

**INTERIM REPORT FOR THE  
THREE MONTHS ENDED 31 MARCH 2018**



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

## **CONTENTS**

CONTENTS.....	1
CORPORATE OFFICERS .....	2
THE GROUP .....	4
BASIS OF PRESENTATION .....	4
BASIS OF CONSOLIDATION.....	5
SIGNIFICANT EVENTS DURING THE FIRST QUARTER.....	6
RESULTS OF OPERATIONS .....	7
FINANCIAL POSITION .....	13
DECLARATION BY THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING .....	14

## **CORPORATE OFFICERS**

### **Board of Directors**

Claudio Carnevale  
*Chairman and CEO*

Mario Amoroso <sup>(1), (2), (3)</sup>  
*Director*

Margherita Argenziano  
*Director*

Davide Rota  
*Director*

Maurizia Squinzi <sup>(1), (2)</sup>  
*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 Vecchiati  
*Auditor*

### **Independent auditors**

EY SpA

The Board of Directors and the Board of Statutory Auditors of *Acotel Group SpA* were elected on 24 April 2018 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 2020.

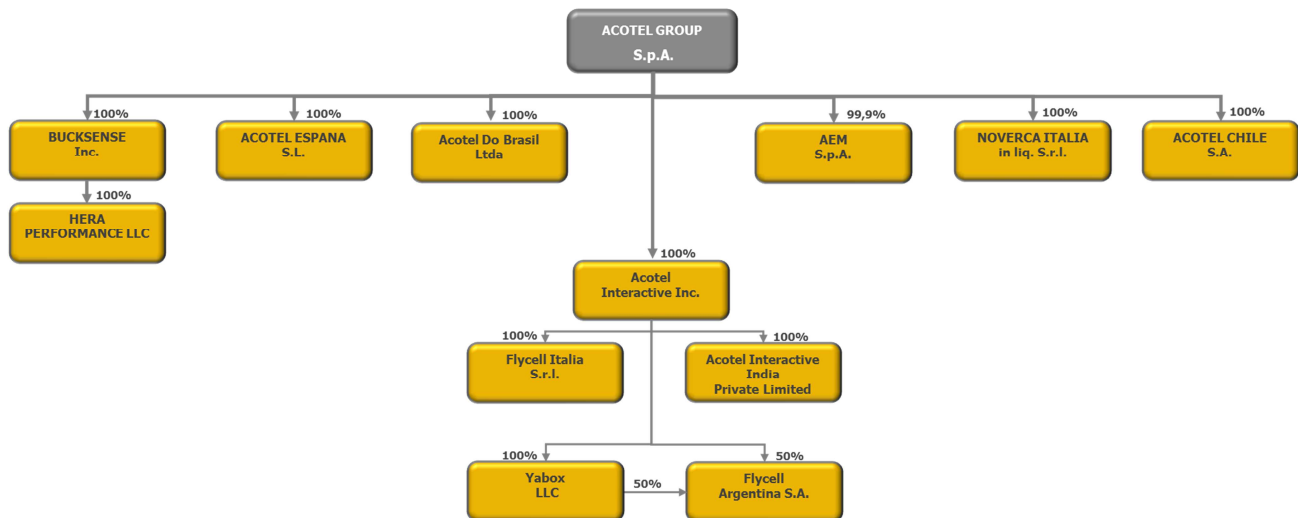
The Board of Directors' meeting of 7 May 2018 elected:

- Claudio Carnevale as the Company's CEO and as the Director with responsibility for the control and risk management system;
- Mario Amoroso as Lead Independent Director;
- Mario Amoroso and Maurizia Squinzi to serve as members of the Nominations and Remuneration Committee and the Internal Audit Committee. Mario Amoroso was appointed Chairman of the Nominations and Remuneration Committee, whilst Maurizia Squinzi was appointed Chairwoman of the Internal Audit Committee;

and assigned the Director, Margherita Argenziano, executive powers in line with her management role at *Acotel Group SpA*.

## THE GROUP

The following chart shows the structure of the Acotel Group at 31 March 2018:



The parent of Acotel Group SpA is Clama Srl, which at 31 March 2018 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 2018 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 2017, 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 2018 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 non-current assets and inventories, provisions for bad debts, litigation and taxation, and on the recognition, subsequent measurement and

recoverability of internally generated intangible assets. These estimates and assumptions are constantly monitored and the effects of any change are immediately reflected in the income statement.

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
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 (1)	100% (3)	La Plata	ARS	12,000
Bucksense, Inc.	28 June 2011 (1)	100%	Nevada	USD	10,000
Noverca Italia Srl (in liquidation)	9 May 2008 (1)	100% (4)	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 (1)	100% (5)	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) Since 20 May 2013, the Group has full control of this company.

(5) Controlled via Bucksense, Inc.

The basis of consolidation has not changed during the first quarter of 2018.

## SIGNIFICANT EVENTS DURING THE FIRST QUARTER

During the first quarter of 2018, the Acotel Group concluded a number of major agreements relating to the provision of Programmatic Advertising (**Bucksense**) and Energy & Building Management (**Acotel Net**) services and took steps to cut its fixed costs in the short to medium term.

In the **Bucksense** business area, the Group concluded an agreement with an industrial partner which, from the second quarter of 2018, should generate a growing volume of business with customers in geographical areas in which the Group is currently not present, in exchange for the progressive acquisition of a minority interest in the subsidiary, Bucksense Inc..

In the **Acotel Net** business area, the Group has been awarded a contract to supply an energy monitoring system for 800 offices of a major banking group, in partnership with a leading international telecommunications company.

At the end of the first quarter of 2018, Acotel and Vodafone Italia entered into a partnership agreement for the marketing of IoT-based Energy & Building Management solutions. The partnership will last for 3 years and regards the study and design of solutions to meet the needs of B2B and B2B2C customers in the SOHO, SME and Corporate segments, focusing above all on utilities. The Energy & Building Management service will be offered by Acotel Net through its proprietary platform and devices produced and sold by the subsidiary.

A strategic partnership has also been entered into with *Live Protection S.r.l.* - owned by *Linkem S.p.A.* - an Italian company that provides Smart Home services through a network of over 2,000 installers and 3,000 sales outlets around the country. The company serves more than 600,000 residential customers. The agreement aims to launch innovative Smart Home products and services in the Italian market, as early as the second half of this year, focusing on IoT-based security, control and automation solutions.

In the same period, the Group has proceeded with a number of initiatives designed to cut its operating costs. In this regard, *Acotel Group SpA* and its subsidiary, *AEM Acotel Engineering and Manufacturing SpA*, have applied to the Ministry of Labour and Welfare for permission to introduce solidarity contracts in accordance with and for the purposes of art. 21, paragraph 1.c of Legislative Decree 148/2015 and in compliance with the provisions of art. 21, paragraph 5 of the same decree. The contract has been applied, on the basis of an average 20% reduction, from March 2018.

At the date of preparation of the interim report, *AEM SpA*'s application has been accepted, whilst a response to the Parent Company's application is still awaited.

Based on the terms of the above agreements and, though to a lesser extent, on the expected outcomes of tenders that Group companies are preparing to bid for, the Group has drawn up an initial version of its Business Plan for the period 2018-2022. The Plan sets out details of the plan to turn around the Group's operations, focusing on the development of its Programmatic Advertising, Retail IOT, Energy & Building Management and Enterprise Security solutions and a progressive natural decline in its Interactive activities. The above Plan is being looked at by the new Board of Directors elected by the AGM of 24 April 2018.

## RESULTS OF OPERATIONS

### RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(€000)	Note	Q1 2018	Q1 2017	Increase/ (Decrease)
Revenue	1	2.783	4.897	(2.114)
Other income	2	445	280	165
<b>Total revenue</b>		<b>3.228</b>	<b>5.177</b>	<b>(1.949)</b>
Change in work in progress, semi-finished and finished goods		-	3	(3)
Raw materials		(26)	(79)	53
External services	3	(2.558)	(4.219)	1.661
Rentals and leases	4	(264)	(277)	13
Staff costs	5	(2.114)	(2.668)	554
Internal capitalised costs		181	276	(95)
Other costs		(92)	(330)	238
<b>Gross operating profit/(loss) (EBITDA)</b>		<b>(1.645)</b>	<b>(2.117)</b>	<b>472</b>
Amortisation and depreciation		(166)	(433)	267
<b>Operating profit/(loss) (EBIT)</b>		<b>(1.811)</b>	<b>(2.550)</b>	<b>739</b>
Net finance income/(costs)	6	(125)	192	(317)
<b>PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>(1.936)</b>	<b>(2.358)</b>	<b>422</b>
Taxation		116	(70)	186
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>		<b>(1.820)</b>	<b>(2.428)</b>	<b>608</b>
Profit/(Loss) from assets held for sale and discontinued operations		(1)	5.273	(5.274)
<b>PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT</b>		<b>(1.821)</b>	<b>2.845</b>	<b>(4.666)</b>
Earnings per share	7	(0,44)	0,69	
Diluted earnings per share	7	(0,44)	0,69	

Compared with the results for the same period of 2017, the Acotel Group's results for the first quarter of 2018 show a reduction in revenue, due primarily to the downturn in revenue generated by Interactive services, an improvement in earnings from continuing operations and a deterioration in the loss attributable to owners of the Parent, reflecting the profit from discontinued operations recognised in the income statement for the first quarter of 2017 (€5273 thousand). This profit was the result of the agreement between *Acotel Group SpA* and *Intesa Sanpaolo SpA* resolving the dispute between the two companies.



## Note 1 - Revenue

Revenue for the first quarter of 2018 amounts to €2,783 thousand, down on the €4,897 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 64%).

(€000)	Q1 2018		Q1 2017	
	%	%	%	%
BUCKSENSE	1.374	49,4%	1.608	32,9%
ACOTEL INTERACTIVE	986	35,4%	2.772	56,6%
ACOTEL NET	423	15,2%	517	10,5%
<b>Total</b>	<b>2.783</b>	<b>100%</b>	<b>4.897</b>	<b>100%</b>

### BUCKSENSE

The Bucksense business area generated revenue of approximately €1,374 thousand in the first quarter of 2018, down 15% compared with the same period of 2017. This was only partly due to the impact of exchange rate movements in the two comparative periods. 35% of this revenue was generated in North America, 35% in Europe, 15% in the Middle East, 12% in Asia and the remainder in other geographical areas.

### ACOTEL INTERACTIVE

The Acotel Interactive business area includes the services provided directly to consumers (Digital Entertainment) in Mexico, Italy and India, and those supplied to telephone operators and commercial companies (Mobile Services) in Italy and Brazil. The primary activity is the supply of 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 2018	Q1 2017	Increase/ (Decrease)
Digital Entertainment	648	1,935	(1,287)
Mobile Services	338	837	(499)
<b>Total</b>	<b>986</b>	<b>2,772</b>	<b>(1,786)</b>

The reduction in revenue in the quarter just ended, compared with the same period of 2017, primarily reflects the Group's decision not to invest in promotional initiatives to support this area of business, which is no longer profitable.

## ACOTEL NET

Revenue generated by the Acotel NET business area in the quarter just ended, totalling €423 thousand, are down 18% on the same period of 2017, as shown in the following table:

(€000)	Q1 2018	Q1 2017	Increase/ (Decrease)
Energy	306	390	(84)
Security Systems	117	127	(10)
<b>Total</b>	<b>423</b>	<b>517</b>	<b>(94)</b>

The Energy segment generated revenue of €306 thousand in the first quarter, generated primarily by the Group's contracts with *ENI SpA* and the *Iren* group. The decline from one quarter to the other (21%) is primarily due to expiry of the contract to provide energy monitoring services in post offices.

The Security Systems segment generated revenue of €117 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 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	%
ITALY	860	30.9%	1,238	25.3%
LATIN AMERICA	535	19.2%	1,257	25.7%
NORTH AMERICA	489	17.6%	1,124	22.9%
OTHER EUROPEAN COUNTRIES	464	16.7%	196	4.0%
ASIAN COUNTRIES	227	8.1%	1,068	21.8%
MIDDLE EAST	208	7.5%	14	0.3%
	<b>2,783</b>	<b>100%</b>	<b>4,897</b>	<b>100%</b>

### Note 2 – Other income

Other income of €445 thousand primarily refers to the Group's provision of consultancy and leasing services in Italy, Brazil and the USA.

### Note 3 – External services

The cost of external services totals €2,558 thousand, down 39% on the first quarter of 2017.

A breakdown of the service costs is shown below:

(€000)	Q1 2018	Q1 2017	Increase/ (Decrease)
Advertising	1,103	1,725	(622)
Interconnection and billing services	355	1,025	(670)
Professional consultants	322	594	(272)
Connectivity and sundry utilities	164	250	(86)
Remuneration of corporate officers	122	173	(51)
Office security and cleaning	63	65	(2)
Content providers	62	82	(20)
Telecommunications	42	36	6
Travel expenses	41	43	(2)
Other minor expenses	284	226	58
<b>Total</b>	<b>2,558</b>	<b>4,219</b>	<b>(1,661)</b>

The decrease primarily reflects reductions in the cost of interconnection and billing services and in advertising expenses, both linked to the fall in Digital Entertainment revenue.

#### Note 4 - Rentals and leases

Rentals and leases amount to €264 thousand and primarily include rentals on offices occupied by Group companies.

#### Note 5 - Staff costs

Staff costs include:

(€000)	Q1 2018	Q1 2017	Increase/ (Decrease)
Salaries and wages	1,553	1,935	(382)
Social security contributions	398	487	(89)
Staff termination benefits	99	105	(6)
Finance costs	(12)	(12)	-
Other costs	76	153	(77)
<b>Total</b>	<b>2,114</b>	<b>2,668</b>	<b>(554)</b>

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 2018 and a comparison of the average numbers for the first quarters of 2018 and 2017 are reported in the following table:

	At 31 March 2018	Average Q1 2018	Average Q1 2017
Managers	8	8	11
Supervisors	23	23	29
White- and blue-collar staff	114	116	128
<b>Total</b>	<b>145</b>	<b>147</b>	<b>168</b>

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

	At 31 March 2018	At 31 March 2017
Italy	102	107
Spain	19	14
Brazil	9	29
USA	9	10
India	6	4
<b>Total</b>	<b>145</b>	<b>164</b>

#### Note 6 - Finance income and costs

Net finance costs for the first quarter of 2018 total €125 thousand and break down as follows:

(€000)	Q1 2018	Q1 2017	Increase/ (Decrease)
Income from investments	14	176	(162)
Foreign exchange gains	7	129	(122)
Interest income on bank deposits	1	-	1
<b>Total finance income</b>	<b>22</b>	<b>305</b>	<b>(283)</b>
Foreign exchange losses	(104)	(79)	(25)
Interest expense and bank charges	(25)	(21)	(4)
Other interest expense	(18)	(13)	(5)
<b>Total finance costs</b>	<b>(147)</b>	<b>(113)</b>	<b>(34)</b>
<b>Net finance income/(costs)</b>	<b>(125)</b>	<b>192</b>	<b>(317)</b>

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

## Note 7 - Earnings/(Loss) per share

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

<i>(€000)</i>	Q1 2018	Q1 2017
<b>Profit/(loss) for the period (€000)</b>	<b>(1,821)</b>	<b>2,845</b>
<b>Number of shares ('000)</b>		
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	<b>4,114</b>	<b>4,114</b>
<b>Basic and diluted earnings/(loss) per share**</b>	<b>(0.44)</b>	<b>0.69</b>

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

\*\* : basic earnings for the first quarters of 2018 and 2017 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 2018	31 December 2017	Increase/ (Decrease)
<b>Non-current assets:</b>			
Property, plant and equipment	2,237	2,340	(103)
Intangible assets	1,143	1,127	16
Other assets	699	705	(6)
<b>TOTAL NON-CURRENT ASSETS</b>	<b>4,079</b>	<b>4,172</b>	<b>(93)</b>
<b>Net current assets/(liabilities):</b>			
Inventories	304	217	87
Trade receivables	2,172	2,983	(811)
Other current assets	1,305	904	401
Trade payables	(3,398)	(3,323)	(75)
Other current liabilities	(1,953)	(1,968)	15
<b>TOTAL NET CURRENT ASSETS/(LIABILITIES)</b>	<b>(1,570)</b>	<b>(1,187)</b>	<b>(383)</b>
<b>TOTAL ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS LESS RELATED LIABILITIES</b>	<b>(1,014)</b>	<b>(1,015)</b>	<b>1</b>
<b>PROVISIONS FOR STAFF TERMINATION AND OTHER EMPLOYEE BENEFITS</b>	<b>(3,823)</b>	<b>(3,870)</b>	<b>47</b>
<b>NON-CURRENT PROVISIONS</b>	<b>(76)</b>	<b>(95)</b>	<b>19</b>
<b>NET INVESTED CAPITAL</b>	<b>(2,404)</b>	<b>(1,995)</b>	<b>(409)</b>
<b>Equity:</b>			
Share capital	1,084	1,084	-
Reserves and retained earnings/(accumulated losses)	1,342	8,265	(6,923)
Profit/(Loss) for the period	(1,821)	(6,544)	4,723
<b>TOTAL EQUITY</b>	<b>605</b>	<b>2,805</b>	<b>(2,200)</b>
<b>MEDIUM/LONG-TERM DEBT</b>	<b>277</b>	<b>271</b>	<b>6</b>
<b>Net cash and cash equivalents:</b>			
Current financial assets	(516)	(1,482)	966
Cash and cash equivalents	(2,878)	(3,695)	817
Cash and cash equivalents held for sale and included in discontinued operations	(2)	(4)	2
Current financial liabilities	110	110	-
	<b>(3,286)</b>	<b>(5,071)</b>	<b>1,785</b>
<b>NET FUNDS</b>	<b>(3,009)</b>	<b>(4,800)</b>	<b>1,791</b>
<b>TOTAL EQUITY AND NET FUNDS</b>	<b>(2,404)</b>	<b>(1,995)</b>	<b>(409)</b>

The Acotel Group's net invested capital at 31 March 2018 amounts to €2,404 thousand, consisting of non-current assets of €4,079 thousand, net current liabilities of €1,570 thousand, assets and liabilities held for sale and related to discontinued operations, amounting to net liabilities of €1,014 thousand, provisions for staff termination benefits of €3,823 thousand and other non-current provisions of €76 thousand.

Net invested capital is financed by consolidated equity of €605 thousand and net funds of €3,009 thousand.

Changes in the principal components of the financial position are as follows:

- the changes in net current liabilities are primarily linked to the Acotel Group's trading performance;
- net funds at 31 March 2018 total €3,009 thousand and are down 37% compared with 31 December 2017, reflecting the losses incurred by Group companies during the period.

## NET FUNDS

(€000)

	31 March 2018	31 December 2017	Increase/ (Decrease)
A. Cash and cash equivalents	2,880	3,699	(819)
B. Assets held for trading	516	1,482	(966)
<b>C. Liquidity (A + B)</b>	<b>3,396</b>	<b>5,181</b>	<b>(1,785)</b>
D. Current bank borrowings	(110)	(110)	-
<b>E. Current financial liabilities (D)</b>	<b>(110)</b>	<b>(110)</b>	<b>-</b>
F. Non-current bank borrowings	(277)	(271)	(6)
<b>G. Non-current debt (F)</b>	<b>(277)</b>	<b>(271)</b>	<b>(6)</b>
<b>H. Net funds (C+E+G)</b>	<b>3,009</b>	<b>4,800</b>	<b>(1,791)</b>

At 31 March 2018, cash and cash equivalents includes €2 thousand attributable to *Noverca Italia Srl* (in liquidation) and classified in "discontinued operations" in accordance with IFRS 5.

## 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.