

**INTERIM REPORT FOR THE
THREE MONTHS ENDED 30 SEPTEMBER 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

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CORPORATE OFFICERS

Board of Directors

Claudio Carnevale
Chairman and CEO

Mario Amoroso^{(1), (2), (3)}
Director

Margherita Argenziano
Director

Davide Rota
Director

Maurizia Squinzi ^{(1), (2)}
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

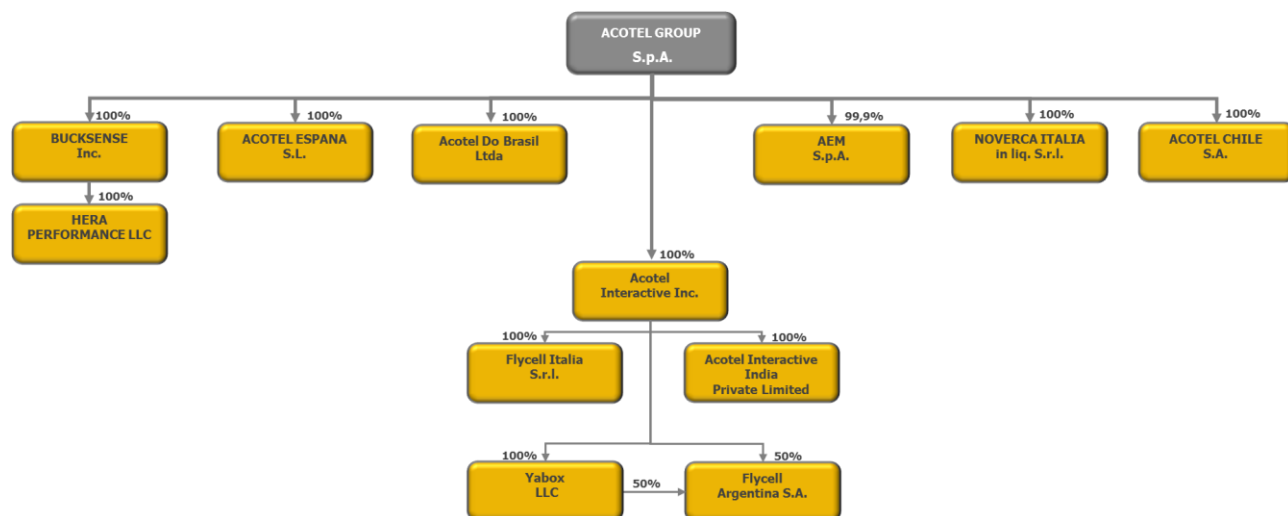
Monica Vecchiati
Auditor

Independent auditors

EY SpA

THE GROUP

The following chart shows the structure of the Acotel Group at 30 September 2018:



The parent company of *Acotel Group SpA* is *Clama Srl*, which at 30 September 2018 holds 2,132,748 ordinary shares, representing 42.7% 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 PREPARATION

The Acotel Group's interim report for the three months ended 30 September 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 30 September 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. The estimates and assumptions are periodically reviewed 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 non-current 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 the 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 third quarter of 2018.

SIGNIFICANT EVENTS DURING THE QUARTER

The rights issue approved by the General Meeting of *Acotel Group SpA*'s shareholders on 26 June 2018 was completed in the third quarter of 2018.

On 4 July 2018, the Company's Board of Directors exercised the authority granted to it by the above General Meeting, establishing that, among other things, the total value of the rights issue was to be €3,702,217.50 and that the total number of new no-par shares to be issued was 822,715, ranking *pari passu* with those already in issue, at an issue price of €4.50 each, including a share premium of €4.24.

The shareholders, CLAMA Srl and MACLA Srl, who jointly owned approximately 57.4% of *Acotel Group SpA*, had stated that they were willing to subscribe for their share of the rights. On 8 August 2018, the issue was fully subscribed and paid up. As a result of subscribing for the new shares, *Clama Srl* and *Macla Srl* have increased their interests in *Acotel Group SpA* to 42.72% and 17.92%, respectively.

Full subscription of the rights issue is an important part of the commercial relaunch of the Group. At their meeting on 9 August, the Board of Directors approved the Business Plan for the period 2018-2022 prepared by management (the "Plan"). The Plan, prepared on the basis of projections formulated by the business partners in agreements signed in early 2018, indicates that the Group will above all develop along three clearly identifiable lines of business:

- Bucksense - Programmatic Advertising;
- Acotel Net - Internet of Things (IoT);
- Acotel Net - Enterprise Security.

As regards other activities, the Plan envisages a gradual withdrawal from those considered no longer profitable (Interactive: VAS and Mobile Services) and prudently does not take into account others (remote health and care solutions), whilst awaiting the completion of ongoing trials and the signature of contracts with customers with whom talks are in progress.

With regard to the Acotel Net - Internet of Things (IoT) business, in April 2018, Acotel signed two contracts with Vodafone and Live Protection (a Linkem group company) for the commercialisation of both enterprise and retail solutions. Under these agreements:

- supply of the devices that, by the end of this year, will begin to be used to provide energy & building management services in Unicredit bank branches was completed in the third quarter of 2018;
- in the same period, Acotel completed testing of the hubs for the Live Protection platform, for which initial orders to be fulfilled by the end of the current year have already been received. The agreement aims to launch innovative Smart Home services in the Italian market, focusing on security, control and automation solutions for the so-called "smart home".

RESULTS OF OPERATIONS

(€000)

	Note	Q3			9M		
		2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Revenue	1	2,931	4,613	(1,682)	8,313	14,008	(5,695)
Other income	2	407	385	22	1,302	1,001	301
Total		3,338	4,998	(1,660)	9,615	15,009	(5,394)
Change in work in progress, semi-finished and finished goods		(21)	111	(132)	(16)	27	(43)
Raw materials, semi-finished and finished goods		(83)	(117)	34	(205)	(256)	51
External services	3	(2,466)	(3,851)	1,385	(7,262)	(11,649)	4,387
Rentals and leases	4	(251)	(274)	23	(774)	(863)	89
Staff costs	5	(1,677)	(2,095)	418	(5,839)	(7,297)	1,458
Internal capitalised costs	6	157	284	(127)	510	845	(335)
Other costs		(94)	(112)	18	(282)	(583)	301
Gross operating profit/(loss) (EBITDA)		(1,097)	(1,056)	(41)	(4,253)	(4,767)	514
Amortisation and depreciation	7	(208)	(434)	226	(578)	(1,313)	735
Impairment losses/reversals of impairment losses on non-current assets		(24)	-	(24)	(34)	-	(34)
Operating profit/(loss) (EBIT)		(1,329)	(1,490)	161	(4,865)	(6,080)	1,215
Net finance income/(costs)	8	(15)	(44)	29	15	26	(11)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		(1,344)	(1,534)	190	(4,850)	(6,054)	1,204
Taxation		2	44	(42)	(17)	(45)	28
PROFIT/(LOSS) FROM CONTINUING OPERATIONS		(1,342)	(1,490)	148	(4,867)	(6,099)	1,232
Profit/(Loss) from assets held for sale and discontinued operations		-	253	(253)	87	4,885	(4,798)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		(1,342)	(1,237)	(105)	(4,780)	(1,214)	(3,566)
Earnings per share	9	(0.27)	(0.30)		(0.97)	(0.30)	
Diluted earnings per share	9	(0.27)	(0.30)		(0.97)	(0.30)	

Compared with the results for the same period of the previous year, the Acotel Group's results for the third quarter of 2018 show that revenue is down and earnings are broadly in line (± 10).

Note 1 - Revenue

Revenue of €2,931 thousand for the third quarter of 2018 is down 36% compared with the €4,613 thousand of the same period of the previous year, as shown below:

(€000)	2018		2017	
	Q3	9M	Q3	9M
BUCKSENSE	1,827	4,653	1,717	4,774
ACOTEL INTERACTIVE	616	2,312	2,256	7,399
ACOTEL NET	488	1,348	640	1,835
	2,931	8,313	4,613	14,008

BUCKSENSE

Revenue from the Bucksense business area amounts to €1,827 thousand, up 6% on the figure for the third quarter of 2017 (€1,717 thousand). 38% of this revenue was generated in Europe, 31% in North America, 26% in Asia and the remainder in other geographical areas.

ACOTEL INTERACTIVE

As the following table shows, revenue from the services provided by Acotel Interactive have fallen from €2,256 thousand in the third quarter of 2017 to €616 thousand in the quarter under review, marking a reduction of 73%. This essentially reflects the decision not to invest in promotional initiatives to support this area of business in view of the ongoing losses incurred, partly due to the widespread availability of similar content and services on the internet.

(€000)	Q3			9M		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Digital Entertainment	380	1,794	(1,414)	1,491	5,353	(3,862)
Mobile Services	236	462	(226)	821	2,046	(1,225)
Total	616	2,256	(1,640)	2,312	7,399	(5,087)

ACOTEL NET

Revenue reported by the Acotel Net business area in the third quarter of 2018 amounts to €488 thousand, as shown below:

(€000)

	Q3			9M		
	2018	2017	Increase/ (Decrease)	2018	2017	Increase/ (Decrease)
Energy - IoT	345	500	(155)	951	1,407	(456)
Security Systems	143	140	3	397	428	(31)
Total	488	640	(152)	1,348	1,835	(487)

The Energy segment generated revenue of €345 thousand in the third quarter, generated primarily by the Group's contracts with *ENI SpA*, *Vodafone* and the *Iren* group. The decline from one quarter to the other (down 31%) is primarily due to expiry of the contracts relating to the provision of energy monitoring services in post offices.

The Security Systems segment generated revenue of €143 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.

A geographical breakdown of the Group's revenue is as follows:

(€000)

	2018				2017			
	Q3	%	9M	%	Q3	%	9M	%
ITALY	1,047	36%	2,717	33%	1,298	28%	3,887	28%
NORTH AMERICA	571	19%	1,775	21%	528	11%	2,543	18%
ASIA	518	18%	675	8%	724	16%	2,552	19%
OTHER EUROPEAN COUNTRIES	468	16%	1,608	19%	649	14%	1,012	7%
LATIN AMERICA	262	9%	1,158	14%	1,402	31%	3,971	28%
MIDDLE EAST	65	2%	380	5%	12	-	43	-
	2,931	100%	8,313	100%	4,613	100%	14,008	100%

Note 2 – Other income

Other income of €407 thousand primarily refers to consultancy and leasing services provided by the Group in Italy, the United States and Brazil.

Note 3 – External services

The cost of external services during the period totals €2,466 thousand, a 36% reduction compared with the third quarter of 2017. A breakdown of service costs is shown below:

(€000)	2018		2017	
	Q3	9M	Q3	9M
Advertising	1,266	3,440	1,739	5,039
Professional consultants	234	789	286	1,082
Interconnection and billing services	205	796	993	2,943
Remuneration of corporate officers	168	450	157	472
Connectivity and sundry utilities	144	447	214	669
Office security and cleaning	61	185	65	197
Content providers	50	162	71	223
Telecommunications services	44	129	45	122
Travel expenses	39	121	26	124
Auditors' fees	29	86	40	131
Outsourcing	27	59	51	93
Routine maintenance	15	55	29	84
Other minor expenses	184	543	135	470
Total	2,466	7,262	3,851	11,649

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 €251 thousand and largely include rentals on offices occupied by Group companies.

Note 5 – Staff costs

Staff costs include:

(€000)	2018		2017	
	Q3	9M	Q3	9M
Salaries and wages	1,241	4,316	1,508	5,304
Social security contributions	317	1,104	378	1,347
Staff termination benefits	93	290	100	312
Finance costs	(14)	(39)	(15)	(40)
Other costs	40	168	124	374
Total	1,677	5,839	2,095	7,297

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 30 September 2018 and a comparison of the average numbers for the third quarter and first nine months of 2018 and 2017 are reported in the following table:

	At 30 Sept 2018	Average Q3 2018	Average Q3 2017	Average 9M 2018	Average 9M 2017
Managers	8	8	10	8	10
Supervisors	21	21	26	22	29
White- and blue-collar staff	102	104	123	110	125
Total	131	133	159	140	164

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

	At 30 September 2018	At 30 September 2017
Italy	95	101
Spain	15	15
USA	10	9
India	7	4
Brazil	4	28
Total	131	157

Note 6 - Capitalised internal costs

Capitalised internal costs, totalling €157 thousand, relate to staff employed in the development of software and new functions used in delivering programmatic advertising services.

Note 7 - Amortisation and depreciation

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

(€000)	2018		2017	
	Q3	9M	Q3	9M
Amortisation of intangible assets	177	479	287	830
Depreciation of property, plant and equipment	31	99	147	483
Total	208	578	434	1,313

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 infrastructure used by Group companies.

Note 8 - Finance income and costs

Net finance costs of €15 thousand for the third quarter of 2018 break down as follows:

(€000)	2018		2017	
	Q3	9M	Q3	9M
Foreign exchange gains	40	137	37	155
Income from investments	7	29	41	255
Interest income on bank deposits	-	1	-	4
Total finance income	47	167	78	414
Foreign exchange losses	(13)	(15)	(78)	(265)
Interest expense and bank charges	(28)	(80)	(21)	(65)
Other finance costs	(21)	(57)	(23)	(58)
Total finance costs	(62)	(152)	(122)	(388)
Net finance income/(costs)	(15)	15	(44)	26

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

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

Note 9 - Earnings per share

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

(€000)	2018		2017	
	Q3	9M	Q3	9M
Profit/(Loss) for the period (€000)	(1,342)	(4,780)	(1,237)	(1,214)
Number of shares (000)				
Shares in circulation at the start of the period*	4,937	4,937	4,114	4,114
Weighted average of treasury shares acquired/sold in the period	-	-	-	-
Weighted average of ordinary shares in circulation	4,937	4,937	4,114	4,114
Basic and diluted earnings per share **	(0.27)	(0.97)	(0.30)	(0.30)

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

** : basic earnings for the third quarter and first nine months of 2018 and 2017 coincide with diluted earnings per share as the conditions provided for by IAS 33 do not exist.

FINANCIAL POSITION

<i>(€000)</i>	30 September 2018	31 December 2017	Increase/ (Decrease)
Non-current assets:			
Property, plant and equipment	1,925	2,340	(415)
Intangible assets	1,202	1,127	75
Other assets	714	705	9
TOTAL NON-CURRENT ASSETS	3,841	4,172	(331)
Net current liabilities:			
Inventories	411	217	194
Trade receivables	2,102	2,983	(881)
Other current assets	1,162	904	258
Trade payables	(4,752)	(3,323)	(1,429)
Other current liabilities	(2,017)	(1,968)	(49)
TOTAL NET CURRENT LIABILITIES	(3,094)	(1,187)	(1,907)
TOTAL ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS LESS RELATED LIABILITIES	(1,013)	(1,015)	2
PROVISIONS FOR STAFF TERMINATION AND OTHER EMPLOYEE BENEFITS	(3,873)	(3,870)	(3)
NON-CURRENT PROVISIONS	(74)	(95)	21
NET INVESTED CAPITAL	(4,213)	(1,995)	(2,218)
Equity:			
Share capital	1,298	1,084	214
Reserves and retained earnings/(accumulated losses)	4,340	8,265	(3,925)
Profit/(Loss) for the period	(4,780)	(6,544)	1,764
TOTAL EQUITY	858	2,805	(1,947)
MEDIUM/LONG-TERM DEBT	288	271	17
Net cash and cash equivalents:			
Current financial assets	(362)	(1,482)	1,120
Cash and cash equivalents	(5,106)	(3,695)	(1,411)
Cash and cash equivalents held for sale and included in discontinued operations	(1)	(4)	3
Current financial liabilities	110	110	-
	(5,359)	(5,071)	(288)
NET FUNDS	(5,071)	(4,800)	(271)
TOTAL EQUITY AND NET FUNDS	(4,213)	(1,995)	(2,218)

The Acotel Group's net invested capital at 30 September 2018 amounts to a negative €4,213 thousand, consisting of non-current assets of €3,841 thousand, net current liabilities of €3,094 thousand, assets and liabilities held for sale and related to discontinued operations, amounting to net liabilities of €1,013

thousand, provisions for staff termination benefits of €3,873 thousand and other non-current provisions of €74 thousand.

Net invested capital is financed by equity of €858 thousand and net funds of €5,071 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;
- in addition to the result for the period, the movement in equity also reflects the fact that the rights issue approved by the General Meeting of shareholders of 26 June 2018 was fully subscribed and paid up, thus increasing the value of the share capital and the share premium reserve €214 thousand and €3,488 thousand, respectively;
- net funds at 30 September 2018 amount to €5,071 thousand, an increase of 6% compared with 31 December 2017, having benefitted from the receipt of €3,702 thousand as the proceeds from the above rights issue, which were sufficient to fully cover the losses for the period incurred by Group companies.

NET FUNDS

(€000)

	30 September 2018	30 June 2018	31 December 2017
A. Cash and cash equivalents	5,107	2,246	3,699
B. Assets held for trading	362	418	1,482
C. Liquidity (A + B)	5,469	2,664	5,181
D. Current bank borrowings	(110)	(110)	(110)
E. Current financial liabilities (D)	(110)	(110)	(110)
F. Non-current bank borrowings	(288)	(282)	(271)
G. Non-current debt (F)	(288)	(282)	(271)
H. Net funds (C+E+G)	5,071	2,272	4,800

At 30 September 2018, cash and cash equivalents includes €1 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, Andrea Severini, 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.