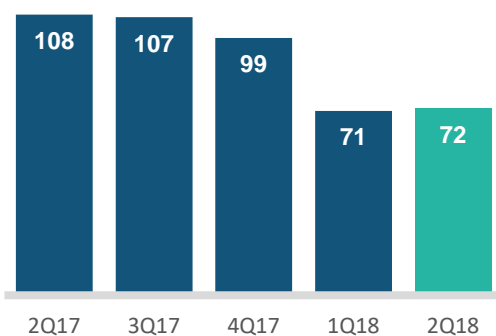


# QUARTERLY REPORT

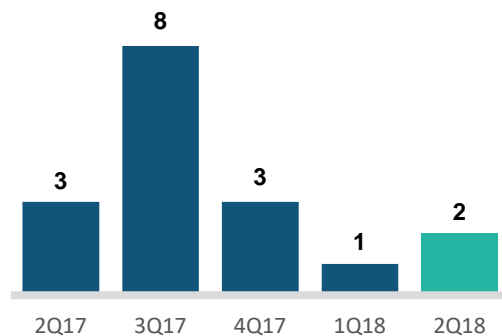
# 2Q 2018

## OTELLO CORPORATION ASA

Revenue (USD million)



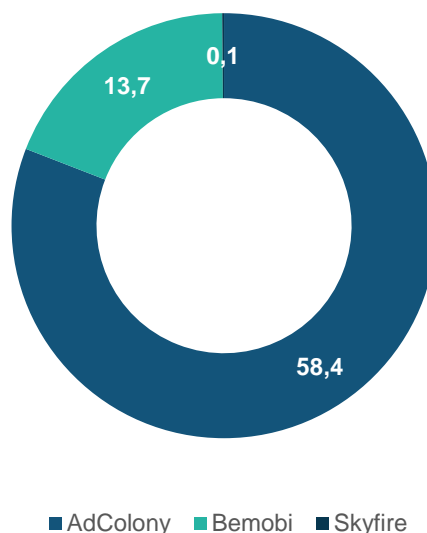
Adj. EBITDA (USD million)



# HIGHLIGHTS

- Revenue was down 33 percent to USD 72.2 million (USD 108.4 million) due to decline in revenue from AdColony. This was partly offset by growth in Bemobi
- Adjusted EBITDA\* of USD 1.7 million in 2Q18 down versus 2Q17, but up versus 1Q18
- Net income was USD (2.1) million in 2Q18 versus USD (21.5) million in 2Q17, positively impacted by FX and lower earn-out expenses in 2Q18
- Earnings per share amounted to USD (0.01) in 2Q18 versus USD (0.15) in 2Q17
- Operating cash flow was USD 0.3 million versus USD (1.7) million in 2Q17

Revenue Source



\*For further information regarding Adjusted EBITDA and other alternative performance measures used by Otello, see Note 9 of the interim condensed financial statements

Key figures (USD million)	2Q18	2Q17	YTD 2018	YTD 2017
<b>Revenue*</b>	<b>72.2</b>	<b>108.4</b>	<b>143.6</b>	<b>214.4</b>
AdColony (Mobile Advertising)	58.4	96.1	115.1	189.4
Bemobi (Apps & Games)	13.7	12.3	28.0	24.9
Skyfire (P&P)	0.1	0.1	0.4	0.2
Corporate	0.1	0.0	0.2	0.0
<b>Adj. EBITDA</b>	<b>1.7</b>	<b>2.6</b>	<b>2.4</b>	<b>3.3</b>
AdColony (Mobile Advertising)	(1.7)	0.9	(4.5)	(1.3)
Bemobi (Apps & Games)	5.3	4.7	10.7	10.6
Skyfire (P&P)	(0.3)	(1.5)	(0.6)	(3.1)
Corporate	(1.6)	(1.6)	(3.2)	(2.9)
<b>EBIT</b>	<b>(7.5)</b>	<b>(16.8)</b>	<b>(12.4)</b>	<b>(29.6)</b>
<b>Net income</b>	<b>(2.1)</b>	<b>(21.5)</b>	<b>1.7</b>	<b>(35.9)</b>
<b>EPS (USD)</b>	<b>(0.01)</b>	<b>(0.15)</b>	<b>0.01</b>	<b>(0.25)</b>

\* Segment revenue includes intercompany transactions. In the report below, figures in brackets relate to the corresponding period in 2017. The figures are unaudited.

## GROUP PERFORMANCE

To provide a better understanding of Otello's underlying performance, the following presentation of operating results excludes certain non-recurring and non-operational items from EBITDA, such as transaction costs, stock-based compensation, restructuring and impairment expenses, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis.

### Development during the quarter

Revenue was down 33 percent in second quarter 2018 compared to the same period last year, driven by a decline in AdColony, partly offset by growth in Bemobi. The decrease in revenue in AdColony is mainly due to slower product launches and ramp up of new products in addition to a focus around fewer and more profitable products and markets. Bemobi experienced solid growth in the quarter, but it was partly offset by currency headwind. 11% reported revenue growth would have been 21% with unchanged FX rates.

Total operating expenses (including depreciation and stock-based compensation expenses, but excluding restructuring and impairment expenses) were down 34 percent from the corresponding period last year, mainly due to lower publisher costs and payroll expenses, as well as lower depreciation and amortization expenses, particularly in AdColony.

Publisher and revenue share cost was USD 42.6 million in the quarter (USD 64.0 million), down 33 percent from the corresponding period last year as a result of lower revenue in AdColony.

Payroll and related expenses, excluding stock-based compensation expenses, were USD 15.8 million in the quarter, versus USD 24.8 million in 2Q17, down 36 percent from the corresponding period last year as a result of strict cost control and a reduction in overall headcount, primarily in AdColony.

Stock-based compensation expenses were USD (0.1) million in the quarter compared to USD (2.1) million in 2Q17.

Depreciation and amortization expenses were USD 7.5 million in the quarter (USD 10.4 million), down 28 percent from the corresponding period last year as intangible assets from prior acquisitions are gradually amortized.

Other operating expenses were USD 12.2 million in the quarter (USD 17.1 million), down 29 percent from the corresponding period last year, with overall cost control and more efficient delivery of backend ad serving for AdColony, in particular, partly offset by aggressive user acquisition to drive international growth for Bemobi.

Otello recognized a net restructuring expense of USD 1.6 million in the quarter primarily comprising salary expenses associated with the reorganization and streamlining of AdColony

### Adjusted EBITDA and EBITDA

#### Adjusted EBITDA

Adjusted EBITDA was USD 1.7 million in second quarter 2018, compared to USD 2.6 million in the corresponding period in 2017, with overall lower revenue mostly offset by lower expenses. A net total of negative USD 1.7 million was excluded from adjusted EBITDA, related to restructuring expenses and stock-based compensation expenses.

#### EBITDA

EBITDA was USD 0.0 million in the second quarter 2018, up from negative USD 6.4 million in the corresponding period in 2017, due in particular to lower restructuring and impairment expenses in 2Q18 versus 2Q17.

#### Net financial items

Otello recognized a net gain from net financial items in the quarter of USD 5.3 million, compared to a net loss of USD 12.0 million in corresponding period last year, which was primarily due to FX gains, due to a stronger USD vs NOK.

### Net income

Second quarter 2018 net income was USD (2.1) million compared to USD (21.5) million in the corresponding period last year. EPS and fully diluted EPS were USD (0.01) and USD (0.01), respectively, in second quarter 2018, compared to USD (0.15) and USD (0.15), respectively, in second quarter 2017.

### Financial position and cash flow

Otello's net cash flow from operating activities was USD 0.3 million in second quarter 2018, compared to USD (1.7) million in second quarter 2017.

Cash flow from investment activities amounted to USD (29.3) million, vs USD (16.3) million from the corresponding quarter last year, of which USD 2.8 million comprises capitalized R&D and USD 26.4 related to earnout payments made for BeMobi and Mobilike.

Cash flow from financing activities amounted to USD (1.4) million as Otello made share

repurchases of USD 1.4 million in the quarter.

Cash and cash equivalents at the end of the second quarter 2018 were USD 46.7 million compared to USD 174.7 million in the second quarter 2017. The vast majority of the reduction in cash is related to Otello repaying USD 100 million in debt in 4Q17 and settling all of its earn-out obligations with the exception of a USD 10 million payment in due in October to BeMobi. At the end of the second quarter 2018, Otello has no interest-bearing debt. Otello signed in 2Q18 a new 3-year revolving credit facility of USD 100 million, which is undrawn as of today's date.

The company's equity was USD 469.2 million at the end of the quarter, corresponding to an equity ratio of 82%.

### **Organization**

At the end of second quarter 2018 Otello had 518 fulltime employees and equivalents.

## **BUSINESS OVERVIEW**

### **AdColony (Mobile Advertising)**

<i>(USD million)</i>	<b>2Q18</b>	<b>2Q17</b>	<b>YTD 2018</b>	<b>YTD 2017</b>
<b>Revenue*</b>	<b>58.4</b>	<b>96.1</b>	<b>115.1</b>	<b>189.4</b>
Performance	25.2	39.6	51.7	86.2
Brand-Managed IO	19.2	38.2	36.0	67.1
Brand-Performance	7.0	8.5	15.6	19.3
Brand-Programmatic	7.0	9.8	11.8	16.7
<b>Gross Profit</b>	<b>19.6</b>	<b>35.7</b>	<b>39.1</b>	<b>70.0</b>
<b>Adj. EBITDA</b>	<b>(1.7)</b>	<b>0.9</b>	<b>(4.5)</b>	<b>(1.3)</b>
<b>EBITDA</b>	<b>(2.8)</b>	<b>(6.7)</b>	<b>(3.7)</b>	<b>(12.1)</b>
<b>EBIT</b>	<b>(9.1)</b>	<b>(13.9)</b>	<b>(16.1)</b>	<b>(25.7)</b>

\* Revenue and gross profit excludes intercompany transactions

### **AdColony (Mobile Advertising)**

#### **Business Overview**

As 2018 has continued, mobile has maintained its rise as a share of global digital advertising, amidst a continued shift away

from traditional media as a whole and toward digital. This growth in mobile has continued recently, despite a relative plateau in desktop ad spending in most regions. To maintain its place as one of the premier outlets for mobile video advertising, AdColony is expanding its

reach to more than 2 billion mobile users worldwide.

As consumers spend more and more time on mobile devices, engaging with apps and sites, mobile advertising is becoming more and more efficient and effective compared to traditional advertising. This convergence of behaviors from users and advertisers alike positions mobile video as a key outlet for brand and performance advertisers in the years to come.

Furthermore, even with General Data Protection Regulation (GDPR) regulation in the European Union and European Economic Area, mobile as a platform still provides additional targeting and measurement over desktop for users who do not opt out, and still provides opportunities for more user interaction and provides better measurement capabilities. These factors combine for better return on ad spend for all advertisers, even with users who have exercised their rights under GDPR and only receive generic non-targeted ads.

AdColony is a mobile advertising platform focused on delivering marketing and monetization results for our clients. The technology powers monetization for the most popular, top 1,000 global publishers across Android and iOS, enabling marketers to engage with consumers on the most personal and important screens in their lives. AdColony delivers highly interactive and engaging advertising experiences across all formats with particular strength in video and full screen interactive rich media ads. The company has continued to push creative boundaries and be first to market with innovations to lead the mobile ad economy.

### Financial Overview

Overall revenue of USD 58.4 million was down by 39 percent in the quarter compared to 2Q17, but up 3% versus 1Q18. The slow ramp of key products combined with decay from legacy products and business models, as seen throughout 2017, continued into the second quarter of 2018.

Adjusted EBITDA amounted to USD (1.7) million in the quarter as result of lower

revenue and overall slightly lower gross margin, almost fully offset by lower expenses. Adjusted EBITDA saw an improvement in 2Q18 versus 1Q18. Gross margins have been moving lower due to a more competitive market for Performance advertisers and the blended AdColony gross margin was down from 37.2% in 2Q17 to 33.5% in 2Q18. The aggressive push for good inventory in the quarter for the Performance business resulted in gross margins just above 20% in 2Q18, down from 36% in 2Q17. The Brand/Exchange business has successfully been working to improve margins to enable us to invest into these aggressive deals in the Performance business and overall, the Brand business had gross margins just above 43% in the quarter. The restructuring program in AdColony which we initiated in 2017 is yielding greater savings than we had expected, and we are now trending towards an OPEX base below the USD 90 million we targeted for 2018. We will continue to seek additional cost savings while the business is slowly recovering throughout 2018 and into 2019.

### Performance

Revenue was down 36% YoY due to a continued decline in the supply that is available in our platform, combined with our declining ability to drive competitive outcomes with the available supply through our ad server and algorithms.

Increased competition for the most valuable supply of the Top 1,000 apps and more competitive waterfall positions led to lower IRs (21%) and Impressions (11%). During 2Q18, product and engineering teams tackled this by deploying tools that allow AdColony to be more competitive on these fronts (see "Publisher Tools" below) relative to previous quarters.

An audit of publisher SDK integrations is being conducted to improve play and fill-rates which will also lead to higher competitiveness.

Additionally, a lack of high-profile blockbuster mobile game launches across the industry during 2Q18 led to a softness in advertising demand compared to previous quarters. As

user acquisition advertisers ramp up releases, this demand should recover.

Also during 2Q18, we have restructured our performance sales teams into one group across North America and Europe and continued deploying updates to our platform that enable our supply to compete more optimally. In addition, we have rolled out a “One Team” initiative to drive better alignment between demand and supply teams, as well as incentivizing an aggressive sales and marketing push to grow new supply and users for advertisers to take advantage of and thereby increase revenue opportunities.

### **Exchange/Brand**

Last quarter, we were excited to announce that our brand operations had moved to a truly “programmatic first” approach. With this new approach, we saw programmatic revenues rise significantly in 2Q18 from the previous quarter. Shifting our branding to emphasize AdColony as The Ad Quality Video Marketplace has resonated with brand and exchange advertisers.

Brand performance — app install at the Brand and Agency level as opposed to gaming apps — and programmatic are two key differentiators for us when comparing ourselves to other SDK-based mobile companies. Our direct supply inventory gives AdColony an advantage by offering higher quality ad creative, and the flexibility to expand our reach where required, delivering considerable flexibility to clients.

Both brand performance and programmatic continued to be key revenue drivers for us, accounting for over 55% of all Brand revenue in 2Q18 overall.

### **Product update**

In 2Q 2018, the Product and Technical teams continued to work on projects key to FY2018 success.

### **GDPR**

The European Union’s General Data Protection Regulation (GDPR), which focuses on data protection and privacy for EEA data subjects, went into effect on May 25, 2018. AdColony’s product, engineering,

business, ad ops, QA, and marketing teams achieved compliance.

Updates included Data Protection Agreements for both publishers and advertisers, a comprehensive privacy policy update, easy-to-use forms for end-users to exercise their rights under GDPR, an API for publishers and developers to easily pass opt-out and limit tracking requests from their end users to AdColony, and more.

Further information on AdColony’s GDPR policies can be found by viewing the GDPR information page at <https://www.adcolony.com/GDPR> and updated privacy policy at <https://www.adcolony.com/privacy-policy/>.

### **SDK**

AdColony’s iOS SDK v3.3.5 was released at the end of Q2. The release focused on stability improvements and memory optimizations to ensure continued adoption and maintenance of the AdColony SDK. This release also included the release of a truly open-source version of our Unity plugin, allowing developers utilizing Unity’s game development tools more flexibility than ever and significantly faster QA. An open-source version of our Adobe Air plugin is planned for later in the year.

As of end 2Q18, iOS SDK v3.x penetration was at 85%. This significant jump in penetration comes as a result of the hard work of our publishing, growth, and marketing teams around the globe, and not only enables publishers access to higher-quality ad inventory, but also gives advertisers greater transparency.

Following negotiations by Li Ma, Country Manager in China, AdColony is now the default monetization provider in the Cocos app development platform, the largest such platform in the growing Chinese market, and one of the largest across the Asia-Pacific region. Excluding Chinese users, Cocos’ SDKBOX has 106 million active users per month with a total of 680 million users captured. This agreement will significantly increase the available supply to advertisers on the AdColony network.

## Core™ Improvements

Behind our ad serving is our proprietary Core™ Engine. Core™ uses look-alike modeling and True Audiences™ to optimize ad impressions, ROAS, and eCPM. At its heart, Core™ is a collection of sophisticated machine-learning algorithms powered by real-time data and automatically optimizes campaigns for maximum return on ad spend for advertisers and monetization efficiency for publishers.

During 2Q18, we continued to improve our Core™ algorithms, reducing prediction error by 62%, and increasing the effectiveness of app install predictions. Core uses the IR predictions to convert from cost per install (CPI) pricing to cost per thousand impressions (CPM) pricing. This error reduction is an ongoing effort to improve our position to drive fair auctions between all types of advertising pricing models and thereby improve our interface with programmatic bids from other demand partners on the AdColony ad exchange.

In 3Q18 we plan to release a next-generation error correction model that will further reduce error by more than half again, as well as add a supply-demand exploration model that increases the ability of Core™, to discover effective combinations more rapidly.

## Improving Return on Ad Spend

During 2Q18, we made significant progress in our continuous onboarding efforts, with revenue and retention Post-Install Event (“PIE”) data validated for approximately 14% of advertisers in EMEA, 30% in North America, and 2% in APAC.

In 3Q18, we will begin dynamically sending ad spend data to advertisers, allowing them to accurately measure and improve Return on Ad Spend (“ROAS”) for their campaigns

on the fly. This transparency will further set AdColony apart as one of the most trustworthy and reliable mobile ad platforms on the market.

Additionally, we are focused on structuring automated segmentation tools to improve user targeting and better optimization.

## Programmatic

As mentioned previously (see “Exchange/Brand” above), we continued to push programmatic as a major part of AdColony’s business in 2Q18. This shift reflects both product updates and the 2H17 restructure and has accounted for a significant jump in brand revenues relative to last year.

In addition to AdColony’s integrations and partnerships with viewability tools from MOAT, Integral Ad Science, and DoubleVerify, AdColony officially announced on May 31 it was officially TAG Certified Against Fraud, making it one of only 15 companies in the entire digital ecosystem to be independently verified by a third-party auditor, and one of the only mobile-only vendors to be TAG Certified Against Fraud, period.

This combination of certifications and partnerships position AdColony as a safe, trusted, low-fraud partner and should enable us to win additional dollars from large advertisers both on the brand and performance sides of the business.

## Publisher Tools

In 2Q18, tools were deployed that enable manual margin control by ad zone and country. These new tools allow AdColony teams to better manage profitability while investing in areas that require more aggressive positions.

## Bemobi (Apps & Games)

<i>(USD million)</i>	2Q18	2Q17	YTD 2017	YTD 2017
<b>Revenue*</b>	<b>13.7</b>	12.3	<b>28.0</b>	24.9
<b>Gross Profit</b>	<b>9.9</b>	8.6	<b>20.4</b>	17.8
<b>Adj. EBITDA</b>	<b>5.3</b>	4.7	<b>10.7</b>	10.6

<b>EBITDA</b>	<b>5.3</b>	4.7	<b>10.7</b>	10.5
<b>EBIT</b>	<b>4.3</b>	1.7	<b>8.7</b>	4.4

\* Revenue and gross profit excludes intercompany transactions

### Business Overview

The cornerstone of Otello's Bemobi offering is Apps Club, a leading subscription based discovery service for mobile apps in Latin America and beyond. Apps Club offers a unique, "Netflix-style" subscription service for premium Android apps. Working with mobile operators, Bemobi's proprietary app-wrapping technology allows smartphone users access to unlimited use of premium mobile apps for a small daily, weekly or monthly fee. Users pay for this service through their mobile operator billing systems, making the service highly effective in emerging markets, where credit-card and debit-card penetration is low.

In 2017 and into 2018, Bemobi has consolidated its leading position in the subscription-based premium application distribution space within Brazil and across LATAM and Mexico, while expanding into key markets in other parts of the world.

Bemobi is a so-called B2B2C company. Instead of selling directly to a consumer, so-called traditional B2C, Bemobi typically partners with large companies, mostly mobile carriers or in some cases smartphone OEMs. Through partnerships with these companies, Bemobi can offer its service to the consumers. Bemobi ended 2Q18 with 61 operators of which 40 are outside LATAM (part of the international rollout), making it possible to offer subscription-based services providing access to apps and games to over 2.2 billion consumers.

### Financial Overview

Revenue grew by 11% percent YoY to USD 13.7 million fueled by growth in the international markets. Solid underlying growth in LATAM was offset by adverse FX impact with the BRL depreciating in value vs the USD in 2Q18 compared to 2Q17. FX neutral revenue would have been a record USD 14.9 million, up by 21% YoY with solid growth also from LATAM. Of the revenue in 2Q18, 74% percent came from LATAM while 26% came from international markets.

The gross margin for Bemobi is very strong and was up 2 percentage points from 2Q17, to 72.2% for the quarter.

Subscriber growth has been very strong in the past year, with LATAM subscribers up from 13.9 million in 2Q17 to 18.1 million in 2Q18. International subscribers were also up from 4.0 million in 2Q17 to 5.1 million in 2Q18.

Revenue from LATAM was USD 10.1 million in 2Q18, unchanged compared to 2Q17. With like for like FX rates, revenue would have been USD 11.4 yielding 13% YoY growth. International revenue was USD 3.6 million in 2Q18 compared to USD 2.2 million in 2Q17, up over 60%.

Adjusted EBITDA was up from USD 4.7 million in 2Q17 to USD 5.3 million in 2Q18 an increase of 13%, as revenue growth was partly offset by increased OPEX linked to aggressive user acquisition in International markets. Adjusted EBITDA would have been up by over 25% to USD 6.0 million with like for like FX rates in 2Q18 as 2Q17.

In 2Q18 Bemobi launched CellC Apps Club in South Africa. the first Apps Club in the South African market. There were also new Apps Club launches in Myanmar with Telenor and with Cellcard in Cambodia in the quarter. We have replaced one of our global competitors in Telenor Pakistan and become their strategic games partner delivering our premium Android Apps Club catalog to Telenor users.

In 2Q18 we launched NoCredit portal with Telenor Pakistan which is now our #1 NDNC portal from a user acquisition perspective (10k+ new users / day).

We have started to run third party paid advertising on the NDNC portal in Ncell in Nepal. This offers a new potentially interesting revenue source.



## Product update

In 2017, Bemobi started to bundle some of its key services as an integral part of core telecom data and voice packages in Brazil, sold by some of the main carriers in the country. This new distribution model represents an alternative incremental revenue line that helped to drive growth and diversify the revenue mix in the country during 2018. In International markets, we have had a successful data bundle launch with Hutch 3 Indonesia, which we are trying to replicate with other Asian operators.

In 2017, Bemobi launched a new version of its games offering with TIM Brazil that adds access to console games (Xbox One and 360) in addition to the existing mobile game Catalog. Similar gaming services beyond mobile are in development now and should go live by 3Q18 with a few selected carriers. In International markets, we have started rolling out Kids Club products having launched 3 Kids Club in Belarus with all 3 mobile operators and will proceed with launches in other International markets.

## Otello settles BeMobi earnout

In 2Q18 Otello reached a final agreement with the BeMobi Earnout Participants ("EPs"), where the existing BeMobi earnout is terminated, and a significant part of the future earn-out to the EPs is converted into the right of the EPs to receive ownership in BeMobi.

As of March 31, 2018 Otello, estimated future earnout payments of USD 56.9 million related to BeMobi and with maximum total payment capped at USD 67.5 million payable through April 2020. Based on achievement in 2H2017, a payment of \$11.8 million was made in 2Q18, prior to this agreement. Therefore, a total of USD 45.1 to 55.7 million of future earn-out payments remained.

A total of USD 20 million will be paid to the EPs with USD 10 million paid on the effective date (May 29, 2018), and USD 10 million paid on October 1, 2018. The remaining earn-out is converted into the right to ownership of BeMobi giving the EPs a total ownership of 11.2%.

With the successful completion of this transaction Otello has:

1. Secured alignment of Otello and the EPs today and also beyond the original earn-out period
2. Ensured that Otello and EPs will together evaluate how best to maximize the value of the BeMobi stock
3. Paved the road for an even faster global rollout of the BeMobi products through new and existing partnerships with operators and others
4. Further improved Otello's net cash position

## Skyfire (Performance)

<i>(USD million)</i>	2Q18	2Q17	YTD 2018	YTD 2017
<b>Revenue*</b>	<b>0.1</b>	0.1	<b>0.4</b>	0.2
<b>Gross Profit</b>	<b>0.1</b>	0.1	<b>0.4</b>	0.3
<b>Adj. EBITDA</b>	<b>(0.3)</b>	(1.5)	<b>(0.6)</b>	(3.1)
<b>EBITDA</b>	<b>(0.4)</b>	(2.1)	<b>(0.6)</b>	(3.6)
<b>EBIT</b>	<b>(0.4)</b>	(2.1)	<b>(0.6)</b>	(3.6)

\* Revenue and gross profit excludes intercompany transactions

## Business Overview

### SKYFIRE (now marketed as RocketColony)

Video is expected to be 78% of traffic on mobile networks by 2021 as it ratchets up the pressure on mobile operators around the world. Skyfire's Rocket Optimizer platform targets both encrypted and unencrypted video streams in congested parts of the network – helping operators to manage congestion while ensuring a high quality of experience. The unique technology also enables operators to pursue new business models and revenue streams while benefiting from increased technological flexibility as customer data is optimized.

Rocket Optimizer is the flagship product for managing the explosion of video data traffic in mobile operator networks. It is designed for operator deployment and provides operators with an instant 60 percent boost in bandwidth capacity across smartphones, tablets and laptops. Distribution agreements for Rocket Optimizer have been signed with Huawei and Nokia.

### Financial Overview

Revenue was flat in the quarter at USD 0.1 million in 2Q18 compared to 2Q17, while Adj. EBITDA improved from USD (1.5) million to USD (0.3) million. The Skyfire organization and cost base is significantly smaller compared to last year and the nature of the business makes revenues lumpy in nature.

### Subsequent Events

#### Potential sale of Vewd (Opera TV) minority stake

As reported to the market on December 20, 2016, Otello had completed the sale of the majority stake in the Vewd Software business (f/k/a Opera TV) (the "Company") to Moore Frères & Co LLC ("MFC"), which today is the majority shareholder and controls the board of directors of the Company (the "Board").

On February 20, 2018, Otello Corporation ASA ("Otello") entered into a share purchase agreement (the "SPA") for the sale of its

remaining ownership stake (approximately 27-28.5%, depending on management options) in the Vewd Software business. The SPA contains certain conditions for completion, such as approval of the sale by the Board and a right of first refusal not being exercised.

MFC's appointed directors on the Board have attempted to block the sale, and formally refused approval during a Board meeting on April 27, 2018. On April 12, 2018, Otello filed a claim with the High Court of Justice in England and Wales against MFC and the Company, and successfully obtained an order of the Court for the trial to be heard on an expedited basis. The case was heard in mid-July 2018, and the parties are awaiting the judgment.

The parties were not able to complete the transaction prior to the long-stop date in the SPA and no assurances can be given that such completion will take place. Further announcements will be given when new material information is available.

## OUTLOOK

Otello remains positive about the Group's overall growth prospects, with the following perspective on the Group as a whole:

AdColony operates in a global advertising industry which continues to experience a macro shift in advertising spend from traditional channels to digital online channels. AdColony is well positioned to take advantage of the macro trends and become the highest quality mobile advertising platform in the world. Otello expects AdColony to become adj. EBITDA profitable in 2018. Overall, longer term growth will be driven by our move to more automated delivery of ads and new technology which enables additional ad formats and provides the possibility to tap into new markets.

Bemobi operates in a rapid growing market of app subscriptions. It takes advantage of the increased use of mobile phones in emerging markets and the low penetration of credit cards. Otello expects to see revenue and adj. EBITDA growth, in local currency, in Bemobi in 2018 versus 2017, as Bemobi takes the success in Brazil to a global arena.

Skyfire delivers bandwidth optimization to mobile operators which improve network quality and performance. Skyfire reorganized in 2017 and is positioned to profit from consumers growing demand for high network quality everywhere. Otello expects Skyfire to become adj. EBITDA profitable in 2018.

Otello's strategic focus is to develop unique and relevant products, and scalable business models which combined should generate revenue growth and margin expansion. With AdColony, Bemobi, and Skyfire, Otello has three scalable businesses for the digital future.

Oslo, August 23, 2018  
The Board of Directors  
Otello Corporation ASA

Audun  
Iversen  
Chairman  
(sign.)

Lars  
Boilesen  
CEO  
(sign.)

This report and the description of Otello's business and financials should be read in conjunction with the presentation given by the Company of its quarterly numbers, a webcast of which can be found at [www.otellocorp.com](http://www.otellocorp.com)

## Key financial figures

Continuing operations	2Q 2018	2Q 2017	YTD 2018	YTD 2017
(USD million, except earnings per share)	(Unaudited)	Restated (Unaudited)	(Unaudited)	Restated (Unaudited)
Revenue	72.2	108.4	143.6	214.4
Gross profit	29.6	44.4	60.1	88.1
Net income <sup>1)</sup>	(2.1)	(21.5)	1.7	(35.9)
Adjusted EBITDA <sup>2)</sup>	1.7	2.6	2.4	3.3
EBITDA	(0.0)	(6.4)	2.4	(9.6)
Normalized EBIT <sup>3)</sup>	(2.7)	(3.5)	(4.3)	(8.3)
EBIT	(7.5)	(16.8)	(12.4)	(29.6)
EPS (USD)	(0.01)	(0.15)	0.01	(0.25)
EPS, fully diluted (USD)	(0.01)	(0.15)	0.01	(0.25)
Cash flow from operating activities	0.3	(1.7)	(2.2)	(0.7)
Cash flow from investment activities	(29.3)	(16.3)	(32.8)	(34.2)
Cash flow from financing activities	(1.4)	(5.7)	(3.0)	(15.8)
<b>Segment information</b>	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>YTD 2018</b>	<b>YTD 2017</b>
<b>Revenue (USD million)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
AdColony (Mobile Advertising)	58.4	96.1	115.1	189.4
Bemobi (Apps & Games)	13.7	12.3	28.0	24.9
Skyfire (Performance & Privacy)	0.1	0.1	0.4	0.2
Corporate	0.1	0.0	0.2	0.0
Eliminations	(0.1)	(0.1)	(0.0)	(0.1)
<b>Total Continued Operations <sup>4)</sup></b>	<b>72.2</b>	<b>108.4</b>	<b>143.6</b>	<b>214.4</b>
<b>Segment information</b>	<b>2Q 2018</b>	<b>2Q 2017</b>	<b>YTD 2018</b>	<b>YTD 2017</b>
<b>Adjusted EBITDA <sup>1)</sup> (USD million)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
AdColony (Mobile Advertising)	(1.7)	0.9	(4.5)	(1.3)
Bemobi (Apps & Games)	5.3	4.7	10.7	10.6
Skyfire (Performance & Privacy)	(0.3)	(1.5)	(0.6)	(3.1)
Corporate	(1.6)	(1.6)	(3.2)	(2.9)
Eliminations	0.0	(0.0)	0.0	(0.0)
<b>Total Continued Operations (with ICP) <sup>4)</sup></b>	<b>1.7</b>	<b>2.6</b>	<b>2.4</b>	<b>3.3</b>
Eliminations	0.0	0.0	0.0	(0.0)
<b>Total Continued Operations (net of ICP)</b>	<b>1.7</b>	<b>2.6</b>	<b>2.4</b>	<b>3.3</b>
<sup>1)</sup> Net Income corresponds to Profit (loss) in the Consolidated statement of comprehensive income				
<sup>2)</sup> excluding restructuring and impairment, and stock-based compensation expenses				
<sup>3)</sup> excluding restructuring and impairment expenses, and amortization of acquired intangible assets				
<sup>4)</sup> including intercompany postings (ICP) against discontinued operations.				
See note 9 for further explanation of alternative performance measures (APM)				

## Interim condensed financial statements

### Consolidated statement of comprehensive income

	Note	2Q 2018	2Q 2017	%	YTD 2018	YTD 2017	%
(USD million, except earnings per share)		(Unaudited)	Restated (Unaudited)	change	(Unaudited)	Restated (Unaudited)	change
<b>Continuing operations</b>							
Revenue	3, 5, 11	72.2	108.4	-33 %	143.6	214.4	-33 %
<b>Total operating revenue</b>		<b>72.2</b>	<b>108.4</b>	<b>-33 %</b>	<b>143.6</b>	<b>214.4</b>	<b>-33 %</b>
Publisher and revenue share cost	3, 5, 11	(42.6)	(64.0)	-33 %	(83.4)	(126.2)	-34 %
Payroll and related expenses	3, 5, 11	(15.8)	(24.8)	-36 %	(31.0)	(52.1)	-40 %
Stock-based compensation expenses	3, 5, 11	(0.1)	(2.1)	-93 %	1.5	(4.7)	-131 %
Depreciation and amortization expenses	3, 5, 11	(7.5)	(10.4)	-28 %	(14.8)	(20.0)	-26 %
Other operating expenses	3, 5, 11	(12.2)	(17.1)	-29 %	(26.7)	(32.7)	-18 %
<b>Total operating expenses</b>		<b>(78.1)</b>	<b>(118.3)</b>	<b>-34 %</b>	<b>(154.5)</b>	<b>(235.7)</b>	<b>-34 %</b>
<b>Operating profit (loss), (EBIT), excluding restructuring and impairment expenses</b>		<b>(5.9)</b>	<b>(9.9)</b>		<b>(10.9)</b>	<b>(21.4)</b>	
Restructuring and impairment expenses	13, 14	(1.6)	(6.9)		(1.5)	(8.2)	
<b>Operating profit (loss), (EBIT)</b>		<b>(7.5)</b>	<b>(16.8)</b>		<b>(12.4)</b>	<b>(29.6)</b>	
Net financial items	6	5.3	(12.0)		(4.8)	(17.5)	
<b>Profit (loss) before income tax</b>		<b>(2.2)</b>	<b>(28.8)</b>		<b>(17.2)</b>	<b>(47.1)</b>	
Provision for taxes <sup>1)</sup>		0.0	7.4		18.9	11.2	
<b>Profit (loss)</b>		<b>(2.1)</b>	<b>(21.5)</b>		<b>1.7</b>	<b>(35.9)</b>	
<b>Discontinuing operations</b>							
Profit (loss) from discontinuing operations, net of tax	10	-	0.1		-	(0.5)	
<b>Profit (loss) from discontinuing operations</b>		<b>-</b>	<b>0.1</b>		<b>-</b>	<b>(0.5)</b>	
<b>Items that may or will be transferred to profit (loss)</b>							
Foreign currency translation differences		(4.5)	7.0		1.8	10.7	
Discontinuing operations - reclassified to profit (loss)		-	-		-	-	
<b>Total comprehensive income (loss)</b>		<b>(6.6)</b>	<b>(14.3)</b>		<b>3.4</b>	<b>(25.7)</b>	
<b>Earnings (loss) per share:</b>							
Basic earnings (loss) per share (USD)		(0.01)	(0.15)		0.01	(0.25)	
Diluted earnings (loss) per share (USD)		(0.01)	(0.15)		0.01	(0.25)	
Shares used in earnings per share calculation		144 380 802	145 521 388		140 534 303	146 184 345	
Shares used in earnings per share calculation, fully diluted		144 542 213	145 521 388		140 701 559	146 184 345	
<b>Earnings per share (continuing operations):</b>							
Basic earnings (loss) per share (USD)		(0.01)	(0.15)		0.01	(0.25)	
Diluted earnings (loss) per share (USD)		(0.01)	(0.15)		0.01	(0.25)	
Shares used in earnings per share calculation		144 380 802	145 521 388		140 534 303	146 184 345	
Shares used in earnings per share calculation, fully diluted		144 542 213	145 521 388		140 701 559	146 184 345	

<sup>1)</sup> The quarterly and YTD provision for taxes is based on an estimated tax rate for the Group.

## Consolidated statement of financial position

(USD million)	Note	6/30/2018 (Unaudited)	6/30/2017 (Unaudited)	12/31/2017 (Audited)
<b>Assets</b>				
Deferred tax assets		36.5	26.7	16.4
Goodwill		313.2	323.0	322.6
Intangible assets		50.1	75.6	59.6
Property, plant and equipment		9.8	14.7	11.4
Other investments	12	14.4	7.7	14.4
Other non-current assets		0.6	0.6	0.8
<b>Total non-current assets</b>		<b>424.5</b>	<b>448.4</b>	<b>425.2</b>
Inventories		-	0.2	-
Accounts receivable	8	72.4	124.0	111.4
Other receivables	8	30.6	9.2	13.9
Cash and cash equivalents	7	46.7	174.7	86.0
<b>Total current assets</b>		<b>149.6</b>	<b>308.3</b>	<b>211.4</b>
<b>Total assets</b>		<b>574.1</b>	<b>756.7</b>	<b>636.6</b>

(USD million)	Note	6/30/2018 (Unaudited)	6/30/2017 (Unaudited)	12/31/2017 (Audited)
<b>Shareholders' equity and liabilities</b>				
Equity attributable to owners of the company		463.3	482.8	468.0
Non-controlling interests		5.8	-	-
<b>Total equity</b>		<b>469.2</b>	<b>482.8</b>	<b>468.0</b>
<b>Liabilities</b>				
Deferred tax liability		5.4	7.2	5.8
Loans and borrowings	7	-	-	-
Other non-current liabilities		3.1	3.9	4.5
Provisions	4	-	40.7	28.5
<b>Total non-current liabilities</b>		<b>8.5</b>	<b>51.9</b>	<b>38.8</b>
Loans and borrowings	7	-	100.0	0.1
Accounts payable		20.0	29.0	35.3
Taxes payable		(6.9)	(5.2)	(3.8)
Public duties payable		1.9	2.5	2.6
Deferred revenue		2.5	6.8	5.0
Stock-based compensation liabilities		-	0.1	-
Other current liabilities		47.6	66.2	65.2
Provisions	4	31.3	22.6	25.4
<b>Total current liabilities</b>		<b>96.4</b>	<b>222.0</b>	<b>129.8</b>
<b>Total liabilities</b>		<b>104.9</b>	<b>273.9</b>	<b>168.6</b>
<b>Total equity and liabilities</b>		<b>574.1</b>	<b>756.7</b>	<b>636.6</b>

## Consolidated statement of cash flows

(USD million)	Note	2Q 2018 (Unaudited)	2Q 2017 (Unaudited)	YTD 2018 (Unaudited)	YTD 2017 (Unaudited)
<b>Cash flow from operating activities</b>					
Profit (loss) before taxes		(2.2)	(28.8)	(17.2)	(47.6)
Income taxes paid		(1.1)	(0.4)	(4.6)	(4.1)
Depreciation and amortization expense		7.5	10.7	14.8	20.6
Net (gain) loss from disposals of PP&E, and intangible assets		-	0.0	(0.0)	0.0
Net (gain) loss from sale of discontinued operations, net of tax		(0.0)	-	(0.0)	-
Changes in inventories, trade receivables, trade and other payables		2.7	(0.2)	14.8	17.7
Other net finance items		-	-	-	-
Changes in other operating working capital		(1.8)	8.0	(13.4)	(2.4)
Share of net income (loss) and net (gain) loss from disposal of associated companies	6	0.1	0.4	0.2	0.5
Share-based remuneration		0.0	2.0	(1.5)	4.3
Earnout cost and cost for other contingent payments	4	-	3.4	1.9	6.4
Net (gain) loss from disposals of subsidiaries and other share investments		(4.4)	-	(4.4)	-
FX differences related to changes in balance sheet items		(0.4)	3.8	7.1	5.4
<b>Net cash flow from operating activities</b>		<b>0.3</b>	<b>(1.0)</b>	<b>(2.2)</b>	<b>0.8</b>
- of which included in continuing operations		0.3	(1.7)	(2.2)	(0.7)
- of which included in discontinuing operations		(0.0)	0.7	-	1.5
<b>Cash flow from investment activities</b>					
Proceeds from sale of property, plant, and equipment (PP&E) and intangible assets		-	(0.0)	0.0	(0.0)
Purchases of property, plant and equipment (PP&E) and intangible assets		(0.0)	(4.9)	(0.4)	(10.0)
Capitalized R&D costs		(2.8)	(4.6)	(6.0)	(9.0)
Proceeds from repayment of loans given		-	-	-	3.5
Purchases of subsidiaries and associated companies, net of cash acquired <sup>1)</sup>	4	(26.4)	(7.4)	(26.4)	(19.6)
<b>Net cash flow from investment activities</b>		<b>(29.3)</b>	<b>(16.9)</b>	<b>(32.8)</b>	<b>(35.1)</b>
- of which included in continuing operations		(29.3)	(16.3)	(32.8)	(34.2)
- of which included in discontinuing operations		-	(0.5)	-	(0.9)
<b>Cash flow from financing activities</b>					
Proceeds from exercise of treasury shares (incentive program)		-	-	-	-
Purchase of treasury shares		(1.4)	(5.7)	(2.9)	(15.4)
Proceeds from issuance of shares, net (equity increase)		(0.0)	-	(0.0)	(0.0)
Repayments of loans and borrowings	7	-	(0.0)	(0.1)	(0.3)
Dividends paid to equity holders of Opera Software ASA		-	(0.0)	-	(0.0)
<b>Net cash flow from financing activities</b>		<b>(1.4)</b>	<b>(5.7)</b>	<b>(3.0)</b>	<b>(15.8)</b>
- of which included in continuing operations		(1.4)	(5.7)	(3.0)	(15.8)
- of which included in discontinuing operations		-	-	-	(0.0)
<b>Net change in cash and cash equivalents</b>		<b>(30.3)</b>	<b>(23.5)</b>	<b>(38.1)</b>	<b>(50.1)</b>
Cash and cash equivalents (beginning of period) <sup>2)</sup>		79.9	194.8	86.0	219.5
Effects of exchange rate changes on cash and cash equivalents <sup>3)</sup>		(2.9)	3.5	(1.2)	5.3
<b>Cash and cash equivalents <sup>2)</sup></b>		<b>46.7</b>	<b>174.7</b>	<b>46.7</b>	<b>174.7</b>
- of which included in cash and cash equivalents in the balance sheet		46.7	174.7	46.7	174.7
- of which included in the assets of the disposal group (assets held for sale)		-	-	-	-
<sup>1)</sup> In Q2 2018, \$0.0 (YTD: 0.0) million is related to initial payments for the purchase of subsidiaries, and \$26.4 (YTD: 26.4) million is related to earnout payments with cash effect. See note 4 for further information regarding earnout payments. In Q2 2017, \$0.0 million was related to initial payments for the purchase of subsidiaries, and \$7.4 (YTD: \$19.6) million was related to earnout payments with cash effect. <sup>2)</sup> Of which \$1.6 million (6/30/2017: \$1.8 million) is restricted cash and cash equivalents as of June 30, 2018.					
<b>Reconciliation of profit (loss) before taxes</b>					
Profit (loss) before income taxes		(2.2)	(28.8)	(17.2)	(47.1)
Profit (loss) from discontinuing operations, net of tax		-	0.1	-	(0.5)
Provision for taxes, discontinued operations		-	(0.0)	-	(0.1)
<b>Profit (loss) before taxes, as presented in the statement of cash flows above</b>		<b>(2.2)</b>	<b>(28.8)</b>	<b>(17.2)</b>	<b>(47.6)</b>

## Consolidated statement of changes in equity

(USD million) (Unaudited)	Number of shares	Paid-in capital	Other reserves	Reserve for own shares	Trans- lation reserve	Other equity	Total equity
<b>Equity as of 12/31/2017</b>	<b>141.0</b>	<b>348.5</b>	<b>51.0</b>	<b>(62.1)</b>	<b>9.5</b>	<b>121.1</b>	<b>468.0</b>
<b>Comprehensive income (loss)</b>							
Profit (loss)		-	-	-	-	1.7	1.7
<b>Other comprehensive income (loss)</b>							
Foreign currency translation differences		-	-	-	1.8	-	1.8
<b>Total comprehensive income (loss)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>1.8</b>	<b>1.7</b>	<b>3.4</b>
<b>Contributions by and distributions to owners</b>							
Dividends		-	-	-	-	-	-
Issuance of ordinary shares related to business combinations		-	-	-	-	-	-
Issuance of ordinary shares related to incentive program		-	-	-	-	-	-
Issuance of ordinary shares related to equity increase		-	-	-	-	-	-
Treasury shares purchased	<b>(1.0)</b>	<b>(0.0)</b>	-	<b>(2.9)</b>	-	-	<b>(2.9)</b>
Treasury shares sold	<b>0.1</b>	<b>0.0</b>	-	-	-	-	<b>0.0</b>
Tax deduction on equity issuance costs		-	-	-	-	-	-
Share-based payment transactions		-	0.6	-	-	-	0.6
<b>Total contributions by and distributions to owners</b>	<b>(0.9)</b>	<b>(0.0)</b>	<b>0.6</b>	<b>(2.9)</b>	<b>-</b>	<b>-</b>	<b>(2.3)</b>
<b>Other equity changes</b>							
Other changes		-	-	-	-	0.0	0.0
<b>Total other equity changes</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>0.0</b>
<b>Equity as of 6/30/2018</b>	<b>140.1</b>	<b>348.5</b>	<b>51.7</b>	<b>(65.0)</b>	<b>11.3</b>	<b>122.8</b>	<b>469.2</b>
<p>During 2Q 2018, Otello purchased 576,225 (YTD: 979,225) treasury shares for \$1.41 million (YTD: \$1.54 million), and sold 75,225 (YTD: 75,225) treasury shares for \$0.0 million (YTD: 0.0 \$million). As of June 30, 2018, Otello owned 9,366,000 treasury shares.</p> <p>At the Annual General Meeting on June 5, 2018, it was resolved to reduce the Company's share capital by NOK 180 000 from NOK 2 989 548.58 to NOK 2 809 548.58. The amount of NOK 180 000 shall be used for retirement of treasury shares, equivalent to 9 million shares at a face value of 0.02 NOK per share. The retirement of treasury shares has not been recognized as of June 30, 2018, due to the creditor deadline not expiring before Q3.</p> <p>During 2Q 2018, Otello issued 0 (YTD: 0) ordinary shares related to the incentive program, 0 (YTD: 0) ordinary shares related to business combinations, and 0 (YTD: 0) ordinary shares related to an equity increase.</p>							
<b>Equity as of 12/31/2016</b>	<b>147.7</b>	<b>348.5</b>	<b>49.1</b>	<b>(34.7)</b>	<b>(2.5)</b>	<b>159.2</b>	<b>519.6</b>
<b>Comprehensive income (loss)</b>							
Profit (loss)		-	-	-	-	(36.4)	(36.4)
<b>Other comprehensive income (loss)</b>							
Foreign currency translation differences		-	-	-	10.7	-	10.7
<b>Total comprehensive income (loss)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>10.7</b>	<b>(36.4)</b>	<b>(25.7)</b>
<b>Contributions by and distributions to owners</b>							
Dividends		-	-	-	-	(0.0)	(0.0)
Issuance of ordinary shares related to business combinations		-	-	-	-	-	-
Issuance of ordinary shares related to incentive program		-	-	-	-	-	-
Issuance of ordinary shares related to equity increase		-	-	-	-	-	-
Treasury shares purchased	<b>(3.1)</b>	<b>(0.1)</b>	-	<b>(15.3)</b>	-	-	<b>(15.4)</b>
Treasury shares sold		-	-	-	-	-	-
Tax deduction on equity issuance costs		-	-	-	-	-	-
Share-based payment transactions		-	4.3	-	-	-	4.3
<b>Total contributions by and distributions to owners</b>	<b>(3.1)</b>	<b>(0.1)</b>	<b>4.3</b>	<b>(15.3)</b>	<b>-</b>	<b>(0.0)</b>	<b>(11.1)</b>
<b>Other equity changes</b>							
Other changes		-	(0.0)	-	-	0.0	0.0
<b>Total other equity changes</b>		<b>-</b>	<b>(0.0)</b>	<b>-</b>	<b>-</b>	<b>0.0</b>	<b>0.0</b>
<b>Equity as of 6/30/2017</b>	<b>144.6</b>	<b>348.4</b>	<b>53.4</b>	<b>(50.0)</b>	<b>8.2</b>	<b>122.9</b>	<b>482.8</b>



## Notes to the condensed consolidated interim financial statements

### Note 1 - Corporate information

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Otello ("the Group") consists of Otello Corporation ASA ("the company") and its subsidiaries. Otello Corporation ASA (formerly Opera Software ASA), is a public limited liability company domiciled in Norway. The condensed consolidated interim financial statements ("interim financial statements") comprise Otello Corporation ASA and its subsidiaries (together referred to as the "Group"), and the Group's investments in associates. Otello Corporation ASA is traded under the ticker "Otello" on the Oslo Stock Exchange.

The Group's business activities comprise mobile advertising via its AdColony business, mobile -app subscription services via its Bemobi business, and licensing of Rocket Optimizer™ technology via its Skyfire business. See note 11 for operating segment information.

### Note 2 - Statement of compliance

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These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The interim financial statements do not include all of the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended December 31, 2017. The interim financial statements have not been subject to audit or review.

### Note 3 - Basis of accounting

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The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended December 31, 2017.

An assessment of effects of the new and revised International Financial Reporting Standards (IFRS) from 1 January 2018 are described in Note 1 – Significant accounting principles and general information – in the Group's consolidated financial statements for 2017. The changes in these accounting standards, IFRS 15, 'Revenue from Contracts with Customers' and IFRS 9, 'Financial instruments' do not have any material impact on the Group's financial statements. IFRS 15 and IFRS 9 have been implemented in the Group's financial statements as from 1 January 2018.

IFRS 16 Leasing is effective for annual reports beginning on or after January 1, 2019, with earlier application permitted. The new standard for leasing will significantly change how the group accounts for its lease contracts for offices and other assets currently accounted for as operating leases. Under IFRS 16, an on-balance sheet model that is similar to current financial leases accounting will be applied to all lease contracts, only leases for small items such as PC's and office equipment will be exempt. Otello has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases of office facilities. Otello expects to complete its assessment during the first half of 2018. IFRS 16 allows for either a full retrospective approach where all periods presented are adjusted, or a modified approach where only the current period is adjusted. Currently the Group expects to use the modified approach, and therefore will, most likely, only recognize leases on balance sheet as at January 1, 2019.

In the interim financial statements for 2018, judgements, estimates and assumptions have been applied that may affect the use of accounting principles, carrying values of assets and liabilities, revenues and expenses. Actual values may differ from these estimates. The major assumptions applied in the interim financial statements for 2018 and the major sources of uncertainty in the statements are similar to those disclosed in the Group's consolidated financial statements for 2017.

The Group's SurfEasy business was sold on November 6, 2017. Because these components of the Group represented a major line of business, historical results have been restated to reflect the results of operations of the assets that have been disposed of as discontinued operations.

The interim financial statements are presented in US dollars (USD), unless otherwise stated. As a result of rounding differences, amounts and percentages may not add up to the total.

#### Note 4 - Contingent liabilities and provisions

##### Otello settles BeMobi earnout

On May 29, 2018, Otello reached a final agreement ("SPA") with the BeMobi Earnout Participants ("EPs"), where the existing BeMobi earnout is terminated, and a significant part of the future earnout to the EPs is converted into the right of the EPs to receive ownership in Bemobi Holding AS ("BeMobi"). A total of USD 20 million will be paid in cash to the EPs with USD 10 million paid on the effective date, May 29, 2018, and USD 10 million to be paid on October 1, 2018. The remaining earnout is converted into the right to ownership in BeMobi giving the EPs a total ownership of 11.2%.

Certain clauses are included in the SPA in the event of a major transaction (qualified sale, spin-off or IPO) not being completed or Otello's shareholders not having approved a qualified spin-off within March 31, 2020 and/or October 1, 2020, which would result in the EPs share of BeMobi equity being sold back to Otello.

The transaction has been recognized in the 2Q 2018 interim financial statements, as follows:

- Otello has estimated the remaining earnout liability to be USD 31.3 million
- The right to ownership of Bemobi Holding AS shares has been recognized as an asset held in escrow of USD 21.3 million which is classified as Other receivables in the statement of financial position, with no future cash flow effect when settling the remaining part of the earnout liability
- A net profit of USD 4.36 million has been recognized, as a profit from sale of BeMobi shares (net of the changes in the earnout liability and the sale of right of ownership of shares)
- A minority interest of 11.2% of BeMobi has been recognized in Shareholder's equity

Upon release of the remaining payment of USD 10 million on October 1, 2018, the release of BeMobi shares (recognized as an asset held in escrow) will settle the earnout liability with no cash effect.

##### Valuation techniques and significant unobservable inputs related to contingent considerations:

Please see note 11 in the 2017 Annual Report for information regarding the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

##### Reconciliation of Level 3 fair values:

The following table shows a reconciliation from the opening balance to the closing balance for Level 3 fair values.

Contingent consideration - Net present value (USD million)	Bemobi	Individually immaterial	Total
Non-current consideration	28.5	-	28.5
Current consideration	20.0	5.4	25.4
<b>Balance as of 12/31/2017</b>	<b>48.5</b>	<b>5.4</b>	<b>53.9</b>
Assumed in a business combination	-	-	-
Paid	-	-	-
Finance expense (income) - FX	(0.0)	-	(0.0)
Finance expense - interest	1.6	0.0	1.6
Finance expense (income) - change in likelihood	0.4	-	0.4
Translation differences	0.1	0.2	0.3
OCI	-	-	-
<b>Balance as of 3/31/2018</b>	<b>50.4</b>	<b>5.6</b>	<b>56.0</b>
Assumed in a business combination	-	-	-
Paid	(21.8)	(4.6)	(26.4)
Finance expense (income) - FX	-	-	-
Finance expense - interest	-	-	-
Finance expense (income) - change in likelihood	6.4	-	6.4
Translation differences	(3.7)	-	(3.7)
Payment - escrow release	-	(1.0)	(1.0)
OCI	-	-	-
<b>Balance as of 6/30/2018</b>	<b>31.3</b>	<b>-</b>	<b>31.3</b>
Non-current consideration	-	-	-
Current consideration	31.3	-	31.3
<b>Balance as of 6/30/2018</b>	<b>31.3</b>	<b>-</b>	<b>31.3</b>

**Note 4 - Contingent liabilities and provisions (continued)**

<b>Earnout payments made in 2018</b> <i>(USD million)</i>	<b>Bemobi</b>	<b>Individually immaterial</b>	<b>Total</b>
<b>With cash flow effect</b>			
Q1	-	-	-
Q2	(21.8)	(4.6)	(26.4)
Q3	-	-	-
Q4	-	-	-
<b>Total</b>	<b>(21.8)</b>	<b>(4.6)</b>	<b>(26.4)</b>
<b>With no cash flow effect (released from escrow)</b>			
Q1	-	-	-
Q2	-	-	-
Q3	-	-	-
Q4	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Estimated payments (in cash)</b> <i>(USD million)</i>	<b>Bemobi</b>	<b>Individually immaterial</b>	<b>Total</b>
Oct 18	10.0	-	10.0
<b>Total</b>	<b>10.0</b>	<b>-</b>	<b>10.0</b>

In addition to the USD 10 million payment due on October 1, 2018, Otello has an obligation to release the BeMobi shares held in escrow (no cash effect).

<b>Contractual maximum payments (in cash)</b> <i>(USD million)</i>	<b>Bemobi</b>	<b>Individually immaterial</b>	<b>Total</b>
Oct 18	10.0	-	10.0
<b>Total</b>	<b>10.0</b>	<b>-</b>	<b>10.0</b>

The contractual maximum payment is dependent on the fact that the fallback payments due to the scenarios stated above do not occur. However, at this stage, Otello does not believe the scenarios resulting in fallback payments are likely to occur.

## Note 5 - Financial risk

The majority of the financial risk that the Group is exposed to relates to currency risk. Both revenue and operating expenses are exposed to foreign exchange rate fluctuations. Please note that some revenue numbers are impacted by changes in local currencies which are the basis for invoicing of customers.

Revenue by currency (USD million)	2Q 2018	%		YTD 2018	%
USD	52.6	72.8%	USD	105.9	73.7%
BRL	9.7	13.4%	BRL	20.1	14.0%
TRY	2.7	3.8%	TRY	5.6	3.9%
DKK	2.2	3.1%	DKK	3.1	2.2%
EUR	1.2	1.6%	AUD	1.5	1.0%
Other	3.8	5.3%	Other	7.4	5.2%
<b>Total</b>	<b>72.2</b>	<b>100.0%</b>	<b>Total</b>	<b>143.6</b>	<b>100.0%</b>

Operating expenses by currency <sup>1)</sup> (USD million)	2Q 2018	%		YTD 2018	%
USD	(58.8)	75.2%	USD	(118.5)	76.7%
BRL	(5.5)	7.0%	BRL	(11.4)	7.4%
TRY	(2.7)	3.4%	TRY	(5.3)	3.5%
NOK	(2.6)	3.4%	NOK	(5.2)	3.3%
Other	(8.6)	11.0%	Other	(14.1)	9.1%
<b>Total</b>	<b>(78.1)</b>	<b>100.0%</b>	<b>Total</b>	<b>(154.5)</b>	<b>100.0%</b>

<sup>1)</sup> Operating expenses by currency excludes restructuring and impairment expenses

The impact on revenue and expenses for this quarter using comparative quarter constant foreign exchange rates is shown below. Please note that some revenue numbers are impacted by changes in local currencies which are the basis for invoicing of customers. These effects are included in the specification below.

### Revenues and expenses for the current quarter recalculated on a constant currency basis:

(USD million)	Recalculated with 2Q 2017 rates	FX effect using 2Q 2017 rates	Recalculated with 1Q 2018 rates	FX effect using 1Q 2018 rates
Revenue	73.8	1.6	73.9	1.7
Expenses	(80.1)	(2.0)	(80.7)	(2.6)

## Note 6 - Financial items

Financial items (USD million)	2Q 2018 (Unaudited)	2Q 2017 (Unaudited)	YTD 2018 (Unaudited)	YTD 2017 (Unaudited)
Other interest income (expense), net	(0.4)	(0.9)	(0.4)	(1.3)
Interest expense related to contingent consideration	-	(2.0)	(1.6)	(4.6)
FX gains (losses) related to contingent consideration, net	-	(2.4)	0.0	(1.7)
Other FX gains (losses), net	5.9	(7.5)	(2.4)	(9.4)
Revaluation of contingent consideration	-	1.1	(0.4)	(0.1)
Share of profit (loss) from associated companies	(0.1)	(0.3)	(0.2)	(0.5)
<b>Net financial items (loss)</b>	<b>5.3</b>	<b>(12.0)</b>	<b>(4.8)</b>	<b>(17.5)</b>

## Note 7 - Liquidity risk

### Credit facility

Otello has signed an agreement for a new 3 year Revolving Credit Facility (RCF) of \$100 million with DNB Bank ASA. The terms of the new agreement are not significantly different from the prior agreement.

In 2017, Otello paid down its outstanding term loan of \$100 million to DNB Bank ASA. As at June 30, 2018, Otello had an undrawn revolving credit facility with DNB of \$100 million.

The facility is primarily secured through a pledge in shares in Bemobi Holding AS, AdColony Holding AS, and Performance and Privacy Ireland Ltd, as well as charges over trade receivables in the parent company.

The loan and credit facility have the following covenants: i) the Leverage Ratio to be below 2.00:1. ii) the Equity Ratio to hold the minimum level of 30%. The Group is compliant as of June 30, 2018.

The Revolving Credit facility of \$100 million and the term loan bear an interest rate of LIBOR + 2.25% p.a. There is no utilization fee. On the undrawn portion of the facility, a commitment fee of 0.79 % p.a. will be paid.

## Note 8 - Accounts receivable and other receivables

Accounts receivable and other receivables (USD million)	6/30/2018 (Unaudited)	6/30/2017 (Unaudited)
Accounts receivable	48.5	84.0
Unbilled revenue	23.8	40.1
Other receivables	30.6	9.2
<b>Total</b>	<b>102.9</b>	<b>133.3</b>

Accounts receivable represent the part of receivables that have been invoiced to customers but are not yet paid. Unbilled revenue is revenue recognized in the quarter which was not invoiced to the customers at quarter end and which will be invoiced to customers in the subsequent period.

Other receivables consists of escrow payments related to sales and acquisitions, non-trade receivables, and prepayments. As of June 30, 2018, \$5.7 million consisted of escrow payments related to sale of the SurfEasy business in 2017 and \$21.3 million consisted of escrow bookings related to the settlement of the BeMobi earnout. Please see note 4 for further information.

## Note 9 - Alternative performance measures

Otello discloses alternative performance measures as part of its financial reporting as a supplement to the financial statements prepared in accordance with IFRS. Otello believes that the alternative performance measures provide useful supplemental information to management, investors, financial analysts and other stakeholders and are meant to provide an enhanced insight into the financial development of Otello's business operations and to improve comparability between periods.

EBITDA and EBIT terms are presented as they are commonly used by investors and financial analysts. Certain items are excluded in the alternative performance measures Adjusted EBITDA and Normalized EBIT to provide enhanced insight into the underlying financial performance of the business operations and to improve comparability between different periods.

### Alternative performance measures:

#### Gross profit:

This comprises revenues minus publisher and revenue share cost.

#### EBITDA:

This is short for Earnings before financial items, taxes, depreciation and amortization. EBITDA corresponds to Operating profit (loss), (EBIT) in the Consolidated statement of comprehensive income excluding depreciation and amortization expenses.

#### Adjusted EBITDA:

This represents EBITDA excluding stock-based compensation, restructuring and impairment expenses. Adjusted EBITDA corresponds, therefore, to Operating profit (loss), (EBIT) in the Consolidated statement of comprehensive income excluding depreciation and amortization, stock-based compensation, and restructuring and impairment expenses.

#### EBIT:

This is short for Earnings before financial items. This is presented both including and excluding restructuring and impairment expenses in the Consolidated statement of comprehensive income. In the KPIs section of this report and the reconciliation below, EBIT represents earnings before financial items including restructuring and impairment expenses, and corresponds to Operating profit (loss), (EBIT) in the Consolidated statement of comprehensive income.

#### Normalized EBIT:

This represents EBIT excluding restructuring and impairment expenses, and amortization of acquired intangible assets.

See below for reconciliations from Operating profit to EBITDA, Adjusted EBITDA and Normalized EBIT for all periods presented.

#### Revenues and expenses on a constant currency basis:

Revenues and expenses for the current quarter are re-calculated, on a constant currency basis, using last year's and prior quarter's average FX rates.

See note 5 for further information regarding revenue on a constant currency basis, showing the impact of the currency effect.

Reconciliation of gross profit	2Q 2018	2Q 2017	YTD 2018	YTD 2017
(USD million)	(Unaudited)	Restated (Unaudited)	(Unaudited)	Restated (Unaudited)
<b>Total operating revenue</b>	<b>72.2</b>	108.4	<b>143.6</b>	214.4
Publisher and revenue share cost	<b>(42.6)</b>	(64.0)	<b>(83.4)</b>	(126.2)
<b>Gross profit</b>	<b>29.6</b>	44.4	<b>60.1</b>	88.1
Reconciliation of operating profit (loss) to EBITDA and adjusted EBITDA	2Q 2018	2Q 2017	YTD 2018	YTD 2017
(USD million)	(Unaudited)	Restated (Unaudited)	(Unaudited)	Restated (Unaudited)
<b>Operating profit (loss), (EBIT)</b>	<b>(7.5)</b>	(16.8)	<b>(12.4)</b>	(29.6)
Depreciation and amortization expenses	<b>7.5</b>	10.4	<b>14.8</b>	20.0
<b>EBITDA</b>	<b>(0.0)</b>	(6.4)	<b>2.4</b>	(9.6)
Restructuring and impairment expenses	<b>1.6</b>	6.9	<b>1.5</b>	8.2
Stock-based compensation expenses	<b>0.1</b>	2.1	<b>(1.5)</b>	4.7
<b>Adjusted EBITDA</b>	<b>1.7</b>	2.6	<b>2.4</b>	3.3
Reconciliation of operating profit (loss) to normalized EBIT	2Q 2018	2Q 2017	YTD 2018	YTD 2017
(USD million)	(Unaudited)	Restated (Unaudited)	(Unaudited)	Restated (Unaudited)
<b>Operating profit (loss), (EBIT)</b>	<b>(7.5)</b>	(16.8)	<b>(12.4)</b>	(29.6)
Restructuring and impairment expenses	<b>1.6</b>	6.9	<b>1.5</b>	8.2
Amortization of acquired intangible assets	<b>3.2</b>	6.4	<b>6.6</b>	13.1
<b>Normalized EBIT</b>	<b>(2.7)</b>	(3.5)	<b>(4.3)</b>	(8.3)

## Note 10 - Discontinued operations

### Sale of SurfEasy in 2017

Otello Corporation ASA entered November 6, 2017 into an agreement to sell its SurfEasy business to Symantec Corporation (NASDAQ: SYMC) ("Symantec"), the world's leading cyber security company (the "Transaction"). Closing of the Transaction took place simultaneously with the entering into of the agreement, and all conditions for completion were therefore fulfilled in November 2017.

The Transaction valued SurfEasy to an enterprise value of \$38.5 million, and had customary net working capital and net debt adjustment mechanisms. The purchase price consisted of an all cash consideration, of which 85% was paid to Otello at closing. The remaining 15% will be held in escrow for up to 15 months. SurfEasy is excluded from Otello's financials as of 6 November 2017. Otello recognized a gain of \$21.6 million from the Transaction which will not be taxable.

Accordingly, the SurfEasy businesses are presented separately as discontinued operations in the consolidated statement of comprehensive income and comparative periods are restated.

Results of discontinued operations (USD million, except earnings per share)	2Q 2018 (Unaudited)	2Q 2017 (Unaudited)	% change	YTD 2018 (Unaudited)	YTD 2017 (Unaudited)	% change
Revenue	-	1.5	0 %	-	2.6	0 %
Operating expenses	-	(1.5)	0 %	-	(3.2)	0 %
<b>Operating profit (loss), (EBIT), excluding restructuring and impairment expenses</b>	-	0.0		-	(0.6)	
Restructuring and impairment expenses	-	-		-	-	
<b>Operating profit (loss), (EBIT)</b>	-	0.0		-	(0.6)	
Net financial items	-	0.1		-	0.1	
<b>Profit (loss) before income tax</b>	-	0.1		-	(0.6)	
Provision for taxes <sup>2)</sup>	-	0.0		-	0.1	
<b>Profit (loss) from discontinued operations, net of tax</b>	-	0.1		-	(0.5)	
Net (gain) loss from sale of discontinued operations, net of tax	<b>0.0</b>	0.0		<b>0.0</b>	0.0	
<b>Profit (loss) from discontinued operations</b>	<b>0.0</b>	0.1		<b>0.0</b>	(0.5)	
<b>Earnings per share (discontinued operations):</b>						
Basic earnings (loss) per share (USD)	<b>0.00</b>	0.00		<b>0.00</b>	(0.00)	
Diluted earnings (loss) per share (USD)	<b>0.00</b>	0.00		<b>0.00</b>	(0.00)	
Shares used in earnings per share calculation	<b>144 380 802</b>	145 521 388		<b>140 534 303</b>	146 184 345	
Shares used in earnings per share calculation, fully diluted	<b>144 542 213</b>	145 521 388		<b>140 701 559</b>	146 184 345	

<sup>1)</sup> Payroll and related expenses excludes stock-based compensation expenses.

<sup>2)</sup> The quarterly and YTD provision for taxes is based on an estimated tax rate for the Group.

Cash flow information (USD million)	2Q 2018 (Unaudited)	2Q 2017 (Unaudited)	YTD 2018 (Unaudited)	YTD 2017 (Unaudited)
Cash flow from operating activities	(0.0)	0.7	-	1.5
Cash flow from investment activities	-	(0.5)	-	(0.9)
Cash flow from financing activities	-	-	-	(0.0)

## Note 11 - Segments

Revenue	2Q 2018	2Q 2017	%	YTD 2018	YTD 2017	%
(USD million)	(Unaudited)	Restated (Unaudited)	change	(Unaudited)	Restated (Unaudited)	change
AdColony (Mobile Advertising)	58.4	96.1	-39 %	115.1	189.4	-39 %
Bemobi (Apps & Games)	13.7	12.3	11 %	28.0	24.9	12 %
Skyfire (Performance & Privacy)	0.1	0.1	58 %	0.4	0.2	113 %
Corporate	0.1	0.0	N/A	0.2	0.0	N/A
Eliminations	(0.1)	(0.1)	21 %	(0.0)	(0.1)	-78 %
<b>Total continued operations <sup>1)</sup></b>	<b>72.2</b>	<b>108.4</b>	<b>-33 %</b>	<b>143.6</b>	<b>214.4</b>	<b>-33 %</b>

<sup>1)</sup> including intercompany postings (ICP) against discontinued operations.

Gross profit	2Q 2018	2Q 2017	%	YTD 2018	YTD 2017	%
(USD million)	(Unaudited)	Restated (Unaudited)	change	(Unaudited)	Restated (Unaudited)	change
AdColony (Mobile Advertising)	19.6	35.7	-45 %	39.1	70.0	-44 %
Bemobi (Apps & Games)	9.9	8.6	14 %	20.4	17.8	15 %
Skyfire (Performance & Privacy)	0.1	0.1	54 %	0.4	0.3	60 %
Corporate	0.0	0.0	N/A	0.2	0.1	N/A
Eliminations	0.0	(0.0)	-131 %	0.0	0.0	-76 %
<b>Total continued operations <sup>1)</sup></b>	<b>29.6</b>	<b>44.4</b>	<b>-33 %</b>	<b>60.1</b>	<b>88.1</b>	<b>-32 %</b>

<sup>1)</sup> including intercompany postings (ICP) against discontinued operations.

Adjusted EBITDA <sup>2)</sup>	2Q 2018	2Q 2017	%	YTD 2018	YTD 2017	%
(USD million)	(Unaudited)	Restated (Unaudited)	change	(Unaudited)	Restated (Unaudited)	change
AdColony (Mobile Advertising)	(1.7)	0.9	-281 %	(4.5)	(1.3)	-247 %
Bemobi (Apps & Games)	5.3	4.7	13 %	10.7	10.6	1 %
Skyfire (Performance & Privacy)	(0.3)	(1.5)	77 %	(0.6)	(3.1)	80 %
Corporate	(1.6)	(1.6)	-2 %	(3.2)	(2.9)	-11 %
Eliminations	0.0	(0.0)	-110 %	0.0	(0.0)	-107 %
<b>Total continued operations <sup>1)</sup></b>	<b>1.7</b>	<b>2.6</b>	<b>-34 %</b>	<b>2.4</b>	<b>3.3</b>	<b>-27 %</b>

<sup>1)</sup> including intercompany postings (ICP) against discontinued operations.

<sup>2)</sup> excluding restructuring costs and stock-based compensation expenses.

EBITDA	2Q 2018	2Q 2017	%	YTD 2018	YTD 2017	%
(USD million)	(Unaudited)	Restated (Unaudited)	change	(Unaudited)	Restated (Unaudited)	change
AdColony (Mobile Advertising)	(2.8)	(6.7)	58 %	(3.7)	(12.1)	70 %
Bemobi (Apps & Games)	5.3	4.7	13 %	10.7	10.5	2 %
Skyfire (Performance & Privacy)	(0.4)	(2.1)	83 %	(0.6)	(3.6)	82 %
Corporate	(2.2)	(2.4)	7 %	(4.0)	(4.4)	8 %
Eliminations	(0.0)	(0.0)	-90 %	(0.0)	(0.0)	-91 %
<b>Total continued operations <sup>1)</sup></b>	<b>(0.0)</b>	<b>(6.4)</b>	<b>100 %</b>	<b>2.4</b>	<b>(9.6)</b>	<b>125 %</b>

<sup>1)</sup> including intercompany postings (ICP) against discontinued operations.



## Note 11 - Segments (continued)

Normalized EBIT <sup>2)</sup>	2Q 2018	2Q 2017	%	YTD 2018	YTD 2017	%
(USD million)	(Unaudited)	Restated (Unaudited)	change	(Unaudited)	Restated (Unaudited)	change
AdColony (Mobile Advertising)	(5.4)	(4.0)	-35 %	(10.1)	(10.7)	6 %
Bemobi (Apps & Games)	5.0	4.2	19 %	10.1	9.5	6 %
Skyfire (Performance & Privacy)	(0.4)	(1.5)	77 %	(0.6)	(3.0)	80 %
Corporate	(1.9)	(2.1)	8 %	(3.7)	(4.0)	8 %
Eliminations	(0.0)	(0.0)	-44 %	0.0	(0.0)	116 %
<b>Total continued operations<sup>1)</sup></b>	<b>(2.7)</b>	<b>(3.5)</b>	<b>22 %</b>	<b>(4.3)</b>	<b>(8.3)</b>	<b>48 %</b>

<sup>1)</sup> including intercompany postings (ICP) against discontinued operations.

<sup>2)</sup> excluding amortization of acquired intangible assets

EBIT	2Q 2018	2Q 2017	%	YTD 2018	YTD 2017	%
(USD million)	(Unaudited)	Restated (Unaudited)	change	(Unaudited)	Restated (Unaudited)	change
AdColony (Mobile Advertising)	(9.1)	(13.9)	34 %	(16.1)	(25.7)	37 %
Bemobi (Apps & Games)	4.3	1.7	156 %	8.7	4.4	96 %
Skyfire (Performance & Privacy)	(0.4)	(2.1)	83 %	(0.6)	(3.6)	82 %
Corporate	(2.4)	(2.5)	6 %	(4.4)	(4.7)	7 %
Eliminations	(0.0)	(0.0)	-41 %	0.0	(0.0)	113 %
<b>Total continued operations<sup>1)</sup></b>	<b>(7.5)</b>	<b>(16.8)</b>	<b>55 %</b>	<b>(12.4)</b>	<b>(29.6)</b>	<b>58 %</b>

<sup>1)</sup> including intercompany postings (ICP) against discontinued operations.

For further information regarding the alternative performance measures above, see Note 9.

### AdColony (Mobile Advertising)

AdColony revenue is primarily comprised of revenue based on the activity of mobile users viewing ads through 3rd Party Publishers, such as developer applications and mobile websites. Revenue is recognized when Otello's advertising services are delivered based on the specific terms of the advertising contract, which are commonly based on the number of ads delivered, or views, clicks or actions by users on mobile advertisements.

### Bemobi (Apps & Games)

Bemobi revenue is primarily comprised of: i) Subscription revenue when a user purchases a subscription from a "co-branded" mobile store, or a white-label operator-controlled version of the mobile store, which is also known as Apps Club, and ii) the Bemobi Mobile Store (formerly OMS), when a user purchases a premium app.

### Skyfire (Performance & Privacy)

Performance and Privacy Apps revenue is primarily comprised of license fees from Rocket Optimizer™.

### Corporate

Corporate costs comprise primarily of i) costs related to personnel working in functions that serve the Group as a whole, including CEO/Board of Directors, corporate finance and accounting, legal, HR and IT, and ii) legal and other costs related to business combinations and restructuring processes.

## Note 11 - Segments (continued)

Segment figures 2Q 2018	Continued operations (incl. ICP) (Unaudited)	Discontinued operations (incl. ICP) (Unaudited)	Eliminations (ICP) (Unaudited)	Total Group (net of ICP) (Unaudited)	Continued operations (net of ICP) (Unaudited)	Discontinued operations (net of ICP) (Unaudited)
Revenue	72.2	-	-	72.2	72.2	-
Gross profit	29.6	-	-	29.6	29.6	-
Adjusted EBITDA	1.7	-	-	1.7	1.7	-
EBITDA	(0.0)	-	-	(0.0)	(0.0)	-
Normalized EBIT	(2.7)	-	-	(2.7)	(2.7)	-
EBIT	(7.5)	-	-	(7.5)	(7.5)	-

Segment figures 2Q 2017 Restated (USD million)	Continued operations (incl. ICP) (Unaudited)	Discontinued operations (incl. ICP) (Unaudited)	Eliminations (ICP) (Unaudited)	Total Group (net of ICP) (Unaudited)	Continued operations (net of ICP) (Unaudited)	Discontinued operations (net of ICP) (Unaudited)
Revenue	108.4	1.9	(0.3)	109.9	108.4	1.5
Gross profit	44.4	1.7	(0.0)	46.1	44.4	1.7
Adjusted EBITDA	2.6	0.5	0.0	3.1	2.6	0.5
EBITDA	(6.4)	0.4	0.0	(6.1)	(6.4)	0.4
Normalized EBIT	(3.5)	0.2	0.0	(3.2)	(3.5)	0.2
EBIT	(16.8)	0.0	0.0	(16.8)	(16.8)	0.0

Segment figures YTD 2018 (USD million)	Continued operations (incl. ICP) (Unaudited)	Discontinued operations (incl. ICP) (Unaudited)	Eliminations (ICP) (Unaudited)	Total Group (net of ICP) (Unaudited)	Continued operations (net of ICP) (Unaudited)	Discontinued operations (net of ICP) (Unaudited)
Revenue	143.6	-	-	143.6	143.6	-
Gross profit	60.1	-	-	60.1	60.1	-
Adjusted EBITDA	2.4	-	-	2.4	2.4	-
EBITDA	2.4	-	-	2.4	2.4	-
Normalized EBIT	(4.3)	-	-	(4.3)	(4.3)	-
EBIT	(12.4)	-	-	(12.4)	(12.4)	-

Segment figures YTD 2017 Restated (USD million)	Continued operations (incl. ICP) (Unaudited)	Discontinued operations (incl. ICP) (Unaudited)	Eliminations (ICP) (Unaudited)	Total Group (net of ICP) (Unaudited)	Continued operations (net of ICP) (Unaudited)	Discontinued operations (net of ICP) (Unaudited)
Revenue	214.4	3.3	(0.7)	216.9	214.4	2.6
Gross profit	88.1	2.9	(0.0)	91.0	88.1	2.9
Adjusted EBITDA	3.3	0.2	(0.0)	3.6	3.3	0.2
EBITDA	(9.6)	0.0	0.0	(9.5)	(9.6)	0.0
Normalized EBIT	(8.3)	(0.2)	0.0	(8.5)	(8.3)	(0.2)
EBIT	(29.6)	(0.6)	0.0	(30.2)	(29.6)	(0.6)

**Note 11 - Segments (continued)**

Segment revenue 2Q 2018 <i>(USD million)</i>	AdColony (Mobile Advertising) (Unaudited)	Bemobi (Apps & Games) (Unaudited)	Skyfire (P&P) (Unaudited)	Corporate (Unaudited)	Eliminations (Unaudited)	Total continued operations (Unaudited)
External revenue	58.4	13.7	0.1	0.1	-	72.2
Intercompany revenue	-	-	0.1	-	(0.1)	(0.0)
<b>Total continued operations</b>	<b>58.4</b>	<b>13.7</b>	<b>0.1</b>	<b>0.1</b>	<b>(0.1)</b>	<b>72.2</b>

Segment revenue 2Q 2017 Restated <i>(USD million)</i>	AdColony (Mobile Advertising) (Unaudited)	Bemobi (Apps & Games) (Unaudited)	Skyfire (P&P) (Unaudited)	Corporate (Unaudited)	Eliminations (Unaudited)	Total continued operations (Unaudited)
External revenue	96.1	12.3	0.0	0.0	-	108.4
Intercompany revenue	0.0	-	0.1	-	(0.1)	0.0
<b>Total continued operations</b>	<b>96.1</b>	<b>12.3</b>	<b>0.1</b>	<b>0.0</b>	<b>(0.1)</b>	<b>108.4</b>

Segment revenue YTD 2018 <i>(USD million)</i>	AdColony (Mobile Advertising) (Unaudited)	Bemobi (Apps & Games) (Unaudited)	Skyfire (P&P) (Unaudited)	Corporate (Unaudited)	Eliminations (Unaudited)	Total continued operations (Unaudited)
External revenue	115.1	28.0	0.4	0.2	-	143.5
Intercompany revenue	-	-	0.1	-	(0.0)	0.0
<b>Total continued operations</b>	<b>115.1</b>	<b>28.0</b>	<b>0.4</b>	<b>0.2</b>	<b>(0.0)</b>	<b>143.6</b>

Segment revenue YTD 2017 Restated <i>(USD million)</i>	AdColony (Mobile Advertising) (Unaudited)	Bemobi (Apps & Games) (Unaudited)	Skyfire (P&P) (Unaudited)	Corporate (Unaudited)	Eliminations (Unaudited)	Total continued operations (Unaudited)
External revenue	189.4	24.9	0.1	0.0	-	214.4
Intercompany revenue	0.0	-	0.1	-	(0.1)	(0.1)
<b>Total continued operations</b>	<b>189.4</b>	<b>24.9</b>	<b>0.2</b>	<b>0.0</b>	<b>(0.1)</b>	<b>214.4</b>

## Note 12 - Investment in associated companies

Otello finalized an agreement on December 19, 2016 to sell its TV business ("Opera TV") for \$80 million and an approximately 27% equity interest in Last Lion Ltd, through preferred shares, which indirectly owns Opera TV (the "Transaction") with Last Lion Holdco AS (the "Buyer").

Information regarding Last Lion Holdings Ltd (USD million)	2Q 2018 (Unaudited)	YTD 2018 (Unaudited)
Revenue	10.9	21.8
EBIT	4.7	9.5
Net profit (loss)	0.3	0.6
Assets		127.9
Non-current liabilities		86.0
Current liabilities		9.3
Equity		32.6
Otello's share of equity		8.8
The investment in Last Lion Holdings LTD is recognized using the equity method.		
Balance as of 12/31/2017		8.6
Investment during the fiscal year		-
FX adjustment		-
Share of the profit (loss)		0.2
Elimination		-
<b>Balance as of 6/30/2018</b>		<b>8.8</b>

## Note 13 - Restructuring and impairment expenses

During 2018, Otello recognized restructuring expenses in connection with a strategic cost reduction that will better align costs with revenues, and for legal and other costs related to business combinations and restructuring processes.

Restructuring and impairment expenses (USD million)	2Q 2018 (Unaudited)	2Q 2017 (Unaudited)	YTD 2018 (Unaudited)	YTD 2017 (Unaudited)
Salary restructuring expenses	(1.1)	(3.8)	(1.5)	(4.7)
Option restructuring expenses	-	-	-	-
Office restructuring expenses	0.0	(2.6)	0.8	(2.6)
Impairment expenses	-	-	-	-
Legal and other costs related to business combinations and disposals	(0.5)	(0.4)	(0.8)	(0.7)
Other restructuring expenses	(0.0)	(0.1)	(0.0)	(0.1)
<b>Total</b>	<b>(1.6)</b>	<b>(6.9)</b>	<b>(1.5)</b>	<b>(8.2)</b>

## Note 14 - Events after the reporting date

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### **Potential sale of Vewd (Opera TV) minority stake**

As reported to the market on December 20, 2016, Otello had completed the sale of the majority stake in the Vewd Software business (f/k/a Opera TV) (the “Company”) to Moore Frères & Co LLC (“MFC”), which today is the majority shareholder and controls the board of directors of the Company (the “Board”).

On February 20, 2018, Otello Corporation ASA (“Otello”) entered into a share purchase agreement (the “SPA”) for the sale of its remaining ownership stake (approximately 27-28.5%, depending on management options) in the Vewd Software business. The SPA contains certain conditions for completion, such as approval of the sale by the Board and a right of first refusal not being exercised.

MFC’s appointed directors on the Board have attempted to block the sale, and formally refused approval during a Board meeting on April 27, 2018. On April 12, 2018, Otello filed a claim with the High Court of Justice in England and Wales against MFC and the Company, and has successfully obtained an order of the Court for the trial to be heard on an expedited basis. The case was heard in mid-July 2018, and the parties are awaiting the judgment.

The parties were not able to complete the transaction prior to the long-stop date in the SPA and no assurances can be given that such completion will take place. Further announcements will be given when new material information is available.

## **Interim Management Report Review of 1H 2018**

### **Operations**

Revenue in 1H 2018 was USD 143.6 million, down 33% compared to 1H 2017, when revenue was USD 214.4 million, driven by a decline in AdColony, partly offset by growth in Bemobi. Total operating costs, excluding one-time costs, were USD 154.5 million in 1H 2018 compared to USD 235.7 million in 1H 2017, a decrease of 34%, due to lower publisher costs and payroll expenses, as well as lower depreciation and amortization expenses, particularly in AdColony. Adjusted EBITDA was USD 2.4 million in 1H 2018 compared to USD 3.3 million in 1H 2017. EBIT was USD (12.4) million in 1H 2018 compared to USD (29.6) million in 1H 2017, positively impacted in 1H 2018 by FX and lower earn-out expenses. Profit for the period was USD 1.7 million in 1H 2018 compared to USD (35.9) million in 1H 2017.

### **Cash flow**

The Company generated USD (2.2) million in cash flow from operations in 1H 2018, compared to USD 0.8 million in 1H 2017. Cash outflow for investments amounted to USD 32.8 million, including USD 26.4 million related to acquisitions, USD 6.0 million related to research and development and USD 0.4 million related to capital expenditures. Cash outflow from financing activities amounted to USD 3.0 million, of which USD 2.9 million relates to purchase of treasury shares.

### **Financial position**

Total assets decreased from USD 756.7 million to USD 574.1 million, primarily due to reductions in cash following a full repayment of all outstanding debt as well as the impact from lower revenues, and the amortization of acquired intangible assets.

### **Major related party transactions**

In the past 6 months, apart from the agreement signed in May 2018 with the BeMobi Earnout Participants, where the existing BeMobi earnout is terminated (see note 4 of the Interim financial statements for further information), there have been no major related party transactions which have had a material impact on the financial statements.

### **Risk factors**

The majority of the financial risk that the Group is exposed to relates to currency risk. Both revenue and operating expenses are exposed to foreign exchange rate fluctuations. Of the Group's revenue for 1H 2018, 74 % is generated in USD, 14 % in BRL, 4 % in TRY, and 8 % in other currencies. Of the Group's operating expenses for 1H 2018, 77 % is in USD, 7 % in BRL, 4 % in TRY, and 12 % in other currencies. Exchange rate fluctuations in these currencies impact Opera's income statement and can have a significant impact on our operating and financial results. Exchange rate fluctuations may also affect the value of Opera's capital expenditures as a result of investments made by its subsidiaries.

For additional explanations regarding risks and uncertainties, please refer to the Report of the Board of Directors for 2017, section Risk Factors.



# Statement by the BOD and the CEO

## Unaudited – 1H 2018 report of Otello Corporation ASA

The Board of Directors and the CEO have today reviewed and approved the condensed consolidated interim financial statements (“interim report”) for Otello Corporation ASA for the first half of 2018.

The interim report has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU and additional Norwegian disclosure requirements in accordance with the Norwegian Securities Trading Act.

The Board of Directors and the CEO consider the accounting policies applied to be appropriate. Accordingly, to the best of their knowledge and without the benefit of an audit, the interim report gives a true and fair view of the Group's assets, liabilities and financial position as of June 30, 2018, and of the results of the Group's operations and cash flows for the first half of 2018.

The Board of Directors and the CEO also consider the interim report to give a true and fair view of the information required by the Norwegian Securities Trading Act section 5–6 paragraph 4.

Oslo, August 23, 2018

The Board of Directors

Otello Corporation ASA

Audun Wickstrand Iversen, Chairman

Frode Fleten Jacobsen

Sophie Charlotte Moatti

Andrè Alexander Christensen

Birgit Midtbust

Lars Rahbæk Boilesen, CEO

