less impacted by the COVID-19 pandemic than other industries.

Liquidity risk

The risk to future revenue from customers not renewing software licenses is inherently seen as low due to the nature of the licenses sold, as software licenses are crucial for IT infrastructure and customers are expected to prioritise and maintain IT spending through the COVID-19 pandemic.

The liquidity risk assessment described in the annual report for 2019 is unchanged. Management believes that satisfactory mitigating actions are implemented.

Credit risk

At June 30, 2020, payments from customers are not significantly impacted by the COVID-19 pandemic. DSO (Days of Sales Outstanding) supports this assessment by reduced DSO from 62 at YE to 60 at June 30, 2020.

Approximately 40% of revenues comes from public sector customers and a majority of the remaining revenue is from large corporate customers with satisfactory credit ratings. These customers are likely to maintain spending on IT infrastructure during the COVID-19 pandemic and any following economic downturn. Around 1% of accounts receivables to private sector customers at June 30, 2020 are considered as high- risk industries such as travel and transport of personnel, accommodation, hospitality and leisure.

Management considers the market cluster APAC & MEA with the highest risk when it comes to COVID-19 potential impact. Governments have imposed lock-down, increasing counterparty risk as financial and business processes are disrupted. These market clusters are more reliant on manual process, i.e payments, than Europe and the Nordic region. Crayon monitors the development in the region closely and continuously reviews provisions for bad debt.

Overall Crayon considers the financial risk as moderate, but by applying mitigating actions and proactive measures this is reduced to low. The currency and interest rate risk assessments described in the annual report for 2019 covers any adverse effects from the

COVID-19 pandemic. Within Q2 2020 the impact of Net accounting losses on receivables was NOK 7.4m compared to last year of NOK 2.8m.

Crayon present losses on accounts receivables as operating expenses. The impact of accounts receivables is presented below.

	Year to date ended 30-Jun		Year ended 31-Dec
(In thousands of NOK)	2020	2019	2019
Opening balance 01.01	30 113	11 051	11 051
Currency translation	1 641	(41)	(60)
Net reversal/ allowance	22 448	7 765	19 122
Closing balance	54 202	18 775	30 113

Profit or loss effect of bad debt

	Year to date ended 30-Jun		Year ended 31-Dec
(In thousands of NOK)	2020	2019	2019
Realised losses	2 485	605	3 070
Allowance for doubtful accounts	22 448	7 765	19 122
Net accounting losses on receivables	24 933	8 370	22 192

Note 12 – Right-of-use assets

(In thousands of NOK)	Right of use assets
Aquisition cost at 01.01	144 735
Additions	11 664
Currency translation	7 335
Aquisition cost at the end of the period	163 734
Depreciation at 01.01	26 444
Depreciation during the period	16 915
Accumulated Impairment at the end of the period	43 359
Net book value at the end of the period	120 375
Depreciation period [1]	1-12 years
Depreciation method	Linear

[1] Lower of remaining lease term or economic life

Note 13 – Seasonality of operations

The groups result of operations and cash flows has 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 May 31) and the number of working days in a quarter resulting in shorter production periods for consultants.

Note 14 – Related party transaction

Techstep AS

Crayon AS has on April 3, 2020 entered into an agreement to purchase an IT Operations and Support business unit from Techstep Norway AS. According to the agreement, Crayon has acquired the business unit for a total consideration of NOK 8m. The acquisition is structured as an asset purchase, taking effect on April 1, 2020.

The acquired business unit has 8 employees in the Nordics and comes with an IT Operations and Support contract with Recover Nordic. Crayon has also signed a 3-year IT operations and support agreement with Techstep. Techstep is defined as a related party.
Total annual recurring gross profit under the above-mentioned contracts is approx. NOK 11m.

Note 15 – Government grants

Crayon has received a loan in US of NOK 35.3m assessed according to IAS 20 on terms of government grant. This is presented as other short-term interest- bearing debt and other long- term liabilities as of June 30, 2020.

Note 16 – 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.

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)	2020	2019	2019
EBITDA	202 921	134 771	249 926
Other Income and Expenses	8 868	25 283	42 316
Adjusted EBITDA	211 789	160 054	292 242

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

	Year to date ended 30-Jun		Year ended 31-Dec
(In thousands of NOK)	2020	2019	2019
Business development expenses and legal structuri	294	21 222	22 112
IPO Cost 2017 (Project Elevate)	-	366	481
Share based compensation	8 574	3 695	19 723
Other income and expenses	8 868	25 283	42 316

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)	2020	2019	2019
Inventory	19 016	9 132	13 968
Accounts receivable	4 030 650	2 872 271	2 553 506
Other receivables	160 871	94 190	156 327
Income taxes payable	(39 533)	(14 489)	(24 405)
Accounts payable	(4 702 574)	(3 079 184)	(2 361 188)
Public duties	(286 380)	(311 159)	(235 188)
Other current liabilities	(545 205)	(288 671)	(440 730)
Net working capital	(1 363 154)	(717 910)	(337 712)

Free available cash: Cash and cash equivalents less restricted cash.
Liquidity reserve: Freely available cash and credit facilities.

	Year to date ended 30-Jun		Year ended 31-Dec
(In thousands of NOK)	2020	2019	2019
Cash & cash equivalents	1 689 361	707 765	238 817
Restricted cash	(23 381)	(19 055)	(20 522)
Free available cash	1 665 980	688 709	218 295
Available credit facility	280 798	153 030	248 352
Liquidity reserve	1 946 778	841 739	466 646

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 2020. 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 10, 2020

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

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