

**INTERIM REPORT FOR THE
THREE MONTHS ENDED 31 MARCH 2017**



Registered office in Via della Valle dei Fontanili 29/37 – 00168 Rome, Italy
Share capital: €1,084,200.00 fully paid-in
Rome Companies' Register,
Tax Code and VAT number: 06075181005

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CORPORATE OFFICERS

Board of Directors

Claudio Carnevale
Chairman and CEO

Francesco Ago ^{(1), (2), (3)}
Director

Margherita Argenziano
Director

Rubens Esposito ^{(1), (2)}
Director

Giovanni Galoppi
Director

- (1) Member of the Nominations and Remuneration Committee
- (2) Member of the Internal Audit Committee
- (3) Lead Independent Director

Board of Statutory Auditors

Sandro Lucidi
Chairman

Antonio Mastrangelo
Auditor

Monica Rispoli
Auditor

Independent auditors

EY SpA

The Board of Directors and the Board of Statutory Auditors of Acotel Group SpA were elected on 24 April 2015 by the Annual General Meeting of shareholders, which also elected Claudio Carnevale as Chairman. Both boards will remain in office until approval of the financial statements for the year ended 31 December 2017.

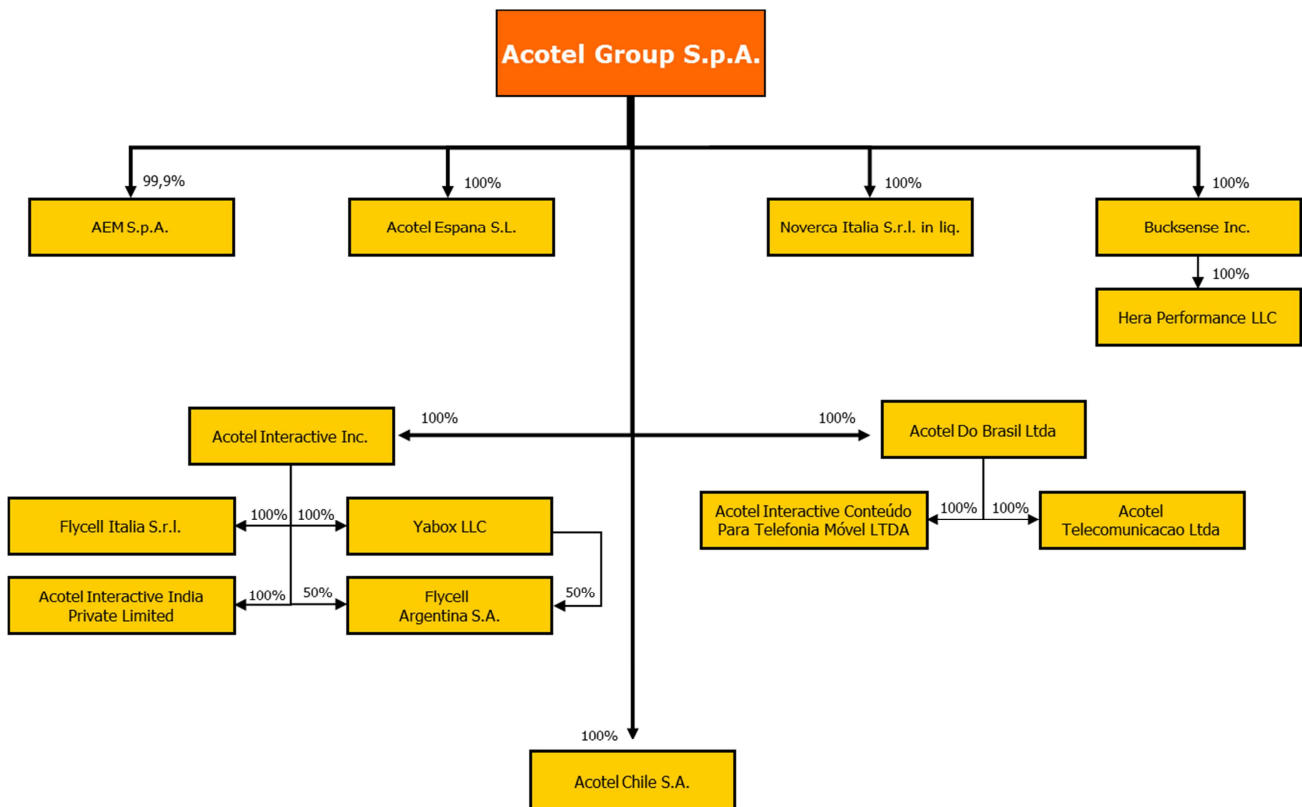
The Board of Directors' meeting of 15 May 2015 elected:

- Claudio Carnevale as the Company's CEO, granting him the powers necessary to ensure effective and timely management of the Company;
- Francesco Ago as Lead Independent Director;
- Francesco Ago and Professor Rubens Esposito to serve as members of the Nominations and Remuneration Committee and the Internal Audit Committee. Francesco Ago was appointed Chairman of the Nominations and Remuneration Committee, whilst Professor Esposito was appointed Chairman of the Internal Audit Committee;
- Giovanni Galoppi as the Director with responsibility for the internal control system;
- Davide Carnevale as Head of Investor Relations,

and assigned the Director, Margherita Argenziano, executive powers in line with her role within the Company.

THE GROUP

The following chart shows the structure of the Acotel Group at 31 March 2017:



The parent of Acotel Group SpA is Clama Srl, which at 31 March 2017 holds 1,727,915 ordinary shares, representing 41.4% of the share capital.

Clama Srl does not carry out management and coordination activities pursuant to art. 2497 of the Italian Civil Code, as, despite holding sufficient voting rights to submit the majority list for election of the Board of Directors, Acotel Group SpA's Board of Directors is operationally independent.

BASIS OF PRESENTATION

The Acotel Group's interim report for the three months ended 31 March 2017 has been prepared in compliance with the requirements of article 2.2.3, paragraph 3 of the Regulations for Markets organised and managed by Borsa Italiana SpA.

The interim report has been prepared under the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The accounting standards applied are consistent with those adopted for preparation of the Acotel Group's consolidated financial statements for the year ended 31 December 2016, integrated where necessary by the application of standards to take account of aspects not present at that date.

The consolidated financial statements for the three months ended 31 March 2017 have been prepared on the basis of the underlying accounting records at that date, as adjusted in accordance with the matching principle.

Preparation of this report required management to make estimates and assumptions which, based primarily on internal records, essentially have an effect on revenues and costs that have yet to be confirmed by customers and suppliers, any impairments of inventories, provisions for bad debts, litigation and taxation, and on the recognition, subsequent measurement and recoverability of internally generated intangible assets.

Above all, a portion of the turnover generated by Digital Entertainment services, and a number of related cost items, include preliminary figures, derived primarily from internal reporting systems, and estimates that have yet to be confirmed by mobile transaction network providers and/or operators.

Certain measurement processes, above all those of a complex nature relating to the estimate of potential impairments of fixed assets, are generally only fully carried out during preparation of the annual financial statements, unless events or changes in circumstances indicate that there may be an impairment requiring an immediate measurement of any loss.

This interim report is unaudited.

BASIS OF CONSOLIDATION

The following table provides key information on consolidated companies held, directly or indirectly, by Acotel Group SpA, the Parent Company.

Company	Date of acquisition	Group's % interest	Registered office	Share capital	
AEM Acotel Engineering and Manufacturing SpA	28 April 2000	99.9%	Rome	EURO	264,000
Acotel Chile SA	28 April 2000	100%	Santiago, Chile	USD	17,330
Acotel Espana SL	28 April 2000	100%	Madrid	EURO	3,006
Acotel Do Brasil Ltda	8 August 2000 (1)	100%	Rio de Janeiro	BRL	1,868,250
Acotel Interactive, Inc.	28 June 2003 (1)	100%	Wilmington	USD	10,000
Acotel Interactive Conteúdo Para Telefonia Móvel LTDA	6 June 2006 (1)	100% (4)	Rio de Janeiro	BRL	250,000
Yabox LLC	24 October 2007 (1)	100% (2)	Wilmington	USD	1
Flycell Italia Srl	10 July 2008 (1)	100% (2)	Rome	EURO	90,000
Flycell Argentina SA	26 October 2009	100% (3)	La Plata	ARS	12,000
Acotel Serviços De Telemedicina Ltda.	28 March 2011 (1)	100% (4)	Rio de Janeiro	BRL	400,000
Bucksense, Inc.	28 June 2011 (1)	100%	Nevada	USD	10,000
Noverca Italia Srl (in liquidation)	9 May 2008 (1)	100% (5)	Rome	EURO	10,000
Acotel Interactive India Private Limited	22 August 2013 (1)	100% (2)	Mumbai	Rs	100,000
Hera Performance LLC	11 May 2016	100% (6)	Nevada	USD	1

- (1) The date of the company's entry into the Group coincides with its incorporation.
- (2) Controlled via Acotel Interactive Inc.
- (3) Controlled via Acotel Interactive Inc. and Yabox LLC.
- (4) Controlled via Acotel do Brasil Ltda.
- (5) Since 20 May 2013, the Group has full control of this company.
- (6) Controlled via Bucksense, Inc..

The basis of consolidation changed during the first quarter of 2017 following dissolution of the subsidiary, *Acotel Serviços De Telemedicina Ltda.*

In addition, *Acotel Interactive Inc.* has transferred its interest in *Acotel Interactive Conteúdo Para Telefonia Móvel LTDA* to *Acotel do Brasil Ltda.*

SIGNIFICANT EVENTS DURING THE FIRST QUARTER

During the first quarter of 2017, *Acotel Group SpA* concluded an agreement with *Intesa Sanpaolo SpA* that has resulted in a settlement of the dispute between the two companies relating to the lack of success of the virtual mobile operator, Noverca. The agreement commits *Acotel Group SpA* and *Noverca Italia Srl (in liquidation)* to not appeal the judgement at first instance handed down by the Court of Turin on 17 November 2016.

Under the agreement, *Intesa Sanpaolo* also undertakes to reduce the loan granted by the bank to *Noverca Italia Srl (in liquidation)* (approximately €6.2 million at 31 December 2016) to €1.1 million, as a result of *Intesa Sanpaolo's* forgiveness of the balance of the debt. The remaining debt has been transferred to *Acotel Group SpA*, which paid €550 thousand on signature of the above agreement, and has undertaken to pay five further annual instalments of €110 thousand each.

The consolidated gain recognised as a result of this agreement, amounting to approximately €5.3 million, has been included in profit or loss from discontinued operations for the three months ended 31 March 2017, in application of IFRS 5.

In the **Acotel Interactive** business area, during the first quarter, *Acotel Group SpA* and *Flycell Italia Srl* signed an agreement with *Telecom Italia SpA* for the provision of services using Decade 4 premium-rate numbers assigned to *Telecom Italia SpA* and aimed at customers of TIM and those of other mobile operators.

In the same period, *Acotel Group SpA* extended its agreement with *Telecom Italia SpA* covering the supply of *ScripTIM* branded services.

These agreements will both be in effect from 1 January 2017 until 31 December 2018.

In February 2017, *Bucksense* presented the latest SaaS (Software-as-a-Service) releases for its programmatic advertising services (Micro Bidding, Full Video Viewability and Campaign Planning Tool) at the Mobile World Congress in Barcelona.

These services enable marketers and media buyers to put together tailor-made bids aimed at different target markets within the same advertising campaign, to run cross-device video campaigns on mobiles and desktops, with their own or external adservers and in all the available formats, and to better assess eCPM (the effective cost per mille) during both the pre-campaign planning phase and during the campaign itself.

In the **Acotel Net** business area, the Group began supplying its My Energy Meter (MEM) solution to the household customers of *Iren Mercato SpA*, a company that supplies, trades and sells electricity, gas and heat. Approximately 800 devices were delivered to the energy company's customers during the quarter just ended.

During the same period, approximately 1,400 MEMs were supplied to *ENI's* SOHO and Small Business customers under the agreement with this company.

The Group also continued to supply its energy management services to *Poste Italiane SpA*.

At the date of preparation of this interim report, Acotel, through its partnership with *ENI*, has concluded a contract with a major insurance company for the supply of its energy management service to around 400 branch offices throughout Italy. Provision of the service will begin during the second quarter of 2017.

RESULTS OF OPERATIONS

RECLASSIFIED CONSOLIDATED INCOME STATEMENT (*)

(€000)	Note	Q1 2017	Q1 2016	Increase/ (Decrease)
Revenue	1	4,897	6,287	(1,390)
Other income	2	280	21	259
Total revenue		5,177	6,308	(1,131)
Change in work in progress, semi-finished and finished goods		3	(18)	21
Raw materials		(79)	(90)	11
External services	3	(4,219)	(5,016)	797
Rentals and leases	4	(277)	(242)	(35)
Staff costs	5	(2,668)	(2,677)	9
Internal capitalised costs	6	276	439	(163)
Other costs	7	(330)	(128)	(202)
Gross operating profit/(loss) (EBITDA)		(2,117)	(1,424)	(693)
Amortisation and depreciation	8	(433)	(274)	(159)
Operating profit/(loss) (EBIT)		(2,550)	(1,698)	(852)
Net finance income/(costs)	9	192	145	47
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		(2,358)	(1,553)	(805)
Taxation	10	(70)	(297)	227
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		(2,428)	(1,850)	(578)
Profit/(Loss) from assets held for sale and discontinued operations	11	5,273	(518)	5,791
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		2,845	(2,368)	5,213
Earnings per share	12	0.69	(0.58)	
Diluted earnings per share	12	0.69	(0.58)	

(*): In accordance with IFRS 5, revenue and cost items for 2017 and, for comparative purposes, for 2016, attributable to Noverca Italia Srl (in liquidation), have been classified in "Profit/(Loss) from assets held for sale and discontinued operations" in the income statement. Revenue and cost items for 2016 attributable to Noverca Srl, which was sold during the previous year, have also been classified in this item.

Compared with the results for the same period of 2016, the Acotel Group's results for the first quarter of 2017 show a reduction in revenue, a decline in earnings from continuing operations and a profit for the period as a result of the profit from discontinued operations.

Note 1 - Revenue

Revenue for the first quarter of 2017 amounts to €4897 thousand, down on the €6,287 thousand of the same period of the previous year.

As shown in the table below, the decrease in revenue essentially reflects reduced turnover in the Acotel Interactive business area (down 51%).

(€000)	Q1 2017		Q1 2016	
	%	%	%	%
ACOTEL INTERACTIVE	2,772	56.6%	5,603	89.1%
BUCKSENSE	1,608	32.9%	100	1.6%
ACOTEL NET	517	10.5%	584	9.3%
Total	4,897	100%	6,287	100%

ACOTEL INTERACTIVE

The Acotel Interactive business area includes the services provided directly to consumers (Digital Entertainment), and those supplied to telephone operators and commercial companies (Mobile Services), and has the primary purpose of supplying value added content and services over mobile phones and the web.

A breakdown of this business area's revenues is given in the following table:

(€000)	Q1 2017	Q1 2016	Increase/ (Decrease)
Digital Entertainment	1,935	4,592	(2,657)
Mobile Services	837	1,011	(174)
Total	2,772	5,603	(2,831)

In the first quarter of 2017, Digital Entertainment services generated revenue of €1,935 thousand, down 58% on the same period of 2016. This essentially reflects a reduction in revenue in Latin America, Italy and India.

Mobile Service revenue, amounting to €837 thousand, is down 17% on the same period of 2016. This includes revenue from the services provided in Brazil to the Brazilian operator, *TIM Celular*, amounting to €660 thousand, and revenue generated by the services provided to *Telecom Italia* in Italy, totalling €177 thousand.

BUCKSENSE

The Bucksense business area generated revenue of approximately €1,608 thousand in the first quarter of 2017. A geographical breakdown of this revenue is as follows: 70% North America, 14% Asia and 13% Europe, with the remaining amount generated in other geographical areas.

ACOTEL NET

Revenues generated by the Acotel NET business area, totalling €517 thousand, are down 12% on the same period of 2016, as shown in the following table:

(€000)	Q1 2017	Q1 2016	Increase/ (Decrease)
Energy	390	354	36
Security Systems	127	230	(103)
Total	517	584	(67)

The Energy segment generated revenue of €390 thousand in the first quarter, generated primarily by the Group's contracts with *ENI SpA*, *Poste Italiane SpA* and *Iren Mercato SpA*.

The Security Systems segment generated revenue of €127 thousand. This revenue is generated from the installation, supply, servicing and maintenance of remote surveillance equipment primarily installed at certain provincial branches of the Bank of Italy and at Italian police headquarters. The 45% reduction compared with the comparative first quarter primarily reflects the reduced volume of servicing carried out in the quarter just ended.

The following table provides an analysis of the Group's sales in the various geographical segments, regardless of the nature of the goods and services sold:

(€000)	Q1 2017	%	Q1 2016	%
LATIN AMERICA	1,257	25.7%	2,715	43.2%
ITALY	1,238	25.3%	1,904	30.3%
NORTH AMERICA	1,124	22.9%	10	0.2%
INDIA	849	17.3%	1,583	25.2%
ASIA	219	4.5%	-	-
OTHER EUROPEAN COUNTRIES	196	4.0%	65	1.0%
OTHER	14	0.3%	10	0.1%
	4,897	100%	6,287	100%

Note 2 – Other income

Other income of €280 thousand primarily refers to the Group's provision of consultancy and leasing services in Italy and Brazil.

Note 3 – External services

The cost of external services totals €4,219 thousand, down 16% on the first quarter of 2016.

A breakdown of the service costs is shown below:

(€000)	Q1 2017	Q1 2016	Increase/ (Decrease)
Advertising	1,725	1,217	508
Interconnection and billing services	1,025	2,381	(1,356)
Professional consultants	594	382	212
Connectivity and sundry utilities	250	244	6
Remuneration of corporate officers	173	189	(16)
Content providers	82	183	(101)
Travel expenses	43	53	(10)
Other minor expenses	327	367	(40)
Total	4,219	5,016	(797)

The decrease primarily reflects a reduction in the cost of interconnection and billing services, relating to the performance of Digital Entertainment revenue, partially offset by an increase in advertising expenses linked to the revenue generated by the Bucksense business area.

Note 4 – Rentals and leases

Rentals and leases amount to €277 thousand and primarily include rentals on offices occupied by Group companies.

Note 5 – Staff costs

Staff costs include:

(€000)	Q1 2017	Q1 2016	Increase/ (Decrease)
Salaries and wages	1,935	1,930	5
Social security contributions	487	474	13
Staff termination benefits	105	103	2
Finance costs	(12)	(19)	7
Other costs	153	189	(36)
Total	2,668	2,677	(9)

Other staff costs include charges incurred in relation to professional training and refresher courses, prevention and health care expenses, and contributions for defined-contribution pension plans for the staff of foreign subsidiaries.

The number of staff by category at 31 March 2017 and a comparison of the average numbers for the first quarters of 2017 and 2016 are reported in the following table:

	At 31 March 2017	Average Q1 2017	Average Q1 2016
Managers	10	11	13
Supervisors	29	29	34
White- and blue-collar staff	125	128	132
Total	164	168	179

The geographical distribution of the Group's staff is shown in the table below:

	At 31 March 2017	At 31 March 2016
Italy	107	106
Brazil	29	37
Spain	14	7
USA	10	22
India	4	3
Total	164	175

The interest in the subsidiary, *Noverca Srl*, was sold at the end of 2016. As a result, the figures shown above regarding the geographical distribution of the Group's staff and the breakdown of staff by category for 2016 exclude the staff of this company. For the purposes of full disclosure, the total workforce employed by *Noverca Srl* at 31 March 2016 amounted to 30.

Note 6 – Capitalised internal costs

Capitalised internal costs, totalling €276 thousand essentially relate to the cost of staff employed in the development of software and new functions used in delivering the Group’s NET and advertising services.

Note 7 – Other costs

Other costs of €330 thousand include €154 thousand in fees incurred by *Acotel Interactive Inc.* for the sublease its offices in New York, and €73 thousand in indirect taxes payable by *Acotel do Brasil* and *Acotel Interactive LTDA* in compliance with Brazilian legislation.

The balance includes other general expenses and charges incurred by Group companies in connection with their ordinary activities.

Note 8 - Amortisation and depreciation

Details of the amortisation and depreciation of assets are given below:

(€000)	Q1 2017	Q1 2016	Increase/ (Decrease)
Amortisation of non-current intangible assets	257	98	159
Depreciation of property, plant and equipment	176	176	-
Total	433	274	159

Amortisation of intangible assets mainly refers to amortisation of the software and licences utilised by various Group companies.

Depreciation of property, plant and equipment primarily refers to depreciation of the infrastructure used by Group companies.

Note 9 - Finance income and costs

Net finance income for the first quarter of 2017 totals €192 thousand and breaks down as follows:

(€000)	Q1 2017	Q1 2016	Increase/ (Decrease)
Income from investments	176	143	33
Foreign exchange gains	129	222	(93)
Total finance income	305	365	(60)
Foreign exchange losses	(79)	(174)	95
Interest expense and bank charges	(21)	(11)	(10)
Other interest expense	(13)	(35)	22
Total finance costs	(113)	(220)	107
Net finance income/(costs)	192	145	47

Income from investments includes gains on investment of the Group's liquidity in short-term instruments.

Foreign exchange gains and losses essentially regard realised and unrealised gains and losses generated by *Acotel Interactive Inc.* and its subsidiaries.

Note 10 - Taxation

Taxation for the period, amounting to €70 thousand, reflects estimated income tax expense and deferred tax income and expense recognised by Group companies, net of the related reversals.

Note 11 – Profit/(Loss) from assets held for sale and discontinued operations

This item, consisting of a profit of €5,273 thousand, regards the gain generated by *Noverca Italia Srl (in liquidation)* as a result of the agreement between *Acotel Group SpA* and *Intesa Sanpaolo SpA* described in the section, "Significant events during the quarter".

Note 10 – Earnings/(Loss) per share

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

<i>(€000)</i>	<u>Q1 2017</u>	<u>Q1 2016</u>
Profit/(loss) for the period (€000)	2,845	(2,368)
Number of shares ('000)		
Shares in circulation at the start of the period*	4,114 *	4,114 *
Weighted average of treasury shares acquired/sold in the period	-	-
Weighted average of ordinary shares in circulation	<u>4,114</u>	<u>4,114</u>
Basic and diluted earnings/(loss) per share**	0.69	(0.58)

* : net of treasury shares held at the same date.

** : basic earnings for the first quarters of 2017 and 2016 coincide with diluted earnings per share as the conditions provided for by IAS 33 do not exist.

FINANCIAL POSITION

RECLASSIFIED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€000)	31 March 2017	31 December 2016	Increase/ (Decrease)
Non-current assets:			
Property, plant and equipment	4,919	5,014	(95)
Intangible assets	2,324	2,332	(8)
Other assets	1,180	1,381	(201)
TOTAL NON-CURRENT ASSETS	8,423	8,727	(304)
Net current assets:			
Inventories	462	461	1
Trade receivables	3,580	3,813	(233)
Other current assets	1,141	1,144	(3)
Trade payables	(3,198)	(3,369)	171
Other current liabilities	(2,990)	(2,978)	(12)
TOTAL NET CURRENT ASSETS	(1,005)	(929)	(76)
TOTAL ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS LESS RELATED LIABILITIES	(1,095)	(1,107)	12
PROVISIONS FOR STAFF TERMINATION AND OTHER EMPLOYEE BENEFITS	(3,717)	(3,638)	(79)
NON-CURRENT PROVISIONS	(150)	(160)	10
NET INVESTED CAPITAL	2,456	2,893	(437)
Equity:			
Share capital	1,084	1,084	-
Reserves and retained earnings/(accumulated losses)	9,927	15,337	(5,410)
Profit/(Loss) for the period	2,845	(5,479)	8,324
TOTAL EQUITY	13,856	10,942	2,914
Net cash and cash equivalents:			
Current financial assets	(3,912)	(4,505)	593
Cash and cash equivalents	(7,880)	(9,810)	1,929
Cash and cash equivalents held for sale and included in discontinued operations	(78)	(121)	44
Current financial liabilities	110	-	110
Current financial liabilities held for sale and included in discontinued operations	-	6,387	(6,387)
	(11,760)	(8,049)	(3,711)
NET FUNDS	(11,400)	(8,049)	(3,351)
TOTAL EQUITY AND NET FUNDS	2,456	2,893	(437)

The Acotel Group's net invested capital at 31 March 2017 amounts to €2,456 thousand, consisting of non-current assets of €8,423 thousand, net current liabilities of €1,005 thousand, assets and liabilities held for sale and related to discontinued operations, amounting to net liabilities of €1,095 thousand, provisions for staff termination benefits of €3,717 thousand and other non-current provisions of €150 thousand.

Net invested capital is financed by consolidated equity of €13,856 thousand and net funds of €11,400 thousand.

A detailed analysis of changes in the principal components of the financial position shows that:

- the value of non-current assets has decreased primarily due to return of a portion of the guarantee deposits accounted for in previous years;
- the changes in net current liabilities are primarily linked to the Acotel Group's trading performance;
- net funds at 31 March 2017 total €11,400 thousand and are up 42% compared with 31 December 2016, reflecting the agreement with *Intesa Sanpaolo SpA* described in the section, "Significant events during the quarter".

NET FUNDS

(€000)

	31 March 2017	31 December 2016	Increase/ (Decrease)
A. Cash and cash equivalents	7,958	9,931	(1,973)
B. Assets held for trading	2,312	2,905	(594)
C. Liquidity (A + B)	10,270	12,836	(2,567)
D. Other current financial receivables	1,600	1,600	-
E. Current financial assets (D)	1,600	1,600	-
F. Current bank borrowings	(110)	(6,387)	6,277
G. Current financial liabilities (F)	(110)	(6,387)	6,277
H. Non-current bank borrowings	(360)	-	(360)
I. Non-current debt (H)	(360)	-	(360)
H. Net funds (C+E+G)	11,400	8,049	3,710

At 31 March 2017:

- cash and cash equivalents includes €78 thousand attributable to *Noverca Italia Srl (in liquidation)* and classified in "discontinued operations" in accordance with IFRS 5;
- provisions of €329 thousand have been made for risks associated with other current financial assets, amounting to €1,600 thousand.

DECLARATION BY THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

The manager responsible for the Group's financial reporting, Luca De Rita, hereby declares, pursuant to article 154-bis, paragraph 2 of Legislative Decree 58/1998 (the Consolidated Law on Finance), that the information in this consolidated interim report is consistent with the underlying accounting records.