



**EXPERT SYSTEM GROUP
FINANCIAL STATEMENTS
AS AT 31/12/2019**



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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>	GABRIELLA FRANZINI
<i>Director</i>	MARCELLO PELLACANI
<i>Independent Director</i>	ALBERTO SANGIOVANNI VINCENTELLI
<i>Independent Director</i>	STEFANO PEDRINI

Board of Statutory Auditors

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

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31/12/2019



BALANCE SHEET

ASSETS	31/12/2019	31/12/2018
A) SUBSCRIBED CAPITAL, UNPAID		
Total subscribed capital, unpaid (A)		
B) FIXED ASSETS		
I - Intangible fixed assets		
1) Start-up and expansion costs	569,394	852,302
2) Development costs	11,121,045	10,166,571
3) Industrial patent rights and intellectual property rights	484,809	290,046
4) Concessions, licenses, trademarks and similar rights	14,833	3,132
5) Goodwill	901,697	3,421,599
6) Assets under construction and advances	-	-
7) Other	-	-
Total intangible fixed assets	13,091,778	14,733,649

II - Tangible fixed assets		
1) Land and buildings	340,562	351,650
2) Plants and machinery	5,953	4,994
4) Other tangible fixed assets	355,151	358,780
Total tangible fixed assets	701,666	715,423
III - Financial fixed assets		
1) Equity investments in:		
b) Associated companies	-	-
d-bis) Other companies	309,471	308,271
Total equity investments	309,471	308,271
2) Receivables		
a) From subsidiaries		
Due within 12 months	-	100,012
b) From associated companies		
Due within 12 months	-	-
Due after 12 months	-	-
d-bis) From others		
Due within 12 months	427,181	321,555
Due after 12 months	150,000	390,000
Total receivables (2)	577,181	811,567
3) Other securities	80,880	85,703
Total financial fixed assets	967,532	1,205,541
Total fixed assets (B)	14,760,976	16,654,614

C) CURRENT ASSETS

I - Inventory		
3) Work in process on long-term contracts	58,608	109,312
Total inventory	58,608	109,312

II) Receivables		
1) From customers		
Due within 12 months	20,446,973	15,805,517
Total receivables from customers	20,446,973	15,805,517
2) From subsidiaries		
Due within 12 months	-	67,965
Due after 12 months	-	26,787
Total receivables from subsidiaries	-	94,752
3) From associated companies		
Due within 12 months	-	-
Total receivables from associated companies	-	-
5-bis) Tax receivables		
Due within 12 months	1,200,026	1,087,020
Due after 12 months	6,699	-
Total tax receivables	1,206,725	1,087,020
5-ter) Deferred tax assets		
Due within 12 months	525,230	575,345
Due after 12 months	1,308,811	1,226,896
Total deferred tax assets	1,834,041	1,802,241
5-quater) From others		
Due within 12 months	3,580,185	3,578,204
Due after 12 months	2,206,417	2,108,779
Total receivables from others	5,786,602	5,686,983
Total receivables	29,274,341	24,476,513
III - Financial assets not constituting fixed assets		
1) Equity investments in subsidiaries	-	4,775,574
4) Other equity investments	8,400	8,400
6) Other securities	20,196	174,229

Total financial assets not constituting fixed assets	28,596	4,958,203
IV - Cash and cash equivalents		
1) Bank and postal deposits	21,644,993	7,880,364
3) Cash on hand	2,449	2,420
2) Cheques	-	-
Total cash and cash equivalents	21,647,442	7,882,784
Total current assets (C)	51,008,987	37,426,812
D) ACCRUALS AND DEFERRALS	433,468	577,090
TOTAL ASSETS	66,203,431	54,658,516

LIABILITIES	31/12/2019	31/12/2018
A) GROUP SHAREHOLDERS' EQUITY		
I) Capital	400,161	358,590
II - Share premium reserve	42,509,070	35,076,223
IV - Legal reserve	71,718	43,899
VI - Other reserves, separately indicated		
Extraordinary reserve	2,008,739	1,194,367
Merger surplus reserve	376,622	376,622
Reserve for unrealised exchange gains	398,956	180,049
Other miscellaneous reserves	688,839	729,221
Total other reserves	3,473,156	2,480,259
VII - Reserve for expected cash flow hedges	(70,275)	(38,596)
VIII - Profit (losses) carried forward	(24,499,918)	(18,902,814)
IX - Profit (loss) for the year	(983,007)	(3,780,886)
X - Negative reserve for treasury shares in portfolio	-	(159,187)
Total consolidated shareholders' equity	20,900,905	15,077,489
Minority interest in shareholders' equity		

Minority interest in capital and reserves	-	-
Minority interest in profit (loss)	-	-
Total minority interest in equity	-	-
Total consolidated shareholders' equity	20,900,905	15,077,489
B) PROVISIONS FOR RISKS AND CHARGES		
1) For pensions and similar obligations	4,341	4,341
2) For taxes, including deferred taxes	1,076,568	995,040
3) Financial derivative liabilities	70,275	38,596
4) Other provisions	54,555	15,764
Total provisions for risks and charges (B)	1,205,739	1,053,741
C) EMPLOYEE SEVERANCE INDEMNITIES		
2,312,384	2,312,384	2,143,307
D) PAYABLES		
1) Bonds		
Due within 12 months	909,100	-
Due after 12 months	9,090,900	5,000,000
Total bonds	10,000,000	5,000,000
4) Bank debt		
Due within 12 months	4,831,142	4,925,611
Due after 12 months	8,439,239	8,124,081
Total bank debt	13,270,381	13,049,692
5) Payables to other lenders		
Due within 12 months	153,077	733,731
Due after 12 months	1,057,872	1,686,596
Total payables to other lenders	1,210,949	2,420,327
6) Advances		
Due within 12 months	311,099	236,256

Due after 12 months	357,577	402,988
Total advances	668,676	639,244
7) Payables to suppliers		
Due within 12 months	4,247,286	2,807,819
Total payables to suppliers	4,247,286	2,807,819
12) Tax payables		
Due within 12 months	1,030,945	1,254,649
Total tax payables	1,030,945	1,254,649
13) Due to social security and welfare institutions		
Due within 12 months	586,676	572,886
Due after 12 months	21,902	-
Total due to social security and welfare institutions	608,578	572,886
14) Other debts		
Due within 12 months	2,229,701	2,074,263
Total other debts	2,229,701	2,074,263
Total payables	33,266,516	27,818,880
E) ACCRUALS AND DEFERRALS	8,517,887	8,565,098
TOTAL LIABILITIES	66,203,431	54,658,516

INCOME STATEMENT

	31/12/2019	31/12/2018
A) VALUE OF PRODUCTION		
1) Revenues from sales and services	31,654,069	28,697,152
3) Changes in work in process on long-term contracts	(50,704)	10,104
4) Increases in fixed assets for internal work	6,070,875	5,043,857
5) Other revenues and income		
Grants for current expenses	-	2,000

Other	2,058,176	1,757,421
Total other revenues and income (5)	2,058,176	1,759,421
TOTAL VALUE OF PRODUCTION	39,732,416	35,510,534
B) COSTS OF PRODUCTION:		
6) For raw, ancillary and consumable materials and goods for resale	1,218,987	1,819,978
7) For services	12,043,891	8,778,559
8) For use of third-party assets	1,847,400	1,411,278
9) For personnel:		
a) Wages and salaries	14,265,732	14,364,475
b) Social security charges	4,029,793	3,739,407
c) Severance pay	490,180	444,780
d) Pension and similar obligations	-	-
e) Other costs	6,573	18,529
Total personnel costs (9)	18,792,278	18,567,191
10) Amortisation, depreciation and write-downs:		
a) Amortisation of intangible fixed assets	8,094,995	7,577,660
b) Depreciation of tangible fixed assets	202,432	197,934
d) Write-down of current receivables and of cash and cash equivalents	39,555	90,938
Total amortisation, depreciation and write-downs (10)	8,336,982	7,866,532
12) Provisions for risks	-	-
14) Other operating expenses	371,005	295,548
TOTAL COSTS OF PRODUCTION (B)	42,610,543	38,739,086
DIFFERENCE BETWEEN REVENUES AND COSTS OF PROD.	(2,878,127)	(3,228,552)

C) FINANCIAL INCOME AND CHARGES

15) Income from equity investments		
From subsidiaries	-	-

Other	-	-
Total income from equity investments (15)	-	-
16) Other financial income:		
a) From long-term receivables		
From subsidiaries	1,252	12
From associated companies	-	-
Other	15,626	26,584
Total financial income from long-term receivables	16,878	26,596
b) From long-term securities other than equity investments	-	-
c) From securities included in current assets other than equity investments	-	-
d) Other income		
from subsidiaries	2,221,171	-
Other	4,901	1,341
Total other income (d)	2,226,072	1,341
Total other financial income (16)	2,242,950	27,937
17) Interest and other financial charges	(581,660)	(486,852)
17 bis) Foreign exchange gains and losses	436,871	556,212
Total financial income and charges (C) (15+16-17+-17-bis)	2,098,161	97,297
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES:		
18) Revaluations:	-	-
19) Write-downs:	-	-

Total value adjustments to financial assets and liabilities (D) (18-19)	-	-
RESULT BEFORE TAXES (A-B+-C+-D)	(779,966)	(3,131,255)
20) Current, deferred and prepaid income taxes for the year		
Current taxes	(153,300)	(187,176)
Deferred and prepaid taxes	(49,741)	(462,455)
Total current, deferred and prepaid income taxes for the year	(203,041)	(649,631)
21) Consolidated profit (loss) for the year	(983,007)	(3,780,886)
Result attributable to minority interests	-	-
Result attributable to the group	(983,007)	(3,780,886)

CASH FLOW STATEMENT

A. Cash flows from operating activities (indirect method)	31/12/2019	31/12/2018
Profit (loss) for the year	(983,007)	(3,780,886)
Income taxes	203,041	649,631
Interest expense/(income)	557,549	440,766
(Dividends)	-	-
(Gains)/Losses on disposal of assets	(2,221,171)	(668)
1. Profit/(loss) for the year before income taxes, interest, dividends and gains/losses on disposals	(2,443,589)	(2,691,157)
Provisions to funds	642,178	444,780
Amortisation and depreciation of fixed assets	8,297,427	7,775,594
Write-downs for permanent impairment	39,555	90,938

Value adjustments to asset and liability derivatives not involving cash movements	(31,679)	(17,672)
Other upward/(downward) adjustments for non-monetary items	(246,318)	(399,762)
Total adjustments for non-monetary items not offset in the net working capital	8,701,163	7,893,878
2. Cash flow before changes in net working capital	6,257,574	5,202,721
Changes in net working capital		
Decrease/(Increase) in inventory	50,704	(10,104)
Decrease/(Increase) in receivables from customers	(4,586,259)	(3,511,459)
Increase/(Decrease) in payables to suppliers	1,468,899	118,517
Decrease/(Increase) in accrued income and prepaid expenses	143,622	5,214
Increase/(Decrease) in accrued expenses and deferred income	(47,210)	1,967,050
Other decreases / (Other increases) in net working capital	(486,739)	(1,116,176)
Total changes in net working capital	(3,456,984)	(2,546,958)
3. Cash flow after changes in net working capital	2,800,591	2,655,763
Other adjustments		
Interest received/(paid)	(557,549)	(440,766)
(Income taxes, paid)	-	-
Dividends collected	-	-
(Use of funds)	(321,103)	(72,341)
Other collections/(payments)	-	-
Total other adjustments	(878,652)	(513,107)
Cash flow from operating activities (A)	1,921,939	2,142,655
<i>Tangible fixed assets</i>		
(Investments)	(188,675)	(122,158)
Divestments	0	1,337
<i>Intangible fixed assets</i>		
(Investments)	(6,453,124)	(5,367,254)
Divestments	-	-

<i>Financial fixed assets</i>		
(Investments)	(5,562)	(77,362)
Divestments	243,571	-
<i>Financial assets not held as fixed assets</i>		
(Investments)	(101,264)	(340,726)
Divestments	7,252,042	-
(Acquisition of subsidiaries net of cash and cash equivalents)		
Disposal of subsidiaries net of cash and cash equivalents		
Cash flow from investing activities (B)	746,988	(5,906,163)
<i>Loan capital</i>		
Increase/(Decrease) in payables for bonds	5,000,000	-
Increase/(Decrease) in short-term bank debt	(24,422)	35,398
Loans taken	8,417,793	5,752,097
(Repayment of loans)	(9,382,062)	(5,375,895)
<i>Equity</i>		
Capital increase against payment	7,084,420	-
(Capital repayment)	-	-
Sale (Purchase) of treasury shares	-	-
(Dividends and interim dividends paid)	-	-
Cash flow from financing activities (C)	11,095,730	411,601
Increase (decrease) in cash and cash equivalents (A ± B ± C)	13,764,657	(3,351,906)
Cash and cash equivalents at the beginning of the year	7,882,784	11,234,690
Cash and cash equivalents at year end	21,647,442	7,882,784
Increase (decrease) in cash and cash equivalents	13,764,657	(3,351,906)

The report allows for an assessment of:

- the Group's cash and cash equivalents produced or absorbed;
- the Group's ability to meet short-term financial commitments;

- the Group's ability to finance itself.

It reconciles the changes that occurred during the year in the Group's equity with the changes in its financial situation.

The generation of cash and cash equivalents compared to the previous year, amounting to Euro 13,764,657, is mainly explained by the financing activity, which includes both the contribution of loan capital (about Euro 4 million, net of repayments), and equity (about Euro 7 million). Income management, in turn, generated new liquidity for Euro 1,921,939, as did the flow from investment activities, which was also positive for Euro 746,988.

There are no problems with the Group's ability to meet its short-term financial commitments or to finance itself.

With regard to the method used, it should be noted that the Group has adopted the indirect method, in accordance with OIC [Italian Accounting Body] no. 10 standard, whereby the cash flow is reconstructed by adjusting the result for the year in the light of non-monetary components.

MANAGEMENT REPORT



Dear Shareholders,

this report is in accordance with the provisions of Art. 40 of Italian Legislative Decree no. 127/1991 and is intended to supplement the consolidated financial statements so as to provide all additional information for a better and clearer understanding of the performance of the consolidated companies, which cannot result from the mere reading of the consolidated financial statements and the notes to the accounts.

GROUP STRUCTURE AND BUSINESS

Expert System is an Italian company, listed on the AIM of Borsa Italiana (EXSY), with offices in Europe and North America. The company is active in the development of cognitive computing software that can simulate human understanding, which can be used in the analysis of big data and unstructured information such as documents, news and articles, reports, emails, customer communications. The cognitive approach of Cogito software offers users a greater return on their investments, which is why companies and government agencies choose the solutions offered by Expert System; in fact, the ability to understand, analyse, manage, store, identify and share knowledge is a priority for any modern company that wants to successfully expand its business.

The unstoppable increase in content in terms of speed, volume, variety and location is a critical factor that must be addressed to make information usable and remain highly competitive; therefore Cogito, through an in-depth analysis of textual content, transforms data into intelligence by leveraging it throughout the organisation to extract strategic value from available information, becoming a key component for any organisation that wants to discover knowledge, improve customer service and strengthen decision-making processes.

Therefore, the potential of Cogito's technology is very wide-ranging and includes:

Knowledge management

Cogito improves knowledge management processes, making information searchable and shareable with the speed and accuracy that is needed to analyse information on a large scale; it helps companies access and use all available information to support their most strategic activities, increase and share knowledge, increase profits and improve productivity.

Customer service

Cogito's technology, which is essential to personalised and intuitive services (chatbots, automated questions and answers, virtual assistants, etc.), helps organisations simplify access to customer service, both when it is provided directly to customers and when it is taken care of by customer care staff. The fast and accurate understanding of customer requirements, available at any time and on any device, offers a high-level automated customer service experience.

Corporate intelligence

Cogito helps organisations make the most of all kinds of information, including social media information, to obtain strategic market and competitor data. The knowledge extracted from social media, for example, can be used through real-time intelligence activities to identify trends, obtain a thorough understanding of customers and competitors, and make timely and informed decisions.

Risk reduction

Cogito helps organisations identify the right information at the right time: by monitoring thousands of sources, it is able to identify risks before they turn into threats, producing value for risk management strategies; it thus meets the need to become aware, as soon as possible, of any information that might affect global assets or the supply chain, as well as of acts of violence, natural disasters, disruptive innovations or external forces that might impact the market.

Process automation

Cogito's cognitive computing features allow users to automate diverse and complex activities: by applying intelligent automation to complaint management and also to activities such as compliance requirements review, new policies signing, contract monitoring, fraud detection, customer interactions, Cogito provides a measurable ROI in terms of both cost reduction and quality improvement, whilst also ensuring faster and more accurate processing throughout all business processes stages.

In the light of the strong peculiarities of its technological offer, Expert System is chosen by customers who operate profitably in the most varied businesses, including in the following areas:

Banks and insurance companies

Many of the world's leading banks and insurance companies have adopted Cogito technology to develop:

- Cognitive automation solutions for processes that are based on information processing and are particularly burdensome and exposed to human error. Leveraging Cogito's ability to understand texts in a human-like way, many complex tasks are automatically performed, such as claim assessment based on insurance coverage, customer support through digital channels and the extraction of the various codes included in health insurance forms;
- state-of-the-art customer support solutions, with a better user experience thanks to interfaces that are mainly based on natural language. The offer of a service that can meet requests, without having to translate them into the complex language of credit institutions, is perceived very positively and is appreciated by customers, as it is intuitive and responds to real needs.

- operational risk assessment, for example when assessing the risk profile of a loan application;
- anti-money laundering, through the identification of abstract relationships between illegal behaviour and persons involved in commercial activities, who pretend to act legally.

Publishing and media industry

Expert System's cognitive technology has been chosen by some of the leading organisations in the publishing industry:

- to ensure greater availability of content;
- to develop new products and services;
- to increase opportunities for monetizing articles and news.

Through the understanding of online content, the solutions proposed to the publishing and media industry automatically tag, classify and categorise content, linking it to other relevant texts from the same source or related to other information sources. Cogito technology automates the extraction of entities, relationships, categories and topics in content and optimises the automatic generation of metadata and links based on previously identified tags.

Companies in the sector are thus able to attract new visitors, differentiate products, involve users with personalised experiences and encourage the use of content.

Government organisations

Expert System has many years of experience in working with public administration and government agencies, developing solutions to improve their ability to manage the complexity of information and make it available to serve and protect citizens more effectively.

Research is only one of the areas of improvement related to the implementation of Cogito technology. In fact, the ability to accurately identify relevant entities and categorise content as it changes makes it possible to extend and make more accessible the large amount of information collected by the public administration.

Energy

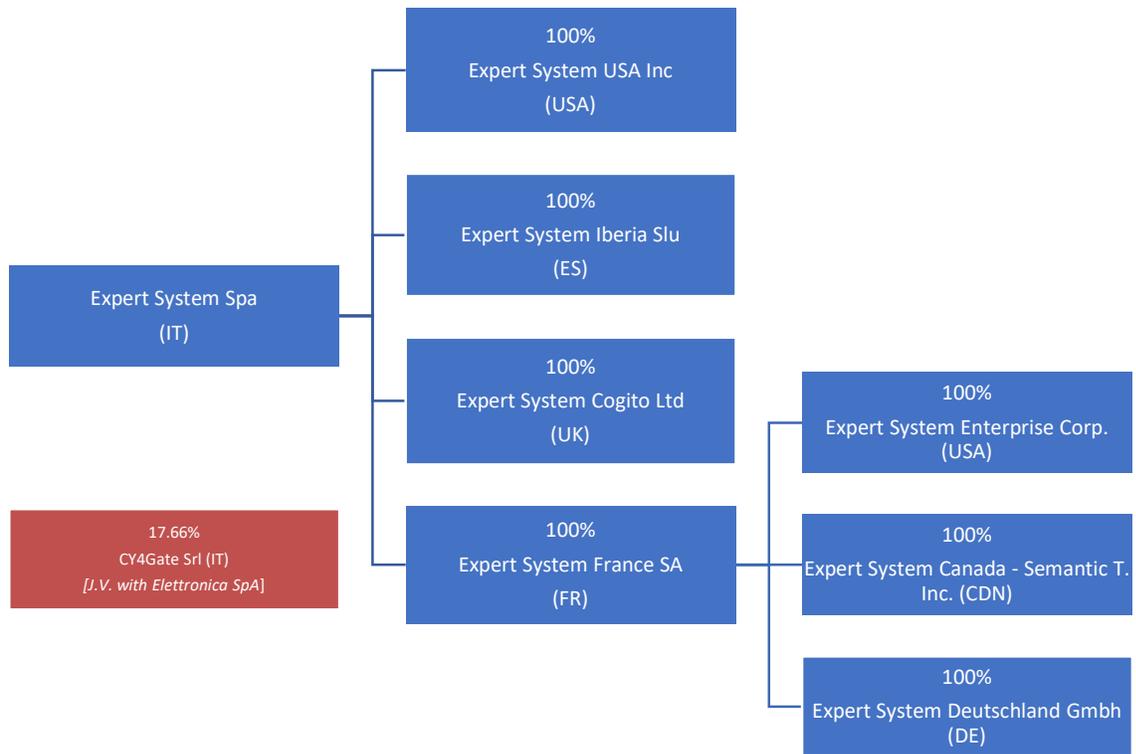
Thanks to its extensive and consolidated experience gained in the energy sector, working with some of the world's largest and most important companies in the energy field, Expert System is not only familiar with the typical language of the sector, but also with the type of challenges it has to face.

For an industry characterised by huge amounts of information, unique vocabulary and reliance on data-based decision-making, Cogito cognitive technology offers a knowledge graph (Sensigrapher) that includes a rich and scientifically specific industry ontology based on millions of definitions of words and concepts related to millions of other relationships. This ensures that all data are defined in the context of the project domain and are fully available and accessible via searches.

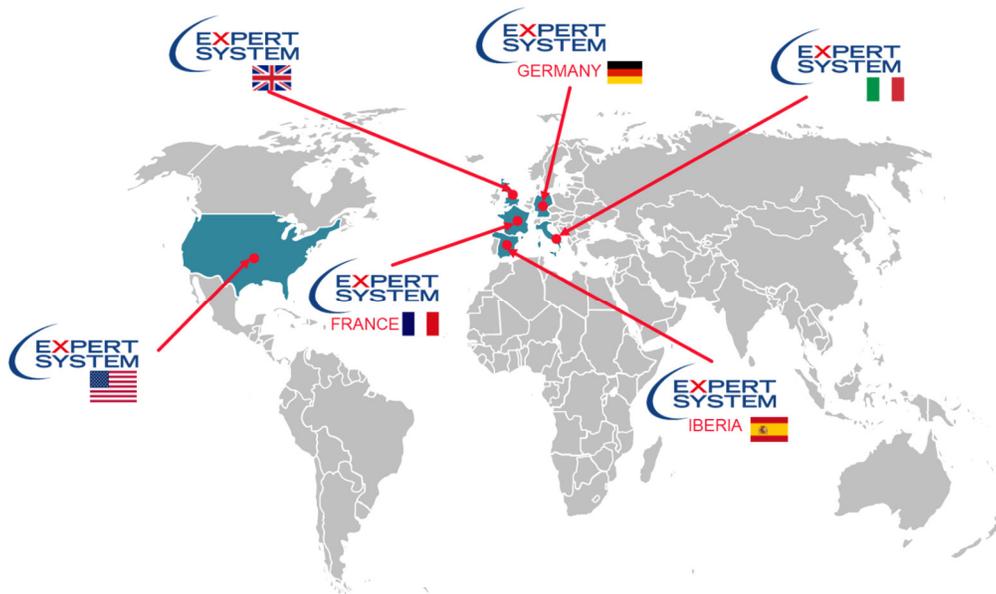
With Cogito, knowledge stored in different record management applications is made immediately available to all knowledge management applications; the tagging of over a billion documents for some of the world's largest companies in the energy industry offers customers the chance to automatically extract and tag virtually any size, connect similar concepts from disparate sources to make information understandable and usable by all applications, and identify patterns in information and capture critical signals that improve predictive analysis patterns.

In November 2019, Expert System announced the signing and closing of a contract with Integral Ad Science (IAS), a global leader in digital ad verification, for the sale of ADmantX, specializing in artificial intelligence solutions for contextual advertising, brand safety and first-party profiling and 60.8% controlled by Expert System. In the light of the € 16,000,000 enterprise value of ADmantX, corresponding to 8X of the 2018 sales of ADmantX, IAS acquired 100% of the shares in cash, including the participation of Expert System, which was sold for € 7,098,009.

As a result of this transaction, the Group's structure is as follows:



The Expert System group currently has a global presence and infrastructure, with offices in Italy, Spain, France, Germany, UK and USA.



OPERATING CONDITIONS AND BUSINESS DEVELOPMENT

(Art. 40, paragraph 2, letter c, of Italian Legislative Decree no. 127/91)

Artificial intelligence, automation and robotics play an increasing role in the way companies interact with customers and employees.

According to Gartner, the well-known analyst, over 90% of corporate strategies will be heavily based on insight and analytics built around the classification of unstructured data and information. Gartner, in its “Predicts 2019: Data and Analytics Strategy report, also argues that, as from 2022, Chief Data Officers will play a key role in increasing the value of intangible corporate assets. To date, the strengthening of human skills resulting from the adoption of Artificial Intelligence applied to business documents is producing \$2.9 trillion in value added and 6.2 billion hours saved. Between 2018 and 2019, the number of organisations that adopted Artificial Intelligence solutions increased from 4% to 14%¹.

The global artificial intelligence (AI) market was pegged in 2016 at \$4.06 billion, and is currently worth \$169.41 billion, with a CAGR of 55.6% between 2016 and 2025.

As far as Robotic Process Automation is concerned, which is growing at higher rates than average AI rates, in addition to Blue Prism and UiPath, Expert System has signed a strategic partnership also with Automation Anywhere, adding value to the framework of strategic partnerships with top RPA players.

The performance of the Expert System share price as of 27/03/2020 is shown below:

Market	AIM Italia – MAC
Share capital	€ 400.161
Capitalisation	€ 92.217.036
Minimum parcel	1,00
Reference price	€ 2,20 – 27/03/2020 h 17.35.06
Official price	€ 2,3045 – 26/03/2020
1 –month performance	- 13,39%
6 –month performance	- 31,25%
1 – year performance	+ 33,74%

¹ Source: "Top Trends on the Gartner Hype Cycle for Artificial Intelligence" Nov. 2019

It should be noted that the current share price is influenced by the reaction of operators to the serious situation connected with the health emergency caused by Coronavirus, the threat to the global economy resulting from the necessary measures taken to control the outbreak and the potential domino effect that might lead to a global recession.

With reference to the significant events that occurred during the year, the following should be noted:

- on 23/04/2019, the Board of Directors decided to partially exercise the proxy granted by the Extraordinary Shareholders' Meeting on 18/04/2019, for a maximum of Euro 10 million, to increase the share capital by issuing new ordinary shares with no nominal value, excluding any pre-emption rights pursuant to Art. 2441, paragraph 5, of the Italian Civil Code. Therefore, the Board approved a divisible share capital increase, excluding any pre-emption rights, for a total limit amount of Euro 7,000,000.20 including the share premium, of which Euro 38,888.89 to be recorded as share capital, by issuing the limit number of 3,888,889 ordinary shares with no nominal value, fully subscribed by ERGO S.r.l., a newly established company owned by a pool of private investors;
- on 03/05/2019, the first share capital increase was carried out, delegated to the Board of Directors, implementing the incentive plan called "Stock Grant Plan 2018 - 2020", which involved the issue of the first tranche of 76,600 new shares pursuant to a free capital increase of Euro 766, using the extraordinary reserve of the same amount;
- on 28/06/2019, with the deed drawn up by Notary Rolando Rosa, index no. 124101, collection no. 22757, the third and last share capital increase was carried out, delegated to the Board of Directors, implementing the incentive plan called "Stock Grant Temis Plan 2016-2020". The capital increase involved the issue of the third tranche of 111,151 new shares pursuant to a free capital increase of Euro 1,111.51, using the extraordinary reserve of the same amount; on the same date, implementing the "Stock Grant Temis Plan 2016-2020", the company assigned 64.431 treasury shares free of charge to the beneficiaries, corresponding to 25% of the total value of the plan;

- on 20/11/2019, the company sold to the English company Integral AD Science UK Ltd. its entire shareholding (corresponding to 825,093 shares, equal to 60.80% of the share capital) in the subsidiary AdmantX S.p.A., realizing a significant capital gain, as detailed below;
- on 23/12/2019, the first share capital increase was carried out, delegated to the Board of Directors, implementing the incentive plan called "Stock Option Plan 2018 - 2020", which involved the issue of the first tranche of 80,400 new shares pursuant to a capital increase of Euro 804, in the light of the beneficiaries' payment of the Strike Price set out in the Plan.

With the aim of helping more and more organisations accelerate and simplify the adoption of artificial intelligence in processes that require the ability to manage large volumes of data and textual information, Expert System released Cogito® 14.4 at the end of April 2019. The new release of Cogito, which Expert System's entire commercial offer is based on, further speeds up the acquisition of new knowledge by enriching the knowledge graph; it improves machine learning by exploiting the interaction with users and adds intelligence to process automation, easily integrating into Robotic Process Automation (RPA) platforms. The Expert System knowledge graph, which is at the heart of Cogito, is the richest conceptual database on the market for the understanding of natural language. In order to allow organisations to more easily enrich and customise knowledge already present in the knowledge graph, new features have been introduced to import specific knowledge from any type of information source (e.g. internal archives but also external resources such as Wikipedia or Geonames) and to duly identify references to entities such as people, companies, places, etc.. The new Cogito release speeds up the implementation of projects using advanced machine learning techniques. Through an intuitive web application, even the least experienced users can interact with the system to speed up and increase the accuracy of the extraction of data used for the development of the machine learning model. All the most troublesome steps of the process are thus simplified, such as the initial steps typically based on the use of manually annotated datasets. In addition to reducing the amount of manual work, the possibility to intervene at any time during the process solves the problem of having to start over each time, ensuring precise and timely data quality control. Lastly, a specific connector ensures that Cogito functionalities can be incorporated into the most popular Robotic Process Automation

(RPA) platforms to extend automation to complex processes, which require cognitive capabilities that are similar to human ones.

With regard to the development of the indirect channel, in April the e-learning platform for the use and programming of Cogito was made available with the aim of allowing ever larger groups of users to access increasingly intelligent solutions, which can deeply transform business processes. The launch of this path, which has so far led to the issue of 216 certifications (+55% vs. H1) to as many professionals from 33 companies (+53% vs. H1) in 19 different countries, will help support the Group's future revenues, while at the same time increasing the efficiency made available to corporate customers, to take full advantage of all the features included in the Cogito platform and integrate it with the best solutions available on the market.

In 2019 Expert System announced the availability in the Cogito® artificial intelligence technology of the "Creative Works Ontology" designed by MovieLabs, the non-profit research and development association founded by Hollywood's leading film studios to help companies in the film industry adapt their infrastructure to a market scenario that is increasingly oriented to data use.

The main objective of the Creative Works Ontology by MovieLabs is to provide a structured and formal representation of cinema/TV-related knowledge, making the organisation of content of the reference domain easier and more accurate and providing a rich and scalable metadata base, so as to offer the interoperability of metadata and the complete integration of data from different systems to producers, distribution platforms and media service providers.

With the availability of the "Creative Works" ontology as a Cogito module, media organisations will be able to simplify, automate and accelerate data organisation, a process that would otherwise be entirely manual and time-consuming. This will accelerate the creation of even more innovative search, navigation and recommendation engines for customers in the media industry, while also improving their analytical activities.

Datlas, a Business Process Outsourcing company, chose Expert System's artificial intelligence to support companies in the accurate, fast and efficient management of documents underlying back-office activities and business processes, increasing automation in information processing.

The integration of Cogito technology into the DOME® platform is a fundamental step to consolidate the company's Intelligent Process Automation offer, verticalising it into the core processes of the Insurance, Banking, Energy & Telco sectors. Activities such as the extraction of data and information, the execution of checks and controls, as well as the management of workflows in corporate back-offices, can be further automated. By exploiting the ability of Cogito® artificial intelligence to understand the meaning of texts, Datlas will be able to offer its customers faster and more transparent solutions and services.

In 2019 Expert System strengthened its success in the application of artificial intelligence to insurance processes by starting a collaboration with AXA XL, which uses Cogito® to enhance its Property Risk Engineering capabilities so as to facilitate the analysis of real estate appraisals. By automating the real estate appraisal reading process through natural language processing, AXA XL's "Risk Consulting" team can expand the range of documents and the volume of reports to be reviewed, focus the time dedicated to risk engineering on high-impact areas, and more effectively mitigate the client-side risk, whilst also allowing insurers to reduce the time spent on making quotes. For AXA XL's risk consultants, this translates into the possibility of extrapolating key information and data from technical appraisals that can be more than 100 pages long in just a few minutes. By automating certain parts of the report analysis process, insurance experts can spend more time understanding clients' needs and providing advice to insurers who, in turn, can offer better solutions and faster quotes to brokers and.

In the insurance field the company also started to collaborate with Swiss Re; using Cogito's advanced natural language understanding features, the customer achieves greater efficiency by automating business processes such as risk assessment or claims analysis; by automatically synthesizing information content from various open sources, and relying on its deep knowledge of

the insurance market, Cogito has supported Swiss Re in identifying information that might be cause potential future losses.

In terms of prestigious awards, Expert System came first in the "Insurance Solution Provider" category, proposed by the advisory firm Strategy Meets Action, thanks to Cogito®'s potential for the insurance market.

The main objective behind the Transformation in Action Awards is to transform business processes by fostering innovation and increasing efficiency in the InsurTech ecosystem. Every year, analysts from SMA, an American analysis, research and strategic advisory firm, analyse the solutions that can help insurance companies improve process automation, also on a cognitive basis.

Cogito-based advanced Artificial Intelligence solutions are used in different business areas in the insurance world. The ability to extend "intelligent" automation to processes based on the understanding of unstructured, error-prone and time-consuming information provides valuable support to insurers to improve production efficiency, shifting the focus to customer satisfaction and other higher value.

It should also be noted that in 2019, the American magazine KMWorld, a global reference point in Knowledge Management, included the Cogito platform among the "KMWorld Trend Setting Products" of 2019" that increase the potential of knowledge management through radical innovation and continuous evolution. This recognition was the result of the special features of Cogito, which offers its users new updates in knowledge graphs, machine learning and RPA so that organisations can accelerate and simplify the adoption of artificial intelligence in corporate workflows.

At the same time, Expert System was chosen by the US company Gartner, a worldwide leader in strategic consulting, research and analysis in the field of Information Technology, for the Gartner Magic Quadrant for Insight Engines for the third year in a row, the world's most prestigious award dedicated to solutions for the search and analysis of corporate information, a privilege granted to

only 13 companies in the world. It is a recognition that rewards the unique functionality of Cogito® artificial intelligence technology, the deep level of customer satisfaction, the excellent results in terms of accuracy in its diverse business use cases (where it is often part of broader strategic processes, such as claim management in the insurance market), cutting-edge professional services and the commitment to innovation through constant attention to research and development activities.

Expert System was also mentioned in the Intelligent Insurtech 2019 report in relation to its ability to use Artificial Intelligence for the development of natural language programming, with which texts can be understood in a similar way to human understanding, in a fraction of time. The company was mentioned because of its collaborations with major companies in the insurance industry, aimed at offering customers services such as chatbots, natural language questions and answers, automatic e-mail classification and intelligent search applications. Cogito's technology was mentioned for its ability to automate various processes such as complaint handling, policy underwriting, audit support, third-party risk management, anti-money laundering and legal compliance procedures.

In the Artificial Intelligence sector, Expert System's leadership remains strong, as demonstrated also by the Company's active participation in international conventions and meetings concerning business applications in the field of artificial intelligence.

In October, Expert System held the Cogito AI Day 2019 conference, with a rich programme of presentations, debates and workshops dedicated to the applications and benefits of Artificial Intelligence, which was attended by companies, analysts and industry experts.

With the contribution of Marco Varone, President and CTO of Expert System, and Mike Gualtieri, VP & Principal Analyst of Forrester Research and customers who discussed their positive experience in the implementation of AI projects both in public and private sectors, the conference focused on analysing the state of the art and future scenarios of artificial intelligence.

Automation, technologies and ecosystem for innovation were the focus of a series of round table meetings. The participants exchanged their views on competitiveness and efficiency, two concepts

that are closely linked, now more than ever before, to the ability to organise and enhance information contained in data to achieve tangible and measurable results. Testimonials of companies such as Unipol, Illimity and the Emilia Romagna Region also attended the event.

During the Applied Machine Learning Days (AMLD), organised by EPFL, École Polytechnique Fédérale de Lausanne, a workshop dedicated entirely to language technologies was held, called Applied Language Technologies. The main theme of the workshop was Natural Language Processing (NLP) and, specifically, use cases and concrete applications based on natural language processing, such as text classification and emotion detection, in the insurance, banking and pharmaceutical sectors. Expert System gave the speech "The new digital customer experience" dedicated to the advantages of artificial intelligence based on language processing and language understanding to simplify access to information and add intelligence to customer services. Particular attention will be paid to customer interaction and the need to improve online engagement by financial organisations to meet the expectations of a digitally sophisticated and competent audience.

The 6th edition of the IT Day was held in Milan, an event organised by Banca IMI that brought together IT leading companies and the world of investors. The event focused on innovation, infrastructure and human capital and how these areas are influenced by business digitization.

During the plenary session of the IT Day, Stefano Spaggiari, CEO of Expert System, discussed emerging artificial intelligence technologies in detail and illustrated concrete cases of their application, underlining their benefits both for society and the business world.

In May 2019 the eleventh edition of CyCon (International Conference on Cyber Conflict), the annual conference organised by the NATO Cooperative Cyber Defence Centre of Excellence, was held in Tallinn (Estonia). This is one of the major international events dedicated to cyber defence and is attended by decision-makers and legal and technological experts, private companies, military and government organisations to discuss and share information, current challenges and future trends in cyber security.

During the workshop "Darkweb - Any impacts for military operations?" Andrea Melegari, SEVP Defense, Intelligence and Security of Expert System, explained how artificial intelligence and stylometry - i.e. the measurement of stylistic indicators (sayings, preferred words, stylistic habits used by each of us when writing) - can help trace identities hidden in the Dark Web.

Expert System participated in the conference "Artificial Intelligence and Big Data: tools for the Digital Transformation of Public Administration. European prospects and territorial development scenarios", organised during Research to Business, the international exhibition of industrial research and innovation skills.

Conference participants, including IBM, Microsoft and other experts in the field, representatives of institutions and important IT companies discussed challenges and opportunities for the Public Administration that is undergoing a deep transformation in the field of Artificial Intelligence, becoming increasingly open, interoperable and inclusive at national and European level. There is a growing need to respond efficiently and accurately to the needs of the community, introducing technological tools that can improve the services offered and develop new skills.

Expert System participated as a sponsor and exhibitor in the 57th edition of the Association for Computational Linguistics (ACL) Annual Conference, which was held in Florence. This was a major event in the field of computational linguistics that brought together industry experts, scholars and entrepreneurs to discuss and exchange their views on the combination of computational approaches and natural language.

Expert System intends to grow further primarily by increasing its penetration in the markets already covered by its current offer, particularly in the USA where it intends to replicate the many successful case histories experienced in Europe, especially in the insurance and banking sectors. The company also wants to further establish itself as a provider of a horizontal platform that can meet any AI Text Analytics needs. Also for this reason, it intends to accelerate its growth in the indirect channel by providing tools that allow it to be independent in the development and integration of solutions and projects. Expert System also intends to further increase its share of

recurring licenses compared to perpetual licenses and increase installations in the Cloud and Saas, in order to increase the marginality and profitability of projects.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as at 31/12/2019 were approved by the Board of Directors on 27/03/2019 and have been audited.

OPERATING PERFORMANCE

(Art. 40, paragraph 1 of Italian Legislative Decree no. 127/91)

General economic performance²

During 2019, international trade returned to grow and there were signs that the tariff disputes between the United States and China were easing. However, the outlook continues to be uncertain and geopolitical tensions are on the increase. Less pessimistic growth expectations, buoyed by the accommodative stance of the central banks, have nonetheless driven up share prices and facilitated a moderate recovery in long-term yields.

In the euro zone, economic activity is held back by the weakness of the manufacturing industry, especially in Germany despite a higher than expected performance in November; although growth in the service sector has been stronger up until now, there remains the risk that it could also be affected. Economic developments have an impact on inflation, which in the Eurosystem's projections is supported by monetary stimulus but is still expected to be below 2% over the next three years. Therefore, the ECB Governing Council has reconfirmed the need to maintain its current accommodative stance.

In Italy, economic activity, which grew slightly in the third quarter of the year, remained almost unchanged in the fourth quarter, continuing to be affected mainly by the weakness of the manufacturing sector. According to surveys conducted by ISTAT [Italian Statistics Office] and Bank

² Source: Bank of Italy Economic Bulletin 1/2020

of Italy, firms have expressed slightly more favourable assessments of orders and foreign demand, but uncertainty and trade tensions continue to be viewed as factors that hinder their business.

In the third quarter of 2019, the number of people employed increased slightly, especially in the service sector; the data available indicate an expansion also in the last months of the year. Contractual wage growth is positive (0.7 per cent year-on-year), although it is diminishing, reflecting the fact that significant sectors of the economy are still waiting for the renewal of collective bargaining agreements.

Inflation (0.5 percent in December) is contained. Services are the main contributors to price dynamics, while growth in the price of industrial goods is still modest. Core inflation slightly picked up in the autumn, rising to 0.7 percent. Companies' inflation expectations have slightly decreased in the latest surveys.

Since mid-October, Italian government bond yields and share prices have been rising, reflecting a similar trend in other Eurozone countries, as well as the publication of some better than expected economic data for the area. The yields on bonds issued by Italian banks and non-financial corporations have remained substantially unchanged at more than 70 basis points below the average levels recorded in the first half of 2019.

The cost of credit has fallen, significantly so for households. For the latter, growth in lending remains solid, while it is negative for firms, mainly reflecting weak demand for loans based on surveys. According to banks, the measures adopted in September by the ECB Governing Council will promote an improvement in credit conditions.

The preliminary data available for 2019 indicate a slight decline in the ratio of general government net borrowing to GDP and an increase in the debt-to-GDP ratio. The budgetary provisions for the three years 2020-22, approved by Parliament last December, envisaged an increase in net borrowing by 0.7 percentage points of GDP on average per year compared with its current-legislation levels. The Government's plans indicated that net borrowing and debt, after stabilizing in 2020, would decline in the following two years.

The projections for the Italian economy in the three-year period 2020-2022 assumed: modest growth in world trade, although gradually recovering; accommodative monetary conditions, in line

with the stance confirmed by the ECB Governing Council; orderly developments in Italian financial markets, resulting in low credit costs for firms.

The above assessments were made before the health emergency linked to the spread of Coronavirus, an event that will certainly have implications across global economic scenarios from 2020. To date, it is not known how macroeconomic indicators will evolve once the emergency is over, i.e. whether there will be a rapid recovery to pre-pandemic levels or whether, in a less optimistic view, there will be a slowdown in the global economy.

Operating performance of the Expert System Group

(Art. 40, paragraph 1 of Italian Legislative Decree no. 127/91)

The consolidated financial statements as at 31 December 2019, which include the consolidated figures of the subsidiaries included in the scope of consolidation, as well as those of the parent company Expert System S.p.A., show what follows (figures in Euro):

CONSOLIDATED FIGURES EXPERT SYSTEM GROUP			Main economic data	EXPERT SYSTEM S.P.A.		
FY 2018	FY 2019	CHAN GE		FY 2018	FY 2019	CHANG E
35,510,534	39,732,416	12%	Value of production	23,112,851	26,222,192	13%
4,637,981	5,458,855	18%	Gross operating margin (EBITDA)	6,813,100	5,541,714	(19%)
(3,228,551)	(2,878,127)	(11%)	Operating result (EBIT)	2,271,243	760,017	(67%)
(3,780,886)	(983,007)	(74%)	Net result	1,584,789	2,614,341	65%

In order to provide a better picture of the performance and results of operations, the tables below show an Added Value reclassification of the Income Statement, a reclassification of the Balance Sheet by functional area and on a financial basis and the most significant financial statement ratios.

Main economic data

(Art. 40, paragraph 1-bis of Italian Legislative Decree no. 127/91)

The reclassified income statement of the Group is as follows (in Euro):

Consolidated Income Statement	31/12/2019	31/12/2018	Change
Revenues from sales	31,654,069	28,697,152	2,956,917
Change in inventories	(50,704)	10,104	(60,808)
Increase in fixed assets for internal work	6,070,875	5,043,857	1,027,018
Other income	2,058,176	1,759,421	298,755
Value of operating production	39,732,416	35,510,534	4,221,882
External operating costs	(15,481,283)	(12,305,363)	(3,175,920)
Added value	24,251,133	23,205,171	1,045,962
Personnel costs	(18,792,278)	(18,567,191)	(225,087)
Gross Operating Margin	5,458,855	4,637,981	820,874
Depreciation and provisions	(8,336,982)	(7,866,532)	(470,450)
Operating Result	(2,878,127)	(3,228,551)	350,424
Result of the financial area	2,098,161	97,296	2,000,864
Ordinary Result	(779,966)	(3,131,255)	2,351,289
Result of the extraordinary area	-	-	-
Result before taxes	(779,966)	(3,131,255)	2,351,289
Income taxes	(203,041)	(649,631)	446,590

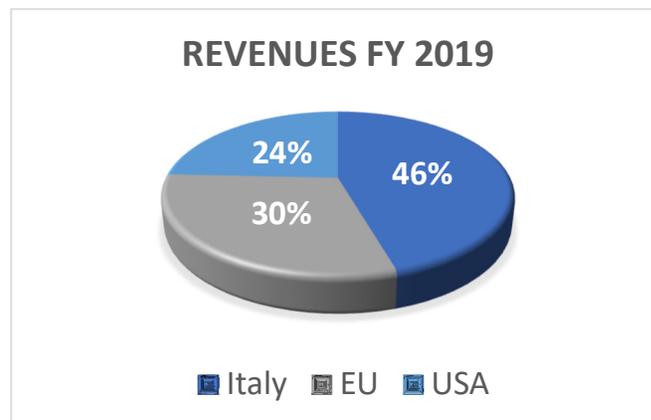
Net result	(983,007)	(3,780,886)	2,797,879
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Value of Production amounts to Euro 39,732,416 (Euro 35,510,534 as at 31 December 2018), up 12%. Revenues from sales amount to Euro 31,654,069 , a 10% increase compared to the value as at 31 December 2018 of Euro 28,697,152.

This positive result ensues from the adoption of the new business model by Expert System, focused on the sale of recurring licences, preferring them to perpetual licences. In 2019, 76% of new licences sold were recurring, compared to 40% in 2017.

The positive revenue trend was also influenced by the development of the indirect channel in 2019 with the introduction of the e-learning platform for the use and programming of Cogito, with which a larger number of professionals from different companies in different countries, were given access to Expert System solutions and their integration with the best solutions available on the market.

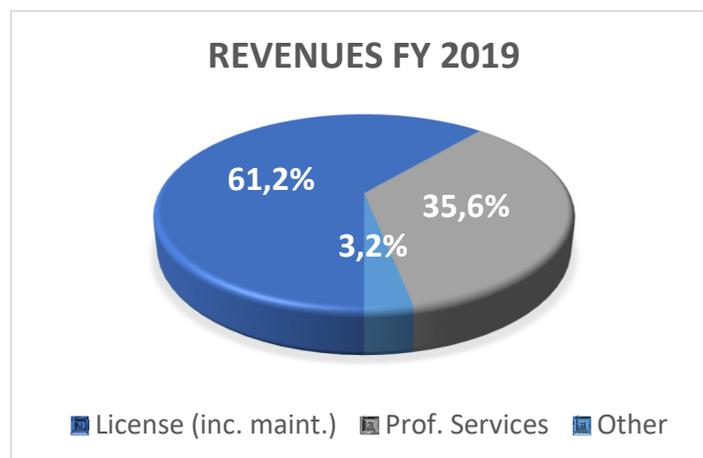
The graph below shows that the foreign component of revenues is 54%, 30% of which is made up of revenues generated in Europe and the remaining 24% on the US market:



The most considerable growth in sales was achieved in the UK, Germany and France. In particular, the increase in revenues in France was also made possible by the reorganisation of recent years. The presence of Expert System on the Italian market also continued to consolidate.

The strong positioning of Expert System in the banking and insurance sector is confirmed. In particular, the sales team in this sector was renewed for the corporate segment in the USA, which also benefited from the direct support of the parent company in marketing and pre-sale activities. With regard to the other items included in Value of Production, the increase in fixed assets for internal work amounted to Euro 6,070,875 as at 31 December 2019 (Euro 5,043,857 as at 31 December 2018). This significant increase in profitability resulted not only from the increase in the absolute value of sales revenues and other income, but also from the strategies adopted with regard to the composition of revenues.

The graph below shows that 61% of revenues are represented by licences and maintenance, 36% by professional services and 3% by a residual portion of other services:



The importance of the component linked to the sale of licences and maintenance guarantees higher margins, since it is not directly linked to the incurring of variable costs.

Depreciation and provisions for Euro 8,336,982 are mainly related to capitalised development costs whose amortisation amounts to Euro 5,125,408 and to the amortisation of the consolidation difference arising from acquisition operations.

EBIT is negative by Euro 2,878,127 but is characterised by a 11% improvement compared to the negative value as at 31 December 2018 of Euro 3,228,551.

Financial operations posted a positive result of Euro 2,098,161 as at 31 December 2019 (Euro

97,296 as at 31 December 2018), mainly due to the capital gain realised on the sale of the subsidiary Admantx for Euro 2,221,171, partially offset by the incidence of financial charges accrued on loans and bonds.

The net result shows a loss of Euro 983,007, a 74% improvement compared to the loss of Euro 3,780,886 as at 31 December 2018.

The company's income situation is further specified by the profitability ratios set out in the table below:

Profitability ratios	31/12/2019	31/12/2018
Net ROE	(0.04)	(0.20)
Gross ROE	(0.04)	(0.17)
ROI	(0.12)	(0.12)
ROS	(0.09)	(0.11)

Main balance sheet data

The Group's reclassified balance sheet as at 31/12/2019 compared with that as at 31/12/2018 is as follows (in Euro):

Consolidated Balance Sheet	31/12/2019	31/12/2018	Change
Net intangible fixed assets	13,091,778	14,733,649	(1,641,871)
Net tangible fixed assets	701,666	715,423	(13,757)
Equity investments and other financial fixed assets	4,489,459	4,568,003	(78,544)
Fixed capital	18,282,903	20,017,076	(1,734,172)
Short-term financial assets	-	4,775,574	(4,775,574)

Inventories	58,608	109,312	(50,704)
Receivables from customers	20,446,973	15,805,517	4,641,456
Other receivables	5,305,441	5,308,534	(3,094)
Accrued income and prepaid expenses	433,468	577,090	(143,622)
Short-term operating assets	26,244,489	26,576,027	(331,537)
Payables to suppliers	(4,247,286)	(2,807,819)	(1,439,468)
Advances	(311,099)	(236,256)	(74,842)
Tax and social security payables	(1,617,620)	(1,827,535)	209,915
Other debts	(2,229,701)	(2,074,263)	(155,438)
Accrued expenses and deferred income	(4,210,877)	(3,883,738)	(327,139)
Short-term operating liabilities	(12,616,584)	(10,829,611)	(1,786,973)
Net working capital	13,627,906	15,746,416	(2,118,510)
Severance pay	(2,312,384)	(2,143,307)	(169,077)
Tax and social security payables due after 12 months	(21,902)	-	(21,902)
Accrued expenses and deferred income due after 12 months	(4,307,010)	(4,681,359)	374,349
Other medium and long-term liabilities	(1,563,316)	(1,456,729)	(106,586)
Medium-term liabilities	(8,204,612)	(8,281,396)	76,784
CAPITAL EMPLOYED	23,706,197	27,482,095	(3,775,898)
Shareholders' Equity	(20,900,905)	(15,077,489)	(5,823,416)

Net financial position in the medium and long term	(18,588,011)	(14,810,677)	(3,777,334)
Short-term net financial position	15,782,719	2,406,071	13,376,648
EQUITY AND NET FINANCIAL DEBT	(23,706,197)	(27,482,095)	3,775,898

Fixed capital amounts to Euro 18,282,903 (Euro 20,017,076 as at 31 December 2018), a decrease of Euro 1,734,172 mainly due to the Euro 1,641,871 reduction in net intangible fixed assets. This reduction results from the combined effect of the decrease due to amortisation and depreciation and the increase in the capitalisation of development costs.

As far as current operations are concerned, there was a reduction of Euro 331,537 in short-term operating assets, mainly due to the reduction in equity investments in subsidiaries for Euro 4,775,574 related to the sale of Admantx, partially offset by the increase in receivables from customers for Euro 4,641,456.

Short-term liabilities for the year are characterised by an increase of Euro 1,786,973 mainly due to the Euro 1,439,468 increase in trade payables.

Therefore, net working capital is Euro 2,118,510 lower than the previous year. The largely positive value of net working capital makes it possible to report substantially balanced operations, in which short-term assets are compared with short-term liabilities.

Medium and long-term liabilities are substantially stable compared to the previous year, recording an increase of Euro 76,784.

The table below shows some financial statement ratios relating to both (i) the methods of financing medium/long-term investments and (ii) the composition of the sources of funding:

Fixed asset financing ratios	31/12/2019	31/12/2018
Fixed asset to equity capital margin	2,618,001	(4,939,587)
Fixed asset to equity capital ratio	1.14	0.75
Fixed asset to equity capital and medium-long term debt margin	25,081,711	13,471,127
Fixed asset to equity capital and medium-long term debt ratio	2.37	1.67

Financing structure ratios	31/12/2019	31/12/2018
Liabilities within 12 months (A)	14,299,026	12,605,215
Liabilities after 12 months (B)	22,485,612	18,410,714
Equity (C)	20,900,905	15,077,489
Total debt ratio (A+B)/C	1.76	2.06

The fixed asset to equity capital margin and related fixed assets coverage ratio are indicators that show how the company funds its fixed assets.

The fixed asset to equity capital margin and its ratio, which correlate the value of shareholders' equity with fixed assets (as quantified in the table above), provide information on the company's ability to finance all its fixed assets with internally acquired capital.

Shareholders' Equity (A)	20,900,905
Net intangible fixed assets	13,091,778
Net tangible fixed assets	701,666
Equity investments and other financial fixed assets	4,489,459
Fixed capital (B)	18,282,903
Fixed asset to equity capital margin (A- B)	2,618,002
Fixed asset to equity capital ratio (A/ B)	1.14

The positive result of the fixed asset to equity capital margin, with the related ratio higher than the unit, means that the company is able to cover its entire financial needs for investments in fixed assets through equity, without having to resort to outside funding.

The fixed asset to equity capital and medium-long term debt margin and its ratio refer, instead, also to medium-long term liabilities.

Shareholders' Equity (A)	20,900,905
Net financial position in the medium and long term (B)	18,588,011
Other medium and long-term liabilities (C)	1,563,316
Severance pay (D)	2,312,384
Fixed capital (E)	18,282,903
Fixed asset to equity capital and medium-long term debt margin (A + B + C + D - E)	25,081,713
Fixed asset to equity capital and medium-long term debt ratio (A + B + C + D)/E	2.37

Main financial data

The Net Financial Position as at 31/12/2019 is as follows (in Euro):

Consolidated Net Financial Position	31/12/2019	31/12/2018	Change
Bank deposits	21,644,993	7,880,364	13,764,629
Cash on hand	2,449	2,420	29
Cheques	-	-	-
Treasury Shares	-	-	-
Cash and cash equivalents and treasury shares	21,647,442	7,882,784	13,764,657
Financial assets not constituting fixed assets	28,596	182,629	(154,033)
Bonds and convertible bonds (within 12 months)	(909,100)	-	(909,100)
Payables to shareholders for loans (within 12 months)	-	-	-
Bank debt (within 12 months)	(4,831,142)	(4,925,611)	94,470

Payables to other lenders (within 12 months)	(153,077)	(733,731)	580,654
Advances for foreign payments	-	-	-
Short-term portion of financing	-	-	-
Financial receivables	-	-	-
Short-term financial debts	(5,893,319)	(5,659,342)	(233,976)
Short-term net financial position	15,782,719	2,406,071	13,376,648
Bonds and convertible bonds (after 12 months)	(9,090,900)	(5,000,000)	(4,090,900)
Payables to shareholders for loans (after 12 months)	-	-	-
Bank debt (after 12 months)	(8,439,239)	(8,124,081)	(315,158)
Payables to other lenders (after 12 months)	(1,057,872)	(1,686,596)	628,724
Advances for foreign payments	-	-	-
Long-term portion of financing	-	-	-
Financial receivables	-	-	-
Medium/long-term net financial position	(18,588,011)	(14,810,677)	(3,777,334)
NET FINANCIAL POSITION	(2,805,291)	(12,404,606)	9,599,315

The improvement in the net financial position, rising to Euro 2,805,291 as at 31 December 2019 (Euro 12,404,606 as at 31 December 2018), is mainly due to the increase in subscribed capital for Euro 7,084,420 and to the liquidity deriving from the sale of the subsidiary Admantx.

ENVIRONMENT, PERSONNEL AND RISKS

(Art. 40, paragraph 1-bis of Italian Legislative Decree no. 127/91)

Environment

During the year, no damage was caused to the environment for which Expert System was definitively found guilty. During the year, no definitive sanctions or penalties were imposed on the company for environmental offences or damages.

Expert System S.p.A. was ISO 9001:2008 certified on 30/06/2008.

The last periodic review of the ISO 9001:2015 certification, dated 13/09/2019, is valid until 28/06/2020.

Personnel

During the year, there were no fatal work injuries involving personnel entered in the employee ledger, no serious occupational accidents resulting in serious or very serious injuries to personnel entered in the employee register and no charges for occupational illnesses involving employees or former employees and no mobbing cases.

During the year Expert System also invested in personnel safety in compliance with Italian Legislative Decree 81/08. In fact, all employees were trained with regard to the safety of workers and supervisors, and refresher courses were held for first aid and fire-fighting personnel.

Descriptions of the main risks and uncertainties to which the Group is exposed

(Art. 40, paragraphs 1 and 2, point d-bis of Italian Legislative Decree no. 127/91)

The main risks to which the Group is exposed are indicated below.

Risks related to the time taken to collect trade receivables: Expert System's business is characterised by customer payment terms which cannot be determined in advance and which can sometimes reach several months, also in relation to the type of work and the general economic situation. Any extensions of customer payment terms may require Expert System to finance its working capital needs. Therefore, these situations may affect the company's economic, equity and financial situation. This is significant also in view of the relevance of trade receivables due from

European public bodies. It may take longer to collect these receivables, with such time being more difficult to predict than in case of receivables from private customers.

Risks associated with internationalisation: Expert System has started an internationalisation process in the hope that an appreciable part of its revenues will be generated by sales outside the domestic market, in Europe and on the American market, which is an important area to be monitored both on the public and private front. In this regard, Expert System might be exposed to risks that are typically associated with operating internationally, including those related to changes in local economic, political, fiscal and regulatory conditions, as well as risks related to the complexity of doing business in geographically remote areas, in addition to risks related to currency exchange rate fluctuations in the case of countries outside the Eurozone. Unfavourable developments in these areas might have negative effects on the Company's business and growth prospects as well as on its economic, equity and financial position. The table below shows the exchange rates used to convert the financial statements of subsidiaries:

CURRENCY	Exchange rate as at 31/12/2019	Average exchange rate in 2019
USD	1.1234	1.1195
CAN	1.4598	1.4855
GBP	0.85080	0.87777

Risks associated with related party transactions: Expert System has concluded, and may continue to conclude commercial and financial transactions with related parties as part of its business. The main transactions with related parties carried out by the company mainly concern commercial transactions such as the purchase and sale of licenses, maintenance fees, technical and/or commercial consulting services, administrative service contracts and lease agreements. Contracts of a financial nature, on the other hand, mainly concern loans granted by Expert System S.p.A. to Group companies. In particular, last March Expert System adopted an intercompany financing plan

which provides for the parent company's grant of loans to its subsidiaries for a total amount such as to allow the latter to obtain the necessary financial resources to meet their respective spending and investment commitments. The intercompany financing plan offers subsidiaries a simplified way of obtaining financial resources on the market which, on the whole, facilitates the execution of the group's business plan. All transactions have been concluded on an arm's length basis.

Risks related to claiming intellectual property rights: To protect its value, the Company has registered the Expert System and COGITO trademarks, and the core part of the COGITO software has been patented in the United States of America.

Interest rate risk: the interest rate risk management policy pursues the objective of limiting this volatility primarily through the identification of a balanced mix of fixed-rate and floating-rate loans and also through the use of hedging derivatives that limit interest rate fluctuations, while derivatives or similar instruments are generally not used and held for mere trading purposes.

Please find below the fair value and information on the extent and nature of each category of derivative financial instruments used by the company, broken down by class, taking into account aspects such as the characteristics of the instruments themselves and the purposes of their use.

The company Expert System S.p.a. has entered into the following derivative contracts with:

a) CREDIT AGRICOLE

- Type of derivative contract: Unlisted I.R.S. no. 65611/2017 signed on 25/09/2017 and expiring on 30/01/2023;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 1,000,000;
- Hedged liability: CREDIT AGRICOLE loan no. 0106917000000 of original Euro 1,000,000 signed on 25/09/2017 and expiring on 30/01/2023;
- Notional amount at the reference date (31/12/2019): Euro 700,000;
- amount of liability hedged at the reference date (31/12/2019): Euro 700,000.

- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 11,916.55;
- fair value when the hedge was created: zero.

b) BANCO BPM

- "Maximum rate with instalment premium" OTC derivative contract ID 790526 F 00104961 D 00038973 signed on 24/07/2017 and expiring on 31/12/2022;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 400,000;
- Hedged liability: BANCO BPM loan no. 03703813 of original Euro 400,000 signed on 24/07/2017 and expiring on 31/12/2022;
- Notional amount at the reference date (31/12/2019): Euro 266,667;
- amount of liability hedged at the reference date (31/12/2019): Euro 266,667;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 2,359.20;
- fair value when the hedge was created: zero.

c) UNICREDIT

- "IRS Payer" OTC derivative contract no. MMX24806135 signed on 02/08/2019 and expiring on 02/08/2026;
- Purpose: hedging;
- Operation with no capital exchange;
- Reference notional amount: Euro 5,000,000;
- Hedged liability: non-convertible debenture loan of original Euro 5,000,000 fully subscribed by UNICREDIT S.p.A. as per contract signed on 02/08/2019 and expiring on 02/08/2026;
- Notional amount at the reference date (31/12/2019): Euro 5,000,000;
- amount of liability hedged at the reference date (31/12/2019): Euro 5,000,000;
- Underlying financial risk: interest rate risk;

- Fair value of the derivative contract: mark-to-model fair value negative by Euro 23,313.32;
- Fair value when the hedge was created: zero.

d) UBI

- Type of derivative contract: Unlisted I.R.S. no. 171206/2018 signed on 24/10/2018 and expiring on 24/10/2021;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 1,000,000;
- Hedged liability: UBI loan no. 1276551 of original Euro 1,000,000 signed on 24/10/2018 and expiring on 24/10/2021;
- Notional amount at the reference date (31/12/2019): Euro 670,589;
- Amount of liability hedged at the reference date (31/12/2019): Euro 670,589;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 4,059.71;
- Fair value when the hedge was created: zero.

e) CREDIT AGRICOLE

- Type of derivative contract: Unlisted I.R.S. no. 69745/2019 signed on 22/05/2019 and expiring on 22/05/2024;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 1,000,000;
- Hedged liability: CREDIT AGRICOLE loan no. 0120308000000 of original Euro 1,000,000 signed on 22/05/2019 and expiring on 22/05/2024;
- Notional amount at the reference date (31/12/2019): Euro 901,986;
- amount of liability hedged at the reference date (31/12/2019): Euro 901,986;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 11,803.66;

- fair value when the hedge was created: zero.

f) INTESA SANPAOLO

- Type of derivative contract: Unlisted I.R.S. no. 31011814 signed on 28/06/2019 and expiring on 15/06/2023;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 500,000;
- Hedged liability: loan of original Euro 500,000 signed on 28/06/2019 and expiring on 15/06/2023;
- Notional amount at the reference date (31/12/2019): Euro 437,500;
- amount of liability hedged at the reference date (31/12/2019): Euro 437,500.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 1,450.00;
- fair value when the hedge was created: zero.

g) BNL

- Unlisted OTC derivative contract on interest rates signed on 11/07/2019 and expiring on 11/07/2022;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 1,500,000;
- Hedged liability: loan of original Euro 1,500,000 signed on 11/07/2019 and expiring on 17/07/2022;
- Notional amount at the reference date (31/12/2019): Euro 1,375,000;
- Amount of liability hedged at the reference date (31/12/2019): Euro 1,375,000;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value positive by Euro 646.07;
- Fair value when the hedge was created: zero.

h) BPER BANK

- “Interest Rate Option Cap Premium Running” unlisted OTC derivative contract on interest rates signed on 01/07/2019 and expiring on 24/06/2022;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 3,000,000;
- Hedged liability: loan of original Euro 3,000,000 signed on 24/06/2019 and expiring on 24/06/2022;
- Notional amount at the reference date (31/12/2019): Euro 2,632,824;
- Amount of liability hedged at the reference date (31/12/2019): Euro 2,632,824;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 11,181.18;
- Fair value when the hedge was created: zero.

The company Expert System S.p.A. does not hold any speculative financial instrument and uses derivative financial instruments to hedge its exposure to the interest rate risk, thereby stabilizing the flow of interest paid mainly on medium and long-term debt.

Derivatives, recognised at fair value, are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective.

Organisational and management model in accordance with Italian Legislative Decree no. 231/2001

Italian Legislative Decree no. 231 of 8 June 2001 has introduced into the Italian legal system the administrative liability of legal persons, companies and associations, including those without legal personality (entities). The decree establishes that no administrative liability can be ascribed to companies where they have effective and efficient organisational and management models that can prevent crimes by persons with top management positions in the Company.

Expert System S.p.A. has drawn up an Organisational and Management Model and a Code of Ethics also to reflect the company's broader business policy, which is expressed in interventions and initiatives aimed at raising awareness, both among all its personnel (from management to employees) and all external collaborators and partners, as to the company's transparent and correct management, in compliance with current legal regulations as well as the fundamental principles of business ethics in the pursuit of the corporate purpose. Within this framework, Expert System S.p.A. intends to pursue, through the adoption of the Organisational and Management Model provided for by Italian Legislative Decree 231/2001, the objective of making its existing set of rules and controls suitable also to prevent the crimes indicated in the decree itself.

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

The adoption of the model refers exclusively to the parent company Expert System S.p.A. since the legal system considers the group as a whole only from an economic perspective. The group is not an entity and therefore cannot be considered a direct centre for the attribution of liability for a crime, and thus cannot be classified as one of the subjects indicated in Art. 1 of decree 231.

The Code of Ethics, on the other hand, is applicable to Group companies as it expresses the general principles of corporate and business ethics that the Group recognises as its own and which are to be complied with by all its employees, managers and directors. Therefore, the Code of Ethics has a different scope than the Organisational and Management Model, since the Model meets specific requirements contained in the Decree, whereas the ethical principles contained in the Code of Ethics are the basic rules of conduct for the legitimate pursuit of company activities.

The Organisational and Management Model has been developed around concrete situations that characterise the company's operations, i.e. all the company's actual activities and functions and therefore the real risks of crime that can be envisaged in relation to them.

For each function in which a potential risk has been identified as existing, one or more decisional and management protocols have been defined containing the rules to be followed in carrying out the activity. The protocols are inspired by the rule of making the various stages of the decision-making process documented and verifiable, so that the motivation that guided the decision can be traced.

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

- crimes against the P.A. and its assets;
- cyber crimes and unlawful data processing;
- organised crimes;
- forgery and crimes against industry and commerce;
- corporate crimes;
- crimes for the purpose of terrorism or subversion of the democratic order;
- crimes against individual personality;
- market abuse;
- offences committed in violation of the rules on the protection of occupational health and safety;
- money laundering and receiving of stolen goods;
- copyright infringement offences;
- the crime of making false statements to the judicial authorities;
- environmental crimes;
- employment of personnel without a legal residence permit.

The exemption from administrative liability as governed by Art. 6, paragraph 1, of Italian Legislative Decree 231/2001 requires, as an element of fundamental importance, the establishment of a Supervisory Body within the company, with autonomous powers of action and control, which has the task of supervising the operation of and compliance with the Model and verifying that the Board of Directors updates the Model itself.

The Supervisory Body of Expert System S.p.A. is made up of three members, one internal and two external members. All its members are individuals with proven skills and professionalism. The presence of the internal member ensures that the SB has immediate and in-depth knowledge of the entity's structure and the organisation of its activities in the light of its actual corporate function.

This solution is deemed the most suitable, based on the characteristics of its organisational structure, to ensure the effectiveness of the controls for which the Supervisory Body is

institutionally responsible and meets the requirements of the recently approved Confindustria Guidelines.

In order to ensure the necessary stability and continuity of action for the aforementioned Body, its members hold this role for a period of 3 years from the date of their actual appointment, after which the Board of Directors ratifies a new appointment.

The appointment of the Supervisory Body, as well as its possible revocation, is the responsibility of management, which provides therefor in full compliance with the law, also on the basis of the provisions of the Confindustria Guidelines.

DEVELOPMENT ACTIVITIES

(Art. 40, paragraph 2, letter a, of Italian Legislative Decree no. 127/91)

Within Expert System's strategy, significant investments in research and development have been and continue to be crucial to the company's success and are fundamental to maintain its competitive advantage and remain a state-of-the-art company in the field of artificial intelligence applied to the understanding of natural language.

The costs incurred for these activities have been capitalized, also within the scope of national and international multi-year research projects in which the Company has been involved. In 2019 these activities focused on the Cogito artificial intelligence platform and the products that use the platform to target the most common customer use cases.

As for the development tools used for the customisation of projects, most efforts were centred around the creation of a completely new version of Cogito Studio that will be released by April 2020 and with which it is will be possible to create custom projects in a much easier and faster way.

The increase in activities compared to the previous year allowed the company to implement the first version of the Cogito APIs, which were made available to a small group of customers for the first trials at the end of 2019 and will be released by the second quarter of 2020.

The third most strategic front for the future was represented in the year by the early stages of implementation of a new component that can analyse a PDF document, recognise its structure and identify its most important elements: for a better understanding of the content of a document,

in addition to the actual text, it is often very important to recognise the layout of the document and its formatting. The component will be able to recognise the following elements of the document: titles and subtitles, indexes, text columns, tables, headers and footers, text formatting, bulleted and numbered lists.

Other significant activities pursued during the year were:

- release of the new version of Cogito intelligence Platform;
- release of the beta version of Cogito for Life Science;
- restructuring and expansion of the knowledge graph for several languages (German, Arabic, Dutch, Chinese, Russian);
- enhancement of the C and E language used within Cogito Studio to create categorisation and extraction projects;
- new developments on the intelligent analysis of complex documents.

Foreseeable evolution of management

(Art. 40, paragraph 2, letter c, of Italian Legislative Decree no. 127/91)

The 2020 financial year, which got off to a good start, will inevitably have to take into account the impact that the Coronavirus health crisis may have both at Italian and international level. Expert System immediately took and has further taken all steps to give absolute continuity to its business thanks to smart working; however, the continuation of this situation might postpone activities in progress or the implementation of new projects. It is still too early to make meaningful assessments, which can only be made once the peak of the crisis is over.

Regardless of this contingent and temporary situation, the company confirms its intention to further grow internationally, both directly and indirectly, starting from the USA where there is still tremendous potential for the best practices developed in Europe, also considering the general growing demand for solutions based on artificial intelligence algorithms.

TREASURY SHARES

(Art. 40, paragraph 2, letter d, of Italian Legislative Decree no. 127/91)

During the year, as part of the "Stock Grant Temis 2016-2020" plan, the company allocated 64.431 treasury shares to the beneficiaries, former employees or directors of Temis S.A., now Expert System France S.A., which was acquired in 2015.

As of today, these types of plans are not regulated by the current OICs, nor is it believed that they can be subject to the IFRS2 accounting model ("Share-based Payment") until the latter is introduced into our system pursuant to a decision on the matter expressed by national accounting standards (as reported in Assonime's note 101/2017). Therefore, in these financial statements, the said allocation of shares is counterbalanced by the use of the extraordinary reserve for an amount equal to the number of shares allocated, multiplied by the average carrying value, without affecting the income statement and, therefore, the result for 2018, as per approach endorsed by Consob in its Communication no. DEM/2053725 of 30 July 2002.

The company has also transferred 12,278 treasury shares to a supplier as payment for services received during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31/12/2019



STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated financial statements as at 31/12/2019, consisting of the balance sheet, income statement, cash flow statement and notes to the accounts, are in accordance with the provisions of Chapter III (Articles 25 to 43) of Italian Legislative Decree 127/91, supplemented, for those issues not specifically regulated by the decree, by the national accounting standards published by the Italian Accounting Body (OIC) and, where missing, by those of the International Accounting Standard Board (IASB) and the Financial Accounting Standards Board (FASB), and are accompanied by the Management Report.

They are also accompanied by the following documents:

- List of companies included in the consolidated financial statements and of shareholdings:
 - Companies included in the consolidation using the line-by-line method (in accordance with Art. 26)
 - Other equity investments in subsidiaries and associated companies
- Reconciliation between shareholders' equity and loss for the year of the Parent Company and consolidated shareholders' equity and loss for the year.

The amounts are expressed in Euro units.

The financial statements of the companies included in the consolidation have been prepared by their management in accordance with the accounting standards mentioned above.

Derogations

There are no exceptional cases which call for application of the derogations provided for in Art. 29, paragraphs 4 and 5 of Italian Legislative Decree 127/1991.

Transposition of Directive 34/2013/EU

With reference to the financial statements for financial years starting on or after 1/1/2016, it should be noted that Italian Legislative Decree no. 139 of 18/08/2015 (the so-called "Financial Statements Decree"), published in the Official Journal 4.9.2015 no. 205, implementing EU Directive 26/6/2013 No. 34, amended the Italian Civil Code with the aim of aligning the rules contained therein on the regulation of the financial statements of corporations, with the new EU provisions. This Directive replaces previous EU legislation with the aim of improving the scope of disclosure of accounting documents and launching a regulatory simplification process governing the preparation and publication of financial statements.

In this context of reform, the Italian Accounting Body (OIC), in accordance with the institutional purposes established by law, has also revised 20 accounting standards, which are meant to ensure the practical application of the new regulatory framework.

Scope of consolidation *(Art. 38, paragraph 2, letter a, of Italian Legislative Decree 127/91)*

Principles of consolidation and conversion *(Arts. 31 and 33 of Italian Legislative Decree 127/91)*

Conversion of foreign companies' financial statements into euros *(Art. 38, paragraph 1, letter b, of Italian Legislative Decree no. 127/91)*

The consolidated financial statements include the financial statements of Expert System S.p.A. and of the foreign companies over which control is exercised, either directly or indirectly, as at 31/12/2019 (see the table below for the exact definition of the scope of consolidation).

The assets and liabilities of consolidated companies are taken on a line-by-line basis. The book value of equity investments held by the parent company in directly and indirectly controlled

subsidiaries is eliminated against the related shareholders' equity. The difference between the acquisition cost and the shareholders' equity of subsidiaries at the date of consolidation is allocated, where possible, to the assets and liabilities of subsidiaries net of deferred taxes; any remaining difference, if positive and if the requirements for the recognition of goodwill set out in OIC 24 are met, is recognised under "Goodwill" under intangible fixed assets.

The remainder of the difference that cannot be allocated to assets and liabilities and goodwill is allocated to the income statement under item "B14 Other operating expenses".

Goodwill is amortised on the basis of an economic utility estimated at 5 years according to its useful life, taking into account all the information available to estimate the period in which the economic benefits will manifest themselves.

The financial statements of foreign companies are converted into Euro according to the following criteria:

- assets and liabilities are converted at the exchange rate in force at the end of the period;
- income and expenses are converted by applying the average exchange rate for the period;
- shareholders' equity items are converted at the rates in force during the relevant period of formation.

Exchange rate differences arising from the conversion of shareholders' equity at historical exchange rates at the time of acquisition compared to those in force at the date of the financial statements are entered directly under shareholders' equity, together with the differences between the economic result expressed at average exchange rates and the economic result expressed in Euro at the exchange rates in force at the end of the period under "Reserve for translation differences", included under "Other reserves".

Payable and receivable items and cost and revenue items among the companies included in the scope of consolidation have been eliminated. In particular, profits and losses deriving from transactions between Group companies not yet realised with third parties are eliminated, if significant.

The financial statements of the single companies approved by the Shareholders' Meeting or prepared by the Board of Directors for approval have been reclassified and adjusted, where

necessary, to bring them into line with the accounting standards adopted by the Group. It should be noted that companies with closing dates differing from the reference date of the consolidated financial statements are not included in the scope of consolidation.

Reference date of the consolidated financial statements (*Art. 30 of Italian Legislative Decree 127/91*)

The reference date of the consolidated financial statements, 31/12/2019, coincides with the closing date of the financial statements of the companies included in the scope of consolidation.

List of companies included in the consolidation (*Art. 38, paragraph 2, letters a) to d), of Italian Legislative Decree no. 127/91*)

List of equity investments included in the consolidation using the line-by-line method

Company name	Registered office	Currency	Shareholders' Equity as at 31/12/2019	Share capital	Profit/ (Loss) 31/12/2019	Direct share of the group	Indirect share of the group
Expert System Iberia S.L.U.	Barcelona (ESP)	Euro	(1,632,117) €	2,603,000 €	(1,248,107) €	100%	
Expert System France S.A.	Paris (FRA)	Euro	1,717,116 €	199,269 €	393,170 €	100%	
Expert System Deutschland GmbH	Bad Homburg vdH (GER)	Euro	(1,040,117) €	25,000 €	(79,876) €		100%
Expert System Cogito Ltd.	London (UK)	£	(1,036,399) £	1,000 £	(143,593) £	100%	
Expert System USA Inc.	Alexandria (USA)	\$ USA	(5,033,277) \$	1 \$	181,902 \$	100%	

Expert System Enterprise Corp.	Rockville (USA)	\$ USA	(6,099,093) \$	200 \$	(1,351,708) \$		100%
Expert System Canada - Semantic Technologies Inc.	Montreal (CAN)	\$ Can.	(182,437) CAD	1,000 CAD	(30,446) CAD		100%

List of other equity investments in subsidiaries and associated companies

It should be noted that the equity investment in CY4Gate S.r.l., amounting to 17.66% of the share capital, has been reclassified among other equity investments (for the sake of comparability, the 2018 financial statements have also been amended).

Changes in the scope of consolidation

The scope of consolidation has not changed compared to the previous year.

VALUATION CRITERIA

(Art. 38 paragraph 1, letter a) of Italian Legislative Decree 127/91)

The valuation criteria adopted for the preparation of the consolidated financial statements are in line with those used by the Parent Company, supplemented where necessary with the accounting principles adopted for particular items in the consolidated financial statements.

Items were valued on a prudential and going concern basis, taking into account the economic function of the assets and liabilities based on the principle of substance over form.

The valuation criteria adopted are unchanged compared to the previous year.

In particular, the valuation criteria adopted were as follows.

Intangible fixed assets

Intangible fixed assets are recorded, within the limit of their recoverable value, at purchase or production cost, including ancillary charges, and systematically amortised in relation to their

residual useful life, written down if the estimated recoverable value of the fixed assets is permanently lower than cost at year-end.

Tangible fixed assets

Tangible fixed assets are recorded at the date on which the risks and benefits associated with the assets acquired are transferred and are recorded, within the limit of their recoverable value, at purchase or production cost net of the related depreciation provisions, including all directly attributable ancillary costs and charges.

The cost is revalued in accordance with monetary revaluation laws and, in any case, it does not exceed the market value.

The cost of fixed assets whose use is limited in time is systematically depreciated in each financial year on the basis of economic-technical rates determined in relation to the residual possibility of use.

If durable losses in value are entered, regardless of the depreciation already recorded, the fixed assets are written down in relation to their residual possibility of use. If the conditions for write-downs cease to apply in subsequent years, the original value is reinstated. Assets under construction and advances to suppliers are recorded under assets on the basis of the cost incurred and/or the advance paid, including directly attributable expenses.

Equity investments

Equity investments are recorded at purchase and/or subscription cost, including ancillary charges, and written down in the event of permanent impairment of value.

Debt securities

Debt securities, if any, are recognised at the time of delivery of the security and are classified under fixed assets or current assets according to their purpose.

Long-term debt securities

Unlisted and unlisted long-term debt securities are valued on a security-by-security basis, assigning the cost specifically incurred to each security.

Non-fixed securities

Securities that do not constitute fixed assets are recorded at the lower of purchase cost and estimated realisable value based on market trends.

Inventories

Work in process on long-term contracts is valued using the percentage of completion standard: costs, revenues and contract margins are recognised on the basis of production progress. The hours worked method is used for the application of this standard.

Derivative financial instruments

Derivative financial instruments are recorded at fair value corresponding to the market value, if any, or to the value resulting from valuation models and techniques that ensure a reasonable approximation to the market value. Financial instruments for which it is not possible to use such methods are valued at the purchase price.

The current value is recorded on the assets side of the balance sheet, under the specific item of financial fixed assets or current assets depending on the relevant purpose, or on the liabilities side under the specific item included in the provisions for risks and charges.

Derivatives used to hedge cash flows are offset by a shareholders' equity reserve or, for the ineffective portion, the income statement.

Receivables

Receivables are classified under fixed assets or current assets on the basis of their purpose/origin with respect to ordinary activities.

Receivables must be recognised in the financial statements using the amortised cost method, taking into account the time factor and the estimated realisable value. The company has enforced

the option:

- not to discount receivables since the effective interest rate is not significantly different from the market interest rate;
- not to apply the amortised cost standard for receivables maturing within 12 months;
- not to apply the amortised cost standard since the relevant transaction costs, commissions and any other difference between initial value and the value at maturity are of little significance.

The amortised cost standard is thus not applied since the effects are irrelevant for the purpose of giving a truthful and accurate account; therefore, receivables are shown at their estimated realisable value based on the assessment of debtors' solvency and of the historical evolution of losses on receivables.

The adjustment of the nominal value of receivables to their estimated realisable value is obtained by means of allocations to the bad debt provision, recorded as a direct deduction from assets and determined in relation to the risk of loss resulting from the specific analysis of individual positions and in relation to the historical trend of losses on receivables, as well as the country risk.

Furthermore, the 'time factor' is not taken into account and no receivables due after 12 months are discounted since the difference between the effective interest rate and the market rate is not significant.

Cash and cash equivalents

Cash and cash equivalents as at 31/12/2019 are valued at their nominal value.

Accrual and deferrals

Accruals and deferrals are recorded on an accrual basis.

Accrued income, similar to operating receivables, are valued at their estimated realisable value.

Accrued expenses, similar to payables, are valued at their nominal value.

Provisions for risks and charges

Provisions for risks and charges are established to cover losses or payables whose existence is

certain or likely, but whose amount or date of occurrence could not be determined at year-end. The provisions reflect the best possible estimate on the basis of the elements available.

The pension fund is set up to cover commitments accrued at the end of the period toward those entitled to pension benefits.

The provision for taxes includes, in addition to the deferred tax charges connected with the single companies included in the consolidation, also the deferred tax charges connected with consolidation adjustments, when it is likely that they will actually arise for one of the subsidiaries.

Employee severance indemnities

They reflect the debt, subject to revaluation by means of specific indices and net of advances paid, accrued toward all Group employees as at 31/12/2019, in compliance with the law and current employment contracts.

Payables

The company has enforced the option:

- a) not to discount payables since the effective interest rate is not significantly different from the market interest rate;
- b) not to apply the amortised cost standard for payables maturing within 12 months;
- c) not to apply the amortised cost standard for payables maturing after 12 months since the relevant transaction costs, commissions and any other difference between initial value and the value at maturity are of little significance.

The amortised cost standard is thus not applied since the effects are irrelevant for the purpose of giving a truthful and accurate account; therefore, payables are shown at their nominal value.

Criteria for the conversion of values expressed in foreign currency

Monetary assets and liabilities outstanding at the end of the financial year, originally expressed in the currencies of non-Euro countries, are expressed in the financial statements at the exchange

rate in force at the end of the period. Gains and losses arising from the conversion of the above mentioned payables and receivables at the exchange rate in force at the financial statements date are credited and debited to the income statement, respectively.

Non-monetary assets and liabilities in foreign currency are recorded at the exchange rate in force at the time of purchase.

Costs and revenues

They are presented on a prudential and accrual basis.

Income taxes for the year

Current income taxes are recorded, for each company, on the basis of estimated taxable income in accordance with the rates and provisions in force at the end of the period in each country, taking into account applicable exemptions and any tax receivables.

Prepaid and deferred taxes are calculated on the temporary differences between the value attributed to assets and liabilities in the financial statements and the corresponding values recognised for tax purposes, based on the rates in force at the time when the temporary differences are recognised. Prepaid taxes are recognised only if their future recovery is reasonably certain.

CHANGES IN FIXED ASSETS

(Art. 38 paragraph 1, letter b-bis, of Italian Legislative Decree 127/91)

Intangible fixed assets

Intangible fixed assets amount to Euro 13,091,778 (Euro 14,733,649 in the previous year).

The composition of and changes in individual items are represented as follows:

	Start-up and expansion costs-	Development costs	Industrial patent rights and intellectual property rights	Concessions, licenses, trademarks and similar rights	Goodwill	Other intangible fixed assets	Assets under construction	Total intangible fixed assets
Value at the beginning of the year								
Cost	2,296,745	33,989,943	1,038,677	19,052	14,357,634	38,464	-	51,740,515
Amortisation (Amortisation fund)	1,444,443	23,823,372	748,631	15,920	10,936,035	38,464	-	37,006,865
Book value as at 31/12/2018	852,302	10,166,571	290,046	3,132	3,421,599	-	-	14,733,649
Changes during the year								
Increases for acquisitions	36,162	6,087,219	353,844	12,353	-	-	-	6,489,577
Reclassifications	-	-	291,803	-	(291,803)	-	-	-
Decreases for disposals and divestments								
Amortisation for the year	311,237	5,125,408	137,797	651	2,519,902	-	-	8,094,995
Other changes	(7,833)	(7,336)	(21,284)	-	-	-	-	(36,453)

Total changes	(282,908)	954,474	194,763	11,701	(2,519,902)	-	-	(1,641,871)
Year-end value								
Cost	2,332,907	40,077,162	1,662,252	31,405	14,065,831	-	-	58,169,556
Amortisation (Amortisation fund)	1,763,513	28,956,117	1,177,443	16,572	13,164,134	-	-	45,077,778
Book value as at 31/12/2019	569,394	11,121,045	484,809	14,833	901,697	-	-	13,091,778

Breakdown of start-up and expansion costs (Art. 38 paragraph 1, letter d, of Italian Legislative Decree 127/91)

The breakdown of start-up and expansion costs is shown in the following tables.

	Value at the beginning of the year	Increases during the year	Amortisation for the year	Other changes	Total changes	Year-end value
Costs of incorporation/amendments to the Bylaws	16,957		12,072		(12,072)	4,886
Start-up costs	536,439	19,056	186,252	(7,833)	(175,029)	361,409
Admission to stock exchange listing	298,906	17,106	112,913		(95,807)	203,099
Total	852,302	36,162	311,237	(7,833)	(282,908)	569,394

The costs entered are reasonably related to a useful life of several years and are systematically amortised in relation to their useful life.

Tangible fixed assets

Tangible fixed assets amount to Euro 701,666(Euro 715,423 in the previous year).

The composition of and changes in individual items are represented as follows:

	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total tangible fixed assets
Value at the beginning of the year					
Cost	456,980	218,291	1,558	2,291,206	2,968,035
Depreciation (Depreciation fund)	105,330	213,297	1,558	1,932,427	2,252,612
Book value as at 31/12/2018	351,650	4,994	-	358,780	715,423
Changes during the year					
Divestments					
Increases for acquisitions		5,015		172,676	177,691
Depreciation for the year	11,087	4,056		187,289	202,432
Other changes				(10,984)	(10,984)
Total changes	(11,087)	959		(3,629)	(13,757)
Year-end value					

Cost	456,980	223,306	1,558	2,463,883	3,145,727
Depreciation (Depreciation fund)	116,418	217,353	1,558	2,108,732	2,444,061
Book value as at 31/12/2019	340,562	5,953	-	355,151	701,666

The item "Other tangible fixed assets", which includes residual values not classifiable under the previous items, amounts to Euro 355,151 (Euro 358,780 in the previous year) and is broken down as follows:

	Value at the beginning of the year	Changes during the year	Year-end value
Office furniture	108,312	(19,074)	89,238
Electronic office machines	205,091	21,103	226,194
Cars	-	-	-
Ordinary office machines	8,300	(1,099)	7,201
Signs	2,610	(2,610)	-
Mobile phones	8,426	29	8,455
Motorcycles	-	3,643	3,643
Local installations	26,041	(5,621)	20,420
Total	358,780	(3,629)	355,151

Financial fixed assets - Equity investments, other securities and financial derivative assets

Equity investments not included in the scope of consolidation amount to Euro 309,471 (Euro

308,271 in the previous year).

Other securities included in financial fixed assets amount to Euro 80,880 (Euro 85,703 in the previous year).

The composition of and changes in individual items are represented as follows:

	Equity investments in associated companies	Equity investments in other companies	Total equity investments	Other securities
Book value as at 31/12/2018	-	308,271	308,271	85,703
Changes during the year		-	-	(6,633)
Increases for acquisitions		1,200	1,200	1,810
Reclassifications		-	-	
Book value as at 31/12/2019	-	309,471	309,471	80,880

Item B.III.1.b "Equity investments in associates" was affected by a different reclassification of an equity investment and therefore reallocated to item B.III.1.d-bis "Equity investments in other companies"; this reclassification, in accordance with the principle of comparability, also affected the 2018 financial statements.

Details of the value of long-term investments in other companies are shown below:

Description	Book value
Okkam S.r.l.	1,000
Conai	5
UTE TIC x CAT	1,200

Confidimpresa	5,000
Distretto Tecnologico Trentino S.c.a.r.l.	1,000
Buzzoole Holdings Limited	50,000
CY4Gate S.r.l.	251,266
Other equity investments in other companies	309,471

Financial fixed assets - Receivables

Receivables included in financial fixed assets amount to Euro 577,181 (Euro 811,567 in the previous year). These are receivables from Cy4gate S.r.l.

The composition of and changes in individual items are represented as follows:

	Initial nominal amount	Initial write-down provision	Initial net value	Allocation to write-down provision	Utilisation of the write-down provision	(Write-downs)/Reinstatement of value	Other increases/(decreases)	Final nominal amount	Final write-down provision	Final net value
From subsidiaries, due within 12 months	100,012	-	100,012	-	-	-	(100,012)	-	-	-
From associated companies, due after 12 months	-	-	-	-	-	-	-	-	-	-
From associated	-	-	-	-	-	-	-	-	-	-

companies, due within 12 months										
From others, within 12 months	321,555	-	321,555	-	-	-	105,626	427,181	-	427,181
From others, due after 12 months	390,000	-	390,000	-	-	-	(240,000)	150,000	-	150,000
Total	811,567	-	811,567	-	-	-	(234,386)	577,181	-	577,181

Item B.III.2.b "Receivables from associated companies" was affected by a different reclassification of an equity investment and therefore reallocated to item B.III.2.d-bis "Receivables from others"; this reclassification, in accordance with the principle of comparability, also affected the 2018 financial statements.

MOST SIGNIFICANT CHANGES IN OTHER ASSET AND LIABILITY ITEMS

(Art. 38 paragraph 1, letter c, of Italian Legislative Decree 127/91)

Current assets - Inventories

Inventories included in current assets amount to Euro 58,608 (Euro 109,312 in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Raw, ancillary materials and consumables	-	-	-

Work in process on long-term contracts	109,312	(50,704)	58,608
Total inventory	109,312	(50,704)	58,608

Current assets - Receivables

Current receivables amount to Euro 29,274,341 (Euro 24,476,513 in the previous year).

The composition of the individual items is represented as follows:

	Due within 12 months	Due after 12 months	Total nominal value	(Provisions for risks/write-downs)	Net value
From customers	20,698,412	-	20,698,412	(251,440)	20,446,973
From subsidiaries	-	-	-	-	-
From associated companies	-	-	-	-	-
Tax receivables	1,200,026	6,699	1,206,725	-	1,206,725
Prepaid taxes	525,230	1,308,811	1,834,041	-	1,834,041
From others	3,580,185	2,206,417	5,786,602	-	5,786,602
Total	26,003,853	3,521,927	29,525,780	(251,440)	29,274,341

Receivables from others amount to Euro 5,786,602 (Euro 5,686,983 in the previous year).

The composition of and changes in individual items are represented as follows:

	Initial value	Change	Final value
Security deposits	398,506	225,073	623,579
Advances	134,913	(8,071)	126,842

Receivables for grants for research projects	4,559,302	49,333	4,608,635
Receivables from factoring companies	411,841	(381,841)	30,000
Other receivables	182,421	215,125	397,546
Total	5,686,983	99,619	5,786,602

Below is a breakdown of receivables for grants for development projects within and after 12 months, broken down by company:

	Expert System S.p.A.	Expert System Iberia S.L.U.	Expert System France S.A.
Receivables for grants for projects within 12 months	1,723,970	131,015	604,447
Receivables for grants for projects after 12 months	1,811,158	338,046	-
Total	3,535,128	469,061	604,447

Composition of receivables for grants by project

Expert System S.p.A.	Receivable within 12 months	Receivable after 12 months
Horizon 2020	-	426,125
Horizon 2020 - EIT Digital	579,769	-
PON	-	115,000
PON R&C 2007-2013	619,696	-
POR Fesr Apiae	-	257,285

POR Fesr Lazio	217,317	-
European Project - ISEC Call for proposals	-	178,478
MISE [Italian Ministry of Economic Development]	307,189	252,966
MIUR [Italian Education, University and Research Ministry]	-	581,303
Total	1,723,970	1,811,158

Expert System Iberia S.L.U.	Receivable within 12 months	Receivable after 12 months
DANTE	59,850	-
TRIVALENT	16,227	-
LETSCROWD	54,938	-
COINFORM	-	37,383
CICCER	-	13,854
ELG	-	124,753
KDRIVE	-	92,306
XLIME	-	69,750
Total	131,015	338,046

Expert System France S.A.	Receivable within 12 months	Receivable after 12 months
PRESIDGE	85,153	-

E-Compliance	815	-
Faucon	185,112	-
Pythia	46,974	-
Social Trust	205,205	-
Solomon	81,188	-
Total	604,447	-

Current assets - Financial assets

Current financial assets amount to Euro 28,596 (Euro 4,958,203 in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Changes during the year	Year-end value
Equity investments not held as fixed assets in subsidiaries	4,775,574	(4,775,574)	-
Other equity investments not held as fixed assets	8,400	-	8,400
Other securities not held as fixed assets	174,229	(154,033)	20,196
Total	4,958,203	(4,929,607)	28,596

The change in the item "Equity investments not held as fixed assets in subsidiaries", amounting to Euro 4,775,574, is due to the sale by Expert System S.p.A. of the equity investment in the subsidiary AdmantX S.p.A., which took place on 20/11/2019; the equity investment was bought by the English company Integral AD Science UK Ltd. with registered office in London, 16 New Burlington Place.

Expert System S.p.A. realised a capital gain of Euro 2,221,171 recorded in item C.16.d of the income statement.

The item "other securities" includes Euro 20,196 in securities held by Expert System Deutschland GMBH as amounts intended for temporary investments.

Receivables - Breakdown by maturity (Art. 38 paragraph 1, letter e, of Italian Legislative Decree 127/91)

The breakdown of receivables by maturity is shown below:

	Value at the beginning of the year	Change during the year	Year-end value	Amount due within the financial year	Amount due after the financial year	Of which with a residual maturity of more than 5 years
Receivables from customers included in current assets	15,805,517	4,641,456	20,446,973	20,446,973	-	-
Receivables from subsidiaries included in current assets	94,752	(94,752)	-	-	-	-
Receivables from associated companies included in current assets	-	-	-	-	-	-
Tax receivables included in current assets	1,087,020	119,705	1,206,725	1,200,026	6,699	-
Deferred tax assets included in current assets	1,802,241	31,800	1,834,041	525,230	1,308,811	-
Receivables from others included in current assets	5,686,983	99,619	5,786,602	3,580,185	2,206,417	-
Total	24,476,513	4,797,828	29,274,341	25,752,414	3,521,927	-

Receivables from customers - Breakdown by geographical area

Although not required by the standard, the breakdown of receivables by geographical area is provided below.

	Receivables from customers	Invoices to be issued	CN to be issued	Other trade receivables	Total
Customers Italy	6,354,048	5,338,924	-	-	11,692,972
EEC Customers	3,094,560	1,354,794	-	-	4,449,354
EXTRA-EEC Customers	4,118,521	437,566	-	-	4,556,087
Totals	13,567,129	7,131,284	-	-	20,698,413
Bad debt provision	(251,440)	-	-	-	(251,440)
Totals	13,315,689	7,131,284	-	-	20,446,973

Current assets - Cash and cash equivalents

Cash and cash equivalents included in current assets amount to Euro 21,647,442 (Euro 7,882,784 in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Bank and postal deposits	7,880,364	13,764,629	21,644,993
Cash on hand	2,420	29	2,449
Cheques	-	-	-
Total	7,882,784	13,764,657	21,647,442

Accrued income and prepaid expenses (Art. 38 paragraph 1, letter f, of Italian Legislative Decree 127/91)

Accrued income and prepaid expenses amount to Euro 433,468 (Euro 577,090) in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Prepaid expenses	577,090	(143,622)	433,468
Accrued income	-	-	-
Total accrued income and prepaid expenses	577,090	(143,622)	433,468

Composition of prepaid expenses:

	Discounts within 12 months	Discounts after 12 months	Discounts after 5 years
Personnel recruitment and training	1,750	-	-
Rental and lease liabilities	10,146	-	-
Insurance	16,750	-	-
Commissions	57,937	74,090	6,002
Consulting services	16,238	24,026	3,191
Maintenance	5,512	123	-
Rentals	98,524	-	-
Miscellaneous services	1,857	457	127

Software	30,125	4,564	-
Internet expenses	-	-	-
Royalties	-	-	-
Hardware	-	-	-
Public relations costs	29,800	-	-
Other prepaid expenses	49,831	2,173	245
Totals	318,470	105,434	9,564

Shareholders' Equity

Shareholders' equity at the end of the year amounted to Euro 20,900,905 (Euro 15,077,489 in the previous year).

The following tables show the changes during the year in the single items making up Shareholders' Equity.

	Value at the beginning of the year	Allocation of the result for the year	Increases	Decreases	Other changes	Result for the year	Year-end value
Capital	358,590	-	41,571	-	-		400,161
Share premium reserve	35,076,223	-	7,432,847	-	-		42,509,070
Legal reserve	43,899	27,819	-	-	-		71,718
Other reserves							
Extraordinary reserve	1,194,367	1,338,063	-	(523,692)	-		2,008,738
Merger surplus reserve	376,622	-	-	-	-		376,622
Reserve for unrealised	180,049	218,907	-	-	-		398,956

exchange gains							
Other miscellaneous reserves	729,221	-	263	(40,645)	-		688,839
Total other reserves	2,480,259	1,556,970	263	(564,337)	-		3,473,155
Reserve for expected cash flow hedges	(38,596)	-	-	(31,679)	-		(70,275)
Profit (losses) carried forward	(18,902,814)		(3,780,886)	-	(1,816,218)		(24,499,918)
Profit (loss) for the year	(3,780,886)	3,780,886				(983,007)	(983,007)
Negative reserve for treasury shares in portfolio	(159,187)	-	-	159,187	-		-
Total group shareholders' equity	15,077,489	5,365,675	3,693,795	(436,829)	(1,816,218)	(983,007)	20,900,905
Minority interest in shareholders' equity							
Total consolidated shareholders' equity	15,077,489	5,365,675	3,693,795	(436,829)	(1,816,218)	(983,007)	20,900,905

Share capital

The share capital is composed as follows:

Description	Initial volume, number	Initial volume, nominal value	Shares subscribed during the year, number	Shares subscribed during the year, number	Final volume, number	Final volume, nominal value
Common shares	35,859,031	-	4,157,040	-	40,016,071	-
Total	35,859,031	-	4,157,040	-	40,016,071	-

Other miscellaneous reserves

"Other miscellaneous reserves" are composed as follows:

Description	Amount
PIA [Integrated Package of Allowances] Reserve Fund	141,000
Other reserves	410,107
Conversion reserve	137,732
Total	688,839

Reserve for expected cash flow hedges (Art. 38 paragraph 1, letter o-quater, of Italian Legislative Decree 127/91)

The information required by article 38, paragraph 1, letter o-quater of Italian Legislative Decree 127/1991 with regard to the specification of changes during the year is summarised in the table below:

	Reserve for expected cash flow hedges
Value at the beginning of the year	(38,596)
Changes during the year	(31,679)
Change in fair value	-
Year-end value	(70,275)

Provisions for risks and charges

The provisions for risks and charges are recorded under liabilities for a total of Euro 1,205,739 (Euro 1,053,741 in the previous year).

The composition of and changes in individual items are represented as follows:

	Provision for pensions and similar obligations	Provision for taxes, including deferred taxes	Financial derivative liabilities	Other funds	Total provisions for risks and charges
Value at the beginning of the year	4,341	995,040	38,596	15,764	1,053,741
Provision for the year	-	81,528	31,679	38,791	151,998
Use during the year	-	-	-	-	-
Other changes	-	-	-	-	-
Year-end value	4,341	1,076,568	70,275	54,555	1,205,739

These are established to cover losses or payables whose existence is certain or likely, but whose amount or date of occurrence could not be determined at year-end.

The general criteria of prudence and accrual are respected in the valuation of these provisions and no generic risk provisions without economic justification are established.

The increases relate to provisions for the year. The decreases relate to uses during the year.

Contingent liabilities are recognised in the financial statements and included under provisions since they are considered likely and the amount of the related charge can be reasonably estimated.

Severance pay

Employee severance indemnities are recorded under liabilities for a total of Euro 2,312,384 (Euro 2,143,307 in the previous year).

The composition of and changes in individual items are represented as follows:

	Employee severance indemnities
Value at the beginning of the year	2,143,307

Changes during the year	
Provision for the year	490,180
Use during the year	229,082
Other changes	(92,021)
Total changes	169,077
Year-end value	2,312,384

This item represents the actual debt accrued toward employees in accordance with the law and the employment contracts in force, considering all forms of remuneration of an ongoing nature. The provision corresponds to the total individual indemnities accrued in favour of employees at the financial statements date, net of advances paid, and is equal to what would have been payable to employees if the employment relationship had terminated on that date.

Payables

Payables are recorded under liabilities for a total of Euro 33,266,516 (Euro 27,818,880 in the previous year).

The composition of the individual items is represented as follows:

	Value at the beginning of the year	Changes during the year	Year-end value
Bonds	5,000,000	5,000,000	10,000,000
Payables to shareholders for loans	-	-	-
Bank debt	13,049,692	220,689	13,270,381
Payables to other lenders	2,420,327	(1,209,378)	1,210,949

Advances	639,244	29,432	668,676
Payables to suppliers	2,807,819	1,439,467	4,247,286
Tax payables	1,254,649	(223,704)	1,030,945
Due to social security and welfare institutions	572,886	35,692	608,578
Other debts	2,074,263	155,438	2,229,701
Total	27,818,880	5,447,636	33,266,516

The company enforced the option not to use the amortised cost method and not to discount payables.

The accounting policies adopted by the company are as follows:

- non-discounting and non-application of the amortised cost standard for payables maturing within 12 months;
- non-discounting of payables since the effective interest rate is not significantly different from the market interest rate;
- non-application of the amortised cost standard since the relevant transaction costs, commissions and any other difference between initial value and the value at maturity are of little significance.

Therefore, payables are stated at their nominal value.

The item "Bonds" consists of the bond issued by Expert System S.p.A..

The balance of the debt for bonds, amounting to Euro 10,000,000, is due:

- for Euro 5,000,000, to the issue of a bond loan reserved for professional investors, fully subscribed by Fondo Strategico Trentino-Alto Adige managed by Finint Investments SGR S.p.A..

The main terms and conditions of the Bond are set out below:

Amount	Nominal Euro 5,000,000.00
Date of issue	31/07/2015
Maturity	31/12/2024, bond repayment date
Issue price	Equal to 100% of the nominal value of each bond
Interest rate	Gross fixed rate of 4% per annum with half-yearly payment from January 2016 onwards
Bond structure	Amortising with 4 years of pre-amortisation

- for Euro 5,000,000, to the issue of a non-convertible bond, fully subscribed by Unicredit S.p.A..

The main terms and conditions of the Bond are set out below:

Amount	Nominal Euro 5,000,000.00
Date of issue	02/08/2019
Maturity	02/08/2026, bond repayment date
Issue price	Equal to 100% of the nominal value of each bond
Interest rate	Nominal floating rate equal to Euribor 3M + 225bb with quarterly payments from November 2019 onwards
Bond structure	Amortising with 2 years of pre-amortisation

Payables - Breakdown by maturity (Art. 38 paragraph 1, letter e, of Italian Legislative Decree 127/91)

The breakdown of payables by maturity is shown below:

	Value at the beginning of the year	Change during the year	Year-end value	Amount due within the financial year	Amount due after the financial year	Of which with a maturity of more than 5 years
Bonds	5,000,000	5,000,000	10,000,000	909,100	9,090,900	1,750,000
Payables to shareholders for loans	-	-	-	-	-	-
Bank debt	13,049,692	220,689	13,270,381	4,831,142	8,439,239	107,089
Payables to other lenders	2,420,327	(1,209,378)	1,210,949	153,077	1,057,872	-
Advances	639,244	29,432	668,676	311,099	357,577	-
Payables to suppliers	2,807,819	1,439,467	4,247,286	4,247,286	-	-
Tax payables	1,254,649	(223,704)	1,030,945	1,030,945	-	-
Due to social security and welfare institutions	572,886	35,692	608,578	586,676	21,902	-
Other debts	2,074,263	155,438	2,229,701	2,229,701	-	-
Total payables	27,818,880	5,447,636	33,266,516	14,299,026	18,967,490	1,857,089

Payables secured by collateral on company assets (Art. 38 paragraph 1, letter e, of Italian Legislative Decree 127/91)

Information about collateral on the company's assets is shown below:

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	Mortgage-backed payables	Payables not secured by collateral	Total
Bonds	-	10,000,000	10,000,000
Bank debt	227,862	13,042,519	13,270,381
Payables to other lenders	-	1,210,949	1,210,949
Advances	-	668,676	668,676
Payables to suppliers	-	4,247,286	4,247,286
Tax payables	-	1,030,945	1,030,945
Due to social security and welfare institutions	-	608,578	608,578
Other debts	-	2,229,701	2,229,701
Total payables	227,862	33,038,654	33,266,516

Accrued expenses and deferred income (Art. 38 paragraph 1, letter f, of Italian Legislative Decree 127/91)

Accrued expenses and deferred income are recorded under liabilities for a total of Euro 8,517,887 (Euro 8,565,098 in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Accrued expenses	152,471	(941)	151,530
Deferred income	8,412,627	(46,270)	8,366,357

Total accrued expenses and deferred income	8,565,098	(47,211)	8,517,887
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Composition of deferred income:

	Within 12 months	After 12 months	After 5 years
Hosting fees	125,139	-	-
Grants for research projects	1,053,998	3,576,749	-
Tax receivable	591,335	722,849	-
Licences	77,905	-	-
Maintenance	2,021,979	-	-
Provision of services	187,950	4,820	-
Other deferred income	3,633	-	-
Totals	4,061,939	4,304,418	-

Accrued expenses and deferred income are determined on an accrual basis.

For long-term accruals and deferrals, the conditions that led to their original recognition were verified when preparing these statements, adopting, where necessary, the appropriate changes.

They represent the connection items of the financial year counted on an accrual basis.

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

As at 31/12/2019, there were no accruals and deferrals with a duration of more than five years.

Amount of financial charges allocated during the year to the assets in the balance sheet, separately for each item (Art. 38, paragraph 1, letter g, of Italian Legislative Decree 127/91)

It should be noted that during the year no financial charges were recorded as assets in the balance sheet.

INFORMATION ON INCOME STATEMENT

Revenue recognition

Revenues from the sale of products are recognised at the time when the corresponding risks and benefits are transferred, which is normally identified with the delivery or shipment of the goods.

Revenues of a financial nature and those deriving from the provision of services are recognised on an accrual basis.

Revenues and income, costs and charges relating to foreign currency transactions are determined at the exchange rate on the date when the transaction is carried out.

Income and expenses relating to repurchase agreements, including the difference between forward price and spot price, are stated for the portion pertaining to the year.

Revenues from sales and services - breakdown by geographical area

(Art. 38, paragraph 1, letter i, of Italian Legislative Decree no. 127/91)

Value of production

Description	Previous period	Current period	Change
Revenues from sales and services	28,697,152	31,654,069	2,956,917
Change in work in process on long-term contracts	10,104	(50,704)	(60,808)
Increases in fixed assets for internal work	5,043,857	6,070,875	1,027,018
Other revenues and income	1,759,421	2,058,176	298,755
Totals	35,510,534	39,732,416	4,221,882

The figures in the income statement as at 31/12/2019, shown above, are compared with those of the previous year.

The breakdown of revenues by geographical area is shown below:

Geographical area	Current year value
Revenues Italy	14,341,972
EEC Revenues	6,689,749
EXTRA-EEC Revenues	10,622,348
Total	31,654,069

Other revenues and income

Other revenues and income are recorded under value of production of the income statement for a total of Euro 2,058,176 (Euro 1,759,421 in the previous year).

Individual items are made up as follows:

	Previous period	Current period	Change
Revenues for tax credit	523,037	620,022	96,985
Capital contributions	890,634	1,087,779	197,145
Grants for current expenses	2,000	-	(2,000)
Miscellaneous refunds	161,366	102,185	(59,181)
Other revenues	165,457	233,698	68,241
Contingent assets	16,927	14,492	(2,435)

Totals	1,759,421	2,058,176	298,755
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Expenses for services

Expenses for services are recorded under costs of production of the income statement for a total of Euro 12,043,891 (Euro 8,778,559 in the previous year).

Individual items are made up as follows:

	Previous year's value	Current year value	Change
Utilities	273,534	230,494	(43,040)
Maintenance and repair costs	94,079	251,833	157,754
Consulting services	4,818,953	7,125,874	2,306,921
Directors' fees	996,947	1,185,824	188,877
Fees to auditors and external auditors	22,282	44,178	21,896
Commissions payable	25,143	22,107	(3,036)
Advertising	410,963	359,911	(51,052)
Services for personnel	314,646	599,542	284,896
Fairs and corporate events	184,684	292,218	107,534
Condominium expenses	116,139	133,482	17,343
Services from financial enterprises and banks of a non-financial nature	49,506	63,589	14,083
Insurance	114,705	162,206	47,501
Entertainment expenses	110,841	185,784	74,943

Travel and business trip expenses	1,023,407	1,045,511	22,104
Rental costs	113,326	124,988	11,662
Other	109,404	216,350	106,946
Total	8,778,559	12,043,891	3,265,332

Use of third-party assets

Expenses for the use of third-party assets are recorded under costs of production of the income statement for a total of Euro 1,847,400 (Euro 1,411,278 in the previous year).

Individual items are made up as follows:

	Previous period	Current period	Change
Rental and lease liabilities	799,126	869,645	70,519
Cloud rental	219,097	560,585	341,488
Truck rental	-	-	-
Vehicle rental	190,840	207,951	17,111
Hardware rental	8,285	7,918	(367)
Royalties	193,930	201,301	7,371
Totals	1,411,278	1,847,400	436,122

Personnel costs

This item includes all expenses for employees, including merit salary increases, changes in category, cost-of-living adjustments, the cost of holidays not taken and provisions set aside by law and collective agreements.

Other operating expenses

Other operating expenses are recorded under costs of production of the income statement for a total of Euro 371,005 (Euro 295,548 in the previous year).

Individual items are made up as follows:

	Previous period	Current period	Change
Taxes and fees	105,967	102,067	(3,900)
Losses on receivables	509	61,110	60,601
Magazine and newspaper subscriptions	6,499	9,957	3,458
Other operating expenses	182,573	197,871	15,298
Total	295,548	371,005	75,457

Interest and other financial charges (Art. 38, paragraph 1, letter l, of Italian Legislative Decree no. 127/91)

The breakdown of the item "Interest and other financial charges" is shown below:

	Previous period	Current period	Change
Interest on debt for bonds	200,000	240,194	40,194
Interest on loans	176,359	183,279	6,920
Interest on factoring	51,505	20,316	(31,189)
Commissions for sureties	7,138	15,706	8,568
Overdraft charges	22,019	19,587	(2,432)
Commissions on financing	8,169	29,668	21,499

Other financial charges	21,662	72,910	51,248
Totals	486,852	581,660	94,808

Income taxes

The composition of the individual items is represented as follows:

	Current taxes	Taxes relating to previous years	Deferred taxes	Prepaid taxes	Income (expenses) from participation in the tax consolidation/ tax transparency scheme	Total
IRES	36,563	-	81,528	-	-	118,091
IRAP	116,736	-	-	-	-	116,736
Prepaid taxes	-	-	-	(31,786)	-	(31,786)
Total	153,299	-	81,528	(31,786)	-	203,041

REVENUES OR COSTS OF AN EXCEPTIONAL AMOUNT OR INCIDENCE

(Art. 38, paragraph 1, letter m, of Italian Legislative Decree no. 127/91)

It should be noted that in 2019 no individual revenue or cost items of an exceptional amount or incidence were recorded, with the exception of the capital gain (Euro 2,221,171) relating to the sale of the entire equity investment in the subsidiary AdmantX S.p.A. by the parent company Expert System S.p.A.. (the equity investment was included in current assets).

OTHER INFORMATION

Reconciliation between shareholders' equity and profit for the year of the parent company and consolidated shareholders' equity and profit for the year

	Shareholders' Equity	of which: result for the year
Balances as per parent company's financial statements	48,446,737	2,614,341
Adjusted balances as per parent company's financial statements	48,446,737	2,614,341
Effect of the valuation of equity investments using the line-by-line method		
- Elimination of the book values of subsidiaries	(16,843,407)	1,000,000
- Shareholders' Equity of subsidiaries	(5,985,090)	
- Result for the year of subsidiaries	(2,862,502)	(2,862,502)
- Amortisation of consolidation differences	(1,699,639)	(1,699,639)
Adjustments to the sale of fixed assets	(134,128)	(50,012)
Other adjustments	(21,065)	14,806
Total adjustments	(27,545,832)	(3,597,348)
Group equity and result for the year	20,900,905	(983,007)
Consolidated equity and result for the year	20,900,905	(983,007)

Personnel composition

Please find below information concerning the personnel of the companies included in the consolidation, pursuant to Art. 38, paragraph 1, letter n) of Italian Legislative Decree 127/1991:

	Current average number	Previous year's average number
Executives	-	-

Middle managers	53	47
Employees	178	167
Total	231	214

Remuneration of directors and statutory auditors of the parent company

Below is the information regarding the remuneration of the directors and statutory auditors of the parent company for the performance of these functions also in other companies included in the consolidation, in accordance with Art. 38, paragraph 1, letter o) of Italian Legislative Decree 127/1991:

	Directors	Statutory auditors
Remuneration	1,185,824	14,747

There are no advances and/or credits granted to directors.

Derivative financial instruments (Art. 38, paragraph 1, letter o-ter, of Italian Legislative Decree no. 127/91)

For the following categories of derivative financial instruments, information is provided regarding their fair value, their extent and nature, changes in value recognized directly in the income statement, as well as those recognized in shareholders' equity reserves:

Please find below the fair value and information (referred to the half year in question) on the extent and nature of each category of derivative financial instruments used by the parent company, broken down by class, taking into account aspects such as the characteristics of the instruments themselves and the purposes of their use.

The parent company Expert System S.p.a. has entered into the following derivative contracts with:

- i) CREDIT AGRICOLE
 - Type of derivative contract: Unlisted I.R.S. no. 65611/2017 signed on 25/09/2017 and

- expiring on 30/01/2023;
- Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 1,000,000;
 - Hedged liability: CREDIT AGRICOLE loan no. 0106917000000 of original Euro 1,000,000 signed on 25/09/2017 and expiring on 30/01/2023;
 - Notional amount at the reference date (31/12/2019): Euro 700,000;
 - amount of liability hedged at the reference date (31/12/2019): Euro 700,000.
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 11,916.55;
 - fair value when the hedge was created: zero.

j) BANCO BPM

- “Maximum rate with instalment premium” OTC derivative contract ID 790526 F 00104961 D 00038973 signed on 24/07/2017 and expiring on 31/12/2022;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 400,000;
- Hedged liability: BANCO BPM loan no. 03703813 of original Euro 400,000 signed on 24/07/2017 and expiring on 31/12/2022;
- Notional amount at the reference date (31/12/2019): Euro 266,667;
- amount of liability hedged at the reference date (31/12/2019): Euro 266,667;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 2,359.20;
- fair value when the hedge was created: zero.

k) UNICREDIT

- “IRS Payer” OTC derivative contract no. MMX24806135 signed on 02/08/2019 and expiring on 02/08/2026;

- Purpose: hedging;
- Operation with no capital exchange;
- Reference notional amount: Euro 5,000,000;
- Hedged liability: non-convertible debenture loan of original Euro 5,000,000 fully subscribed by UNICREDIT S.p.A. as per contract signed on 02/08/2019 and expiring on 02/08/2026;
- Notional amount at the reference date (31/12/2019): Euro 5,000,000;
- amount of liability hedged at the reference date (31/12/2019): Euro 5,000,000;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 23,313.32;
- Fair value when the hedge was created: zero.

l) UBI

- Type of derivative contract: Unlisted I.R.S. no. 171206/2018 signed on 24/10/2018 and expiring on 24/10/2021;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 1,000,000;
- Hedged liability: UBI loan no. 1276551 of original Euro 1,000,000 signed on 24/10/2018 and expiring on 24/10/2021;
- Notional amount at the reference date (31/12/2019): Euro 670,589;
- Amount of liability hedged at the reference date (31/12/2019): Euro 670,589;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 4,059.71;
- Fair value when the hedge was created: zero.

m) CREDIT AGRICOLE

- Type of derivative contract: Unlisted I.R.S. no. 69745/2019 signed on 22/05/2019 and expiring on 22/05/2024;
- Purpose: hedging;

- Operation with no capital exchange;
- Contractual notional amount: Euro 1,000,000;
- Hedged liability: CREDIT AGRICOLE loan no. 0120308000000 of original Euro 1,000,000 signed on 22/05/2019 and expiring on 22/05/2024;
- Notional amount at the reference date (31/12/2019): Euro 901,986;
- amount of liability hedged at the reference date (31/12/2019): Euro 901,986;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 11,803.66;
- fair value when the hedge was created: zero.

n) INTESA SANPAOLO

- Type of derivative contract: Unlisted I.R.S. no. 31011814 signed on 28/06/2019 and expiring on 15/06/2023;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 500,000;
- Hedged liability: loan of original Euro 500,000 signed on 28/06/2019 and expiring on 15/06/2023;
- Notional amount at the reference date (31/12/2019): Euro 437,500;
- amount of liability hedged at the reference date (31/12/2019): Euro 437,500.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 1,450.00;
- fair value when the hedge was created: zero.

o) BNL

- Unlisted OTC derivative contract on interest rates signed on 11/07/2019 and expiring on 11/07/2022;
- Purpose: hedging;
- Operation with no capital exchange;

- Contractual notional amount: Euro 1,500,000;
- Hedged liability: loan of original Euro 1,500,000 signed on 11/07/2019 and expiring on 17/07/2022;
- Notional amount at the reference date (31/12/2019): Euro 1,375,000;
- Amount of liability hedged at the reference date (31/12/2019): Euro 1,375,000;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value positive by Euro 646.07;
- Fair value when the hedge was created: zero.

p) BPER BANK

- "Interest Rate Option Cap Premium Running" unlisted OTC derivative contract on interest rates signed on 01/07/2019 and expiring on 24/06/2022;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 3,000,000;
- Hedged liability: loan of original Euro 3,000,000 signed on 24/06/2019 and expiring on 24/06/2022;
- Notional amount at the reference date (31/12/2019): Euro 2,632,824;
- Amount of liability hedged at the reference date (31/12/2019): Euro 2,632,824;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 11,181.18;
- Fair value when the hedge was created: zero.

Financial fixed assets stated at a value higher than their fair value

(Art. 38, paragraph 1, letter o-quater, of Italian Legislative Decree no. 127/91)

No data to report.

Commitments, guarantees and potential liabilities not shown on the balance sheet

(Art. 38, paragraph 1, letter h, of Italian Legislative Decree no. 127/91)

The table below shows commitments, guarantees and potential liabilities not shown on the balance sheet:

	Initial balance	Change	Final balance
SURETIES	2,109,432	(894,814)	1,214,618
- to subsidiaries	600,000	(600,000)	-
- to other companies	1,509,432	(294,814)	1,214,618

These are sureties to credit institutions for Euro 1,214,058; the main changes that occurred in the first half of the year are:

- the cancellation on 10/01/2019 of the Euro 500,000 guarantee issued by Banca MPS S.p.A. in favour of the former shareholders of Temis S.A., now Expert System France S.A., as part of the closing of the acquisition of the French group completed in September 2015. The cancellation followed full payment of the secured creditors by Expert System S.p.A;
- the cancellation on 28/11/2019 of the specific determined surety, concerning an unsecured loan of the same amount taken out in 2017, issued in favour of the subsidiary ADMantX S.p.A.. The cancellation followed full payment of the residual debt by the company that acquired the entire share capital of ADMantX S.p.A..

Related party transactions (*Art. 38, paragraph 1, letter o-quinquies, of Italian Legislative Decree no. 127/91*)

Below is information concerning related party transactions.

Trade and financial relations

Company	Financial payables	Financial receivables	Trade receivables	Trade payables	Sales	Purchases
ADMANTX SPA	-	128,051	163,323	-	101,650	-

EXPERT SYSTEM USA INC	-	5,609,625	959,809	6,811	682,412	82,271
EXPERT SYSTEM COGITO LTD	-	739,866	889,832	-	613,378	30,358
EXPERT SYSTEM IBERIA S.L.U.	-	2,856,976	1,540,389	27,514	521,714	43,807
EXPERT SYSTEM FRANCE SA	-	1,424,023	1,457,829	105,576	1,058,812	128,501
EXPERT SYSTEM ENTERPRISE CORP	-	2,408,632	3,714,871	30,065	1,263,766	63,392
EXPERT SYSTEM DEUTSCHLAND GMBH	-	943,996	206,172	-	160,226	-
EXPERT SYSTEM CANADA Semantic Technologies Inc	-	-	21,727	-	16,437	-
Total	-	14,111,169	8,953,952	169,966	4,418,395	348,329

Trade relations

Company	Payables	Receivables	Guarantees	Commitments	Costs	Revenues
ADMANTX SPA	-	163,323	-	-	-	100,398
EXPERT SYSTEM USA INC	6,811	959,809	-	-	82,271	598,547
EXPERT SYSTEM COGITO LTD	-	889,832	-	-	30,358	602,067
EXPERT SYSTEM IBERIA S.L.U.	27,514	1,540,389	-	-	43,807	477,999
EXPERT SYSTEM FRANCE SA	105,576	1,457,829	-	-	128,501	1,035,645
EXPERT SYSTEM ENTERPRISE CORP	30,065	3,714,871	-	-	63,392	1,236,143

EXPERT SYSTEM DEUTSCHLAND GMBH	-	206,172	-	-	-	148,833
EXPERT SYSTEM CANADA Semantic Technologies Inc	-	21,727	-	-	-	16,437
Total	169,966	8,953,952	-	-	348,329	4,216,069

Financial relations

Company	Payables	Receivables	Guarantees	Commitments	Charges	Income
ADMANTX SPA	-	128,051	-	-	-	1,252
EXPERT SYSTEM USA INC	-	5,609,625	-	-	-	83,865
EXPERT SYSTEM COGITO LTD	-	739,866	-	-	-	11,311
EXPERT SYSTEM IBERIA S.L.U.	-	2,856,976	-	-	-	43,715
EXPERT SYSTEM FRANCE SA	-	1,424,023	-	-	-	23,167
EXPERT SYSTEM ENTERPRISE CORP	-	2,408,632	-	-	-	27,623
EXPERT SYSTEM DEUTSCHLAND GMBH	-	943,996	-	-	-	11,393
EXPERT SYSTEM CANADA Semantic Technologies Inc	-	-	-	-	-	-
Total	-	14,111,169	-	-	-	202,326

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 company sold ADmantX S.p.A.:

EXPERT SYSTEM GROUP

For the company ADmantX S.p.A., the amounts relating to the transactions detailed below, as of the date of the sale thereof, which took place on 20/11/2019, are shown in the tables above

Sale

- Rental contract for a building in Naples, Via Nuova Poggioreale 60/L, Centro Polifunzionale Inail, where the company's registered office is located: Euro 4,524 rent;
- Sublease contract for a local unit in Modena, Viale Virgilio 58/M1: Euro 3,273 rent;
- Sublease contract for a local unit in Milan, Piazza Cavour: Euro 5,473 rent;
- Contract for the provision of services relating to accounting support, business economic-financial consultancy, secretarial and general services:
 - Remuneration for accounting support, business consultancy and recruiting for Euro 21,363;
 - Remuneration for secretarial activities for Euro 1,068;
 - Remuneration for general services (telephony, cleaning services and materials, security, electricity, stationery, management software maintenance): Euro 8,269 reimbursement calculated as a lump sum of 4.15% of the expenses incurred by Expert System S.p.A.
- Sale of licence for Euro 53,242;
- Reimbursement of insurance expenses for Euro 1,585;
- Reimbursement of miscellaneous expenses for Euro 1,601;
- Granting of a Euro 100,000 loan with interest in 2019 for Euro 1,252.

The balance sheet items affected by these contracts are reclassified in the following accounts until 20/11/2019:

- B.III.2 Receivables from subsidiaries;
- C.II.2 Receivables from subsidiaries.

Income statement items are reclassified in the following accounts:

- A.1 Revenues from sales and services;
- A.5 Other revenues and income

With the subsidiary Expert System USA Inc:

- Granting of a Euro 5,287,073 loan to the subsidiary with interest in 2019 for Euro 83,865

Sale

- Concession of licences for Euro 505,829;
- Provision of professional services for Euro 11,471;
- Maintenance fees for Euro 75,988;
- Reimbursement of miscellaneous expenses for Euro 5,259.

Purchase

- Costs for miscellaneous reimbursements for Euro 1,501;
- Professional services provided by the subsidiary for Euro 80,770.

With the subsidiary Expert System Cogito Ltd:

- Granting of a Euro 670,721 loan to the subsidiary with interest in 2019 for Euro 11,311.

Sale

- Provision of professional services for Euro 307,519;
- Concession of licences for Euro 203,448;
- Reimbursement of miscellaneous expenses for Euro 71,564;
- Maintenance fees for Euro 19,536.

Purchase

- Costs for miscellaneous reimbursements for Euro 30,358.

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

- Granting of a Euro 2,616,000 loan to the subsidiary with interest in 2019 for Euro 43,715

Sale

- Provision of professional services for Euro 122,828;
- Concession of licences for Euro 203,154;
- Reimbursement of miscellaneous expenses for Euro 120,985;
- Maintenance fees for Euro 31,032.

Purchase

- Provision of professional services by the subsidiary for Euro 43,807;

With the subsidiary Expert System France S.A.:

- Granting of a Euro 1,334,174 loan to the subsidiary with interest in 2019 for Euro 23,167

Sale

- Provision of professional services for Euro 188,131;
- Concession of licences for Euro 606,813;
- Maintenance fees for Euro 124,482;
- Reimbursement of miscellaneous expenses for Euro 116,219.

Purchase

- Professional services provided by the subsidiary for Euro 24,161;
- Development services provided by the subsidiary for Euro 53,281.
- Costs for miscellaneous reimbursements for Euro 51,059;

With the subsidiary Expert System Enterprise Corp.:

- Granting of a Euro 2,305,917 loan to the subsidiary with interest in 2019 for Euro 27,623.

Sale

- Concession of licences for Euro 533,874;
- Provision of professional services for Euro 164,395;
- Maintenance fees for Euro 458,612;
- Reimbursement of miscellaneous expenses for Euro 79,262.

Purchase

- Provision of professional services by the subsidiary for Euro 63,392.

With the subsidiary Expert System Deutschland GmbH:

- Granting of a Euro 930,000 loan to the subsidiary with interest in 2019 for Euro 11,393.

Sale

- Provision of professional services for Euro 51,360;
- Concession of licences for Euro 14,400;
- Maintenance fees for Euro 39,137;
- Reimbursement of miscellaneous expenses for Euro 43,936.

With the subsidiary Expert System Canada - Semantic Technologies Inc.:

Sale

- Maintenance fees for Euro 14,233;
- Reimbursement of miscellaneous expenses for Euro 2,204.

Agreements not shown on the balance sheet (*Art. 38, paragraph 1, letter o-sexies, of Italian Legislative Decree no. 127/91*)

There is no information concerning the nature and economic purpose of agreements not shown on the balance sheet.

Indication of fees pursuant to Art. 38, paragraph 1, letter o-septies of Italian Legislative Decree 127/1991

Below are details of the fees paid to the audit firm BDO Italia S.p.a., for the audit of the consolidated accounts, other audit services, tax advisory services and services other than the statutory audit provided to the Group:

	Costs for tax advisory services and other audit services	Costs for audit services
Expert System S.p.A.	40,319	22,117

Expert System France S.A.	7,500	-
Expert System Iberia S.L.U.	23,656	-
Expert System Deutschland GMBH	17,404	-
Expert System Cogito Ltd.	-	-
Expert System Enterprise Corp.	22,519	-
Expert System USA Inc.	5,360	-
Expert System Canada - Semantic Technologies Inc.	-	-

Information pursuant to Art. 1, paragraph 125, of law no. 124 of 4 August 2017

It should be noted that, pursuant to Law no. 124/2017, paragraph 125-129 of Art. 1, the so-called annual Law for the market and competition, Group companies received the following amounts in 2019, as partial coverage of costs incurred and/or by way of contributions (cash basis):

Receiving party name	Name of the grantor	Amount (data in Euro)	Collection date	Reason for payment	Project
Expert System S.p.A.	LAZIO INNOVA	61,034	25/01/2019	Advance contribution	Application PROT. No. A0112-2016-13343 - CUP F87H18000570007 - Public Notice 'LIFE 2020' referred to in Resolution No. G08726 of 29/07/2016 - POR FESR LAZIO 2014 - 2020 - Integrated Projects
	APIAE - AUTONOMOUS PROVINCE OF TRENTO	128,643	03/12/2019	Advance contribution	ERDF call for proposals No. 6/2017 Aid for the promotion of research and development - evaluation procedure. Allowance application submitted on 17 April 2018. Research project called "Red Flags - Robots for the automatic detection of sentinel symptoms in clinical documents" - CUP: C73D18000360004

	EIT DIGITAL	19,048	13/03/2019	Advance contribution	18189 CREEP
	EIT DIGITAL	55,116	06/10/2019	Advance contribution	EIT DIGITAL 2019
	EIT DIGITAL	55,116	07/11/2019	Advance contribution	EIT DIGITAL 2019
	EIT DIGITAL	99,134	14/08/2019	Project balance	18189 CREEP
	LAZIO INNOVA	32,028	16/09/2019	Work progress payment	Application PROT. No. A0112-2016-13343 - CUP F87H18000570007 - Public Notice 'LIFE 2020' referred to in Resolution No. G08726 of 29/07/2016 - POR FESR LAZIO 2014 - 2020 - Integrated Projects
	EC	55,673	04/10/2019	Project balance	680676 - OptEEemAL - H2020-EeB-2014-2015/H2020-EeB-2015
	EIT DIGITAL	71,497	15/10/2019	Advance contribution	EIT DIGITAL 2019
	LAZIO INNOVA	26,331	15/10/2019	Work progress payment	COURIER APPLICATION No. A0113-2017-13652 of 31/01/2017 code CUP F83G17000860007 Public Notice "Aerospace and Security" referred to in Resolution No. G13676 of 21/11/2016 - POR FESR LAZIO 2014 - 2020 - Integrated Projects
	MIUR [Italian Education, University and Research Ministry]	6,644	19/12/2019	Project balance	FAR PROJECT: ART. 9 Ministerial Decree 593/00 Prot. 1569 OF 13/02/2004 "OSINT" training project - 17/02/2011 Dir. Decree No. 2059/Ric. Published on OJ No. 108 of 9-5-2008 - Ordinary Suppl. No. 116
	AUTONOMOUS PROVINCE OF TRENTO	1,798	01/01/2019 -31/01/2019	DE MINIMIS AID	Reduction of property rental in Rovereto (TN)
Expert System Iberia	European Commission	55,000	28/02/2019	Advance	812613 - CICERO - ISFP-2017-AG-CSEP
	European Commission	124,753	23/04/2019	Advance	825627 - ELG - H2020-ICT-2018-2020/H2020-ICT-2018-2
	European Commission	10,813	30/05/2019	Advance	740934 - TRIVALENT - H2020-SEC-2016-2017/H2020-SEC-2016-2017-1
	European Commission	82,615	14/06/2019	Balance	674907 - EVER-EAST - H2020-EINFRA-2014-2015/H2020-EINFRA-2015-1
	CDTI	133,779	10/07/2019	Balance	XLIMEES/GRESLADIX (EXP 00092172 / IDI-20160805)
	European Commission	24,922	08/11/2019	Advance	770302 - Co-inform - H2020-SC6-CO-CREATION-2016-2017/H2020-SC6-CO-CREATION-2017
Expert System France S.A.	BPI FRANCE	91,529	25/07/2019	Advance	PRESIDGE
	BPI FRANCE	117,931	11/12/2019	Balance	ITRAC
	BPI FRANCE	9,612	27/09/2019	Advance	PYTHIA
	BPI FRANCE	167,895	05/02/2019	Advance	SOCIAL TRUTH

In the absence of clear indications on the part of the Ministry, the company has referred to an Assonime circular in which non-selective advantages or those accessible to all companies according to predetermined general criteria, as is the case for tax benefits, are considered to be excluded from the disclosure obligation. It should be noted that during the year ended 31/12/2019 Expert System Spa received as a benefit the tax receivable on Research and Development pursuant to Law 190/2014 accrued in 2018 for Euro 349,688 and used for offsetting purposes in 2019.

Lastly, in 2019 Expert System France S.A. collected Euro 155,695 in relation to the "Crédit d'Impôt Recherche (CIR)" benefit, provided for under article 244 quater B of the *Code Général des Impôts* (CGI), accrued during 2018.

Significant events occurred after 31/12/2019

(Art. 38, paragraph 1, letter O-decies of Italian Legislative Decree no. 127/91)

On 24 February 2020, the Board of Directors of Expert System announced that Walt Mayo had been appointed Chief Executive Officer of the Group (Group CEO). With more than 20 years of experience in sales, marketing and strategic guidance of development channels, Walt will play a key role in the expansion of the company's business in the USA and will be responsible for leading Expert System into a new phase of global growth.

The goal is to leverage Expert System's approach to artificial intelligence, based on pragmatism, transparency and a clear and robust return on investment, strengthening its share of recurring licenses and further focusing on the development of platform scalability. With a comprehensive on-premise and cloud offering, the company's marketing and sales capabilities will be enhanced, starting from the US, to become the global benchmark for all business needs related to natural language understanding and processing.

On 5 March 2020, Expert System Helvetia SÀRL was established in Geneva, a wholly-owned subsidiary of Expert System with a fully paid-in and subscribed share capital of CHF 20,000. With this new company, the Group consolidates its position in the artificial intelligence sector, establishing a direct presence in a high potential region for its reference markets. The decision to

invest in Switzerland, one of the world's leading financial and insurance centres and also a centre of interest for Pharma and major international organisations, is part of the Group's international expansion and development strategies.

On 19 March 2020, Expert System appointed Gabriele Donino as Group Chief Operating Officer (COO), with the aim of strengthening global operations and increasing synergies between countries. Thanks to his deep experience gained in technology and delivery processes for the insurance market using also artificial intelligence, Gabriele Donino will be instrumental in enhancing scalability and improving the efficiency of services offered to partners and customers.

The independent research company Forrester Research included the Cogito® platform in its new report "Now Tech: AI-Based Text Analytics Platforms, Q2 2020", confirming Expert System as one of the world's leading vendors of artificial intelligence applied to text analysis.

The objective of Forrester's research is to offer text analytics experts and professionals an overview of the full potential offered by artificial intelligence platforms for text analysis: from business documents circulating in the company to any type of unstructured data and information available online.

The events that occurred after year end have no effect on the 2019 consolidated financial statements from an equity, financial and economic point of view.

With regard to the global emergency linked to the outbreak of Coronavirus, an event that will certainly have implications across global economic scenarios from 2020, to date, it is not known how macroeconomic indicators will evolve once the emergency is over, i.e. whether there will be a rapid recovery to pre-pandemic levels or whether, in a less optimistic view, there will be a slowdown in the global economy.

Chairman of the Board of Directors
Marco Varone



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