



**EXPERT SYSTEM S.P.A.  
FINANCIAL STATEMENTS  
for the year ended 31/12/2016**



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## CORPORATE BODIES

### Board of Directors

<i>Chairman of the Board of Directors</i>	MARCO VARONE
<i>Chief Executive Officer</i>	STEFANO SPAGGIARI
<i>Director</i>	PAOLO LOMBARDI
<i>Director</i>	ANDREA MELEGARI
<i>Director</i>	LUCA SCAGLIARINI
<i>Director</i>	MARCELLO PELLACANI
<i>Independent director</i>	ALBERTO SANGIOVANNI VINCENTELLI

### Board of Statutory Auditors

<i>Chairman of the Board of Statutory Auditors</i>	ALESSANDRO AUGUSTO
<i>Standing auditor</i>	ANDREA CUOGHI
<i>Standing auditor</i>	ANTONIO TAZZIOLI

## REPORT ON OPERATIONS AS AT 31/12/2016

Dear Shareholders,

The year ended as at 31/12/2016 recorded a negative result of € (1,202,777).

### GENERAL CONTEXT OF THE AIM ITALIA

Dear Shareholders,

Expert System, an international leader in Cognitive Computing and Text Analytics, has been listed since February 2014 on the AIM Italia (Alternative Investment Market) - MAC, i.e. the Borsa Italiana market dedicated to Italian small and medium enterprises with high growth potential. Since then, the presence on this market has become of strategic importance, allowing the Company to obtain the resources necessary to support domestic and international project expansion based on Cogito semantic technology applied to Big Data, customer support and related advertising.

Once again in 2016, despite the context of general instability, the visibility guaranteed by the AIM listing achieved trust and support from the shareholders who, subscribing to the share capital increase agreed in June, renewed their backing for the Expert System project and its strategic objectives which, with the new resources, can continue to be pursued.

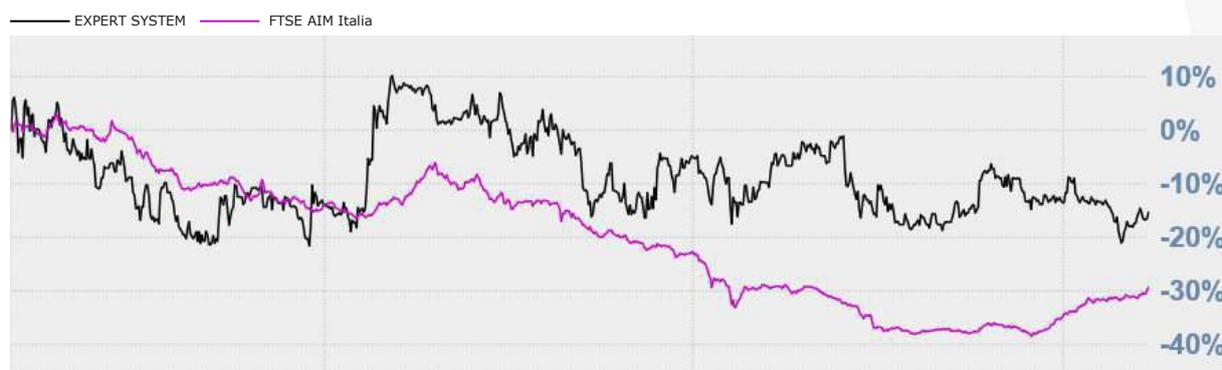
In more general terms, during the year just ended the entire market confirmed its central role in enhancing the development and internationalisation of small and medium enterprises, with funding in 2016 exceeding € 200 million and a total of more than one billion since the AIM was launched. In the near future it is expected that the appeal of this segment will increase also in view of the new aspects introduced by the 2017 Budget Law on tax incentives and IIPs (Individual Investment Plans), that could help to sustain investors' interest in the AIM Italia market with positive effects on liquidity and new IPOs.

The performance of the share as at 24/03/2017 is presented below:

Market	AIM Italia - MAC
Share capital	276,603
Capitalisation	€ 50,537,091
Minimum parcel	1,000.00
Reference price	€ 1.85 - 24/03/2017, 17:14:20 hrs

Official price	1.8264 - 23/03/2017
1 month performance	+ 4.34%
6 month performance	- 0.54%
1 year performance	- 11.51%

The chart below shows the share performance from the IPO (18/02/2014) to 26/03/2017. In particular, the chart compares the Expert System performance against that of the FTSE AIM Italia index, illustrating a performance greater than that of the FTSE AIM Italia index.



Source: [www.borsaitaliana.it](http://www.borsaitaliana.it)

## OPERATING CONDITIONS AND BUSINESS DEVELOPMENT

2016 confirmed major growth trends for the Big Data Text Analytics market, a sector in which Expert System operates as a leading international player with a strong presence in various areas of Europe and North America. The growth in this business segment was significant starting from the domestic market, if we consider that in 2016 data analysis shows that the Italian market alone achieved a business volume in excess of € 900 million, up 15% on the previous year, confirming the growing interest on this issue. Today, more than in the past, true data-driven strategies are being implemented which, based on the analysis of enormous amounts of data, allow competitive advantages to be gained and strong value-added services to be cashed in upon.

The consistent growth in the sector, which today affects the entire global market, was driven by certain key factors such as the development of applications in various vertical markets, such as retail sales, transport, automation, and in more general terms the adoption of Artificial Intelligence systems to improve customer services. At the same time, an increase in IT infrastructures was seen, and strong penetration of smartphones and smart wearables as new

technology distribution channels, first and foremost in major economies like China and India. In particular, in the vast market scenario described, it is expected that the strongest market share could be the prerogative of NLP (Natural Language Processing), through its use in various sectors such as retail consumer services or car-infotainment and AI for Robots.

The appeal of Big Data is particularly high in a number of sectors such as banking, the manufacturing industry and telco-media, which today account for over 60% of the demand for analytics. The insurance segment, steady at 5%, is that recording the highest growth rate however. The healthcare market also grew, as a result of the implementation of artificial intelligence for disease diagnosis, patient care and drug discovery applications.

At the same time, new related professional skills and roles are emerging, such as CIO (Chief Information Officer), at present representing the main points of reference for analytics control and management, but also Chief Data Officers and Data Scientists who, equipped with specific skills, are starting to appear in companies.

In this scenario, Expert System made every effort to consolidate the unique characteristics of its group, strengthened by the major acquisitions in 2015, and the current position of European leadership in cognitive computing. At the same time, the company continued to employ a strategy targeted at increasing business in the medium-term, by reinforcing its direct presence in the US market, the object of major investments, including the inauguration of two new laboratories (in Palo Alto - Silicon Valley and in the Washington area) and by developing its current coverage of the European domain even further, according to a company vision which aims to further boost its share of revenues from foreign markets.

All this helped Expert System's inclusion in the world's top ten in the Forrester™ study "Big Data Text Analytics Platforms Q2 2016", one of the most authoritative in the cognitive computing sector. This significant achievement, in addition to being clear recognition of the value attributed to the many investments made in technology and the intense internationalisation process in progress, is all the more impressive if we consider not only Forrester's standing, which is globally recognised, but the fact the sample involved in the evaluation included as many as two hundred companies. The selective evaluation criteria included three macro-categories: quality of the offering, strategy and market presence. In particular, Expert System set itself apart for its product scalability, use of intuitive interfaces and semantic functions as the core elements of products to offer full management of all

activities associated with text analysis: data enhancement, tagging, automatic document classification and big data extraction.

Outside the prestigious academic and scientific research field, it is in any event the market which again in 2016 rewarded Cogito technology and its adaptability to customer demands, as demonstrated by the faith shown by numerous major customers, including for example:

- the creation of the Corriere della Sera digital archive which, by availing itself of the unique capacity of Expert System semantic analysis, is now able to automatically classify articles according to content and to retrieve them through a sophisticated search engine. Consequently, readers of this leading Italian newspaper now have the option of browsing a wealth of information without precedent: 2.5 million pages, 8 million articles, 22 thousand authors from 1876 to date, 140 years of history just one click away;
- the use of Cogito algorithms in development of the self-caring service for Fineco multichannel banking customers, making customers' dialogue with the bank even more simple and satisfying through digital channels, as well as optimising customer service activities;
- the radical innovation brought to the web site and Internet banking services platform of the Intesa Sanpaolo Group, fully redesigned in terms of user approach and browsing criteria through the use of an intelligent search system, a combination of advanced searches and a virtual agent, capable of understanding users' intentions by analysing the meaning of words and phrases with maximum precision.

Expert System today leads a group that directly or indirectly includes the following business entities:

COMPANY	Equity investment	Indirect investment through	Control	Activity carried out
Expert System USA Inc.	100.00%	N.A.	Yes	Semantic software activities in the Information technology field
Expert System Enterprise Corp.	100.00%	Expert System France S.A.	Yes	Semantic software activities in the Information technology field
Expert System Cogito Ltd.	100.00%	N.A.	Yes	Semantic software activities in the Information technology field

Expert System Iberia S.L.U.	100.00%	N.A.	Yes	Semantic software activities in the Information technology field
Expert System France S.A.	100.00%	N.A.	Yes	Semantic software activities in the Information technology field
Expert System Canada – Semantic Technologies Inc.	100.00%	Expert System France S.A.	Yes	Semantic software activities in the Information technology field
Expert System Deutschland GMBH	100.00%	Expert System France S.A.	Yes	Semantic software activities in the Information technology field
ADmantX S.p.A.	60.68%	N.A.	Yes	Software platform for contextualising on-line advertising on a semantic basis
ADmantX Inc.	60.68%	ADmantX S.p.A.	Yes	Software platform for contextualising on-line advertising on a semantic basis

Expert System considered it appropriate to continue excluding ADmantX S.p.A. and ADmantX Inc. from the Group's scope of consolidation. In fact, both companies provide semantic solutions for the advertising market, offering advertisers software that is able to automatically determine which ads are most suitable for advertising on a given website. Expert System has, over time, reduced its equity investment in ADmantX S.p.A. to the current 60.68%, no longer considering it part of its long-term strategic objectives, since the on-line advertising market has specific characteristics which call for considerable experience in the sector, in addition to the availability of dedicated resources.

In 2016, Expert System dedicated intense effort into achieving efficient coordination of the group described above, completing the integration process of the different companies acquired towards the end of 2015. The results for the year reflect this aim, illustrating gradual expansion of the business volume achieved on foreign markets, not only in absolute terms but also in terms of the percentage impact on total revenues.

## OPERATING PERFORMANCE

### General financial performance

At global level in 2016, the economic conditions improved slightly, though prospects still remain subject to different factors of uncertainty, first and foremost those associated with economic policies that will be adopted by the new US administration but not yet defined in detail. An expansive impact, difficult to quantify at present, could result from the action announced as regards budgetary policy but unfavourable effects could come from the adoption and spread of restrictive measures on trade. Global growth could be held back by the start of turbulence in the emerging economies, associated with the normalisation of US monetary policy.

On the financial markets, forecasts of an expansive budgetary policy and higher inflation in the United States, emerging after the presidential elections, translated into a shift in portfolio from bonds to shares. The increase in long-term returns was also extended to other advanced economies, but more limited thus far by the different monetary policies, whilst in emerging countries the outflows of capital have begun again.

In the Eurozone, growth continues at a moderate through gradually consolidating pace. This has allowed deflation risk to be contained, with consumer prices up slightly in the latter part of the year, though in a general context of extremely low values in absolute terms. This explains why, in order to maintain the expansionary monetary conditions suitable to ensuring inflation uptick, the Executive Board of the ECB extended the duration of the securities purchase programme at least until December 2017, or beyond if necessary. From April 2017, monthly purchases will again reach € 60 billion, as seen in the initial phase of the programme. According to available indicators, the recovery of the Italian economy also continued, albeit moderately, recording increasing trends not only as regards consumption but also in business confidence indicators.

Stimulated by the restart of investments and expansion of household spending, the economy confirmed the signs of stabilisation in the all-important building industry, whilst in December the downward trend in the consumer confidence index seen since the start of the year came to a halt.

As regards stock market performance, note that share prices rose towards the end of the year, driven by a recovery in listed prices of a number of banks, thanks to the introduction of government measures to support their liquidity and capitalisation levels.

The forecast is that long-term returns will remain at a limited level and overall credit conditions, in terms of costs and availability, will ease. This reflects the assumption that there will be no financial market and banking tension, in the Eurozone or Italy, or instances of significant increases in risk premiums and volatility.

Overall, in reference to the broader context of global growth, it is expected that the main factors of uncertainty will originate, as well as the financial conditions, from the global economy. In fact, there is a particularly strong risk that expansion of the global economy beyond that embedded in the forecasts, could be affected by the onset and spread of protectionist measures as well as by potential turbulence in emerging economies.

## Financial performance of the company

The year ending 31 December 2016 closed with a loss of € (1,202,777).

The table below shows the results achieved in the last three years in terms of the value of production, EBITDA and pre-tax result.

	31/12/2016	31/12/2015	31/12/2014
Value of production	16,790,322	15,256,475	16,363,864
EBITDA	1,320,094	717,764	3,290,829
Pre-tax result	(1,474,922)	(1,280,299)	1,623,240

The above table shows a significant increase of roughly 10% in the production value compared to 2015, and EBITDA up by more than 80% indicating a net improvement in core business profitability, despite a rise of over 6% in operating costs. At the same time, the higher amortisation and depreciation that are a direct consequence of considerable business investments, together with more costly financial management resulting from recourse to external borrowing, are the underlying reason for the pre-tax result.

In order to provide a better outline of the performance and the operating result, the following tables provide a reclassification of the added value Income Statement, a reclassification of the financial Balance Sheet and the more significant financial statement ratios.

## Main income statement figures

The company's reclassified income statement, compared with that of the previous year, is shown below (in Euro):

Main income statement figures	31/12/2016	31/12/2015	Change
Net revenues	13,887,351	10,506,609	3,380,742
Change in inventories	(1,103,638)	151,756	(1,255,394)
Own work capitalised	2,820,274	3,033,114	(212,840)
Operating grants	274,134	641,490	(367,357)
Grants relating to assets	680,400	603,343	77,058
Sundry income	231,802	320,164	(88,362)
Cost of materials and overheads	(8,079,712)	(8,202,293)	122,581
<b>Value added</b>	<b>8,710,610</b>	<b>7,054,182</b>	<b>1,656,428</b>
Cost of labour	(7,390,517)	(6,336,418)	(1,054,098)
<b>EBITDA</b>	<b>1,320,094</b>	<b>717,764</b>	<b>602,330</b>
Amortisation, depreciation, write-downs and other provisions	(2,623,830)	(2,180,941)	(442,889)
<b>EBIT</b>	<b>(1,303,737)</b>	<b>(1,463,177)</b>	<b>159,441</b>
Financial income and expenses	(171,185)	182,878	(354,064)
<b>Ordinary profit</b>	<b>(1,474,922)</b>	<b>(1,280,299)</b>	<b>(194,623)</b>
Net extraordinary components	0	0	0
<b>Pre-tax result</b>	<b>(1,474,922)</b>	<b>(1,280,299)</b>	<b>(194,623)</b>
Income taxes	272,145	281,266	(9,121)
<b>Net profit (loss)</b>	<b>(1,202,777)</b>	<b>(999,033)</b>	<b>(203,744)</b>

Taking into consideration the above table, it is possible to understand how - against operating costs essentially in line with those of the previous year - the value added increased mainly as a result of a consistent increase in company revenues (+32% from € 10.5 million to € 13.9 million). In turn, the higher revenues are almost entirely attributable to the positive change in revenue from non-EU customers, in line with the corporate vision targeting the consolidation of Expert System's positioning outside the Italian market. External resources remaining equal, labour costs instead rose in line with the trend of the previous year (+17% from € 6.3 million to € 7.4 million), which saw the introduction of new resources as assets indispensable to advancing the development of new technologies and applications that are certainly the heartbeat of Expert System business. Net of this increase, EBITDA in any event grew by over 80%, from € 0.7 million to € 1.3 million, and likewise EBIT which, though including amortisation

and depreciation up 20% on the previous year from € 2.2 million to € 2.6 million, improved by 10%.

The underlying financial management, negative for € 0.2 million, was affected by the expense of forms of financing obtained to support company business activities (loans and the 2015 bond loan), net of a lower positive impact from the book value recognition of items in foreign currency.

In terms of providing a better description of the company's profits, the table below outlines certain profitability ratios, compared with the same ratios relating to the previous year's financial statements.

	31/12/2016	31/12/2015	31/12/2014
Net ROE	(0.04)	(0.04)	0.05
Gross ROE	(0.05)	(0.05)	0.09
ROI	(0.02)	(0.02)	0.04
ROS	(0.09)	(0.14)	0.14

## Main balance sheet figures

The company's reclassified balance sheet, compared with that of the previous year, is shown below (in Euro):

Balance Sheet	31/12/2016	31/12/2015	Change
Net intangible fixed assets	6,251,067	5,720,373	530,694
Net tangible fixed assets	667,181	697,817	(30,636)
Equity investments and other non-current financial assets	25,668,740	22,440,371	3,228,368
<b>Fixed assets</b>	<b>32,586,987</b>	<b>28,858,561</b>	<b>3,728,426</b>
Short-term financial assets	4,153,074	4,153,074	0
Inventories	610,900	1,714,539	(1,103,638)
Receivables due from customers	5,429,296	6,493,691	(1,064,396)
Other receivables	7,503,858	7,105,028	398,830
Accrued income and prepaid expenses	750,255	796,548	(46,293)
<b>Short-term operating assets</b>	<b>18,447,383</b>	<b>20,262,881</b>	<b>(1,815,497)</b>
Trade payables	(1,396,828)	(1,579,333)	182,505
Payments on account	(2,238,142)	(2,907,908)	669,766

Tax and social security payables	(770,591)	(900,746)	130,155
Other payables	(1,669,344)	(1,101,091)	(568,252)
Accrued expenses and deferred income	(1,504,926)	(976,286)	(528,640)
<b>Short-term operating liabilities</b>	<b>(7,579,831)</b>	<b>(7,465,364)</b>	<b>(114,467)</b>
<b>Net working capital</b>	<b>10,867,552</b>	<b>12,797,517</b>	<b>(1,929,965)</b>
Employee severance indemnity	(1,670,520)	(1,390,984)	(279,536)
Tax and social security payables	0	0	0
Accrued expenses and deferred income after 12 months	(1,791,230)	(2,452,032)	660,801
Other medium and long-term liabilities	(854,823)	(2,556,294)	1,701,471
<b>Medium-term liabilities</b>	<b>(4,316,573)</b>	<b>(6,399,309)</b>	<b>2,082,737</b>
<b>INVESTED CAPITAL</b>	<b>39,137,967</b>	<b>35,256,768</b>	<b>3,881,199</b>
Shareholders' equity	(28,275,733)	(24,775,370)	(3,500,363)
Net medium/long-term financial position	(14,360,437)	(16,795,602)	2,435,165
Net short-term financial position	3,498,203	6,314,204	(2,816,001)
<b>OWN EQUITY AND NET FINANCIAL DEBT</b>	<b>(39,137,967)</b>	<b>(35,256,768)</b>	<b>(3,881,199)</b>

With regard to fixed assets, which increased by € 3.7 million, the change in intangible fixed assets (net of amortisation for € 2.4 million) reflects investments made during 2016 and relate mainly to the capitalisation of development costs for € 2.8 million, whilst equity investments and other financial fixed assets rose due to the further loans disbursed to subsidiaries and associates during the year (€ 5.4 million), with a view to providing them with resources indispensable to supporting the business expansion beyond the domestic market. Lastly, the portion of receivables due beyond the next year for research project grants decreased by € 3.5 million.

Overall, the increase in this item corresponds to the growth in the company's shareholders' equity, which benefited from the positive contribution (€ 4.9 million) represented by full subscription to the share capital increase agreed in June 2016. In contrast, as regards the recourse to external funding sources, the decrease by € 1.7 million in debt to the banking system and other lenders, net of loans received during the year for € 2.6 million, confirms that the need for credit has diminished compared to the previous year, in line with business plan forecasts.

Considering here the current business-related aspects, note the € 1.9 million decrease in working capital from € 12.8 million to € 10.9 million, mainly due to the reduction in current assets, the € 1.8 million change in which is mostly attributable to the decrease in inventories (€ 1.1 million) and trade receivables (€ 1 million). The broadly positive value of this figure in any event means that a substantial balance in operations management can be reported, in which short-term assets and liabilities are compared.

For the purposes of a better description of the company's capital strength, the table below shows certain financial statement ratios relating to both (i) the methods of financing medium/long-term investments and to the (ii) composition of sources of financing, compared to the same financial statement ratios in the previous year.

	31/12/2106	31/12/2015	31/12/2014
Fixed asset /equity margin	(4,311,256)	(4,083,191)	5,004,329
Fixed asset /equity ratio	0.87	0.86	1.35
Fixed assets / liabilities and equity margin	12,574,524	16,659,689	25,996,300
Fixed assets / liabilities and equity ratio	1.39	1.58	2.82

### Capital assets and related fixed assets to equity ratio:

These two indicators are an expression of how the company manages to finance fixed assets.

The *Fixed asset/equity margin* and its associated *ratio*, which correlate the value of shareholders' equity with fixed assets (as quantified in the table above), provide us with information on the company's capacity to finance all fixed assets with its own equity.

Fixed asset/equity margin: shareholders' equity - fixed assets

<b>Shareholders' equity</b>	<b>28,275,733</b>
Net intangible fixed assets	6,251,068
Net tangible fixed assets	667,181
Equity investments and other non-current financial assets	25,668,740
<b>Fixed assets</b>	<b>32,586,989</b>
<b>Fixed asset /equity margin</b>	<b>(4,311,256)</b>
<b>Fixed asset /equity ratio</b>	<b>0.87</b>

The result of the fixed asset/equity margin with the correlated ratio of less than one indicates that in order to meet its long-term financial commitments the company must, for the moment, seek third party financing, albeit to a lesser extent and with less risk associated with recourse to external financing.

The *fixed asset/liabilities and equity margin* and its related *ratio* also take as a reference medium/long-term liabilities, showing, in the case of Expert System S.p.A., that the company finances its investments by availing itself of consolidated sources, i.e. shareholders' equity plus long-term debt.

Fixed asset/liabilities and equity margin:

Shareholders' equity	28,275,733
Net medium/long-term financial position	14,360,437
Other medium and long-term liabilities	854,823
Employee severance indemnity	1,670,520
Fixed assets	(32,586,989)
<b>Fixed assets/liabilities and equity margin</b>	<b>12,574,524</b>
<b>Fixed assets/liabilities and equity ratio</b>	<b>1.39</b>

## Main financial figures

The net financial position as at 31/12/2016, was as follows (in Euro):

Net financial position	31/12/2016	31/12/2015	Change
Bank deposits	7,327,197	9,393,911	(2,066,714)
Cash at bank and in hand	2,680	1,772	908
<b>Cash and cash equivalents</b>	<b>7,329,877</b>	<b>9,395,683</b>	<b>(2,065,806)</b>
<b>Current financial assets</b>	<b>1,010,798</b>	<b>987,748</b>	<b>23,050</b>
Bonds and convertible bonds (within 12 months)			0
Payables due to shareholders for loans (within 12 months)			0
Payables due to banks (within 12 months)	(4,487,565)	(3,680,182)	(807,383)
Payables due to other lenders (within 12 months)	(354,906)	(389,045)	34,139
Advances for overseas payments			0
Short-term portion of loans			0
Financial receivables			0
<b>Short-term financial payables</b>	<b>(4,842,471)</b>	<b>(4,069,227)</b>	<b>(773,244)</b>

<b>Net short-term financial position</b>	<b>3,498,203</b>	<b>6,314,204</b>	<b>(2,816,001)</b>
Bonds and convertible bonds (after 12 months)	(5,000,000)	(5,000,000)	0
Payables due to shareholders for loans (after 12 months)			0
Payables due to banks (after 12 months)	(8,595,385)	(11,485,190)	2,889,805
Payables due to other lenders (after 12 months)	(765,052)	(310,412)	(454,640)
Advances for overseas payments			0
Long-term portion of loans			0
Financial receivables			0
<b>Net medium/long-term financial position</b>	<b>(14,360,437)</b>	<b>(16,795,602)</b>	<b>2,435,165</b>
<b>NET FINANCIAL POSITION</b>	<b>(10,862,234)</b>	<b>(10,481,398)</b>	<b>(380,836)</b>

The Net Financial Position at 31/12/2016, essentially unchanged compared to the previous year, shows that the company needs to resort to third-party financing in order to sustain its development.

For a better description of the financial situation, the following table shows some financial statement ratios, compared with the same financial statement ratios in the previous year.

	31/12/2016	31/12/2015	31/12/2014
Primary liquidity	2.11	2.46	2.65
Secondary liquidity	2.16	2.61	2.82
Debt	0.98	1.26	0.88
Rate of coverage of fixed assets	1.39	1.57	1.99

## Primary liquidity

### LIQUID ASSETS:

Banks and current account receivables	7,327,197
Cash on hand	2,680
<b>Liquid assets</b>	<b>7,329,877</b>

## DEFERRED ASSETS:

Receivables due from customers (within 12 months)	5,429,296
Receivables due from subsidiaries (within 12 months)	2,246,817
Receivables due from associates (within 12 months)	255,626
Tax receivables (within 12 months)	331,139
Prepaid tax assets (within 12 months)	336,000
Other receivables (within 12 months)	4,334,277
Current financial assets	5,163,872
Accrued income and prepaid expenses	750,255
<b>Deferred assets</b>	<b>18,847,282</b>

## CURRENT LIABILITIES:

Payables due to banks (within 12 months)	4,487,565
Payables due to other lenders (within 12 months)	354,906
Payments on account (within 12 months)	2,238,142
Trade payables (within 12 months)	1,396,828
Payables due to subsidiaries (within 12 months)	28,301
Tax payables (within 12 months)	449,576
Payables due to social security institutions (within 12 months)	321,015
Other payables (within 12 months)	1,641,043
Accrued expenses and deferred income (within 12 months)	1,504,926
<b>Current liabilities</b>	<b>12,422,302</b>

The formulae are shown below

Primary liquidity: (La+DI) / Cl

$$(7,329,877 + 18,847,282) / 12,422,302 = 2.11$$

The primary liquidity ratio stands at 2.11, highlighting an excellent balance between current assets and current liabilities.

## Secondary liquidity

CA (including inventories) / CL

$$(7,329,877 + 18,847,282 + 610,900) / 12,422,302 = 2.16$$

The secondary liquidity ratio is 2.16, which is considered optimum.

## Debt ratio

Third party financing/net capital

<b>Current liabilities (without accruals and deferrals) (A)</b>	<b>10,917,376</b>
Payables for bonds (after 12 months)	5,000,000
Payables due to banks (after 12 months)	8,595,385
Payables due to other lenders (after 12 months)	765,052
Payments on account (after 12 months)	135,706
Other payables	500,000
Provisions for risks and charges	219,116
EMPLOYEE SEVERANCE INDEMNITY	1,670,520
<b>M/L-term liabilities (B)</b>	<b>16,885,779</b>
<b>TOTAL THIRD PARTY FINANCING (A+B)</b>	<b>27,803,155</b>

Third party financing: 27,803,155

Net capital = 28,275,733

Debt ratio =  $27,803,155 / 28,275,733 = 0.98$

The debt ratio highlights the existing ratio of third party funds to own capital. It makes it possible to verify the risk connected with the company's level of dependency on external sources of financing. A high level of debt with respect to own capital, on a trend basis, increases the business risk due to a lower degree of capital coverage of potential company losses and due to a higher weight of financial expenses deriving from the use of third party funds. The 0.98 ratio indicates a substantial balance between internal funding sources and the external sources used by the company.

## Rate of coverage of fixed assets

<b>Net capital (A)</b>	<b>28,275,733</b>
Payables for bonds (after 12 months)	5,000,000
Payables due to banks (after 12 months)	8,595,385
Payables due to other lenders (after 12 months)	765,052
Payments on account (after 12 months)	135,706
Other payables (after 12 months)	500,000
Provisions for risks and charges	219,116
EMPLOYEE SEVERANCE INDEMNITY	1,670,520
<b>M/L-term liabilities (B)</b>	<b>16,885,779</b>
Net intangible fixed assets	6,251,068
Net tangible fixed assets	667,181
Equity investments and other non-current financial assets	25,668,740
<b>Fixed assets (C)</b>	<b>32,586,987</b>
<b>Rate of coverage of fixed assets (A+B)/C</b>	<b>1.39</b>

The rate of coverage of fixed assets, standing at 1.39, indicates that fixed assets, and consequently the long-term investments, are financed from consolidated liabilities that have the same time horizon.

## Information on the environment and personnel

Taking into account the company's social role, as also outlined in the document on the report on operations of the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Institute of Chartered Accountants), it is deemed appropriate to provide the following information on the environment and on personnel.

### Personnel

During the year there were no workplace fatalities for registered employees and no serious accidents occurred in the workplace causing serious or very serious injury to registered employees. Furthermore, there are no recorded charges concerning occupational diseases of employees or former employees, or mobbing proceedings.

During the year, Expert System also invested in staff safety in compliance with Italian Legislative Decree 81/08. In fact, all personnel were given training on the safety of workers and supervisors. In addition, refresher courses were also provided to first aid personnel and members of the fire safety team.

### The Environment

In the first half of the year there was no damage to the environment for which Expert System was ultimately declared guilty. During the year, no sanctions or penalties were imposed upon the company for environmental offences or damages.

On 30 June 2008, Expert System S.p.A. obtained ISO 9001:2008 certification, the review of which was performed on 2 July 2014, reconfirming validity until 1 July 2017.

### Risks

Pursuant to art. 2428 no. 1 of the Italian Civil Code, the main risks to which the company is exposed are as follows:

*Risks associated with trade receivable collection times:* Expert System's business activities are characterised by customer payment timing that cannot easily be determined and can occasionally be several months, also in relation to the type of assignment and the contingent general economic situation. Any lengthening of payment times by customers can lead to Expert System needing to finance the related current capital needs. Such situations can therefore have a negative effect on the Company's income, equity and financial position. The above takes on further significance in consideration of the relevance of the trade receivables due from European public entities. These receivables can have longer and more difficult to predict collection times compared to receivables due from private customers. Although as part of its normal operations Expert System makes use of bank credit facilities and is considering the future expansion of its operating market to private international customers, it cannot be ruled out at this time that there will be no difficult to collect receivables.

*Risks associated with the internationalisation:* Expert System has initiated an internationalisation process in the hope that an appreciable part of its revenues can be generated from sales outside its domestic market, in Europe over the US market which represents an important area to be covered on both the public and private front. In this respect, Expert System could be exposed to risks typically associated with operating at international level, including those relating to changes in local economic conditions, policies, taxes and regulations together with risks associated with the complexity of conducting business in distant geographic areas, as well as those linked to changes in foreign exchange rates versus non-EU countries. Unfavourable events occurring in such areas could have negative effects on the Company's business and growth prospects, and on its income, equity and financial position.

*Risks associated with related party transactions:* Expert System has concluded commercial and financial transactions with related parties, and as part of its operations could continue to do so. The main relations with related parties refer primarily to commercial transactions such as technical and/or sales consultancy, administrative services contracts and leases. The financial contracts instead refer mainly to loans disbursed by Expert System S.p.A. to Group companies. In particular, last April Expert System adopted an intercompany financing plan which envisages the parent company's disbursement to subsidiaries of loans of an amount sufficient to provide them with the funding necessary to meet their expense and investment commitments. The intercompany financing plan offers subsidiaries a simpler way to obtain

funding on the market and therefore overall facilitates execution of the Group's business plan. All the transactions performed were at arm's length.

*Risks associated with the protection of intellectual property rights:* To protect corporate value, the Company has registered the Expert System and COGITO trademarks. COGITO has also been patented in the United States. Though the Company has implemented the necessary measures to protect its intellectual property rights, it cannot be excluded that in the future third parties could perform activities that violate such rights, with negative effects on the Company's and/or Group's business and growth prospects and on the income, equity and financial position of the Company and/or Group.

*Interest rate risk:* the interest rate risk management policy aims to limit this volatility, first and foremost through the identification of a balanced mix of fixed and floating rate loans, and also by using derivatives which limit the fluctuations in interest rates.

Information is provided below on the fair value, amounts and the nature of each category of derivative financial instruments put into place by the company, with breakdown by class, taking into account aspects such as the instruments' characteristics and their purpose.

The company has signed the following derivative contract with CARIPARMA:

- Derivative contract type: IRS no. 59746/2014, unlisted;
- Purpose: hedging;
- Transaction with no principal swap on expiry;
- Initial notional amount € 1,200,000;
- Notional amount at the reference date (31/12/2016): € 499,620;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative fair value of € 6,954.24, client side;
- Liability hedged: CARIPARMA mortgage no. 04 107 008852280000, originated for € 1,200,000, signed on 23/12/2013.

### Organisation and management model pursuant to Italian Legislative Decree 231/2001

Italian Legislative Decree no. 231 of 8 June 2001 introduced administrative liability of legal entities, companies and associations with or without legal status into Italian law. This decree envisages the exemption from administrative liability for companies adopting effective and

efficient organisation and management models suitable to preventing offences that could be committed by senior officers of the company.

Expert System S.p.A. decided to arrange the preparation of an Organisation and Management Model and a Code of Conduct, also to reflect the company's broader corporate policy, which specify the action and initiatives undertaken to sensitise all its personnel (from management to employees), external collaborators and partners in relation to transparent and fair company management, in compliance with current legal regulations and with the fundamental business ethics principles in pursuing the corporate purpose. In this context, through adoption of the Organisation and Management Model envisaged in Italian Legislative Decree 231/2001, Expert System S.p.A. intends to pursue the objective of making the existing set of rules and controls also compliant with the aim of preventing the offences indicated in the decree.

The Organisation and Management Model and the Code of Conduct were approved by the Board of Directors of Expert System S.p.A. on 21 December 2016.

Adoption of the model refers solely to the parent company Expert System S.p.A. as the law considers the group to be a single organisation only in economic terms. A group is not an entity and therefore cannot be considered the direct centre for attributing liability for an offence, and therefore cannot be classified as one of the entities indicated in article 1 of Decree 231.

The Code of Conduct, on the other hand, is applicable to Group companies as it expresses the general principles of company and corporate conduct that the Group accepts as its own and with which all employees, managers and directors are expected to comply. The Code of Conduct therefore has a different reach than the Organisation and Management Model, as the Model responds to specific provisions of the Decree, whilst the ethics principles contained in the Code of Conduct are the basic rules of conduct for the lawful exercise of business activities.

The Organisation and Management Model was developed around the real situations typical of the company's operations, i.e. real activities and functions of the company and consequently real risks of the related potential offences.

For each department in which an underlying risk situation was found to exist, one or more protocols were defined for decision-making and operations, containing the rules to be followed when conducting activities. The protocols draw inspiration from the rule of ensuring that the various steps in the decision-making process are documented and verifiable, wherever possible to trace the reasons behind the decision.

In particular, suitable procedures were defined to prevent the following offences:

- offences against P.A. and its assets;
- computer crimes and unlawful data processing;
- organised crime;
- falsification offences and industry and trade-related criminal offences;
- corporate offences;
- offences for the purpose of terrorism or overthrow of democratic order;
- criminal offences against the individual;
- market abuse offences;
- offences in violation of occupational health and safety regulations;
- anti-money laundering and receiving stolen goods;
- copyright violation offences;
- offences related to fraudulent statements to judicial authorities;
- environmental offences;
- offence of employing individuals without a valid residence/work permit.

Exemption from administrative liability as governed by article 6.1 of Italian Legislative Decree 231/2001 envisages the setup within the entity of a Supervisory Body as an element of fundamental importance. This Body has independent powers of initiative and control, with the duties of supervising the operations of and compliance with the Model and verifying its updating by the Board of Directors.

The Expert System S.p.A. Supervisory Body has three members: one internal and two external. All the members have proven expertise and professionalism. The presence of the internal member meets the requirement, from the outset, of giving the Supervisory Body immediate and in-depth knowledge of the entity's structure and its business organisation based on actual company operations.

This solution was considered the most suitable, based on the characteristics of the organisational structure, to guaranteeing the effectiveness of controls institutionally expected of the Supervisory Body and compliance with the related provisions in the recently approved Confindustria Guidelines.

In order to ensure the necessary stability and continuity of the Body's actions, it is envisaged that members hold office for a period of 3 years from the date of appointment.

It was also decided that the appointment, and termination if necessary, of the Supervisory Body should be the responsibility of the Board of Directors, which should make such arrangements in full compliance with the law and also on the basis of recommendations in the Confindustria Guidelines.

## Investments

Investments were made in the following areas during the year:

Fixed assets	Acquisitions during the year
Land and buildings	
Plant and machinery	4,800
Industrial and commercial equipment	
Other assets	111,486

## Development activities

*Pursuant to art. 2428.2.1 of the Italian Civil Code, the following information is provided:*

The company is constantly conducting research and development activities to retain its global leadership position in the field of semantic technology and cognitive computing. The costs incurred for these activities were capitalised, also within the context of certain multi-year national and international research projects that have seen the company's involvement. These activities concerned the Cogito semantics platform and related functions, in particular the Cogito platform for French, Spanish and German.

As regards the development tools used to customise the project, some new components were created for the Cogito Studio suite and integration with the components of the technology stack deriving from the acquisition of the former Temis Group was initiated.

Other sources of major research in the period included:

- logics for conceptual visualisation of the results of semantic analyses;
- development of text analytics functions integrated in the product Cogito Intelligence Platform;
- completion of the first version of Analyst WorkSpace;
- development of new functionalities for Luxid Navigator.

## Relations with subsidiaries, associates, parent companies and sister companies

These relations are described in the specific paragraph of the Explanatory Notes to the Financial Statements.

## Treasury shares and shares/holdings in parent companies

Direct or indirect ownership of treasury shares or shares in parent companies is illustrated below.

Description	No. held	Nominal value	Share capital (%)
Treasury shares	270,000		0.98%
Shares/Holdings			
Parent companies			

Shares/holdings purchased	No.	Nominal value	Share capital (%)	Consideration
Treasury shares				
Shares/Holdings				
Parent companies				

Shares/holdings sold	No.	Nominal value	Share capital (%)	Consideration
Treasury shares				
Shares/Holdings				
Parent companies				

## Significant events after the close of the year

We report to you that, also after the close of the half, Expert System obtained important recognitions and results, in the wake of those registered as at 31/12/2016.

Note in particular the consolidation of the partnership with Esri, leader in geospatial solutions to support operating and decision-making processes. This partnership, which combines the expertise of Expert System in information analysis with the capacity of Esri technology in spatial and georeferenced processing, will allow effective support to be provided to

intelligence analysts in any organisation (from public administration to companies in various market sectors such as utilities, energy, finance, etc.).

Equally important is the agreement signed with Prometeia, a leading company in semantic analysis software for the strategic management of big data, equipped with an extensive Wealth Management platform with a system capable of reading and interpreting the requirements and needs of the customers of banks, networks of consultants and insurance companies. Cogito's artificial intelligence algorithms, able to analyse all information provided by the customer, will allow Prometeia's partner companies to improve the process of profiling, no longer static but digital and adaptive, of investors, and the subsequent consulting services performed for them;

In the healthcare industry, note the selection of Expert System for "OncoSNIPE", a programme backed by the French public investments bank Bipfrance, coordinated by the French company Oncodesign, specialised in biotechnologies for the pharmaceutical sector in which, through past experience gained by Expert System in the oncology field (particularly the clinical analysis project ConSoRe, Continuum Soin-Recherche, carried out in partnership with the French hospital group UNICANCER, dedicated to the fight against cancer), Cogito technology will provide a technological asset to support, with artificial intelligence, the diagnosis and treatment of tumours.

On the technology front, note that the new release of the Cogito cognitive technology in the first few months of 2017 gave a further boost to the development of advanced solutions for robotic process automation and information intelligence, with the aim of making artificial intelligence more accessible and affordable, offering organisations a higher ROI due to the combination of maximum information analysis accuracy with customisation and implementation now strongly optimised.

Cogito 14, the latest version released by Cogito Labs, today offers customers the best semantic analysis technology through its key products, Cogito Studio and Cogito Discover. On the one hand, Cogito Studio Platform offers an integrated system for text analytics projects and includes:

- *Cogito Studio*, a semantics application editor that allows assessment of the effectiveness of categorizing or configuring extraction from collections of documents, measuring precision and recall;

- *Cogito Studio Express*, which is the Cogito version based on Luxid WebStudio, i.e. a web application that simplifies the design and maintenance of specific taxonomies/ontologies for users, allowing full control of the text analytics activities.

Cogito Discover is instead a scalable platform for the automatic generation of semantic big data and autoclassification that can be integrated into any application and workflow, and integrated on a cloud platform or hybrid environment.

Once again, Cogito is confirmed as the text analytics technology that forms the basis for all Expert System products, this time enhanced as a result of its integration with Xelda (Xerox Linguistic Development Architecture) in the number of languages supported, which now includes Portuguese and Russian. Cogito 14 therefore now supports 11 languages: Italian, English, Spanish, French, German, Portuguese, Russian, Korean, Chinese, Japanese, Arabic, and 3 tagging only languages, i.e. Greek, Polish and Dutch.

Also note that the additional functions implemented included:

- **Cogito Knowledge Graph**: a rich knowledge base containing millions of concepts with their respective lexical formats, different properties and relationships useful to understanding and disambiguation of the meaning of the words and phrases contained in the texts. For this purpose, specific machine learning techniques are used that help to enhance automatic understanding of the texts, unsupervised or with the supervision of experts in the field;
- **Cogito API**, through one of its extensions, now simplifies the development and integration of Cogito products into other platforms or pre-existing architectures, with obvious benefits in terms of implementation times.

In this same field, an important partnership also began with Eudata, an innovative industrial group founded in Milan in 2006, operating in the Customer Engagement sector. This partnership was launched with the aim of maximising the effectiveness of customer-business interaction, with a view to combining forces to work alongside companies innovating their relations with customers, exploiting the potential of artificial intelligence in assistance, sales support and marketing. Through the integration of Cogito cognitive technology and the Eudata omnichannel suite, companies will have the opportunity to rapidly implement chatbots. These systems generate the shift from the model in which individuals adapt to computers to that where the computer adapts to individuals' expectations, with dual benefits: offering users

new means of access to information of interest through automatic human-like dialogue, i.e. freely expressed as it would via chat; increasing the operational efficiency of companies, automating repeat activities that do not call for specific capacity or specialist skills (recovery of standard information, most common support needs, requests for quotes, common offers, etc.).

In the wake of this intense activity came the first major recognitions of 2017. In particular:

- the inclusion again for 2017 in the *“KMWorld 100 Companies that Matter in Knowledge Management”* rankings, compiled by a group of sector experts and market analysts working together under the guidance of the prestigious US magazine KMWorld to select the best solutions worldwide offered by companies operating in Knowledge Management. This event emphasises once again the distinctive features of Cogito technology and its capacity to ensure companies the best levels of accuracy and efficiency, supporting the management and strategic analysis of information through full understanding of the meaning of words and context;
- helping its customer BNL to win the *“ABI Award for Innovation in Banking Services”*. Expert System technology, in fact, allowed BNL to provide its employees with an “internal customer support” service that optimises help desk activities by exploiting the potential of Cogito information management. Cogito’s capacity to automatically process language, correctly understanding the meaning of sentences, associated with a customised taxonomy created in partnership with the Innovation Team of BPI, the consortium of the BNP Paribas Group in Italy, ensured maximum analysis precision and pertinent responses, with a significant saving in terms of time and resources.

## **Business outlook**

Expert System considers that its network at human resources and technology level, after completion of the integration process for acquisitions arranged towards the end of 2015, is now able to pursue a number of major strategic objectives in terms of revenues and profit margins, first and foremost on the US and German markets. Confirming the central nature of these areas was the fact that in the first few months of 2017 the CEOs of the subsidiaries Expert System USA Inc., with a view to capturing even more opportunities associated with the US market and government segment, and Expert System Deutschland GMBH, with the aim of strengthening its presence on the German market, began working closely together.

Today the Expert System corporate structure is more solid and closely knit, strengthened also by the further technological advancement seen in the recent release of the new version of the COGITO 14 technology platform. In more general terms, it is considered that in the near future applications such as those offered by the Cogito range can provide customers with considerable strategic internal value in the wake of a market - Artificial Intelligence and related applications - that is growing strongly and significantly.

### **Allocation of profit (loss) for the year**

It is proposed that the shareholders' meeting fully covers the loss for the year of € (1,202,777) through the use of reserves available as at 31 December 2016 as follows:

Profit (loss) for the year as at 31/12/2016	€ (1,202,777)
Extraordinary reserve	€ 1,202,777

We thank you for the confidence shown in us and invite you to approve the financial statements as presented here.

Chairman of the Board of Directors

Marco Varone

# FINANCIAL STATEMENTS FOR THE YEAR ENDED 31/12/2016

## BALANCE SHEET

ASSETS	31/12/2016	31/12/2015
<b>A) SUBSCRIBED CAPITAL, UNPAID</b>		
<b>Total subscribed capital, unpaid (A)</b>	<b>0</b>	<b>0</b>
<b>B) FIXED ASSETS</b>		
<i>I - Intangible fixed assets</i>		
1) Start-up and expansion costs	440,383	439,450
2) Development costs	5,777,429	5,228,205
3) Industrial patent and intellectual property rights	19,818	28,663
4) Concessions, licences, trademarks and similar rights	4,589	5,317
5) Goodwill	6,689	13,378
7) Other intangible fixed assets	2,160	5,360
Total intangible fixed assets (I)	6,251,068	5,720,373
<i>II - Tangible fixed assets</i>		
1) Land and buildings	373,825	384,912
2) Plant and machinery	17,290	18,970
4) Other assets	276,066	293,935
Total tangible fixed assets (II)	667,181	697,817
<i>III - Non-current financial assets</i>		
1) Equity investments		
a) subsidiaries	11,859,423	11,859,423

b) associates	251,266	307,673
d) other companies	57,138	57,138
Total equity investments (1)	12,167,828	12,224,234
2) Receivables		
a) due from subsidiaries		
After 12 months	261,327	
After 12 months	11,208,042	5,098,922
Total receivables due from subsidiaries	11,469,369	5,098,922
b) Due from associates		
After 12 months	701,809	402,521
Total receivables due from associates	701,809	402,521
Total Receivables (2)	12,171,179	5,501,443
Total non-current financial assets (III)	24,339,006	17,725,677

<b>Total fixed assets (B)</b>	<b>31,257,254</b>	<b>24,143,867</b>
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### C) CURRENT ASSETS

#### I) Inventories

3) Contract work in progress	610,900	1,714,539
Total inventories (I)	610,900	1,714,539

#### II) Receivables

1) Due from customers		
Within 12 months	5,429,296	6,493,691
Total receivables due from customers (I)	5,429,296	6,493,691
2) Due from subsidiaries		
Within 12 months	2,246,817	2,236,908
After 12 months	26,787	26,787

Total receivables due from subsidiaries (2)	2,273,604	2,263,695
3) Due from associates		
Within 12 months	255,626	0
Total receivables due from associates (3)	255,626	0
4-bis) Tax receivables		
Within 12 months	331,139	693,710
After 12 months	29,610	30,766
Total tax receivables (4-bis)	360,749	724,476
4-ter) Prepaid taxes		
Within 12 months	336,000	155,088
After 12 months	420,528	292,874
Total prepaid taxes (4-ter)	756,528	447,962
5) Other receivables		
Within 12 months	4,334,277	4,019,322
After 12 months	852,808	4,364,268
Total other receivables (5)	5,187,085	8,383,589
Total receivables (II)	14,262,887	18,313,414
<i>III - Current financial assets</i>		
1) Equity investments in subsidiaries	4,153,074	4,153,074
4) Other equity investments	8,400	8,400
6) Other securities	1,002,398	979,348
Total current financial assets (III)	5,163,872	5,140,822
<i>IV - Cash and cash equivalents</i>		
1) Bank and postal deposits	7,327,197	9,393,911
3) Cash at bank and in hand	2,680	1,772

Total cash and cash equivalents (IV)	7,329,877	9,395,683
<b>Total current assets (C)</b>	<b>27,367,536</b>	<b>34,564,458</b>
<b>D) ACCRUALS AND DEFERRALS</b>		
Accrued income and prepaid expenses	750,255	796,548
<b>Total accruals and deferrals (D)</b>	<b>750,255</b>	<b>796,548</b>
<b>TOTAL ASSETS</b>	<b>59,375,046</b>	<b>59,504,873</b>

### BALANCE SHEET

LIABILITIES	31/12/2016	31/12/2015
<b>A) SHAREHOLDERS' EQUITY</b>		
I - Share capital	276,703	250,608
II - Share premium reserve	25,408,688	20,737,590
III - Revaluation reserves	0	0
IV - Legal reserve	43,899	43,899
V - Statutory reserves	0	0
<i>VII - Other reserves, indicated separately</i>		
Extraordinary or optional reserve	3,618,898	4,580,697
Merger surplus reserve	376,622	376,622
Reserve for unrealised exchange gains	180,049	217,282
Miscellaneous other reserves	141,002	141,001
Total other reserves	4,316,571	5,315,602
VII - Cash flow hedging reserve	- 6,954	- 12,900
IX - Profit (loss) for the year	- 1,202,777	- 999,032
X - Negative reserve for treasury shares in portfolio	- 560,395	- 560,395
<b>Total shareholders' equity</b>	<b>28,275,735</b>	<b>24,775,372</b>

**B) PROVISIONS FOR RISKS AND CHARGES**

1) Pensions and similar obligations	4,341	3,151
2) Taxation, including deferred	192,821	169,072
3) Derivative financial instruments - liabilities	6,954	12,900
4) Other	15,000	15,000

<b>Total provisions for risks and charges (B)</b>	<b>219,116</b>	<b>200,123</b>
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**C) EMPLOYEE SEVERANCE INDEMNITY**

<b>1,670,520</b>	<b>1,390,984</b>
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**D) PAYABLES**

1) Bonds		
After 12 months	5,000,000	5,000,000
Total bonds (1)	5,000,000	5,000,000
4) Payables due to banks		
Within 12 months	4,487,565	3,680,182
After 12 months	8,595,385	11,485,190
Total payables due to banks (4)	13,082,950	15,165,372
5) Payables due to other lenders		
Within 12 months	354,906	389,045
After 12 months	765,052	310,412
Total payables due to other lenders (5)	1,119,958	699,457
6) Payments on account		
Within 12 months	2,238,142	2,907,908
After 12 months	135,706	1,151,231
Total payments on account (6)	2,373,848	4,059,139
7) Trade payables		
Within 12 months	1,396,828	1,579,333

Total trade payables (7)	1,396,828	1,579,333
9) Payables due to subsidiaries		
Within 12 months	28,301	204,939
Total payables due to subsidiaries (9)	28,301	204,939
12) Tax payables		
Within 12 months	449,576	602,920
Total tax payables (12)	449,576	602,920
13) Payables due to social security institutions		
Within 12 months	321,015	297,826
Total payables due to social security institutions (13)	321,015	297,826
14) Other payables		
Within 12 months	1,641,043	1,101,091
After 12 months	500,000	1,000,000
Total other payables (14)	2,141,043	2,101,091
<b>Total payables (D)</b>	<b>25,913,519</b>	<b>29,710,077</b>
<b>E) ACCRUALS AND DEFERRALS</b>		
Accrued expenses and deferred income	3,296,156	3,428,317
<b>Total accruals and deferrals (E)</b>	<b>3,296,156</b>	<b>3,428,317</b>
<b>TOTAL LIABILITIES</b>	<b>59,375,046</b>	<b>59,504,873</b>

## INCOME STATEMENT

	31/12/2016	31/12/2015
<b>A) VALUE OF PRODUCTION</b>		
1) Sales and service revenues	13,887,350	10,506,609
3) Changes in contract work in progress	(1,103,638)	151,756

4) Own work capitalised	2,820,274	3,033,114
5) Other revenues and income		
Other	199,219	287,581
Operating grants	987,116	1,277,415
Total other revenues and income (5)	1,186,335	1,564,996

<b>Total value of production (A)</b>	<b>16,790,321</b>	<b>15,256,475</b>
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#### **B) COSTS OF PRODUCTION:**

6) Raw materials, consumables and goods for resale	650,696	623,614
7) For services	6,256,801	6,645,862
8) Use of third-party assets	613,419	613,629
9) Personnel:		
a) Salaries and wages	5,422,070	4,644,006
b) Social security costs	1,581,947	1,345,724
c) Employee severance indemnity	372,887	336,264
e) Other costs	13,612	10,425
Total personnel costs (9)	7,390,516	6,336,419
10) Amortisation, depreciation and write-downs:		
a) Amortisation of intangible fixed assets	2,478,903	1,971,670
b) Depreciation of tangible fixed assets	144,927	128,668
d) Write-down of receivables included in current assets and of cash and cash equivalents	0	65,603
Total amortisation, depreciation and write-downs (10)	2,623,830	2,165,941
12) Provisions for risks	0	15,000
14) Sundry operating expenses	558,795	319,188

<b>Total costs of production (B)</b>	<b>18,094,058</b>	<b>16,719,653</b>
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<b>Difference between the value and costs of production (A-B)</b>	<b>- 1,303,736</b>	<b>- 1,463,178</b>
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### C) FINANCIAL INCOME AND EXPENSES

#### 15) Income from equity investments

Other	73,593	0
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Total income from equity investments	73,593	0
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#### 16) Other financial income:

##### a) From receivables classified as fixed assets

From subsidiaries	146,818	63,148
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From associates	11,809	12,521
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Total financial income from receivables classified as fixed assets	158,627	75,669
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c) From securities included in current assets	28,029	922
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##### d) Other income

Other	13,685	33,235
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Total other income (d)	13,685	33,235
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Total other financial income (16)	200,341	109,826
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#### 17) Interest and other financial expenses

Other	594,731	381,304
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Total interest and other financial expenses (17)	594,731	381,304
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17-bis) Exchange gains and losses	149,611	454,357
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<b>Total financial income and expenses (C) (15+16-17+-17-bis)</b>	<b>- 171,186</b>	<b>182,879</b>
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<b>PRE-TAX RESULT (A-B+-C+-D)</b>	<b>- 1,474,922</b>	<b>- 1,280,299</b>
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20) Income taxes for the year – current, deferred and

prepaid		
Current taxes	12,672	7,985
Deferred and prepaid taxes	- 284,817	- 289,252
<b>Income taxes for the year – current, deferred and prepaid (20)</b>	<b>- 272,145</b>	<b>- 281,267</b>
<b>21) Profit (loss) for the year</b>	<b>- 1,202,777</b>	<b>- 999,032</b>

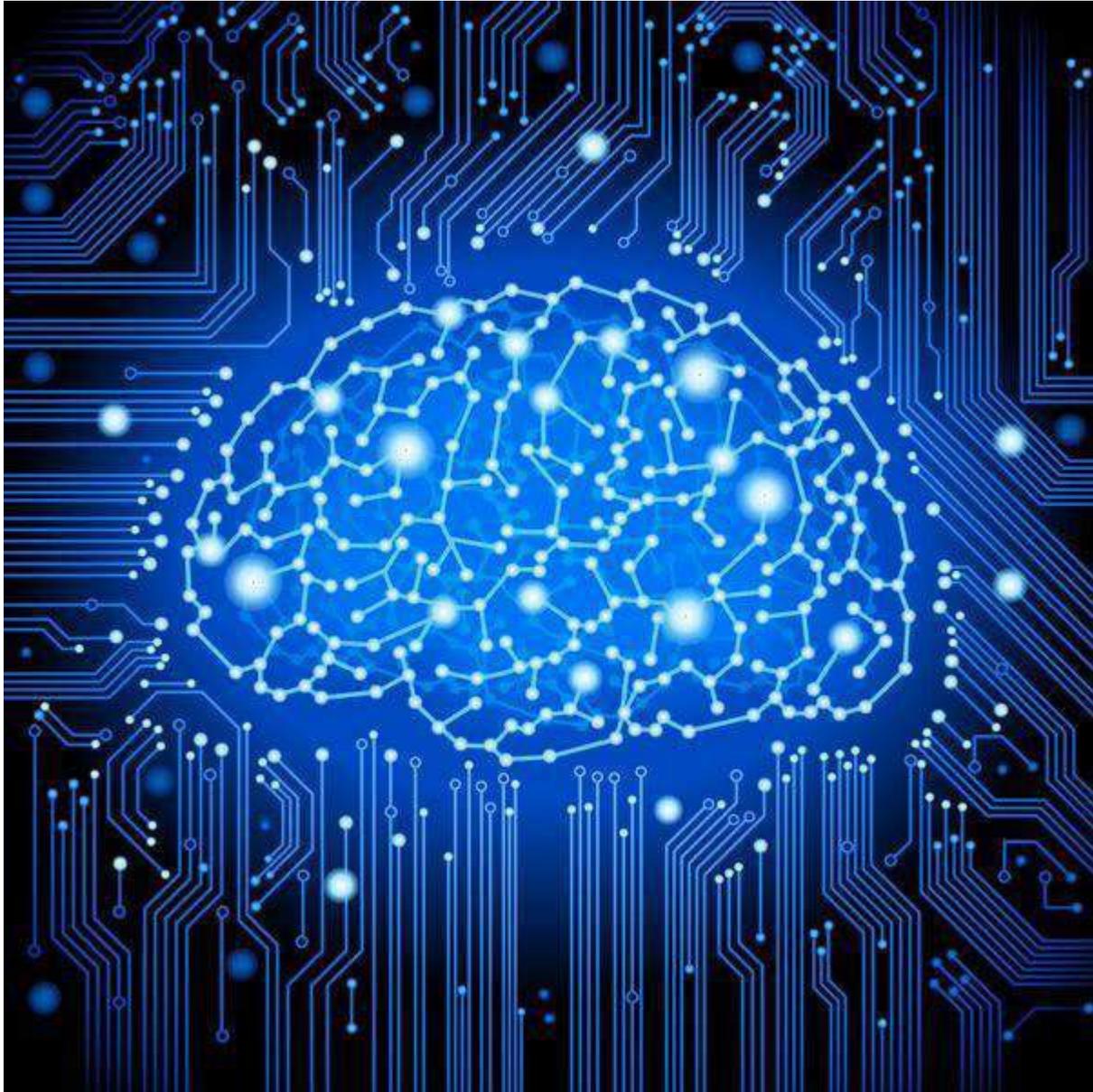
### CASH FLOW STATEMENT, INDIRECT METHOD

<b>A) CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Profit (loss) for the year	(1,202,777)	(999,032)
Income taxes	(272,145)	(281,266)
Interest expense (income)	394,390	271,478
(Capital gains)/Capital losses from asset disposals	(73,676)	909
<b>Profit/(Loss) for the year before income taxes, interest, dividends and capital gains/losses from disposals</b>	<b>(1,154,208)</b>	<b>(1,007,912)</b>
Allocation to provisions	415,060	462,048
Amortisation/Depreciation of fixed assets	2,623,830	2,100,338
Other adjustments for non-monetary items	(23,749)	(109,320)
<b>TOTAL ADJUSTMENTS FOR NON-MONETARY ITEMS WITH NO BALANCING ENTRY IN NWC</b>	<b>3,015,142</b>	<b>2,453,067</b>
<b>CASH FLOWS BEFORE CHANGES IN NWC</b>	<b>(1,860,934)</b>	<b>1,445,154</b>
<b>CHANGES IN NET WORKING CAPITAL</b>		
Decrease/(Increase) in inventories	1,103,639	(151,756)
Decrease/(Increase) in receivables due from customers	1,064,395	620,054
Increase/(Decrease) in trade payables	(182,505)	(305,138)
Decrease/(Increase) in accrued income and prepaid expenses	46,293	(608,829)
Increase/(Decrease) in accrued expenses and deferred income	(132,161)	87,152
Other decreases/(Other increases) in net working capital	845,770	903,465
<b>Total changes in net working capital</b>	<b>2,745,431</b>	<b>544,948</b>
<b>CASH FLOWS AFTER CHANGES IN NWC</b>	<b>4,606,363</b>	<b>1,990,104</b>

<b>OTHER ADJUSTMENTS</b>		
Interest collected (paid)	(394,390)	(271,478)
(Income taxes paid)	484,123	(762,633)
(Use of provisions)	(116,531)	(250,827)
<b>TOTAL OTHER ADJUSTMENTS</b>	<b>(26,798)</b>	<b>(1,284,938)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES (A)</b>	<b>4,579,565</b>	<b>705,171</b>
(Investments in tangible assets)	(116,286)	(155,404)
Disinvestments of tangible assets	2,078	(1,652)
(Investments in intangible assets)	(3,009,597)	(3,052,935)
Disinvestments of intangible assets	0	0
(Investments in non-current financial assets)	(6,669,736)	(15,144,222)
Disinvestments of non-current financial assets	130,000	2,500
(Investments in current financial assets)	(1,002,398)	0
Disinvestments of current financial assets	979,348	3,000,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES (B)</b>	<b>(9,686,591)</b>	<b>(15,351,715)</b>
<b>THIRD PARTY FINANCING</b>		
Increase/(Decrease) in short-term bank payables	11,985	(14,816)
New loans	2,608,120	17,470,242
(Reimbursement of loans to banks and other lenders)	(4,282,028)	(4,329,499)
<b>Increase/(Decrease) in third party financing</b>	<b>(1,661,922)</b>	<b>13,125,928</b>
<b>OWN EQUITY</b>		
Share capital increase against payment	4,703,139	6,999,971
Disposal/(Purchase) of treasury shares	0	(471,232)
<b>Increase/(Decrease) in own equity</b>	<b>4,703,139</b>	<b>6,528,739</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES (C)</b>	<b>3,041,217</b>	<b>19,654,666</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)</b>	<b>(2,065,806)</b>	<b>5,008,120</b>
Cash and cash equivalents at start of year	9,395,683	4,387,562
Cash and cash equivalents at year end	7,329,877	9,395,683
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,065,806)</b>	<b>5,008,120</b>

# EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31/12/2016

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## Explanatory Notes - Introductory section

Dear Shareholders,

these financial statements, submitted for your review and your approval, highlight a loss for the year of € (1,202,777).

## Business

Expert System is a company listed on the AIM of Borsa Italiana, which develops semantic software based on artificial intelligence algorithms capable of understanding the meaning of text similar to the way people do, used by companies to more effectively manage information and gather strategic insight.

The Expert System product mix provides support to government organisations and companies from all sectors, allowing them to find, analyse and use information more effectively to obtain strategic data from it and make the best decisions, automate information processes based on data and information usage and reduce operating risks.

The semantic understanding capacity of Cogito, the Expert System text analytics and cognitive computing software that reads, understands and responds, extrapolating the sense of every word based on context, differs from traditional technology which processes text as keyword sequences or uses statistical approaches but cannot capture the real meaning.

And so for Expert System customers, Cogito represents a key asset, used in different environments such as banks and insurance, security and intelligence, publishing and media, energy, healthcare and pharmaceutical industry, to improve strategic processes, provide customer support, carry out social media analysis, manage know-how, taxonomies and compliance, and much more.

## Significant events during the year

Dear Shareholders,

in 2016 Expert System continued to invest considerable resources:

- to strengthen its global leadership in cognitive computing;
- to increase its business in a market - artificial intelligence - that even in a global scenario of strong instability is still in intense ferment, and for this reason the focus for players operating in this market.

To pursue its ambitious goals, that centre around a global context in which the various subsidiaries of Expert System operate, the company has once again enjoyed the investors market's support, targeted by its share capital increase agreed in June 2016, fully subscribed, allowing the company:

- to continue investing in research and development activities, an inescapable element for enhancing Cogito's cognitive capacity;
- to implement new functions so as to expand the product mix, to be enhanced with new languages and the development of new products for the vertical sectors;
- to further expand the current trade channels with new partners;
- to develop the indirect sales channel;
- to consolidate its direct presence in North America, a geographic area of key importance in the cognitive computing and text analytics market.

Thus on 28 June 2016, by deed recorded by Notary Rolando Rosa (index no. 120843, folder 20449), the extraordinary shareholders' meeting resolved upon a divisible share capital increase for a maximum € 4,900,000 including share premium, through the issue of new ordinary shares without par value, with powers delegated to the Board of Directors pursuant to article 2443 of the Italian Civil Code.

The shares deriving from subscription to the share capital increase were associated with warrants, free of charge. After the issue and eventual conversion of the warrants to shares, a further share capital increase against payment was agreed for a maximum € 1,800,000. Also for this resolution, powers were delegated to the Board of Directors pursuant to article 2443 of the Italian Civil Code.

Again at the extraordinary shareholders' meeting of 28 June 2016, the Stock Grant Temis 2016-2020 plan was resolved, subject to cancellation of the previous plan known as Stock Grant Temis 2015-2020, with powers likewise delegated to the Board of Directors pursuant to art. 2443 of Italian Civil Code.

The above resolutions carried by the extraordinary shareholders' meeting of 28 June 2016, delegating powers to the Board of Directors pursuant to article 2443 of the Italian Civil Code, except the Stock Grant Temis 2016-2020 plan, were implemented by the Board of Directors on 13 July 2016 and duly recorded by Notary Rolando Rosa (index no. 120891, folder 20484). This deed included the resolution to increase the share capital by € 4,697,193.60, of which €

26,095.52 allocated as share capital increase and € 4,671,098.08 to the share premium reserve, through the issue of a maximum 2,609,552 shares without par value.

The share capital increase was optioned to shareholders, assigning the option of subscribing 2 newly issued shares for every 19 shares held at the price of € 1.80 per share, of which € 0.01 allocated as share capital increase and € 1.79 to the share premium reserve.

The number of warrants agreed, known as the Warrant Expert System S.p.A. 2016-2018, assigned free of charge to shares deriving from the share capital increase, was 2,609,552 in the ratio of 1 warrant for every new share subscribed.

The share capital increase decided by the Board of Directors on 13 July 2016 was fully subscribed, with the final subscription in September 2016. Then came the issue of 2,609,552 new shares without par value, against which 2,497,552 warrants were issued (112,000 warrants were not issued as a result of express waiver by the shareholder to which they had been assigned).

As a result of all of the above, the share capital of Expert System S.p.A. now totals € 283,227.18, subscribed and paid up for € 276,703.30, represented by 27,670,330 shares without par value.

As parent company of a group now present in various European countries and the USA, and with a view to facilitating implementation of the group business plan, in April 2016 Expert System also approved an intercompany financing plan which involves the disbursement of not more than € 5.0 million per year, with extension available on request.

The considerable boost from development and innovation activities, strong in the resources obtained on the market and the renewed confidence of investors mentioned above, allowed Expert System to finalise important partnership arrangements, made possible by the high technological content of solutions offered by the software that uses Cogito. Worthy of mention among these are:

- the entry of Cogito in “500 Startups”, the most sought-after acceleration programme of Silicon Valley, among the most prestigious in the world, in which developers can enhance and develop cognitive computing applications for data and information analysis for their own digital businesses;
- the collaboration with QR – Quantic Research, an Italian subsidiary for the R&D of the Holding Nivi Group S.p.A., specialised in the design of innovative solutions dedicated, in particular, to the security sector, targeted at the creation of new commercial and

technological opportunities in defence and intelligence;

- the partnership based on integration of the Cogito technology into the offering of Onix, the US company specialising in IT solutions for the corporate and government sectors, a highly qualified company in developing solutions for the search and analysis of information;
- the collaboration launched with MarkLogic, a leader in the offering of flexible and highly scalable databases, able to organise huge volumes of any type of data in extremely quick times. This agreement, which sees the integration of Cogito in MarkLogic's platform to enhance data analysis using cognitive computing, supports Expert System's international growth strategy, strengthening the company's presence in the world of the most advanced technologies for data archiving and processing;
- the entry as partner in the Sypcit project which, co-financed by the European Commission's Directorate-General for Home Affairs and coordinated by Adiconsum, aims to promote new models and tools to combat and prevent online identity theft, to be implemented by creating a new app for consumers and a platform for the law enforcement agencies;
- the strategic partnership agreement signed with NominoData LLC, a US company dedicated to solutions for the management of business problems linked to identity and reputation, risk and compliance, that combines NominoData's wealth of experience in risk coverage (from the management of operational risks to the prevention and identification of fraud, to anti-money laundering) with Expert System's artificial intelligence solutions designed to help organisations improve their decision-making processes;
- the entry to the European Cyber Security Organisation (ECSO), founded in Brussels in 2016 with the aim of combining the major stakeholders into a single organisation capable of steering cyber security strategies at European level, aims to promote research and innovation in digital security and to combat all forms of criminal activity that leverage digital channels.

The significant investments in technology, as part of a process of internationalisation of Expert System business, which today competes in a global scenario, led not only to the finalisation of the above-mentioned trade agreements, but also to several high-value awards for the activities carried out, worthy of mention among which are:

- the inclusion by Forrester, globally recognised as one of the most authoritative in the business and technology environment, in its latest report dedicated to the top ten big data text analytics companies from among a sample valuation set of no less than two hundred companies;
- the inclusion once again by the prestigious US magazine KMWorld, the go-to source worldwide for the best technologies and most innovative experiences in the knowledge management sector, among the 100 most important knowledge management companies;
- winning the LT-Innovate Award (for Linguistic Technologies) that recognises technological innovation excellence, business potential and experience in the development of linguistic analysis-based solutions, an award earned at the LT-Innovate Summit, the international event that each year involves the major players from the linguistic technology industry;
- through Cogito, victory at the 2016 of the CODiE Awards (an event organised by the SIAA - Software & Information Industry Association, the leading American association in the software industry) in the “Best Text Analytics & Semantics Technology” and “Best Metadata Management” categories, earned as a result of its recognised capacity to analyse and understand text to identify and extract information useful for businesses;
- the award for Cogito Risk Watcher, the software designed by Expert System to support organisations in the qualification of supplier and third-party risk profiles, in the form of success in the "Trend-Setting Products of 2016", the prestigious US recognition bestowed by experts from magazine KM World, dedicated to the most effective knowledge management solutions.

### **Significant events after the close of the year**

We report to you that, also after the close of the half, Expert System obtained important recognitions and results, in the wake of those registered in the year ended 31/12/2016.

Note in particular the consolidation of the partnership with Esri, leader in geospatial solutions to support operating and decision-making processes. This partnership, which combines the expertise of Expert System in information analysis with the capacity of Esri technology in spatial and georeferenced processing, will allow effective support to be provided to

intelligence analysts in any organisation (from public administration to companies in various market sectors such as utilities, energy, finance, etc.).

In the healthcare industry, note the selection of Expert System for “OncoSNIPE”, a programme backed by the French public investments bank Bipfrance, coordinated by the French company Oncodesign, specialised in biotechnologies for the pharmaceutical sector in which, through past experience gained by Expert System in the oncology field (particularly the clinical analysis project ConSoRe, Continuum Soin-Recherche, carried out in partnership with the French hospital group UNICANCER, dedicated to the fight against cancer), Cogito technology will provide a technological asset to support, with artificial intelligence, the diagnosis and treatment of tumours.

On the technology front, note that the new release of the Cogito cognitive technology in the first few months of 2017 gave a further boost to the development of advanced solutions for robotic process automation and information intelligence, with the aim of making artificial intelligence more accessible and affordable, offering organisations a higher ROI due to the combination of maximum information analysis accuracy with customisation and implementation now strongly optimised.

New languages and innovative functions have been implemented, amongst which are:

- **Cogito Studio:** a complete development environment, now including Cogito Studio Express, a web application that simplifies the design and maintenance of specific taxonomies/ontologies for users and allows full control of text analytics activities;
- **Cogito Knowledge Graph:** a rich knowledge base containing millions of concepts with their respective lexical formats, different properties and relationships useful to understanding and disambiguation of the meaning of the words and phrases contained in the texts. For this purpose, specific machine learning techniques are used that help to enhance automatic understanding of the texts, unsupervised or with the supervision of experts in the field;
- **Cogito API,** through one of its extensions, now simplifies the development and integration of Cogito products into other platforms or pre-existing architectures, with obvious benefits in terms of implementation times.

In this same field, an important partnership also began with Eudata, an innovative industrial group founded in Milan in 2006, operating in the Customer Engagement sector. This partnership was launched with the aim of maximising the effectiveness of customer-business

interaction, with a view to combining forces to work alongside companies innovating their relations with customers, exploiting the potential of artificial intelligence in assistance, sales support and marketing. Through the integration of Cogito cognitive technology and the Eudata omnichannel suite, companies will have the opportunity to rapidly implement chatbots. These systems generate the shift from the model in which individuals adapt to computers to that where the computer adapts to individuals' expectations, with dual benefits: offering users new means of access to information of interest through automatic human-like dialogue, i.e. freely expressed as it would via chat; increasing the operational efficiency of companies, automating repeat activities that do not call for specific capacity or specialist skills (recovery of standard information, most common support needs, requests for quotes, common offers, etc.).

In the wake of this intense activity came the first major recognitions of 2017. In particular:

- the inclusion again for 2017 in the *"KMWorld 100 Companies that Matter in Knowledge Management"* rankings, compiled by a group of sector experts and market analysts working together under the guidance of the prestigious US magazine KMWorld to select the best solutions worldwide offered by companies operating in Knowledge Management. This event emphasises once again the distinctive features of Cogito technology and its capacity to ensure companies the best levels of accuracy and efficiency, supporting the management and strategic analysis of information through full understanding of the meaning of words and context;
- helping its customer BNL to win the *"ABI Award for Innovation in Banking Services"*. Expert System technology, in fact, allowed BNL to provide its employees with an "internal customer support" service that optimises help desk activities by exploiting the potential of Cogito information management. Cogito's capacity to automatically process language, correctly understanding the meaning of sentences, associated with a customised taxonomy created in partnership with the Innovation Team of BPI, the consortium of the BNP Paribas Group in Italy, ensured maximum analysis precision and pertinent responses, with a significant saving in terms of time and resources.

## Drafting criteria

The drafting and measurement criteria used for the financial statements as at 31 December 2016 take into account the new aspects introduced to Italian law by Legislative Decree 139/2015, the implementing decree for Directive 2013/34/EU. As a result of Italian Legislative Decree 139/2015, the OIC Italian accounting standards were amended.

With regard to application of the new format according to accounting standard OIC 24, the effects of changes in the standard are calculated retroactively and recognised in the opening balance of balance sheet assets item B) I. 2) "Development costs".

With regard to application of the new format according to accounting standard OIC 28, the effects of changes in the standard are calculated retroactively and recognised in the opening balance of shareholders' equity item A) X. "Negative reserve for treasury shares in portfolio".

With regard to application of the new format according to accounting standard OIC 32, the effects of changes in the standard are calculated retroactively and recognised in the opening balance of balance sheet liabilities item B) 3) "Derivative financial instruments - liabilities" and the opening balance of shareholders' equity item A) VII. "Cash flow hedging reserve".

For comparison purposes only, the effects on the previous year's financial statements were restated as if the new accounting standard had always been applied, adjusting the opening balance of shareholders' equity.

For details of the adjustments and related effects on the opening shareholders' equity, reference should be made to the table provided below in these Explanatory Notes.

These financial statements conform to the provisions of articles 2423 et seq. of the Italian Civil Code, as shown in these explanatory notes, drafted in accordance with art. 2427 of the Italian Civil Code, which constitute, pursuant to and in accordance with art. 2423, an integral part of the financial statements.

Financial statement values are stated in Euro, with the relative amounts rounded up. Any rounding differences have been indicated in the item "Euro rounding reserve", included under shareholders' equity items. Pursuant to art. 2423, par. 6 of the Italian Civil Code, the Explanatory Notes have been drafted in Euro.

The Explanatory Notes present information on items of the balance sheet and income statement in the order in which the related items appear in those statements.

### Measurement criteria

*(Ref. art. 2427.1.1 of the Italian Civil Code and OIC 12 accounting standard)*

The measurement of items in the financial statements is based on the general principles of prudence and accrual accounting, in the assumption of the company as a going concern.

The application of the prudence principle involved separate measurement of the individual asset and liability items, to avoid offsetting between losses to be recognised and unrealised profits not to be recognised.

In compliance with the accrual principle, the effect of transactions and other events has been accounted for and allocated to the year in which said transactions and events refer, and not to the one in which the associated cash flows occur (collections and payments).

In application of the materiality principle, there was no compliance with the obligations of recognition, measurement, presentation and disclosure when such compliance would have had an immaterial impact in providing a true and fair view. In particular, the criteria identified for implementation of the principle were:

- as permitted by OIC 15, the company opted not to apply the amortised cost criterion and related discounting of the valuation of receivables due in less than 12 months and, for those due beyond 12 months, as the transaction costs, fees paid between the parties and all other differences between the original value and value at the due date are negligible;
- as permitted by OIC 19, the company opted not to apply the amortised cost criterion and related discounting of the valuation of payables due in less than 12 months and, for those due beyond 12 months, as the transaction costs, fees paid between the parties and all other differences between the original value and value at the due date are negligible.

Continued application of the measurement criteria over time is a key element for the purposes of comparing the company's financial statements from different years.

The recognition and presentation of financial statement items took into account the substance of the transaction or contract.

## Exceptions

*(Ref. art. 2423.5 of the Italian Civil Code)*

No exceptional cases were identified that required the use of the exceptions set forth under art. 2423.5 of the Italian Civil Code.

For better understanding of the explanatory notes, a summary pro-forma financial position is attached which shows the effects of changes in the accounting standards were such effects are material and have repercussions on multiple items.

## Effects on opening balances of shareholders' equity from application of Leg.Decree 139/2015

Adjustments and/or reclassifications in the financial statements at 31/12/2015 for comparison purposes	Amount in the financial statements as at 31/12/2015	Reclassifications Leg.Decree 139/2015	Adjustments Leg.Decree 139/2015	Amount in the financial statements for comparison purposes
Item description				
<b>Intangible fixed assets:</b>				
Research costs	15,500,067	(15,500,067)		
<b>Current assets:</b>				
Treasury shares	560,395	(560,395)		
<b>Shareholders' equity:</b>				
Reclassification of the reserve for treasury shares in portfolio	560,395	(560,395)		
Cash flow hedging reserve		(12,900)		(12,900)
Negative reserve for treasury shares in portfolio		(560,395)		(560,395)
<b>Liabilities:</b>	0	0	0	0
Derivative financial instruments - liabilities		12,900		12,900
<b>Income Statement:</b>	0	0	0	0
Extraordinary income and expenses	(10,489)	10,489		
<b>Effects of entries on shareholders' equity opening balance at 31/12/2015</b>				
<b>Description</b>	<b>Amount</b>			
Shareholders' equity 31/12/2015	25,348,667			

Adjustments to current assets	(560,395)		
Adjustments to financial instruments - liabilities	(12,900)		
<b>Shareholders' equity 31/12/2015 for comparison purposes</b>	<b>24,775,372</b>		

In particular, the following measurement criteria were adopted to draft the financial statements.

## EXPLANATORY NOTES - ASSETS

### FIXED ASSETS

#### Intangible fixed assets

Balance at 31/12/2016	Balance at 31/12/2015	Change
6,251,068	5,720,373	530,695

These are recorded at their historical acquisition cost and stated net of amortisation applied over the years and booked directly to the individual items.

Start-up and expansion and research & development costs with long-term benefits were recognised under assets with the consent of the Board of Statutory Auditors. Start-up and expansion costs are amortised over a period not exceeding five years.

Under development costs, the expenses for personnel employed and outside technical consultancy used in development activities were capitalised for a total of € 2,820,274, amortised over a period of 5 years.

Details of capitalised costs broken down by project are shown below:

Type of projects capitalised in 2016	Cost per project
Analysis of social contents	166,890
Automatic generation technology	144,483
Technologies for the recognition of natural language interaction	1,018,520
Technologies for automatic learning	192,663
Technologies for intelligence	1,120,790
Technologies for search engines	176,929
<b>Overall total</b>	<b>2,820,274</b>

Goodwill, deriving from the reverse merger of ES S.r.l., already recorded in previous years under assets for an amount equal to the merger deficit, continues to be amortised over a period of 5 years which corresponds to its useful life.

Industrial patent and trademarks are amortised at an annual rate of 10%, whilst intellectual property rights (software) are amortised over 5 years.

Improvements to third-party assets are amortised according to rates that depend on the duration of the contract.

If, regardless of the depreciation already accounted for, impairment is recorded, the fixed asset is written down accordingly. If the reason for the write-down no longer exists in subsequent years, the original value is written back, adjusted solely for depreciation.

### Changes in intangible fixed assets

	Start-up and expansion costs	Development costs	Industrial patent and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Other intangible fixed assets	Total
Cost	774,472	15,500,067	593,916	19,052	33,444	38,464	16,959,415
Amortisation (Accumulated amortisation)	335,022	10,271,862	565,253	13,735	20,066	33,104	11,239,042
<b>Net value as at 31/12/2015</b>	<b>439,450</b>	<b>5,228,205</b>	<b>28,663</b>	<b>5,317</b>	<b>13,378</b>	<b>5,360</b>	<b>5,720,373</b>
Increases due to purchases	187,070	2,820,274	2,253	-	-	-	3,009,597
Amortisation in the year	186,137	2,271,050	11,098	729	6,689	3,200	2,478,903
Other changes	-	-	-	1	-	-	1
<b>Total changes in the year</b>	<b>933</b>	<b>549,224</b>	<b>(8,845)</b>	<b>(728)</b>	<b>(6,689)</b>	<b>(3,200)</b>	<b>530,695</b>
Cost	961,543	18,320,342	596,170	19,052	33,444	38,464	19,969,015
Amortisation (Accumulated amortisation)	521,160	12,542,913	576,352	14,463	26,755	36,304	13,717,947
<b>Net value as at 31/12/2016</b>	<b>440,383</b>	<b>5,777,429</b>	<b>19,818</b>	<b>4,589</b>	<b>6,689</b>	<b>2,160</b>	<b>6,251,068</b>

### Breakdown of start-up and expansion costs

*(Ref. art. 2427.1.3 of the Italian Civil Code)*

The breakdown of start-up and expansion costs and the reasons for their recognition are shown below. The breakdown of development costs is provided in the first section of these Explanatory Notes.

#### Start-up and expansion costs

Description of costs	Value 31/12/2015	Increase in the year	Decrease in the year	Amortisation in the year	Value 31/12/2016
Merger	4,179	-	-	3,494	685
Share capital increase	435,271	187,070	-	182,643	439,698
<b>Total</b>	<b>439,450</b>	<b>187,070</b>	<b>-</b>	<b>186,137</b>	<b>440,383</b>

#### Tangible fixed assets

Balance at 31/12/2016	Balance at 31/12/2015	Change
667,181	697,817	(30,636)

#### Changes in tangible fixed assets

These are booked at acquisition cost and adjusted by the corresponding accumulated depreciation.

The book value takes account of additional expenses and costs incurred in using the fixed asset, deducting trade and cash discounts of any significant amount from the cost.

Depreciation charges, booked to the income statement, were calculated on the basis of the type of use and technical-economic life of the assets, based on the residual useful life criteria, which we believe to be fully represented by the following rates, unchanged with respect to the previous year and halved in the year the asset enters use:

- buildings: 3%;
- plant and machinery: 20%;
- vehicles: 25%;
- furniture and fittings: 12%;
- electronic machines: 10% - 20%.

If, regardless of the depreciation already accounted for, impairment is recorded, the fixed asset is written down accordingly. If the reason for the write-down no longer exists in subsequent years, the original value is written back, adjusted solely for depreciation.

### Land and buildings

*(Ref. art. 2427.1.2 of the Italian Civil Code)*

Description	Amount	
Historical cost	456,980	
Depreciation of previous years	(72,068)	
<b>Balance at 31/12/2015</b>	<b>384,912</b>	<b>of which land totalling € 87,400</b>
Acquisitions during the year	-	
Depreciation in the year	(11,087)	
<b>Balance at 31/12/2016</b>	<b>373,825</b>	<b>of which land totalling € 87,400</b>

### Plant and machinery

*(Ref. art. 2427.1.2 of the Italian Civil Code)*

Description	Amount
Historical cost	213,491
Depreciation of previous years	(194,521)
<b>Balance as at 31/12/2015</b>	<b>18,970</b>
Acquisitions during the year	4,800
Depreciation in the year	(6,480)
<b>Balance as at 31/12/2016</b>	<b>17,290</b>

### Industrial and commercial equipment

*(Ref. art. 2427.1.2 of the Italian Civil Code)*

Description	Amount
Historical cost	1,558
Depreciation of previous years	(1,558)
<b>Balance as at 31/12/2015</b>	<b>-</b>
Acquisitions during the year	-
Depreciation in the year	-
<b>Balance as at 31/12/2016</b>	<b>-</b>

## Other assets

(Ref. art. 2427.1.2 of the Italian Civil Code)

Description	Amount
Historical cost	1,455,958
Depreciation of previous years	(1,162,023)
<b>Balance as at 31/12/2015</b>	<b>293,935</b>
Acquisitions during the year	111,486
Decreases in the year	(1,995)
Depreciation in the year	(127,360)
<b>Balance as at 31/12/2016</b>	<b>276,066</b>

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total tangible fixed assets
Cost	456,980	213,491	1,558	1,455,958	2,127,987
Depreciation (Accumulated depreciation)	72,068	194,521	1,558	1,162,023	1,430,170
<b>Book value as at 31/12/2015</b>	<b>384,912</b>	<b>18,970</b>	-	<b>293,935</b>	<b>697,817</b>
Increases due to purchases	-	4,800	-	111,486	116,286
Decreases	-	-	-	1,995	1,995
Depreciation in the year	11,087	6,480	-	127,360	144,927
<b>Total changes</b>	<b>(11,087)</b>	<b>(1,680)</b>	-	<b>(17,869)</b>	<b>(30,636)</b>
Cost	456,981	218,291	1,558	1,562,375	2,239,205
Depreciation (Accumulated depreciation)	83,156	201,001	1,558	1,286,309	1,572,024
<b>Book value as at 31/12/2016</b>	<b>373,825</b>	<b>17,290</b>	-	<b>276,066</b>	<b>667,181</b>

Based on an accurate application of accounting standard OIC 16, and also following a review of the estimate of the useful life of instrumental properties, we separated the portion of the cost relating to the plots of land of the above.

The value assigned to these areas was identified on the basis of a flat-rate estimate criterion which allows the allocation of the unit cost, deemed consistent at a rate of 20% of the cost of the property net of capitalised ancillary costs and any revaluations carried out.

Therefore, depreciation charges relating to the value of the aforesaid land were no longer allocated, deeming them, on the basis of updated company estimates, to be property assets not subject to degradation and with an unlimited useful life.

### Non-current financial assets

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
24,339,005	17,725,677	6,613,328

### Changes in equity investments, other securities and derivative financial instruments classed as fixed assets

#### Treasury shares

The purchase of treasury shares results in a decrease in shareholders' equity of an equal amount, through recognition among balance sheet liabilities of a specific negative item.

#### Derivative financial instruments

Even if embedded in other financial instruments, derivative financial instruments are initially recognised when the company acquires the related rights and obligations. They are measured at fair value at the initial recognition date and at the end of each financial year. The changes in derivative financial instruments used to hedge changes in expected cash flows of another financial instrument or a planned transaction were recognised in a reserve under shareholders' equity.

The cash flow hedging reserve includes the changes in fair value of the effective component of the derivative financial instruments used as cash flow hedges.

Derivative financial instruments with a negative fair value are recognised among Provisions for risks and charges.

Derivative financial instruments are assessed as simple hedges when the documentation held contains the following data:

The company has signed the following derivative contract with CARIPARMA:

- Derivative contract type: IRS no. 59746/2014, unlisted, signed on 15/01/2014, expiring 31/12/2018;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 1,200,000;
- Liability hedged: CARIPARMA mortgage no. 04 107 008852280000, originated for € 1,200,000, signed on 23/12/2013 and expiring on 31/12/2018.
- Notional amount at the reference date (31/12/2016): € 499,620;
- Amount of the liability hedged at the reference date (31/12/2016): € 499,620;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 6,954.24;
- Fair value at the start of the hedge: zero

The simplified approach was adopted to measure simple hedging transactions as the elements envisaged in OIC 32 are present.

The provisions of the accounting standard on derivative financial instruments were applied retrospectively.

### Equity investments

Equity investments in subsidiaries and associates, recorded under non-current financial assets, are valued at purchase or subscription cost.

The other equity investments are recorded at purchase or subscription cost.

The equity investments recognised under fixed assets represent a long-term and strategic investment by the company.

The equity investments recorded at purchase cost were not written down as they did not suffer impairment.

	Equity investments in subsidiaries	Equity investments in associates	Equity investments in other companies	Total equity investments
Cost	11,859,423	307,673	57,138	12,224,234
<b>Book value as at 31/12/2015</b>	<b>11,859,423</b>	<b>307,673</b>	<b>57,138</b>	<b>12,224,234</b>

Decreases due to disposals (of book value)	-	56,407	-	56,407
<b>Total changes</b>	<b>-</b>	<b>56,407</b>	<b>-</b>	<b>56,407</b>
Cost	11,859,423	251,266	57,138	12,167,827
<b>Book value as at 31/12/2016</b>	<b>11,859,423</b>	<b>251,266</b>	<b>57,138</b>	<b>12,167,827</b>

As regards changes in equity investments in associates, the decrease of € 56,407 is attributable to the sale of 5.5% to Elettronica S.p.A. of part of Expert Systems interest in CY4Gate S.r.l., as agreed on 22/12/2016 before the Notary Elena Signori, filed in the Rome Register of Companies with protocol no. 380491. As a result of this transaction, Expert System now holds 24.5% of the share capital of CY4Gate S.r.l.

With reference to equity investments in other companies, note that on 30/11/2016 the interest originally held in Buzzoole S.r.l., equal to 2.03% of the share capital with a book value of € 50,000.00, was involved in a share swap with a similar percentage of the share capital of Buzzoole Holdings Limited, a UK company based in London, which in turn now holds 100% of Buzzoole S.r.l. share capital. This transaction did not result in any change in book value of the equity investment as the two ownership structures are of similar value.

With regard to information on non-current financial assets pursuant to art. 2427-bis.1.2 of the Italian Civil Code, note that no non-current financial assets are recognised in the financial statements at amounts higher than their fair value.

### Receivables

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total	Of which relating to transactions with buy-back obligation	Fair Value
Subsidiaries	261,327	11,208,042	-	11,469,369		
Associates	-	701,809	-	701,809	-	-
<b>Book value as at 31/12/2016</b>	<b>261,327</b>	<b>11,909,851</b>	<b>-</b>	<b>12,171,178</b>		

With reference to these amounts, note that they were disbursed in implementation of an interest-bearing intercompany financing plan which envisages Expert System S.p.A.'s disbursement to its subsidiaries of loans of an amount sufficient to provide these subsidiaries with the funding necessary to meet their expense and investment commitments. The plan, approved by the Board of Directors of Expert System S.p.A. on 20 April 2016, has a duration expiring 31 December 2018.

The item "Receivables due from subsidiaries" includes € 983,736 in trade receivables originally collectible in the short term and later converted to long-term receivables due to the extension of payment terms compared to the terms normally applied.

The changes during the year were as follows:

	Balance at start of the year	Changes in the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year
Long-term receivables - subsidiaries	5,098,922	6,370,447	11,469,369	261,327	11,208,042
Long-term receivables - associates	402,521	299,288	701,809		701,809
<b>Total long-term receivables</b>	<b>5,501,443</b>	<b>6,669,735</b>	<b>12,171,178</b>	<b>261,327</b>	<b>11,909,851</b>

In compliance with the resolution of the Board of Directors relating to intercompany loans of 20/04/2016, on the long-term receivables due from subsidiaries, totalling € 11,208,042, an interest rate "agreed or which would have been agreed for a similar loan agreement between independent companies" was applied, assuming the reference market to be that on which Expert System operates since "it is the lender's market which must be considered 'significant'" (see Ministerial Circular no. 32/1980, chapter IV).

Information on equity investments in subsidiaries:

Name	Italian city or Foreign country	Share in €	% held	Book value or corresponding receivable	SE as at 31/12/2016	Profit/ (Loss) 2016	Fair Value
Expert System France	Paris, France	1,357,811	100.00%	11,810,831	63,657	-2,416,966	Included between € 12,674,000 and € 16,583,000 *

Expert System Cogito Ltd.	London, UK	1,362	100.00%	1,247	-621,888	-389,165	-
Expert System Iberia S.L.U.	Barcelona, Spain	3,000	100.00%	47,344	-1,690,992	-1,134,800	Included between € 1,552,000 and € 2,011,000 **
Expert System USA Inc.	Delaware, USA	1	100.00%	1	-4,198,109	-725,554	-
<b>Total</b>				<b>11,859,423</b>			
<p>* Value of Expert System France S.A. and its subsidiaries Expert System Enterprise Corp, Expert System Canada Inc. and Expert System Deutschland GMBH, as indicated in the appraisal signed by Mr. Maurizio Dallochio, an independent professional, on 18/09/2015</p> <p>** As indicated in the appraisal signed by Accuracy, dated December 2014</p>							

The subsidiary Expert System France S.A. in turn holds the following interests, indirectly controlled by Expert System S.p.A.:

Company	City or Foreign country	Share capital in €	Shareholders' equity (excluding profit/loss for the	Profit/ (Loss) 2016	% held	Fair Value
Expert System Enterprise Corp.	Rockville (USA)	190	(2,002,052)	(332,670)	100.00%	Included between € 12,674,000 and € 16,583,000 *
Expert System Canada Inc.	Montreal (CAN)	705	(23,766)	(37,188)	100.00%	
Expert System Deutschland	Heidelberg (DEU)	25,000	57,179	(326,323)	100.00%	
<p>* Value of Expert System France S.A. and its subsidiaries Expert System Enterprise Corp, Expert System Canada Inc. and Expert System Deutschland GMBH, as indicated in the appraisal signed by Mr. Maurizio Dallochio, an independent professional, on 18/09/2015</p>						

From the impairment tests, carried out to check the fairness of the book value of equity investments held by Expert System and recognised as financial fixed assets, no impairment losses emerged with respect to the book value.

Information on equity investments in associates:

Name	Italian city or Foreign country	Tax code (for Italian companies)	Share capital in €	% held in €	% held	Book value or corresponding receivable
CY4Gate S.r.l.	Rome	13129151000	300,000	73,500	24.50%	251,266
<b>Total</b>						<b>251.266</b>

### Comment - breakdown of equity investments in associates

As mentioned previously, on 22/12/2016 before the Notary Elena Signori, the company sold 5.5% of its equity investment in CY4Gate S.r.l., thereby reducing its interest from 30% to 24.5%.

### Introduction - Breakdown of long-term receivables by geographic area

The breakdown of receivables at 31/12/2016 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

Geographic area	Long-term receivables - subsidiaries	Long-term receivables - associates	Total long-term receivables
Italy	-	701,809	701,809
EU	5,756,522	-	5,756,522
NON-EU	5,712,847	-	5,712,847
<b>Total</b>	<b>11,469,369</b>	<b>701,809</b>	<b>12,171,178</b>

### Value of non-current financial assets

	Book value
Equity investments in other companies	57,138
Receivables due from subsidiaries	11,469,369
Receivables due from associates	701,809

### Breakdown of the value of equity investments in other companies:

Description	Book value
Okkam S.r.l.	1,000
Conai	5
ICT Sud	133
Confidimpresa	5,000
Distretto Tecnologico Trentino S.c.a.r.l.	1,000
Buzzoole Holdings Limited	50,000
<b>Other equity investments in other companies</b>	<b>57,138</b>
<b>Total</b>	<b>57,138</b>

### Breakdown of the value of long-term receivables due from subsidiaries:

Description	Book value
Financial receivables due from Expert System USA Inc.	4,032,944

Financial receivables due from Expert System Cogito Ltd.	661,730
Financial receivables due from Expert System Iberia S.L.U.	3,433,621
Financial receivables due from Expert System Enterprise Corp.	1,679,904
Financial receivables due from Expert System France S.A.	1,653,149
Invoices to be issued to Expert System Iberia S.L.U.	8,021
<b>Total</b>	<b>11,469,369</b>

Breakdown of the value of long-term receivables due from associates:

Description	Book value
Receivables due from CY4Gate S.r.l.	701,809
<b>Total</b>	<b>701,809</b>

## CURRENT ASSETS

### Inventories

#### Warehouse inventories

This includes contract work in progress, recorded on the basis of the percentage of completion criterion: costs, revenues and the job profit are recognised on the basis on the progress of production activities. For the application of this criterion the hours worked method is adopted. The measurement criteria have remained unchanged with respect to the previous year.

This method was adopted as the contract work in progress has a duration of more than one year (i.e. a works contract requiring a time investment of more than twelve months) and as the requirements envisaged in Italian accounting standard OIC 23 are met.

The measurement criteria adopted remained unchanged with respect to the previous year and are outlined in the first part of these Explanatory Notes.

## I - Inventories

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
610,900	1,714,539	(1,103,639)

	Value at start of the year	Changes in the year	Value at end of the year
Contract work in progress	1,714,539	(1,103,639)	610,900
<b>Total inventories</b>	<b>1,714,539</b>	<b>(1,103,639)</b>	<b>610,900</b>

## Receivables recorded under current assets

### Receivables

The amortised cost criterion was not applied as the effects are immaterial to providing a true and fair view. These receivables are therefore stated at their estimated realisable value, unless discounting is applied.

The adjustment of the nominal value of receivables into line with the estimated realisable value is obtained using the appropriate bad debt provision, taking into consideration any impairment indicators. Receivables originally due within twelve months and later transformed into long-term receivables are recorded in shareholders' equity under non-current financial assets.

Receivables are eliminated from the financial statements when the contractual rights to cash flows from that receivable no longer exist or if all risks associated with the receivable subject to disinvestment are transferred.

## II - Receivables

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
14,262,888	18,313,414	(4,050,526)

### Changes and due dates of receivables recorded under current assets

A significant portion of the receivables at 31/12/2016, totalling € 1,208,059, is in foreign currency. Criteria for the translation of amounts stated in foreign currency in these Explanatory Notes.

The balance is broken down according to the due dates (art. 2427.1.6 of the Italian Civil Code).

The company opted:

- not to discount the receivables as the effective interest rate is not significantly different from the market interest rate;
- not to apply the amortised cost criterion to receivables due in less than 12 months;
- not to apply the amortised cost criterion as the transaction costs, fees and all other differences between the original value and value at the due date are negligible.

The receivables were therefore valued at their estimated recoverable amount.

	Balance at start of the year	Changes in the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year
Current receivables due from customers	6,493,691	(1,064,395)	5,429,296	5,429,296	-
Current receivables due from subsidiaries	2,263,695	9,909	2,273,604	2,246,817	26,787
Current receivables due from associates	-	255,626	255,626	255,626	-
Current tax receivables	724,476	(363,727)	360,749	331,139	29,610
Current prepaid tax assets	447,962	308,566	756,528		
Current other receivables	8,383,590	(3,196,505)	5,187,085	4,334,277	852,808
<b>Total receivables recorded under current assets</b>	<b>18,313,414</b>	<b>(4,050,526)</b>	<b>14,262,888</b>	<b>12,597,155</b>	<b>909,205</b>

Receivables for a significant amount at 31/12/2016 are composed as follows:

Receivables for a significant amount due from subsidiaries at 31/12/2016:

Description	Due within 12 months	Due after 12 months
Due from ADmantX S.p.A.	48,767	26,787
Due from Expert System USA Inc.	867,267	-
Due from Expert System Cogito Ltd.	168,230	-
Due from Expert System France S.A.	86,366	-
Due from Expert System Iberia S.L.U.	310,046	-

Due from Expert System Enterprise Corp.	635,918	-
Due from Expert System Deutschland GMBH	130,223	-
<b>Total</b>	<b>2,246,817</b>	<b>26,787</b>

Tax receivables at 31/12/2016, amounting to € 360,749, are broken down as follows:

Description	Due within 12 months	Due after 12 months
Bonus credit – Decree Law 66/14	6,542	
Non-taxable tax credits for R&D, Law Decree 70/2011	2,311	
Non-taxable tax credits for R&D, Min.Decree no. 17, 27 May 2015	162,912	
IRES (corporate income tax) credits	30,993	
VAT receivables	128,381	
IRES receivable from IRAP		29,610
<b>Total</b>	<b>331,139</b>	<b>29,610</b>

Prepaid tax assets at 31/12/2016, amounting to € 756,528, are broken down by due date as follows:

Description	Due within 12 months	Due after 12 months	Total
Prepaid tax assets	336,000	420,528	
<b>Total</b>	<b>336,000</b>	<b>420,528</b>	<b>756,528</b>

With regard to R&D-related tax receivables, note that these amounts were recognised as Expert System S.p.A. is a beneficiary eligible for grants envisaged for companies that invest in research and development pursuant to Ministerial Decree no. 17 of 27 May 2015.

The prepaid tax assets of € 756,528 include prepaid taxes for € 350,720 relating to current year tax losses for € 1,461,334 that can be carried forward. The remaining prepaid taxes of € 405,808 relate to the temporary deductible differences; for a description please see the section in the last part of these explanatory notes.

Other receivables, totalling € 5,187,085 at 31/12/2016, are composed as follows:

Description	Due within 12 months	Due after 12 months
Receivables due from Okkam		67,871

Receivables due from personnel	11,550	
11% IRPEF (personal income tax) substitute tax advance	2,573	
Guarantee deposits in cash	231	45,198
INAIL advances	1,143	
Sundry receivables	4,105	
Advances to suppliers	71,742	35,582
Receivables for research project grants	4,242,933	704,157
<b>Total</b>	<b>4,334,277</b>	<b>852,808</b>

Receivables for research project grants due within no later than 12 months refer to all receivables accrued as at 31/12/2016, relating to sums that the company has to collect in that respect.

Details of receivables for research project grants are presented below.

Description	Due within 12 months	Due after 12 months
FESR - Province of Trento	347,483	-
Horizon 2020	-	589,157
Mise (Ministry of Economic Development) - FIT	395,418	-
MIUR (Ministry of Education, Universities and Research) - PNR Tessile	39,984	-
MIUR (Ministry of Education, Universities and Research) - FAR	243,892	-
PON	-	115,000
PON R&C 2007-2013	1,952,119	-
POR FESR Lazio	33,903	-
European Project - Tender ISEC	1,230,135	-
<b>Total</b>	<b>4,242,933</b>	<b>704,157</b>

#### Breakdown of current receivables by geographic area

The breakdown of receivables at 31/12/2016 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

Geographic area	Italy	EU customers	Non-EU customers	Customers on invoices to be issued - Non-EU	Customers on invoices to be issued	(Bad debt provision)	Total
Current receivables due from customers	3,389,162	35,000	1,233,964	250,757	831,494	(311,081)	5,429,296
Current receivables due from subsidiaries	26,787	743,632	1,503,185	-	-	-	2,273,604
Current receivables due from associates	255,626	-	-	-	-	-	255,626

Current tax receivables	360,749	-	-	-	-	-	360,749
Current prepaid tax assets	756,528	-	-	-	-	-	756,528
Current other receivables	5,187,085	-	-	-	-	-	5,187,085
<b>Total receivables recorded under current assets</b>	<b>9,975,937</b>	<b>778,632</b>	<b>2,737,149</b>	<b>250,757</b>	<b>831,494</b>	<b>(311,081)</b>	<b>14,262,888</b>

The adjustment of the nominal value of receivables to the estimated realisable value was obtained through the appropriate bad debt provision, which did not change during the year, as described in the following table:

Description	Bad debt provision pursuant to art. 2426 of the Italian Civil Code	Bad debt provision pursuant to art. 106 of It. Pres. Decree No. 917/1986	Total
Balance as at 31/12/2015	108,779	233,683	342,462
Use in the year	-	31,381	31,381
Provision in the year	-	-	-
<b>Balance as at 31/12/2016</b>	<b>108,779</b>	<b>202,302</b>	<b>311,081</b>

## Current financial assets

### Changes in current financial assets

Securities recorded under current assets are valued at the lower of purchase cost and the realisable value taken from market trends.

Reference was made to the Milan Stock Market for comparing the cost. With regard to unlisted securities, reference was made to the listings of similar securities (at nominal value adjusted on the basis of the market rate of return).

The equity investments recorded under current assets, given they do not constitute permanent investments, are valued at the lower of purchase cost the realisable value taken from market trends, by applying the specific cost method.

Reference was made to the Milan Stock Market for comparing the cost.

### III - Financial assets

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
5,163,872	5,140,822	23,050

Information is provided below on the equity investments held directly or indirectly through subsidiaries, associates (art. 2427.1.5, of the Italian Civil Code).

	Balance at start of the	Changes in the year	Balance at end of the
Current equity investments in subsidiaries	4,153,074	-	4,153,074
Other current equity investments	8,400	-	8,400
Other current securities	979,348	23,050	1,002,398
<b>Total current financial assets</b>	<b>5,140,822</b>	<b>23,050</b>	<b>5,163,872</b>

“Other securities” includes securities for € 1,002,398 representing units of the bond fund “AZ White Fleet II SICAV” subscribed on 10/08/2016.

The breakdown of equity investments in subsidiaries recognised as current assets, in reference to the most recent approved financial statements, is as follows:

Name	Italian city or Foreign country	Tax code (for Italian companies)	Share capital in €	Profit (Loss) previous year in €	Shareholder s' equity in €	% held in €	% held	Book value or corresponding receivable
ADmantX S.p.A.	Naples	02634571208	217,359	(1,412,365)	1,918,335	131,893	60.68%	4,153,074
<b>Total</b>								<b>4,153,074</b>

The value of the equity investment in ADmantX S.p.A. was not written down on the basis of the appraisal, carried out in accordance with art. 2343-ter, par. 2 of the Italian Civil Code by Mauro Zavani, listed in the Ordine dei Dottori Commercialisti ed Esperti Contabili (Association of Chartered and Qualified Accountants) of Massa Carrara, an appraisal which valued the company ADmantX S.p.A. at a total of € 11,072,000. This appraisal was definitely enhanced by the share capital increase of the subsidiary ADmantX S.p.A., resolved by the extraordinary shareholders' meeting of 04/08/2015. That occasion saw the entry of new investors in the shareholding structure, for a total outlay of € 2,160,000, of which € 2,132,633 share premium, allowing the new shareholders to become owners of an aggregate 12.6% of the new share capital, therefore now estimated at € 17,160,000. In respect of said valuation, confirmed by the aforementioned share capital increase, the equity investment in ADmantX S.p.A. was not written down as it is not below the fair value.

The subsidiary ADmantX S.p.A. in turn holds the following interest, indirectly controlled by Expert System S.p.A.:

Company	City or Foreign country	Share capital	Shareholders' equity	Profit/(Loss) 2016	% held
ADmantX Inc.	West Hartford CT 06133-0024, USA	€ 7,064	(€ 2,644,437)	(€ 379,207)	100.00%

## Cash and cash equivalents

### IV. Cash and cash equivalents

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
7,329,877	9,395,683	(2,065,806)

	Balance at start of the	Changes in the year	Balance at end of the
Bank and postal deposits	9,393,911	(2,066,714)	7,327,197
Cash at bank and in hand	1,772	908	2,680
<b>Total cash and cash</b>	<b>9,395,683</b>	<b>(2,065,806)</b>	<b>7,329,877</b>

The balance represents cash and cash equivalents and the existence of cash and assets at the close of the year.

## Accrued income and prepaid expenses

### Accruals and deferrals

Accruals and deferrals were calculated on an accruals basis during the year.

For multi-year accruals and deferrals, the conditions that led to their original recognition were verified, where necessary, applying the necessary changes.

They measure income and charges whose accrual is early or deferred with respect to the actual date of payment and/or of the document; they disregard the date of payment or collection of the relative income and expense, common to two or more financial years and distributable on a time basis.

Also for these items, the criteria adopted for the valuation and conversion of amounts stated in foreign currency are reported in the first part of these explanatory notes.

## D) ACCRUALS AND DEFERRALS

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
750,255	796,548	(46,293)

	Balance at start of the	Changes in the year	Balance at end of the
Accrued income	922	(922)	-
Prepaid expenses	795,626	(45,371)	750,255
<b>Total accrued income and</b>	<b>796,548</b>	<b>(46,293)</b>	<b>750,255</b>

The breakdown of the item is detailed as follows (art. 2427.1.7 of the Italian Civil Code).

Prepaid expenses	Due within 12 months	Due after 12 months	Due after 5 years
Rent	9,049		
Other deferrals	6,279		
Insurance	4,990		
Commissions	30,680	41,334	998
Consultancy	114,986	37,301	
Software licences	272,267	118,089	
Maintenance	179		
Rental	21,205	441	
Commissions	5,750		
Research and education	9,542		
Commercial services	23,041	5,591	
AIM listing services	16,577		
Internet costs	28,428	404	
Telephone expenses	1,970		
Miscellaneous administrative	1,154		
<b>Total</b>	<b>546,097</b>	<b>203,160</b>	<b>998</b>

## EXPLANATORY NOTES - LIABILITIES AND SHAREHOLDERS' EQUITY

### SHAREHOLDERS' EQUITY

(Ref. art. 2427.1.4, 7 and 7-bis of the Italian Civil Code)

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
28,275,735	24,775,372	3,500,363

### Changes in shareholders' equity

	Balance at start of the year	Allocation of previous year's profit		Other changes			Profit/loss for the year	Balance at end of the year
		Other allocations	Increases	Decreases	Reclassifications			
Share capital	250,608	-	26,095	-	-	-	276,703	
Share premium reserve	20,737,590	-	4,671,098	-	-	-	25,408,688	
Legal reserve	43,899	-	-	-	-	-	43,899	
Other reserves								
Extraordinary reserve	4,580,697	-	-	(999,032)	37,234	-	3,618,898	
Merger surplus reserve	376,622	-	-	-	-	-	376,622	
Reserve for unrealised exchange gains	217,282	1	-	-	(37,234)	-	180,049	
Miscellaneous other reserves	141,001	1	-	-	-	-	141,002	
Total other reserves	5,315,602	2	-	(999,032)	-	-	4,316,571	
Cash flow hedging reserve	(12,900)	-	5,946	-	-	-	(6,954)	
Profit (loss) for the year	(999,032)	-	-	203,745	-	(1,202,777)	(1,202,777)	
Negative reserve for treasury shares in portfolio	(560,395)	-	-	-	-	-	(560,395)	
<b>Total shareholders' equity</b>	<b>24,775,372</b>	<b>2</b>	<b>4,703,139</b>	<b>1,202,778</b>	<b>-</b>	<b>(1,202,777)</b>	<b>28,275,735</b>	

### Breakdown of miscellaneous other reserves

Description	Amount
PIA Reserve provision	141,000
Euro rounding difference	2
<b>Total</b>	<b>141,002</b>

## Availability and use of shareholders' equity

Items of shareholders' equity are distinguished according to origin, possibility of use, distributability and use in the three previous years (art. 2427.1.7 bis of the Italian Civil Code).

	Amount	Origin/ nature	Possibility of use	Available portion	Summary of uses made in the three previous years - for coverage of losses
Share capital	276,703		B	-	-
Share premium reserve	25,408,688	Capital reserve	A,B,C,D	19,179,434	-
Legal reserve	43,899	Profit reserve	A,B	-	-
<i>Other reserves</i>					
Extraordinary reserve	3,618,898		A,B,C,D	3,618,898	999,032
Merger surplus reserve	376,622	Profit reserve	A,B,C,D	376,622	-
Reserve for unrealised exchange gains	180,049	Profit reserve	A,B,C,D	-	-
Miscellaneous other reserves	141,002			-	-
Total other reserves	4,316,571			3,995,520	999,032
Cash flow hedging reserve	(6,954)	Profit reserve	A,B,C,D	-	-
Negative reserve for treasury shares in portfolio	(560,395)	Profit reserve	A,B,C,D	-	-
<b>Total</b>	<b>29,478,512</b>			<b>23,174,954</b>	<b>999,032</b>
<i>Residual distributable portion</i>				23,174,954	

Key: A: for share capital increase; B: for coverage of losses; C: for distribution to shareholders; D: for other statutory restrictions; E: other.

## Source, possibility of use and distributability of miscellaneous other reserves

Description	Amount	Origin/ nature	Possibility of use	Available portion
PIA Reserve provision	141,000	Profit reserve	A,B,C,D	-
Euro rounding difference	2			-
<b>Total</b>	<b>141,002</b>			

Key: A: for share capital increase; B: for coverage of losses; C: for distribution to shareholders; D: for other statutory restrictions; E: other.

This reserve was allocated by means of resolution of the shareholders' meeting dated 15 July 2008, referring to the funded research project entitled "Teliar" which avails itself of the Financial concessions as per measure 2.1.a Integrated Concessions Package - PIA Innovazione - envisaged by the P.O.N. "Sviluppo Imprenditoriale Locale" (2nd Call) Project Application A02/1276/P - 44415/13 Decree for provisional granting of the concessions No. 150160 dated 20/03/2006. This reserve is restricted until conclusion of the aforementioned project and is therefore unavailable.

## Changes in the cash flow hedging reserve

The changes in the cash flow hedging reserve were as follows (art. 2427-bis.1.1b)-quater)

	Cash flow hedging reserve
Balance at start of the year	(12,900)
Changes in the year	
Increase due to change in fair value	5,946
<b>Balance at end of the year</b>	<b>(6,954)</b>

The change in value of the reserve expresses the adjustment to fair value of the derivative instrument at 31/12/2016.

As required by art. 2427.1.4 of the Italian Civil Code, information is provided below on the formation and use of shareholders' equity items:

	Share capital	Legal reserve	Reserves	Profit/loss for the year	Total
<b>At start of previous year</b>	<b>219,497</b>	<b>40,067</b>	<b>17,997,458</b>	<b>1,001,538</b>	<b>19,258,560</b>
Allocation of profit for the year				(1,001,538)	(1,001,538)
- other allocations (recognized to the cash flow hedging reserve)			(12,900)		(12,900)
Other changes					
- Increases due to share capital increase	31,111		6,968,860		6,999,971
Allocation of 2014 profit		3,832	997,706		1,001,538
- Decreases (elimination of the increase in the reserve for treasury shares in portfolio)			(471,232)		(471,232)
- Other allocations			5		5
Profit/loss for the previous year				(999,032)	(999,032)
<b>At close of previous year</b>	<b>250,608</b>	<b>43,899</b>	<b>25,479,897</b>	<b>(999,032)</b>	<b>24,775,372</b>
Allocation of profit for the year					
- other allocations			1		1
Other changes					
- Increases	26,095		4,677,044		4,703,139
- Decreases			(999,032)		
Profit/loss for the current year				(1,202,777)	(1,202,777)
<b>At close of current year</b>	<b>276,703</b>	<b>43,899</b>	<b>29,157,910</b>	<b>(1,202,777)</b>	<b>28,275,735</b>

The above table takes into account the retroactive effect of transposition of Italian Legislative Decree 139/2015 which amended the accounting standards, and therefore shows Shareholder' Equity balances different from those in the financial statements presented for

previous years. The new Shareholders' Equity balances at the start of the previous year take into account the elimination of the item "Reserve for treasury shares in portfolio", which at 01/01/2015 totalled € 89,160. The changes to 2015 figures also take into account the amendments and reclassifications imposed by Legislative Decree 139/2015 relating in particular to setup of the "Cash flow hedge reserve", which at 31/12/2015 totalled € 12,899, and the "Reserve for treasury shares in portfolio" which at 31/12/2015 had increased by € 471,232. The balance of "Reserves" at 31/12/2016 expresses the net value of the following reserves:

Share premium reserve	25,408,688
Extraordinary reserve	3,618,898
Merger surplus reserve	376,622
Reserve for unrealised exchange gains	180,049
Other reserves	141,002
Cash flow hedging reserve	(6,954)
Negative reserve for treasury shares in portfolio	(560,395)
<b>Total</b>	<b>29,157,910</b>

In compliance with the provisions of accounting standard No. 28 on shareholders' equity, the following supplementary information is provided:

Shareholders' equity includes the following items:

- Reserves or other provisions that, in the event of distribution, do not contribute to the formation of the taxable income of the company regardless of the period they are established;
- Reserves or other provisions that, in the event of distribution, do not contribute to the formation of the taxable income of shareholders regardless of the period they are established.

Reserves	Value
Share premium reserve	25,408,688
	<b>25,408,688</b>

## Reserves incorporated in the share capital

None.

## Negative reserve for purchase of treasury shares

The changes in treasury shares were as follows:

Description	31/12/2015	Increases	Decreases	31/12/2016
Expert System S.p.A.	560,395	-	-	560,395

In compliance with the provisions of the law, the percentage is within the limit set by articles 2357 and 2357-bis of the Italian Civil Code.

## B) PROVISIONS FOR RISKS AND CHARGES

(Ref. art. 2427.1.4 of the Italian Civil Code)

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
219,116	200,123	18,993

	Pension provision and similar obligations	Provision for taxes, including deferred	Derivative financial instruments - liabilities	Other provisions	Total provisions for risks and charges
Balance at start of the year	3,151	169,072	12,900	15,000	200,123
Changes in the year					
Provision in the year	1,190	40,983	-	-	42,173
Use in the year	-	17,234	5,946	-	23,180
<i>Total changes</i>	<i>1,190</i>	<i>23,749</i>	<i>(5,946)</i>	<i>-</i>	<i>18,993</i>
<b>Balance at end of the year</b>	<b>4,341</b>	<b>192,821</b>	<b>6,954</b>	<b>15,000</b>	<b>219,116</b>

These are set aside to cover losses or payables which are certain or likely to exist but, in respect of which, the amount or date of occurrence could not be determined at year end.

In measuring these provisions the general principles of prudence and accrual accounting were observed, and no generic risk provisions were set up without economic justification.

Contingent liabilities were recorded in the financial statements and booked to provisions given they were deemed likely and that the amount can be reasonably estimated.

The increases relate to allocations in the year. The decreases refer to uses in the year. Provisions for taxes include deferred tax liabilities of € 192,821 relating to taxable temporary differences; for a description of these please refer to the relevant section of these explanatory notes.

Other provisions amounted to € 15,000 at 31/12/2016 and refer to a dispute arising in the final part of 2015.

### C) EMPLOYEE SEVERANCE INDEMNITY

(Ref. art. 2427.1.4 of the Italian Civil Code)

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
1,670,520	1,390,984	279,536

This refers to the actual amounts accrued due to employees in compliance with law and the applicable employment contracts, in consideration of any form of continuous pay.

The provision corresponds to the total of individual indemnities accrued by employees at the close of the financial year, net of any advances provided, and is equal to the amount that would have been due to employees if they had ended their employment on said date.

	Employee severance indemnity
Balance at start of the year	1,390,984
<i>Changes in the year</i>	
Provision in the year	372,887
Use in the year	93,351
<i>Total changes</i>	279,536
<b>Balance at end of the year</b>	<b>1,670,520</b>

The provision allocated represents the actual amount owed by the company, as at 31/12/2016, to employees in the workforce at said date, net of advances paid.

## D) PAYABLES

The amortised cost criterion was not applied as the effects are immaterial to providing a true and fair view. The payables are therefore recorded at nominal value.

Discounting was not performed on payables due within less than 12 months as the effects are immaterial when compared to the undiscounted value.

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
25,913,519	29,710,077	(3,796,558)

### Changes and due dates of payables

The due dates of payables are as follows (art. 2427.1.6 of the Italian Civil Code):

	Balance at start of the year	Changes in the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year	Portion due after 5 years
Bonds	5,000,000	-	5,000,000	-	5,000,000	-
Payables due to banks	15,165,372	(2,082,422)	13,082,950	4,487,565	8,495,385	100,000
Payables due to other lenders	699,457	420,501	1,119,958	354,906	562,591	202,462
Payments on account	4,059,139	(1,685,291)	2,373,848	2,238,142	135,706	-
Trade payables	1,579,333	(182,505)	1,396,828	1,396,828	-	-
Payables due to subsidiaries	204,939	(176,638)	28,301	28,301	-	-
Tax payables	602,920	(153,344)	449,576	449,576	-	-
Payables due to social security institutions	297,826	23,189	321,015	321,015	-	-
Other payables	2,101,091	39,952	2,141,043	1,641,043	500,000	-
<b>Total payables</b>	<b>29,710,077</b>	<b>(3,796,558)</b>	<b>25,913,519</b>	<b>10,917,376</b>	<b>14,693,682</b>	<b>302,462</b>

The most significant payables as at 31/12/2016 were as follows:

The balance of payables due to banks at 31/12/2016, amounting to € 13,082,950, including mortgage borrowings, expresses the actual amount due in principal, interest and accessory expenses accrued and payable. The list is shown below:

Description	Due within 12 months	Due after 12 months	Due after 5 years
Advances on receivables	3,476	-	-
Bank overdrafts	28,978	-	-
Banco Desio loan	340,005	-	-
Bper loan	405,096	-	-
Bper loan	737,515	1,719,890	-
BPM loan	202,003	-	-
BPM loan	137,561	528,263	-
Cariparma loan	246,421	253,199	-
Carisbo - Mediocredito	300,000	1,600,000	100,000
Credem loan	99,138	279,094	-
MPS mortgage	200,000	700,000	-
Banca CARIGE mortgage	38,728	83,223	-
Banca CARIGE mortgage	80,000	-	-
Banca CARIGE mortgage	295,808	757,829	-
San Felice 1893 Banca Popolare loan	130,031	669,969	-
UBI loan	135,230	-	-
UBI loan	197,876	574,415	-
UNICREDIT loan	509,699	129,502	-
UNICREDIT loan	400,000	1,200,000	-
<b>Total payables</b>	<b>4,487,565</b>	<b>8,495,385</b>	<b>100,000</b>

#### Payables due to other lenders at 31/12/2016

Description	Due within 12 months	Due after 12 months	Due after 5 years
PIA project financing	161,409	162,604	-
OSINT subsidised loan	94,519	-	-
SOSEM subsidised loan	98,978	399,987	202,462
<b>Total</b>	<b>354,906</b>	<b>562,591</b>	<b>202,462</b>

The item "Payments on account" includes advances received from customers relating to work in progress amounting to € 2,373,848 which is detailed below by job and by expected duration of the job (amounts in €):

Project	Advance amount	Due within 12 months	Due after 12 months
Advances from customers	599,986	599,986	-
Horizon 2020	287,651	151,945	135,706
PON R&C 2007-2013	590,936	590,936	-
European Project - Tender ISEC	895,275	895,275	-
<b>Overall total</b>	<b>2,373,848</b>	<b>2,238,142</b>	<b>135,706</b>

The payable for bonds corresponds to the total residual principal amount at 31/12/2016, according to the repayment plan.

The balance of payable for bonds, amounting to € 5,000,000, is attributable to the issue of a bond loan reserved for professional investors, fully subscribed by the Fondo Strategico Trentino Alto Adige managed by Finint Investments SGR S.p.A.

The main terms and conditions of the Bond Loan are as follows:

<b>Amount</b>	Nominal amount of € 5,000,000.00
<b>Issue date</b>	31/07/2015
<b>Maturity</b>	31/12/2024, date of redemption of the bond loan
<b>Issue price</b>	100% of the nominal value of each bond
<b>Interest rate</b>	Gross annual fixed rate of 4% with half-yearly payments from January 2016
<b>Bond structure</b>	Amortising with 4 years of pre-amortisation

The company opted not to apply the amortised cost criterion and not to discount the payables.

The accounting policies adopted by the company were:

- not to discount and not to apply the amortised cost criterion to payables due in less than 12 months;
- not to discount the payables as the effective interest rate is not significantly different from the market interest rate;
- not to apply the amortised cost criterion as the transaction costs, fees and all other differences between the original value and value at the due date are negligible.

Payables are therefore recognised at nominal value.

The item "Tax payables" only includes liabilities for certain and specific taxes, since the liabilities for probable or uncertain taxes with regard to the amount or timing, or rather deferred taxes, are recorded in liability item B.2 (Provision for taxes).

The item includes payables for IRAP taxes amounting to € 4,687, net of the IRAP credit carried forward for € 7,985.

The payables to tax authorities also include amounts withheld at source totalling € 444,889.

Other payables include amounts due to directors for € 51,254, amounts due to employees for holiday entitlement not taken, salaries and bonuses accrued for € 1,077,591, amounts due to former shareholders of Temis S.A. for € 1,000,000 and minor payables for € 12,198.

#### Breakdown of payables by geographic area

The breakdown of payables at 31/12/2016 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

Geographic area	Italy	EU	NON-EU	Invoices to be received	Credit notes to be received	Total
Bonds	5,000,000	-	-	-	-	5,000,000
Payables due to banks	13,082,950	-	-	-	-	13,082,950
Payables due to other lenders	1,119,958	-	-	-	-	1,119,958
Payments on account	2,373,848	-	-	-	-	2,373,848
Trade payables	995,618	92,340	16,680	299,398	(7,208)	1,396,828
Payables due to subsidiaries	-	26,785	1,516	-	-	28,301
Tax payables	449,576	-	-	-	-	449,576
Payables due to social security institutions	321,015	-	-	-	-	321,015
Other payables	2,141,043	-	-	-	-	2,141,043
<b>Payables</b>	<b>25,484,008</b>	<b>119,125</b>	<b>18,196</b>	<b>299,398</b>	<b>(7,208)</b>	<b>25,913,519</b>

#### Payables backed by collaterals on company assets

The following payables are backed by collaterals on company assets (art. 2427.1.6 of the Italian Civil Code).

The guarantees are as follows:

	Total payables backed by collaterals		Payables not backed by collaterals	Total
	Payables backed by mortgages			
Bonds			5,000,000	5,000,000
Payables due to banks		121,951	12,960,999	13,082,950
Payables due to other lenders			1,119,958	1,119,958
Payments on account			2,373,848	2,373,848
Trade payables			1,396,828	1,396,828
Payables due to subsidiaries			28,301	28,301

Tax payables		449,576	449,576
Payables due to social security institutions		321,015	321,015
Other payables		2,141,043	2,141,043
<b>Total payables</b>	<b>121,951</b>	<b>25,791,568</b>	<b>25,913,519</b>

It should be noted that the Carige loan, originally for € 347,000, with a residual debt of € 121,951 as at 31/12/2016, taken out in 2009 to purchase a property in Naples, is secured by a mortgage on said asset for an amount of € 434,000 (art. 2427.1.6 of the Italian Civil Code).

## E) ACCRUED EXPENSES AND DEFERRED INCOME

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
3,296,156	3,428,317	(132,161)

The breakdown of the item is detailed as follows (art. 2427.1.7 of the Italian Civil Code).

Description	Amount
Deferred income for research project grants	2,176,217
Deferred income on R&D tax credit	97,747
Other deferred income	924,229
Accrued expenses	97,963
	<b>3,296,156</b>

	Balance at start of the year	Changes in the year	Balance at end of the year
Accrued expenses	111,782	(13,819)	97,963
Deferred income	3,316,535	(118,342)	3,198,193
<b>Total accrued expenses and deferred income</b>	<b>3,428,317</b>	<b>(132,161)</b>	<b>3,296,156</b>

Accruals and deferrals were calculated on an accruals basis during the year.

For multi-year accruals and deferrals, the conditions that led to their original recognition were verified, where necessary, applying the necessary changes.

Accruals and deferrals represent the adjusting entries for the year, accounted for using the accrual principle.

The criteria adopted for the valuation and conversion of amounts stated in foreign currency for these items are reported in the first part of these explanatory notes.

As at 31/12/2016, no accruals and deferrals had a duration of more than five years.

Deferred income referring to operating grants on research projects, are detailed below by project funded and maturity within/beyond 12 months:

Tender type	Deferred income for research project grants	Due within 12 months	Due after 12 months
FESR - Province of Trento	36,189	36,189	-
Horizon 2020	512,099	77,058	435,042
L.P.6/99	93,631	93,631	-
PON	59,641	21,733	37,908
PON R&C 2007-2013	1,091,839	183,445	908,393
POR FESR Lazio	142,346	94,544	47,802
F7P European Project	240,470	107,905	132,566
<b>Overall total</b>	<b>2,176,217</b>	<b>614,506</b>	<b>1,561,711</b>

Part of the deferred income, amounting to € 130,330, instead refers to grants envisaged for companies investing in research and development pursuant to Ministerial Decree no. 17 of 27 May 2015.

The item breaks down as follows:

Deferred income - grants pursuant to Min. Decree no. 17 of 27/05/2015	Item total	Due within 12 months	Due after 12 months
Deferred income	97,747	32,582	65,165
<b>Overall total</b>	<b>97,747</b>	<b>32,582</b>	<b>65,165</b>

The breakdown of other deferred income is as follows:

Deferred income	Item total	Due within 12 months	Due after 12 months
Hosting fees	74,941	74,941	
Provision of services	202,812	202,812	
Revenues for maintenance fees	341,124	310,876	30,248
Licences	305,352	171,247	134,105
<b>Overall total</b>	<b>924,229</b>	<b>759,876</b>	<b>164,353</b>

## EXPLANATORY NOTES - INCOME STATEMENT

### A) VALUE OF PRODUCTION

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
16,790,321	15,256,475	1,533,846

Description	31/12/2016	31/12/2015	Changes
Sales and service revenues	13,887,350	10,506,609	3,380,741
Changes in contract work in progress	(1,103,638)	151,756	(1,255,394)
Own work capitalised	2,820,274	3,033,114	(212,840)
Other revenues and income	1,186,335	1,564,996	(378,661)
	<b>16,790,321</b>	<b>15,256,475</b>	<b>1,533,846</b>

#### Value of production

##### Revenue recognition

Revenues from product sales are recognised at the moment of the transfer of risks and benefits, which normally corresponds to the delivery or shipment of the goods.

Financial revenues and those deriving from the provision of services are recognised on an accrual basis.

Revenues and income and costs and expenses relating to currency transactions are determined at the current exchange rate on the date the transaction is completed.

Income and expenses relating to sale and purchase transactions with compulsory buy-back/sell-back obligation, including the difference between the forward and spot prices, are recognised for the amounts accrued for the year.

##### Breakdown of sales and service revenue by geographic area

Geographic area	Current year balance
Italy	9,040,748
EU	457,814
NON-EU	4,388,788
<b>Total</b>	<b>13,887,350</b>

Details of capitalised costs broken down by project are shown below:

Type of projects capitalised in 2016	Cost per project
Analysis of social contents	166,890
Automatic generation technology	144,483
Technologies for the recognition of natural language interaction	1,018,520
Technologies for automatic learning	192,663
Technologies for intelligence	1,120,790
Technologies for search engines	176,929
<b>Overall total</b>	<b>2,820,274</b>

The item "Other revenue and income" totalling € 1,186,336 includes operating grants for € 261,134 which refer to grants received for the hiring of personnel and € 712,983 for the portion pertaining to the year of grants relating to assets calculated in proportion to the amortisation of R&D costs to which they refer, plus various other income for € 209,219, broken down as follows:

Description	Amount
Chargeback of costs to subsidiaries	114,088
Grants	65,492
Voucher contributions	10,000
Property income	8,751
Reimbursement of other expenses	9,027
Capital gains from fixed asset disposals	637
Other minor revenues	1,225
<b>Overall total</b>	<b>209,219</b>

### Capital grants

The Group receives grants from various bodies (European Community according to the methods envisaged in Horizon 2020, Ministry of Education, Universities and Research, Ministry of Economic Development and other institutions) aimed at financing research and development projects.

These grants are classified under grants related to assets since they are contributions targeted at financing long-term investments. As regards the accounting of these grants, the indirect method envisaged by OIC 16 was chosen, involving the deferral of said grants in proportion to the amortisation of the costs of R&D to which they refer.

## B) COSTS OF PRODUCTION:

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
18,094,058	16,719,653	1,374,405

Description	31/12/2016	31/12/2015	Changes
Raw materials, consumables and goods for	650,696	623,614	27,082
Services	6,256,801	6,645,862	(389,061)
Use of third-party assets	613,419	613,629	(210)
Salaries and wages	5,422,070	4,644,006	778,064
Social security costs	1,581,947	1,345,724	236,223
Employee severance indemnity	372,887	336,264	36,623
Other personnel costs	13,612	10,425	3,187
Amortisation of intangible fixed assets	2,478,903	1,971,670	507,233
Depreciation of tangible fixed assets	144,927	128,668	16,259
Write-down of receivables included in current	-	65,603	(65,603)
Provision for risks	-	15,000	(15,000)
Sundry operating expenses	558,795	319,188	239,607
	<b>18,094,058</b>	<b>16,719,653</b>	<b>1,374,405</b>

### Costs for raw materials, consumables and goods for resale and Service costs

These are strictly related to the information disclosed in the relevant part of the Report on Operations and to the trend in point A (Value of production) of the income statement.

### Service costs

Costs for services are recorded under costs of production in the income statement for a total of € 6,256,801 (€ 6,645,862 in the previous year).

The breakdown of the individual items is as follows:

Description	31/12/2016	31/12/2015	Changes
Insurance	28,558	29,280	(722)
Meal vouchers	127,948	101,459	26,489
ISO Certification	1,472	1,503	(31)
Directors' fees	1,120,000	979,999	140,001

Consultancy	3,567,146	4,168,531	(601,385)
Grants	137,394	161,321	(23,927)
Board of Statutory Auditors' emoluments	14,560	14,560	0
Charitable donations	8,100	7,650	450
Maintenance (plants, furniture, etc.)	31,526	40,121	(8,596)
Commissions	38,819	39,400	(581)
Sundry reimbursements	7,480	6,077	1,403
Administrative services	21,604	44,510	(22,906)
Commercial services	9,167	24,851	(15,684)
Marketing services	34,773	56,442	(21,669)
Cleaning services	50,657	37,899	12,757
Security services	2,920	2,280	640
AIM listing services	138,390	116,586	21,804
Supply of food and beverages	4,303	5,931	(1,628)
Jointly owned property expenses	41,574	17,195	24,379
Operating expenses	11,136	27,205	(16,069)
Rental costs	89,159	73,096	16,063
Transfer costs	411,643	382,277	29,366
Bank charges and fees	59,492	24,134	35,358
Legal costs	83,369	73,921	9,448
Postal expenses	1,458	2,444	(987)
Recruitment and hiring expenses	72,071	57,594	14,477
Translations	2,616	1,500	1,116
Utilities	139,468	148,096	(8,628)
<b>Overall total</b>	<b>6,256,801</b>	<b>6,645,862</b>	<b>(389,061)</b>

### Use of third party assets

Costs for the use of third party assets are recorded under costs of production in the income statement for a total of € 613,419 (€ 613,629 in the previous year).

The breakdown of the individual items is as follows:

Description	31/12/2016	31/12/2015	Changes
Rent and leases payable	193,127	169,050	24,077
Truck rental	1,035	2,445	(1,410)
Other vehicle rental	135,622	120,758	14,864

Cloud rental	260,635	263,107	(2,472)
Hardware rental	23,000	58,269	(35,269)
<b>Overall total</b>	<b>613,419</b>	<b>613,629</b>	<b>(210)</b>

### Personnel costs

The item includes all expenses for employees, including therein merit pay increases, promotions, automatic cost-of-living increases, the cost of holidays accrued but not taken and provisions required by law and by and collective contracts.

### Depreciation of tangible fixed assets

Depreciation has been calculated on the basis of the useful life of the asset and its use in the production phase.

### Sundry operating expenses

Sundry operating expenses are recorded under costs of production in the income statement for a total of € 558,795 (€ 319,188 in the previous year).

The breakdown of the individual items is as follows:

Description	31/12/2016	31/12/2015	Changes
Magazine and newspaper subscriptions	4,075	7,832	(3,757)
Other costs	6,580	9,173	(2,593)
Non-deductible costs	24,095	11,273	12,821
Taxes and duties	14,635	14,571	64
Capital losses	554	959	(405)
Fines and penalties	2,895	2,640	255
Membership fees	28,654	28,028	626
Contingent liabilities	477,308	244,712	232,596
<b>Overall total</b>	<b>558,795</b>	<b>319,188</b>	<b>239,608</b>

The contingent liabilities amount to € 448,075 and are attributable to the DEEP RELATIONS research project financed by the Autonomous Province of Trento. Despite the Province having confirmed the amount of expense in accordance with the technical specifications, following the Research and Innovation Committee's allocation of part of the costs to experimental development rather than industrial research and the Committee's failure to confirm the

additional percentage of 15% on the industrial research as it considered the dissemination of results of the project to be insufficient, the extent of the grant was significantly reduced.

### C) FINANCIAL INCOME AND EXPENSES

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
(171,186)	182,879	(354,065)

#### Income from equity investments

(Ref. art. 2427.1.11 of the Italian Civil Code)

Description	Parent companies	Subsidiaries	Associates	Companies subject to control by parent companies	Other
Income from equity investments other than dividends					73,593
<b>Total</b>	-	-	-	-	<b>73,593</b>

	Income other than dividends
From others	73,593
<b>Total</b>	<b>73,593</b>

Other income from equity investments other than dividends comprise the capital gain realised from the sale of part of the investment in the associate CY4Gate S.r.l. on 22/12/2016 before the Notary Elena Signori. The company sold 5.5% of its equity investment in CY4Gate S.r.l. to Elettronica S.p.A. with registered office at Via Tiburtina Valeria km 13.70, Rome, tax code 00421830589, VAT no. 00886951003, thereby reducing its interest from 30% to 24.5%.

## Breakdown of interest and other financial expenses by payable type

### Interest and other financial expenses

(Ref. art. 2427.1.12 of the Italian Civil Code)

Description	Subsidiaries	Associates	Other	Total
Interest on bonds			200,000	200,000
Bank and postal interest			19	19
Medium-term credit interest			286,272	286,272
Discounts and financial expenses			81,520	81,520
Interest on loans			1,715	1,715
Other expenses on financial transactions			25,205	25,205
<b>Total</b>	-	-	<b>594,731</b>	<b>594,731</b>

	Interest and other financial expenses
Bond loans	200,000
Payables due to banks	367,811
Other	26,920
<b>Total</b>	<b>594,731</b>

### Other financial income

Description	Subsidiaries	Associates	Other	Total
Interest on bonds			28,029	28,029
Bank and postal interest			1,483	1,483
Interest on loans	146,818	11,809		158,627
Other income			12,202	12,202
<b>Total</b>	<b>146,818</b>	<b>11,809</b>	<b>41,714</b>	<b>200,341</b>

### Criteria for the translation of amounts stated in foreign currency

Receivables and payables originally stated in foreign currency, recorded on the basis of exchange rates applicable on the date on which they arose, are brought into line with current exchange rates at year end.

In detail, the assets and liabilities which represent the monetary balance sheet elements in currency (receivables, payables, cash and cash equivalents) are recognised at the spot

exchange rate as of the year end date and the related exchange gains and losses are respectively credited and charged to the income statement under item 17 bis Exchange gains and losses.

Any net gain from the year-end adjustment of items in foreign currency is included in the profit for the year and, on approval of the financial statements and subsequent allocation of the profit to the legal reserve, the part not absorbed by any loss for the year is recognised to a non-distributable reserve until realisation.

By contrast, with regard to the non-monetary assets and liabilities in foreign currency (tangible and intangible fixed assets, equity investments and other securities which grant the right to participate in the risk capital of the issuer, inventories, advances for the purchase and sale of goods and services, prepaid expenses and deferred income) are recognised at the exchange rate in force at the time of purchase.

#### Exchange gains (losses)

As regards total net profits in the income statement, the unrealised valuation-related component accounts for € 180,049.

This amount is recorded in a restricted reserve until it is subsequently realised.

#### Financial income

Description	31/12/2016	31/12/2015	Changes
From equity investments	73,593	-	73,593
From receivables classified as fixed assets	158,627	75,669	82,958
From securities recorded in current assets	28,029	922	27,107
Other income	13,685	33,235	(19,550)
(Interest and other financial expenses)	(594,731)	(381,304)	(213,427)
Exchange gains (losses)	149,611	454,357	(304,746)
	<b>(171,186)</b>	<b>182,879</b>	<b>(354,065)</b>

#### Income taxes for the year – current, deferred and prepaid

##### Income taxes

Income taxes are allocated on an accrual basis;

- the allocations for taxes paid or to be paid for the year, calculated according to the applicable rates and regulations;

- the amount of deferred or prepaid taxes in relation to the temporary differences that have arisen or been eliminated in the year.
- the adjustments to balances of deferred tax liabilities to take into account any tax rate changes during the year.

Deferred and prepaid IRES (corporate income tax) is calculated on the temporary differences between the values of assets and liabilities determined in accordance with statutory criteria and the corresponding tax values with exclusive reference to the company, applying the 24% tax rate envisaged in the “2017 Budget Law” (Italian Law 232/2016).

Current, deferred and prepaid IRAP (regional business tax) is calculated with exclusive reference to the company.

### Income taxes for the year

Balance as at 31/12/2016	Balance as at 31/12/2015	Change
(272,145)	(281,267)	9,122

Taxes	Balance as at 31/12/2016	Balance as at 31/12/2015	Changes
<i>Current taxes</i>	12,672	7,985	4,687
IRES	-	-	-
IRAP	12,672	7,985	4,687
<i>Previous years' taxes</i>			
<i>Deferred (prepaid) taxes</i>	(284,817)	(289,252)	4,436
IRES	(284,804)	(289,243)	4,439
IRAP	(13)	(8)	(5)
<b>Total</b>	<b>(272,145)</b>	<b>(281,267)</b>	<b>9,122</b>

Taxes pertaining to the year were recorded.

A reconciliation between the tax charge in the financial statements and the theoretical tax charge is shown below:

## Reconciliation between the tax charge in the financial statements and the theoretical tax charge (IRES)

Description	Value	Taxes
Pre-tax result	(1,474,922)	
Theoretical tax charge (%)	24	
<b>Temporary differences taxable in subsequent years:</b>		
Unrealised exchange gains	(285,804)	
	(285,804)	
<b>Temporary differences deductible in subsequent years:</b>		
Amortisation of trademarks beyond tax limits	324	
Unrealised exchange losses	105,755	
	106,079	
<b>Reversal of temporary differences from previous years</b>		
Changes in foreign currency items due to collections in foreign currency	40,272	
1/5 revaluation appraisal	(1,476)	
	38,796	
<b>Differences that will not be reversed in subsequent years</b>		
Increases	321,375	
Decreases	(166,858)	
	154,517	
Taxable income	(1,461,334)	
Current income taxes for the year		

## Calculation of taxable income for IRAP purposes

Description	Value	Taxes
Difference between the value and costs of production	6,086,780	
Costs not relevant for IRAP purposes	1,470,738	
Revenues not relevant for IRAP purposes	(32,582)	
Tax wedge	(7,200,000)	
	<b>324,936</b>	
Theoretical tax charge (%)	3.9	12,673
<b>Temporary differences taxable in subsequent years:</b>		
Tax base for IRAP purposes	324,936	
<b>Current IRAP for the year</b>		<b>12,672</b>

pursuant to art. 2427.1.14 of the Italian Civil Code, the required information on deferred and prepaid taxes is shown below.

## Deferred / prepaid taxes

Deferred tax is expressed by the allocation made to the provision for deferred taxation amounting to € 23,749 and prepaid tax assets for € 308,566, applying a 24% IRES tax rate as envisaged in Italian Law 232/2016 (the 2017 Budget Law).

Deferred taxes were calculated according to the global allocation method, taking account of the cumulative amount of all temporary differences, based on the average rate in force at the time the temporary differences will be reversed.

Prepaid taxes were recorded given there is reasonable certainty as to the existence, in the years in which the temporary deductible differences will carry forward, in respect of which prepaid taxes were recognised, of a taxable income not lower than the amount of the differences that will be cancelled.

The main temporary differences that involved the recognition of deferred and prepaid taxes are indicated in the table below, together with the associated effects.

### Recognition of deferred and prepaid taxes and subsequent effects:

	IRES	IRAP
<b>A) Temporary differences</b>		
Total deductible temporary differences	1,461,658	324
Total taxable temporary differences	170,190	-
Net temporary differences	(1,291,468)	(324)
<b>B) Tax effects</b>		
Provision for deferred (prepaid) taxes at the start of the year	(169,072)	-
Deferred (prepaid) taxes for the year	(284,804)	(13)
Provision for deferred (prepaid) taxes at the end of the year	(192,821)	-

### Breakdown of deductible temporary differences

Description	Amount at the end of the previous year	Change during the year	Amount at year end	IRES tax rate	IRES tax effect	IRAP tax rate	IRAP tax effect
Reversal of 1/5 revaluation appraisal	1,475	(1,475)	0	27.5%	406	-	-
Rate adjustment 24% for excess allocation to the bad debt provision	20,238	-	20,238	24.00%	(708)	-	-
Adjustment for unrealised exchange gains/losses in previous years	26,492	(26,492)	-	27.50%	(7,286)	-	-
Rate adjustment 24% for excess	979	-	979	24.00%	34	-	-

amortisation of trademarks							
Rate adjustment 24% for legal risks	15,000	-	15,000	24.00%	(525)	-	-
Rate adjustment 24% for previous year's tax losses	1,719,880	65,773	1,654,107	24.00%	(33,286)	-	-
Amortisation of trademarks beyond tax value	-	324	324	24.00%	78	3.90%	13
Allocation on 2016 tax loss	-	1,461,334	1,461,334	24.00%	350,720	-	-

### Breakdown of taxable temporary differences

Description	Amount at the end of the previous year	Change during the year	Amount at year end	IRES tax rate	IRES tax effect
Reversal of unrealised exchange gains for collections in foreign current pre-2015	216,255	(40,272)	175,983	27.5%	(11,075)
Rate adjustment 24% for unrealised exchange losses in previous years	(3,921)	-	(3,921)	24.00%	137
Rate adjustment 24% for unrealised exchange gains 2015	461,168	-	461,167	24.00%	(6,159)
New allocation for unrealised exchange gains 2016	-	285,804	285,804	24.00%	68,593
Unrealised exchange losses 2016	-	(105,755)	(105,755)	24.00%	(25,381)
- translation gains	-	9,881	(9,881)	24.00%	(2,371)
+ translation losses	-	22	22	24.00%	5

### Information on the tax losses

	Current year			Previous year		
	Amount	Tax rate	Prepaid taxes recognised	Amount	Tax rate	Prepaid taxes recognised
Tax losses						
- in the year	1,461,334			-		
Total tax losses	1,461,334			-		
<b>Tax losses carried forward as recoverable with reasonable certainty</b>	<b>1,461,334</b>	<b>24.00%</b>	<b>350,720</b>	<b>1,654,107</b>	<b>24.00%</b>	<b>396,986</b>

Prepaid taxes were recorded amounting to € 350,720, deriving from tax losses carried forward of € 1,461,334, given the conditions required by accounting standards for the accounting of the future tax benefit were satisfied, in particular, the reasonable certainty that, in the future, the company will generate sufficient taxable income to allow said losses to be absorbed.

## EXPLANATORY NOTES - OTHER INFORMATION

### Employment figures

(Ref. art. 2427.1.15 of the Italian Civil Code)

The average company workforce, broken down by category, underwent the following changes with respect to the previous year.

Workforce	31/12/2016	31/12/2015	Changes
Middle management	21	19	2
Employees	138	127	11
	<b>159</b>	<b>146</b>	<b>13</b>

The national labour contract applied is the contract for the services-trade sector (latest update of 01/04/2015).

### Fees, advances and loans granted to directors and statutory auditors and commitments undertaken on their behalf

#### Information on fees due to the directors and statutory auditors

Pursuant to law, the total fees due to directors and the audit body are shown below (art. 2427.1.16 of the Italian Civil Code).

	Directors	Statutory Auditors
Fee	1,253,760	14,560

#### Independent Auditor fees

#### Information on fees due to the independent auditor

(Ref. art. 2427.1.16-bis of the Italian Civil Code)

Pursuant to law, the fees due for services provided by the independent auditors BDO Italia S.p.A. and entities belonging to its network during the year are stated below:

	Value
Independent audit of the annual accounts	20,319
<b>Total Independent Auditor fees</b>	<b>20,319</b>

### Classes of shares issued by the company

Description	Opening balance, number	Shares subscribed during the year, number	Closing balance, number
Ordinary shares	25,060,778	2,609,552	27,670,330
<b>Total</b>	<b>25,060,778</b>	<b>2,609,552</b>	<b>27,670,330</b>

During the year, 2,609,552 new ordinary shares were subscribed with no par value.

The shares and securities in circulation at 31/12/2016 were as follows:

Shares and securities issued by the company	No.	Rate	Maturity	Assigned rights
Ordinary shares	27,670,330			
Bonds	50	4%	31/12/2024	
Warrants	2,497,552		2017-2018	

### Securities issued by the company

	No.
<b>Warrants</b>	<b>2,497,552</b>

### Breakdown of financial instruments issued by the company

(Ref. art. 2427.1.19 of the Italian Civil Code)

Following the share capital increase of 2016, as described in detail in the introduction to these Explanatory Notes, the company issued 2,497,552 warrants, free of charge, in the ratio of 1 warrant for every new share subscribed by those subscribing to the share capital increase.

The warrants, "Warrant Expert System S.p.A. 2016-2018" are listed on the AIM Italia operated by Borsa Italiana and assign the following rights:

- 652,388 maximum assignable number of conversion shares, without par value, with the same characteristics of Expert System shares in circulation.

It should be specified that the company issued only 2,497,552 warrants rather than 2,609,552 as one shareholder specifically waived 112,000 warrants. Therefore the maximum conversion shares assignable is 624,388 in the ratio of 1 new share for every 4 warrants held.

The warrants can be exercised by and no later than the exercise periods indicated below. If warrants are not exercised by specified deadlines they lose all entitlement to conversion.

The first conversion period of the warrants is the period from 01/10/2017 to 31/10/2017. In this period, warrant holders will have the option to subscribe conversion shares in the ratio of 1 new share for every 4 warrants at the price of € 2.40. The allocation of this value is € 0.01 to the share capital and € 2.39 to the share premium reserve.

The second conversion period of the warrants is the period from 01/10/2018 to 31/10/2018. In this period, warrant holders will have the option to subscribe conversion shares in the ratio of 1 new share for every 4 warrants at the price of € 2.70. The allocation of this value is € 0.01 to the share capital and € 2.69 to the share premium reserve.

The warrants were admitted to listing on the AIM market operated by Borsa Italiana, ISIN code IT005204281. The first listing date was 09/08/2016 at a price of € 0.03 per warrant and at 30/12/2016 their value was € 0.12.

The company has issued a bond loan comprising 50 non-convertible bonds with a par value of € 100,000 each, for a total of € 5,000,000. The bond loan issue is reserved for professional investors and was fully subscribed by the Fondo Strategico Trentino Alto Adige managed by Finint Investments SGR S.p.A.

The main terms and conditions of the Bond Loan are as follows:

<b>Amount</b>	Nominal amount of € 5,000,000.00
<b>Issue date</b>	31/07/2015
<b>Maturity</b>	31/12/2024, date of redemption of the bond loan
<b>Issue price</b>	100% of the nominal value of each bond
<b>Interest rate</b>	Gross annual fixed rate of 4% with half-yearly payments from January 2016
<b>Bond structure</b>	Amortising with 4 years of pre-amortisation

## Information on the fair value of derivative financial instruments

(Ref. art. 2427-bis.1.1 of the Italian Civil Code)

Information is provided below on the fair value and information (for the current year and previous year) on the amounts and nature of each category of derivative financial instruments put into place by the company, with breakdown by class, taking into account aspects such as the instruments' characteristics and their purpose.

The company has signed the following derivative contract with CARIPARMA:

- Derivative contract type: IRS no. 59746/2014, unlisted;
- Purpose: hedging;
- Transaction with no principal swap on expiry;
- Initial notional amount € 1,200,000;
- Notional amount at the reference date (31/12/2016): € 499,620;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative fair value of € 6,954.24, client side;
- Liability hedged: CARIPARMA mortgage no. 04 107 008852280000, originated for € 1,200,000, signed on 23/12/2013;
- Fair value at the start of the hedge: zero

The fair value measurement used the mark to model calculation.

## Off-balance sheet commitments, guarantees and potential liabilities

As at the year end date, the following guarantees were outstanding:

	Opening balance	Closing balance	Change
<i>SURETIES</i>	5,128,099	3,728,067	(1,400,032)
- to subsidiaries	300,000	300,000	0
- to other companies	4,828,099	3,428,067	(1,400,032)

These refer to surety guarantees to banks for € 2,933,667. The remaining € 794,400 is made up as follows:

- € 300,000 for the guarantee given by Expert System S.p.A. to the subsidiary ADmantX S.p.A., assumed by means of a private agreement between Expert System S.p.A. and

IMI Fondi Chiusi società di gestione del risparmio S.p.A. (IMI). In respect of said agreement Expert System S.p.A. undertakes to purchase from IMI, in the event the subsidiary ADmantX S.p.A. is unable to repay at the maturity dates set forth by the loan, the bond securities subscribed by IMI. The guarantee originally given for a maximum of 4 bonds with a par value of € 100,000 each for a total of € 400,000, has now dropped to € 300,000 following partial conversion of the bond issue by IMI;

- € 494,400 is made up of the surety undertaken in favour of the investee company Okkam S.r.l..

### Information on off-balance sheet agreements

*(Ref. art. 2427.1.22-ter of the Italian Civil Code)*

The company has no off-balance sheet agreements in place.

### Companies preparing the consolidated financial statements for the largest/smallest group of companies in which it is a subsidiary

Information on the company responsible for preparing the consolidated financial statements of the largest/smallest group of companies in which it is a subsidiary

The company prepares the consolidated financial statements in its capacity as parent company.

### Proposed allocation of profit or loss coverage

Allocation of profit (loss) for the year

It is proposed that the Shareholders' Meeting covers the loss for the year from the extraordinary reserve:

Profit (loss) for the year as at 31/12/2016	(1,202,777)
Use of the extraordinary reserve	1,202,777

## EXPLANATORY NOTES - CLOSING SECTION

### Information on related party transactions

(Ref. art. 2427.1.22-bis of the Italian Civil Code)

The information concerning transactions with related parties is presented below, pursuant to art. 38.1, letter o-quinquies) of Italian Legislative Decree 127/1991.

### Trade and financial transactions

Company	Financial payables	Financial receivables	Trade receivables	Trade payables	Sales	Purchases
ADMANTX SPA	-	26,787	48,767	-	85,665	14,400
EXPERT SYSTEM USA INC	-	4,032,944	867,267	-	85,505	-
EXPERT SYSTEM LTD	1,248	661,730	168,230	10,569	147,094	-
CY4GATE S.R.L.	-	701,809	255,626	-	239,259	-
EXPERT SYSTEM IBERIA S.L.U.	-	3,441,643	310,046	5,308	209,069	5,308
EXPERT SYSTEM FRANCE	-	1,653,148	86,366	430	61,552	430
EXPERT SYSTEM ENT CORP	-	1,679,904	635,918	1,516	646,611	1,516
EXPERT SYSTEM GMBH	-	-	130,223	9,230	130,223	9,230
<b>Total</b>	<b>1,248</b>	<b>12,197,966</b>	<b>2,502,443</b>	<b>27,053</b>	<b>1,604,978</b>	<b>30,884</b>

### Trade transactions

Company	Payables	Receivables	Guarantees	Commitments	Costs	Revenues
ADMANTX SPA	-	48,767	-	-	14,400	85,665
EXPERT SYSTEM USA INC	-	867,267	-	-	-	40,516
EXPERT SYSTEM LTD	10,569	168,230	-	-	-	137,888
CY4GATE S.R.L.	-	255,626	-	-	-	227,450
EXPERT SYSTEM IBERIA S.L.U.	5,308	310,046	-	-	5,308	148,026
EXPERT SYSTEM FRANCE	430	86,366	-	-	430	49,366
EXPERT SYSTEM ENT CORP	1,516	635,918	-	-	1,516	627,217
EXPERT SYSTEM GMBH	9,230	130,223	-	-	9,230	130,223
<b>Total</b>	<b>27,053.19</b>	<b>2,502,443</b>	<b>-</b>	<b>-</b>	<b>30,884</b>	<b>1,446.350</b>

## Financial transactions

Company	Payables	Receivables	Guarantees	Commitments	Expenses	Income
ADMANTX SPA	-	26,787	-	-	-	-
EXPERT SYSTEM USA INC	-	4,032,944	-	-	-	44,989
EXPERT SYSTEM LTD	1,248	661,730	-	-	-	9,206
CY4GATE S.R.L.	-	701,809	-	-	-	11,809
EXPERT SYSTEM IBERIA S.L.U.	-	3,441,643	-	-	-	61,043
EXPERT SYSTEM FRANCE	-	1,653,148	-	-	-	12,186
EXPERT SYSTEM ENT CORP	-	1,679,904	-	-	-	19,394
EXPERT SYSTEM GMBH	-	-	-	-	-	-
<b>Total</b>	<b>1,248</b>	<b>12.197.966</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>158,627</b>

These relations, which do not include atypical and/or unusual transactions, are regulated by normal market conditions. Information on the nature of these transactions is provided below.

### With the subsidiary ADmantX S.p.A.:

#### Sales

- Lease agreement for property in Naples, Via Nuova Poggio Reale, Centro Polifunzionale Inail, where the company has its registered offices: half-yearly lease instalment of € 5,083;
- Sub-letting agreement for local office in Modena, Via Virgilio 56/Q: half-yearly lease instalment of € 3,668;
- Services contract relating to accounting support, company economic-financial consultancy, secretarial and general services:
  - Fee for accounting support and company consultancy € 24,000;
  - Fee for secretary activities € 1,200;
  - Fee for general services (telephone, cleaning services and material, security, electricity, stationery, management software maintenance): lump-sum payment for € 6,576 calculated as 4.15% of the costs incurred by Expert System S.p.A.
- Sale of licences for € 30,000.

The balance sheet items affected by these contracts are reclassified in the following accounts:

- C.II.2 Receivables due from subsidiaries

The income statement items are reclassified within the following accounts:

- A.1 Sales and service revenues;
- A.5 Other revenues and income.

#### Purchases

- Professional services provided by the subsidiary for € 14,400

The balance sheet items affected by this transaction are reclassified in the following accounts:

- D) 9 Payables due to subsidiaries

The income statement items are reclassified within the following accounts:

- B) 7 Service costs

#### **With the subsidiary Expert System USA Inc.:**

- Loan granted to the subsidiary for € 3,907,027, bearing interest in 2016 for € 44,989.

#### Sales

- Granting of licences for € 9,487;
- Professional services provided for € 31,029.

#### **With the subsidiary Expert System Cogito Ltd.:**

- Loan granted to the subsidiary for € 649,869, bearing interest in 2016 for € 9,206.

#### Sales

- Granting of licences for € 13,315;
- Professional services provided for € 119,855;
- Re-invoicing of sundry expenses of € 4,718 to the subsidiary.

#### **With the subsidiary Expert System Iberia S.L.U.:**

- Loan granted to the subsidiary for € 3,350,000, bearing interest in 2016 for € 61,043.

#### Sales

- Professional services provided for € 82,792;
- Granting of licences for € 52,196;
- Re-invoicing of sundry expenses of € 13,038 to the subsidiary.

#### Purchases

- Professional services provided by the subsidiary for € 5,308.

#### With the subsidiary Expert System France S.A.:

- Loan granted to the subsidiary for € 1,640,962, bearing interest in 2016 for € 12,186.

#### Sales

- Professional services provided for € 47,922;
- Re-invoicing of sundry expenses of € 1,444 to the subsidiary.

#### Purchases

- Professional services provided by the subsidiary for € 430.

#### With the subsidiary Expert System Enterprise Corp.:

- Loan granted to the subsidiary for € 1,660,184, bearing interest in 2016 for € 19,394.

#### Sales

- Granting of licences for € 322,587;
- Professional services provided for € 218,883;
- Re-invoicing of sundry expenses of € 85,747 to the subsidiary.

#### Purchases

- Professional services provided by the subsidiary for € 1,516.

#### With the subsidiary Expert System Deutschland GMBH:

#### Sales

- Professional services provided for € 113,582;
- Granting of licences for € 7,500;
- Re-invoicing of sundry expenses of € 9,141 to the subsidiary.

#### Purchases

- Professional services provided by the subsidiary for € 9,230.

#### With the associate Cy4Gate S.r.l.:

- Loan granted to the associate for € 690,000, bearing interest in 2016 for € 11,809.

The balance sheet item affected by this transaction is:

- III) Non-current financial assets, 2) Receivables, a) Due from subsidiaries

The income statement item is reclassified in the following account:

- Financial income and expenses, 16) Other financial income, d) other income

These financial statements, composed of the Balance Sheet, Income Statement, Cash Flow Statement and Explanatory Notes, give a true and fair view of the financial position and the result for the year and correspond to the accounting records.

Chairman of the Board of Directors

Marco Varone

**INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH  
ART. 14 OF LEGISLATIVE DECREE NO.39 OF JANUARY 27<sup>th</sup>, 2010**

To the shareholders of  
EXPERT SYSTEM S.p.A.

**Report of the financial statements**

We have audited the accompanying financial statements of Expert System S.p.A., which comprise the balance sheet as of December 31<sup>st</sup>, 2016, the statement of income, the cash flow statements and related explanatory notes.

***Directors' responsibility for the financial statements***

The directors are responsible for the preparation of financial statements that give a true and fair view in compliance with the Italian regulations and accounting principles governing financial statements.

***Auditors' responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11 of Legislative Decree NO. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Expert System S.p.A. as of December 31<sup>st</sup>, 2016 and of the result of its operations for the year then ended in accordance with the Italian regulations and accounting principles governing financial statements.

### **Report on compliance with other laws and regulation**

#### ***Opinion on the consistency of the financial statements with the report on operations***

We have performed the procedures required by auditing standard (SA Italia) NO. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of Expert System S.p.A., with the financial statements of Expert System S.p.A.. In our opinion, the report on operations is consistent with the financial statements of Expert System S.p.A. as of December 31<sup>st</sup>, 2016.

Bologna, April 11<sup>th</sup>, 2017

BDO Italia S.p.A.

  
Signed by  
Alessandro Gallo  
(Partner)

*This report has been translated into English from the original, which was prepared in Italian and represents the sole original, solely for the convenience of international readers.*

**EXPERT SYSTEM S.p.A.**  
Via Fortunato Zeni 8, Rovereto (Trento)  
Share capital € 219,496.80 fully paid-in  
Tax Code and Modena Register of Companies no. 02608970360  
Trento Economic and Administrative Index ref. no. 212386  
\*\*\*\*\*

**REPORT OF THE BOARD OF STATUTORY AUDITORS**  
**ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2016**

To the shareholders of Expert System S.p.A.

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The draft financial statements as at and for the year ended 31 December 2016, which the Board of Directors submits for your approval, were prepared in accordance with the provisions of article 2423 et seq. of the Italian Civil Code.

**Activity carried out**

During the year ended 31 December 2016 we supervised the compliance with law, and the Articles of Association, and compliance with the principles of sound management. In completing this assignment we made use of indications provided in the Code of Conduct for Boards of Statutory Auditors as recommended by the Italian National Institute of Chartered Accountants.

The supervisory tasks were performed through:

- action taken to verify compliance with the provisions of law and the Articles of Association;
- attendance of meetings of the Corporate Bodies;
- acquisition of information on the audits performed by the Independent Auditors.

\*\*\*\*\*

With reference to the activity carried out in 2015, note that:

- we attended the shareholders' meetings and meetings of the Board of Directors, conducted in accordance with governing statutory, legal and regulatory instructions, and for which we can reasonably confirm that the actions decided comply with the law and the Articles of Association and are not manifestly imprudent, risky, in conflict of interest or such as to jeopardise the integrity of the company capital;
- we obtained information from the Directors on the general operating performance, on business outlook and on the most significant transactions - in terms of extent or characteristics - performed by the company, and we can reasonably confirm that the action taken complies with the law and the Articles of Association and are not manifestly imprudent, risky, in conflict of interest or in conflict with the resolutions adopted by the shareholders' meeting or such as to jeopardise the integrity of the company capital;
- we received no significant data or information from the Independent Auditors that would require comment in this report;
- we acquired knowledge of and supervised the adequacy of the company's organisational structure, also by obtaining information from the department managers. In this respect, note that we have no particular matters to report;
- we assessed and supervised over the adequacy of the administrative and accounting system and its reliability in correctly reporting upon operating events, by obtaining information from the department managers and by examining corporate documents. Also in this respect we have no particular matters to report;

- no reports were received pursuant to art. 2408 of the Italian Civil Code and no opinions were issued that would be required under specific legal regulations.

### **1. Annual Financial Statements**

With regard to supervision over the presentation of the annual financial statements, we confirm that:

- we verified their general format, their general compliance with law as regards their format and content, and in this respect have no particular matters to report;
- we expressed our consent to the recognition under balance sheet assets of start-up and expansion costs for € 187,070, and development costs totalling € 2,820,274;
- to the best of our knowledge, in preparing the financial statements the Directors did not deviate from legal provisions pursuant to art. 2423, paragraph 5 of the Italian Civil Code;
- we verified correspondence between the financial statements and the events and information that came to our knowledge while performing our duties, and in this respect have no matters to report.

## **2. Conclusions**

Based on the audits performed and information exchanged with the Independent Auditors, and also taking into account their report issued on 11 April 2017 with no irregularities found, to the extent of our specific responsibilities we believe that the annual financial statements as at 31 December 2016, as prepared by the Directors, can meet with your approval. In thanking you for the trust placed in us, we invite you to resolve accordingly.

Milan, 11 April 2017

**THE STATUTORY AUDITORS**

Alessandro Augusto

Andrea Cuoghi

Antonio Tazzioli



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