

EMPOWERING

THE MOBILE FUTURE

ANNUAL
REPORT 2018

The story continues

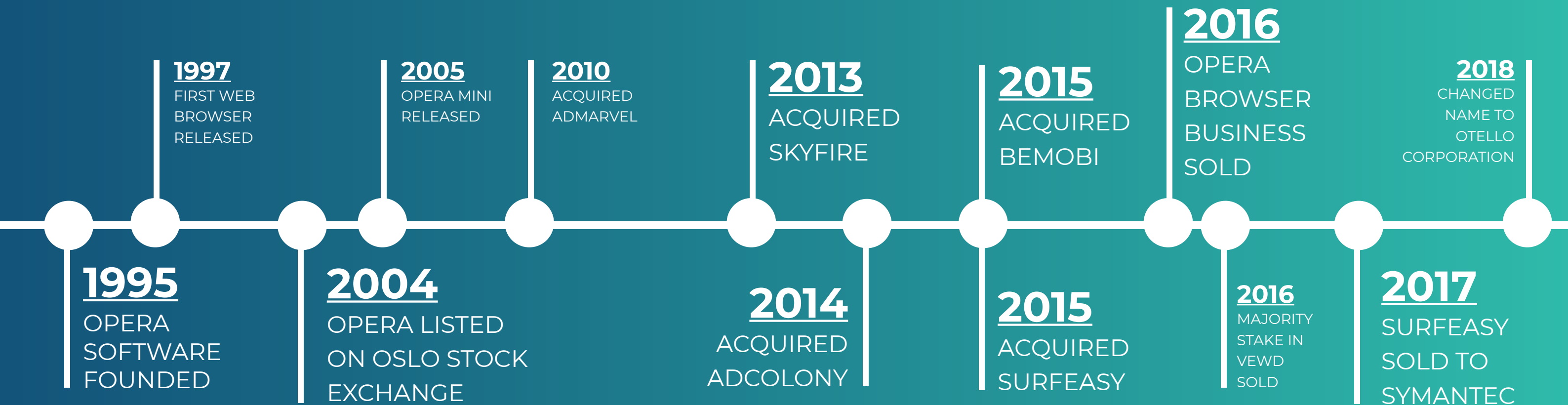


Table of contents

- 08 CEO letter
- 10 Key figures
- 12 Company overview
- 52 Shareholder information
- 56 Presentation of the Board of Directors
- 58 Report from the Board of Directors
- 80 Otello financial statements
- 134 Parent Company financial statements
- 160 Auditor's report
- 164 Declaration of executive compensation policies
- 168 Principles of corporate governance



The Northern Lights Brings Light to Otello

Otello's profile is inspired by what we call **aurealis** (which is our way of saying aurora borealis). Aurora come from the latin word **dawn**, morning lights, and that is exactly what Otello offers. A new dawn. A new beginning. Based on decades of growth, acquisitions and divestments.

As a Norwegian company, with roots going back to the early days of Opera, the scene was set for an identity and profile inspired by the Norwegian and Nordic flavour of the skies. We call it aurealis, even though it is commonly known as northern lights or polar lights. Aurealis stands for **energy, drive, ambition and independence**.

In a way, Otello's presence and position is as natural in today's mobile and digital world as the northern lights are displayed in the skies

far up north. Otello's entities offer technology and experiences which are enjoyed and displayed on billions of screens - lighting up the everyday life of more than 2 billion users across the world with apps and services.

In short, Otello's new identity is full energy as it emits light of varying color and complexity, just like the northern lights. Otello is a collection of companies, forming the aurora, like the polar lights occur within bands around the polar region. Otello as a company and brand might be new, based on more than 20 years of history, but it will not stand still. Like the northern lights, we are dependent on the amount of acceleration imparted to the precipitating particles. Our atoms are our key assets, namely AdColony, Bemobi and Skyfire. This brings light to Otello.

Who is Otello?

Otello Corporation ASA

- Otello is a holding company, listed on the Oslo Stock Exchange, holding the assets of AdColony, Bemobi, Skyfire and Vewd
- Otello was formerly known as Opera Software ASA and has over 20 years of history
- Otello's journey started in 1995 when Opera was established as a browser company
- Otello might have been known as an opera for some time, however, it is now a collection of companies within mobile advertising and apps & games with a reach of more than 2.5 billion users





CEO letter

In 2018, Otello delivered on many of its key objectives. In the AdColony business, considerable cost-cutting was achieved, and there was a focus around fewer and more profitable products and markets. In the Bemobi business, continued steady growth was achieved. In addition, Otello was successful in its claim against the majority owners of Vewd Software (formerly Opera TV), arising from their refusal to approve the sale of Otello's remaining ownership stake.

During 2018, Bemobi continued its global growth despite significant FX headwinds versus 2017. By settling the earnout agreement with the former Bemobi shareholders, we ensured alignment between the Bemobi management team and Otello. We proceeded to meet a limited number of international investors during late 2018 in order to consider whether an IPO or demerger of Bemobi could represent realistic and value enhancing opportunities. Feedback from investor meetings has been positive and supportive of such opportunities, and based on this feedback we have initiated a process with the intention of pursuing a UK listing of Bemobi during the second half of 2019. However, the timing and completion of any listing is subject to market conditions and further investor feedback, and no assurances can be given that a listing will be achieved.

AdColony continued its streamlining of the organization and reduced OPEX by over 50% by year-end, compared to early 2017. As a result of these cost savings and focus on gross margins, AdColony was able to deliver positive Adjusted EBITDA in the fourth quarter of 2018, and is expected to return to profitability in 2019.

We continued our share repurchases in 2018, buying back a total 2.5 million shares at a total expense of \$5.5 million. In late 2018, a total of 9 million shares were cancelled. Further, as the year ended, Otello has concluded all earnout agreements and holds no interest-bearing debt.

Financial summary of 2018

Otello's operating revenues fell by 34% to \$275.4 million in 2018 (2017: 419.0 million), driven by a decline in AdColony, which was partly offset by growth in Bemobi. The decrease in revenue in AdColony was mainly due to slower product launches and ramp-up of new products in addition to a general streamlining of the business and more focused operations. The significant cost focus paid off during 2018 and we have lowered the revenue break-even point substantially as we enter 2019. By the end of 2018, due to the aggressive cost cuts and focus on fewer and more profitable products and markets, AdColony returned to Adj. EBITDA profitability in 4Q 2018.

Bemobi had FX adjusted organic revenue growth of close to 15% in 2018 vs 2017 and we are well on our way to taking this Brazilian success global. By the end of 2018 Bemobi was working with over 60 mobile operators, the majority outside LATAM, and with a total of 26.7 million subscribers.

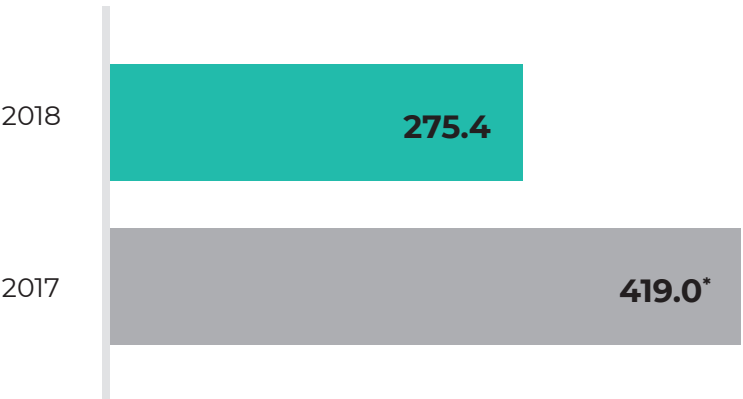
From 2019, Skyfire will not be reported as a separate segment but rolled into the Corporate function of Otello, due to its size.

Moving forward, Otello's strategic focus is to develop unique and relevant products, and scalable business models which, combined, should generate revenue growth and margin expansion.

Lars Boilesen

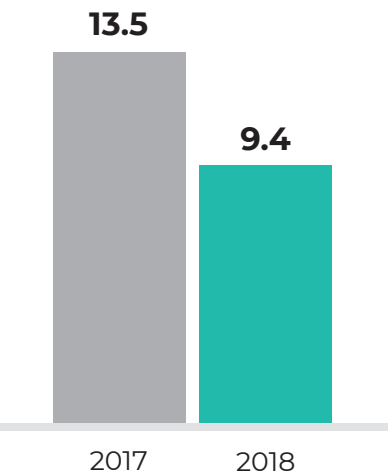
The year in numbers

Revenue
[Numbers in USD million]

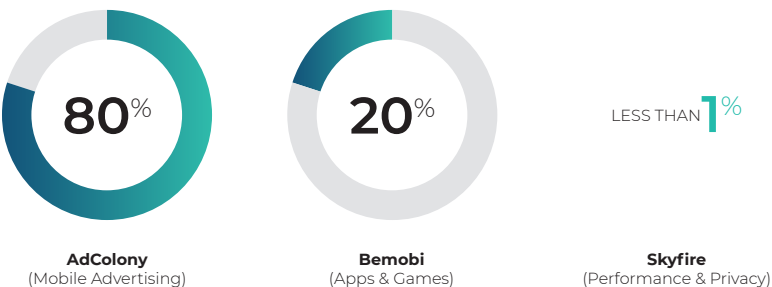


*Excluding the SurfEasy business

Adjusted EBITDA
[Numbers in USD million]



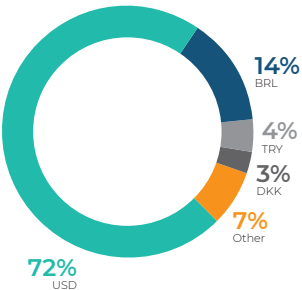
Revenue source
[Numbers in percent]



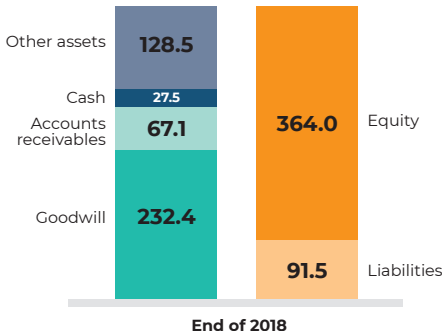
Revenue by region
[Numbers in USD million]



Revenue per currency
[Numbers in percent]



Balance sheet
[Numbers in USD million]



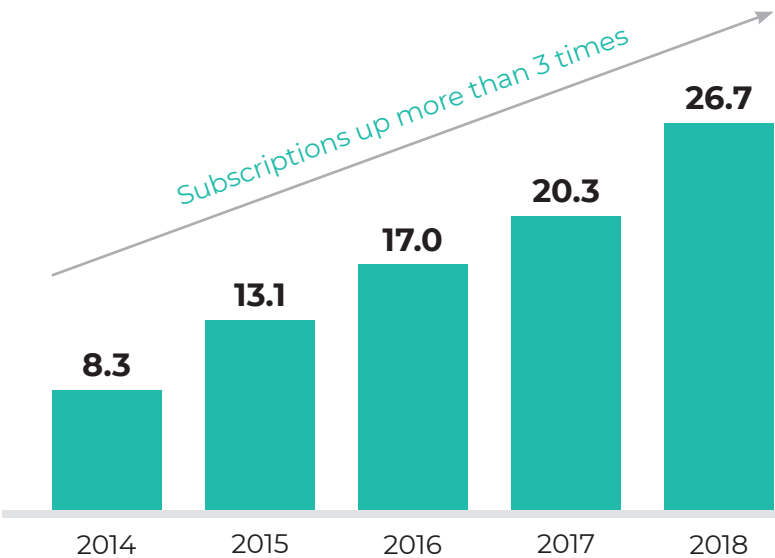
47.5%

Norway-based shareholder accounts



Earnings per share:
\$ 0.66

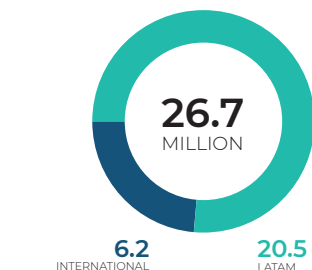
Bemobi subscribers
[Numbers in million]



Overall service penetration on served addressable market grew from 0.9% to 1.2%

31.4%
GROWTH IN PAYING SUBSCRIBERS IN 2018

Bemobi subscribers
[Numbers in million]



BEMOBI HAS A REACH OF
2.5
BILLION
POTENTIAL CONSUMERS

Bemobi

Android is the dominant mobile operating system with a market share of close to 90%



At the close of 2018, Otello had
493
fulltime employees and equivalents

We continually work to improve the gender balance in the company. At the end of 2018
38% of our staff members were women



2/5 members of the Board of Directors are female

EMPLOYEES FROM

33

COUNTRIES IN THE GROUP



AdColony as a whole has gained
453
new clients from our resellers with campaigns that reach around the globe

ADCOLONY IS ONE OF THE LARGEST MOBILE ADVERTISING PLATFORMS IN THE WORLD WITH A **REACH OF MORE THAN 1.5 BILLION USERS**

AdColony's SDK has continued to improve over the course of 2018, including expanded ad serving, better controls for publishers, and a
95% reduction in size.

At the end of 2018, **3x** penetration within AdColony's ad network reached **93 percent**, with the most recent unified version 3.3.6 at **10 percent** already.

**Better ads.
Bolder experiences.
Bigger results.**



ADCOLONY

ADCOLONY

Continues to Innovate in a Mobile Ad Market of approx \$200 billion

In a booming global mobile advertising market, AdColony is giving brands the ability to reach consumers on mobile devices, where they spend the most time, while game developers are given the opportunity to acquire users, and publishers are able to monetize their apps.

The Mobile Advertising Industry

2018 gave massive changes across the digital advertising landscape. From a shake-up of major players, to the introduction of GDPR, and even ongoing “fake news” and brand safety questions. 2018 was also the year mobile advertising “grew up” and began experimenting with real-time bidding for ad placement; a technology the desktop ads world has long been using. AdColony met all these challenges and has entered 2019 with technical and relationship successes under its belt.

In 2018, users continued to shift attention away from big screens to smaller ones in droves, and Forrester Research estimates that the in-app share of mobile video will grow to 84 percent in 2023, up from an estimated 78 percent this year. Easy-to-use privacy protection mechanisms such as Apple’s ad ID limiting for iOS, became more prevalent, making in-app advertising the bastion of brand-safe inventory for marketers who want to reach consumers effectively.

Even as Facebook’s user growth and active user results in Q2 and Q3 shrank its share of the in-app space, Amazon turned what has historically been a Facebook-Google duopoly into a triopoly. AdColony has embraced this change in the market and is already working with Amazon across key markets as a supply and demand-side partner, and maintaining a traditional advertiser relationship.

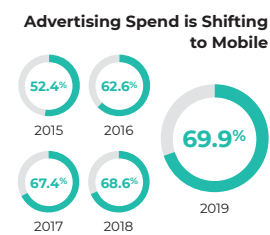
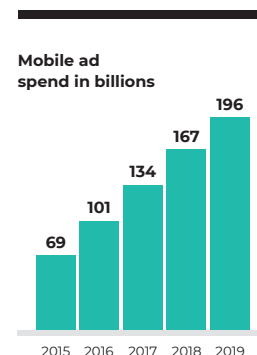
By far the largest factor that shook up the mobile advertising industry was the implementation of the European Union’s General Data Protection Regulation (GDPR). The combination of increased individual rights for users, vague terminology, and increased legal responsibilities for those companies that handle any kind of user data, caused considerable consternation across the digital advertising and content landscape, even for those companies not based in Europe. Despite the introduction of GDPR, the Internet Advertising Bureau (IAB) showed that advertising spending was up 10% in H1 2018 in Europe, prior to the introduction of the regime on May 31st. Results after GDPR’s go-live date are still being tabulated.

AdColony’s Place

Originally founded in 2008, AdColony has been an innovation leader in mobile advertising and monetization since Apple first introduced the App Store. AdColony is passionate about delivering the highest quality video advertising and beyond. Founded by game developers, for game developers, they are committed to delivering an experience that makes monetizing a win for advertisers, developers, and users alike.

For Publishers

At the heart of AdColony’s advertising business is its supply. AdColony has its SDK integrated into thousands of the Top 1,000 apps across iOS and Android. AdColony’s SDK enables app developers to mone-



Source: V12data.com



What's an SDK?

An SDK is a toolbox that developers use to accomplish a task without writing code from scratch. There are SDK's for physics, for retention, for push notifications, and in the case of AdColony, for monetization.



tize their apps by showing ads from AdColony's advertising partners via a number of implementations such as user-initiated rewarded video, interstitials, pre and post-roll, and more.

Users continue to spend more and more in-app and in mobile games — 25 percent of apps available are games and 65 percent of users have games installed according to Statista. AdColony's network of hottest gaming and non-gaming apps is the prime video outlet for brands to reach audiences in a brand-safe environment.

For Mobile App User Acquisition

In the app economy, everyone wants to attract attention and acquire users. The best way for successful apps to maintain long-term growth and financial success is to acquire users in other apps. AdColony's wide network of apps using its SDK for monetization gives user acquisition managers targeting options to find the perfect users for their own apps. Since campaigns for user acquisition are usually paid for on a per-install basis, the app-install advertising industry is often referred to as "performance."

For Brand Advertisers

AdColony gives today's biggest brand advertisers like Disney, Toyota, Unilever, Nestlé, and many more, the opportunity to reach consumers where they're spending the most time — mobile devices. With AdColony, advertisers can see their brand stories come to life through award-winning ads that take advantage of the unique characteristics of mobile devices like touch, sound, tilt, vibration, augmented reality, and more.

AdColony in 2018

A notable aspect of 2018 has been the growth of AdColony's Istanbul, Turkey office. By being centrally located and cost effective, the consolidation of Performance and publishing campaign, account managers, and Advertising Operations (AdOps) and day-to-day operations into a single "operational hub" has enabled significant cost savings. As an added benefit, having previously globally disparate roles sitting side by side has led to an organic growth of know-how and quick spreading of best practices for optimizing results for advertisers and publishers alike.

Users continue to spend more and more in-app and in mobile games —

25% of apps available are games

AdColony also embraced growth opportunities in new regions in 2018, with the official opening of AdColony's Beijing and Shanghai offices alongside the commencement of operations within mainland China.

AdColony took over operations in the country directly from reseller Glosom, with 1183% advertiser growth and 414% supply growth at the end of 2018, relative to the start of the year. On the other side of the reseller coin, AdColony entered into reseller relationships for brand campaigns in Spain, Portugal, Italy, and Russia, as well as maintaining the strong relationship with our South African reseller. These partnerships enable significant profit margins in these regions with little overhead.

These successes in building up AdColony in profitable areas while reducing overheads in regions and roles where growth was more stagnant have been key to ensuring AdColony completed 2018 in the best position possible to continue the process of rebuilding and make progress on its mission of profitability in 2019.

Streamlined & Effective

As with other areas of AdColony, there was a reorganization and consolidation of roles within the brand & exchange group as a whole, especially in the second half of 2018. The direct and managed brand sales organization maintained profitability with just 11 total sellers, two of which act as team leaders. AdColony's Open Exchange also achieved profitability with a dedicated staff of eight.

These efficiencies, and successful technical and engineering work to emphasize AdColony's shift to programmatic (see below) as a whole, show great promise in 2019, with other important partnerships and engineering work continuing throughout the current year.

Programmatic for the People

In addition to the reorganization, AdColony took real, serious steps in 2018 to becoming a programmatic company, significantly so during the second half of the year. Major emphasis was placed on both a sales and technology perspective in 2018 to facilitate this process. This growth has

AdColony for Brands

AdColony gives today's **biggest brand advertisers** like Disney, Toyota, Unilever, Nestlé, and many more the opportunity to reach consumers where they're spending the most time — mobile devices.

With AdColony's **in-house creative team**, advertisers can see their brand stories come to life through unique **award-winning ads** that take advantage of the unique characteristics of mobile devices like touch, sound, tilt, vibration, augmented reality, and more.

Users continue to spend more and more in-app, up 18% since 2015, and **AdColony is the prime video outlet for brands** to reach audiences in the changing media landscape.

This is for people who want to send out a message and reach someone with their ads



AdColony for Game developers

The best way for today's hottest apps to maintain long-term growth and financial success is to acquire users in other apps.

AdColony's wide network of apps using its SDK for monetization gives user acquisition managers (performance) targeting options to **find the perfect users** for their own apps.

In addition to video ads with unique end-cards, UA campaigns can take advantage of Aurora™ HD Playables, giving users the chance to preview the **full in-app experience**.

This is for people who want people to download their games (so they can earn money)



Who do we work for?

AdColony helps Brands, Game Developers and Publishers

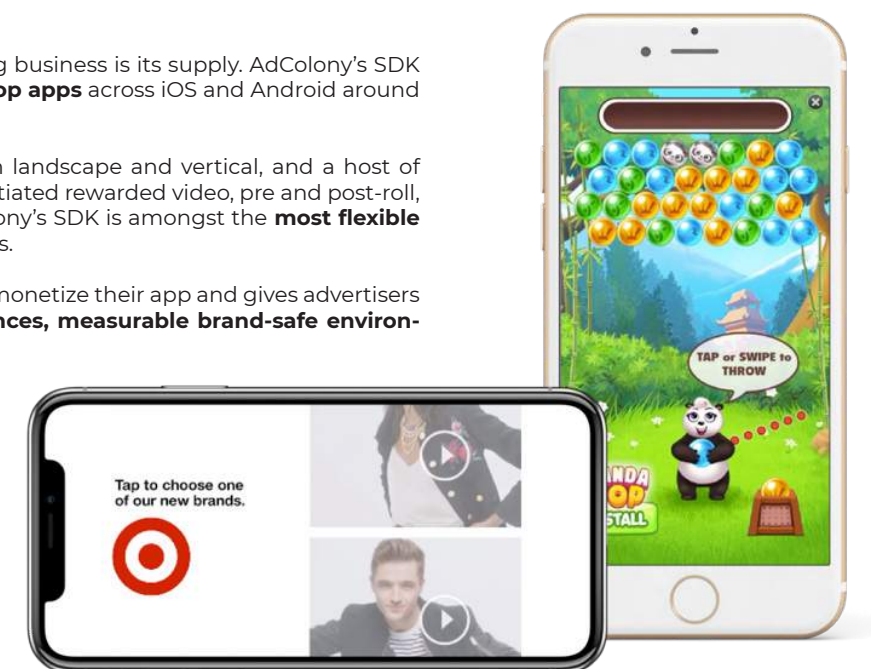
AdColony for Publishers

At the heart of AdColony's advertising business is its supply. AdColony's SDK is integrated into **thousands of the top apps** across iOS and Android around the world.

With **100% full-screen video** in both landscape and vertical, and a host of integration options including user-initiated rewarded video, pre and post-roll, interstitials, display, and more, AdColony's SDK is amongst the **most flexible** monetization platforms for developers.

AdColony's SDK allows publishers to monetize their app and gives advertisers access to **device ID enriched audiences, measurable brand-safe environments, and memorable creative, at scale.**

This is for people who have content that people want (which they can earn money from)





been most evident in the North American brand business, which grew from 30% of its revenue driven by programmatic in 2017, to 45% in 2018.

This growth in programmatic revenue and focus on AdColony's unique position of strong programmatic platform combined with almost unparalleled first-party SDK reach and data looks set to benefit all sides of the business in 2019. Programmatic emphasis has not diminished AdColony's commitment to quality and the key pillars of brand safety and transparency have remained even as traditional manually managed insertion-order (IO) business has ceded space in the revenue mix.

Thanks to Moat, IAS, and DoubleVerify integrations (see below), several major Private Marketplace (PMP) victories gained for the North American Brand organization across 2018. For example, a COPPA-compliant display campaign for LEGO Group saw a 15-20% increase in spend from the original plan, scaled through positive viewability numbers of 83%. Lowe's home improvement stores spent more than \$2.7 million with AdColony during 2018 thanks to our viewability measurement and transparency initiatives. Adult beverage brands Corona and Meomi also made a triumphant return to AdColony due to our new and diversified LDA supply. Facebook also took advantage of AdColony's flexibility. TheGlenLevit campaign is also emblematic of programmatic innovation at AdColony, with our first ever Aurora™ HD Video campaign delivered programmatically.

Part of AdColony's shift to a more open, flexible, and diverse marketplace is the integration of multiple demand-side platforms (DSPs). As the ad industry, in general, has moved away from the older managed IO model, these partnerships were critical in opening up conversations with multiple large brands and agency clients. DSP growth allows AdColony to leverage a wider set of advertiser demand without custom technical work for every advertiser or programmatic desk, effectively giving AdColony's publishing partners access to even more advertisers than they would ever see via a direct managed IO-only marketplace; a true win-win for publishers and advertisers alike.

Additionally, we added VPAID support for video inventory across the AdColony network, making us the only network partner that can support blocking tags in an app environment. We also upgraded our support for OpenRTB 2.5 which includes loss notification to ensure AdColony supports the latest programmatic advertising standards, which facilitates transactions across the marketplace.

Brand Safety & Viewability

Key to securing brand dollars in today's competitive ad market is measurable results within environments. Brands want their ads to be seen. This emphasis on brand safety has led to a decline in the prospects of social networks such as Snapchat where user-generated content cannot guarantee that a brand's ad won't be seen next to objectionable material. It's in these spaces that AdColony's strong supply in mobile apps shines.

AdColony also announced multiple brand safety and viewability partnerships and certifications in 2018. We integrated directly with DoubleVerify and Integral Ad Science (IAS), making AdColony the only mobile in-app partner compatible with Moat, IAS and DoubleVerify for viewability and IVT measurement on a managed service and programmatic basis.

AdColony excelled in these measures with 94.01% Moat Valid & Viewable Score (almost double the industry standard), 98% DoubleVerify viewable rate (a 40% increase over the industry standard), and 87.1% IAS video viewable rate. Also of note is AdColony's zero percent suspicious ad percentage as measured by IAS.

These results give AdColony a leg up on the competition and continue to drive conversations with partners.

AdColony was TAG Certified Against Fraud in 1Q2018, an important distinction, and validation of our continued efforts to minimize fraud across our platform by an industry-recognized third-party auditing firm. Recertification for 2019 is proceeding well.

All of these factors gained AdColony the top spot as number one Global Tech Provider for the Mobile Marketing Association's Smarties Business Impact Index.

This growth has been most evident in the North American brand business, which grew from 30% of its revenue driven by programmatic in 2017, to

▲45%
in 2018

Market Strategy

Our market strategy emphasized bringing AdColony's award-winning advanced video technologies such as Aurora™ HD Video to clients who had previously only engaged with AdColony's basic video units. In 2018, the EMEA brand sales team launched, together with Unilever as beta partner five campaigns in Turkey, Aurora™ HD Video was also launched in Turkey, Greece, Denmark, Norway, Sweden, South Africa, the United Kingdom, and the Middle East.

Reseller Strategy

During 2018 we entered new markets with resellers in Italy, Spain, Russia, and across Latin America. These partners entered the market fully formed with regular training and on-site visits to maximize the effectiveness of each market. Through these partnerships, AdColony as a whole has gained 453 new clients from our resellers with campaigns that reach around the globe.

Partner Sales

A partner-sales initiative that began as a single country has also grown across EMEA, from just LinkedIn Ad sales, AdColony has also become the exclusive ad sales partner for global streaming giant Spotify in Turkey as of January 2018. Our partner sales team created 25% growth in Spotify ad sales in their first year. Our LinkedIn partnership continued growth into Nordic territories (as well as continuing to grow in Turkey) – becoming once again LinkedIn's best-performing partner in the region. We expect these partnerships to continue and grow in 2019, maintaining a strong high-margin product in key growth regions.

APAC

In 2018, our APAC team has led a strong growth in brand sales. With mobile video spending in the region growing 59% YoY, AdColony is poised to take advantage thanks to its reputation as a high-quality video ad network. 76 percent of all digital media in APAC is transacted programmatically, with viewability, invalid traffic mitigation, Nielsen Digital Ad Ratings, and a strong data story are table stakes for every conversation. Google DoubleClick big manager accounts for 85 percent of regional programmatic spend delivered via DSP in the region.

AdColony's APAC Brand & Exchange is open and operational in eight markets across the region, with the majority (58%) of business from the South-east Asian markets, with Australia and India close behind. These results are underscored by key relationships and account growth including a partnership with Amazon India, making AdColony the largest partner for the company outside of Google and Facebook. AdColony's international relationship with Unilever continues to grow from strength to strength in APAC with their Dove Simba brand's video campaign in the Philippines, running 8 different custom-made creatives, with 4 Dynamic end cards and 4 video overlays. Unilever's APAC office also began working with AdColony in Australia and India in 2018.

In 2018, we opened over 50 new accounts in the region, including Bosch, MBS, MCD, Vivo, Huawei, Smart, Danone, HP, Chupa Chup, FC, Tiger, and Nokia. Another key victory was the revival of an Essence/Google Account with USD \$600K spent in Vietnam, Thailand, and Japan. This growth is in the face of currency conversion revenue pressure due to a strengthening USD over the course of 2018. For example, the Indonesian Rupiah (IDR) lost 13 percent and the Australian Dollar (AUD) lost 16 percent. With budgets from brands and agencies in local currency, this creates revenue pressure.

Regional Product Growth

Brands and agencies in APAC are hungry for data and transparency, a position AdColony as a whole continued to support in 2019, but with local interests come local needs and the Singapore-based AdColony team rose to the challenge of their clients by onboarding multiple new data partners, including Grab (Uber for South East Asia), Lifesight, and Mobilewalla.

Our APAC team also drove significant product planning updates to our technology, including multiple planned updates to the Aurora™ HD Video, more details of which will be announced as the detailed client-asks are incorporated into our product roadmap and revealed in 2019.

Display Ads Aren't Dead

As our overall growth plans for 2019 can attest, brand plays an important role in today's mobile ad game.

AdColony as a whole has gained

453

new clients from our resellers with campaigns that reach around the globe.

Our partner sales team created

▲ 25%

growth in Spotify ad sales in their first year.

Aurora™ HD Video was also launched in Turkey, Greece, Denmark, Norway, Sweden, South Africa, the United Kingdom, and the Middle East.



While AdColony is primarily a video platform, display still plays an important role in many emerging markets, especially across APAC. Overall, display accounts for 45 percent of the region's brand revenue, some programmatically, some via third-party inventory, including MediaMath.

The share of AdColony's display revenue is actually under the market ratio of 55 percent, as video has only been embraced by major brands in the region. With wider support for display on the AdColony platform in the works, we hope to bring these two numbers in line while still extolling the virtues and benefits of AdColony's core video product.

State of the App Install Industry

The consolidation of the top of the charts to a few select large clients has also limited the number of new launches and fewer blockbusters. Many releases can be summed up

simply as "old games, new skins" with no real hits capping budgets from advertisers and real app install spend growth.

The other major trend in the industry during 2018 that is likely to continue into 2019 is user lifetime value (LTV) and return on ad spend (ROAS) based buying. Put simply, more advertisers are moving beyond basic install metrics and focusing on audience quality over raw quantity. This is heavily impacting bid prices across the app install industry as the previous model wherein user churn (how many users don't return) was an expected part of an app's lifecycle and catching a few good long-term paying users (either via ad engagement, subscription, or IAP) was worth the additional acquisition costs of those users that left. As a more bespoke app install marketplace with a dedicated creative team, AdColony is well-positioned to answer the "quality" question.



Performance Product & Business Improvements

AdColony's lean and efficient regionally-based performance sales teams have shifted focus on optimizations to drive growth for our biggest customers — optimizing for the user quality app install marketers are looking for. Thanks to this emphasis, we have seen double-digit growth in spends in our biggest advertisers and also managed to bring some lapsed advertisers back to AdColony. At the same time, our team also focused on raising our network CPM overall and reevaluated hundreds of campaigns and creatives that were underperforming and dragging down platform CPMs, lowering expected results for other advertisers and publisher monetization yields as a result. We expect the benefits of a higher CPM to pay dividends over the course of 2019 and put AdColony in a position to deliver better results to clients on both the advertising and monetization side of the mobile ad equation.

Operational and technological improvements were done in concert with our product & engineering team in a model of open communication and proper development processes. Most importantly from a technological perspective was a large manhour investment in improving our Core™ ad serving algorithm systems. The goal of our Core™ model is to match the right ad to the right user at the right time — what ad will a user react most positively to given what we

know about their experience. As part of this process, we launched the improved version of Core™ which furthers improves the prediction leading to better install rates and higher yields for our publishers.

Combatting Fraud

Fraud was a major topic in the mobile ads industry in 2018. Countering fraud was a key part of AdColony's strategy with partners and publishers throughout the year. While ad fraud on mobile can take many forms, such as user-level fraud, click injection, and others, the most prevalent on major ad networks, like AdColony, is publisher-level fraud. AdColony rolled out a fresh set of tools designed by our product & engineering teams specifically to combat fraud, and began both automated and manual verification of self-serve publishers.

Publishing

Publishing is a critical part of how AdColony operates. If the ads the performance and brand sales teams are the product in a store, publishing is the store shelves. 2018 included significant efficiency gains, especially in the account management roles for existing publishers, which have been consolidated in our new operational hub.

Monetization is the lifeblood of the mobile industry today. Publishers of apps have overwhelmingly adopted "free-to-play" or "freemium" models for games, news, utilities, and every other app category. According

According to Statista, in 2018, 94.24 percent of Android apps and 88.18 percent of iOS apps were free.



to Statista, in 2018, 94.24 percent of Android apps and 88.18 percent of iOS apps were free. In order for these developers to make money, they can turn to three resources — ads, in-app purchases (IAP), and subscriptions. Most publishers opt for a combination of these strategies, depending on their app category, in an effort to monetize as many users as possible. Since many users will not pay more money for IAP or subscriptions, ads are often part of the revenue mix across app categories.

AdColony supports monetizing publishers in several key areas:

- High-quality monetization options. This includes our proprietary Instant-Play™ HD Videos, as well as our 2018 "adaptified" ad units, Aurora™ HD Videos, Aurora™ HD Playables, and our Dynamic End Card units.
- Extensive premium mobile ad demand. AdColony is able to offer publishers access to demand from the majority of the AdAge Top 200 global advertisers and demand from over 85 percent of the 100 top grossing app developers in the world.
- The AdColony Marketplace that offers real-time bidding (RTB) that brings advertisers, ad networks and agencies together with mobile publishers and app developers for an efficient, automated media buying and selling experience. Through the programmatic marketplace, publishers have access to

a range of demand-side platforms (DSPs), facilitated by new audience segmentation and expanded targeting capabilities, designed to improve monetization of publisher properties. Publisher customers can also choose the option of setting up private marketplaces for their inventory, which brings in diverse demand sources while still maintaining publisher control.

We've made significant progress in 2018 at improving our ad readiness, increasing options on the demand (ad sales) side and aligning those improvements with publisher needs to create a better product for our publishing partners.

Technology Leaders

One of the key industry trends in mobile monetization that looks to transform the industry in 2019 is advanced mediation. It's rare for an app to have a single monetization product included and mediation layers allow multiple ad networks to bid for which ad gets shown. This automated process has traditionally been in a "waterfall" model that, while functional, potentially left ad networks with high bids for views out in the cold due to the "first A, then B, then C" nature.

Advanced mediation methods came to the forefront in 2018. Header bidding, real-time-bidding (RTB), and parallel bidding are all similar forms of the same process. An ad request

AdColony is able to offer publishers access to demand from the majority of the AdAge Top 200 global advertisers and demand from over **85%** of the 100 top grossing app developers in the world.



is served to all ad platforms at the same time, creating something a lay-person would recognize as a true “action” for the ad impression. These solutions also provide better transparency to publishers, advertisers, ad networks, and mediators alike, and the chance to bid for every impression is a key change. In 2018 AdColony was at the forefront of this trend and worked with every major mediation partner implementing this new technology. In 2018 we were up live and testing with Fyber, Appodeal, and MoPub and will also be live and testing with Google in Q1 2019. These changes have placed AdColony at the forefront of the latest technological innovation in mobile ads. Penetration of these types of advanced mediation solutions amongst the Top 1,000 apps and beyond will grow in the new year and will help us deliver better results for advertisers and publishers alike in 2019.

Granular Control

Margin optimization was a key strategy for the Publishing team in 2018. With increased competition came pressure to enhance publisher effective cost per Mille (1,000 impressions) (eCPMs) which came at the expense of gross margin for AdColony. We invested heavily in driving the business in the first half of 2018 and these deals were key to securing positions in waterfalls and in ad zones with major publishers. There was modest success from these investments but it became clear that this strategy was not sustainable. Utilizing a granular optimization strategy the team was able to invest in a more targeted fashion allowing AdColony to drive revenue more effectively while returning margins to much healthier levels.

DSP Expansion

AdColony is in the unique position of functioning as both a demand-side platform (DSP) working with supply-side platforms (SSPs) and an SSP working with DSPs. During the second of 2018 AdColony expanded its partnerships in this space, increasing options for both advertisers reaching into AdColony's marketplace and developers taking advantage of wider demand. This expansion will continue into 2019.

SDK Penetration

AdColony's SDK has continued to improve over the course of 2018, includ-

ing expanded ad serving, better controls for publishers, and a 95 percent reduction in size. At the end of 2018, 3x penetration within AdColony's ad network reached 93 percent, with the most recent unified version 3.3.6 at 10 percent already.

Product & Engineering

Over the course of 2018, AdColony's product and engineering groups shifted from being two design-and-release focused groups within AdColony to a single unified organization with a strong, data-driven, decision making culture with a strong emphasis on open communication. This change under CTO Andrzej Dzius has led to great strides in release cadence, delivering tools and products that internal and external customers are asking for, and better positioned both Brand and Performance businesses for success in 2019.

Good Data Goes in, Good Results Come Out

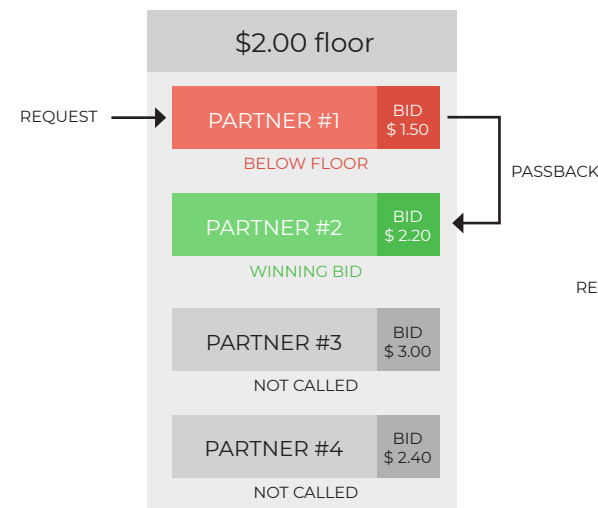
Part of this major shift has been an emphasis on measurement and building a strong data story for AdColony. To support brand advertisers we released SDK 3.3, which included measurement capabilities for ad viewability and result transparency supported by industry-leading measurement partners Moat, Integral Ad Science (IAS) and DoubleVerify (DV). To support performance (app install) advertisers we deployed “User Score” data science models that predict the Return on Ad Spend (ROAS) and Lifetime Value (LTV) of users who install mobile apps, allowing for better targeting and more effective campaigns.

This unique combination of data solutions positions AdColony as the only mobile ad network capable of measuring advertising outcomes using both brand measurement and performance ROAS data. In the second half of 2018, we continued investment in data by collecting more data from our 3rd-Party brand and performance partners such as AppsFlyer, Oracle, and Nielsen.

Supporting a Healthy Mobile Ecosystem

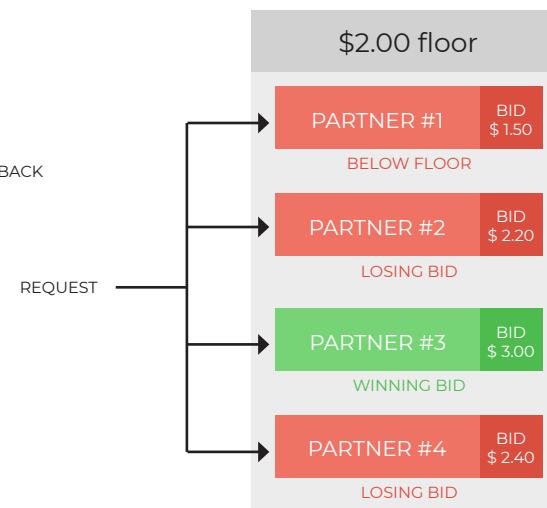
Working with our publishing growth and development teams, the AdColony Product & Engineering group took client requests as action items more than ever before. This in-

WATERFALL AUCTION



VS.

HEADER AUCTION



creased transparency and communication allowed a more widespread understanding of different client needs across a multitude of situations. To address these needs, our talented engineers, product managers, and project managers worked hard to conceive, plan, and release tools that allowed AdColony to efficiently and profitably help our clients meet their goals. These releases included margin override and granular pricing tools, smart and hard/soft floors, as well as fixed price ad zones.

We moved away from proprietary formats and continued to shift to a more open and accessible platform for Demand Side Platform (DSP), Supply Side Platform (SSP), and Programmatic partners. This included adding playables as a standard ad type that is supported in our network, both our internally developed Aurora™ HD Playables units and also support for 3rd party playables like our partners at CrossInstall. Most notable on the brand side is to add support officially for VPAID (the IAB's leading video ad technology).

Success through Adaptation

AdColony built its reputation on instantly available ads at a time when connectivity was spotty at best, using its patented Instant-Play™ technology. In 2018, with LTE networks readily available in many markets and wifi saturation high, the need for Instant-Play's technology in every single situation has been reduced. To address this, our product, engineering, creative, and ad operations teams planned and implemented a significant update to our technology that allows direct streaming of ad units in circumstances where a

full Instant-Play™ experience would have otherwise been unavailable. This change resulted in ad unit fill rates 5 percent higher in campaigns that were adapted compared to ad fill prior to the process. Over the course of the year, this shifted our ad mix from just 20 percent Aurora™ ads to 70 percent Adaptive Aurora™. Moving forward, we will only be creating adaptive Aurora™ units to maximize delivery metrics across the board.

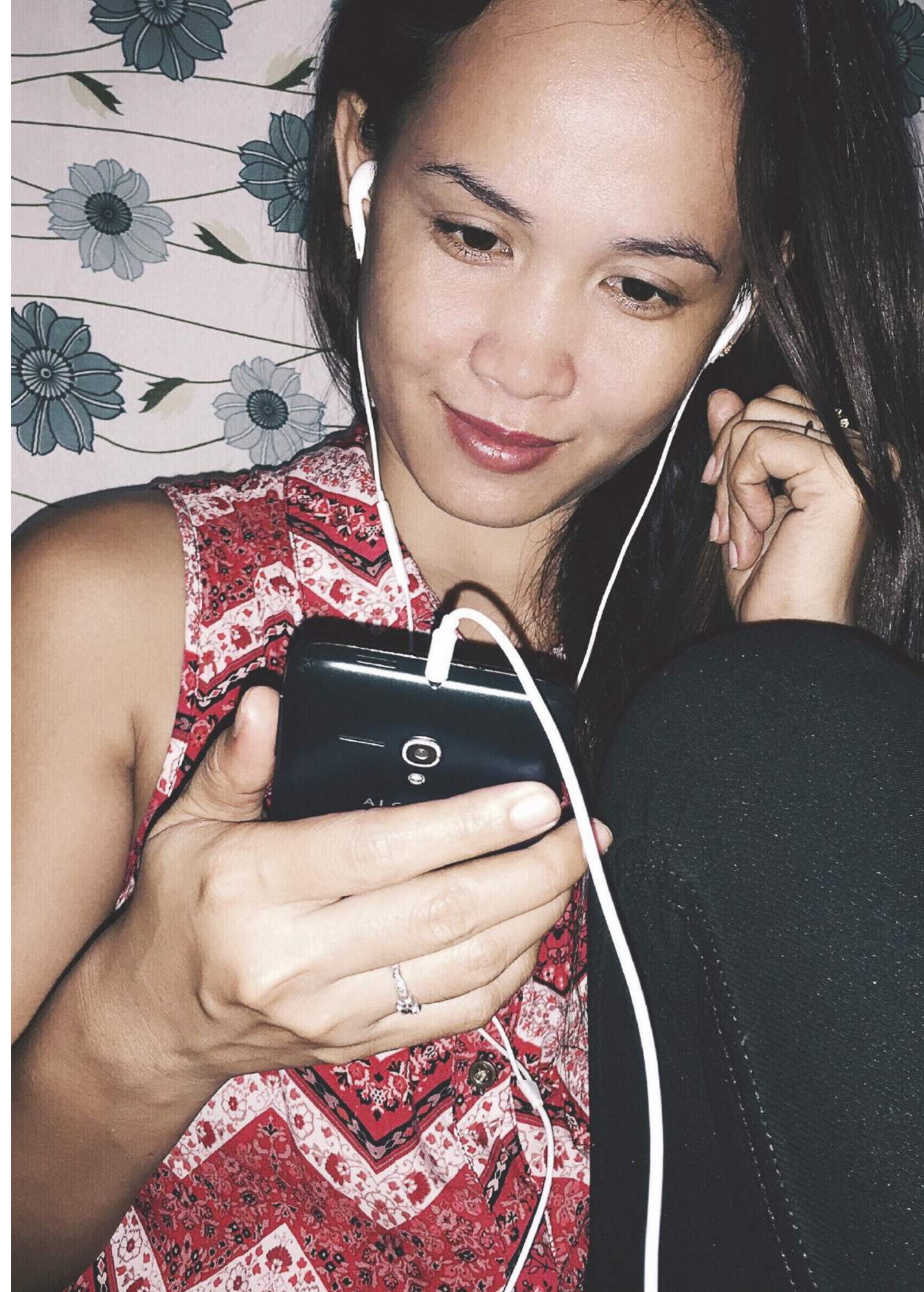
GDPR

While heavily investing in data for driving advertising outcomes, AdColony also invested heavily in ensuring GDPR compliance so that we can continue to execute on delivering advertising outcomes while respecting the privacy of end-users.

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 their GDPR information page at <https://www.adcolony.com/GDPR> and updated privacy policy at <https://www.adcolony.com/privacy-policy/>.



BEMOBI





BEMOBI

Subscribe to premium apps in a world of opportunities

The market for streaming of music as well as movies and TV series has been revolutionized during the last few years. Now people want to subscribe to apps as well. This opens up a world of opportunity for Bemobi, the leading provider of subscription-based apps and games.

Apps and games are not just great fun, they are considered to be a core part of the mobile experience for an increasing number of users. The cornerstone of Otello's Apps & Games offering is Apps Club by Bemobi, a leading subscription-based discovery service for mobile apps across developing markets. In short, it is a "Netflix-style" subscription service for premium mobile apps.

The world is turning to smartphones and almost all the smartphone growth is now coming in emerging markets. People are spending more time on their mobile devices and many are playing mobile games. This year, the mobile gaming industry is predicted to be approximately USD 75 billions, growing to more than USD 100 billions over the next 3 years. In emerging markets, mobile phones are becoming smarter while people are playing more and more games on their smartphones. People also want to subscribe to apps. Bemobi is playing into this market in a smart way.

Working with mobile operators, Bemobi's proprietary app-wrapping technology allows smartphone users access to unlimited use of premium mobile apps for a flat subscription fee. Users pay for this service through their mobile operator's billing system, making the service highly effective in emerging markets, where credit and debit card penetration is low.

Bemobi provides a comprehensive distribution and monetization service for premium, freemium and free application developers. Apps & Games is a rapidly growing business area in

Otello. The pace is picking up fast, and only during the last year, the revenue growth has increased substantially. This has been possible due to Bemobi's strength in distribution and monetization of premium mobile applications.

Bemobi in a nutshell

In a nutshell, 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 is able to offer its service to the consumers. Going into 2019, Bemobi has a wide range of partnerships with various carriers spread across the world, which makes it possible to offer subscription-based services and provide access to apps and games for 2.5 billion potential consumers.

In music and video you have Spotify and Netflix who offer subscription-based models. However, in apps and games we have not had the same kind of offering until quite recently. It is a huge global market for Bemobi, so far with little competition from the big tech players, as Bemobi has a first-mover advantage combined with a clear focus on emerging markets.

Geographical Expansion

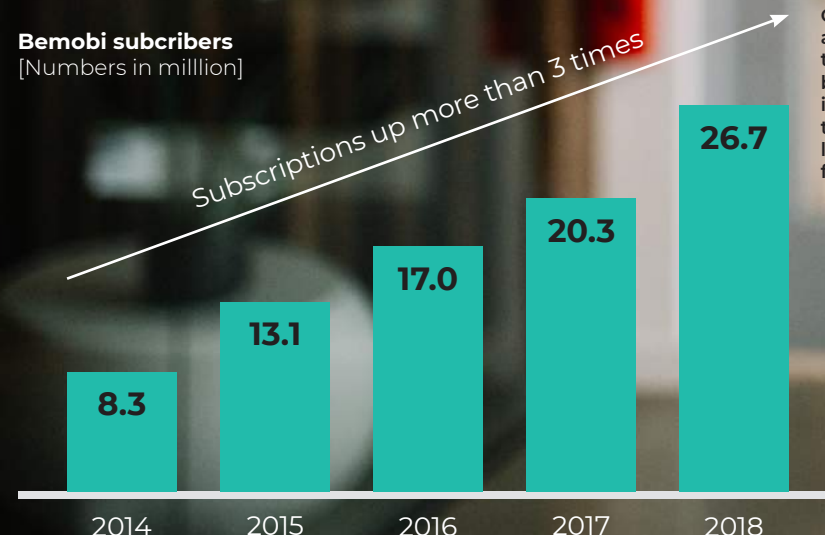
2018 was a key year in the global expansion of the apps & games subscription services. Bemobi further expanded its distribution partnership growing from 46 mobile carriers at the end of 2017 to 61 carriers covering most emerging countries at the end of 2018.

BEMOBI HAS A REACH OF

2.5 BILLION

POTENTIAL CONSUMERS

Bemobi subscribers
[Numbers in million]



On average, Bemobi generates a revenue stream of a little more than USD 2 per user on an annual basis. This is a rapidly growing and interesting market, but not the typical prioritized focus for established tech giants with a strong foothold in the western world.

In 2018 Bemobi launched Apps Club in several new markets such as Malaysia, Myanmar, Cambodia, extending the presence in South Asia region. There were also new Apps Club launches in Egypt, Algeria and South Africa, as well as in existing markets such as in Nepal with Ncell, in Ukraine with Lifecel and in Pakistan with Telenor amongst others.

With these new launches the addressable market of users for our paid services reached approximately 2.5 billion mobile subscribers. The total number of subscribers of Bemobi's paid services grew 31.4% from 20.3 million paying subscribers to 26.7 million by the end of 2018.

An evolution in channel mix

2018 was also a very important year in evolving the channel mix used to acquire new subscribers for Bemobi.

Bemobi's NoCredit & NoData smart captive portal platform that is used as a key acquisition channel in partnership with mobile carriers in Brazil, was launched with five new partners across multiple countries in 2018. New deployments in 2018 with Vodafone Tanzania, Tele2 Russia, Vodafone India, Idea India and Telenor Pakistan bring the total count of captive portal deployments outside of LATAM to 11. These successful launches are a very important milestone as they validate that the model that proved very successful in driving growth for Bemobi in Brazil can be replicated and scaled in geographies beyond Latam. 2018 also saw the first tentative steps into the monetization of the captive portals as digital ad inventory (i.e. selling ad space on the portal), with the first commercial sales of ad space taking place on NCell in Nepal.

In addition to the NoCredit & NoData portals, Bemobi has expanded its in-

26.7 MILLION
PAYING SUBSCRIBERS
BY THE END OF 2018

31.4%
GROWTH IN PAYING
SUBSCRIBERS IN 2018

vestment in other third-party acquisition channels beyond Opera Mini. These new channels not only provide a healthy diversification from Opera Mini but helps Bemobi to reach more users that it was not able to access before.

User growth accelerated in 2018 in all key geographies due to optimizations and a more balanced channel mix as we further invest into paid digital acquisitions and grow our NDNC portals. We have started to run third party paid advertising on the NDNC portal in Ncell in Nepal. This offers a new interesting potential revenue source.

New launches

In 2018, Bemobi launched Lifecell Ukraine Apps Club giving Apps Club 100% coverage in the Ukrainian market. There were also new Apps Club launches in Myanmar with Ooredoo and in Egypt with Orange.

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

In the second half of 2018, Bemobi launched Ooredoo Apps Club in Algeria, the first Apps Club in the Algerian market. There was also a first launch of Apps Club in the Malaysian market with Celcom and launches in South Africa with MTN and with Smart in Cambodia. In addition,

Android is the dominant mobile operating system with a market share of close to 90%



Overall service penetration on served addressable market grew from 0.9% to 1.2%

AppsClub

Apps Club is the official Android apps subscription offer for many of the top mobile carriers and smartphone OEMs in the world. Apps Club is the leading Apps subscription service in terms of addressable market reach, content quality as well as in total active subscribers. Apps Club reaches ±2B and unlocks the potential of Apps Distribution and monetization in Emerging markets. With emerging markets in mind, it has no need for credit cards as it provides carrier billing for 100% of its addressable users, therefore unlocking a huge monetization potential where credit card penetration is low. Also, there is no need for a data plan to download new apps – all app downloads within Apps Club can be done for free independently of users having purchased a mobile data plan, making the service accessible to all.

Bemobi launched a NoCredit portal with Tele2 Russia, this being our first NDNC portal in Russia.

In late 2018, we launched an updated premium version of the Games Club with Oi that now includes PC games as part of the subscription, as well as the original mobile games (similar to the extended game services launched with TIM in 2017 that included XBOX games).

In International markets, we have started rolling out our Kids Club product, having launched 5 such Kids Clubs in late 2018, in South Asia, South Eastern Asia and CIS. 9 Kids Clubs in total have now been launched, and we will proceed with launches in other International markets. Further, in the fourth quarter of 2018, we launched our 2 first Health Clubs in Belarus and Ukraine.

New products paving the way ahead

In 2017, Bemobi started to bundle some of its subscription 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 also in 2018.

As part of these bundle agreements, we closed a new agreement and launched a version of our Games Club offer to mobile carrier Claro's post-paid subscribers.

In International markets, we had a successful data bundle launch with Hutch 3 Indonesia, which we are trying to replicate with other Asian operators.

Bemobi signed many new high-profile game/content publishers to join its distribution platform, including

leading brands such as Disney and Viacom during the year.

Further, Bemobi expanded the specialized stores catering for kids as well as fitness and health audiences. During 2018 the groundwork has been done for additional services to be launched during 2019 in areas like security, discount / cashback, audio-books and dating.

New opportunities

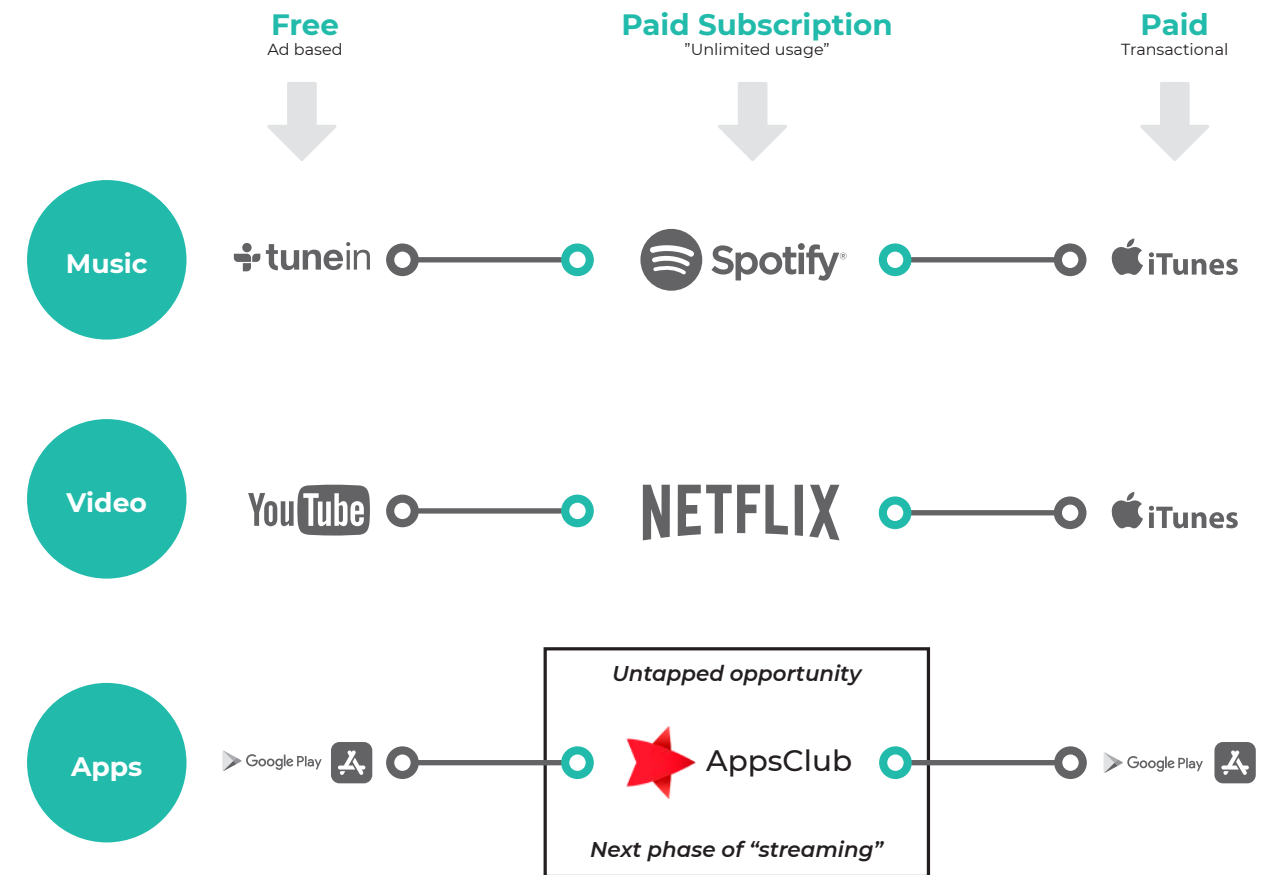
In most countries where Bemobi is offering its services, Android is the dominant mobile operating system with a market share of close to 90 percent. At the same time, with the exception of the US, emerging countries dominate in terms of app downloads. However, in these markets monetization is difficult for app developers. In short, this provides an interesting opportunity for Bemobi, as it offers a totally new way of distributing apps and games by connecting users, mobile carriers and app developers to the benefit of all parties. The result is more fun for mobile customers, new revenue streams for mobile operators and increased monetization for mobile app developers. However, monetization is not easy in a lot of these markets as credit cards are not widely available. Not everyone has a credit card, but in many developing countries, almost everyone has a mobile phone. It is mostly prepaid plans, and through Bemobi, customers are given the opportunity to use airtime as a way of paying for digital content. Bemobi is based on the strategy of closing the gap between all of these differences and difficulties. The result has become a very scalable, rapidly growing and profitable business.

As an example, limited data packages as a bundled part of the mobile plans in emerging markets, could

Bemobi is closing the monetization-gap

Otello's focus within apps and games is on emerging markets. In many ways, Bemobi is offering to close the so-called monetization-gap between the western world and emerging markets when it comes to games and apps. In the western world, you typically have a credit card or you have a lot of advertisement in the games itself, meaning it is very easy for the developers to make money. You can either sell the game for a dollar or so, or you can let people download the game for free, and you can monetize through advertisement.

However, in emerging markets these mechanisms play out differently, as there is difficult to monetize a free game through mobile advertising. At the same time, consumers typically might not have a credit card or they do not want to buy a game, meaning it is very difficult for game developers to make money. Bemobi offer game and app developers to put their games and app into Bemobi's AppsClub, which is a subscription-based app store, which becomes a hub of getting access to attractive games and apps for the consumers. This opens up an unique opportunity for game and app developers who are able to monetize in a way they have not been able to do so far.

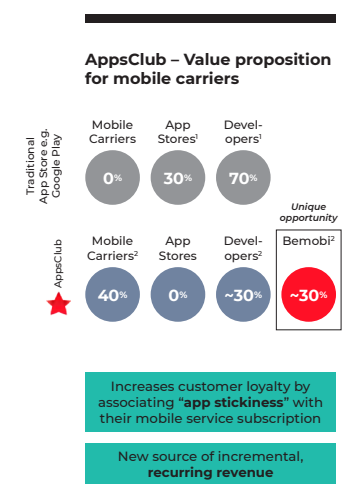


create difficulties, if it would result in customers not downloading apps and games even though they wanted to do so. In order to resolve this, Bemobi has developed a solution that makes it possible to deliver apps in smaller sizes, partly leveraging WIFI for free-access to download and distribution. At the same time, Bemobi are able to offer mobile operators a platform for interacting with its customers offering additional data packages and other services which actually is tailor-made and delivered by Bemobi. In this way, Bemobi also adds value to the mobile operators, contributing to create new and additional revenue streams across its customer base. At the same time, Bemobi benefits from better access and increased potential engagement related to subscription of apps and games through its Apps Club.

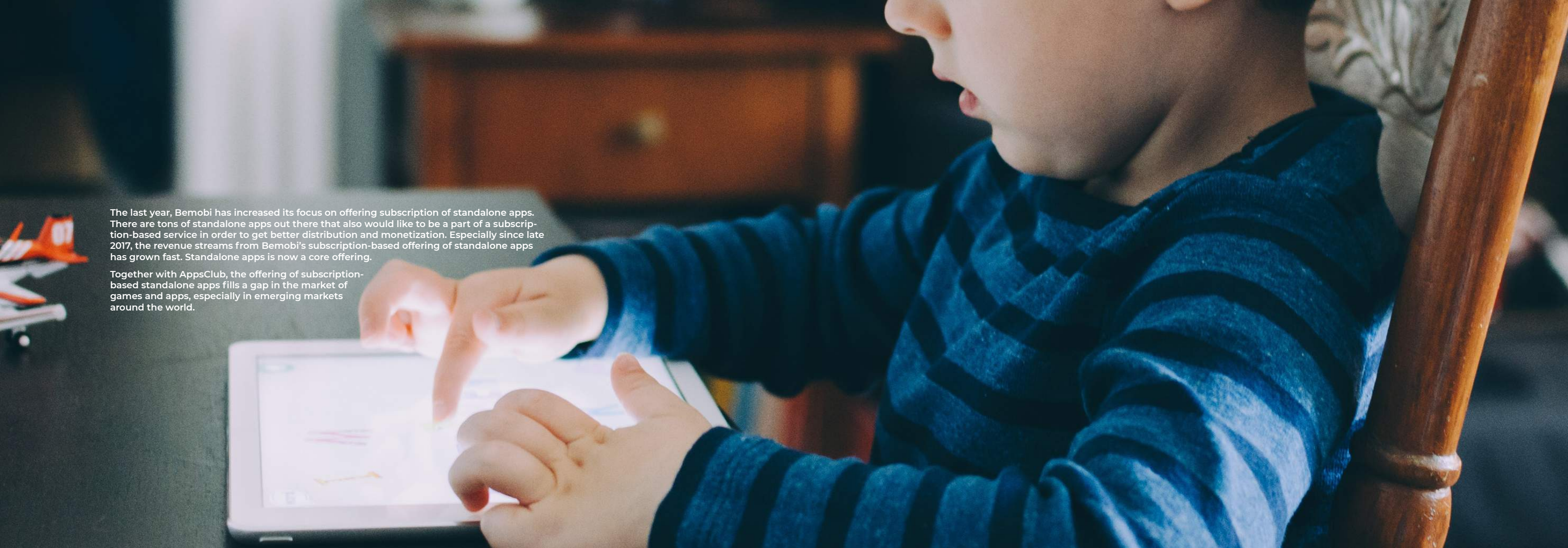
Apps Club by Bemobi is a concept developed on the basis of a crucial acknowledgment: The app economy has really just been two-dimensional, dominated by two strongly differen-

tiated business models, the left and the right. Either it is based on offering free apps purely based on advertising, in contrast to paid apps which users either pay to download or customers do small in-app transactions. Although this market is being highly dominated by 2 players, Google and Apple, Bemobi realized that there is a great opportunity to develop the middle ground, as it offers a set of untapped business opportunities. Combined with the strategy of pursuing these opportunities primarily in emerging markets, where the needs of a new business model was apparent while the potential was underexposed, Bemobi set out on an encouraging journey a few years ago. Instead of replicating what Google and Apple seem to be doing really well, Bemobi utilized the opportunity to bundle a lot of good apps at a much lower cost point making it both competitive and appealing for that specific segment.

Today, Bemobi primarily offers its services through Apps Club. At the same



Note: ¹ Based on Google Play and Apple Appstore standard revenue share terms.
² Weighted average revenue share for mobile carriers and developers from Bemobi's agreements.



The last year, Bemobi has increased its focus on offering subscription of standalone apps. There are tons of standalone apps out there that also would like to be a part of a subscription-based service in order to get better distribution and monetization. Especially since late 2017, the revenue streams from Bemobi's subscription-based offering of standalone apps has grown fast. Standalone apps is now a core offering.

Together with AppsClub, the offering of subscription-based standalone apps fills a gap in the market of games and apps, especially in emerging markets around the world.

BEMOBI'S KEY SUBSCRIPTION SERVICE OFFERING

Apps & games subscription services



1. AppsClub
Bundles of top apps & games in a low price point subscription model



2. Standalone subscription apps
Distribution of standalone subscription apps



3. Mobile couponing
Market-leading mobile couponing subscription service in Brazil

Integrate people and mobile content through technology and subscription-based models

time, as another opportunity along with Apps Club, we realized there are other services that we can monetize together by offering specific apps as a subscription. Through Apps Club, which is Bemobi's primary source of revenue and growth, the company is curating what is considered to be the most relevant and best apps. It is offered as a subscription giving access to a lot of apps. Sometimes Bemobi can offer specific bundles tailored to fit different user groups, including potential bundles for kids, sometimes for gamers, sometimes for general utility. In short, different packages ad-

dress different needs. In the vast majority of the cases, it is offered through the mobile carrier. However, Bemobi has also entered into partnerships with OEMs, including the very largest producers of mobile phones, who preload the subscription service into all their phones. This results in valuable branding and distribution capabilities making it possible to promote the service in cooperation with the partner. Most of the time, Bemobi's business model does not require the use of a credit card as the mobile carrier's established billing routines are utilized for payment. Most of the

DISTRIBUTION CHANNELS

1. Mobile carriers promotions

When a deal is signed, the mobile carrier commits to doing marketing and promotion of the new service



- SMS/MMS/RCS/ messages campaigns
- App Push Notifications
- Billing insert campaigns
- Store promotions and bundles
- Magazine inserts and TV spots

2. Paid online campaigns

Partnering with leading apps and web properties in emerging markets to promote Bemobi's service offering.



- Revenue share based (e.g. Opera Mini)
- Paid per acquisition - CPA

3. Co-owned channels with mobile carriers

Bemobi's turnkey platform for mobile carriers captures users browsing and voice sessions when they are out of credit/data to promote its services



- NCND portals and interactive voice response

Control increases

time, the subscription is initiated by an offer of a free trial period, meaning that no payment is due upfront. Typically, Bemobi could offer access to a glimpse of the content that the customer would consider to be of great value for a week or two weeks, and after that period of time, it becomes a paid subscription.

Bemobi has partnerships in two different parts of the value chain. Carriers are offering distribution while content partners or app developers are offering access to apps and games. Bemobi manages the set-

tlement of revenue share, including dozens of revenue flows coming from different carriers as well as millions of consumers. The revenue is divided, based on agreed metrics, such as usage, and it is split between the different providers across 50 or 60 countries. Bemobi provides the technology platform, and the apps, connecting users with great content from publishers that makes their best apps available so that Bemobi can bring them to the consumers of mobile operators across the world. The value proposition is clear for all parties and the model is sustainable.

A yellow taxi is driving on a city street at night. The background is blurred, showing city buildings and other vehicles. The taxi is in the foreground, moving from left to right. The word "SKYFIRE" is overlaid on the right side of the image in a white box.

SKYFIRE

SKYFIRE

Fast is the new slow

Today, typically 60 percent or more of total mobile data consumption is video content, putting pressure on the operator's existing network capacity. Skyfire enables mobile operators to optimize its network performance and quality as data traffic and the consumption of mobile video is exploding among mobile users. The unique technology also enables operators to pursue new business models and revenue streams while benefiting from increased technological flexibility as customer data is compressed.

At the same time, mobile operators face increasing downward pressure on average voice revenue per subscriber, and as competition heightens, operators around the world are looking for new sources of revenue, differentiation via data services as well as network performance and quality, and solutions to manage the explosion of mobile video and multi-media data network traffic spurred by the rapid adoption of smartphones and tablets.

Fast as a rocket

During 2017, Skyfire began marketing itself under the RocketColony name – a break from the original Skyfire name just as the company has shifted its focus to new encrypted video optimization technologies. Skyfire remains the legal name of the company.

Rocket Optimizer is Skyfire's flagship product addressing operator needs in regards to managing the explosion of mobile video data traffic. It is designed for operator deployment and it provides operators with an instant 60 percent boost in bandwidth capacity across smartphones, tablets and laptops. Rocket Optimizer allows

mobile operators to leverage cloud computing to optimize and compress video and other multimedia traffic, for example on congested 3G and 4G LTE cell towers, enabling operators to boost the capacity of their networks significantly while at the same time offering better network performance and quality to their mobile customers.

In addition to optimization, Rocket Optimizer enables myriad new monetization use cases by allowing operators to set and control a target video quality for different classes of users or for different data packages. For example, an operator might ensure the highest possible video quality for "Gold" users, 480p quality video for "Silver" users and 360p video for "Bronze" users. Alternatively, a new "Free Video Off-Peak" data package could be introduced that limits video to 480p and allows unlimited video consumption in off-peak hours – thereby winning video-hungry customers from competing operators while ensuring the network is protected. These are just a few examples of the many monetization options enabled by the very flexible Rocket Optimizer system.

PROVIDES OPERATORS
WITH AN INSTANT

▲ **60%**

BOOST IN BANDWIDTH
CAPACITY ACROSS
DEVICES

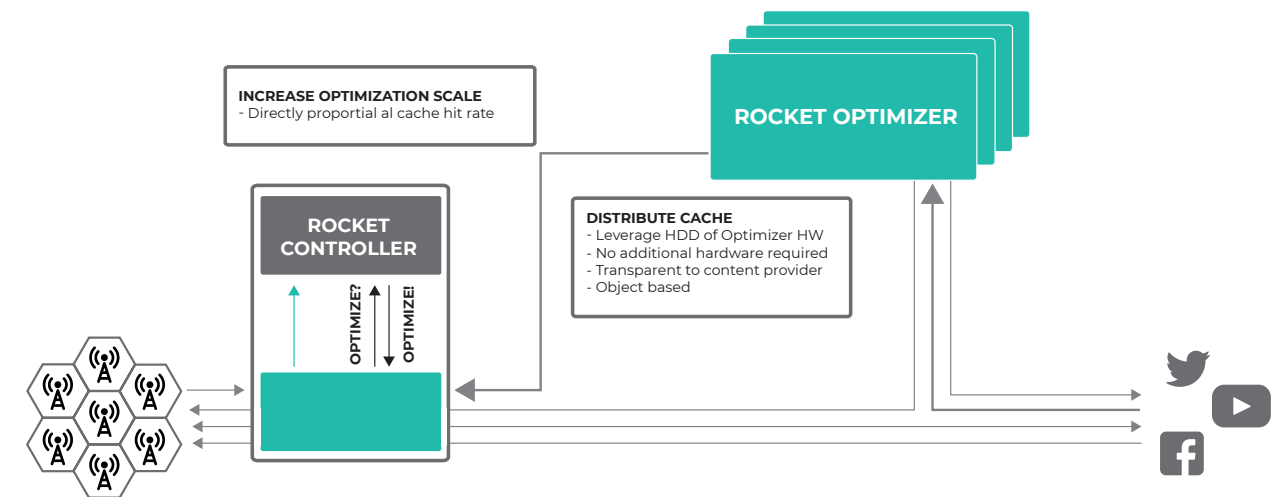
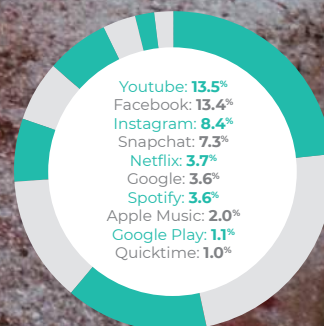




Bandwidth Drivers

Video continues to be a huge problem in terms of capacity on mobile operators' networks. Here is a recent example from Telenor in Norway revealing the primary bandwidth drivers based on which services that are consuming bandwidth in the Telenor network. The first 5 services are all video-heavy services, with YouTube and Facebook at the top. In fact, today worldwide more than 60 percent of traffic is typically driven by video. There are a few driving forces behind this. First of all, cheap and unlimited data plans are offered by mobile operators that make people feel they don't have to conserve data. Earlier, many waited to get on a WiFi network, however, now they use video and play video with less concern for the impact on their pocketbooks. Wherever. Whenever. Secondly, video quality continues to go up. Just a few years ago, a typical mobile video was only 360p, or maybe 480p. Today, many services offer HD, and 4K video will soon become popular on mobile networks. On top of increasing video consumption, the increased demand for high quality video is pushing bandwidth higher.

2017 TELENOR BANDWIDTH DRIVERS



Rocket Optimizer

The Rocket Optimizer™ NFV (Network Functions Virtualization)-friendly mobile video, audio and data optimization solution, which can detect when specific users are facing poor network connections and then intervene in milliseconds to improve network quality and performance for that user, helps operators manage unpredictable spikes in demand. Rocket Optimizer™ can optimize encrypted (HTTPS, QUIC, or DRM-protected) and unencrypted (HTTP) video traffic while minimizing start times, rebuffering, and stalls on video and audio streams that frustrate mobile users around the world. The Rocket Optimizer™ solution provides operators with an instant 60% boost in bandwidth capacity while enabling new monetization strategies that help the mobile operator's bottom line. Its flexible cloud architecture and intelligent traffic steering dramatically reduce an operator's total cost of ownership, in comparison with the cost of legacy in-line hardware solutions, while enabling the operator to provide best quality of experience (QoE).

Skyfire has signed distribution partnerships with Huawei and Nokia. In particular, Huawei has become a very important partner, and the joint Skyfire / Huawei is now generally available and is live in customer networks.

Video continues to be a significant problem on mobile operators' networks. As long as video content keeps becoming more and more popular among users, video optimization technology will continue to be a core part of the solution for mobile operators.

Focus on profitability

The traditional approach to Rocket optimization technologies has been wanting to optimize - to crunch

down the traffic as much as possible - so that it reduces the investment in CapEx. However, the motivation has changed. Now the focus is on improving the quality of experience among users while utilizing the technology to monetize, for example by introducing new packages similar to unlimited packages offered in the US, with an objective of making video optimization technology part of the package.

In 2018, Skyfire continued to focus on growing its pipeline and increasing its market share. As a part of this, Skyfire focused on making sure that the core business is profitable.

A person with long brown hair is lying on a dark-colored couch, wearing a dark top. They are holding a black remote control in their right hand and eating popcorn with their left hand. A white bowl filled with popcorn is on the couch next to them. The scene is dimly lit, suggesting a movie night or relaxation time.

VEWD



VEWD

Connects consumers with the content they love

Vewd Software is the market leader in enabling the transition to OTT. Vewd's suite of OTT solutions enable our customers and partners to reliably, seamlessly and efficiently reach connected device viewers. We help companies like Sony, Verizon, Samsung and TiVo benefit from the growing number of consumers who watch content on connected devices.

With over 15 years experience in the connected TV device and OTT industry, we boast technological expertise to continuously satisfy the ever-evolving demands of the marketplace. Our market-leading products help enable the best streaming video services and unparalleled user experiences on all types of devices for audiences around the world.

Vewd offers proven and flexible solutions for overcoming the difficult challenges and escalating costs associated with the rapidly evolving OTT space. As experts in developing software solutions spanning client to cloud, we provide customers and partners the products they need to connect consumers with the content they love.

One size doesn't fit all

Whether you want a complete turn-key solution, or prefer to mix-and-match from a combination of Vewd's world-class products and modules, it's never been easier or more flexible to build a differentiated and modern Smart TV experience.

Deep analytics

Gain insights into how viewers interact not only with the product, but also with the apps and content available through Vewd OS. Those analytics can then be used to further test, refine and deploy new user experiences on devices.

Puts the brand in focus

An easy-to-use toolkit allows comprehensive alterations to the look, feel and branding to make every device portfolio distinct and unique.

After-sale monetization

The story doesn't have to end once the TV is sold. Vewd OS lets manufacturers share revenue after the sale, tapping into significant recurring revenue opportunities.



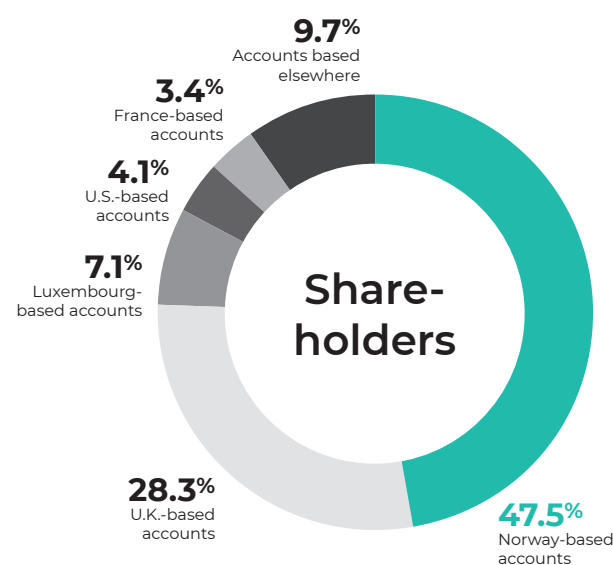
Investor Relations

INVESTOR RELATIONS POLICY

Communication with shareholders, investors and analysts, both in Norway and abroad, is a high priority for Otello. The company's objective is to ensure that the financial markets have sufficient information about the company in order to be able to make informed decisions about the company's underlying value. Otello arranges regular presentations in Europe and the United States and holds frequent meetings with investors and analysts. Important events affecting the company are reported immediately.

LARGEST SHAREHOLDERS at December 31, 2018

Shareholder	Owners and voting share
DEUTSCHE BANK AG	17.5%
LUDVIG LORENTZEN AS	8.5%
SUNDT AS	6.3%
AREPO AS	5.3%
VERDIPAPIRFONDET DNB NORGE (IV)	4.4%
VERDIPAPIRFONDET DNB TEKNOLOGI	4.2%
J.P. MORGAN BANK LUXEMBOURG	3.7%
SOCIETE GENERALE PARIS	3.3%
GOLDMAN SACHS INTERNATIONAL	3.2%
EUROCLEAR BANK S.A./N.V.	2.9%



2017	Country breakdown shareholders:	2018
67.3 %	Norway-based accounts	47.5 %
8.8 %	U.K.-based accounts	28.3 %
4.1 %	Luxembourg-based accounts	7.1 %
4.8 %	U.S.-based accounts	4.1 %
4.2 %	France-based accounts	3.4 %
10.8 %	Accounts based elsewhere	9.7 %

Company	Analyst	Telephone
ABG Sundal Collier ASA	Aksel Engebakken	+47 22 01 61 11
Arctic Securities ASA	Henriette Trondsen	+47 21 01 32 84
Danske Securities ASA	Martin Stenshall	+47 85 40 70 73
DnB NOR Markets	Christoffer Wang Bjørnsen	+47 24 16 91 43
Pareto	Fredrik Steinslien	+47 24 13 21 54

Petter Lade
Chief Financial Officer

KPI [2014-2018]	2014	2015	2016	2017	2018
Revenue (\$ million)	480.8	454.2*	532.2*	419.0**	275.4
Adjusted EBITDA (\$ million)	118.0	55.9*	49.4*	13.5**	9.4
Operating cash flow (\$ million)	58.6	56.0*	41.4*	6.7**	(0.2)

*Excluding the consumer and TV business
**Excluding the consumer, TV and SurfEasy businesses

Executive Team

of Otello Corporation ASA



Lars Boilesen
Chief Executive Officer

Lars Boilesen is the Chief Executive Officer at Otello Corporation ASA, a position he has held since 2010. He also serves as CEO of Otello's subsidiary AdColony, Inc. Lars has extensive experience in the software and tech industry and has held executive positions in various corporations prior to his joining Otello. He was Executive Vice President of Sales & Distribution at Opera Software ASA from 2000 to 2005 and served on the Board of Directors of Opera Software ASA from 2007 to 2009.

From 2005-2008 he was Chief Executive Officer for the Nordic and

Baltic Region at Alcatel-Lucent. Lars started his career in the LEGO Group as Sales and Marketing Manager for Eastern Europe. After that, he headed the Northern Europe and Asia Pacific markets for Tandberg Data. He has been Chairman of the Board of Directors of Napatech since September 2017 and currently serves as Chairman of the Board of Directors at Cobuilder AS.

Lars holds a Bachelor's Degree in Business Economics from Aarhus Business School, and post-graduate diploma from Kolding Business School.



Petter Lade
Chief Financial Officer

Petter was appointed Chief Financial Officer in January 2017. He is responsible for the financial management of the Group and oversees financial planning and analysis, treasury, M&A and investor relations. Petter comes from the position as Director, IR & Corporate Development and has held several key roles within controlling, M&A and IR since joining Otello in 2006.

Before joining Otello, Petter was Finance & Commercial Consultant at Dell EMEA and responsible for the financial and commercial element for pan-EMEA or Global Dell Managed Services (DMS) deals. Prior to that, Petter worked as Business Controller/Bid Analyst for Dell Norway. He began his career with Verdens Gang (Schibsted) as a controller.

Petter obtained a Siviløkonom degree (four year program in economics and business administration consisting of three years at bachelor level and one year at master level) from BI Norwegian Business School.



Roar Olbergsveen
Chief Accounting Officer

Roar is the Chief Accounting Officer at Otello Corporation ASA, a position he has held since March 2017. Roar is responsible for the financial reporting, accounting and compliance functions across the Group. Roar joined Otello in April 2008, when he took on a role as Head of Internal Audit, working with corporate governance, mergers & acquisitions, tax compliance together with being responsible for external financial reporting, transfer pricing policies, and reporting to the Audit Committee.

Prior to joining Otello, Roar was a State Authorized Public Accountant (CPA) at KPMG. Roar spent almost 8 years at KPMG working with software, technology and other large clients.

Roar obtained a Master in Accounting and Auditing from NHH, Norwegian School of Economics (CPA).

The Board of Directors

Otello Corporation ASA

Audun Wickstrand Iversen Chairman

Audun Wickstrand Iversen is a private investor. Over the last ten years, he has focused primarily on the telecom, IT and alternative energy industries. Previously, Iversen worked as a financial analyst at DNB Markets and as a portfolio manager at DNB Asset Management, with responsibility for global telecoms and alternative energy. He holds a degree in business administration from the Norwegian School of Management (BI) as well as degrees from the Norwegian School of Economics and Business Administration (NHH), and the University of Oslo.

Birgit Midtbust Member

Birgit is a Norwegian lawyer. She currently works for one of Norway's largest corporate law firms, Advokatfirmaet Schjødt AS, where she has been a part of their M&A and Capital Markets team since 2007. She specializes in acquisitions and sales of companies, mergers, investment structures and ownership structures and has been involved in a substantial number of transactions both in Norway and abroad. She holds a Master in Law from the University of Bergen, Norway.

Sophie Charlotte Moatti Member

SC Moatti is the managing partner of Mighty Capital, a Silicon Valley venture capital firm, and Products That Count, one of the largest communities of product managers in the world. Previously, she built products that billions of people use at Facebook, Nokia and Electronic Arts. Andrew Chen, General Partner at Andreessen Horowitz, called SC "a genius at making mobile products people love." For more information, visit MightyCapital.

André Christensen Member

André Christensen has 25+ years of extensive strategic, entrepreneurial, and operational experience from the Media, Internet, and High Tech industries across Europe, North America and Asia. He's currently the CEO/Founder of the OTT/IPTV service provider FirstLight Media in Los Angeles/Toronto. Before this he led product development for AT&T's entertainment services across properties such as DirecTV, NOW, U-Verse and many more following their acquisition of Quickplay Media in 2016 where he was the COO/co-owner. He's also been the SVP Business Operations and Strategy at Yahoo globally based

out of Sunnyvale after 12 years with McKinsey & Partners as a partner in Toronto and Oslo. Mr. Christensen holds a board position with InterMedia in Mountain View. His MSc/DiplKfm degree is from Universität Mannheim, Germany.

Frode Jacobsen Member

Frode Jacobsen is the CFO of Opera Limited, the Nasdaq listed company that now owns the Opera Browser business, which was spun off by Otello in 2016. During the four years prior to the sale of the browser business, Frode held various roles in the Otello group, ultimately serving as CFO. In the period 2008-2013, he was a management consultant with McKinsey & Company, based in Oslo and San Francisco. Through his professional roles, Frode has developed substantial expertise in strategic planning and processes, including end-to-end acquisition and divestment initiatives, and a thorough understanding of Otello's businesses. Frode holds a BSc of Economics and Business Administration from NHH in Norway, and a MSc of Management from HEC Paris.



AUDUN WICKSTRAND IVERSEN
(CHAIRMAN)



BIRGIT MIDTBUST
(MEMBER)



SC MOATTI
(MEMBER)



ANDRÉ CHRISTENSEN
(MEMBER)



FRODE JACOBSEN
(MEMBER)



Report from the Board of Directors

In 2018, Otello delivered on many of its key objectives. In the AdColony business, considerable cost-cutting was achieved, and there was a focus around fewer and more profitable products and markets. In the Bemobi business, continued growth was achieved. In addition, Otello was successful in its claim against the majority owners of Vewd Software (formerly Opera TV), arising from their refusal to approve the sale of Otello's remaining ownership stake.

During 2018, Bemobi continued its global growth despite significant FX headwinds versus 2017. By settling the earnout agreement with the former Bemobi shareholders, we ensured alignment between the Bemobi management team and Otello. We proceeded to meet a limited number of international investors during late 2018 in order to consider whether an IPO or demerger of Bemobi could represent realistic and value enhancing opportunities. Feedback from investor meetings has been positive and supportive of such opportunities, and based on this feedback we have initiated a process with the intention pursuing a UK listing of Bemobi during the second half of 2019.

AdColony continued its streamlining of the organization and reduced OPEX by over 50% by year-end, compared to early 2017. As a result of these cost savings and focus on gross margins, AdColony was able to deliver positive Adjusted EBITDA in the fourth quarter of 2018, and is expected to return to profitability in 2019.

We continued our share repurchases in 2018, buying back a total 2.5 million shares at a total expense of \$5.5 million. In late 2018, a total of 9 mil-

lion shares were cancelled. Further, as the year ended, Otello has concluded all earnout agreements and holds no interest-bearing debt.

COMPANY OVERVIEW

Otello Corporation ASA, the parent company of the Group, is domiciled in Norway. The Company's principal offices are located at Gjerdrums vei 19, Oslo, Norway. The company is a public limited company that is listed on the Oslo Stock Exchange under the ticker OTELLO.

Otello'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.

AdColony is a global business headquartered in the United States, in addition to larger offices in Turkey and Singapore. Bemobi is headquartered in Brazil, with offices in Ukraine and Norway. The Skyfire business is based in the United States.

Following the sale of the Group's Consumer business and the TV business in 2016, changes in the Group's internal reporting processes resulted in the three remaining business units being reported separately to Group Executive Management. Otello therefore reports three segments: AdColony (Mobile Advertising), Bemobi (Apps & Games), and Skyfire (Performance & Privacy). In addition, Corporate costs are presented separately.

The following are Otello's segments as at December 31, 2018:

AdColony (Mobile Advertising)

AdColony is one of the largest mobile advertising platforms in the world

ADCOLONY IS ONE OF THE LARGEST MOBILE ADVERTISING PLATFORMS IN THE WORLD WITH A REACH OF MORE THAN **1.5 BILLION USERS**

Our locations

AdColony is a global business headquartered in the United States, in addition to larger offices in Turkey and Singapore. Bemobi is headquartered in Brazil, with offices in Ukraine and Norway. The Skyfire business is based in the United States.

with a reach of more than 1.5 billion users globally. AdColony provides an end-to end platform for brands, agencies, publishers and application developers to deliver advertising to consumers on mobile devices around the world. AdColony delivers highly interactive and engaging advertising experiences across all mobile formats with particular strength in video and full screen interactive rich media ads.

AdColony revenue is primarily based on the activity of mobile users viewing ads through 3rd Party Publishers, such as developer applications and mobile websites. Revenue is recognized when 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 of mobile advertisements.

Bemobi (Apps & Games)

The cornerstone of the Bemobi business 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.

Bemobi’s revenue is primarily comprised of: i) subscription revenue when an Android user purchases a subscription from a “co-branded” mobile store, or a white-label operator-controlled version of the mobile store, known as Apps Club, and ii) the Bemobi Mobile Store, a feature phone platform, when a user purchases a premium app.

Skyfire (Performance & Privacy)

This segment consists of Skyfire’s offering of data compression technology with Rocket Optimizer™. Revenue is primarily comprised of license fees.

Corporate Costs

Corporate costs comprise primarily 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) certain costs related to business combinations and restructuring processes.

In addition, Otello has retained preferred shares equivalent to 27% of the common equity of the new parent of Vewd Software AS (formerly Opera TV AS).

Discontinued operations

The SurfEasy business, divested during 2017, is presented separately as discontinued operations in the 2017 consolidated statement of comprehensive income. See Note 16 Discontinued Operations in the Consolidated financial statements for further information regarding these transactions

FINANCIAL SUMMARY

Income statement

Otello’s operating revenues fell by 34% to \$275.4 million in 2018 (2017: \$419.0 million), driven by a decline in the AdColony business, offset by steady growth in Bemobi. Operating expenses, excluding impairment and restructuring expenses, decreased by 34% to \$296.1 million (2017: \$450.9 million), with publisher and revenue share cost decreasing by 35%. Otello delivered EBIT (excluding impairment and restructuring expenses) of \$-20.7 million (2017: \$-31.8 million), due primarily to weak performance from AdColony. Otello recognized an impairment loss of \$93.3 million in 2018. The vast majority relates to goodwill and other intangible assets in the AdColony business. The background for this is the decrease in revenue and EBITDA in AdColony in 2018. This, in turn, is due to a focus around fewer and more profitable products and markets, discontinued customer relationships and products, and an overall reduction in the business size which is reflected in future cash flow forecasts.

A loss before income taxes (including impairment and restructuring expenses) of \$-117.2 million was recognized in 2018 (2017: \$-62.9 million). Provision for taxes resulted in an income of \$24.5 million in 2018 (2017: tax expense of \$4.0 million) due primarily to the tax effect of a merger of entities in the Bemobi business and increased deferred tax assets. The loss for the period was \$-92.7 million (2017: \$-66.9

OPERATING REVENUE OF

\$ 275.4
million

million). Basic and diluted earnings per share from continuing operations were both \$-0.66 (2017: \$-0.46).

Revenues

Otello’s operating revenues fell by 34% to \$275.4 million in 2018 (2017: \$419.0 million).

In 2018, Bemobi experienced growth in spite of currency headwinds, whilst AdColony experienced a significant decline in revenue.

AdColony was the largest source of revenue in 2018 as in 2017. AdColony revenues fell by 40% compared to 2017. The decline in revenue was 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 continued underlying growth, and LATAM revenues grew by 8% on a constant-currency basis. International revenues increased by 34% in 2018. Total revenues grew by 2% as measured in USD, compared to 2017. The underlying growth was driven by the strong growth of both LATAM and International subscribers.

Cash flow

Net cash flow from operating activities in 2018 totaled \$-0.2 million, (2017: \$7.9 million, of which \$1.2 million was related to discontinued operations). Otello’s cash balance was impacted negatively in 2018 by earnout payments of \$36.5 million, capitalized R&D of \$11.5 million, share repurchas-

	2018		2017	
Revenues per segment	[\$ million]	%	[\$ million]	%
AdColony (Mobile Advertising)	220.6	80 %	364.9	87%
Bemobi (Apps & Games)	54.0	20 %	52.9	13%
Skyfire (Performance & Privacy)	0.5	0 %	2.6	1%
Corporate and eliminations	0.3	0 %	(1.3)	0 %
Total Group	275.4		419.0	

es of \$5.5 million, and an FX impact of \$4.1 million. As of December 31, 2018, the Group had a cash balance of \$27.5 million (2017: \$86.0 million) with no interest-bearing debt.

Balance sheet

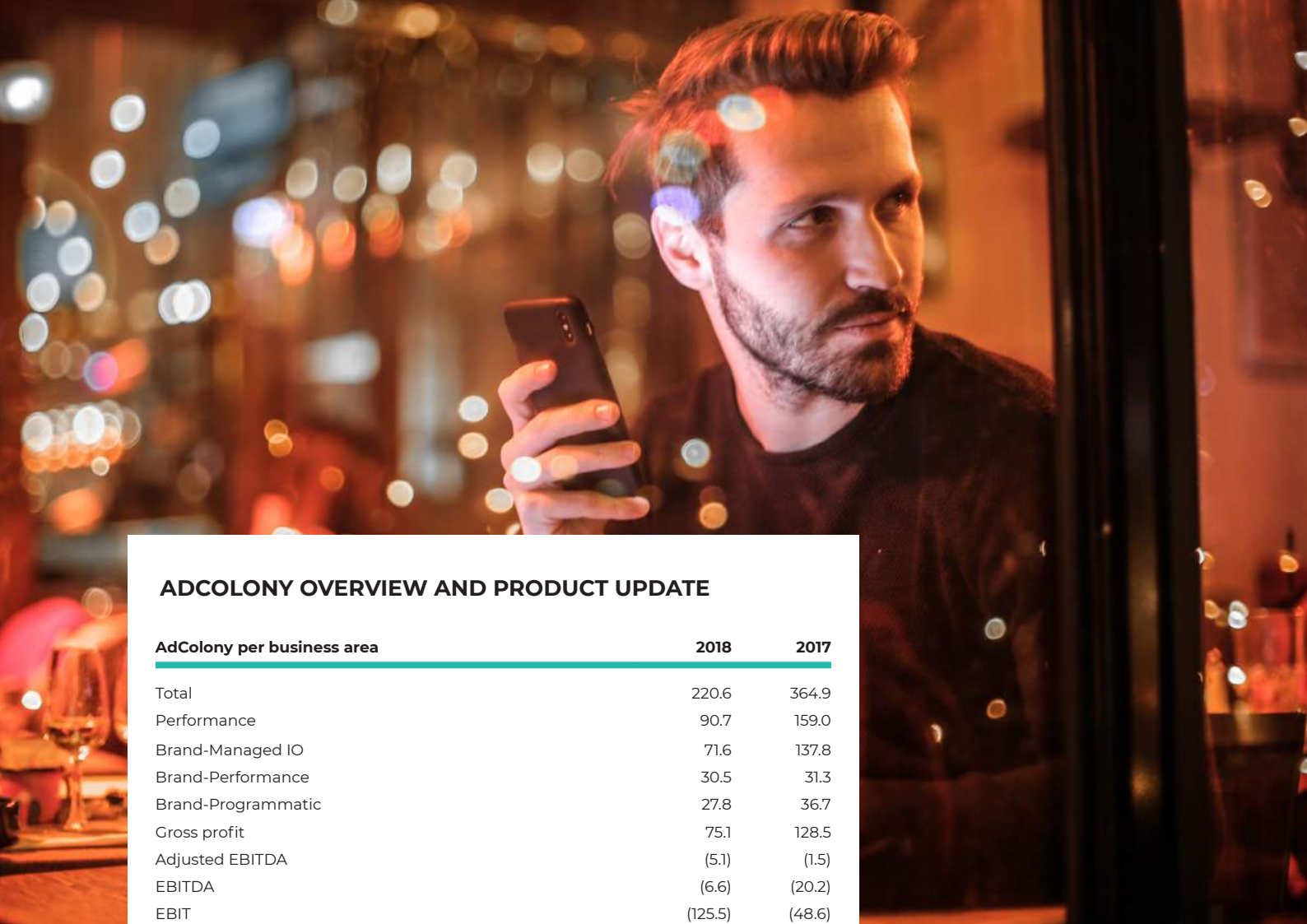
As of 31 December 2018, the Group had total assets of \$455.5 million. Non-current assets represented \$324.3 million of this total, and primarily consisted of goodwill (\$232.4 million), deferred tax assets (\$40.5 million), intangible assets (\$28.3 million) and other investments (\$14.4 million). Current assets such as cash and receivables represented \$131.2 million of this total.

The Group had total liabilities of \$91.5 million as of 31 December 2018, of which \$89.4 million were current liabilities. Shareholders’ equity was \$364.0 million at the end of 2018, compared with \$468.0 million at the end of the previous year. Otello’s equity ratio at year end was 80% (2017: 74%).

ADCOLONY WAS THE **LARGEST SOURCE OF REVENUE** IN 2018

BEMOBI’S GROWTH WAS DRIVEN BY THE **STRONG GROWTH OF BOTH LATAM AND INTERNATIONAL SUBSCRIBERS**





ADCOLONY OVERVIEW AND PRODUCT UPDATE

AdColony per business area	2018	2017
Total	220.6	364.9
Performance	90.7	159.0
Brand-Managed IO	71.6	137.8
Brand-Performance	30.5	31.3
Brand-Programmatic	27.8	36.7
Gross profit	75.1	128.5
Adjusted EBITDA	(5.1)	(1.5)
EBITDA	(6.6)	(20.2)
EBIT	(125.5)	(48.6)

The Performance business experienced volatile revenue in 2018, but gross margins stabilized at a higher level towards the end of the year. The Brand business experienced a stronger end to the year, with particular strength in EMEA. Gross margin trends were positive for both Brand and Performance during the latter part of 2018. The Brand/Exchange business has been actively working to improve margins, and Brand overall gross margins are stable above 40%, moving into 2019.

Considering the business model shifts that we have seen over the course of 2018, AdColony implemented a restructuring program which had full impact from 4Q18 targeting an annual Opex run-rate of around \$70 million, which was achieved in the final quarter of 2018. OPEX has therefore been reduced by over 50% during the last 2 years. Moving forward into 2019, selective investments will mostly offset further cost savings in the short-term, and AdColony will continue to tune the cost base to ensure long-term cash flow profitability

Performance

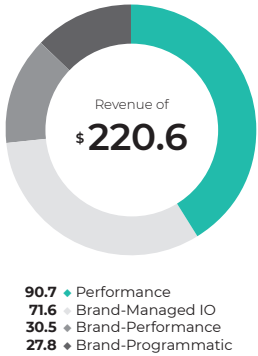
AdColony was founded as a performance advertising company and

this still forms the core of AdColony's business. We use the term to refer to gaming app install marketers running ads to get more installs for their gaming apps. AdColony also has a successful "brand performance" business for apps like Starbucks, and Target, to promote nongaming app installs. However, that business rolls up to the global brand organization rather than performance due to the nature of clients.

Revenue has still been volatile in the Performance business during 2018 and a greater focus on cost and margin has been implemented to ensure profitability with a lower revenue base. With new leadership in the Performance organization in mid-2018, a restructuring of deals with our clients and publishers was carried out, in order to bring the margins back to healthy and sustainable levels.

During second half of the year, our central operational hub in Istanbul maintained its adoption of "behind the scenes" roles within the global performance business. Costs across the performance business were aligned with this new scale of the business, with a particular focus on maintaining and maximizing gross margins.

Revenue per business area
[Numbers in million]



Brand/Exchange

What we call "brand advertisers" are the companies and ads most laypersons think of when they think of digital ads. Trailers for the latest LEGO movie, ads for the newest Toyota, or even the newest console video game all find their target audience on mobile. AdColony also has a healthy brand relationship with major retail shopping and restaurants, either as managed campaigns or programmatically.

The addition of official VPAID (video player ad-serving interface definition) support for video inventory across the AdColony network, makes AdColony the only network partner that can support blocking tags in an app environment. We also upgraded our support for OpenRTB 2.5 which includes loss notification to ensure AdColony is supporting the latest programmatic advertising standards, which facilitates transactions across the marketplace.

Our Moat, IAS, and DoubleVerify integrations brought live in 3Q18 contributed to a win with Facebook taking advantage of AdColony's direct and programmatic flexibility. The GlenLevet campaign is also emblematic of programmatic innovation at AdColony, with our first ever Aurora™ HD Video campaign delivered programmatically in 4Q18.

Publishing & SDK

AdColony's publishing team handles the promotion of AdColony's SDK. A Software Development Kit (SDK) is a package of tools app developers use to perform a task; in the case of AdColony, to show ads to a user. AdColony's first-party SDK inventory offers access to audiences and optimizations no other platform can offer.

The publishing team is the first-party revenue enabler for AdColony. By encouraging developers to integrate AdColony's SDK, they provide the premium inventory that advertisers are looking for. Using key third-party data partnerships, we are able to leverage our historical SDK data to deliver better results for our advertisers, including across programmatic campaigns.

At the end 2018, the SDK version 3.x penetration within AdColony's ad network reached 93 %, with the most recent unified version 3.3.6 already at 10 %. The more publishers that inte-

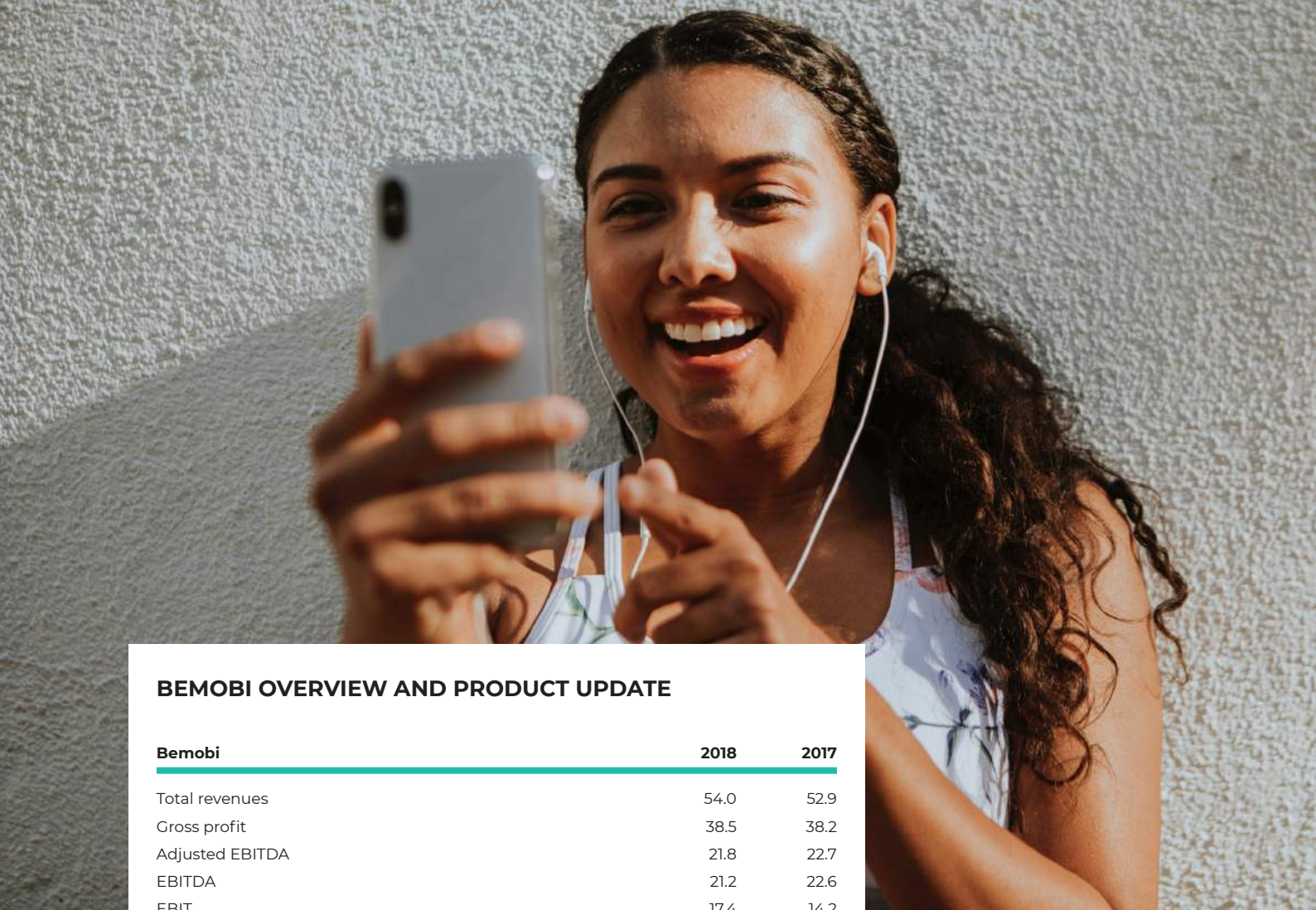
grate the latest AdColony SDK, the greater inventory is available to advertisers looking for publishers.

Product update

In order to maximize efficiencies and realize the goal of becoming open and standardized, Product and Technology (engineering) teams were consolidated into a single Product & Technology team under CTO Andrzej Dzius, reducing headcount expenses costs by approximately 40%. Under consolidated leadership, the Product & Tech team defined a goal to become an "Open & Standardized" platform where any demand can be delivered into any supply, reducing the reliance on proprietary formats and technologies.

In late 2018, our product and engineering teams made great strides in moving away from proprietary formats and continued to shift to a more open and accessible platform for Demand Side Platforms (DSPs), Supply Side Platforms (SSPs), and Programmatic partners. This included adding playables as a standard ad type that is supported in our network, both our internally developed Aurora™ HD Playables units and support for 3rd party playables from our partners such as CrossInstall. Most notable on the brand side is to officially add support for VPAID (the IAB's leading video ad technology).

In addition to SDK updates, full support for MRAID and VPAID standards and broad support for open and transparent formats that will bring AdColony more success in programmatic and direct relationships, much of the work done by the product team in 2018 was about unifying toolsets. By unifying our toolsets, and reorganizing for greater cooperation and knowledge sharing, we have increased our agility in serving clients of all kinds. Additionally, making improvements to our Composer tool have allowed our Creative Group to have more control and more flexible options, greatly improving campaign asset delivery, up by 28% at the end of 2018 compared to the start of the year.



BEMOBI OVERVIEW AND PRODUCT UPDATE

Bemobi	2018	2017
Total revenues	54.0	52.9
Gross profit	38.5	38.2
Adjusted EBITDA	21.8	22.7
EBITDA	21.2	22.6
EBIT	17.4	14.2

In 2018, Bemobi consolidated its leading position in the subscription-based premium application distribution space within Brazil and across LATAM, 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, or 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 consumers. Bemobi ended 2018 with 61 active operator agreements, of which 40 are outside LATAM, making it possible to offer subscription-based services providing access to apps and games to over 2.4 billion consumers.

Financial Overview

Of the total revenue in 2018, 74% came from LATAM, and 25% came from international markets, compared to 81% and 19% respectively in 2017.

From the second half of 2018 onwards, Bemobi management decided to recognize investment in user acquisition as a publisher and revenue share cost, instead of an operating expense, as had previously been

the case. The impact of this change is a decrease in operating expenses by the same amount as the increase in publisher and revenue share cost. Hence the gross margin will be lower, but with no impact on EBITDA. As a result, gross margins were lower in the second half of 2018 at 67%, compared to 73% in the first half of the year. Using the previous accounting classification, gross margins in second half 2018 would have been virtually the same as earlier in 2018.

Subscriber growth was strong in 2018, with 30% growth from 2017. LATAM subscribers were up from 15.6 million at the end of 2017 to 20.5 million at the end of 2018, whilst International subscribers also rose from 4.7 million to 6.2 million over the same period.

LATAM revenues were down 6% in 2018 compared to 2017. With like for like FX rates, revenue would have increased by \$3.3 million, yielding 8% YoY growth. International revenues increased by 34 % in 2018 compared to 2017. The FX rates also impacted international revenues, albeit to a lesser extent. With unchanged FX rates, international revenues would have increased by 39% compared to 2017. Adjusted EBITDA was down

31.4%
SUBSCRIBER GROWTH

International revenues increased by 34%
in 2018 compared to 2017

from \$22.7 million in 2017 to \$21.8 million in 2018 mainly due to the negative FX impact.

Product updates

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 started rolling out our Kids Club product, having launched 5 such Kids Clubs in late 2018, in South Asia, South Eastern Asia and CIS. 9 Kids Clubs in total have now been launched, and we will proceed with launches in other International markets. Further, in the fourth quarter of 2018, we launched our 2 first Health Clubs in Belarus and Ukraine.

Bemobi continues to run third party paid advertising on our NDNC (No Data No Credit) portal in Ncell in Nepal and are considering extending paid advertising on other NDNC portals in Asia. This will potentially offer a new revenue source based on the same model as in Brazil.

During 2018, Otello has been exploring opportunities to maximize the value of its Bemobi business. We have had informal discussions with several stakeholders, and during the fourth quarter of 2018 Bemobi met with a limited number of investors for the purpose of considering whether an IPO or demerger of Bemobi could represent realistic and value enhancing opportunities. Feedback from investor meetings has been positive and supportive of a potential IPO/demerger. Based on the positive feedback we have initiated a process with the intention to pursuing a listing in the UK during the second half of 2019.

However, the timing and completion of any listing is subject to market conditions and further investor feedback, and no assurances can be given that a listing will be achieved. Shareholders and prospective investors should note that there are no resolutions on the board level of Otello to conclude any transactions and the board of Otello will care-

fully review all opportunities with respect to Bemobi and its other portfolio companies.

SKYFIRE

Video is expected to be 78% of traffic on mobile networks by 2021, adding to 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 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.

The Skyfire organization and cost base is significantly smaller compared to last year and the nature of the business makes revenues lumpy in nature. Revenues were down by \$2.1 million from 2017

INVESTMENT IN VEWD SOFTWARE (FORMERLY OPERA TV)

Otello holds a 27% share of Vewd Software (formerly Opera TV), the market leader in OTT solutions that enable customers and partners to reach connected device viewers. Among others, companies like Sony, Verizon, Samsung and TiVo utilize Vewd's solutions.

During the year, Otello was also successful in its claim against the majority owners of Vewd Software, Moore Frères & Co LLC ("MFC"), arising from the refusal of Vewd's board to approve the sale of Otello's remaining ownership stake. The judge granted Otello the injunction it sought requiring the Board to approve the buyer and ordered them to pay a substantial portion of Otello's legal costs. Since the buyer did not purchase the shares, Otello has restored the proceedings in order to pursue alternative remedies, including to have the Court require MFC to buy Otello's shares (and loan note) at the

VIDEO IS EXPECTED TO BE
78%
OF TRAFFIC ON MOBILE
NETWORKS BY 2021



higher of the current valuation of those shares and the price that the buyer was prepared to pay. If MFC is unable to purchase the shares at such a price, Otello will ask that the Court require that all shares in the company be sold and Otello be paid the sum found to be due to it out of the proceeds of such sale.

CORPORATE OVERVIEW

Organization

At the close of 2018, Otello had 493 full-time employees and equivalents, compared to 604 full-time employees and equivalents at the end of 2017.

Board of Directors composition

At the Annual General Meeting on June 5, 2018, Audun Wickstrand Iversen was re-elected as the chairman of the Board of Directors, and André Christensen, Sophie-Charlotte Moatti, Frode Jacobsen, and Birgit Midtbust were re-elected to the Board of Directors.

Corporate governance

The Company's guidelines for corporate governance are in accordance with the Norwegian Code of Practice for Corporate Governance, dated October 30, 2014, as required by all listed companies on the Oslo Stock Exchange. Furthermore, the guidelines meet the disclosure requirements of the Norwegian Accounting Act and the Securities Trading Act. The guidelines are included separately in the annual report. Please see the sec-

tion entitled "Principles of corporate governance" for further information.

Shareholders and equity-related issues

As of December 31, 2018, Otello Corporation ASA had 140,477,429 outstanding shares. As of December 31, 2018, the Group's equity was \$364.0 million (parent company: \$332.8 million), of which \$1.2 million is owned by Non-controlling interests. See note 11 in the consolidated financial statements for further information regarding Non-controlling interests.

Share Buyback Program

During 2018, the Group purchased 2,495,745 (2017: 7,142,206) treasury shares for \$5.6 million (2016: 27.5 million) and sold 203,745 (2017: 443,205) treasury shares.

Shareholders

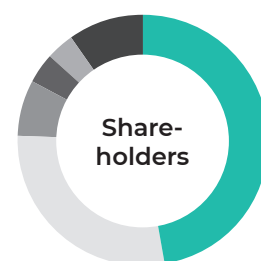
The Company had 3,269 (2017: 3,943) shareholders at year end. At that time, 47.5% (2017: 67.3%) of the shares were held in Norway-based accounts, 28.3% (2017: 8.8%) in U.K.-based accounts, 7.1% (2017: 4.1%) in Luxembourg-based accounts, 4.1% (2017: 4.8%) in U.S.-based accounts, 3.4% (2017: 4.2%) in France-based accounts and 9.7% (2017: 10.8%) in accounts based elsewhere.

Allocation of the annual profit / coverage of loss

The total comprehensive loss for the period for our parent company, Otello Corporation ASA was \$-413.4 mil-

Otello had
493
fulltime employees and equivalents in 2018

During 2018, the Group purchased
2,495,745
treasury shares for \$5.6 million



47.5% • Norway-based accounts
28.3% • U.K.-based accounts
7.1% • Luxembourg-based accounts
4.1% • U.S.-based accounts
3.4% • France-based accounts
9.7% • Accounts based elsewhere

lion in 2018. The Board of Directors recommends that no dividend be paid for the 2018 financial year. The Board proposes that of the 2018 total comprehensive loss, \$-375.2 million is covered by other equity, and \$-38.1 million is transferred to the translation reserve.

Going concern

In accordance with section 3-3a of the Norwegian Accounting Act, the Board confirms that the prerequisites for the going concern assumption exist and that the financial statements have been prepared based on the going concern principle.

Events after the reporting period

For further information on subsequent events, see note 19 of the "Consolidated financial statements".

For further information, please see the announcements published on the Oslo Stock Exchange website (www.oslobors.no).

CORPORATE SOCIAL RESPONSIBILITY

Creating a responsible and sustainable business is an integral part of everything we do at Otello. We are committed to the highest standard of social responsibility and believe that transparency and openness are key elements in obtaining a sustainable and responsible operation.

In this part of the Board of Directors report, we describe Otello's effort and

results related to corporate social responsibility (CSR). Our CSR work is focused around the following areas: Our employees, anti-corruption and the environment.

Our employees

Otello's success and innovation springs from the minds and teamwork of its employees. Our employees are our most valuable resource, and we are committed to interacting with our employees in the same way as we strive to interact with our customers, following the highest ethical standards and respect for individuality.

Equal opportunities and non-discrimination

Otello strongly condemns discrimination. We believe that people should be treated with respect and insist on fair, non-discriminative treatment, regardless of irrelevant factors such as nationality, political views, religion, sexual orientation and gender.

We promote cultural diversity and we are proud to have 33 nationalities represented within the company. We pride ourselves in being an international organization, where innovation and teamwork take place across borders and time zones.

We continually work to improve the gender balance in the company. At the end of 2018, 38% of our staff members were women. In addition, the 2 of the 5 Board of Directors of the Group are female.

33 nationalities represented within the company

We continually work to improve the gender balance in the company. At the end of 2018

38% of our staff members were women

2/5 members of the Board of Directors are female

The principles of equal opportunities and non-discrimination are present throughout the organization and in all company activities. When recruiting, we use assessment methods such as programming tests and test cases to give equal opportunities to all qualified applicants. Similar approaches are exercised when promoting, offering training opportunities, etc.

Labor rights at Otello.

Otello respects and observes the fundamental labor rights set out in the international conventions, such as the conventions of the International Labor Organization and the United Nations.

Health and safety

At Otello, we strive to offer our staff members a safe, healthy and inspiring work place. We have a highly international workforce, where we combine the responsiveness of a flat structure with an extreme focus on results and innovation. All employees are expected to comply with safety and health regulations that apply to our business activities.

Discrimination on the bases of sickness or disability shall not occur at Otello. We work hard to meet all our employees' needs. We offer shorter working hours and other services to accommodate our employees with disabilities or other particular needs.

Otello had an average rate of absence due to sick leave of 3.8% in the parent company in 2018, and an estimated rate of under 4% for the Group as a whole.

In 2018, Otello had a global turnover of 47%, of which 45 % were voluntary and 55% were involuntary terminations. These numbers are for continued and discontinued operations.

There have been no reports of work-related accidents or injuries in 2018.

Anti-corruption

Otello abstains from and works actively to combat corruption and bribery. Corruption distorts economic decision-making, deters investment, undermines competitiveness and, ultimately, weakens economic growth.

There is no single, comprehensive, universally accepted definition of corruption. Therefore, each Otello employee must adhere to the existing laws and regulations in their

country of operation. As a minimum, Otello's internal regulations apply to all employees. Controls are made to ensure that the rules are followed. Otello has put in place internal guidelines to help employees in their day-to-day operations. The following is an extract of these guidelines.

Bribery

No person acting on behalf of Otello shall attempt to influence someone in the conduct of their post, office or commission by offering an improper advantage. Nor shall improper advantage be offered to anyone for the purpose of influencing third parties in the conduct of their post, office, or commission. This includes all forms of facilitation payments.

Correspondingly, no person acting on behalf of Otello shall request, accept or receive improper advantage in connection with his/her position or assignment or for the purpose of influencing a third party. Improper advantage can take different forms, including but not limited to money, objects, credits, discounts, travel, accommodation and other services.

Gifts

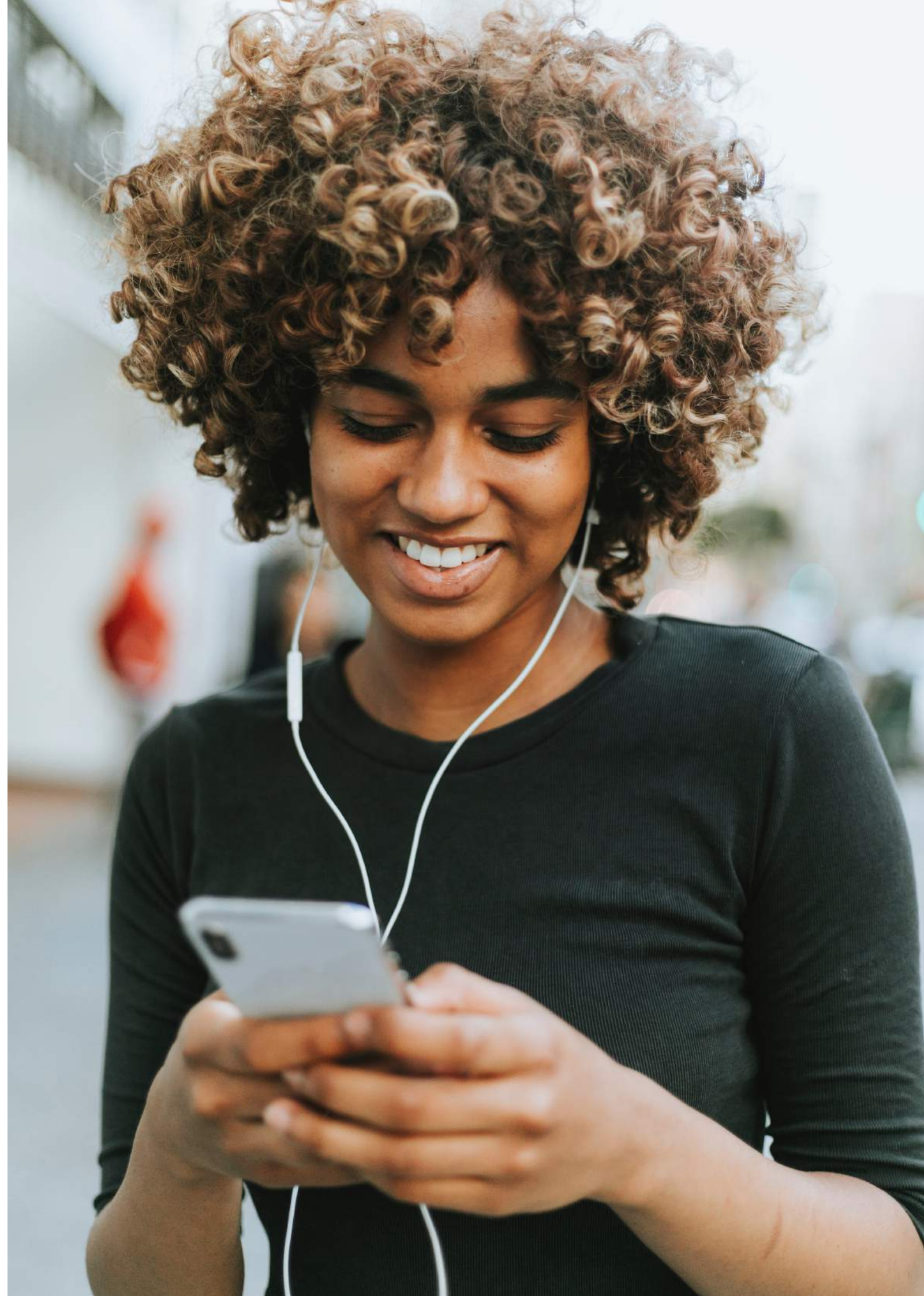
It is a normal part of business life to exchange business courtesies, such as meals, transportation, recreation, facilities or small gifts. Such an exchange of business courtesies must always follow local laws and regulations and not put any Otello employee in the position of a sense of obligation to return the favor, compromise professional judgment or create the appearance of compromise or corruption. Otello employees should always check with their manager or the HR department, if in doubt, and consider whether the exchange of business courtesy would be acceptable if it should become publicly known.

No person acting on behalf of Otello is allowed to accept any amount of cash or cash equivalents (such as gift certificates or market securities and similar), regardless of sum. Correspondingly, cash or cash equivalents may never be offered by Otello employees as a business courtesy, regardless of sum.

Whistleblowing

Otello encourages freedom of speech and blowing the whistle on malpractice, fraud, illegality, or breaches of rules, regulations, and procedures or

THERE HAVE BEEN
NO REPORTS OF
**WORK-RELATED
ACCIDENTS OR
INJURIES** IN 2018





raising health and safety issues. Any Otello staff member making a whistleblowing report is protected from any repercussions, such as dismissal and other forms of reprisal. To secure an effective procedure, staff members may blow the whistle either in person or anonymously to the Work Environment committee.

To improve communication and ensure that issues do not escalate to the point where they become a whistleblowing case, Otello focuses on the following practices:

- Communicate the Company's norms, values, and rules and regulations regarding ethical conduct.
- Create an open atmosphere by making sure that staff members have the opportunity and possibility to meet and discuss issues in formal and informal settings.
- Discuss and put questions regarding freedom of speech and whistleblowing on the agenda in internal communications.

The Environment

Otello understands the importance of supporting the environment and

seeks to prevent any negative environmental impact our activities might have. Otello has incorporated its environmental policy as a part of the Ethical Code of Conduct.

The Group sponsors various charities both locally and around the world to protect the environment and prevent further damages. In 2017, employees participated in a coastal cleanup that occurs every September throughout California coastlands. The Group has also sponsored a non-profit organization called The Thirst Project, which builds water wells around the globe for villages that do not have access to clean water.

Employees can elect pre-tax dollars into flexible spending accounts dedicated to transit costs to encourage public transportation and the reduction of vehicles on the road.

Otello is committed to using environmentally safe products in the workplace, to evaluating the consumption of energy and other resources to ensure efficient use, and to ensuring the development of environmentally protective procedures.

Otello has implemented the following guidelines and reporting schemes to ensure a high ethical standard throughout the organization.

The Ethical Code of Conduct is created to help employees, clients and business partners understand Otello's values and standards. Otello's reputation is created by the conduct of each individual staff member. Therefore, all staff members are obliged to familiarize themselves with the Ethical Code of Conduct when joining the company.

The Ethical Code of Conduct focuses on the following key areas: the rights and obligations of our employees; a healthy and safe working environment; anti-corruption; and the external environment.

A violation of the Ethical Code of Conduct may result in disciplinary action, up to and including termination of employment. Several of the guidelines concern actions that are also punishable offenses. The Human Resources department is responsible for following up any possible breaches.

RISK FACTORS

Otello has operations across multiple markets and is therefore exposed to a range of risks that may affect its business. Below are some key risks areas discussed and described.

Financial risk

Currency risk

Both revenue and operating expenses are exposed to foreign exchange rate fluctuations. The majority of revenues and operating expenses are in USD. Although an increasing portion of revenues are in Brazilian real (Bemobi) and Turkish lira (AdColony EMEA), most of the corresponding publisher and revenue share cost, and other operating expenses from these operations are denominated in the same currency, thereby limiting Otello's exposure to some extent. Further, there is some exposure related to fluctuations in the USD v NOK exchange rate due to the amount of operating expenses in NOK, and certain items in the statement of financial position being denominated in NOK. See the tables below for a breakdown of revenues and operating expenses by currency.

Revenues per currency	2018		2017	
	[\$ million]	%	[\$ million]	%
USD	199.4	72%	334.2	80%
BRL	38.4	14%	41.3	10%
TRY	12.1	4%	12.3	3%
DKK	9.2	3%	2.8	1%
EUR	1.7	1%	5.8	1%
GBP	1.5	1%	5.1	1%
Other	13.1	5%	17.4	4%
Total	275.4		419.0	

Opex per currency	2018		2017	
	[\$ million]	%	[\$ million]	%
USD	(229.6)	78%	(356.9)	79%
BRL	(21.3)	7%	(26.4)	6%
NOK	(11.3)	4%	(10.5)	2%
TRY	(11.0)	4%	(11.9)	3%
GBP	(5.3)	2%	(13.1)	3%
EUR	(1.0)	0%	(11.6)	3%
Other	(16.5)	6%	(20.6)	5%
Total	(296.1)		(450.9)	

Credit risk

Credit risk is the loss that the Group would suffer if a counterparty fails to perform its financial obligations. The Group's exposure to credit risk is mainly related to external receivables. Credit risk is assessed for each specific customer. No single customer accounted for more than 10% of the Group's revenue during the financial year. Further, the Group conducts much of its business with large global companies and has not experienced significant credit-related losses during this or previous financial years.

Liquidity risk

Otello considers its liquidity risk to be limited. Otello has significant liquidity reserves available through credit facilities with its primary bank.

In May 2018, Otello signed an agreement for a new 3-year Revolving Credit Facility (RCF) of \$100 million with DNB Bank ASA. As at December 31, 2018, the revolving credit facility was undrawn. The credit facility has the following financial covenants: i) the Leverage Ratio to be below 2.00:1. ii) the Equity Ratio to hold the minimum level of 35%. The Group is compliant as of December 31, 2018.

As of December 31, 2018, Otello had no interest-bearing debt, and the cash balance was \$27.5 million (parent company: \$1.9 million).

Although Otello does invest its money conservatively, all our investments are subject to risk. For example, Otello's cash and other investments placed in Norwegian financial institutions are not guaranteed by the government above NOK 2 million per institution. If the financial institution were to go bankrupt, a portion of Otello's cash or investment could be lost.

Operational risk

Our international operations expose us to additional risks that could harm our business, operating results and financial condition. In certain international markets, we have limited operating experience and may not benefit from any first-to-market advantages. Our international operations expose us to risks, arising from changes in local political, economic, regulatory, social and labor conditions, which may adversely harm our operations. Some of the markets in which Otello operates are emerging

economies with potentially complex and sensitive political and social contexts. Further, any restrictions on foreign ownership and investments, as well as stringent foreign-exchange controls might prevent us from repatriating cash earned in certain foreign countries. In certain countries where Otello operates, longer payment cycles than experienced in our principle markets are the norm.

Otello's competitors include some of the largest technology, advertising, internet and telecommunication companies in the world, with significantly larger financial resources, headcount and broader distribution channels than Otello. These large companies therefore have a greater financial capacity than Otello to make strategic acquisitions, invest in new technology and research and development, market their products, and compete for customers.

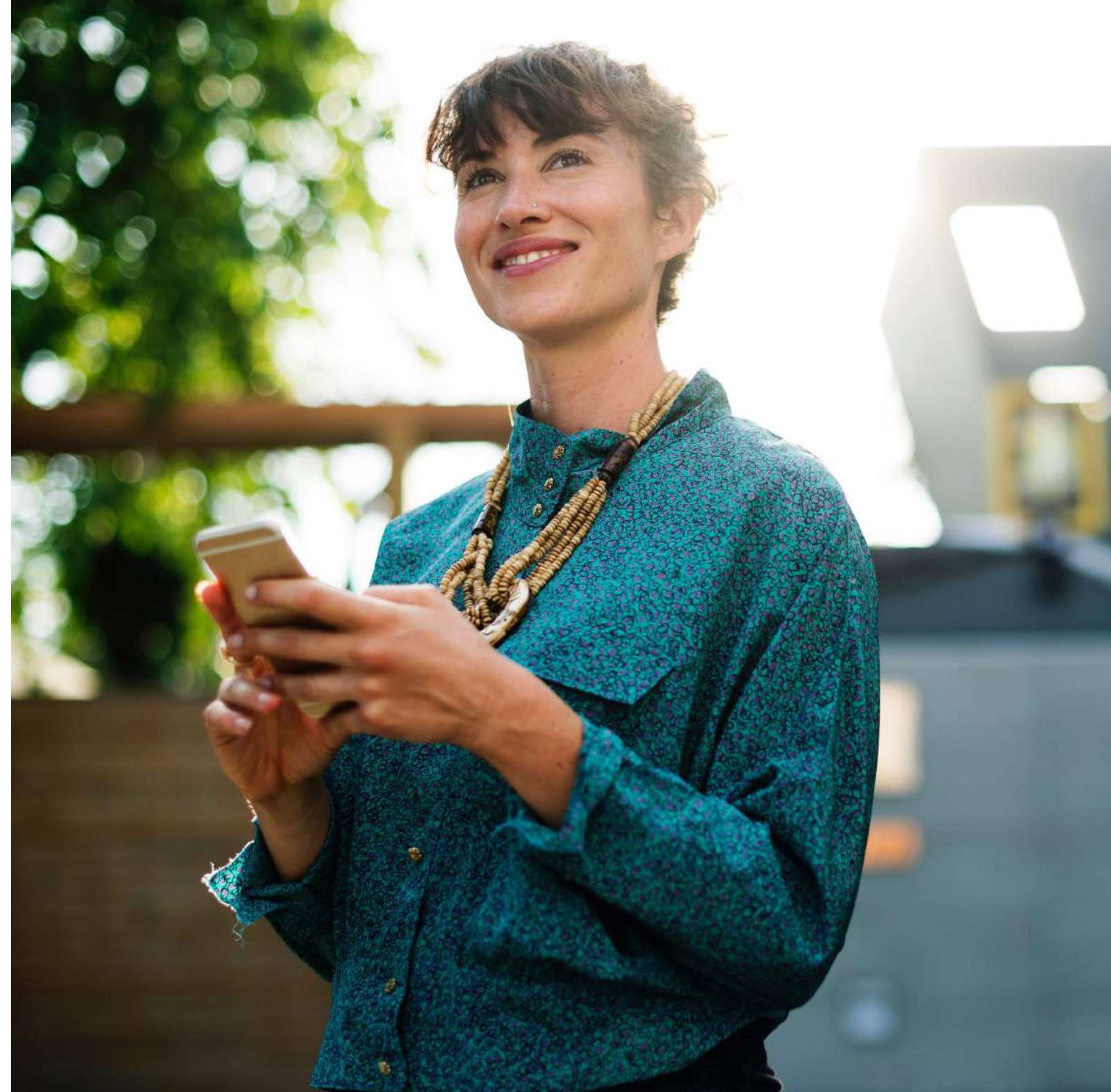
Otello's revenue is dependent on expanding our user base and customer base by developing and marketing products that are more attractive than our competitors' products. If the attractiveness of our products does not continuously improve and evolve to keep pace with the industry, we will have challenges retaining our current user base and gaining new customers. Our competitors are constantly improving their products and associated services. In order to stay competitive, Otello has to invest significant resources in research and development. Investing significantly in R&D is, however, no guarantee that consumers and customers will, in fact, find our products to be attractive enough to begin or continue using them, as it is impossible to accurately predict the behavior of our consumer and business customers.

Many of our products and services are dependent on the continuous operation of data centers and computer hosting and telecommunications equipment. If Otello's internal or our service provider IT systems fail or are damaged, or if a third party gains unauthorized access to such systems and data is lost or compromised, it could have a material impact on Otello's operations. Downtime can, for example, hurt our reputation with our customers, as well as increase the risk of damage claims and monetary penalties from our customers. If our centers or systems are sub-

Otello had no interest-bearing debt, and the cash balance was

\$ 27.5 MILLION

(parent company: \$1.9 million)



ject to a security breach, customers' confidential or personal information could be obtained and used by third parties, which could have a negative impact on our brand and the market perception that we are a reliable company, as well as subjecting us to significant regulatory fines or claims or damages from our customers.

For certain business models, we depend on internal systems to collect and produce accurate statistics regarding the use of our products and services, especially for products that rely on an active user royalty model.

Failures or malfunctioning of these systems can have a significant impact on our financial results. Failure to adequately back up our internal systems can also have a material impact on the running of our business. Otello handles substantial volumes of personal data. Loss, alteration or unauthorized disclosure of such information may adversely affect the Group's business and reputation. The European Data Protection Regulation (GDPR), which entered into force in May 2018 introduces significant fines for breaches of data protection regulation in Europe.

Regulatory and litigation risk

Otello's operations are subject to requirements through sector specific laws, regulations and national licenses. Regulatory developments and regulatory uncertainty could affect the Group's results and business prospects. In several of the countries where Otello operates, the government has imposed sector specific taxes and levies, as a measure to improve state finances. The introduction of, or increase in, sector specific taxes and levies may impact Otello's business. Further, it is a challenge for a company the size of Otello to remain updated on all the regulatory regimes that may apply to Otello at any one time.

Otello has many customers, partners and end users around the world, and, as a result, we can be exposed to lawsuits, government investigations and other claims or proceedings on a global basis. Such lawsuits, investigations and proceedings could be related to, for example, intellectual property (issues including trademark and patent suits), labor law issues, commercial lawsuits, data protection and privacy matters, consumer law, marketing law, tax issues and so forth. All such proceedings can have a significant impact on Otello, whether or not we are ultimately successful, due to the legal cost and the internal resources we would have to employ to defend ourselves. In the event of an adverse result against Otello in such a proceeding, Otello could be required to pay significant monetary damages or fines and/or re-design our products or services, causing a material impact on Otello's business, financial results, operations and cash flow.

Intellectual property lawsuits are very common in the market within which Otello operates. Regardless of the merits of such lawsuits, they are extremely expensive to defend and litigate, and the damages awarded in such suits can be high. In addition, Otello has contractually undertaken to indemnify certain of our customers and partners, so, in the event they are sued for alleged intellectual property infringement, Otello would be required to defend them and pay their damages. Furthermore, an adverse judgment could require Otello to cease using certain technologies in our products or names for our products, requiring Otello to re-engineer or re-name our products. Compared to Otello, many

of our competitors own large numbers of patents and other intellectual property rights. Although we do seek patent protection for certain innovations, we may not have sufficient protection for important innovations. Furthermore, because many large companies are able to settle intellectual property lawsuits by cross-licensing each other's technology, the fact that our patent portfolio is not as extensive as our competitors' portfolios could have a negative impact in a cross-licensing situation.

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 be adj. EBITDA profitable in 2019. Overall, longer term growth will be driven by our move to more automated delivery of ads and new technology and standardization 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 Bemobi in 2019 versus 2018, as Bemobi continues to take the success in Brazil to a global arena.

From 2019, Skyfire will not be reported as a separate segment but rolled into the Corporate segment due to its size.

Otello's strategic focus is to develop unique and relevant products, and scalable business models which combined should generate revenue growth and margin expansion.



Report from the Board of Directors

– Parent company information only

Below, please find financial information and commentary on Otello Corporation ASA, the parent company ("Company") of the Otello Group ("Group"). Please note that the numbers and comments below are only applicable to the Company and not for the Group. However, the information described above for the Group is also applicable for the Company.

FINANCIAL SUMMARY

The Company's main activities are to serve the Group as a whole, through the following functions and services: CEO, Board of Directors, corporate finance and accounting, legal, HR and IT. The Company charges some of the costs related to these functions to subsidiaries. There is limited operational activity in both 2018 and 2017. The Company had 15 full-time employees and equivalents in 2018 (2017:14).

Operating expenses decreased by 14% in 2018. This is primarily due to a decrease in audit and legal expenses as the Company's operational activities decreased and no acquisitions

or disposals were carried out in 2018; and a decrease in stock-based compensation expenses. The Company's operating loss of \$-8.5 million (2017: -8.6 million) remained flat since revenue decreased by \$1.4 million as the company's operational activities gradually decreased during the year.

The Company recognized an impairment loss of \$393.3 million in 2018 related to its investment in the AdColony business. The background for this is the decrease in revenue and EBITDA in AdColony in 2018. This, in turn, is due to a focus around fewer and more profitable products and markets, discontinued customer relationships and products, and an overall reduction in the business size, reflected in future cash flow forecasts.

The Company reported a loss before income taxes of \$-379.6 million (2017: -13.4 million). The increased loss from 2017 was almost entirely due to the impairment expense recognized, offset by \$20.0 million in dividends received from subsidiaries. The Company reported a loss for the

period from continuing operations of \$-375.2 million (2017: -13.9 million) with a tax income related to increases in deferred tax assets.

Net cash flow from operating activities in 2018 totaled \$-11.8 million (2017: 14.5 million). The Company's cash balance was impacted negatively in 2018 by pre-tax losses, earnout payments related to the settlement of the earnout agreement with the former shareholders of Bemobi, and treasury share purchases, and positively by repayments of loans from subsidiaries. The cash balance was reduced by \$27.3 million in 2018. As of December 31, 2018, the Company had a cash balance of \$1.9 million (2017: 29.2).

Apart from \$2.6 million in liabilities to subsidiaries, the Company has no interest-bearing debt at year end, the Company's equity ratio was 92% (2017: 96%).

It is the Board's opinion that the annual accounts provide a true and fair view of the Company's activities in 2018.

Oslo, April 9, 2019



Audun Wickstrand Iversen
Chairman



Frode Fleten Jacobsen



Birgit Midtbust



Sophie Charlotte Moatti



Andre Christensen



Lars Boilesen
CEO

Statement by the Board of Directors and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer (CEO) have reviewed and approved the Board of Directors' report and the financial statements for Otello Group and Otello Corporation ASA as of December 31, 2018, (Annual Report for 2018).

The consolidated financial statements and the financial statements for the parent company have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU and the interpretations adopted by the International Accounting Standards Board (IASB). The consolidated financial statements have also been

prepared according to applicable regulations and paragraphs in the Norwegian Accounting Act and the relevant paragraphs in the Security Trading Act.

To the best of our knowledge:

- The consolidated financial statements and the financial statements for the parent company for 2018 have been prepared in accordance with applicable accounting standards.
- The consolidated financial statements and the financial statements for the parent company give a true and fair view of the as-

sets, liabilities, financial position and profits as a whole as of December 31, 2018, for the Group and the parent company.

- The Board of Directors' report for the group and the parent company includes a true and fair review of:
 - ◊ The development and performance of the business and the position of the Group and the parent company
 - ◊ The principal risks and uncertainties the Group and the parent company face

Oslo, April 9, 2019



Audun Wickstrand Iversen
Chairman



Frode Fleten Jacobsen



Birgit Midtbust



Sophie Charlotte Moatti



Andre Christensen



Lars Boilesen
CEO

Consolidated Group Financial Statements 2018

Otello Corporation ASA

Consolidated statement of comprehensive income	81
Consolidated statement of financial position	82
Consolidated statement of cash flows	84
Consolidated statement of changes in equity	86
Note 1: General information and accounting principles	88
Note 2: Operating and segment information	96
Note 3: Payroll expenses and remuneration to management	100
Note 4: Other operating expenses	107
Note 5: Financial risk and financial instruments	108
Note 6: Taxes	113
Note 7: Property, plant and equipment	116
Note 8: Goodwill and impairment testing	118
Note 9: Other intangible assets	121
Note 10: Shares and shareholder information	123
Note 11: Contingent considerations	124
Note 12: Impairment and restructuring expenses	127
Note 13: Accounting estimates and judgements	128
Note 14: Related Parties	129
Note 15: Earnings per share	129
Note 16: Discontinued operations	130
Note 17: Other investments	132
Note 18: Other current liabilities	133
Note 19: Events after the reporting period	133

Consolidated statement of Comprehensive Income

(USD million, except per share amounts)

	Note	2018	2017
Revenue	2, 5	275.4	419.0
Total operating revenue		275.4	419.0
Publisher and revenue share cost	2, 5	(161.0)	(249.6)
Payroll and related expenses, excluding stock-based compensation expenses	3, 5, 12	(57.7)	(91.2)
Stock-based compensation expenses	3	0.2	(7.8)
Depreciation and amortization expenses	7, 8, 9	(30.2)	(37.5)
Other operating expenses	4	(47.4)	(64.8)
Total operating expenses		(296.1)	(450.9)
Operating profit (loss), excluding impairment and restructuring expenses		(20.7)	(31.8)
Impairment and restructuring expenses	8, 9, 12	(97.4)	(14.2)
Operating profit (loss)		(118.0)	(46.1)
Interest income	5	1.0	1.7
Interest expenses	5	(1.1)	(4.2)
Net financial income (expense)	5	2.7	(9.6)
Interest expense related to contingent consideration	11	(1.6)	(7.3)
FX gains (losses) related to contingent consideration, net	11	0.0	(1.3)
Revaluation of contingent consideration	11	(0.1)	3.5
Share of the profit (loss) from associated companies	17	(0.0)	0.4
Net financial items		0.9	(16.8)
Profit (loss) before income taxes		(117.2)	(62.9)
Income taxes	6	24.5	(4.0)
Profit (loss) from continuing operations		(92.7)	(66.9)
Profit (loss) from discontinuing operations, net of tax	16	-	30.7
Profit (loss)		(92.7)	(36.2)
Other comprehensive income:			
Items that may or will be transferred to profit (loss)			
Foreign currency translation differences		(21.0)	12.2
Discontinuing operations - reclassified to profit (loss)		-	(0.2)
Total comprehensive income (loss)		(113.7)	(24.2)
Profit (loss) attributable to:			
Owners of Otello Corporation ASA		(93.4)	(36.2)
Non-controlling interests		0.8	-
Total comprehensive income (loss) attributable to:			
Owners of Otello Corporation ASA		(113.3)	(24.2)
Non-controlling interests		(0.4)	-
Earnings per share (profit/loss):			
Basic earnings per share (USD)	15	(0.66)	(0.25)
Diluted earnings per share (USD)	15	(0.66)	(0.25)
Earnings per share (continuing operations):			
Basic earnings per share (USD)	15	(0.66)	(0.46)
Diluted earnings per share (USD)	15	(0.66)	(0.46)

Consolidated statement of Financial Position

USD million	Note	12/31/2018	12/31/2017
Assets			
Deferred tax assets	6	40.5	16.4
Goodwill	8, 9	232.4	322.6
Other intangible assets	8, 9	28.3	59.6
Property, plant and equipment	7	8.0	11.4
Other investments	14, 17	14.4	14.4
Other non-current assets		0.6	0.8
Total non-current assets		324.3	425.2
Accounts receivable	5	67.1	111.4
Other receivables	5, 16	36.6	13.9
Cash and cash equivalents	5	27.5	86.0
Total current assets		131.2	211.4
Total assets		455.5	636.6


Consolidated statement of Financial Position

USD million	Note	12/31/2018	12/31/2017
Shareholders' equity and liabilities			
Equity attributable to owners of the company	10	362.7	468.0
Non-controlling interests	10	1.2	-
Total equity		364.0	468.0
Liabilities			
Deferred tax liabilities	6	0.1	5.8
Loans and borrowings	5	-	-
Other non-current liabilities	5	2.1	4.5
Contingent consideration, non-current	11	-	28.5
Total non-current liabilities		2.1	38.8
Loans and borrowings	5	-	0.1
Accounts payable	5	23.4	35.3
Taxes payable	6	1.4	(3.8)
Public duties payable		1.8	2.6
Deferred revenue	5	2.1	5.0
Stock-based compensation liability	3	0.0	-
Other current liabilities	18	39.5	65.2
Contingent consideration, current	11	21.3	25.4
Total current liabilities		89.4	129.8
Total liabilities		91.5	168.6
Total equity and liabilities		455.5	636.6

Oslo, April 9, 2019



Audun Wickstrand Iversen
Chairman



Frode Fleten Jacobsen



Birgit Midtbust



Sophie Charlotte Moatti



Andre Christensen



Lars Boilesen
CEO

Consolidated statement of Cash Flows

USD million

	Note	2018	2017
Cash flow from operating activities			
Profit (loss) before taxes		(117.2)	(32.3)
Income taxes paid	6	(5.4)	(10.2)
Depreciation and amortization expense	7,9	30.2	38.7
Net (gain) loss from disposals of PP&E, and intangible assets		(0.0)	0.5
Net (gain) loss from sale of discontinued operations, net of tax	16	-	(36.4)
Impairment of intangible assets and goodwill	8,9	93.3	-
Changes in inventories, accounts receivable, accounts and other payables ¹⁾	5	17.1	33.2
Other net finance items		0.5	-
Changes in other operating working capital		(17.7)	(2.6)
Share of net income (loss) from associated companies	17	0.0	(0.3)
Share-based remuneration	3	(0.2)	2.0
Earnout cost and cost for other contingent payments	11	1.9	5.2
FX differences related to changes in balance sheet items		(2.7)	10.2
Net cash flow from operating activities		(0.2)	7.9
- of which included in continuing operations		(0.2)	6.7
- of which included in discontinuing operations		-	1.2
Cash flow from investment activities			
Proceeds from sale of property, plant, and equipment (PP&E) and intangible assets		0.0	-
Purchases of property, plant and equipment (PP&E) and intangible assets	7,9	(0.6)	(10.3)
Capitalized development costs	7,9	(11.5)	(15.0)
Proceeds from repayment of loans given		-	3.5
Proceeds from disposal of subsidiaries and associated companies, net of cash disposed	16	-	33.8
Earnout payments ²⁾	17	(36.5)	(29.0)
Net cash flow from investment activities		(48.6)	(17.1)
- of which included in continuing operations		(48.6)	(49.2)
- of which included in discontinuing operations		-	32.1
Cash flow from financing activities			
Proceeds from exercise of treasury shares (incentive program)	10	0.0	0.0
Purchase of treasury shares	10	(5.5)	(27.5)
Proceeds from issuance of shares, net (incentive program)	10	(0.1)	-
Repayments of loans and borrowings	5	(0.1)	(100.3)
Net cash flow from financing activities		(5.7)	(127.7)
- of which included in continuing operations		(5.7)	(127.7)
- of which included in discontinuing operations		-	0.0
Net change in cash and cash equivalents		(54.5)	(136.9)
Cash and cash equivalents (beginning of period)		86.0	219.5
Effects of exchange rate changes on cash and cash equivalents		(4.1)	3.4
Cash and cash equivalents ³⁾		27.5	86.0
- of which included in cash and cash equivalents in the balance sheet		27.5	86.0
- of which included in the assets of the disposal group (assets held for sale)		-	-

¹⁾ Changes in unbilled revenue are included in Changes in inventories, accounts receivable, accounts and other payables

²⁾ Includes an investment of \$0.1 million (2017: 0.7) in other shares.

³⁾ Of which \$1.3 million (2017: 1.7 million) is restricted cash as of December 31, 2018.

Reconciliation of profit (loss) before taxes, as presented in the consolidated statement of cash flows above:

USD million	2018	2017
Profit (loss) before income taxes	(117.2)	(62.9)
Profit (loss) from discontinuing operations, net of tax	-	30.7
Provision for taxes, discontinued operations	-	(0.1)
Profit (loss) before taxes, as presented in the consolidated statement of cash flows above	(117.2)	(32.3)

Consolidated statement of Changes in Equity

<i>USD million (except number of shares)</i>	Number of shares (million)	Paid-in capital	Other reserves	Reserve for treasury shares	Translation reserve	Other equity	Non-con- trolling interests	Total equity
Balance as of 12/31/2017	141.0	348.5	51.0	(62.1)	9.5	121.1	-	468.0
Comprehensive income for the period								
Profit (loss)		-	-	-	-	(93.4)	0.8	(92.7)
Other comprehensive income								
Foreign currency translation differences		-	-	-	(19.8)	-	(1.2)	(21.0)
Total comprehensive income for the period		-	-	-	(19.8)	(93.4)	(0.4)	(113.7)
Issuance of ordinary shares related to equity increase		0.0	-	-	-	-	-	0.0
Capital decrease		(0.0)	-	0.0	-	-	-	0.0
Treasury shares purchased	(2.5)	(0.0)	-	(5.5)	-	-	-	(5.5)
Treasury shares sold	0.2	0.0	-	0.0	-	-	-	0.0
Share-based payment transactions		-	0.5	-	-	-	-	0.5
Divestment of a subsidiary		-	0.0	-	-	13.3	1.7	14.9
Balance as of 12/31/2018	138.7	348.2	51.6	(67.6)	(10.3)	40.9	1.2	364.0

Divestment of a subsidiary

On May 29, 2018, Otello Corporation ASA divested 11.2% of the shares in Bemobi Holding AS. Please see note 11 for further information.

Face value of the shares

The face value of the shares is NOK 0.02.

Other reserves

Other reserves consist of option and RSU costs recognized according to the equity settled method.

Reserve for treasury shares

The reserve for the Company's own shares comprises the face value cost and excess value of own shares held by the Company.

Translation reserve

The translation reserve consists of all foreign currency differences arising from the translation of the financial statements of group companies with a functional currency that is not USD.

Other equity

Other equity consists of all other transactions, including but not limited to, total recognized income and expense for the current period.

Consolidated statement of Changes in Equity

<i>USD million (except number of shares)</i>	Number of shares (million)	Paid-in capital	Other reserves	Reserve for treasury shares	Translation reserve	Other equity	Total equity
Balance as of 12/31/2016	147.7	348.5	49.1	(34.7)	(2.5)	159.2	519.6
Comprehensive income for the period							
Profit (loss)		-	-	-	-	(36.2)	(36.2)
Other comprehensive income							
Foreign currency translation differences		-	-	-	12.0	-	12.0
Total comprehensive income for the period		-	-	-	12.0	(36.2)	(24.2)
Dividends		-	-	-	-	(0.0)	(0.0)
Treasury shares purchased	(7.1)	(0.0)	-	(27.4)	-	-	(27.5)
Treasury shares sold	0.4	0.0	-	0.0	-	-	0.0
Share-based payment transactions		-	2.0	-	-	-	2.0
Other changes		-	(0.0)	-	-	(1.9)	(1.9)
Balance as of 12/31/2017	141.0	348.5	51.0	(62.1)	9.5	121.1	468.0

Other changes

In 2017, the item "other changes" comprises an adjustment made to correctly eliminate an intercompany transaction from 2016 concerning the sale of the Opera Mobile Store business between two group entities, and an adjustment related to the transfer of the legal entity Handster between two group entities.

Note 1

General information and accounting principles

General information

The Otello Group's ("Otello") main business activities comprise mobile advertising via its AdColony business, and mobile -app subscription services via its Bemobi business. The principal activities for Otello's various business areas are described in more details in Note 2 – Operating and geographic segment information

Otello Corporation ASA (the "Company") is a public limited company domiciled in Norway. The Company's principal offices are located at Gjerdrums vei 19, Oslo, Norway. The company is listed on the Oslo Stock Exchange under the ticker OTELLO.

The consolidated financial statements of the Group for the year ended December 31, 2018, comprise the Company and its subsidiaries.

These consolidated financial statements have been approved by the Board of Directors on April 9, 2019 and will be proposed to/are subject to approval by the Annual General Meeting on June 4, 2019.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and the interpretations adopted by the International Accounting Standards Board (IASB). The consolidated financial statements have also been prepared according to applicable regulations and paragraphs in the Norwegian Accounting Act and the relevant paragraph in the Securities Trading Act.

New and amended International Financial Reporting Standards (IFRS) adopted by the Group

The Group has adopted two new IFRS standards in 2018, IFRS 9 Financial instruments and IFRS 15 Revenue from Contracts with Customers, both of which are effective for accounting periods beginning on or after January 1, 2018. Neither of these two standards have had a material impact on the consolidated

statements in 2018. See below for further details.

IFRS 15 Revenue from Contracts with Customers: effective for accounting periods beginning on or after January 1, 2018

IFRS 15 concerns revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 has replaced IAS 11, IAS 18 and several guidelines.

The new IFRS is built on a five-step model to determine the measurement and the recognition of the revenue. In the first and second step, the customer contract and the separate performance obligations are identified. In the third and fourth steps, the transaction price is determined and allocated. In the fifth and last step, the revenue is recognized based on the satisfaction of the performance obligation. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. IFRS 15 adds several disclosure requirements to the annual and interim reports, e.g. disaggregation of revenue.

The Group has assessed the impact of IFRS 15 by analyzing different revenue streams and contracts. The Group recognizes revenues from following main sources:

Advertising, comprising mobile advertising from its AdColony business, and Application and content from mobile -app subscription services from its Bemobi business.

Advertising revenue is recognized based on certain different events and parameters;

i) when a user installs a game (i.e. a user plays a game, sees advertising, clicks on it and installs a game) based on CPI (cost per install);

- ii) when a mobile ad is delivered to a user, based on CPM (cost per thousand) i.e every 1,000 impressions of a mobile ad inside the publisher's inventory (which can be a mobile app or website);
- iii) when a user plays a mobile video ad all the way to completion, based on CPCV (cost per completed video view);
- iv) when a user clicks on a mobile ad, based on CPC (cost per click); i.e after each instance when an ad is clicked inside the publisher's inventory,

Application and content: Revenue comprises 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.

As part of Otello's assessment process, the following points, amongst else, were addressed:

- Otello has written contracts where it is clear who the customer is, what each party's rights are, what the payment terms are, there is a commercial substance and collection of the consideration is clear.
- The vast majority of contracts are short-term and can be cancelled with very short notice without penalty. In other words, there is no binding element.
- Discounts are given on a monthly and quarterly basis, which are recognized in the same period as they are incurred.
- The vast majority of contracts are not considered to contain several performance obligations.
- There are no barter transactions found in the Group's contracts.

Advertising revenue is recognized each time a user views, or clicks a mobile ad, and/or installs a game. The performance obligations are satisfied on a point in time basis.

Application and content revenues consist of performance obligations that are satisfied on an over time basis.

Under IFRS 15, revenue is to be recognized when a customer obtains control of the goods or services. The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

It is the Group's assessment that that there has not been any significant impact on the timing of revenue recognition following the implementation of IFRS 15.

Based on this assessment, the implementation of IFRS 15 has not had a significant impact on the Group's consolidated financial statements. Further, the implementation of IFRS 15 has not led to any changes in comparative numbers and has not had any effect on the Group's equity. The scope of the disclosures in the notes has increased.

IFRS 15 - Practical expedients:

The Group has used the following practical expedients:

- The Group has not disclosed information about remaining performance obligations that have original expected durations of one year or less.
- The Group does not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Group expects to recognize that amount as revenue for the year ended 31 December 2018.
- The Group has recognized the incremental costs of obtaining contracts as an expense when incurred, if the amortization period of the assets that the Group otherwise would have recognized is one year or less.
- The Group does not disclose the effects of a significant financing component if the entity expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

IFRS 9 Financial instruments: effective for accounting periods beginning on or after January 1, 2018

IFRS 9 Financial Instruments contains revised regulations concerning the classification and measurement of financial instruments, accounting of impairment of financial assets and hedge accounting. The standard replaced IAS 39. The new regulations for the classification and measurement of financial instruments no longer contain the categories "available for sale", "held to maturity" and loans and receivables from IAS 39. Apart from the measurements "at amortized cost" and at "fair value through profit or loss" it will henceforth be possible to account for financial instruments at "fair value through OCI". All financial instruments for which the cash flow condition (contractual cash flow characteristics test) is not met are automatically accounted for at fair value through profit or loss. By way of exception, changes of the fair value of equity instruments not held for trading can be recognized in other comprehensive income. If the cash flow condition is deemed met and the financial instrument is held for the purpose of collecting the contractual cash flows, the financial instrument shall be accounted for at amortized cost. Otello does not have any financial assets at fair value over profit or loss, and all financial assets therefore continue to be measured at amortized cost under IFRS 9 as under IAS 39

IFRS 9 does not change the basic accounting model for financial liabilities under IAS 39 but did change the classification approach and measurement for financial assets. IFRS 9 has three measurement categories: fair value through profit or loss, fair value over other comprehensive income and amortized cost. Financial assets are held at amortized cost if the cash flows are payments of solely principle and interest and a business model of hold to collect. Otello does not have any financial assets at fair value over profit or loss, and all financial assets continue to be measured at amortized cost after adoption of IFRS 9.

There have been no material impacts on the consolidated financial statements from this standard.

Other standards and changes

The Group has not changed its accounting policies or adopted new

standards, in addition to those described above, that significantly affect the consolidated financial statements for this or prior periods.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Group.

IFRS 16 Leasing: effective for accounting periods beginning on or after January 1, 2019

The Group's financial statements are subject to changes in IFRS. IFRS 16 Leasing which is effective for annual reports beginning on or after January 1, 2019, will significantly change how the group accounts for its lease contracts for offices and other assets currently accounted for as operating leases. The standard will require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding assets for all leases with a lease term of more than 12 months, unless the underlying asset is of low value.

Further, a lessee will recognize depreciation of the right-of-use asset (ROU asset) and interest expense on the lease liability, instead of recognizing the expenses in Other operating expenses as per today. This will, therefore, lead to changes in the overall cost situation of the Group, with a reduction in operating expenses, increased depreciation expenses, and increased finance costs as a result of the effect of discounting the lease liability. See "impacts on financial statements in 2019" below for further information.

For subsequent measurement, the Group will remeasure the lease liability in the case of certain events taking place (e.g., a change in the lease term). Generally, the amount of the remeasurement of the lease liability will be recognized as an adjustment to the right-of-use asset.

Otello is using the modified approach and, therefore, will only recognize leases in the statement of financial position as of January 1, 2019. Prior periods will not be restated.

Leases classified as operating leases under IAS 17:

The Group previously classified leases as a finance lease if a lease transferred substantially all the risks and rewards incidental to ownership to the Group.

At the date of initial application of IFRS 16, January 1, 2019, the Group will recognize a lease liability for leases classified as operating leases according to IAS 17, in compliance with transition requirements. The Group will measure the lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at January 1, 2019.

At the inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Sublease contracts, where the Group is the lessor:

For financial subleasing contracts, the group will recognize a contract asset in the statement of financial position, with a corresponding reduction in the ROU asset. Short-term and low value sublease contracts will not be capitalized.

Contracts with renewal options:

Some office leases contain renewal options exercisable by the Group. The renewal options held are exercisable only by the Group, and not by the lessors. The Group includes a renewal of the contracts in the lease valuation if it is considered reasonably certain that the Group will renew the contracts. It is not considered as reasonably certain that the Group will renew any contracts for more than 3 years.

Discount rates:

According to IFRS 16, the lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate (IBR). Lessee's incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Otello has chosen to use the modified approach for implementation of IFRS 16, and therefore use the IBR as a discount rate on the opening balance. Going forward, the IBR will be used

for subsequent measurement for new contracts, as long as the implicit interest rate is not readily determined. As a basis for the discount rate calculation, Otello has used its credit facility agreement. This bears an interest rate of LIBOR, 3 months plus a margin of 2.50 % p.a. The margin has been adjusted according to the value of a lease. Specific country-based discount rates have been used.

Interest rates have, therefore, been adjusted to take into account the economic environment in the country where the lease is entered into. Rates are modified with a country risk premium, and with an inflation difference compared to Norway, where the credit facility agreement is held. The range of IBRs used is 2.8 % to 16.5 %.

IFRS 16, 'Leases' - Practical expedients: The Group has made the following accounting policy choices and elected to apply the following practical expedients related to the implementation of IFRS 16:

- Determining whether a contract is a lease or contains a lease: On the transition to IFRS 16, the Group elected to not reassess whether a contract is a lease or contains a lease. The Group will only apply IFRS 16 to contracts that were previously identified as leases. The Group's contracts that were not previously identified as leases were therefore not reassessed for whether they contain a lease.

- Short-term leases:

Leases with a lease term of 12 months or less, will not be capitalized. This also includes leases with a remaining lease term of 12 months at the date of initial application on January 1, 2019.

- Low-value leases:

Low-value leases with an underlying value of USD 10,000 or less, will not be capitalized.

The Group will consider using other practical expedients available.

Impact of IFRS 16 on the financial statements in 2019 – initial assessment

The implementation of IFRS 16 will have a significant positive impact on EBITDA in the Group's consolidated statement of comprehensive income and will increase total assets and to-

tal liabilities. The effects summarized below are based on estimates and are uncertain, in particular due to uncertainty related to renewal options and the estimated lease periods.

Based on outstanding leases on the balance sheet date, the implementation of IFRS 16 is expected to have following effect on the consolidated financial statement for the full year 2019:

Consolidated statement of comprehensive income:

1. Operating lease expenses recognized as other operational expenses will decrease by approximately USD 5.5 million.
2. Depreciation of leased ROU assets will increase by approximately USD 5.2 million.
3. Net interest expense related to the lease liability will increase by approximately USD 0.3 million.
4. Profit for the period is not expected to be affected significantly.

Consolidated statement of financial position on January 1, 2019:

5. Addition of approximately USD 10.0 million of ROU assets, and USD 10.0 million of lease liabilities
6. Addition of approximately USD 5.7 million of contract assets related to subleases. Corresponding reduction by USD 5.7 million of the ROU assets in 1. above

When measuring lease liabilities, the Group has discounted lease payments using country specific borrowing rates at January 1, 2019, as described above.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, and are presented in US dollars (USD), rounded to the nearest million, unless otherwise stated. As a result of rounding differences, amounts and percentages may not add up to the total.

Except for, cash-settled, share-based payment arrangements and contingent considerations obtained in business combinations, no other assets or liabilities are recognized at their fair value. Assets and liabilities in the business combinations are valued at fair value at the acquisition date according to IFRS 13. No

subsequent changes in fair value are recognized except for impairment losses. Receivables and debts are assumed to have a market value equal to the carrying amount.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by Group entities.

Critical accounting estimates

The preparation of consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgments made by management in the application of IFRS, which have a significant effect on the consolidated financial statements and estimates, with a significant risk of material adjustment in the next year, are discussed in note 13.

Consolidation principles

Business combinations:

Business combinations are accounted for using the acquisition method. Subsidiaries are included in the consolidated financial statements from the date the Group effectively obtains control of the subsidiary (acquisition date) and until the date the Group ceases to control the subsidiary. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing con-

trol, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized amount of any non-controlling interests in the acquiree, plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognized amount (generally, fair value) of the identifiable assets acquired and liabilities assumed.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not premeasured, and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquirer's awards) and relate to past services, then all or a portion of the amount of the acquiree's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Subsidiaries – consolidated financial statements:

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements

from the date on which control commences until the date on which control ceases.

Investments in associates - associates and jointly controlled entities:

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments, to align the accounting policies of the associate with those of the Group from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Loss of control - associates and jointly controlled entities:

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests, and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Intercompany balances and transactions eliminated on consolidation:

Intercompany balances and transactions, any unrealized gains and losses, or income and expenses arising

from intercompany transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. See note 2 for further information.

Foreign currency

Foreign currency transactions:

Transactions in foreign currencies are translated at the foreign exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to functional currency at the foreign exchange rate prevailing on that date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are recognized at fair value are translated to USD at foreign exchange rates prevailing on the date the fair value was determined.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from consolidation, are translated to USD at foreign exchange rates prevailing on the balance sheet date. Revenues and expenses of foreign operations are translated to USD using the approximate foreign exchange rates prevailing on the transaction date. Foreign exchange differences arising from re-translation are recognized directly in a separate component of equity.

Property, plant and equipment

Owned assets:

Property, plant and equipment are recognized at cost, less accumulated depreciation (see below) and impairment losses (see accounting policy regarding impairment).

Where parts of property, plant and equipment have different useful lives, the components are depreciated separately.

Leased assets:

Leases, where the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to the initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Expenses concerning the upgrading of leased premises have been capitalized and are amortized over the remaining term of the contract.

Lease payments

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized in the statement of comprehensive income as an integral part of the total lease expense.

Subsequent costs:

The Group recognizes, in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Group, and the cost of the item can be measured reliably. All other costs are recognized in the statement of comprehensive income as an expense as incurred.

Depreciation:

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Leasehold improvements
Over term of contract

- Machinery and equipment
Up to 10 years
- Fixtures and fittings
Up to 5 years

The residual value, if not insignificant, is reassessed annually.

Intangible assets

Goodwill:

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see above.

Goodwill is recognized at cost, less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortized but is tested annually for impairment (see accounting policy regarding impairment).

Please see note 13 for further information regarding accounting estimates and judgments related to impairment testing.

Research and development:

Expenses related to research activities, which are expected to lead to scientific or technological knowledge and understanding, are recognized as costs in the statement of comprehensive income in the period they are incurred.

Cost of building new features, together with significant and pervasive improvements of core platforms, provided that the significant and pervasive improvements of parts or main components of core platforms will generate probable future economic benefits, are capitalized as development costs and amortized on a straight-line, 3-year basis.

A significant portion of the work that engineering performs is related to the implementation of the ongoing updates that are required to maintain the platforms' functionality. Examples of updates include "bug fixes", updates made to comply with changes in laws and regulations, and updates made to keep pace with the latest trends. These costs are expensed as maintenance costs.

Please see note 13 for further information regarding accounting estimates and judgments related to development costs.

Other intangible assets:

Other intangible assets, excluding deferred tax assets (see accounting policy regarding income tax) that are acquired by the Group, are recognized at cost less accumulated amortization (see below) and impairment losses (see accounting policy regarding impairment).

Subsequent expenditure:

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortization:

Amortization is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, unless such lives are indefinite. Goodwill and intangible assets with indefinite useful lives are systematically tested for impairment at each balance sheet date.

Financial instruments

Non-derivative financial instruments:

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially measured at fair value plus transaction costs, except for those non-derivative financial instruments classified as at fair value through profit or loss, which are initially measured at fair value without transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Trade and other receivables:

Trade and other receivables are recognized at amortized cost less impairment losses (see accounting policy regarding impairment).

Cash and cash equivalents:

Cash and cash equivalents comprise cash balances and call deposits.

Impairment

Financial assets:

Assets carried at amortized cost
The Group assesses the probability

of default and the credit risk of financial assets each reporting period. For trade receivables the Group uses an expected credit loss (ECL) model evaluating the probability of default over the lifetime of the receivables. The loss allowance is based on historical loss rates that are adjusted to reflect management's assessment of current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

A write-down is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of comprehensive income.

Non-financial assets:

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The cash-generating unit is considered to be the acquired companies. Please see note 8 for further information. Impairment losses are recognized in the statement of comprehensive income.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

Calculation of recoverable amount:

The recoverable amount of the Group's assets is the greater of their fair value less cost of disposal and value in use. In assessing value in use,

the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment:

An impairment loss in respect of goodwill is not reversed.

With respect to other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount do not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Dividends

Dividends on shares are recognized as a liability in the period in which they are declared.

Employee benefits — Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in the profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Restructuring

A provision for restructuring costs is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been publicly announced. Further, operating losses are not provided for.

Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits or when the Group recognizes costs for restructuring. If benefits are not expected to be settled within 12 months of the end of the reporting period, then they are discounted.

Share-based payment transactions

The share option program allows Group employees to acquire shares of the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black & Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting.

Restricted Stock Unit Plans are measured at the grant date using the current market value reduced by expected dividends paid before the vesting date, which is then further discounted.

Provisions

A provision is recognized in the statement of financial position when the Group has a currently existing legal or constructive obligation as a result of a past event, and it is probable that a future outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The fair value of a contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e., probability-weighted). Since a part of the contingent consideration is long-term in nature, it is discounted to present value. Please see note 13 for further information regarding accounting estimates and judgments related to contingent considerations.

Trade and other payables

Trade and other payables are recognized at amortized cost.

Revenue recognition

The Company has the following primary sources of revenue:

- Advertising
- Application and content

Revenue comprises the fair value of the consideration for the sale of goods and services, net of value-added tax, rebates and discounts. Inter-company sales are eliminated. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service

Advertising

Advertising revenue is recognized each time a user views, or clicks a mobile ad, and/or installs a game. The performance obligations are satisfied on a point in time basis.

The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Advertising revenue is recognized based on certain different events and parameters;

- when a user installs a game (i.e. a user plays a game, sees advertising, clicks on it and installs a game) based on CPI (cost per install);
- when a mobile ad is delivered to a user, based on CPM (cost per thousand) i.e every 1,000 impressions of a mobile ad inside the publisher's inventory (which can be a mobile app or website);
- when a user plays a mobile video ad all the way to completion, based on CPCV (cost per completed video view);
- when a user clicks on a mobile ad, based on CPC (cost per click); i.e after each instance when an ad is clicked inside the publisher's inventory,

For the revenue generated through Otello-owned properties, revenue is reported on a gross basis, as Otello is the principal in our transactions with advertisers. Otello is responsible

for identifying and contracting with third-party advertisers, establishing the selling prices of the advertisements sold, and performing all billing and collection activities, including retaining credit risk, as well as bearing sole responsibility for fulfillment of the advertising. Accordingly, Otello acts as the principal in these arrangements and, therefore, reports revenue earned and costs incurred related to these transactions on a gross basis.

In the normal course of business, Otello acts as an intermediary in executing transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether Otello is acting as the principal or an agent in our transactions with advertisers. The determination of whether Otello is acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of each arrangement. While none of the factors individually are considered presumptive or determinative, in reaching our conclusions on gross versus net revenue recognition, Otello places the most weight on the analysis of whether Otello is the primary obligor in the arrangement. For agreements where Otello has a contractual relationship with both the publisher and the associated advertisement supplier, Otello is responsible for identifying and contracting with third-party advertisers, establishing the selling prices of the advertisements sold and performing all billing and collection activities, including retaining credit risk, as well as bearing sole responsibility for fulfillment of the advertising. Accordingly, Otello acts as the principal in these arrangements and, therefore, reports revenue earned and costs incurred related to these transactions on a gross basis. For agreements where the publisher has a direct contractual relationship with the advertiser, revenue is recognized on a net basis, as Otello is not the primary obligor and does not assume the fulfillment and credit risk.

Application and content

Application and Content revenue comprises 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.

When a transaction occurs in Bemobi Mobile Store, Otello collects the payment and shares a percentage of the revenue with the developer. When a transaction occurs in a "co-branded" or an operator-controlled version of the mobile store, two payment methods will exist. The user may pay using the Otello Payment Exchange, in which case Otello would collect and share a percentage of the revenue with both the operator and the developer, or the user may use a form of carrier billing, where the operator would collect the payment and share a portion of the revenue with Otello, who would in turn share a percentage of revenue with the developer. The revenue occurs on a transaction basis, and is recognized in the period in which the transaction occurs.

Publisher and revenue share costs

Cost of goods sold comprises publisher costs and the cost of licenses purchased from third-party suppliers. Publisher costs consist of the agreed-upon payments Otello makes to publishers for their advertising space, in which we deliver mobile ads. These payments are typically determined in advance as either a fixed percentage of the advertising revenue we earn from mobile ads placed on the publisher's application or website or as a fixed fee for that ad space. Otello recognizes publisher cost at the same time we recognize the associated revenue. License costs are the costs of licenses purchased from third-party suppliers.

Other income (costs)

Material income and costs, which are not related to the normal course of business, are classified as other operating income (cost).

Net financing costs

Other finance income and costs comprise foreign exchange gains and losses and contingent consideration, which are recognized in the statement of comprehensive income.

Interest income is recognized in the statement of comprehensive income as it accrues, using the effective interest method.

Dividend income is recognized in the statement of comprehensive in-

come on the date upon which the entity's right to receive payments is established.

Income tax

Income tax on the profit or loss for the year comprises current and deferred taxes. Income tax is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is only recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Please see note 13 for further information regarding accounting estimates and judgments related to deferred tax assets.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary share-

holders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include share options granted to employees.

Note 2

Operating and segment information

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

Otello sold its VPN business, SurfEasy, which was part of the Performance & Privacy segment in November 2017. Accordingly, the SurfEasy is presented separately as discontinued operations in the consolidated statement of comprehensive income and comparative periods are restated. See note 16 for further information regarding discontinued operations.

Following the sale of the Group's Consumer business and the TV business in 2016, changes in the Group's internal reporting processes resulted in the three remaining business units being reported separately to Group Executive Management (chief operating decision-makers). Members of Group Executive Management are specified in note 3. Therefore, these business units have been presented as segments since 2016. In addition, the Group reports Corporate Costs separately.

The following are Otello's segments as at December 31, 2018:

AdColony (Mobile Advertising)

AdColony is one of the largest mobile advertising platforms in the world with a reach of more than 1.5 billion users globally. AdColony provides an end-to-end platform for brands, agencies, publishers and application developers to deliver advertising to consumers on mobile devices around the world. AdColony delivers highly interactive and engaging advertising experiences across all mobile formats with particular strength in video and full screen interactive rich media ads.

AdColony's advertising revenue is primarily 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 of mobile advertisements.

Bemobi (Apps & Games)

The cornerstone of the Bemobi business 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.

Bemobi's application and content revenue is primarily comprised of: i) subscription revenue when an Android user purchases a subscription from a "co-branded" mobile store, or a white-label operator-controlled version of the mobile store, known as Apps Club, and ii) the Bemobi Mobile Store, a feature phone platform, when a user purchases a premium app

Skyfire (Performance & Privacy)

Skyfire enables mobile operators to optimize its network performance and quality as data traffic and the consumption of mobile video is exploding. The unique compression technology (Rocket Optimizer™) opens up new business models and revenue streams for the operators. Skyfire revenue is primarily comprised of license fees from Rocket Optimizer™.

Corporate costs

Corporate costs comprise primarily 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.

See note 1 for further information regarding revenue recognition.

Revenue [USD million]	2018	2017
AdColony (Mobile Advertising)	220.6	364.9
Bemobi (Apps & Games)	54.0	52.9
Skyfire (Performance & Privacy)	0.5	2.6
Corporate Costs	0.2	0.1
Eliminations Continued Operations	0.0	(0.3)
Eliminations against Discontinued Operations ¹⁾	-	(1.1)
Total Group	275.4	419.0

Gross profit [USD million]	2018	2017
AdColony (Mobile Advertising)	75.1	128.5
Bemobi (Apps & Games)	38.5	38.2
Skyfire (Performance & Privacy)	0.5	2.7
Corporate Costs	0.2	0.1
Eliminations	(0.0)	(0.0)
Total Group	114.4	169.5

Adjusted EBITDA ²⁾ [USD million]	2018	2017
AdColony (Mobile Advertising)	(5.1)	(1.5)
Bemobi (Apps & Games)	21.8	22.7
Skyfire (Performance & Privacy)	(1.2)	(2.2)
Corporate Costs	(6.1)	(5.4)
Eliminations Continued Operations	(0.0)	(0.0)
Eliminations against Discontinued Operations	-	0.0
Total Group	9.4	13.5

¹⁾ See note 16 for further information regarding discontinued operations.

²⁾ Excluding impairment and restructuring expenses and stock-based compensation expenses.

Adjusted EBITDA is reviewed regularly by Group Executive Management, since it is considered to represent an appropriate measure showing the underlying operational performance excluding non-recurring items. Certain items are excluded in the alternative performance measure Adjusted EBITDA to provide enhanced insight into the performance of the business and to improve comparability between different periods. The table below presents a reconciliation of profit (loss) to Adjusted EBITDA.

Reconciliation of Adjusted EBITDA [USD million]	2018	2017
Profit (loss) from continuing operations	(92.7)	(66.9)
Income taxes	(24.5)	4.0
Profit (loss) before income taxes	(117.2)	(62.9)
Net financial items	(0.9)	16.8
Operating profit (loss)	(118.0)	(46.1)
Depreciation and amortization expenses	30.2	37.5
Impairment and restructuring expenses	97.4	14.2
Stock-based compensation expenses	(0.2)	7.8
Adjusted EBITDA	9.4	13.5

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) in the Consolidated statement of comprehensive income excluding depreciation and amortization.

Adjusted EBITDA:

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

Revenues

Revenue by region <i>[USD million]</i>	2018	2017
USA	114.6	179.9
EMEA, excluding Norway	93.4	130.6
Brazil	38.4	41.3
Asia Pacific	21.3	53.2
Americas, excluding USA and Brazil	6.1	9.0
Norway	1.7	5.0
Total	275.4	419.0

The breakdown of revenue by region reflects the customer or partner's (mobile operator, OEM) country of domicile. Consequently, the revenue breakdown reflects the location of Otello's customers and partners. The breakdown above does not accurately reflect, therefore, where Otello's derivative products and services are used by the end user (partner's customer).

In 2018, one customer accounted for approximately 10 % of total Group revenue. In 2017, there were no customers that accounted for more than 10% of total Group revenues.

Disaggregation of revenue

In the following tables, the major revenue types are disaggregated by region as disclosed above.

Advertising <i>[USD million]</i>	2018	2017
USA	114.1	179.2
EMEA, excluding Norway	87.3	125.9
Brazil	-	-
Asia Pacific	13.7	49.6
Americas, excluding USA and Brazil	4.2	7.1
Norway	1.3	3.0
Total	220.6	364.9

Application and content <i>[USD million]</i>	2018	2017
USA	-	-
EMEA, excluding Norway	6.1	4.8
Brazil	38.4	40.8
Asia Pacific	7.6	3.6
Americas, excluding USA and Brazil	1.9	1.9
Norway	-	1.9
Total	54.0	52.9

Revenues from the Skyfire and Corporate cost segments are not considered material enough to be presented disaggregated.

Total assets by segment <i>[USD million]</i>	2018	2017
AdColony	302.1	467.0
Bemobi (Apps & Games)	101.7	107.5
Skyfire (Performance & Privacy)	6.3	10.7
Corporate (including parent company)	45.4	51.4
Total	455.5	636.6

Non-current assets by segment <i>[USD million]</i>	2018	2017
AdColony	204.2	315.3
Bemobi (Apps & Games)	62.4	75.3
Skyfire (Performance & Privacy)	-	0.1
Corporate (including parent company)	17.2	18.1
Total	283.8	408.8

See note 8 for information regarding impairment of non-current assets per segment.

Non-current assets by location <i>[USD million]</i>	2018	2017
Non-current assets located in Norway	17.7	21.3
Non-current assets located in United States	202.1	293.0
Non-current assets located in other countries	64.1	94.5
Total	283.8	408.8

The breakdown of non-current assets above does not include financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts.

The vast majority of the value of non-current assets is related to acquisitions. See note 8 and 9 for further information.

Note 3

Payroll expenses and remuneration to management

Payroll expenses [USD million]	2018	2017
Salaries and bonuses	(43.4)	(68.7)
Social security cost	(3.5)	(6.7)
Pension cost	(1.6)	(2.3)
Stock-based compensation expense, including social security cost	0.2	(7.8)
Insurance and other employee benefits	(4.5)	(6.9)
Payments to long-term contractual staff	(4.6)	(6.6)
Total	(57.5)	(99.0)
Average number of full time equivalents	548	809

The Norwegian companies in the Group are obligated to follow the Act on Mandatory company pensions and these companies pension schemes follow the requirement as set in the Act.

Compensation to the CEO and Chairman of the Board

The CEO has waived his rights under Section 15-16 of the Norwegian Working Environment Act of 2005 relating to employees' protection, termination of employment contracts, etc.

As compensation, the CEO is entitled to receive a termination amount of two years' base salary if the employment contract is terminated by the Company.

As of December 31, 2018, there was no existing severance agreement between Otello and the Chairman of the Board.

The Group has not given any loans or security deposits to the CEO, the Chairman of the Board or their related parties.

A bonus program exists for the senior executive team at Otello. For each individual executive, a limit is set for the amount of bonus that can be achieved. The size of the bonus payment is dependent on actual company performance compared to a set of predefined targets. The bonus program and predefined targets are approved by the Remuneration committee and the Board of Directors.

An accrual for all 2018 bonuses for senior executives has been recognized in the consolidated financial statements. Bonuses will be paid in 2019.

Share-based compensation:

Otello currently has two equity-based incentives: ordinary stock options and Restricted Stock Units ("RSU"), as most recently approved at an extraordinary general meeting held April 4, 2017.

Vesting criteria for existing RSUs

For members of the Executive Team, the RSUs are typically linked to achievement of further specified targets related to reported revenue and reported adjusted EBITDA. All RSUs previously granted to members of the Executive Team, have been issued with vesting criteria which are in accordance with the approvals given by the Annual General Meeting held in 2014, the Annual General Meeting in 2015, and/or the Extraordinary General Meeting held in January 2016.

Vesting criteria for existing options

Options granted to AdColony employees in accordance with the approval given by the shareholders at the extraordinary general meeting held on April 4, 2017, vest over three years with 1/3 each year.

Options granted to Otello Corporation ASA employees in accordance with the approval given by the shareholders at the extraordinary general meeting held on April 4, 2017, vest over four years with ¼ each year.

Options

Weighted average exercise price

The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price 2018 (NOK)	Number of options 2018 (in thousands)	Weighted average exercise price 2017 (NOK)	Number of options 2017 (in thousands)
Outstanding at the beginning of the period	38.22	3 587	31.04	815
Terminated (employee terminations)	38.61	1 157	38.91	5 200
Forfeited during the period	-	-	-	-
Expired during the period	23.98	9	-	-
Exercised during the period	-	-	17.55	366
Granted during the period	-	-	38.50	8 338
Outstanding at the end of the period	40.09	2 421	38.28	3 587
Exercisable at the end of the period		858		253

The fair value of services received in return for stock options granted is measured by using the Black & Scholes option pricing model.

The expected volatility is based on historic volatility (calculated using the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information.

Share options are granted under service conditions, not market-based conditions. Such conditions are not taken into account in the grant date fair-value measurement. There are no market conditions associated with the share option grants. An annual average attrition rate of 0% is used. This average attrition rate, and the employees' responsibility for paying the Company's contributions related to the options, are taken into consideration when estimating the cost of the options in accordance with IFRS 2. Given that employees have the right to exercise their options one or three years after the vesting date (depending on when the options were granted), the estimate is based on an assumption that the employees, on average, are exercising their options 18 months after the vesting date.

No options were granted in 2018 (2017: 8,338,201 options granted).

The table below shows the number of options issued to employees at various strike prices and exercise dates.

Exercise price	2018 TOTAL OUTSTANDING OPTIONS			2018 VESTED OPTIONS	
	Outstanding options per 12/31/2018 (in thousands)	Weighted average remaining lifetime (years)	Weighted average exercise price (NOK)	Vested options 12/31/2018 (in thousands)	Weighted average exercise price (NOK)
0.00 - 10.00	-	-	-	-	-
10.00 - 12.30	80	0.66	11.68	80	11.68
12.30 - 15.00	-	-	-	-	-
15.00 - 20.00	55	1.63	19.28	55	19.28
20.00 - 25.00	50	0.93	22.08	50	22.08
25.00 - 30.00	-	-	-	-	-
30.00 - 35.00	-	-	-	-	-
35.00 - 40.00	538	1.20	38.50	538	38.50
40.00 - 45.00	1 563	3.17	41.61	-	-
45.00-	135	2.72	60.75	135	60.75
Total	2 421	2.54	40.09	858	37.31

Exercise price	2017 TOTAL OUTSTANDING OPTIONS			2017 VESTED OPTIONS	
	Outstanding options per 12/31/2017 (in thousands)	Weighted average remaining lifetime (years)	Weighted average exercise price (NOK)	Vested options 12/31/2017 (in thousands)	Weighted average exercise price (NOK)
0.00 - 10.00	-	-	-	-	-
10.00 - 12.30	80	1.66	11.68	80	11.68
12.30 - 15.00	-	-	-	-	-
15.00 - 20.00	55	2.63	19.28	55	19.28
20.00 - 25.00	50	1.93	22.08	50	22.08
25.00 - 30.00	-	-	-	-	-
30.00 - 35.00	-	-	-	-	-
35.00 - 40.00	3 267	3.50	38.50	-	-
40.00 - 45.00	-	-	-	-	-
45.00-	135	3.72	60.75	68	60.75
Total	3 587	3.43	38.22	253	28.51

Exercise price = strike price

The table below shows the date, number and achieved selling price of options exercised.

No options exercised in 2018.

Date of exercise	Number of exercised options (in thousands)	Achieved selling price (NOK)
3/20/2017	349	38.04
6/9/2017	18	31.57
Total	366	

Restricted stock units

No RSUs were granted to management and employees in 2018 or 2017.

Restricted Stock Units	2018		2017	
	Shares (in thousands)	Weighted Average Exercise Price (NOK)	Shares (in thousands)	Weighted Average Exercise Price (NOK)
Outstanding at the beginning of period	355	0.02	2 711	0.02
Granted	-	-	-	-
Exercised	-	-	-	-
Released	(204)	0.02	(778)	0.02
Cancelled	-	-	(1 361)	-
Forfeited	(86)	0.02	(426)	0.02
Expired	-	-	-	-
Adjusted quantity	-	-	209	0.02
Performance adjusted	(51)	0.02	-	-
Outstanding at the end of period	15	0.02	355	0.02
Vested RSUs	-	-	20	0.02
Weighted Average Fair Value of RSUs Granted during the period	-	-	-	-
Intrinsic value outstanding RSUs at the end of the period	15	195 184	355	9 294 919
Intrinsic value vested RSUs at the end of the period	-	-	20	519 594

The actual 2018 performance level was between 0 and 50 %.
The actual 2017 performance level was 0%.

Compensation to executive management in 2018

<i>[USD million]</i>	Remuneration	Salary	Bonus	Other compensation	Pension compensation	Benefit exercised options/RSUs	Total compensation
Executive Managemement							
Lars Boilesen, CEO	-	0.52	0.52	0.04	0.07	0.11	1.26
Petter Lade, CFO	-	0.20	0.05	0.00	-	-	0.25
Roar Olbergsveen, CAO	-	0.20	0.03	0.00	0.02	-	0.26
The Board of Directors							
Audun Wickstrand Iversen, Chairman	0.08	-	-	0.00	-	-	0.08
Frode Jacobsen, Board Member	0.04	-	-	-	-	-	0.04
Andre Christensen, Board Member	0.04	-	-	-	-	-	0.04
Sophie Charlotte Moatti, Board Member	0.04	-	-	-	-	-	0.04
Birgit Midtbust, Board Member	0.03	-	-	-	-	-	0.03
The Nomination Committee							
Nils Foldal, Chairman	0.01	-	-	-	-	-	0.01
Jakob Iqbal, Member	0.00	-	-	-	-	-	0.00
Kari Stautland, Member	0.00	-	-	-	-	-	0.00
Total	0.24	0.93	0.60	0.05	0.09	0.11	2.01

Presented above are the bonuses earned in 2018 and paid in 2018 and 2019, which are based on the 2018 results.

Other remuneration mentioned in the Norwegian Accounting Act § 7-31b has no relevance for the Company.

Members of Executive Management are included in the Company's employee pension scheme, which is a defined contribution plan.

There has been no compensation or other economic benefit provided in 2017 or 2018 to any member of the Executive Team or Board of Directors from the Company or any business owned by the Company, except that mentioned above. In 2017 and 2018, there has been no significant additional compensation given to directors with regard to special services performed outside of their normal function.

Compensation to executive management in 2017

<i>[USD million]</i>	Remunera- tion	Salary	Bonus	Other compensa- tion	Pension compensa- tion	Benefit exercised options/RSUs	Total compensa- tion
Executive Management							
Lars Boilesen, CEO	-	0.65	0.31	0.04	0.08	0.16	1.24
Petter Lade, CFO from January 1	-	0.16	0.02	0.00	0.00	-	0.19
Roar Olbergsveen, CAO, from February 28	-	0.17	0.03	0.00	0.00	-	0.20
Will Kassoy, CEO AdColony until December 21	-	0.48	0.03	-	0.01	0.02	0.53
The Board of Directors							
Audun Wickstrand Iversen, Chairman	0.09	-	-	-	-	-	0.09
Frode Jacobsen, Board Member	0.04	-	-	-	-	-	0.04
Andre Christensen, Board Member	0.05	-	-	-	-	-	0.05
Sophie Charlotte Moatti, Board Member	0.04	-	-	-	-	-	0.04
Marianne Blystad, Board Member until June 2	0.03	-	-	-	-	0.04	0.07
Birgit Midtbust, Board Member from June 2	0.02	-	-	-	-	-	0.02
The Nomination Committee							
Jakob Iqbal, Chairman	0.01	-	-	-	-	-	0.01
Nils Foldal, Member	0.00	-	-	-	-	-	0.00
Kari Stautland, Member	0.00	-	-	-	-	-	0.00
Total	0.27	1.47	0.39	0.05	0.09	0.22	2.48

Presented above are the bonuses earned in 2017 and paid in 2017 and 2018, which are based on the 2017 results. Will Kassoy's compensation excludes proceeds related to his equity interest and participation in the management bonus plan in relation to the earnout agreement for AdColony.

Options to executive management in 2018

There are no existing agreements regarding the dispensation of loans or security deposits to key personnel, members of the board or their related parties.

<i>[In thousands of options]</i>	Opening balance	Granted options	Terminated options	Exercised options	Average exercise price — A (NOK)	Closing balance	Weighted average exercise price — B (NOK)	Weighted average lifetime (years)	Weighted average remaining time until vesting	Intrinsic Value of outstanding options (USD million)	IFRS 2 cost for the period (USD million)
Executive Management											
Lars Boilesen, CEO	1 200	-	-	-	-	1 200	40.87	2.70	0.90	-	0.36
Petter Lade, CFO	290	-	-	-	-	290	37.77	2.54	0.77	0.00	0.08
Roar Olbergsveen, CAO	260	-	-	-	-	260	38.51	2.48	0.69	0.00	0.06
Total	1 750	-	-	-	-	1 750				0.00	0.50

A — average exercise price for options executed in the financial year

B — average exercise price for the number of options held by the end of the financial year

Options to executive management in 2017

There are no existing agreements regarding the dispensation of loans or security deposits to key personnel, members of the board or their related parties.

<i>[In thousands of options]</i>	Opening balance	Granted options	Terminated options	Exercised options	Average exercise price — A (NOK)	Closing balance	Weighted average exercise price — B (NOK)	Weighted average lifetime — C	Intrinsic Value of outstanding options (\$ million)	IFRS 2 cost for the period (\$ million)
Executive Management										
Lars Boilesen, CEO	-	1 200	-	-	38.50	1 200	38.50	3.70	-	0.44
Petter Lade, CFO from January 1	40	250	-	-	38.50	290	38.85	3.54	0.03	0.09
Roar Olbergsveen, CAO, from February 28	60	200	-	-	38.50	260	3.48	1.31	0.05	0.09
Will Kassoy, CEO AdColony until December 21	-	2 489	(2 489)	-	38.50	-	-	-	-	(1.20)
Total	100	4 139	(2 489)			1 750			0.08	(0.57)

A — average exercise price for options executed in the financial year

B — average exercise price for the number of options held by the end of the financial year

Option and RSU grants in 2017 and option and RSU costs in 2017 <i>(in thousands of options and RSUs, cost in USD million)</i>	Granted Options	2017 Cost	RSUs Granted	2017 Cost
Executive Management				
Lars Boilesen, CEO	1 200	0.44	-	0.32
Petter Lade, CFO from January 1	250	0.09	-	-
Roar Olbergsveen, CAO, from February 28	200	0.09	-	-
Will Kassoy, CEO AdColony until December 21	2 489	(1.20)	-	-
Total	4 139	(0.57)	-	0.32

Shares, options, RSUs owned by members of the Board and the Chief Executive Officer as of December 31, 2018

[In thousands of shares, options and RSUs]

Name	Commission	Shares	Options	RSUs	Total	Weighted average strike price - options (NOK)	Weighted average strike price - RSUs (NOK)
Audun Wickstrand Iversen ¹⁾	Chairman	-	-	-	-	-	-
Frode Jacobsen	Board Member	10	-	-	10	-	-
Andre Christensen	Board Member	-	-	-	-	-	-
Birgit Midtbust	Board Member	-	-	-	-	-	-
Sophie Charlotte Moatti	Board Member	-	-	-	-	-	-
Lars Boilesen	CEO	252	1 200	15	1 466	40.87	0.02
		262	1 200	15	1 477		

¹⁾ Audun Wickstrand Iversen holds 50,000 shares through Naben AS, 100% owned by Iversen.

**Shares, options and RSUs owned by other members of Executive Management
as of December 31, 2018**

<i>[In thousands of shares, options and RSUs]</i>	Title	Shares	Options	RSUs	Total	Weighted average strike price - options (NOK)
Petter Lade	CFO	62	290	-	352	37.77
Roar Olbergsveen	CAO	0	260	-	260	38.51
		62	550	-	612	

**Shares, options, RSUs owned by members of the Board and the Chief Executive Officer
as of December 31, 2017**

[In thousands of shares, options and RSUs]

Name	Commission	Shares	Options	RSUs	Total	Weighted average strike price - options (NOK)	Weighted average strike price - RSUs (NOK)
Audun Wickstrand Iversen ¹⁾	Chairman	-	-	-	-	-	-
Frode Jacobsen	Board Member	10	-	-	10	-	-
Andre Christensen	Board Member	-	-	-	-	-	-
Birgit Midtbust	Board Member	-	-	-	-	-	-
Sophie Charlotte Moatti	Board Member	-	-	-	-	-	-
Lars Boilesen	CEO	196	1 200	107	1 502	38.50	0.02
		206	1 200	107	1 513		

¹⁾ Audun Wickstrand Iversen holds 50,000 shares through Naben AS, 100% owned by Iversen.

**Shares, options and RSUs owned by other members of Executive Management
as of December 31, 2017**

<i>[In thousands of shares, options and RSUs]</i>	Title	Shares	Options	RSUs	Total	Weighted average strike price - options (NOK)
Petter Lade	CFO from January 1	41	290	-	331	35,72
Roar Olbergsveen	CAO from February 28	0	260	-	260	36,66
Will Kassoy	CEO AdColony until December 21	291	-	-	291	-
		332	550	-	882	

Note 4 Other operating expenses

Other operating expenses <i>[USD million]</i>	2018	2017
Hosting expenses, excl. depreciation cost	(17.1)	(21.1)
Rent and other office expenses	(7.0)	(9.2)
Marketing expenses	(6.3)	(7.3)
Audit, legal and other advisory services	(5.4)	(7.1)
Purchase of equipment, not capitalized	(4.2)	(4.6)
Travel expenses	(3.7)	(4.7)
Bad debt expenses	0.9	(5.0)
Other expenses ¹⁾	(4.5)	(5.8)
Total	(47.4)	(64.8)

¹⁾Other expenses comprises \$1.5 million (2017: 2.5) in client-related expenses.

Auditor remuneration
Otello Corporation ASA changed its Group auditor from KPMG to PWC in 2017. The following table shows fees to PWC for 2018 and 2017. For all categories the reported fee is the recognized expense in other operating expenses for the year.

Remuneration to the statutory auditors <i>[USD million]</i>	2018	2017
Statutory audit	(0.5)	(0.8)
Other certification services	(0.1)	(0.1)
Tax-related advice	-	-
Other services	-	-
Total	(0.7)	(0.8)

Note 5

Financial risk and financial instruments

Currency 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. These effects are not specified in the table below.

Revenues per currency: <i>[USD million]</i>	2018		2017	
	Revenues	%	Revenues	%
USD	199.4	72.4%	334.2	79.8%
BRL	38.4	14.0%	41.3	9.9%
TRY	12.1	4.4%	12.3	2.9%
DKK	9.2	3.3%	2.8	0.7%
EUR	1.7	0.6%	5.8	1.4%
GBP	1.5	0.5%	5.1	1.2%
Other	13.1	4.8%	17.4	4.2%
Total	275.4		419.0	

Operating expenses (OPEX) per currency: <i>[USD million]</i>	2018		2017	
	OPEX	%	OPEX	%
USD	(229.6)	77.6%	(356.9)	79.2%
BRL	(21.3)	7.2%	(26.4)	5.9%
NOK	(11.3)	3.8%	(10.5)	2.3%
TRY	(11.0)	3.7%	(11.9)	2.6%
GBP	(5.3)	1.8%	(13.1)	2.9%
EUR	(1.0)	0.4%	(11.6)	2.6%
Other	(16.5)	5.6%	(20.6)	4.6%
Total	(296.1)		(450.9)	

Conversion of the Group's revenues from foreign currencies into USD yields the following average exchange rates:

	2018	2017
BRL	0.276	0.313
TRY	0.213	0.275
DKK	0.158	0.152
EUR	1.181	1.130
GBP	1.335	1.288

Revenues and expenses for the current year recalculated on a constant currency basis, are presented below:

<i>[USD million]</i>	Recalculated with prior year average rates	FX effect using prior year rates	Effect in %
Revenue	284.7	9.3	3.4 %
Expenses	(300.9)	(4.9)	1.6 %

Foreign exchange contracts

During 2018 and 2017, the Group did not use forward exchange contracts to hedge its currency risk, and Otello had not entered into any foreign exchange contracts as of December 31, 2018.

Net financial income (expense)

Net financial income of \$2.7 million (2017: -9.6) comprises FX gains of \$12.6 million (2017: 29.6) and FX losses of \$7.7 million (2017: 39); and \$2.2 million in legal costs related to the sale of the TV business and Otello's ongoing case regarding the potential sale of its minority stake

Credit risk

Credit risk is the risk of losses that the Group would suffer if a counterparty fails to perform its financial obligations. The Group's exposure to credit risk is mainly related to external receivables. Credit risk is assessed for each specific customer. One customer accounted for just over 10% of the Group's revenue during the financial year. No other customers accounted for more than 5 % of Group revenues. Further, the Group conducts much of its business with large global companies and has not experienced significant credit-related losses during this or previous financial years. Therefore, no further credit risk provision is required in excess of the normal provision for bad and doubtful receivables. Individual assessments per customer, in terms of provisions for bad debt, are carried out by financial management. No customers have committed any collateral or other means to secure their outstanding debt.

Gross accounts receivable per currency:

The numbers below are presented in local currencies (million)

	2018	% of gross AR	2017	% of gross AR
USD	30.6	58.4%	62.8	68.3%
TRY	32.8	11.9%	26.1	7.5%
BRL	22.6	11.1%	19.7	6.5%
EUR	0.4	0.9%	1.6	2.0%
GBP	0.4	0.9%	2.1	3.1%
Other	n/a	16.8%	n/a	12.5%

The accounts receivables are converted, as of December 31, at the following exchange rates:

	2018	2017
BRL	0.258	0.302
TRY	0.189	0.264
EUR	1.144	1.198
GBP	1.274	1.349

Gross accounts receivable per region: <i>[USD million]</i>	2018	2017
Americas	22.8	51.5
EMEA	17.4	26.4
Asia Pacific	12.1	14.0
Total	52.4	92.0

Gross accounts receivable, as of December 31, by age, are as follows:

	2018		2017	
<i>[USD million]</i>	Gross receivables	Provision for bad debt	Gross receivables	Provision for bad debt
Not past due	19.5	(0.1)	29.7	(1.5)
Past due 0-30 days	14.5	(0.3)	22.3	(0.1)
Past due 31-60 days	4.1	(0.0)	10.9	(0.0)
Past due 61-90 days	3.1	(0.1)	6.9	(5.6)
More than 90 days	11.1	(6.3)	22.2	(5.7)
Total	52.4	(6.7)	92.0	(12.9)

Accounts receivables and other receivables [USD million]	2018	2017
Accounts receivable (including provision for bad debt)	45.6	79.1
Unbilled revenue	21.5	32.4
Other receivables	36.6	13.9
Total	103.7	125.4

Accounts receivable represent the part of receivables that is invoiced to customers but not yet paid. Unbilled revenue is revenue recognized in the year which was not invoiced to the customers at year end and which will be invoiced to customers subsequent to the balance sheet date.

Other receivables consists of payments held in escrow related to sales and acquisitions, non-trade receivables, and prepayments. As of December 31, 2018, \$5.7 million consisted of a payment held in escrow related to sale of the SurfEasy business in 2017, and \$21.3 million a payment held in escrow related to the settlement of the Bemobi earnout. Please see note 11 for further information related to the settlement of the Bemobi earnout.

Deferred revenue

Deferred revenue consists of and prepaid advertising campaigns, and prepaid license/royalty payments.

Liquidity risk

Liquidity reserve <i>[USD million]</i>	2018	2017
Cash and cash equivalents		
Cash in hand and on deposit	27.5	86.0
Less restricted funds ¹⁾	1.3	1.7
Unrestricted cash	26.2	84.4
Unutilized credit facilities	100.0	50.0
Short-term overdraft facility	-	-
Liquidity reserve	100.0	50.0

Breakdown of cash deposits by currency <i>[USD million]</i>	2018	2017
USD	12.5	40.6
BRL	6.3	5.7
NOK	2.0	26.6
TRY	1.1	0.3
EUR	0.6	3.8
Other	4.9	9.1
Total	27.5	86.0

Credit Facility <i>[USD million]</i>	2018	2017
Long-term cash credit	100.0	50.0
Utilized	-	-
Short-term overdraft facility	-	-
Utilized	-	-

Credit facility

In 2017, Otello paid down its outstanding term loan of \$100 million to DNB Bank ASA. In May 2018, Otello 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. As at December 31, 2018, the revolving credit facility was undrawn.

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 accounts receivables in the parent company.

The credit facility has the following financial covenants: i) the Leverage Ratio to be below 2.00:1. ii) the Equity Ratio to hold the minimum level of 35%. The Group is compliant as of December 31, 2018.

The Revolving Credit facility of \$100 million bear an interest rate of LIBOR, 3 months + a Margin of 2.50 % p.a. There is no utilization fee. On the undrawn portion of the facility, a commitment fee of 35% of the Margin will be paid.

Financial liabilities

All financial liabilities other than the credit facility (described above), and liabilities relating to contingent considerations (see note 11) are expected to be paid within 1 year of the balance sheet date.

Capital management

The Group's policy has been to maintain a high equity-to-asset ratio and to maintain a solid capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group still possesses a business model that anticipates considerable cash flow in the future.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements

Cash pool agreement

The Group terminated its cash pool agreement in 2017.

Financial instruments

Financial instruments, and contracts accounted for as such, are included in several line items in the statement of financial position and classified in categories for accounting treatment. A classification of financial instruments in Otello is presented below:

<i>[USD million]</i>	Amortised cost	Fair value
	2018	
Assets - current		
Accounts receivable	67.1	67.1
Cash and cash equivalents	27.5	27.5
Liabilities - non-current		
Other non-current liabilities	2.1	2.1
Liabilities - current		
Accounts payable	23.4	23.4
Other current liabilities ¹⁾	0.5	0.5
Contingent consideration, current	21.3	21.3
	2017	
Assets - current		
Accounts receivable	111.4	111.4
Cash and cash equivalents	86.0	86.0
Liabilities - non-current		
Loans and borrowings	0.1	0.1
Other non-current liabilities	4.5	4.5
Contingent consideration, non-current	28.5	28.5
Liabilities - current		
Accounts payable	35.3	35.3
Other current liabilities ¹⁾	4.1	4.1
Contingent consideration, current	25.4	25.4

¹⁾ Other current liabilities represents liabilities to entities in discontinued operations. See note 18 for further information.

Note 6 Taxes

<i>[USD million]</i>	2018	2017
Income tax expense recognized in the statement of comprehensive income:		
Current tax	(6.5)	(8.8)
Changes in deferred taxes	27.2	5.2
Changes in deferred tax related to amortization of excess values from business combinations	3.0	7.1
Write down of deferred tax related to write down of intangibles from business combinations	2.5	-
Changes in deferred tax related to changes in tax rates ¹⁾	(0.2)	(6.4)
Withholding tax expense	(1.5)	(1.1)
Income tax expense	24.5	(4.0)
Income tax expense discontinued operations	-	(0.1)

¹⁾ Primarily the change in the federal tax rate in the US from 35% to 21% as from January 1, 2018

Recognized deferred tax assets and liabilities:

Deferred tax balances presented in the statement of financial position comprise the following:

<i>[USD million]</i>	2018	2017
Deferred tax assets related to tax loss carryforwards	27.8	16.6
Deferred tax asset related to merger of entities in Brazil	14.3	-
Deferred tax assets related to other temporary differences	2.2	4.2
Deferred tax liabilities related to temporary differences	(0.1)	-
Deferred tax liabilities related to amortizable excess value from business combinations in the US ¹⁾	(0.3)	(4.4)
Deferred tax liabilities related to amortizable excess value from business combinations outside the US ¹⁾	(3.5)	(5.8)
Net deferred assets (liabilities)	40.5	10.6

¹⁾ In the statement of financial position, deferred tax liabilities related to amortizable excess value from business combinations in the US and Brazil are netted against deferred tax assets in the same US and Brazil tax jurisdictions, respectively.

All US entities are included in a US consolidated tax group.

As of December 31, 2018, deferred tax liabilities related to amortizable excess value from business combinations outside the US of \$3.5 million are netted against deferred tax assets in the same tax jurisdiction. The corresponding amount of \$5.8 million in 2017 was not netted in the statement of financial position since there were no deferred tax assets in the same tax jurisdiction as of December 31, 2017.

Otello recognizes deferred tax assets related to tax losses in the statement of financial position when it is considered probable that taxable profit will be generated in future periods against which these tax loss carry forwards can be utilized. The tax loss carry forwards are in the US and Norway. It is management's opinion that sufficient future taxable profits will be generated against which these tax losses can be utilized. See below for a breakdown of tax loss carry forwards and relevant expirations dates of these.

In the tables below, the set off tax (or valuation allowance) is the amount recognized that reduces the tax loss carryforwards in the US for the portion that it is more likely than not to not be utilized in future periods. These amounts relate to the acquired losses from certain business combinations that will most likely not be able to be utilized due to rules limiting the amount of acquired losses a parent company can utilize.

Deferred tax assets (liabilities) and changes during the year

2018 [USD million]	Balance 1/1/18	Posted to statement of comprehensive income	Posted directly to the equity	Disposals to discontinued operations	Balance 12/31/18
Property, plant and equipment	(2.5)	(0.2)	-	-	(2.7)
Intangible assets	8.5	(0.9)	-	-	7.5
Accounts receivable	0.5	(0.2)	-	-	0.3
Payroll tax on share options	(4.6)	1.4	(0.2)	-	(3.4)
Provisions and accruals	1.5	(1.1)	-	-	0.5
Other	0.8	13.5	-	-	14.3
Total related to temporary differences	4.2	12.5	(0.2)	-	16.5
Deferred tax liabilities related to amortizable excess value from business combinations	(10.2)	6.3	-	-	(3.9)
Tax loss carryforwards	25.0	8.6	-	-	33.6
Set off of tax (valuation allowance)	(5.8)	-	-	-	(5.8)
Tax loss carryforwards not recognized in the statement of financial position	(2.7)	2.7	-	-	-
Tax loss carryforwards recognized in the statement of financial position	16.6	11.3	-	-	27.8
Net deferred tax assets (liabilities) recognized in the statement of financial position	10.6	30.1	(0.2)	-	40.5

2017 [USD million]	Balance 1/1/17	Posted to statement of comprehensive income	Posted directly to the equity	Disposals to discontinued operations	Balance 12/31/17
Property, plant and equipment	(4.4)	1.9	-	-	(2.5)
Intangible assets	14.2	(5.8)	-	-	8.5
Accounts receivable	0.9	(0.3)	-	-	0.5
Payroll tax on share options	(5.7)	0.8	0.3	-	(4.6)
Provisions and accruals	3.9	(2.5)	-	0.1	1.5
Other	4.4	(3.7)	-	-	0.8
Total related to temporary differences	13.3	(9.6)	0.3	0.1	4.2
Deferred tax liabilities related to amortizable excess value from business combinations	(22.1)	11.0	-	0.9	(10.2)
Tax loss carryforwards	16.9	8.5	(0.4)	-	25.0
Set off of tax (valuation allowance)	(5.1)	(0.7)	-	-	(5.8)
Tax loss carryforwards not recognized in the statement of financial position	-	(2.7)	-	-	(2.7)
Tax loss carryforwards recognized in the statement of financial position	11.8	5.1	(0.4)	-	16.6
Net deferred tax assets (liabilities) recognized in the statement of financial position	3.0	6.6	(0.1)	1.1	10.6

Change in deferred tax asset directly posted against the equity capital [USD million]	2018	2017
Other changes	(0.2)	0.5
Total deferred taxes posted directly against the equity	(0.2)	0.5

The Group's gross tax loss carryforwards expire as follows:
[USD million]

	United States	Norway	Total
2026	0.4	-	0.4
2027	1.2	-	1.2
2032	2.1	-	2.1
2033	5.4	-	5.4
2034	1.9	-	1.9
2035	1.3	-	1.3
2036	11.6	-	11.6
2037	42.2	-	42.2
No expiration deadline	29.0	20.8	49.8
Total	95.1	20.8	115.5

Reconciliation of effective tax rate [USD million]	2018	2017
Profit (loss) before tax	(117.2)	(62.9)
Income tax using the corporate income tax rate in Norway (23% in 2018 /24% in 2017)	26.9	15.1
Effect of changes in tax rates ¹⁾	(0.2)	(10.3)
Effect of tax rates outside Norway different from 24%/25%	2.2	3.4
Effect of non-taxable and non-deductible items	(8.0)	(10.4)
Deferred tax assets from previously unrecognized tax losses	2.9	(1.1)
Other effects	0.6	(0.7)
Total tax expense for the year	24.5	(4.0)
Effective tax rate	-20.9 %	6.4 %

¹⁾ Primarily the change in the federal tax rate in the US from 35% to 21% as from January 1, 2018.

Permanent differences

Permanent differences include non-deductable costs and share-based remuneration.

Note 7

Property, plant and equipment

	2018			
[USD million]	Fixtures and fittings	Machinery and equipment	Leasehold improvements	Total
Acquisition cost				
Acquisition cost as of 1/1/18	2.1	20.5	2.1	24.8
Additions	0.1	0.5	0.0	0.6
Reclassification	-	(0.0)	-	(0.0)
Disposal	-	-	-	-
Translation differences	(0.2)	(0.5)	(0.1)	(0.7)
Acquisition cost as of 12/31/18	2.1	20.6	2.1	24.7
Accumulated depreciation and impairment losses				
Depreciation and impairment losses as of 1/1/18	(1.1)	(11.7)	(0.6)	(13.3)
Reclassification	(0.0)	-	-	(0.0)
Depreciation and impairment losses	(0.3)	(3.2)	(0.2)	(3.8)
Disposal	-	-	-	-
Translation differences	0.1	0.3	0.0	0.4
Accumulated depreciation and impairment losses as of 12/31/18	(1.3)	(14.6)	(0.8)	(16.7)
Net book value as of 12/31/18	0.8	5.9	1.3	8.0
Depreciation for the year	(0.3)	(3.2)	(0.2)	(3.8)
Impairment losses for the year	-	-	-	-
Useful life	Up to 6 years	Up to 10 years	Up to 5 years	
Depreciation plan	Linear	Linear	Linear	

	2017			
	Fixtures and fittings	Machinery and equipment	Leasehold improvements	Total
[USD million]				
Acquisition cost				
Acquisition cost as of 1/1/17	1.8	11.6	1.7	15.1
Acquisitions through business combinations	0.0	0.0	0.0	0.0
Additions	0.5	9.1	0.5	10.1
Discontinued operations	(0.0)	(0.2)	(0.0)	(0.2)
Transfer of assets to discontinued operations	-	-	-	0.0
Disposal	(0.0)	(0.3)	(0.2)	(0.5)
Translation differences	(0.2)	0.3	0.1	0.2
Acquisition cost as of 12/31/17	2.1	20.5	2.1	24.8
Accumulated depreciation and impairment losses				
Depreciation and impairment losses as of 1/1/17	(0.5)	(5.8)	(0.8)	(7.1)
Acquisitions through business combinations	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.1	0.0	0.1
Transfer of assets to discontinued operations	-	-	-	0.0
Depreciation and impairment losses	(0.4)	(6.1)	(0.1)	(6.6)
Disposal	0.0	0.2	0	0.2
Translation differences	(0.2)	(0.1)	0.3	(0.0)
Accumulated depreciation and impairment losses as of 12/31/17	(1.1)	(11.7)	(0.6)	(13.3)
Net book value as of 12/31/17	1.0	8.9	1.5	11.4
Depreciation for the year	(0.4)	(6.1)	(0.1)	(6.6)
Impairment losses for the year	-	-	-	-
Useful life	Up to 6 years	Up to 10 years	Up to 5 years	
Depreciation plan	Linear	Linear	Linear	

Operating leases

The future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
Payments for leased premises:		
Less than one year	5.7	1.0
Between one to five years ¹⁾	5.0	16.1
More than five years	-	1.8
Total	10.7	18.8

¹⁾ Primarily office leases of AdColony's offices in New York, San Fransisco and Seattle.

Note 8

Goodwill and impairment testing

2018				
Goodwill [USD million]	AdColony	Bemobi	Handster / Apps & Games (legacy)	Total
Acquisition cost				
Acquisition cost as of 1/1/18	276.0	58.8	6.7	341.6
Acquisitions through business combinations	-	-	-	-
FX adjustment	(2.9)	(8.5)	-	(11.4)
Acquisition cost as of 12/31/18	273.1	50.3	6.7	330.2
Accumulated impairment losses				
Accumulated impairment losses as of 1/1/18	(15.9)	-	(3.1)	(19.0)
Impairment losses	(76.4)	-	(3.6)	(80.0)
FX adjustment	1.2	-	-	1.2
Accumulated impairment losses as of 12/31/18	(91.0)	-	(6.7)	(97.7)
Carrying amount				
As of December 31, 2018	182.2	50.3	-	232.4

See impairment testing below for further information regarding CGUs.

2017				
[USD million]	AdColony	Bemobi	Handster / Apps & Games (legacy)	Total
Acquisition cost				
Acquisition cost as of 1/1/17	274.2	59.9	6.7	340.8
Acquisitions through business combinations	1.0	-	-	1.0
FX adjustment	0.9	(1.0)	-	(0.2)
Acquisition cost as of 12/31/17	276.0	58.8	6.7	341.6
Accumulated impairment losses				
Accumulated impairment losses as of 1/1/17	(15.9)	-	(3.1)	(19.0)
Impairment losses	-	-	-	-
FX adjustment	-	-	-	-
Derecognized on disposal of Disc. Operations	-	-	-	(0.0)
Accumulated impairment losses as of 12/31/17	(15.9)	-	(3.1)	(19.0)
Carrying amount				
As of December 31, 2017	260.2	58.8	3.6	322.6

Impairment testing

Otello has carried out impairment testing as of December 31, 2018, according to IAS 36. Based on the impairment testing, the Group has recognized an impairment loss of USD 93.3 million in 2018. The vast majority of this impairment loss is recognized in the AdColony CGU. The background for the impairment loss in AdColony is the decrease in revenue and EBITDA in AdColony in 2018. This is mainly due to slower product launches and ramp up of new products than forecast, in addition to a focus around fewer and more profitable products and markets. Certain customer relationships and products have been discontinued, which is reflected specifically in the impairment loss related to other intangible assets and capitalized R&D.

Below is a breakdown of the impairment loss recognized.

Impairment loss	AdColony	Bemobi	Handster/ Apps & Games (legacy)
Goodwill	76.4	-	3.6
Other intangible assets	11.6	-	-
Capitalized R&D	1.7	-	-
Total	89.7	-	3.6

Cash-generating units

Goodwill acquired through business combinations has previously been allocated to individual cash-generating units as presented in the reconciliation in the 2017 Annual report. The core Bemobi business with revenues generated from the Apps Club platform is treated as one CGU. The Apps & Games (legacy) business with revenues generated from a feature phone platform that is to be phased out, is treated as a separate CGU. Since this feature phone platform is to be phased out, no revenues are forecast beyond the three year period. Therefore an impairment loss has been recognized for the goodwill allocated to this CGU. The Apps & Games legacy CGU was referred to as “Handster” in the 2017 annual report. Following the impairment loss of USD 3.6 million recognized in 2018, there is no longer any goodwill related to the Apps & Games legacy CGU recognized in the statement of financial position.

Recoverable amount

The recoverable amount of assets is the higher of value in use and fair value less cost of disposal. Discounted cash flow models have been applied to determine the value in use for all the cash-generating units. Management has projected cash flows based on financial forecasts and strategy plans covering a three year period. Beyond the explicit forecast period, the cash flows are extrapolated using constant nominal growth rates. The Apps & Games (legacy) business is to be phased out within the next 3 years, therefore negative revenue growth rates have been applied, and no cash flows have been calculated beyond the 3-year forecast period.

Key assumptions

Key assumptions used in the calculation of value in use are Revenue and EBITDA margin growth rates, Nominal growth rate in terminal value, and discount rates. The following key assumptions were used in determining the value in use:

	AdColony	Bemobi	Handster/ Apps & Games (legacy)
Revenue growth (average) ¹⁾	8.6 %	12.0 %	-42.5 % ³⁾
EBITDA Margin growth (average) ²⁾	4.5 points	1.2 points	n/a
Discount rate after tax	9.9 %	20.3 %	11.0 %
Discount rate before tax	13.2 %	30.8 %	14.1 %
Nominal growth rate in terminal value	2.5 %	2.5 %	n/a

¹⁾ Represents the compound annual growth rate during 2019-2021 (until the terminal year).

²⁾ Represents the average percentage point increase in EBITDA margin during 2019-2021.

³⁾ The Apps & Games (legacy) business is to be phased out within the next 3 years, therefore negative revenue growth rates are applied, and no cash flows are calculated beyond the 3-year forecast period.

Revenue growth (average)

Revenue growth is estimated based on current levels and expected future market development.

EBITDA Margin growth (average)

The EBITDA margin represents the operating margin before depreciation and amortization and is estimated based on the current margin level and expected future market development. Committed or implemented operational restructuring initiatives are included.

Discount rates

Discount rates are based on Weighted Average Cost of Capital (WACC) derived from the Capital Asset Pricing Model (CAPM) methodology. The WACC calculations are based on a Global-Local approach, implying that a global risk free rate is applied as a basis (US 20Y Government bond). The inflation difference between the respective country of the specific CGU and the US is added to reflect the local risk free rate. Country risk premiums in addition to the US market risk premium are applied to correct for local risk. The discount rates also take into account gearing, the corporate tax rate, and the equity beta.

Growth rates

The expected growth rates for a cash-generating unit is derived from the level experienced over the last few years to the long-term growth level in the market the entity operates. The growth rates used to extrapolate cash flow projections beyond the explicit forecast period are based on management's past experience, and assumptions in terms of expectations for the market development in which the entity operates. The growth rates used to extrapolate cash flows in the terminal year are not higher than the expected long-term growth in the market in which the entity operates.

Sensitivity analysis related to impairment testing

AdColony CGU:
The estimated recoverable amount is approximately USD 76 million less than the carrying amount of this cash-generating unit. The following table shows the effects that changes in forecasts and key assumptions, in isolation, would have on the recoverable amount.

Effect on recoverable amount (USD million)	
Discount rate ¹⁾	
Decrease by 2 percentage points	79.3
Decrease by 1 percentage points	33.4
Increase by 1 percentage points	(25.4)
Increase by 2 percentage points	(45.4)
Future cash flows ²⁾	
20% increase	39.3
10% increase	19.7
10% decrease	(19.7)
20% decrease	(39.3)
Nominal growth rate in the terminal value	
Nominal growth rate 2 %	(11.9)
Nominal growth rate 3 %	13.6
Nominal growth rate 4 %	47.6
Nominal growth rate 5 %	95.6

¹⁾ Discount rate: the changes above are for the whole period including terminal value.
²⁾ Future cash flows: the changes above are for the 3 year forecast period and for the extrapolation period (terminal value)

Bemobi CGU:
For this CGU, the following changes in forecasts and key assumptions, in isolation, would result in the recoverable amount being approximately equal to the carrying amount. Any changes beyond those described below may, therefore, lead to an impairment loss:

- Increase in 700 basis points in the discount rate after tax
- Decrease in 30% in projected future cash flows for the 3 year forecast period

No reasonable change in the nominal growth rate in the terminal value, in isolation, would result in the in the recoverable amount being approximately equal to the carrying amount.

Note 9

Other intangible assets

	2018		
[USD million]	Development	Other intangible assets	Total
Acquisition cost			
Acquisition cost as of 1/1/18	41.5	164.0	205.5
Additions	11.5	(0.0)	11.5
Reclassification	1.2	(1.2)	-
Disposal	-	-	-
Translation differences	(1.1)	(8.4)	(9.4)
Acquisition cost as of 12/31/18	53.1	154.4	207.5
Accumulated amortization and impairment losses			
Amortization and impairment losses as of 1/1/18	(22.2)	(123.7)	(145.9)
Amortization	(13.6)	(12.8)	(26.4)
Impairment losses	(1.7)	(11.6)	-
Reclassification	-	0.0	0.0
Disposal	-	-	-
Translation differences	0.7	5.8	6.4
Accumulated amortization and impairment losses as of 12/31/18	(36.9)	(142.3)	(179.2)
Net book value as of 12/31/18	16.2	12.1	28.3
Amortization for the year			
	(13.6)	(12.8)	(26.4)
Impairment losses for the year	(1.7)	(11.6)	(13.3)
Useful life	Up to 3 years	Up to 7 years	
Amortization plan	Linear	Linear	

Note 10

Shares and shareholder information

As of December 31, 2018, Otello had a share capital of NOK 2 809 549.58 (USD 323 660) divided into 140 477 429 ordinary shares with a nominal value of NOK 0.02 each (USD 0.002). All ordinary shares have equal voting rights and the right to receive dividends.

At the Annual General Meeting on June 5, 2018, it was resolved to reduce the Company's share capital by NOK 180 000 (USD 22 014) to NOK 2,809,548.58. The amount of NOK 180,000 has been 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 been recognized as of December 31, 2018.

During 2018 and in accordance with the authorization given by the Company's Annual General Meeting on June 5, 2018, the Board of Directors of Otello Corporation ASA (the "Company") decided to carry out a share buyback program of up to a face value of NOK 298 954, corresponding to up to approximately 10% of the issued shares in the Company. The shares purchased through the share buyback program may be disposed of to meet obligations under employee incentive schemes, as part of consideration payable for acquisitions made by the Company, as part of consideration for any mergers, demergers or acquisitions involving the Company, to raise funds for specific investments, for paying down loans, or in order to strengthen the Company's capital base.

The above authorization is valid up to and including June 30, 2019.

During 2018, the Group purchased 2 495 745 (2017: 7 142 206) treasury shares for \$5.6 million (2017: 27.5 million). In 2018 the Group sold 203 745 (2017: 443 205) treasury shares.

As of December 31, 2018, the Group owned 1 754 000 treasury shares (December 31, 2017: 8 462 763).

During 2017 and 2018, no ordinary shares were issued related to incentive programs, business combinations, or equity increases.

Dividends

Otello did not pay a dividend in 2017 or 2018.

The Board of Directors proposes that the 2018 Annual General Meeting does not approve any dividend payment.

Ownership structure

The 20 largest shareholders of Otello Corporation ASA shares as of December 31, 2018, were as follows:

	2018	2018	2017
<i>[In thousands of shares]</i>	Shares	Owner's and voting share %	Owner's and voting share %
DEUTSCHE BANK AG	24 521	17.5 %	3.5 %
LUDVIG LORENTZEN AS	12 000	8.5 %	8.0 %
SUNDT AS	8 801	6.3 %	5.9 %
AREPO AS	7 437	5.3 %	5.0 %
VERDIPAPIRFONDET DNB NORGE (IV)	6 191	4.4 %	4.1 %
VERDIPAPIRFONDET DNB TEKNOLOGI	5 932	4.2 %	2.3 %
J.P. MORGAN BANK LUXEMBOURG	5 213	3.7 %	1.6 %
SOCIETE GENERALE PARIS	4 675	3.3 %	1.3 %
GOLDMAN SACHS INTERNATIONAL	4 434	3.2 %	1.9 %
EUROCLEAR BANK S.A./N.V.	4 114	2.9 %	0.0 %
VPF NORDEA NORGE VERDI	4 024	2.9 %	2.7 %
THE BANK OF NEW YORK MELLON N.V.	4 002	2.8 %	1.3 %
SKANDINAVISKA ENSKILDA BANKEN AB	2 663	1.9 %	0.4 %
CACEIS BANK LUXEMBOURG	2 496	1.8 %	1.2 %
SKANDIA TIME GLOBAL	1 915	1.4 %	0.0 %
VPF NORDEA CAPITAL	1 880	1.3 %	1.3 %
STOREBRAND NORGE I VERDIPAPIRFOND	1 819	1.3 %	1.2 %
J.P. MORGAN CHASE BANK LONDON	1 804	1.3 %	1.1 %
OTELLO CORPORATION ASA	1 748	1.2 %	5.6 %
BNP PARIBAS SECURITIES SERVICES	1 483	1.1 %	1.0 %
Sum	107 153	76.3 %	49.4 %
Other shareholders	33 325	23.7 %	50.6 %
Total numbers of shares	140 477	100.0 %	100.0 %

	2017		
<i>[USD million]</i>	Development	Other intangible assets	Total
Acquisition cost			
Acquisition cost as of 1/1/17	29.2	172.1	201.3
Additions	15.0	3.4	18.4
Discontinued operations	(2.8)	(4.7)	(7.4)
Reclassification	-	(3.0)	(3.0)
Disposal	-	(3.7)	(3.7)
Translation differences	0.0	(0.1)	(0.0)
Acquisition cost as of 12/31/17	41.5	164.0	205.5
Accumulated amortization and impairment losses			
Amortization and impairment losses as of 1/1/17	(12.7)	(105.1)	(117.8)
Discontinued operations	0.7	2.7	3.3
Amortization and impairment losses	(10.2)	(21.9)	(32.1)
Disposal	-	0.3	0.3
Translation differences	0.0	0.3	0.3
Accumulated amortization and impairment losses as of 12/31/17	(22.2)	(123.7)	(145.9)
Net book value as of 12/31/17	19.2	40.3	59.6
Amortization for the year	(8.9)	(21.9)	(30.8)
Impairment losses for the year	-	-	-
Amortization and impairment losses from discontinued operations, this year	(1.2)	0.0	(1.2)
Useful life	Up to 3 years	Up to 7 years	
Amortization plan	Linear	Linear	

Other intangible assets

Other intangible assets relates to prior acquisitions within the AdColony and Bemobi businesses, and comprise customer relationships, customer contracts, proprietary technology and trademarks.

Development

Development is an internally developed intangible asset. Engineering salaries are the primary expense incurred in terms of costs related to research, development, and maintenance of platforms and applications. In 2018, \$16.4 million (2017: 20.5) in engineering salaries were expensed in the financial statement. \$11.5 million (2017: 15.0) in research and development costs were capitalized in 2018, of which, \$0.0 million (2017: 1.5) relates to discontinued operations. For additional information on capitalized R&D costs, see note 13.

Note 11

Contingent considerations

On May 29, 2018, Otello reached a final agreement (“SPA”) with the Bemobi Earnout Participants (“EPs”), where the existing Bemobi earnout agreement was terminated, and a significant part of the future earnout to the EPs was converted into the right of the EPs to receive ownership in Bemobi Holding AS (“Bemobi”). A total of USD 20 million has been paid in cash to the EPs with USD 10 million paid on the effective date, May 29, 2018, and USD 10 million paid on September 30, 2018. The remaining earnout is converted into the right to ownership in Bemobi giving the EPs a total ownership of 11.2%. The release of Bemobi shares (recognized as an asset held in escrow) will then settle the earnout liability with no cash effect.

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 consolidated statement of financial position as follows as at December 31, 2018:

- An estimated remaining contingent consideration of USD 21.3 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. There will be no future cash flow effect when settling the remaining part of the contingent consideration
- USD 14.9 million has been recognized against Shareholder's equity related to the divestment of 11.2% of Bemobi shares. The minority interest of 11.2% has been recognized as Non-controlling interests.

Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs and fair value measurement	Inter-relationship between significant unobservable inputs
Contingent consideration	Discounted cash flows:	*Forecasted annual and half-yearly revenue	The estimated fair value would increase (decrease) if:
	The valuation model calculates the net present value of expected payments, discounted using a risk-adjusted discount rate. The expected payments are determined by considering the possible scenarios where Bemobi has forecast future revenue and EBITDA, the amount to be paid under each scenario and the probability of each scenario.	*Forecasted EBITDA	*The annual and half-yearly revenue growth rate was higher (lower);
		*Risk-adjusted discount rate	* The EBITDA margin was higher (lower); or * The risk-adjusted discount rate was lower (higher)
			Generally, a change in the annual and/or half-yearly revenue growth rate is accompanied by a directionally similar change in the EBITDA margin.

Reconciliation of Level 3 fair values

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

[USD million]	Contingent consideration
Balance (net present value) as of 1/1/2017	79.7
Assumed in a business combination	-
Payment - cash	(28.4)
Payment - released from escrow	(3.4)
Finance cost	5.2
Translation differences	0.8
OCI	-
Balance (net present value) as of 12/31/2017	53.9
Non-current consideration	28.5
Current consideration	25.4
Balance (net present value) as of 12/31/2017	53.9
Assumed in a business combination	-
Payment - cash	(36.4)
Payment - released from escrow	(1.0)
Financial expense due to change in likelihood	6.4
Other financial expenses	1.9
Translation differences	(3.5)
OCI	-
Balance (net present value) as of 12/31/2018	21.3
Non-current consideration	-
Current consideration	21.3
Balance (net present value) as of 12/31/2018	21.3

Earnout payments made in 2018

<i>[USD million]</i>	AdColony	Bemobi	Individually immaterial	Total
With cash flow effect				
Q1	-	-	-	-
Q2	-	21.8	4.6	26.4
Q3	-	10.0	-	10.0
Q4	-	-	-	-
Total	-	31.8	4.6	36.4
The payment of 21.8 comprises 10.0 paid in May 2018 as part of the earnout settlement agreement, and 11.8 paid in April 2018 according to the terms of the original earnout agreement.				
With no cash flow effect (released from escrow)				
Q1	-	-	-	-
Q2	-	-	1.0	1.0
Q3	-	-	-	-
Q4	-	-	-	-
Total	-	-	1.0	1.0

Earnout payments made in 2017

<i>[USD million]</i>	AdColony	Bemobi	Individually immaterial	Total
With cash flow effect				
Q1	3.1	9.1	-	12.2
Q2	-	1.8	5.6	7.3
Q3	-	8.9	-	8.9
Q4	-	-	-	-
Total	3.1	19.8	5.6	28.4
With no cash flow effect (released from escrow)				
Q1	-	-	2.4	2.4
Q2	-	-	1.0	1.0
Q3	-	-	-	-
Q4	-	-	-	-
Total	-	-	3.4	3.4

Amounts held in escrow are recognized as other receivables in the statement of financial position.

Estimated future payments

Following the settlement of the earnout agreement described above, Otello has an obligation to release the Bemobi shares held in escrow (no cash effect).

Contractual maximum payments

The contractual maximum payment is dependent on the fact that fallback payments, due to the scenarios stated above (i.e. a qualified sale, spin-off or IPO not taking place by March 31, 2020 and/or October 1, 2020), do not occur. However, at this stage, Otello does not believe the scenarios resulting in fallback payments are likely to occur.

Note 12
Impairment and restructuring 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.

Impairment and restructuring expenses <i>[USD million]</i>	2018	2017
Impairment expense	(93.3)	-
Salary restructuring expense	(3.3)	(10.0)
Legal and other costs related to business combinations and disposals	(1.5)	(1.2)
Other restructuring expenses	(0.0)	(0.1)
Option restructuring expense	-	5.2
Office restructuring cost	0.8	(8.1)
Total	(97.4)	(14.2)

See note 8 for further information regarding impairment expense.

Note 13

Accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected within the next financial year.

Key sources of estimation uncertainty - critical accounting estimates

A critical accounting estimate is one which is both important to the presentation of the Group's financial position and results and requires management's most difficult, subjective or complex judgements, often as a result of the need to make important estimates based on assumptions about the outcome of matters that are inherently uncertain. Management evaluates such estimates on an ongoing basis, based upon historical results and experience, consultations with experts, trends and other methods which management considers reasonable under the circumstances, as well as forecasts as to how these might change in the future.

Impairment, see note 8

In accordance with IAS 36, the Group tests annually whether goodwill has suffered any impairment. Assets that are subject to amortization is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amounts of cash-generating units have been determined based on a value-in-use calculation. Value in use, particularly when discounted cash flow methods are used, must in part be based on management's evaluations, including determining appropriate cash-generating units, determining the discount rate, estimates of future performance, revenue generating capacity of the assets, margins, and assumptions of the future market conditions. For assumptions used, external evidence has been taken into consideration. Discount rates have been sourced from a third-party expert.

Management compares the estimates of value in use with the market valuation for reasonableness. In addition, a retrospective analysis of forecasts used in prior years is carried out in order to provide further input for the estimates that are made regarding future cash flows.

A sensitivity analysis for changes in key assumptions and the impact these would have on the recoverable amounts is included in note 8.

See note 8 for further information on recoverable amounts and key assumptions.

Deferred tax assets, see note 6

The recognition of deferred tax assets and liabilities requires the exercise of judgment. Otello recognizes deferred tax assets related to tax losses in the statement of financial position when it is considered probable that taxable profit will be generated in future periods against which these tax loss carry forwards can be utilized. The main part of the USD 40.5 million in recognized deferred tax assets as of December 31, 2018, relates to tax loss carry forwards in the US, and the tax effect of a merger between two Brazilian entities in 2018. It is management's opinion that sufficient future taxable profits will be generated against which these tax losses can be utilized. The tax loss carry forwards are expected to be utilized within 5 years.

See note 6 for a breakdown of tax loss carry forwards and relevant expirations dates of these.

Capitalized development costs, see note 9

Cost of building new features, together with significant and pervasive improvements of core platforms, provided that the significant and pervasive improvements of parts or main components of core platforms will generate probable future economic benefits, are capitalized as development costs and amortized on a straight-line, basis of up to 3 years.

On a quarterly basis, engineering work is assessed on a project basis. Projects are categorized as 1) those that have met the technological feasibility date but have not yet gone live 2) those that have launched and begun amortization, and 3) research/ operations/ maintenance projects. An allocation of a percentage of each employee's time across the various projects is made. Any new projects are assessed according to the criteria in IAS 38, and previously categorized projects are assessed in terms of changes in assumptions. Capitalized costs are calculated by using the time allocations made. These calculations are reviewed by management before being capitalized.

Some of the work that engineering employees perform is related to the implementation of the ongoing updates that are required to maintain the platforms' functionality. Examples of updates include "bug fixes", updates made to comply with changes in laws and regulations, and updates made to keep pace with the latest trends. These costs are expensed as maintenance expenses.

Provisions related to contingent considerations, see note 11

The Group has previously entered into earnout agreements in connection with acquisitions. An analysis is given in note 11 of how the provisions related to contingent considerations have been calculated. The net present value amount is based on managements' assumptions by discounting probability weighted cash flows. Key assumptions applied by management are future revenues and earnings before financial items, interest, taxes, depreciation and amortization (EBITDA) results, and revenue and EBITDA from synergies with existing businesses, and the estimated timing of cash flows. Changes in the chosen assumptions can have a significant impact on the size of the provision and earnout costs recognized.

Following the agreement with the Bemobi Earnout Participants ("EPs") reached in 2018, the existing Bemobi earnout agreement was terminated, and a significant part of the future earnout to the EPs was converted into the right of the EPs to receive ownership in Bemobi Holding AS ("Bemobi"). The estimated remaining contingent consideration of USD 21.3 million is based on a valuation of the Bemobi business carried out by a third-party expert. The risk and uncertainty related to the contingent consideration is therefore considerably reduced. The main uncertainty is related to whether a major transaction (qualified sale, spin-off or IPO) does not take place by March 31, 2020 and/or October 1, 2020. In such a scenario, according to certain clauses in the agreement, the EPs share of Bemobi equity would be sold back to Otello. However, as of December 31, 2018, management does not believe the scenarios resulting in equity being sold back to Otello (fallback payments) are likely. Such fallback payments would be calculated according to the earnout agreement as described above and in note 11.

Note 14

Related parties

In 2018, as in prior years, the Group made earnout payments to former shareholders of acquired companies. See note 11 for further information regarding earnout payments. The Group entered into a loan agreement in 2017 of \$5 million with Vewd Software AS (formerly Opera TV AS). This loan is outstanding as at December 31, 2018. The Group holds a 27% equity interest in Last Lion Holdings Ltd, through preferred shares, which indirectly owns Vewd Software AS through Last Lion Holdco AS.

Apart from the above transactions, the Group did not engage in any related party transactions, including with any members of the Board of Directors or Executive Management.

Transactions with subsidiaries have been eliminated on consolidation and do not represent related party transactions.

Transactions with key management personnel

Members of the Board of Directors and Executive Management of the Group and their immediate relatives controlled 0.2% (2017: 0.3 %) of the Group's voting share as per December 31, 2018. Otello has not provided any loans to Directors or Executive Management members as of December 31, 2018.

Compensation for Executive Management and Board of Directors can be found in note 3. Executive Management also participate in the Group's stock option and RSU program (see note 3).

Note 15

Earnings per share

Earnings per share	2018	2017
Earnings (loss) per share (profit (loss)):		
Basic earnings (loss) per share (USD)	(0.66)	(0.25)
Diluted earnings (loss) per share (USD)	(0.66)	(0.25)
Shares used in earnings per share calculation	140 088 891	144 484 637
Shares used in earnings per share calculation, fully diluted	140 088 891	144 484 637
Earnings (loss) per share (continuing operations):		
Basic earnings (loss) per share (USD)	(0.66)	(0.46)
Diluted earnings (loss) per share (USD)	(0.66)	(0.46)
Shares used in earnings per share calculation	140 088 891	144 484 637
Shares used in earnings per share calculation, fully diluted	140 088 891	144 484 637

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted ordinary shares in issue during the period.

In periods with negative net income, the dilutive instruments will have an anti-dilutive effect when calculating diluted earnings per share. For this reason, there is no difference between earnings per share and diluted earnings per share for these periods.

Note 16

Discontinued operations

Sale of SurfEasy business

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% was held in escrow for 15 months, and was settled and paid to Otello in February 2019. SurfEasy is excluded from Otello's financials as of November 6, 2017. Otello recognized a gain of \$21.6 million from the Transaction which will not be taxable.

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

Results of discontinued operations <i>(USD million, except earnings per share)</i>	2018	2017
Revenue	-	6.9
Operating expenses	-	(10.6)
Operating profit (loss), excluding impairment and restructuring expenses	-	(3.7)
Impairment and restructuring expenses	-	0.0
Operating profit (loss)	-	(3.7)
Net financial items (loss)	-	(2.1)
Profit (loss) before income tax	-	(5.8)
Provision for taxes	-	0.1
Profit (loss) from discontinued operations, net of tax	-	(5.7)
Net (gain) loss from sale of discontinued operations, net of tax	(0.0)	36.4
Profit (loss) from discontinued operations	(0.0)	30.7

Earnings per share (discontinued operations):	2018	2017
Basic earnings (loss) per share (USD)	0.00	(0.04)
Diluted earnings (loss) per share (USD)	0.00	(0.04)
Shares used in earnings per share calculation	140 088 891	144 484 637
Shares used in earnings per share calculation, fully diluted	140 088 891	144 484 637

Cash flow information (discontinued operations):	2018	2017
Cash flow from operating activities	-	1.2
Cash flow from investment activities	-	32.1
Cash flow from financing activities	-	0.0

Effect of disposal on the financial position of the Group <i>[USD million]</i>	2018	2017
Net asset and liabilities	-	0.2
Banker fees and other fees	-	(1.1)
Consideration put in escrow, estimated to be satisfied in cash	-	5.5
Estimated consideration, to be satisfied in cash (incl. NWC adjustment)	-	32.1
Acquisition cost	-	-
Estimated net profit	-	36.4
Consideration received, satisfied in cash	-	35.1
Cash and cash equivalents disposed	-	1.3
Net cash inflows	-	33.8

Note 17

Other investments

The table below gives a breakdown of the total amount of other investments recognized.

<i>[USD million]</i>	2018	2017
Investments in associated companies	8.0	8.6
Loans to associated companies	5.5	5.0
Investments in other shares	0.8	0.7
Total	14.4	14.4

Investments in associated companies

Otello finalized an agreement on December 19, 2016 to sell its TV business ("Opera TV") for \$80 million. As part of this agreement, Otello retained an approximately 27% equity interest in Last Lion Holdings Ltd, through preferred shares, which indirectly owns Opera TV through Last Lion Holdco AS. In 2017, Opera TV AS changed its name to Vewd Software AS. See note 19 for further information regarding the investment in Last Lion Holdings Ltd.

Information regarding Last Lion Holdings Ltd <i>[USD million]</i>	2018	2017
Revenue	43.7	43.6
EBIT	17.5	18.9
Net profit (loss)	5.3	3.7
Assets	160.8	127.3
Non-current liabilities	119.8	86.0
Current liabilities	11.2	9.3
Equity	29.8	32.0
Otello's share of equity	8.0	8.6

The investment in Last Lion Holdings Ltd is recognized using the equity method.

Carrying value <i>[USD million]</i>	2018	2017
At January 1	8.6	9.5
Investment during the financial year	-	-
FX adjustment	(0.6)	0.1
Adjustment from prior year	-	(1.4)
Share of the profit (loss)	(0.0)	0.3
Elimination	-	-
Total at December 31	8.0	8.6

Loans to associated companies

The Group entered into a loan agreement in 2017 of \$5 million with Vewd Software AS (formerly Opera TV AS). This loan is outstanding as at December 31, 2018, with an accrued interest of \$0.5 million as at December 31, 2018.

Investments in other shares

Otello Corporation ASA owns 1.1% of the shares in Alliance Venture Spring AS and 0.3% of the shares in Zen Labs, Inc. The recognized value of the shares is \$0.8 million. Management has not determined the fair value of these investments, as they are not material for the Group.
Alliance Venture Spring is a Norwegian venture capital firm investing in early stage technology companies.
Zen Labs is located in San Jose, California, and primarily operates in the computer software development and applications business.

Note 18

Other current liabilities

<i>[USD million]</i>	2018	2017
Accruals for publisher invoices not yet received	19.6	29.5
Accrued operating expenses	9.3	12.6
Accrued bonuses, commission and other employee benefits	6.1	9.7
Accrued restructuring costs	4.1	7.4
Liabilities to entities in discontinued operations	0.5	4.1
Other current liabilities	(0.1)	1.9
Total	39.5	65.2

Note 19

Events after the reporting period

Judgment handed down in Otello's case regarding the potential sale of Vewd minority stake

As reported to the market on September 14, 2018, Otello was successful in its claim in the High Court of Justice of England and Wales against Moore Frères & Co LLC ("MFC") and Last Lion Holdings Limited ("Last Lion"), arising from the refusal of the Board of Last Lion, which is controlled by appointees of MFC, to approve the sale of Otello's remaining ownership stake in Last Lion, being approximately 27-28.5% in the Vewd Software business. The judge granted Otello the injunction it sought requiring the Board to approve the buyer.

The buyer did not purchase the shares on the terms of the expired Share Purchase Agreement. Otello has now restored the proceed-ings in order to pursue alternative remedies, including (1) an order from the Court that MFC be required to buy Otello's shares (and related Loan Note) at the higher of the current valuation of those shares and the price that the buyer was prepared to pay, and (2) that in the event that MFC is unable to purchase the shares at such price, an order that all shares in Last Lion (or Last Lion's shares in Last Lion Holdco AS) be sold and Otello be paid the sum found to be due to it out of the proceeds of such sale. A trial to determine the relief to which Otello is entitled is listed to take place in March 2020. Prior to that date, there will be documentary discovery and exchange of written witness and expert evidence.

Parent Company Financial Statements 2018

Otello Corporation ASA

Statement of comprehensive income	135
Statement of financial position	136
Statement of cash flows	138
Statement of changes in equity	140
Note 1: General information and accounting principles	142
Note 2: Company Activities	142
Note 3: Payroll expenses and remuneration to management	143
Note 4: Other operating expenses	146
Note 5: Financial risk and financial instruments	147
Note 6: Taxes	149
Note 7: Property, plant & equipment	151
Note 8: Investments in subsidiaries, and other investments	153
Note 9: Receivables and payables with group companies	155
Note 10: Shares and shareholder information	156
Note 11: Contingent considerations	157
Note 12: Related parties	157
Note 13: Discontinued operations	158
Note 14: Events after the reporting period	159

Statement of Comprehensive Income

USD million	Note	2018	2017
Revenue	2, 9	0.1	1.5
Total operating revenue		0.1	1.5
Cost of goods sold		(0.0)	0.0
Payroll and related expenses, excluding stock-based compensation expenses	3, 5	(4.2)	(3.9)
Stock-based compensation expenses	3	(0.7)	(1.3)
Depreciation, amortization, and impairment expenses	7	(0.7)	(0.7)
Other operating expenses	4	(3.0)	(4.2)
Total operating expenses		(8.6)	(10.1)
Operating profit (loss), excluding impairment and restructuring expenses		(8.5)	(8.6)
Impairment and restructuring expenses	8	(393.3)	-
Operating profit (loss)		(401.9)	(8.6)
Interest income	5, 9	1.1	2.8
Interest expenses	5, 9	(1.4)	(4.2)
Net financial income (expense)	5	0.5	(2.5)
Dividends received	9	20.0	-
Profit sale of shares		2.2	-
Share of profit (loss) from associated companies	8	(0.0)	(1.1)
Net financial items		22.3	(4.8)
Profit (loss) before income taxes		(379.6)	(13.4)
Income taxes	6	4.3	(0.5)
Profit (loss) from continuing operations		(375.2)	(13.9)
Profit (loss) from discontinuing operations, net of tax	13	-	0.6
Profit (loss)		(375.2)	(13.2)
Other comprehensive income:			
Items that may or will be transferred to profit (loss)			
Foreign currency translation differences		(38.1)	37.9
Total comprehensive income (loss)		(413.4)	24.6
Profit (loss) attributable to:			
Owners of Otello Corporation ASA		(375.2)	(13.2)
Non-controlling interests		-	-
Total comprehensive income (loss) attributable to:			
Owners of Otello Corporation ASA		(413.4)	24.6
Non-controlling interests		-	-


Statement of Financial Position

USD million	Note	12/31/2018	12/31/2017
Assets			
Deferred tax assets	6	4.3	0.1
Property, plant and equipment	7	2.9	3.7
Investments in subsidiaries	8	307.9	708.6
Other investments	8	14.4	14.4
Receivables from group companies	9	7.5	19.7
Total non-current assets		336.9	746.5
Accounts receivable	5	0.1	1.2
Accounts receivable from group companies	9	0.5	1.5
Other receivables	11	21.9	1.8
Cash and cash equivalents	5	1.9	29.2
Total current assets		24.3	33.8
Total assets		361.2	780.3


Statement of Financial Position

USD million	Note	12/31/2018	12/31/2017
Shareholders' equity and liabilities			
Equity attributable to owners of the company	10	332.8	751.1
Non-controlling interests		-	-
Total equity		332.8	751.1
Liabilities			
Non-current liabilities to group companies	9	-	17.2
Loans and borrowings	5	-	-
Total non-current liabilities		-	17.2
Accounts payable		0.5	0.7
Accounts payable to group companies	9	1.4	1.5
Other current liabilities to group companies	9	2.6	3.3
Taxes payable	6	-	-
Public duties payable		0.3	0.3
Deferred revenue	5	0.4	0.9
Other current liabilities	5	1.9	5.4
Contingent consideration, current	11	21.3	-
Total current liabilities		28.4	12.0
Total liabilities		28.4	29.2
Total equity and liabilities		361.2	780.3

Oslo, April 9, 2019



Audun Wickstrand Iversen
Chairman



Frode Fleten Jacobsen



Birgit Midtbust



Sophie Charlotte Moatti



Andre Christensen



Lars Boilesen
CEO

Statement of Cash Flows

USD million	Note	1/1 - 12/31 2018	1/1 - 12/31 2017
Cash flow from operating activities			
Profit (loss) before taxes		(379.6)	(12.8)
Income taxes paid	6	-	0.2
Depreciation and amortization expense	7	0.7	0.7
Impairment of assets	8	393.3	-
Net (gain) loss from disposals of subsidiaries and other share investments	8	(4.4)	-
Dividends received	9	(20.0)	-
Other net finance items		0.5	-
Changes in inventories, accounts receivable, accounts and other payables ¹⁾	9	0.7	(0.5)
Changes in other operating working capital		(4.0)	20.4
Share of net income (loss) from associated companies	8	0.0	-
Share-based remuneration	3	0.7	1.2
Earnout cost and cost for other contingent payments	11	0.0	(0.0)
FX differences related to changes in balance sheet items		0.2	5.3
Net cash flow from operating activities		(11.8)	14.5
Cash flow from investment activities			
Proceeds from sale of shares	13	-	2.1
Purchases of property, plant and equipment (PP&E) and intangible assets	7	(0.0)	(0.1)
Earnout and settlement of earnout agreement payments	11	(20.1)	(3.1)
Other investments	8	-	(0.6)
Proceeds from repayments of loans to subsidiaries	8	13.4	10.0
Loans given to subsidiaries	8	(3.7)	-
Net cash flow from investment activities		(10.4)	8.3
Cash flow from financing activities			
Proceeds from exercise of own shares (incentive program)	10	0.0	0.0
Purchase of treasury shares	10	(5.5)	(27.5)
Proceeds from issuance of shares, net (equity increase)	10	(0.1)	0.0
Repayments of loans and borrowings	5	-	(100.3)
Net cash flow from financing activities		(5.6)	(127.7)
Net change in cash and cash equivalents		(27.8)	(104.9)
Cash and cash equivalents (beginning of period)		29.2	134.2
Effects of exchange rate changes on cash and cash equivalents		0.4	-
Cash and cash equivalents ²⁾		1.9	29.2

¹⁾ This includes changes in intercompany balances. See note 9 for further information.

²⁾ Of which \$0.3 million (2017: 0.3 million) is restricted cash as of December 31, 2018.

Reconciliation of profit (loss) before taxes, as presented in the consolidated statement of cash flows above:

	2018	2017
Profit (loss) before income taxes	(379.6)	(13.4)
Profit (loss) from discontinuing operations, net of tax	-	0.6
Provision for taxes, discontinued operations	-	-
Profit (loss) before taxes, as presented in the consolidated statement of cash flows above	(379.6)	(12.8)

Statement of Changes in Equity

USD million	Number of shares	Paid-in capital	Other reserves	Reserve for treasury shares	Translation reserve	Other equity	Total equity
Balance as of 12/31/2017	141.0	358.3	40.3	(67.6)	(125.8)	545.8	751.1
Comprehensive income for the period							
Profit for the period		-	-	-	-	(375.2)	(375.2)
Other comprehensive income							
Foreign currency translation differences		-	-	-	(38.1)	-	(38.1)
Total comprehensive income for the period		-	-	-	(38.1)	(375.2)	(413.4)
Issue of share capital		(0.1)	-	-	-	-	(0.1)
Treasury shares acquired	(2.5)	-	-	(5.5)	-	-	(5.5)
Treasury shares sold	0.2	-	-	0.0	-	-	0.0
Share-based payment transactions		-	0.7	-	-	-	0.7
Balance as of 12/31/2017	138.7	358.2	41.1	(73.2)	(163.9)	170.6	332.8

Face value of the shares
The face value of the shares is NOK 0.02.

Other reserves
Other reserves consist of option and RSU costs recognized according to the equity settled method.

Reserve for own shares
The reserve for the Company's own shares comprises the face value cost and excess value of own shares held by the Company.

Translation reserve
The translation reserve consists of all foreign currency differences arising from the translation of the financial statements of group companies with a functional currency that is not USD.

Other equity
Other equity consists of all other transactions, including but not limited to, total recognized income and expense for the current period.

Statement of Changes in Equity

USD million	Number of shares	Paid-in capital	Other reserves	Reserve for own shares	Translation reserve	Other equity	Total equity
Balance as of 12/31/2016	147.7	358.3	40.3	(41.4)	(163.4)	559.1	752.8
Comprehensive income for the period							
Profit for the period		-	-	-	-	(13.2)	(13.2)
Other comprehensive income							
Foreign currency translation differences		-	-	-	37.9	-	37.9
Total comprehensive income for the period		-	-	-	37.9	(13.2)	24.6
Treasury shares acquired	(7.1)	-	-	(27.5)	-	-	(27.5)
Treasury shares sold	0.4	-	-	-	-	-	-
Share-based payment transactions		-	-	1.2	-	-	1.2
Other changes		-	-	-	(0.2)	-	(0.2)
Balance as of 12/31/2017	141.0	358.3	40.3	(67.6)	(125.8)	545.8	751.1

Note 1

General information and accounting principles

General information

These are the financial statements of Otello Corporation ASA, which is the holding company for the Otello Group and includes the Group Executive Management (chief operating decision-makers) and associated staff functions. See also Note 1 in the Group's consolidated financial statements.

Statement of compliance

The parent company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and the interpretations adopted by the International Accounting Standards Board (IASB). The parent company financial statements have also been prepared according to applicable regulations and paragraphs in the Norwegian Accounting Act and the relevant paragraph in the Securities Trading Act.

These parent company financial statements have been approved by the Board of Directors on April 9, 2019 and will be proposed to/are subject to approval by the Annual General Meeting on June 4, 2019.

The explanation of the accounting policies in the Consolidated financial statements also applies to the parent company, and the notes to the consolidated financial statements will in some cases cover the parent company.

Investments in subsidiaries – parent company

For investments in subsidiaries, associates and jointly controlled entities, the cost method is applied. The cost price is increased when funds are added through capital increases or when group contributions are made to subsidiaries. Dividends received are initially taken as income. Dividends exceeding the portion of retained profit after the acquisition are reflected as a reduction in cost price. Dividend/group contribution from subsidiaries are reflected in the same year as the subsidiary makes a provision for the amount.

Investments in subsidiaries, associates and jointly controlled entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value of the investment. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

Note 2

Company activities

The Company's main activities are to serve the Group as a whole, through the following functions and services: CEO/Board of Directors, corporate finance and accounting, legal, HR and IT. The Company charges some of the costs related to these functions to subsidiaries.

The principal activities of the Group's business areas are described in more detail in Note 2 Operating and segment information in the Group's consolidated financial statements.

Note 3

Payroll expenses and remuneration to management

Payroll expenses [USD million]	2018	2017
Salaries and bonuses	(3.3)	(2.9)
Social security cost	(0.5)	(0.5)
Pension cost	(0.2)	(0.2)
Share-based remuneration including social security cost	(0.7)	(1.3)
Insurance and other employee benefits	(0.1)	(0.1)
Payments to long-term contractual staff	0.0	(0.2)
Total	(4.9)	(5.3)

Average number of employees	15	14
-----------------------------	----	----

The Company has incorporated the requirements set out by the Mandatory Occupational Pensions Act ("Obligatorisk Tjeneste Pensjon").

Remuneration to key management personnel

Information about remuneration to key management personnel is given in note 3 in the consolidated financial statements.

Share-based compensation

For details of share-based compensation, see note 3 in the consolidated financial statements.

Options

The number and weighted average exercise price of share options are as follows:

	Weighted average exercise price 2018 (NOK)	Number of options 2018 (in thousands)	Weighted average exercise price 2017 (NOK)	Number of options 2017 (in thousands)
Outstanding at the beginning of the period	37.46	2 155	29.99	333
Terminated (employee terminations)	-	-	60.75	20
Forfeited during the period	-	-	-	-
Expired during the period	-	-	-	-
Exercised during the period	-	-	16.10	58
Granted during the period	-	-	38.50	1 900
Outstanding at the end of the period	39.45	2 155	37.46	2 155
Exercisable at the end of the period		730		220

No options were granted during 2018 (2017: 1 900 000).

The table below shows the number of options issued to employees at various strike prices and exercise dates.

2018 TOTAL OUTSTANDING OPTIONS			2018 VESTED OPTIONS		
Exercise price	Outstanding options per 12/31/2018 (in thousands)	Weighted average remaining lifetime (years)	Weighted average exercise price (NOK)	Vested options 12/31/2018 (in thousands)	Weighted average exercise price (NOK)
0.00 - 10.00	-	-	-	-	-
10.00 - 12.30	80	0.66	11.68	80	11.68
12.30 - 15.00	-	-	-	-	-
15.00 - 20.00	55	1.63	19.28	55	19.28
20.00 - 25.00	50	0.93	22.08	50	22.08
25.00 - 30.00	-	-	-	-	-
30.00 - 35.00	-	-	-	-	-
35.00 - 40.00	475	1.20	38.50	475	38.50
40.00 - 45.00	1 425	3.20	41.66	-	-
45.00-	70	2.72	60.75	70	60.75
Total	2 155	2.56	39.45	730	35.12

2017 TOTAL OUTSTANDING OPTIONS			2017 VESTED OPTIONS		
Exercise price	Outstanding options per 12/31/2017 (in thousands)	Weighted average remaining lifetime (years)	Weighted average exercise price (NOK)	Vested options 12/31/2017 (in thousands)	Weighted average exercise price (NOK)
0.00 - 10.00	-	-	-	-	-
10.00 - 12.30	80	1.66	11.68	80	11.68
12.30 - 15.00	-	-	-	-	-
15.00 - 20.00	55	2.63	19.28	55	19.28
20.00 - 25.00	50	1.93	22.08	50	22.08
25.00 - 30.00	-	-	-	-	-
30.00 - 35.00	-	-	-	-	-
35.00 - 40.00	1 900	3.70	38.50	-	-
40.00 - 45.00	-	-	-	-	-
45.00-	70	3.72	60.75	35	60.75
Total	2 155	3.56	37.36	220	23.75

Exercise price = strike price

The table below shows the date, number and achieved selling price of options exercised.

No options exercised in 2018.

Date of exercise	Number of exercised options (in thousands)	Achieved selling price (NOK)
3/20/2017	40	38.04
9/6/2017	18	31.57
Total	58	36.07

Restricted stock units

No RSUs were granted in 2018 or 2017.

Restricted Stock Units	2018		2017	
	Shares (in thousands)	Weighted Average Exercise Price (NOK)	Shares (in thousands)	Weighted Av- erage Exercise Price (NOK)
Outstanding at the beginning of period	107	0.02	145	0.02
Granted	-	-	-	-
Exercised	-	-	-	-
Released	(46)	0.02	(61)	0.02
Cancelled	-	-	-	-
Forfeited	-	-	(3)	0.02
Expired	-	-	-	-
Adjusted quantity	-	-	-	-
Performance adjusted	(46)	0.02	26	0.02
Outstanding at the end of period	15	0.02	107	0.02
Vested RSUs	15	0.02	-	-

	2018		2017	
	Shares (in thousands)	Value in NOK	Shares (in thousands)	Value in NOK
Weighted Average Fair Value of RSUs Granted during the period	-	-	-	-
Intrinsic value outstanding RSUs at the end of the period	15	195 184	107	2 790 683
Intrinsic value vested RSUs at the end of the period	-	-	-	-

Estimated performance levels for unvested RSUs are estimated to be at 100% of the performance targets.

Note 4

Other operating expenses

Other expenses [USD million]	2018	2017
Audit, legal and other advisory services	(1.6)	(2.4)
Purchase of equipment, not capitalized	(0.5)	(0.1)
Travel expenses	(0.3)	(0.3)
Rent and other office expenses	(0.3)	(0.4)
Hosting expenses, excl. depreciation cost	(0.2)	(0.6)
Other expenses	(0.2)	(0.4)
Total	(3.0)	(4.2)

Remuneration to the statutory auditors

Otello Corporation ASA changed its auditor from KPMG to PWC in 2017. The following table shows fees to PWC for 2018 and 2017. For all categories the reported fee is the recognized expense in other operating expenses for the year.

Audit fees [USD million]	2018	2017
Audit and audit related services	(0.3)	(0.6)
Assurance services	(0.1)	(0.0)
Tax services	-	-
Other service	-	-
Total	(0.4)	(0.6)

Note 5

Financial risk and financial instruments

Currency risk

The majority of the financial risk that the Company is exposed to relates to currency risk due to exchange rate fluctuations. The majority of the Company's operating expenses are in NOK.

The lending and borrowing activities of the Company are primarily in USD.

Breakdown of cash deposits by currency	2018	2017
NOK	1.7	25.1
USD	0.2	3.3
EUR	0.0	0.7
Other	0.0	0.1
Total	1.9	29.2

Foreign exchange contracts

During 2018 and 2017, the Company did not use forward exchange contracts to hedge its currency risk, and the Company had not entered any foreign exchange contracts as of December 31, 2017.

Liquidity risk

The Company had the following liquidity reserve and credit facility as of December 31.

Liquidity reserve [USD million]	12/31/2018	12/31/2017
Cash and cash equivalents		
Cash and cash equivalents	1.9	29.2
-of which restricted funds ¹⁾	0.2	0.3
Unrestricted cash	1.7	29.0

Credit Facility [USD million]	12/31/2018	12/31/2017
Long-term cash credit	-	50.0
-of which utilized	-	-
Short-term overdraft facility	-	-
-of which utilized	-	-

Credit facility

In 2017, Otello paid down its outstanding term loan of \$100 million to DNB Bank ASA. In May 2018, Otello 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. As at December 31, 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 accounts 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 December 31, 2017.

The Revolving Credit facility of \$100 million bear an interest rate of LIBOR, 3 months + a Margin of 2.50 % p.a. There is no utilization fee. On the undrawn portion of the facility, a commitment fee of 35% of the Margin will be paid.

Cash pool agreement

The Company terminated its cash pool agreement in 2017.

Financial liabilities

All financial liabilities other than the credit facility (described above) are expected to be paid within 1 year of the balance sheet date.

Capital management

The Company's policy has been to maintain a high equity-to-asset ratio and to maintain a solid capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Otello still possesses a business model that anticipates considerable cash flow in the future.

In 2018 and 2017, the Board of Directors has used its authorization to purchase treasury shares. Please see note 10 in the consolidated financial statements for more information.

Financial instruments

Financial instruments, and contracts accounted for as such, are included in several line items in the statement of financial position and classified in categories for accounting treatment. A reconciliation of financial instruments in Otello Corporation ASA is presented below:

<i>[USD million]</i>	Amortised cost	Fair value
	2018	
Assets - current		
Accounts receivable	0.1	0.1
Receivables from group companies	0.5	0.5
Cash and cash equivalents	-	1.9
Liabilities - current		
Accounts payable	0.5	0.5
Accounts payable to group companies	1.4	1.4
Other current liabilities to group companies	2.6	2.6
Other current liabilities ¹⁾	0.5	0.5
Contingent consideration, current	21.3	21.3
	2017	
Assets - current		
Accounts receivable	1.2	1.2
Receivables from group companies	1.5	1.5
Cash and cash equivalents	29.2	29.2
Liabilities - non-current		
Non-current liabilities to group companies	17.2	17.2
Liabilities - current		
Accounts payable	0.7	0.7
Accounts payable to group companies	1.5	1.5
Other current liabilities to group companies	3.3	3.3
Other current liabilities ¹⁾	4.1	4.1

¹⁾ This represents liabilities to entities in discontinued operations.

Note 6

Taxes

<i>[USD million]</i>	2018	2017
Income tax expense recognized in the statement of comprehensive income:		
Current tax	-	-
Changes in deferred taxes	4.6	(0.5)
Tax expense related to change in tax rate	(0.2)	(0.0)
Total	4.3	(0.5)

Recognized deferred tax assets and liabilities:

Deferred tax balances presented in the statement of financial position comprise the following:

<i>[USD million]</i>	2018	2017
Deferred tax assets related to tax loss carryforwards	4.1	-
Deferred tax assets related to temporary differences	0.2	0.1
Net deferred assets (liabilities)	4.3	0.1

The Company recognizes deferred tax assets related to tax losses in the statement of financial position when it is considered probable that taxable profit will be generated in future periods against which these tax losses carries forwards can be utilized.

At December 31, 2018, the tax loss carry forwards in the Company have been recognized, since it is deemed probable that sufficient future taxable profits will be generated against which these can be utilized.

Deferred tax assets (liabilities) and changes during the year

	2018				
<i>[USD million]</i>	Balance 1/1/18	Posted to statement of comprehensive income	Posted directly to the equity	Disposals to discontinued operations	Balance 12/31/18
Accounts receivable	0.2	(0.2)	-	-	-
Provisions and accruals	0.1	0.0	-	-	0.2
Total	0.3	(0.1)	-	-	0.2
Temporary differences not recognized in the statement of financial position	(0.2)	0.2	-	-	-
Temporary differences recognized in the statement of financial position	0.1	0.0	-	-	0.2
Tax loss carryforwards	2.7	1.4	-	-	4.1
Tax loss carryforwards not recognized in the statement of financial position	(2.7)	2.7	-	-	-
Tax loss carryforwards recognized in the statement of financial position	-	4.1	-	-	4.1
Net deferred tax assets (liabilities) recognized in the statement of financial position	0.1	4.2	-	-	4.3

	2017				
	Balance 1/1/17	Posted to statement of comprehensive income	Posted directly to the equity	Disposals to discontinued operations	Balance 12/31/17
<i>[USD million]</i>					
Accounts receivable	-	0.2	-	-	0.2
Provisions and accruals	0.1	0.0	-	-	0.1
Total	0.1	0.2	-	-	0.3
Temporary differences not recognized in the statement of financial position	-	(0.2)	-	-	(0.2)
Temporary differences recognized in the statement of financial position	-	0.0	-	-	0.1
Tax loss carryforwards	0.4	2.3	-	-	2.7
Tax loss carryforwards not recognized in the statement of financial position	-	(2.7)	-	-	(2.7)
Tax loss carryforwards recognized in the statement of financial position	-	(0.4)	-	-	-
Net deferred tax assets (liabilities) recognized in the statement of financial position	0.5	(0.6)	-	-	0.1

Reconciliation of effective tax rate <i>[USD million]</i>	2018	2017
Profit (loss) before tax	(379.6)	(13.4)
Income tax using the corporate income tax rate in Norway ¹⁾	87.3	3.2
Effect of changes in tax rates	(0.2)	(0.0)
Effect of deferred tax assets not recognized	2.7	(2.9)
Effect of non-taxable and non-deductible items	(85.5)	(0.8)
Total tax expense for the year	4.3	(0.5)
Effective tax rate	-1.1 %	3.4 %

¹⁾ The income tax rate in Norway was 23 % in 2018, and 24 % in 2017. The tax rate will be changed to 22% in 2019.

Permanent differences

Permanent differences include non-deductible costs and share-based remuneration.

Note 7

Property, plant & equipment

	2018	
	Machinery and equipment	Total
<i>[USD million]</i>		
Acquisition cost		
Acquisition cost as of 1/1/18	5.9	5.9
Acquisitions	0.0	0.0
Currency differences	(0.3)	(0.3)
Acquisition cost as of 12/31/18	5.6	5.6
Depreciation and impairment losses		
Acquisition cost as of 1/1/18	(2.2)	(2.2)
Depreciation for the year	(0.7)	(0.7)
Currency differences	0.2	0.2
Accumulated depreciation as of 12/31/18	(2.7)	(2.7)
Net book value as of 12/31/18	2.9	2.9

	2017	
	Machinery and equipment	Total
<i>[USD million]</i>		
Acquisition cost		
Acquisition cost as of 1/1/17	5.4	5.4
Acquisitions	0.1	0.1
Currency differences	0.3	0.3
Acquisition cost as of 12/31/17	5.9	5.9
Depreciation and impairment losses		
Acquisition cost as of 1/1/17	(1.4)	(1.4)
Depreciation for the year	(0.7)	(0.7)
Currency differences	(0.1)	(0.1)
Accumulated depreciation as of 12/31/17	(2.2)	(2.2)
Net book value as of 12/31/17	3.7	3.7

Useful life

Up to 10 years

Depreciation plan

Linear

Operating leases

The Company's lease agreement for the rental of its Norwegian offices at Gjerdrums vei 19 will run through November 2019.

The future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
Payments for leased premises:		
Less than one year	0.4	0.5
Between one to five years	-	0.5
More than five years	-	-
Total	0.4	0.9

Note 8

Investments in subsidiaries, and other investments

Investments in subsidiaries

Below is an overview of the investements in subsidiaries directly held by Otello Corporation ASA as of December 31, 2018.

<i>[USD million]</i>	Bemobi Holding AS	AdColony Holding AS	Privacy & Performance Ireland Ltd
Segment (Group)	Bemobi	AdColony	Skyfire
Acquisition/establishment date	8/8/2016	6/18/2016	9/14/2016
Registered office	Oslo, Norway	Oslo, Norway	Dublin, Ireland
Ownership and voting share	100%	100%	100%
Equity at year end	90.3	318.0	6.6
Profit for the year	(0.1)	(147.8)	(1.4)

Information related to carrying value:	Bemobi Holding AS	AdColony Holding AS	Privacy & Performance Ireland Ltd	Total
Acquisition cost	63.0	235.0	0.2	298.2
Equity increase prior to current year	24.2	369.5	-	393.7
Equity increase in the current year	40.5	-	-	40.5
Divestment of 11.2% of the shares	(10.5)	-	-	-10.5
Impairment loss recognized in the current year	-	(393.3)	-	(393.3)
Translation differences	(6.0)	(14.7)	0.0	(20.6)
Carrying value	111.1	196.5	0.3	307.9

Impairment loss related to the AdColony business
The Group has carried out impairment testing as of December 31, 2018, according to IAS 36. Based on the impairment testing carried out at Group level, Otello Corporation ASA ("the Company") has recognized an impairment loss of USD 393.3 million in 2018 related to the investment in the AdColony business. The background for the impairment loss in AdColony is the decrease in revenue and EBITDA in AdColony in 2018. This is mainly due to slower product launches and ramp up of new products than forecast, in addition to a focus around fewer and more profitable products and markets, which is reflected in future cash flow forecasts.

Divestment of 11.2% of the shares
The shares in the subsidiaries are booked at the cost of acquisition. On May 29, 2018, the Company divested 11.2% of the shares in Bemobi Holding AS. Please see note 11 for further information.

Equity increase in the current year
In May 2018, a capital increase in Bemobi Holding AS was carried out by converting debt to the Company of USD 1.7 million, and by a contribution in kind of a receivable held by the Company against Bemobi International AS, a subsidiary of Bemobi Holding AS of USD 3.9 million.

In July 2018, a further capital increase was carried out by contribution in kind of a receivable held by the Company against the Brazilian subsidiary, Bemobi Midia e Entretenimento Ltda. of USD 34.9 million. These capital increases were carried out as part of the restructuring process within Otello Group to establish a more efficient capital structure by reducing debt/receivables between group companies.

Below is a list of shares in subsidiaries owned by other group companies, and indirectly by the Company, as at December 31, 2018:

	Location	Segment	Country	Owner and voting share
4th Screen Advertising Holdings Limited	London	AdColony	United Kingdom	100%
AdColony AB	Stockholm	AdColony	Sweden	100%
AdColony ApS	Copenhagen	AdColony	Denmark	100%
AdColony AS	Oslo	AdColony	Norway	100%
AdColony Beijing Co, Ltd.	Beijing	AdColony	China	100%
AdColony Financing Ireland Limited	Dublin	AdColony	Ireland	100%
AdColony GmbH	Hamburg	AdColony	Germany	100%
AdColony Holdings Ireland Ltd	Dublin	AdColony	Ireland	100%
AdColony Holdings US, Inc.	San Mateo	AdColony	United States	100%
AdColony India Private Ltd	Gurgaon	AdColony	India	100%
AdColony Ireland Ltd	Dublin	AdColony	Ireland	100%
AdColony Japan LLC	Tokyo	AdColony	Japan	100%
AdColony Korea Ltd	Seoul	AdColony	Republic of South Korea	100%
AdColony Singapore PTE. Ltd	Singapore	AdColony	Singapore	100%
AdColony UK Ltd (formerly 4th Screen Advertising Ltd)	London	AdColony	United Kingdom	100%
AdColony, Inc.	Los Angeles	AdColony	United States	100%
Advine Mobile Advertising Network Prorietary Ltd	Cape Town	AdColony	South Africa	100%
Foriades Park SA	Montevideo	AdColony	Uruguay	100%
Hunt Mobile Ads aplicativos para internet Ltda	Sao Paulo	AdColony	Brazil	100%
Hunt Mobile Ads Panamá Corp.	Panama City	AdColony	Panama	100%
Hunt Mobile Ads SA de CV	Mexico City	AdColony	Mexico	100%
Huntmads SA	Buenos Aires	AdColony	Argentina	100%
Mobilike Mobil Reklam Pazarlama Ve Ticaret A.S	Istanbul	AdColony	Turkey	100%
Apps and Games Ireland Ltd	Dublin	Bemobi	Ireland	100%
Apps Club de Argentina SRL	Buenos Aires	Bemobi	Argentina	100%
Apps Club de Chile SPA	Santiago	Bemobi	Chile	100%
Apps Club de Colombia S.A.S.	Bogotá	Bemobi	Colombia	100%
Apps Club del Ecuador S.A	Quito	Bemobi	Ecuador	100%
Apps Club del Mexico SA de CV	Mexico	Bemobi	Mexico	100%
Bemobi International AS	Oslo	Bemobi	Norway	100%
Bemobi Midia e Entretenimento Ltda	Rio de Janeiro	Bemobi	Brazil	100%
LLC Bemobi Ukraine	Odessa	Bemobi	Ukraine	100%
Open Markets AS	Oslo	Bemobi	Norway	100%
Tulari Spain Sociedad Limitada	Madrid	Bemobi	Spain	100%
Skyfire Labs, Inc.	San Mateo	Skyfire	United States	100%

Other investments

The table below gives a breakdown of the total amount of other investments recognized.

[USD million]	2018	2017
Investments in associated companies	8.0	8.6
Loans to associated companies	5.5	5.0
Investments in other shares	0.8	0.7
Total	14.4	14.4

Please see note 17 in the Consolidated financial statements for further information regarding other investements.

Note 9

Receivables, payables and transactions with group companies

Receivables and payables

The table below presents a breakdown of receivables and payables with group companies. [USD million]

Other receivables (non-current)		Accounts receivables		Other receivables (current)	
2018	2017	2018	2017	2018	2017
7.5	19.7	0.5	1.5	-	-
Liabilities (non-current)		Accounts payable		Other liabilities (current)	
2018	2017	2018	2017	2018	2017
-	17.2	1.4	1.5	2.6	3.3

All outstanding balances with the related parties are priced on an arm's-length basis and are to be settled in cash within five years of the reporting date. None of the balances are secured. The balances outstanding are specified as follows:

2018			
Receivables from group companies [USD million]		Payables to group companies [USD million]	
AdColony Ireland Ltd	7.5	Bemobi Midia E Entretenimento Ltda (Brazil)	2.0
AdColony Inc (USA)	0.4	Performance and Privacy Ireland Limited	1.6
Other entities	0.1	AdColony Inc (USA)	0.3
		Other entities	0.1
Total receivables	7.9	Total payables	4.0

2017			
Receivables from group companies [USD million]		Payables to group companies [USD million]	
AdColony Ireland Ltd	12.0	Performance and Privacy Ireland Limited	9.3
AdColony Holding A	3.4	4th Screen Advertising Holdings Limited	8.7
Bemobi International AS	2.4	AdColony, Inc	3.3
Apps and Games Ireland Limited	1.5	Other entities	0.6
Other entities	1.9		
Total receivables	21.2	Total payables	22.0

Breakdown of intercompany receivables by currency: [USD million]

	2018	2017
USD	7.8	18.2
NOK	0.1	2.2
DKK	-	0.8
EUR	-	0.1
Total	7.9	21.2

For the largest intercompany receivables described in detail above, an interest rate of 1 month LIBOR + 175 basis points is charged.

Breakdown of intercompany payables by currency: [USD million]

	2018	2017
BRL	2.0	-
USD	1.6	13.2
EUR	0.2	-
GBP	0.2	8.7
Total	4.0	22.0

Transactions with group companies

Transactions [USD million]

	2018	2017
Intercompany revenue	0.0	0.1
Intercompany costs of goods sold	(0.2)	(0.0)
Interest income from related parties	0.5	2.3
Interest expense to related parties	(0.3)	(0.2)

Dividends received in 2018

The Company received dividends totalling USD 20 million from subsidiaries in 2018. Performance and Privacy Ireland Ltd. distributed a dividend of USD 8.1 million to the Company, which was set-off against the loan note of the same amount that Performance and Privacy Ireland Ltd held against the Company. AdColony Holding AS distributed a dividend of NOK 102.8 million (USD 11.9 million) to the Company, which was set-off against a loan notes of GBP 6.5 million and USD 3.7 million that AdColony Holding AS held against the Company. These loan notes were transferred to AdColony Holding AS during 2018 from 4th Screen Advertising Holdings Limited and AdColony, Inc. respectively. See payables to group companies as at December 31, 2017 below for details of these loan notes.

Loan agreements

The Company entered into a short-term loan agreement with subsidiary, Bemobi Midia E Entretenimento Ltda (Brazil) during 2018 of approximately USD 2 million. This loan has been repaid in full in early 2019.

Note 10

Shares and shareholder information

Shares and shareholder information is provided in Note 10 of the consolidated financial statements for Otello Corporation ASA.

Note 11

Contingent considerations

Bemobi earnout settlement agreement in 2018

On May 29, 2018, Otello reached a final agreement ("SPA") with the Bemobi Earnout Participants ("EPs"), where the existing Bemobi earnout agreement was terminated, and a significant part of the future earnout to the EPs was converted into the right of the EPs to receive ownership in Bemobi Holding AS ("Bemobi"). A total of USD 20 million has been paid in cash to the EPs with USD 10 million paid on the effective date, May 29, 2018, and USD 10 million paid on September 30, 2018. The remaining earnout is converted into the right to ownership in Bemobi giving the EPs a total ownership of 11.2%. The release of Bemobi shares (recognized as an asset held in escrow) will then settle the earnout liability with no cash effect.

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 consolidated statement of financial position of the parent company as follows as at December 31, 2018:

- An estimated remaining contingent consideration of USD 21.3 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. There will be no future cash flow effect when settling the remaining part of the contingent consideration

Payments made in 2017

A payment of USD 3.1 million was made in 2017. This was the final payment of the earnout agreement with the former shareholders of AdColony.

Note 12

Related parties

In 2017 the Company made earnout payments to former shareholders of acquired companies. No such payments were made by the Company in 2018. See note 11 in the consolidated financial statements for further information regarding earnout payments made by the Group.

The Company entered into a loan agreement in 2017 of \$5 million with Vewd Software AS (formerly Opera TV AS). The Company holds a 27% equity interest in Last Lion Holdings Ltd, through preferred shares, which indirectly owns Vewd Software AS through Last Lion Holdco AS.

Apart from the above transactions, and for transactions with group companies in the normal course of business, the Company did not engage in any related party transactions, including with any members of the Board of Directors or Executive Management.

See note 9 for information regarding transactions with group companies.

Transactions with key management personnel

Members of the Board of Directors and Executive Management of the Group and their immediate relatives controlled 0.2% (2017: 0.3 %) of the Group's voting share as per December 31, 2018. Otello has not provided any loans to Directors or Executive Management members as of December 31, 2018.

Compensation for Executive Management and Board of Directors can be found in note 3 of the consolidated financial statements. Executive Management also participate in the Group's stock option and RSU program (see note 3 of the consolidated financial statements).

Note 13

Discontinued operations

Results of discontinued operations (USD million)	2018	2017
Revenue	-	-
Operating expenses	-	-
Operating profit (loss), excluding impairment and restructuring expenses	-	-
Impairment and restructuring expenses	-	-
Operating profit (loss)	-	-
Net financial items (loss)	-	-
Net (gain) loss from sale of discontinued operations, net of tax	-	0.6
Profit (loss) before income tax	-	0.6
Provision for taxes	-	-
Profit (loss) from discontinued operations	-	0.6

Cash flow information (discontinued operations):	2018	2017
Cash flow from operating activities	-	-
Cash flow from investment activities	-	2.1
Cash flow from financing activities	-	-

Effect of disposal on the financial position of the Company: (USD million)	2018	2017
Shares in subsidiaries	-	0.0
Banker fees and other fees	-	(1.5)
Consideration received, satisfied in non-cash	-	-
Consideration received, satisfied in cash	-	2.1
Net profit	-	0.6
Consideration received, satisfied in cash	-	2.1
Cash and cash equivalents disposed of	-	-
Net cash inflows	-	2.1

Note 14

Events after the reporting period

Judgment handed down in Otello's case regarding the potential sale of Vewd minority stake

As reported to the market on September 14, 2018, Otello was successful in its claim in the High Court of Justice of England and Wales against Moore Frères & Co LLC ("MFC") and Last Lion Holdings Limited ("Last Lion"), arising from the refusal of the Board of Last Lion, which is controlled by appointees of MFC, to approve the sale of Otello's remaining ownership stake in Last Lion, being approximately 27-28.5% in the Vewd Software business. The judge granted Otello the injunction it sought requiring the Board to approve the buyer.

The buyer did not purchase the shares on the terms of the expired Share Purchase Agreement. Otello has now restored the proceedings in order to pursue alternative remedies, including (1) an order from the Court that MFC be required to buy Otello's shares (and related Loan Note) at the higher of the current valuation of those shares and the price that the buyer was prepared to pay, and (2) that in the event that MFC is unable to purchase the shares at such price, an order that all shares in Last Lion (or Last Lion's shares in Last Lion Holdco AS) be sold and Otello be paid the sum found to be due to it out of the proceeds of such sale. A trial to determine the relief to which Otello is entitled is listed to take place in March 2020. Prior to that date, there will be documentary discovery and exchange of written witness and expert evidence.



To the General Meeting of Otello Corporation ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Otello Corporation ASA, which comprise:

- The financial statements of the parent company Otello Corporation ASA (the Company), which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Otello Corporation ASA and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Groups business activities are largely unchanged compared to last year. The earn-out provision we focused on last year was settled during the year. As R&D's relative book value is reduced, we have not considered this area as a key audit matter this year. Valuation of goodwill and intangible assets remain a key audit matter as they contain approximately the same complexity and risks as previous year.

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo

T: 02316, org. no.: 987 009 713 VAT, www.pwc.no

State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm



Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of Goodwill and Intangible Assets <p>At the balance sheet date, the book value of goodwill and intangible assets were USD million 232.4 and 28.3 respectively, distributed between three different cash generating units (CGU's). The values involved are significant and constitute a major part of total assets. An impairment charge of USD million 93.3 was recognized in the income statement for the AdColony and "Legacy" CGU's in Q4 2018.</p> <p>The group operates within business sectors that experience rapid technological change and market disruptions; mobile advertising and apps & games.</p> <p>We focused on the valuation of goodwill and intangible assets allocated to the mobile advertising business because the economic performance was less than expected and because an impairment has been recognized.</p> <p>Further, the values involved were significant and the assumptions and timing of cash flows in the estimate involved management judgement.</p> <p>See further information about management's assessment in note 8 and 9 to the financial statements.</p>	<p>We evaluated the appropriateness of management's allocation of goodwill and intangible assets to CGU's and the Group's controls over the impairment assessment process.</p> <p>Our procedures in relations to management's impairment assessment included challenging management on the suitability of the impairment model and the reasonableness of the assumptions as well as a test of the mathematical accuracy of the model. We assessed the reliability of management's cash flow forecasts through a comparison of actual performance in previous years to previous year's forecasts. We obtained explanations from management to material deviations. Further, we compared estimates on future cash flows to long-term plans approved by BoD. Further, we challenged management's expectations on future growth by comparing these expectations with historic results for the different CGU's. We also compared the growth assumptions with relevant external sources such as PwC's Global Entertainment & Media Outlook for growth within mobile advertising in the US.</p> <p>We assessed the discount rate by comparing the key components used with external market data where possible. We considered that the discount rate were within an appropriate range. We considered the appropriateness of the related disclosures in note 8, 9 and 12, including the sensitivities provided for the discount rate and growth expectations.</p> <p>Based on our testing and considerations, we were able to conclude that management's assumptions were reasonable.</p>

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(3)

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 9. april 2019

PricewaterhouseCoopers AS



Eivind Nilsen

State Authorised Public Accountant

(4)

Declaration of executive compensation policies

PART 1: POLICIES AND EXECUTIVE COMPENSATION EXCEPT SHARE-BASED INCENTIVES

The Board of Directors has, in accordance with the Public Limited Liability Companies Act § 6-16a, developed policies regarding compensation for the Executive Team.

The objectives of the Executive Team compensation program are, in particular, to (i) attract, motivate, retain and reward the individuals on the Executive Team and (ii) ensure alignment of the Executive Team with the long-term interests of the shareholders. The Company's executive compensation program is intended to be performance driven and is designed to reward the Executive Team for both reaching key financial goals and strategic business objectives and enhancing shareholder value.

The most important components of Executive Team compensation are as follows: (i) base salary, (ii) cash-in-

centive bonus and (iii) long-term, equity-based incentives. Only the statement in part 2 "Share-based incentives", below, will be binding for the Board of Directors.

1. Base salary

Base salary is typically the primary component of Executive Team compensation and reflects the overall contribution of the executive to the Company. The determination of base salaries for the executives considers a range of factors, including (i) job scope and responsibilities, (ii) competitive pay practices, (iii) background, training and experience of the executive, and (iv) past performance of the executive at the Company. Adjustments to base salary are ordinarily reviewed every 12 months or longer by the Board.

2. Cash incentive bonus

The Company uses a cash-incentive bonus to focus the Executive Team members on, and reward the Executive Team members for, achieving key corporate objectives, which typically

involve corporate, financial and operational performance. Cash-incentive bonuses tied to strategic business objectives, which may be individual to or shared among the Executive Team members, may also be considered as part of the cash-incentive bonus. The determination of the total bonus that can be potentially earned by an executive in a given year is based on, among other factors, the executive's current and expected contributions to the Company's performance, his or her position within the Otello Executive Team, and competitive compensation practices.

Any cash-incentive bonus is capped, typically so no member of the Executive Team can be awarded aggregate cash bonuses in excess of 200% of his or her annual, base salary, unless the Board of Directors makes exemptions in particular cases.

As a starting point, the cash-incentive bonus for FY 2018 for Executive Team members was based on corporate, financial and operational performance

as well as individualized, strategic business targets linked to his or her particular area of responsibility.

For FY 2019, the Board has approved a cash bonus scheme which is focused on achieving key corporate objectives and individualized, strategic business targets. The bonus scheme includes targets relating to:

- Further defined corporate or asset transaction agreements being signed within certain deadlines and the agreed consideration in each transaction exceeding set targets. The Board may also approve cash bonuses for transactional events even if the timing and/or consideration levels are not met.
- The Company's FY 2019 revenues and Adjusted EBITDA.

3. Severance-payment arrangements

Pursuant to Section 15-16 second subsection of the Norwegian 2005 Act relating to Employees' Protection, CEO Lars Boilesen has waived his rights under Chapter 15 of the Act. As compensation, he is entitled to a severance payment of two years' base salary if his employment is terminated by the Company. If the CEO has committed a gross breach of his duty or other serious breach of the contract of employment, the employment can be terminated with immediate effect without any right for the CEO to the mentioned severance payment.

Except for the CEO as described above, the employment agreements for the members of the Executive Team have no provisions with respect

to severance payments if a member of the Executive Team should leave his or her position, whether voluntarily or involuntarily. Severance payment arrangements, if any, will thus be based on negotiations between the Company and the relevant member of the Executive Team on a case-by-case basis.

4. Pension

Members of Executive Team participate in regular pension programs available for all employees of Company. For members of the Executive Team based in Norway, an additional pension agreement is in place. This agreement is based on a defined-contribution scheme and contributes 20% of salary over 12G.

PART 2: SHARE-BASED INCENTIVES

1. Existing programs

The Company currently has two equity-based incentives: ordinary stock options and Restricted Stock Units ("RSU"), as most recently approved at an extraordinary general meeting held 4 April 2017.

2. Vesting criteria for existing RSUs

For members of the Executive Team, the RSUs are typically linked to achievement of further specified targets related to reported revenue and reported Adjusted EBITDA. All RSUs previously granted to members of the Executive Team, have been issued with vesting criteria which are in accordance with the approvals given by the Annual General Meeting held in 2014, the Annual General Meeting in 2015, and/or the Extraordinary General Meeting held in January 2016.

2. Vesting criteria for existing options

Options granted to AdColony employees in accordance with the approval given by the shareholders at the extraordinary general meeting held 4 April 2017, vest over three years with 1/3 each year.

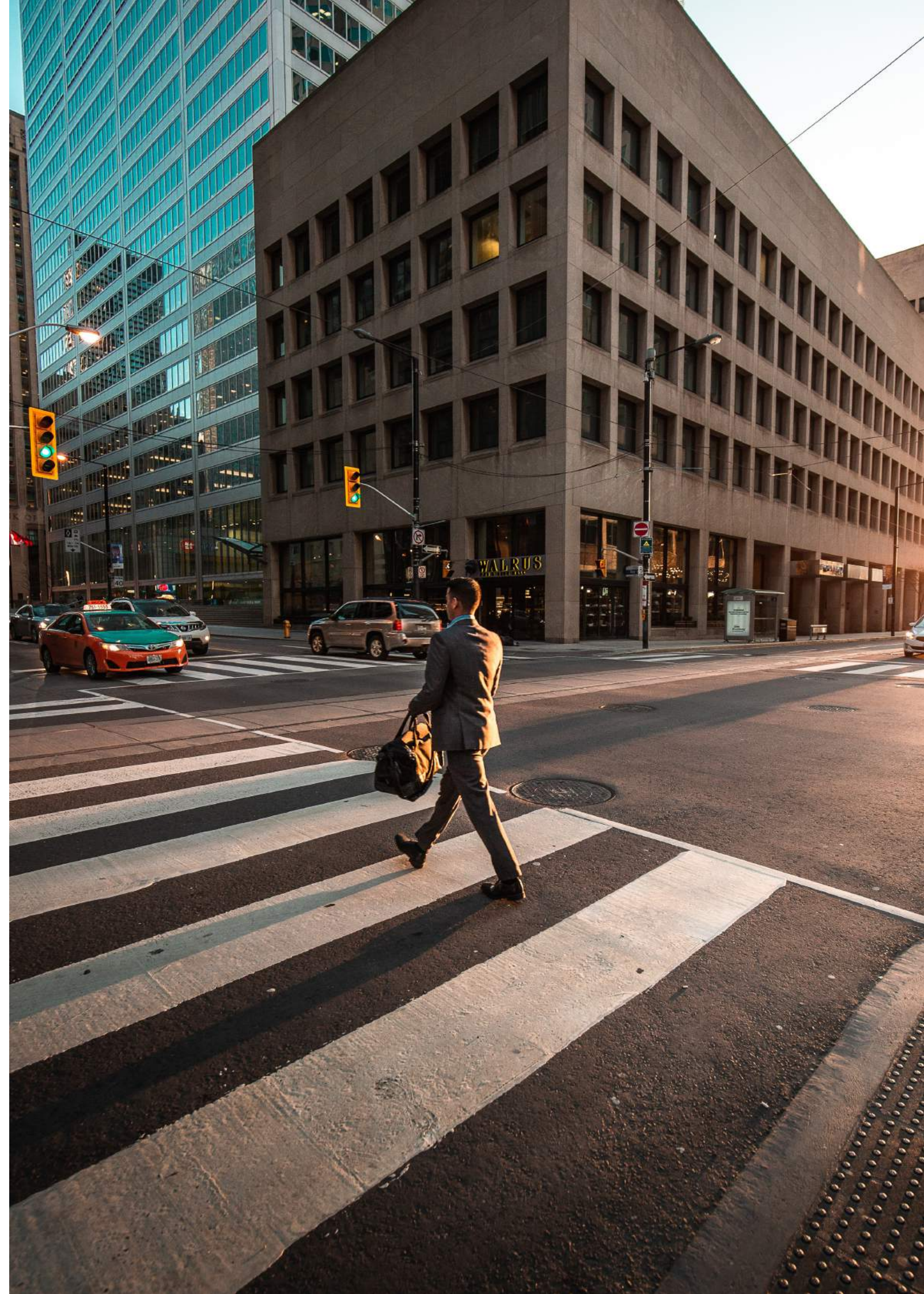
Options granted to Otello Corporation ASA employees in accordance with the approval given by the shareholders at the extraordinary general meeting held 4 April 2017, vest over four years with 1/4 each year.

PART 3: 2018 COMPLIANCE

In 2018, the Executive Team received base salaries and cash-incentive bonuses in line with the Executive Compensation Policy as presented to the 2018 Annual General Meeting. There was no pay-out of cash bonus to Executive Team members based on FY 2018 Corporate Results. During 2018, there was a considerable focus on corporate transactions and restructuring/cost efficiencies and Executive Team members as well as other employees have put a lot of time and efforts into these initiatives. Based on this, the Board has decided to approve a cash bonus for FY 2018 equal to 114% target achievement for each member of the Executive Team.

Total compensation earned for the Executive Team in FY 2018 is summarized in note 3 of the consolidated financial statements.

During 2018, no deviations from the existing share-based compensation programs as previously approved were made with respect to the Executive Team.



Principles of Corporate Governance at Otello Corporation ASA

General principles, implementation and reporting on corporate governance

Otello Corporation ASA ("Otello" or the "Company") strongly believes that strong corporate governance creates higher shareholder value. As a result, Otello is committed to maintaining high standards of corporate governance. Otello's principles of corporate governance have been developed in light of the Norwegian Code of Practice for corporate governance (the "Code"), dated October 17, 2018, as required for all listed companies on the Oslo Stock Exchange. The Code is available at www.nues.no. The principles are further developed and are in accordance with section 3-3b and section 3-3c of the Norwegian Accounting Act, which can be found at <https://lovdata.no/dokument/NL/lov/1998-07-17-56>. Otello views the development of high standards of corporate governance as a continuous process and will continue to focus on improving the level of corporate governance.

The Board of Directors has the overall responsibility for corporate governance at Otello and ensures that the Company implements sound corporate governance. The Board of Directors has defined Otello's basic corporate values, and the Company's ethical guidelines and guidelines on corporate social responsibility are in accordance with these values.

Otello's activities

Otello'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. Otello's corporate objective is to drive shareholder value through developing these businesses.

Our business is based on close relationships with customers, partners, investors, employees, friends, and communities all over the world — relationships we are committed to developing by conducting our business openly and responsibly. Our corporate policies are developed in order to be true to this commitment.

Corporate Social Responsibility guidelines

The Board of Directors has adopted corporate social responsibility ("CSR") guidelines. These guidelines cover a range of topics and are focused around the following areas: our employees, human rights, anti-corruption and the environment. These general principles and guidelines apply to all employees and officers of the Group. See the Board of Directors report for further information.

Equity, capital structure and dividends

The Company's capital structure and financing is considered to be appro-

priate in terms of Otello's objectives, strategy and risk profile.

Otello's policy is to maintain a high equity ratio. Otello believes its needs for growth can be met while also allowing for a dividend distribution as long as the Company is reaching its targeted growth and cash generation levels. For this reason, the Company will consider continuing to pay dividends over the next years. Dividend payments will be subject to approval by the shareholders at the Company's Annual General Meetings.

Authorizations granted to the Board of Directors to increase the Company's share capital will be restricted to defined purposes and will in general be limited in time to no later than the date of the next Annual General Meeting. To the extent that authorization to increase the share capital shall cover issuance of shares under employee share option schemes and other purposes, the Company will consider presenting the authorizations to the shareholders as separate items.

The Board of Directors may also be granted the authority to acquire own shares. Authorizations granted to the Board of Directors to acquire own shares will also be restricted to defined purposes. To the extent that authorization to acquire own shares shall cover several purposes, the Company will consider presenting





the authorization to the shareholders as separate items. Such authority may by law apply for a maximum period of 2 years, and will state the maximum and minimum amount payable for the shares. In addition, an authorization to acquire own shares will state the highest nominal value of the shares which Otello may acquire, and the mode of acquiring and disposing of own shares. Otello may not at any time hold more than 10% of the total issued shares as own shares.

Equal treatment of shareholders and transactions with related parties

A key concept in Otello's approach to Corporate Governance is the equal treatment of shareholders. Otello has one class of shares and all shares are freely transferable (with possible exceptions due to foreign law restrictions on sale and offering of securities). All shares in the Company carry equal voting rights. The shareholders exercise the highest authority in the Company through the General Meeting. All shareholders are entitled to submit items to the agenda, and to meet, speak, and vote at the General Meeting.

Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital will be

explained. Where the Board of Directors resolves to carry out an increase in the share capital and waive the pre-emption rights of the existing shareholders on the basis of a mandate granted to the board, an explanation will be publicly disclosed in a stock exchange announcement issued in connection with the increase of the capital.

In 2018 there have been no significant transactions with related parties.

If the Company should enter into a not immaterial transaction with related parties within Otello or with companies in which a director or leading employee of Otello or close associates of these have a material direct or indirect vested interest, those concerned shall immediately notify the Board of Directors. Any such transaction must be approved by the Board of Directors, and where required also as soon as possible publicly disclosed to the market.

In the event of not immaterial transactions between the Company and shareholders, a shareholder's parent company, members of the Board of Directors, executive management or close associates of any such parties, the Board of Directors will arrange for a valuation to be obtained from

an independent third party, unless the transaction requires the approval of the General Meeting.

Insider trading

The Company has an established and closely monitored insider trading policy. Otello employees are prohibited from trading in Otello securities based on information that is material, nonpublic information; that is, the public does not yet have access to this information, and this information may be deemed interesting for an investor to use when deciding whether to buy or sell securities. This rule also applies to other companies, where Otello employees may have access to such nonpublic information. Please note that even a tip to family and friends is considered illegal, if this should be used as a basis for buying or selling securities.

Any transaction the Company carries out in its own shares will be carried out either through the stock exchange or at prevailing stock exchange prices if carried out in any other way.

Freely negotiable shares

Otello has no limitations on the transferability of shares and has one class of shares. Each share entitles the holder to one vote.

General Meetings

Through the General Meeting, the shareholders exercise the highest authority in the Company. General Meetings are held in accordance with the Code. All shareholders are entitled to submit items to the agenda, meet, speak and vote at General Meetings. The Annual General Meeting is held each year before the end of June. Extraordinary General Meetings may be called by the Board of Directors at any time. The Company's auditor or shareholders representing at least five percent of the total share capital may demand that an Extraordinary General Meeting be called.

General Meetings are convened by written notice to all shareholders with known addresses no later than 21 days prior to the date of the meeting. Proposed resolutions and supporting information, including information on how to be represented at the meeting, vote by proxy and the right to propose items for the General Meeting, is generally made available to the shareholders no later than the date of the notice. According to the Company's Articles of Association, attachments to the calling notice may be posted on the Company's website and not sent to shareholders by ordinary mail. Shareholders who wish to receive the attachments may request

the Company to mail such attachments free of charge. Resolutions and the supporting information are sufficiently detailed, comprehensive and specific to allow shareholders to form a view on all matters to be considered in the meeting.

Shareholders who are unable to be present, are encouraged to participate by proxy and a person who will be available to vote on behalf of shareholders as their proxy will be nominated. Proxy forms will allow the proxy-holder to cast votes for each item separately. A final deadline for shareholders to give notice of their intention to attend the meeting or vote by proxy will be set in the notice for the meeting. Such deadline will be set as close as possible to the date of the General Meeting and under every circumstance, in accordance with the principles of section 5-3 of the Public Limited Companies Act.

The members of the Board of Directors, Chairman of the Nomination Committee, CEO, CFO and the auditor are all required to be present at the meeting in person, unless they have valid reasons to be absent. The Chairman for the meeting is generally independent. Notice, enclosures and protocol of meetings are available on Otello's website.

The General Meeting elects the members of the Board of Directors (excluding employee representatives), determines the remuneration of the members of the Board of Directors, approves the annual accounts and decides such other matters which by law, by separate proposal or according to the Company's Articles of Association, are to be decided by the General Meeting. The General Meeting will normally vote separately on each candidate for election for the Board of Directors, the Nomination Committee and any other corporate bodies to which members are elected by the General Meeting.

The Board of Directors may decide to allow electronic participation in General Meetings, and will consider this before each General Meeting.

The minutes from General Meetings will be posted on the Company's website within 15 days after the General Meeting has been held. Information that a General Meeting has been held will be made public as soon as possible after the end of the meeting.

Nomination Committee

The Nomination Committee is a body established pursuant to the Articles of Association and shall consist of three to five members. The mem-



bers and the chairperson are elected by the General Meeting. Members of the Nomination Committee serve for a two-year period, but may be re-elected. The current members of the Nomination Committee are Nils Foldal (Chairman), Kari Stautland and Jakob Iqbal. The members of the Nomination Committee are independent of the Board of Directors and executive management. Currently, no member of the Nomination Committee is a member of the Board of Directors. Any member who is also a member of the Board of Directors will normally not offer himself or herself for re-election to the Board.

The tasks of the Nomination Committee are to propose candidates for election as shareholder-elected members of the Board of Directors and members of the Nomination Committee. The Nomination Committee is encouraged to have contact with shareholders, the Board of Directors and the Company's Chief Executive Officer as part of its work on proposing candidates for election to the Board of Directors. The Committee cannot propose its own Committee members as candidates for the Company's Board of Directors. Further, the Committee shall make recommendations regarding the remuneration of the members of the Board of Directors. Its recommendations will normally be explained, and information about proposed candidates will normally be given, no later than 21 days before the General Meeting. The tasks of the Nomination Committee are further described in the Company's Nomination Committee guidelines, as adopted by the Annual General Meeting held on June 14, 2011. Remuneration of the members of the Nomination Committee will be determined by the General Meeting. Information regarding deadlines for proposals for members to the Board of Directors and the Nomination Committee will be posted on Otello's website.

Corporate assembly

Otello does not have a corporate assembly as the employees have voted, and the General Meeting in 2010 approved, that the Company should not have a corporate assembly.

The Board of Directors

Appointed by Shareholders at the General Meeting, the Board of Directors is the central governing mecha-

nism between shareholders and executive management. The members of the Board of Directors are selected in light of an evaluation of the Company's need for expertise, capacity and balanced decision making, and with the aim of ensuring that the Board of Directors can operate independently of any special interests and function effectively as a collegial body. At least half of the members of Board of Directors shall be independent of the Company's management and its main business connections. At least two of the shareholder-elected members of the Board of Directors shall be independent of the Company's main shareholder(s). The current Otello Board of Directors meets these criteria. Otello's Board of Directors diligently performs its oversight function and closely monitors major developments. The principal tasks of the Board of Directors are outlined below:

- Ensuring compliance with applicable laws
- Considering the interests of Otello's different stakeholders
- Reviewing and guiding corporate strategy, major plans of action, annual budget and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures.
- Selecting, monitoring, and, when necessary, replacing key executives and overseeing succession planning
- Reviewing key executive and Board remuneration
- Monitoring and managing potential conflicts of interest of management, Directors and shareholders, including misuse of corporate assets and abuse in related party transactions.
- Ensuring the integrity of Otello's accounting and financial reporting systems, and that appropriate systems of control are in place.
- Monitoring the effectiveness of the governance practices under which it operates and making changes as needed
- Overseeing the process of disclosure and communications
- A more in-depth description of the Board's duties can be found in the Rules of Procedure section on the Otello website: <https://www.otellocorp.com/ir/board-of-directors/rules-of-procedure-for-the-board-of-directors-of-otello>.

The Board of Directors is entrusted with and responsible for the oversight of the assets and business affairs of Otello in an honest, fair, diligent and ethical manner. The Board of Directors has adopted a Code of Conduct and the directors are expected to adhere to the standards of loyalty, good faith, and the avoidance of conflict of interest that follow. The Code of Conduct should be read and applied in conjunction with the Rules of Procedure as applicable at any time, and other rules and guidelines relevant to and adopted by the Board of Directors and / or the shareholders of Otello.

The Board of Directors has further established a Remuneration Committee and an Audit Committee. Currently, the Remuneration Committee and the Audit Committee each consists of two members. According to the Code, a majority of the members of each Committee should be independent from the Company. If the requirements for independence are not met, Otello will explain the reasons in our Annual Report. Currently, Audun W. Iversen (Chairperson), and Frode Jacobsen are members of the Audit Committee, and Andre Christensen (Chairperson), and Sophie-Charlotte Moatti are members of the Remuneration Committee. The requirements for independence are thus met.

The Audit Committee's main responsibilities include following up on the financial reporting process, monitoring the systems for internal control and risk management, having continuous contact with the appointed auditor, and reviewing and monitoring the independence of the auditor. The Board of Directors maintains responsibility and decision making in all such matters. Please see below under the section "Remuneration of the Executive Personnel" for information regarding the tasks to be performed by the Remuneration Committee.

The Board will consider carrying out self-evaluation processes, evaluating its work, performance and expertise annually. To the extent that such a process is carried out, it would normally also include an evaluation of the composition of the Board and the manner in which its members function, both individually and as a group, in relation to the objectives

set out for its work. Any report will be more comprehensive if it is not intended for publication. However, any reports or relevant extracts therefrom should normally be made available to the nomination committee. The Board of Directors will also consider whether to use an external person to facilitate the evaluation of its own work.

In order to ensure a more independent consideration of matters of a material character in which the Chairman of the Board of Directors is, or has been, personally involved, such matters will be chaired by some other member of the Board of Directors.

Risk management and internal control

The Board of Directors has overall responsibility for the management of the Company. This includes a responsibility to supervise and exercise control of the Company's activities. The Board has drawn up the rules of procedure for the Board of Directors of Otello. The purpose of these rules of procedure is to set out rules on the work and administrative procedures of the Board of Directors of Otello. The Board of Directors shall, among other things, ensure that the Company's business activities are soundly organized, supervise the Company's day-to-day management, draw up plans and budgets for the Company's activities, keep itself informed on the financial position of the Company, and be responsible for ensuring that the Company's activities, accounts, and asset management are subject to adequate control. In its supervision of the business activities of Otello, the Board of Directors will ensure that:

- The Chief Executive Officer uses proper and effective management and control systems, including systems for risk management, which continuously provide a satisfactory overview of Otello's risk exposure.
- The control functions work as intended and that necessary measures are taken to reduce extraordinary risk exposure.
- There exist satisfactory routines to ensure follow-up of principles and guidelines adopted by the Board of Directors in relation to ethical behavior, conformity to law, health, safety and working environment, and social responsibility.
- Otello has a competent finance

department and accounting systems, capable of producing reliable and on-time financial reports

- Directives from the external auditor are obeyed and that the external auditor's recommendations are given proper attention.

Executive Team

Otello's Board has drawn up instructions for the Executive Team of the Company. The purpose of these instructions is to clarify the powers and responsibilities of the members of the Executive Team and their duty of confidentiality.

The Executive Team conducts an annual strategy meeting with the Board of Directors. The strategy meeting focuses on products, sales, marketing, financial and organizational matters, and the corporate development strategy for the Group.

The Board of Directors has ensured that the Company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the Company's activities. The Company has performed a scoping of the financial risks in the Company and has established written control descriptions and process descriptions. The controls are executed on a monthly, quarterly or yearly basis, depending on the specific control. The internal controls and systems also encompass the Company's corporate values, ethical guidelines and guidelines for corporate social responsibility. The Board of Directors carries out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements. In 2018, all Board members confirmed that they had read and complied with the Code of Conduct during the term of their directorship.

The Group's CFO is responsible for the Group's control functions for risk management and internal control. Otello publishes four interim financial statements in addition to the annual report. The financials are published on the Oslo Stock Exchange. Given the importance of providing accurate financial information, a centralized corporate control function and risk management function has been established consisting of the group corporate and business controllers. The corporate and business controller tasks are, among other things, to

perform management's risk assessment and risk monitoring across the group's activities, to administer the Company's value-based management system and to coordinate planning and budgeting processes and internal controls reporting to the Board of Directors and Executive Team. The corporate and business controllers report into the CFO.

The Finance department prepares financial reporting for the Group and ensures that reporting is in accordance with applicable laws, accounting standards, established accounting principles and the Board's guidelines. The Finance department provides a set of procedures and processes detailing the requirements with which local reporting units must comply. The Group has established processes and a variety of control measures that will ensure quality assurance of financial reporting. A series of risk assessment and control measures have been established in connection with the preparation of financial statements. Reporting instructions are communicated to the reporting units each month, following internal meetings when the reporting units have submitted their group reports, and the business controllers have reviewed the reporting package with the purpose of identifying any significant misstatements in the financial statements. Based on the reported numbers from the reporting units, the Finance department consolidates the Group numbers. Several controls are established to ensure the correctness of the consolidation, e.g., control types such as reconciliation, segregation of duties, management review and authorization.

The Group CFO, the Group Chief Accounting Officer and leaders of the reporting units are responsible for (i) the ongoing financial reporting and for implementing sufficient procedures to prevent errors in the financial reporting, (ii) identifying, assessing and monitoring the risk of significant errors in the Group's financial reporting, and (iii) implementing appropriate and effective internal controls in accordance with specified group requirements and for ensuring compliance with local laws and requirements. All reporting units have their own management, and the financial functions are adapted to the organization and activities. All monthly and quarterly

operations reports are analyzed and assessed relative to budgets, forecasts and historical trends.

The Executive Team analyzes and comments on the financial reporting and business results of the Group on a quarterly basis. Critical issues and events that affect the future development of the business and optimal utilization of resources are identified, and action plans are put in place, if necessary.

The Audit Committee oversees the process of financial reporting and ensures that the Group's internal controls and the risk management systems are operating effectively. The Audit Committee performs a review of the quarterly and annual financial statements, which ultimately are approved by the Board of Directors.

Other guidelines and policies

As an extension of the general principles and guidelines, Otello has drawn up additional guidelines.

Information security guidelines

Otello has guidelines and information policies covering information security roles, responsibilities, training, contingency plans, etc.

Investor relations policy

Otello is committed to reporting financial results and other relevant information based on openness and taking into account the requirement

for equal treatment of all participants in the securities market. To ensure that correct information be made public, as well as ensuring equal treatment and flow of information, the Company's Board of Directors has approved an Investor Relations policy. A primary goal of Otello's investor relations activities is to provide investors, capital-market players and shareholders with reliable, timely and balanced information for investors, lenders and other interested parties in the securities market, to enhance understanding of our operations.

Remuneration of the Board of Directors

Remuneration for Board members is a fixed annual sum proposed by the Nomination Committee and approved at the Annual General Meeting. The remuneration reflects the responsibility, qualifications, time commitment and the complexity of the tasks in general. No Board members (or any company associated with such member) elected by the shareholders have assumed special tasks for the Company beyond what is described in this document, and no such member (or any company associated with such member) has received any compensation from Otello other than ordinary Board of Directors remuneration. All remuneration to the Board of Directors is disclosed in note 3 to the Annual Report.

Remuneration of executive personnel

A Remuneration Committee has been established by the Board of Directors. The Committee shall act as a preparatory body for the Board of Directors with respect to (i) the compensation of the CEO and other members of the Executive Team and (ii) Otello's corporate governance policies and procedures, which, in each case, are matters for which the Board of Directors maintains responsibility and decision making.

Details concerning remuneration of the executive personnel, including all details regarding the CEO's remuneration, are given in note 3 to the Annual Report. The performance-related remuneration to executive personnel is subject to an absolute limit. The Board of Directors assesses the CEO and his terms and conditions once a year. The General Meeting is informed about incentive programs for employees, and, pursuant to section 6-16 a) of the Public Limited Companies Act, a statement regarding remuneration policies for the Executive Team will be presented to the General Meeting. The Board of Directors' statement on the remuneration of the Executive Team will be a separate appendix to the agenda for the General Meeting. The Company will also normally make clear which aspects of the guidelines are advisory and which, if any, are binding. The General Meeting will normally



be able to vote separately on each of these aspects of the guidelines. In addition, the Board of Directors' declaration on the compensation policies of the Executive Team is included in a separate section to the Annual Report.

Information and communications

Communication with shareholders, investors and analysts is a high priority for Otello. The Company believes that objective and timely information to the market is a prerequisite for a fair valuation of the Company's shares and, in turn, the generation of shareholder value. The Company continually seeks ways to enhance our communication with the investment community.

Otello's company website (<https://www.otellocorp.com/ir>) provides the investment community with information about the Company, including a comprehensive investor relations section. This section includes the Company's investor relations policy, annual and quarterly reports, press releases and stock exchange announcements, share price and shareholder information, a financial calendar, an overview of upcoming investor events, and other relevant information.

During the announcement of quarterly and annual financial results, there is a forum for shareholders and the investment community to ask questions of the Company's management team. Otello also arranges regular presentations in Europe and the United States, in addition to holding meetings with investors and analysts. Important events affecting the Company are reported immediately to the Oslo Stock Exchange in accordance with applicable legislation and posted on <https://www.otellocorp.com/ir>. All material information is disclosed to recipients equally in terms of content and timing.

The Board has further established an investor relations policy for contact with shareholders and others beyond the scope of the General Meeting.

Take-overs

The Board of Directors endorses the recommendations of the Code. Otello's Articles of Association do not contain any restrictions, limitations or defense mechanisms on acquiring the Company's shares.

In accordance with the Securities Trading Act and the Code, the Board has adopted guidelines for possible takeovers.

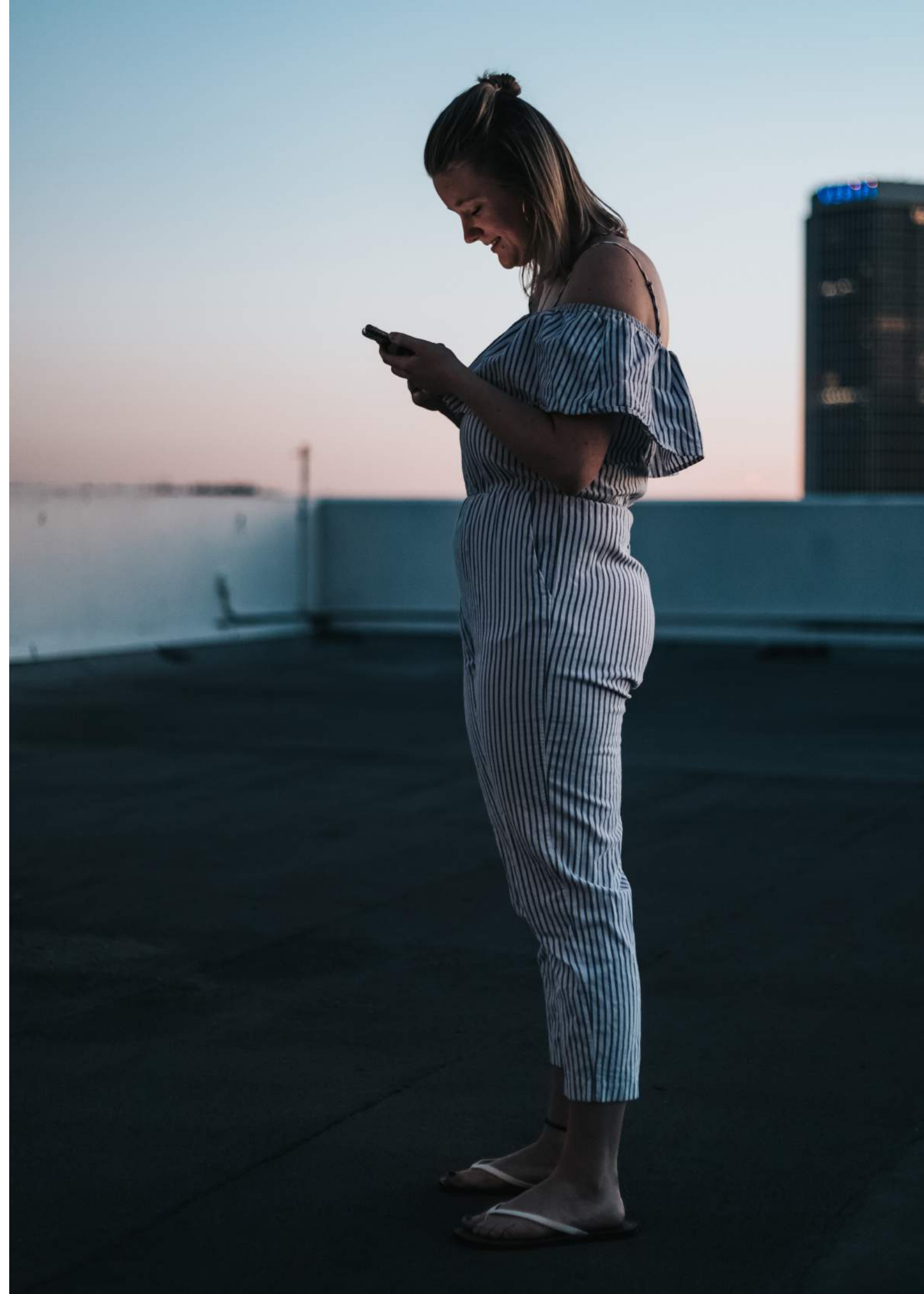
In the event of an offer, the Board of Directors will not seek to hinder or obstruct takeover bids for Otello's activities or shares. Any agreement with the bidder that acts to limit the Company's ability to arrange other bids for the Company's shares will only be entered into where the Board believes it is in the common interest of the Company and its shareholders.

Information about agreements entered into between the Company and the bidder that are material to the market's evaluation of the bid will be publicly disclosed no later than at the same time as the announcement of an impending bid is published.

If an offer is made for the shares of Otello, the Board of Directors will make a recommendation as to whether the shareholders should or should not accept the offer and will normally arrange for a valuation from an independent expert.

Auditor

The auditor participates in meetings of the Board of Directors that deal with the annual accounts, as well as upon special request. Every year, the auditor presents to the Audit Committee a report outlining the audit activities in the previous fiscal year and highlighting the areas that caused the most attention or discussions with management, as well as a plan for the work related to the Company's audit. The auditor also reports on internal control observations during the conduct of the audit, including identified weaknesses and proposals for improvement. The auditor will make himself available upon request for meetings with the Board of Directors during which no member of the executive management is present at least once each year, as will the Board of Directors upon the auditor's request. The General Meeting is informed about the Company's engagement and remuneration of the auditor and for fees paid to the auditor for services other than the annual audit, and details are given in note 3 to the Annual Report.



Otello Corporation ASA

Gjerdrums vei 19
NO-0484 OSLO

Tel: +47 9190 9145
www.otellocorp.com