



Financial Statements for the year ended 31/12/2015



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EXPERT SYSTEM S.P.A.

Registered office in Via Fortunato Zeni 8 - 38068 Rovereto (TN)

Share capital € 250,607.78 fully paid-in

Registered with the Trento Chamber of Commerce

Tax Code and Register of Companies registration no. 02608970360

VAT number: 02608970360 - REA (Economic and Administrative Index) No.: 212386

Balance sheet - assets	31/12/2015	31/12/2014
A) Subscribed capital, unpaid		
(of which already called)		
B) Fixed assets		
<i>I. Intangible assets</i>		
1) Start-up and expansion costs	439,450	588,173
2) Costs of research, development and advertising	5,228,205	3,994,151
3) Industrial patent and intellectual property rights	28,663	21,562
4) Concessions, licences, trademarks and similar rights	5,317	4,214
5) Goodwill	13,378	20,066
6) Fixed assets in progress and payments on account		
7) Other	5,360	10,940
	5,720,373	4,639,106
<i>II. Tangible assets</i>		
1) Land and buildings	384,912	395,999
2) Plant and machinery	18,970	26,231
3) Industrial and commercial equipment		
4) Other assets	293,935	248,108
5) Fixed assets in progress and payments on account		
	697,817	670,338
<i>III. Financial assets</i>		
1) Equity investments in:		
a) subsidiaries	11,859,423	47,392
b) associates	307,673	281,673
c) parent companies		
d) other companies	57,138	59,138
	12,224,234	388,203
2) Receivables		
a) due from subsidiaries		
- within 12 months		44,935
- after 12 months	5,098,922	2,056,994
	5,098,922	2,101,929
b) due from associates		
- within 12 months		
- after 12 months	402,521	
	402,521	

c) due from parent companies			
- within 12 months			
- after 12 months			
d) other receivables			
- within 12 months			
- after 12 months			
		5,501,443	2,101,929
3) Other securities			
4) Treasury shares (total nominal value)		17,725,677	2,490,132
Total fixed assets		24,143,867	7,799,576

C) Current assets*I. Inventories*

1) Raw materials and consumables			
2) Work in progress and semi-finished products			
3) Contract work in progress		1,714,539	1,562,783
4) Finished products and goods for resale			
5) Payments on account			
		1,714,539	1,562,783

II. Receivables

1) Due from customers			
- within 12 months	6,493,691		7,113,745
- after 12 months			
		6,493,691	7,113,745
2) Due from subsidiaries			
- within 12 months	2,236,908		1,267,162
- after 12 months	26,787		26,787
		2,263,695	1,293,949
3) Due from associates			
- within 12 months			
- after 12 months			
4) Due from parent companies			
- within 12 months			
- after 12 months			
4-bis) Tax receivables			
- within 12 months	693,710		30,768
- after 12 months	30,766		102,257
		724,476	133,025
4-ter) Prepaid taxes			
- within 12 months	155,088		6,784
- after 12 months	292,874		42,608
		447,962	49,392
5) Other receivables			
- within 12 months	4,019,322		2,536,801
- after 12 months	4,364,268		6,283,008

	8,383,590	8,819,809
	18,313,414	17,409,920
III. Current financial assets		
1) Equity investments in subsidiaries	4,153,074	4,153,074
2) Equity investments in associates		
3) Equity investments in parent companies		
4) Other equity investments	8,400	8,400
5) Treasury shares (total nominal value)	560,395	89,163
6) Other securities	979,348	4,073,169
	5,701,217	8,323,806
IV. Cash and cash equivalents		
1) Bank and postal deposits	9,393,911	4,386,192
2) Cheques		
3) Cash at bank and in hand	1,772	1,370
	9,395,683	4,387,562
Total current assets	35,124,853	31,684,071
D) Accruals and deferrals		
- discount on loans		
- miscellaneous	796,548	187,719
	796,548	187,719
Total assets	60,065,268	39,671,366
Balance sheet - liabilities	31/12/2015	31/12/2014
A) Shareholders' equity		
I. Share capital	250,608	219,497
II. Share premium reserve	20,737,590	13,768,730
III. Revaluation reserve		
IV. Legal reserve	43,899	40,067
V. Statutory reserves		
VI. Reserve for treasury shares in portfolio	560,395	89,163
VII. Other reserves		
Extraordinary or optional reserve	4,020,302	3,711,110
Reserve for purchase of treasury shares		
Reserve from departures as per art. 2423 of the Italian Civil Code		
Reserve for shares (holdings) of the parent company		
Restricted reserve from revaluation of equity investments		
Payments towards share capital increase		
Payments towards future share capital increase		
Payments towards capital		
Payments to cover losses		
Reserve from share capital reduction		

Merger surplus reserve	376,622		376,622
Reserve for exchange gains	217,282		
Miscellaneous other reserves			
Funds for capital grants (art. 55 of the C.L.)			
Reserves for deferred taxation			
Reserves from grants (It. Law No. 576/1975)			
Provisions for capital gains as per art. 2 of It. Law No. 168/1992			
Supplementary welfare fund reserve as per It. leg. Decree No. 124/1993			
Restricted reserve pursuant to art. 2426			
EURO conversion reserve			
Reserve from amnesty			
Customisable line item			
Customisable line item			
Cash flow hedging reserve			
Euro rounding difference	1		(4)
Others...	141,000		141,000
		4,755,207	4,228,728
<i>VIII. Retained earnings (losses)</i>			
<i>IX. Profit for the year</i>			1,001,538
<i>IX. Loss for the year</i>		(999,032)	()
<i>Advances on dividends</i>		()	()
<i>Partial coverage of loss for the year</i>			
Total shareholders' equity		25,348,667	19,347,723
B) Provisions for risks and charges			
1) Pension provisions and similar obligations		3,151	1,969
2) Provisions for taxes, including deferred		169,072	89,753
3) Other		15,000	149,262
Total provisions for risks and charges		187,223	240,984
C) Employee severance indemnity		1,390,984	1,126,002
D) Payables			
1) Bonds			
- within 12 months			
- after 12 months	5,000,000		
		5,000,000	
2) Convertible bonds			
- within 12 months			
- after 12 months			
3) Payables due to shareholders for loans			
- within 12 months			
- after 12 months			
4) Payables due to banks			
- within 12 months	3,680,182		2,647,115

- after 12 months	11,485,190		4,381,995
		15,165,372	7,029,110
5) Payables due to other lenders			
- within 12 months	389,045		293,183
- after 12 months	310,412		416,608
		699,457	709,791
6) Payments on account			
- within 12 months	2,907,908		538,058
- after 12 months	1,151,231		2,828,137
		4,059,139	3,366,195
7) Trade payables			
- within 12 months	1,579,333		1,884,471
- after 12 months			
		1,579,333	1,884,471
8) Payables represented by credit instruments			
- within 12 months			
- after 12 months			
9) Payables due to subsidiaries			
- within 12 months	204,939		
- after 12 months			1,248
		204,939	1,248
10) Payables due to associates			
- within 12 months			
- after 12 months			
11) Payables due to parent companies			
- within 12 months			
- after 12 months			
12) Tax payables			
- within 12 months	602,920		1,454,606
- after 12 months			
		602,920	1,454,606
13) Payables due to social security institutions			
- within 12 months	297,826		235,348
- after 12 months			
		297,826	235,348
14) Other payables			
- within 12 months	1,101,091		934,723
- after 12 months	1,000,000		
		2,101,091	934,723
Total payables		29,710,077	15,615,492
E) Accruals and deferrals			
- premium on loans			
- miscellaneous	3,428,317		3,341,165
		3,428,317	3,341,165
Total liabilities		60,065,268	39,671,366

Memorandum accounts	31/12/2015	31/12/2014
1) Risks assumed by the company		
Sureties		
to subsidiaries	300,000	300,000
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies	4,828,099	6,952,948
	5,128,099	7,252,948
Endorsements		
to subsidiaries		
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies		
Other personal guarantees		
to subsidiaries		
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies		
Collaterals		
to subsidiaries		
to associates		
to parent companies		
to subsidiaries of parent companies		
to other companies		
Other risks		
receivables transferred		
other		
	5,128,099	7,252,948
2) Commitments undertaken by the company		
3) Third party assets held by the company		
work in progress		
property held by the company under deposit or loan for use		
property held by the company under pledge or deposit		
other		
4) Other memorandum accounts		
Total memorandum accounts	5,128,099	7,252,948

Income statement	31/12/2015	31/12/2014
A) Value of production		
1) Sales and service revenues	10,506,609	10,943,137
2) Changes in inventories of work in progress, semi-finished and finished products		
3) Changes in contract work in progress	151,756	1,086,769
4) Own work capitalised	3,033,114	3,041,447
5) Other revenues and income:		
- miscellaneous	52,399	39,322
- operating grants	641,490	528,777
- capital grants (portions for the year)	635,925	509,049
	1,329,814	1,077,148
Total value of production	15,021,293	16,148,501
B) Costs of production		
6) Raw materials, consumables and goods for resale	623,614	306,141
7) For services	6,645,862	6,655,742
8) Use of third-party assets	613,629	502,007
9) Personnel		
a) salaries and wages	4,644,006	3,962,215
b) social security costs	1,345,724	1,086,392
c) employee severance indemnity	336,264	288,312
d) pensions and similar charges		
e) other costs	10,425	35,665
	6,336,419	5,372,584
10) Amortisation, depreciation and write-downs		
a) amortisation of intangible fixed assets	1,971,670	1,512,104
b) depreciation of tangible fixed assets	128,668	138,566
c) other write-downs of fixed assets		
d) write-downs of receivables included in current assets and cash and cash equivalents	65,603	41,665
	2,165,941	1,692,335
11) Changes in inventories of raw materials, consumables and goods for resale		
12) Provision for risks	15,000	30,000
13) Other provisions		
14) Sundry operating expenses	73,517	80,455
Total costs of production	16,473,982	14,639,264
Difference between the value and costs of production (A-B)	(1,452,689)	1,509,237

C) Financial income and expenses*15) Income from equity investments:*

- from subsidiaries
- from associates
- other

16) Other financial income:

- a) from receivables classified as fixed assets
 - from subsidiaries 63,148
 - from associates 12,521
 - from parent companies
 - other

- b) from securities classified as fixed assets

- c) from securities included in current assets 922

- d) other income:

- from subsidiaries 26,029
- from associates
- from parent companies
- other 33,235 131,860

	109,826	157,889
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	109,826	157,889
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17) Interest and other financial expenses:

- from subsidiaries
- from associates
- from parent companies
- other

	381,304	336,921
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	381,304	336,921
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17-bis) Exchange gains and losses

	454,357	233,778
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Total financial income and expenses

	182,879	54,746
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D) Value adjustments of financial assets*18) Revaluations:*

- a) of equity investments
- b) of non-current financial assets
- c) of securities included in current assets

19) Write-downs:

- a) of equity investments
- b) of non-current financial assets
- c) of securities included in current assets

Total value adjustments to financial assets**E) Extraordinary income and expenses***20) Income:*

- capital gains from disposals 50
- miscellaneous 235,132 215,363

	235,182	215,363
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<i>21) Expenses:</i>			
- capital losses from disposals	959		
- previous years' taxes			
- miscellaneous	244,712		156,106
		245,671	156,106
Total extraordinary items		(10,489)	59,257
Pre-tax result (A-B±C±D±E)		(1,280,299)	1,623,240
<i>22) Income taxes for the year – current, deferred and prepaid</i>			
a) current taxes	7,985		552,114
b) deferred taxes	109,320		59,753
c) prepaid taxes	(398,571)		9,835
d) income (expenses) resulting from compliance with tax consolidation / tax transparency			
		(281,267)	621,702
23) Profit (loss) for the year		(999,032)	1,001,538



Explanatory Notes to the financial statements of Expert System S.p.A. for the year ended 31/12/2015



Explanatory Notes - Introductory section

Dear Shareholders,

these financial statements, submitted for your review and your approval, highlight a loss for the year of € (999,033).

Business

The Company performs its activities in the Information Technology sector, where it is a leading developer of semantic software applications used by companies to manage information more effectively and acquire strategic knowledge from it.

All products are based on proprietary Cogito technology and offer advanced solutions for searching, organising, correlating and analysing large volumes of documents.

Through the automatic understanding of any type of text, Cogito allows companies to create value from all data and information at their disposal, increasing their competitive advantage and providing optimum support to the decision-making processes.

Significant events during the year

The following significant events occurred during the year:

February	The Company announces its technological partnership with Google as part of the programme associated with the “Google Cloud Platform”. In its capacity as partner company, Expert System will extend the benefits of the Cogito semantics technology to the Google cloud platform.
March	The Company signs a partnership deal with MongoDB, the US leader in latest generation database design;
May	As part of Expert System’s growth and internationalisation strategy, a binding agreement is signed for the acquisition of 100% of TEMIS S.A., the French leader in text analytics solutions. This acquisition strengthens the Expert System Group’s positioning on all the major western markets, i.e. the UK, Italy, France, Germany, Spain, Canada and Switzerland.
July	<ul style="list-style-type: none"> - Expert System concludes its treasury share acquisition programme that began on 4 November 2014. Within this programme a total of 270,000 ordinary Expert System S.p.A. shares were acquired for a total value of approximately € 550,000; - the successful placement of a bond loan is announced, with a nominal total of € 5 million, 9-year maturity and known as “Obbligazioni Expert System 4% 2015-2024”, fully subscribed by the Fondo Strategico Trentino Alto Adige managed by Finint Investments SGR. The corporate strategy envisages the use of income from this placement to enhance its commercial activities in the European markets, also given the recent acquisition of TEMIS, and the American market; - Expert System announces the expansion of the Cogito API product mix, proposing a special release dedicated to the Finance sector, with particular reference to banking and insurance business. Through Cogito API Finance the market is offered a tool able to combine the wealth of finance sector taxonomies and ontologies with enhancement of natural language processing and semantics analysis;
August	The US-based Gartner Inc., a multinational world leader in strategic advice, research and analysis in the Information Technology field, includes Expert System in the “Magic Quadrant” dedicated to corporate research solutions;

September	<p>The acquisition of 100% of TEMIS S.A. is finalized for an equity value of € 11 million, to be paid in stages: € 3 million cash on closing the transaction, € 1 million over the next three years and the remaining € 7 million through a receivable in favour of the TEMIS vendors, used by them to subscribe and release (against payment) newly issued ordinary Expert System shares. The subscription price for the new Expert System shares was € 2.25 per share;</p>
October	<ul style="list-style-type: none"> - corporate reorganisation begins in the USA, with a view to expanding and giving greater characterisation to products for the private and public sectors, which have different needs and priorities. To meet these different needs, Expert System companies will be organised as follows: <ul style="list-style-type: none"> - Expert System USA Inc., operating on the US market since 2008, will be completely dedicated to the development of solutions for public organisations, including those operating in the Defence, Intelligence and Law Enforcement sectors; - Expert System Enterprise Corp. (former Temis USA Inc.) will target the broader market of private companies, focusing specifically on certain vertical sectors (Banking and Insurance, Publishing and Media, Energy, Oil & Gas, Healthcare); - the strategic partnership is consolidated with the integration of Cogito® semantics technology into the Google Search Appliance (GSA). In fact, Expert System announces that it is now the “Premier Technology Partner” in the Google programme dedicated to solutions for businesses, with particular reference to research activities (Google for Work - Search). The title of Premier Technology Partner is reserved exclusively for companies capable of demonstrating the highest level of technological expertise and services based on successful innovative implementations.
November	<p>Cogito Risk Watcher is launched, the software based on Cogito semantic intelligence, able to provide businesses with useful information for managing their supplier and third party risk profiles, and consequently guarantee greater security in terms of financial, credit, compliance and reputation profiles. This product derives from thorough analysis of the strong turbulence and volatility of today’s global economic situation, and the growing need to be able to understand, correlate and automatically summarise, with maximum precision, all external or internal information of the company, so as to identify events, hidden relations and other significant information to ensure risk mitigation and prompt detection of threats. Through the semantic understanding of thousands of resources and documents, Cogito Risk Watcher therefore allows the identification of information useful in mitigating various types of risk.</p> <p>Forrester Research, a US company that analyses changes brought about by technology and its impact on different businesses, companies and end users, includes Expert System in its “Techradar” study on risk management. In its report, Forrester includes the technologies proposed by Expert System among the 13 most important for risk management with respect to the various stages of market maturity and different business values, using a proactive approach capable, where necessary, of adopting suitable remedial action, together with self-reporting activities.</p>
December	<p>Forrester Research includes Expert System in its “Vendor Landscape: Big Data Text Analytics” report, dedicated to describing the most effective big data management solutions based on text. This report provides a list of companies specialised in business information management, selected on the basis of the degree to which their product mix is vertical, their coverage of market domains and the technological approach, for example linguistic rather than statistical analysis, able to provide practical indications by identifying useful relationships within large masses of data.</p>

Significant events after the close of the financial year

The significant events after the close of the year were:

April 2016	Expert System becomes partner to Computer Science Park (CSP), a major reference for companies operating in the Information and Communication Technology (ICT) sector, established in June 2014 as part of the IT Department of the University of Verona. It plans to bring companies, the academic world and local institutions into contact, aiming to attract the numerous innovation financing options, whether public such as those associated with the Horizon 2020 European programme or the University of Verona's Joint Projects, or private associated with Foundations, etc. The individual CSP initiatives can be identified in the expertise, means and any spaces for building made-to-measure innovation projects linked to research and development activities. From a strategic point of view, for Expert System this initiative represents a remarkable opportunity also in terms of direct contact with the higher education sector, which is also expected to be boosted by the opening of an office - within CSP - that houses staff and collaborators of the company working on these innovative activities. This means that direct contact is possible with over 1000 university students, in the hope of finding among them those with the right skills and capacities to allow future development of the company, and at the same time offers access to a series of initiatives promoted by the Veneto region for CSP partners.
May 2016	Forrester, the independent research company, awards Cogito's potential, including Expert System S.p.A. in its report for the second quarter of 2016, dedicated to the top ten big data text analytics companies (<i>Forrester Wave™ Big Data Text Analytics Platforms, Q2 2016: The 10 Providers That Matter Most And How They Stack Up</i>). In particular, this award goes to the "product scalability, use of intuitive interfaces and semantic functions as the core elements of products to offer full management of all activities associated with text analysis: data enhancement, tagging, automatic document classification and big data extraction".

Drafting criteria

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

Financial statement values are stated in Euro, with the relative amounts rounded up. Any rounding differences have been indicated in the item "Euro rounding reserve", included under shareholders' equity items and "Euro rounding" in the item "extraordinary income and expenses" in the income statement.

Pursuant to art. 2423, par. 5 of the Civil Code, the explanatory notes have been drafted in thousands of Euro/(in Euro).

Measurement criteria

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

The criteria used to draft the financial statements for the year ended 31/12/2015 are the same as those used in the previous year, particularly as regards the measurements and continued use of the same standards.

The measurement of items in the financial statements is based on the general principles of prudence and accrual accounting, in the assumption of the company as a going concern, also taking into account the economic function of the asset or liability considered.

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

In compliance with the accrual principle, the effect of transactions and other events has been accounted for and

allocated to the year in which said transactions and events refer, and not to the one in which the associated cash flows occur (collections and payments).

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

The measurement of assets or liabilities, by taking into account their economic function, considering that it embodies the principle of prevalence of substance over form, mandatory where not expressly contradicted by other specific regulations governing financial statements, enables transactions to be reported according to the economic situation underlying the formal aspects.

Exceptions

(Ref. art. 2423.4 of the Italian Civil Code)

No exceptional cases were identified that required the use of the exceptions set forth under art. 2423.4 of the Italian Civil Code.

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

Guarantees, commitments, third-party assets and risks

The risks relating to personal guarantees or collateral granted for third-party payables were reported in the memorandum accounts for an amount equal to the guarantee given; the amount of the third-party payable at the reporting date, if lower than the guarantee given, is indicated in these explanatory notes.

Memorandum accounts

(Ref. art. 2427.1.9 of the Italian Civil Code)

Description	31/12/2015	31/12/2014	Changes
Risks assumed by the company	5,128,099	7,252,948	(2,124,849)
Total	5,128,099	7,252,948	(2,124,849)

These refer to surety guarantees to banks for € 4,333,699. The remaining € 794,400 includes € 300,000 for the guarantee given by Expert System Spa to the subsidiary AdmantX S.p.A., assumed by means of a private agreement between Expert System S.p.A. and IMI Fondi Chiusi società di gestione del risparmio S.p.A. (IMI).

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

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

Explanatory Notes - Assets

Intangible fixed assets

I. Intangible fixed assets

Balance at 31/12/2015	Balance at 31/12/2014	Change
5,720,373	4,639,106	1,081,267

Fixed assets

Intangible assets

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

Start-up and expansion and research & development costs with long-term benefits were recognised under assets with the consent of the Board of Statutory Auditors and are amortised over a period of 5 years.

Under research & development costs, the expenses for personnel employed and outside technical consultancy used in research and development activities were capitalised for a total of € 3,033,114, amortised over a period of 5 years.

Goodwill, deriving from the reverse merger of ES S.r.l., already recorded in previous years under assets with the consent of the Board of Statutory Auditors for an amount equal to the merger deficit, continues to be amortised over a period of 5 years.

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

Improvements to third-party assets, if any, are amortised according to rates that depend on the duration of the contract. If, regardless of the amortisation already accounted for, impairment is recorded, the fixed asset is written down accordingly. If the reason for the write-down no longer exists in subsequent years, the original value is written back, adjusted solely for amortisation.

Changes in intangible fixed assets

	Start-up and expansion costs	Costs of research, development and advertising	Industrial patent and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Other intangible fixed assets	Total intangible fixed assets
Balance at start of the year							
Cost	774,472	12,466,953	575,935	17,212	33,444	38,454	13,906,470
Amortisation (accumulated amortisation)	186,299	8,472,802	554,373	12,998	13,378	27,514	9,267,364
Book value	588,173	3,994,151	21,562	4,214	20,066	10,940	4,639,106
Changes in the year							
Increases due to purchases	-	3,033,114	17,981	1,840	-	-	3,052,935
Decreases due to sales and disposals	-	-	-	-	-	-	-
Amortisation in the year	148,723	1,799,061	10,880	737	6,689	5,580	1,971,670
Total changes	(148,723)	1,234,053	7,101	1,103	(6,689)	(5,580)	1,081,265
Balance at end of the year							
Cost	774,472	15,500,067	593,916	19,052	33,444	38,464	16,959,415
Amortisation (accumulated amortisation)	335,022	10,271,862	565,253	13,735	20,066	33,104	11,239,042
Book value	439,450	5,228,205	28,663	5,317	13,378	5,360	5,720,373

Previous revaluations, amortisation and write-downs

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

The historical cost at the beginning of the year is made up as follows:

Composition of start-up and expansion costs, research and development costs and advertising expenses

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

The breakdown of start-up and expansion costs and research and development costs, recorded with the consent of the Board of Statutory Auditors, and the reasons for their recognition, are shown below.

Start-up and expansion costs

Description of costs	Value 31/12/2014	Increase in the year	Decrease in the year	Amortisation in the year	Value 31/12/2015
Merger	6,873			2,694	4,179
Share capital increase	581,300			146,029	435,271
	588,173			148,723	439,450

Research and development costs

Description of costs	Value 31/12/2014	Increase in the year	Decrease in the year	Amortisation in the year	Value 31/12/2015
Increase in production	3,994,151	3,033,114		1,799,061	5,228,205
	3,994,151	3,033,114		1,799,061	5,228,205

The costs recorded are reasonably correlated to long-term benefit over several years, and are systematically amortised in relation to their residual useful life.

The increase realised in 2015 totalled € 3,033,114, represented by the capitalisation carried out in 2015 of costs relating to personnel employed and costs for external consultancy used in research and development activities.

Details are provided below on the research and development costs capitalised, broken down by relevant project (amounts in €):

Type of projects capitalised in 2015	Cost per project
Analysis of social contents	120,963
Automatic generation technology	173,741
Technologies for the recognition of natural language interaction	1,635,194
Technologies for automatic learning	193,468
Technologies for intelligence	698,603
Technologies for search engines	211,145
Overall total	3,033,114

Tangible fixed assets

II. Tangible fixed assets

Balance at 31/12/2015	Balance at 31/12/2014	Change
697,817	670,338	27,479

Changes in tangible fixed assets

Tangible assets

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

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

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

- buildings: 3%

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

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

Land and buildings

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

Description	Amount	
Historical cost	456,980	
Depreciation of previous years	(60,981)	
Balance at 31/12/2014	395,999	of which land totalling € 87,400
Depreciation in the year	(11,087)	
Balance at 31/12/2015	384,912	of which land totalling € 87,400

Plant and machinery

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

Description	Amount
Historical cost	213,491
Depreciation of previous years	(187,260)
Balance at 31/12/2014	26,231
Depreciation in the year	(7,261)
Balance at 31/12/2015	18,970

Industrial and commercial equipment

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

Description	Amount
Historical cost	1,558
Depreciation of previous years	(1,558)

Other assets

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

Description	Amount
Historical cost	1,305,256
Depreciation of previous years	(1,057,148)
Balance at 31/12/2014	248,108
Acquisitions during the year	156,890
Disposals during the year	743
Depreciation in the year	(110,320)
Balance at 31/12/2015	293,935

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total tangible fixed assets
Balance at start of the year					
Cost	456,980	213,491	1,558	1,305,256	1,977,285
Depreciation (accumulated depreciation)	60,981	187,260	1,558	1,057,148	1,306,947
Book value	395,999	26,231	-	248,108	670,338
Changes in the year					
Increases due to purchases	-	-	-	156,890	156,890
Decreases due to sales and disposals	-	-	-	(743)	(743)
Depreciation in the year	11,087	7,261	-	110,320	128,668
Total changes	(11,087)	(7,261)	-	45,827	27,479
Balance at end of the year					
Cost	456,980	213,491	1,558	1,461,403	2,133,432
Depreciation (accumulated depreciation)	72,068	194,521	1,558	1,167,468	1,435,615
Book value	384,912	18,970	-	293,935	697,817

Based on an accurate application of accounting standard OIC 16, and also following a review of the estimate of the useful life of instrumental properties, we separated the portion of the cost relating to the plots of land of the above. The value assigned to these areas was identified on the basis of a flat-rate estimate criterion which allows the allocation of the unit cost, deemed consistent at a rate of 20% of the cost of the property net of capitalised ancillary costs and any revaluations carried out.

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

Capital grants

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

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

Non-current financial assets

III. Non-current financial assets

Balance at 31/12/2015	Balance at 31/12/2014	Change
17,725,677	2,490,132	15,235,545

Changes in non-current financial assets: equity investments, other securities, treasury shares

Equity investments

	Equity investments in subsidiaries	Equity investments in associates	Equity investments in other companies	Total equity investments
Balance at start of the year				
Cost	47,392	285,173	59,138	391,703
Write-downs	-	3,500	-	3,500
Book value	47,392	281,673	59,138	388,203
Changes in the year				
Increases due to purchases	11,812,031	26,000	500	11,838,531
Write-downs	-	-	2,500	2,500
Total changes	11,812,031	26,000	(2,000)	11,836,031
Balance at end of the year				
Cost	11,859,423	307,673	57,138	12,224,234
Book value	11,859,423	307,673	57,138	12,224,234

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

The equity investments in subsidiaries and associates are valued, in compliance with the principle of continued application of the measurement criteria, at purchase or subscription cost.

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

Equity investments booked at purchase cost were not subject to write-downs due to impairment; no cases of "write-backs" were verified.

No long-term investment underwent a change of use.

Changes in equity investments in **subsidiaries** are justified as follows:

- the increase is due to:
 - a) for € 11,812,031 to the purchase finalised on 23 September 2015 of a 100% investment in the share capital of French company Temis S.A., a company operating in the text analytics sector with branches in Germany, UK, US and Canada. The equity value of the acquisition was established as around € 11 million, paid € 4 million in cash (of which € 3 million on closing and € 1 million over the next three years) and the remaining € 7 million converted into a receivable in favour of the Temis vendors, used by them to subscribed and release (against payment) newly issued ordinary shares of Expert System S.p.A. This share capital increase, in cash, against payment and divisible, with option rights excluded pursuant to art. 2441, paragraph 5 of the Italian Civil Code, for a maximum € 6,999,999.75 and reserved for the vendors of Temis SA, was decided on 29 May 2015 by the extraordinary shareholders' meeting of Expert System S.p.A., which met before Notary Rolando Rosa at his offices in Modena, as confirmed in Notary Deed ref. 119733/19660.

The recognition value of this equity investment was further increased due to the inclusion of professional consulting costs associated with the 100% acquisition of Temis S.A., quantifiable as approx. € 830,000.

Lastly, note that from 12 April 2016 the name of the investee was changed to Expert System France S.A.;

- b) for € 1,200 to the inclusion in the equity value of Expert System Iberia S.L.U. of professional consulting costs associated with acquisition of the controlling interest in that company.

As regards the change in equity investments in **associates**, the increase of € 26,000 is due to the inclusion of professional consulting costs relating to purchase of the equity investment in CY4Gate S.r.l.

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

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

value.

Other companies

The item "equity investments in other companies" is made up of the following:

Company	Book value
Okkam S.r.l.	1,000
Conai	5
ICT Sud	133
Confidimpresa	5,000
Distretto Tecnologico Trentino	1,000
Buzzoole S.r.l.	50,000

The changes compared to the previous year refer to the equity investment in Semantic Valley S.r.l., for which € 2,000 was recognised as at 31 December 2014. This amount was zeroed out on 30 December 2015 following approval of the company's post-liquidation financial statements by its shareholders' meeting.

Changes in non-current financial assets: receivables

Receivables by type

In the item "receivables due from subsidiaries and associates", financial receivables due from the subsidiaries and associates previously recognised under current assets were reclassified. For the purpose of comparison of items for the year with those of the previous year, item A) III 2) a) as at 31 December 2014 was restated (art. 2423-ter of Italian Civil Code and OIC 12). The new classification better represents the nature of the receivables, a breakdown of which is provided below:

Description	Due from subsidiaries	Fair Value	Due from associates	Fair Value
Financial receivables due from Expert System USA Inc.	2,255,757			
Financial receivables due from Expert System Cogito Ltd.	279,311			
Financial receivables due from Expert System Iberia S.L.U.	2,500,000			
Invoices to be issued (financial) - due from Expert System	29,287			
Invoices to be issued (financial) - due from Expert System	3,261			
Invoices to be issued (financial) - due from Expert System	31,306			
Financial receivables due from CY4Gate S.r.l.			390,000	
Invoices to be issued (financial) - due from CY4Gate S.r.l.			12,521	
Total	5,098,922		402,521	

Receivables

Description	31/12/2014	Increase	Decrease	31/12/2015	Of which relating to transactions with buy-back obligation	Fair Value
Subsidiaries	2,101,929	2,996,993		5,098,922		
Associates		402,521		402,521		
Total	2,101,929	3,399,514		5,501,443		

	Balance at start of the year	Changes in the year	Balance at end of the year	Portion due after 1 year
Long-term receivables - subsidiaries	2,101,929	2,996,993	5,098,922	5,098,922
Long-term receivables - associates	-	402,521	402,521	402,521
Total long-term receivables	2,101,929	3,399,514	5,501,443	5,501,443

With reference to these amounts, note that they were disbursed in implementation of an interest-bearing intercompany financing plan which envisages Expert System S.p.A.'s disbursement to its subsidiaries of loans of an amount sufficient to provide these subsidiaries with the funding necessary to meet their expense and investment commitments. The plan, approved by the Board of Directors of Expert System S.p.A. on 1 April 2015 has a three-year duration expiring 31 December 2018.

Information on equity investments in subsidiaries

* the table below illustrates:

- the profit of the investee Temis S.A. for the period 23/09/2015 to 31/12/2015, in which the investee was included in the consolidated financial statements of Expert System S.p.A.;

- the shareholders' equity figures of subsidiaries are recorded without profit/loss for the year.

Company	City or Foreign country	Share capital	Profit/(Loss) previous year in €	Shareholders' equity (excluding profit/loss for the year)	% held	Book value
Expert System USA Inc.	Delaware (USA)	1	(581,117)	(2,755,179)	100.00%	1
Expert System Cogito Ltd.	London (UK)	1,362	(287,559)	(3,230)	100.00%	1,247
Expert System Iberia S.L.U.	Barcelona (ESP)	3,000	(900,674)	340,670	100.00%	47,344
Temis S.A.	Paris (FRA)	1,357,811	495,820*	1,984,502	100.00%	11,506,549
TOTAL						11,555,141

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

Indirect subsidiaries:

Company	City or Foreign country	Share capital	Shareholders' equity (excluding profit/loss for the year)	Profit/(Loss)	% held
Expert System Enterprise Corp.	Rockville (USA)	184	(2,608,239)	685,881*	100.00%
Temis Canada	Montreal (CAN)	662	(16,529)	(4,621)*	100.00%
Temis GMBH	Heidelberg (DEU)	25,000	44,570	12,609*	100.00%

* the profit of the investees Expert System Enterprise Corp., Temis Canada and Temis GMBH refer to the period 23/09/2015 to 31/12/2015, in which these investees were indirectly included in the consolidated financial statements of Expert System S.p.A.

Information on equity investments in associates

Company	City or Foreign country	Share capital in €	Profit/(Loss) previous year in €	Shareholders equity in €	% held	Book value
CY4GATE S.r.l.	Rome	300,000	(1,030,043)	3,100,000	30.00%	307,673
TOTAL						307,673

Breakdown of long-term receivables by geographic area

The breakdown of receivables at 31/12/2015 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

Geographic area	Long-term receivables - subsidiaries	Long-term receivables - associates	Total long-term receivables
Italy	-	402,521	402,521
EU	2,813,878	-	2,813,878
NON-EU	2,285,044	-	2,285,044
TOTAL	5,098,922	402,521	5,501,443

Value of non-current financial assets

	Book value
Equity investments in other companies	57,138
Receivables due from subsidiaries	5,098,922
Receivables due from associates	402,521

Breakdown of the value of equity investments in other companies

Description	Book value
Other equity investments	57,138
Total	57,138

Breakdown of the value of receivables due from subsidiaries

Description	Book value
Financial receivables due from Expert System USA Inc.	2,255,757
Financial receivables due from Expert System Cogito Ltd.	279,311
Financial receivables due from Expert System Iberia S.L.U.	2,500,000
Invoices to be issued (financial) - due from Expert System USA Inc.	29,287
Invoices to be issued (financial) - due from Expert System Cogito Ltd.	3,261
Invoices to be issued (financial) - due from Expert System Iberia S.L.U.	31,306
Total	5,098,922

Breakdown of the value of receivables due from associates

Description	Book value
Financial receivables due from CY4Gate S.r.l.	390,000
Invoices to be issued - due from CY4Gate S.r.l.	12,521
Total	402,521

Current assetsInventories**Warehouse inventories**

This item includes contract work in progress, recorded on the basis of the percentage of completion criterion. Costs, revenues and the job profit are recognised on the basis on the progress of production activities. For the application of this criterion the hours worked method is adopted.

The measurement criteria have remained unchanged with respect to the previous year.

I. Inventories

Balance at 31/12/2015	Balance at 31/12/2014	Change
1,714,539	1,562,783	151,756

	Balance at start of the year	Changes in the year	Balance at end of the year
Contract work in progress	1,562,873	151,756	1,714,539
Total inventories	1,562,783	151,756	1,714,539

Current assets: receivables

Receivables

These are stated at their estimated realisable value. The adjustment of the nominal value of receivables into line with the estimated realisable value is obtained using the appropriate bad debt provision, taking into consideration general economic and industry conditions and country risk.

Receivables originally due within twelve months and later transformed into long-term receivables are recorded in shareholders' equity under non-current financial assets.

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

II. Receivables

Balance at 31/12/2015	Balance at 31/12/2014	Change
18,313,414	17,409,920	903,494

Changes in current receivables

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

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total	Of which relating to transactions with buy-back obligation
Due from customers	6,493,691			6,493,691	
Due from subsidiaries	2,236,908	26,787		2,263,695	
Tax receivables	693,710	30,766		724,476	
Prepaid taxes	155,088	292,874		447,962	
Other receivables	4,019,322	4,364,268		8,383,590	
Total	13,598,719	4,714,695		18,313,414	

	Balance at start of the year	Changes in the year	Balance at end of the year	Portion due after 1 year	Portion due after 1 year
Current receivables due from customers	7,113,745	(620,054)	6,493,691	6,493,691	
Current receivables due from subsidiaries	1,293,949	969,746	2,263,695	2,236,908	26,787
Current tax receivables	133,025	591,451	724,476	693,710	30,766
Current prepaid tax assets	49,392	398,570	447,962	155,088	292,874
Current other receivables	8,819,809	(436,219)	8,383,590	4,019,322	4,364,268
Total long-term receivables	17,409,920	903,494	18,313,414	13,598,719	4,714,695

Receivables for a significant amount at 31/12/2015 are composed as follows:

Receivables for a significant amount due from subsidiaries at 31/12/2015:

Description	Due within 12 months	Due after 12 months	Total
Due from ADmantX S.p.A.	8,221	26,787	35,008
Due from Expert System USA Inc.	1,940,973		1,940,973
Due from Expert System Cogito Ltd.	77,243		77,243
Due from Expert System France	37,000		37,000
Financial receivables due from Expert System Iberia S.L.U.	173,471		173,471
Total	2,236,908	26,787	2,263,695

Tax receivables at 31/12/2015, amounting to € 724,476, are broken down as follows:

Description	Amount
Tax receivables due within 12 months	
Bonus credit – Decree Law 66/14	6,225
Tax credits for R&D not taxable – portion within 12 months	164,067
IRES (corporate income tax) credits	298,912
IRAP (regional business tax) credits	224,506
Total	693,710

Description	Amount
Tax receivables due within 12 months	
Bonus credit – Decree Law 66/14	29,610
Tax credits for R&D not taxable – portion beyond 12	1,156
Total	30,766

With regard to R&D-related tax receivables, note that in the year ending 31/12/2015 additional amounts totalling € 162,912 were recognised as Expert System S.p.A. is a beneficiary eligible for grants envisaged for companies that invest in research and development pursuant to Ministerial Decree no. 17 of 27 May 2015. In particular, in 2015 this grant was recognised as an increase in the value of production by 1/5 of the total grant, applying the “deferrals method” envisaged under current law, in line with the percentage amortisation of the corresponding capitalised research and development costs.

Other receivables, totalling € 8,383,590 at 31/12/2015, are composed as follows:

Description	Due within 12 months	Due after 12 months	Total
Receivables due from personnel	12,750		12,750
11% IRPEF (personal income tax) substitute tax advance	2,573		2,573
Guarantee deposits in cash	231	45,198	45,429
Sundry receivables	5,351	17,872	23,223
Advances to suppliers	110,161	33,000	143,161
Receivables for research project grants	3,888,256	4,268,198	8,156,454
Total	4,019,322	4,364,268	8,383,590

Receivables for research project grants due within no later than 12 months refer to all receivables accrued at 31/12/2015, relating to sums that the company has to collect in that respect.

Details of receivables for research project grants are presented below.

Project by tender type	Grant amount	Due within 12 months	Due after 12 months
FESR - Province of Trento	347,482	347,482	
Horizon 2020	589,157		589,157
Law 6 – Province of Trento	2,367,378	2,367,378	
Mise - FIT	957,630	600,000	357,630
MIUR - PNR Tessile	39,984		39,984
MIUR - FAR	243,892		243,892
PON	115,000		115,000
PON R&C 2007-2013	1,952,119		1,952,119
POR FESR Lazio	419,235		419,235
European Project - Tender ISEC	1,124,577	573,396	551,181
Overall total	8,156,454	3,888,256	4,268,198

Of the prepaid taxes totalling € 433,467, € 17,691 relate to temporary deductible differences, for a description of which please see the section in the last part of these explanatory notes, and € 415,776 refer to tax losses that can be carried forward for tax purposes by up to € 1,732,400. For a description of why a potential tax benefit related to said losses can be recognised, please see the relative section in these explanatory notes.

Breakdown of current receivables by geographic area

The breakdown of receivables at 31/12/2015 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

Geographic area	Receivables due from customers	Receivables due from subsidiaries	Tax receivables	Prepaid tax assets	Other receivables	Total
Italy	6,341,110	35,008	724,476	447,962	8,383,590	15,932,146
EU	30,000	287,714	-	-	-	317,714
NON-EU	465,043	1,940,973	-	-	-	2,406,016
(Bad debt provision)	(342,462)	-	-	-	-	(342,462)
TOTAL	6,493,691	2,263,695	724,476	447,962	8,383,590	18,313,414

The adjustment of the nominal value of receivables to the estimated realisable value was obtained through the appropriate bad debt provision which recorded the following movements during the year:

Description	Bad debt provision pursuant to art. 2426 of the Italian	Bad debt provision pursuant to art. 106 of Presidential Decree 917/1986	Total
Balance at 31/12/2014	88,541	267,518	356,059
Use in the year		79,200	79,200
Allocation in the year	20,238	45,365	65,603
Balance at 31/12/2015	108,779	233,683	342,462

Current assets: current financial assets

Changes in current financial assets

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

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

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

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

Treasury shares recorded under current assets, since they are destined to be used within the sphere of the stock grant plan, have been valued at purchase cost or the realisable value taken from market trends, whichever is the lower.

III. Financial assets

Balance at 31/12/2015	Balance at 31/12/2014	Change
5,701,217	8,323,806	(2,622,589)

Description	31/12/2014	Increase	Decrease	31/12/2015
In subsidiaries	4,153,074			4,153,074
Other equity investments	8,400			8,400
Treasury shares	89,163	471,232		560,395
Other securities	4,073,169	210,461	3,093,821	979,348
Total	8,323,806	681,693	3,093,821	5,701,217

The securities have been recorded at purchase cost inclusive of the related charges.

The book value is determined on the basis of the purchase cost.

	Balance at start of the year	Changes in the year	Balance at end of the year
Equity investments in subsidiaries	4,153,074	-	4,153,074
Other equity investments	8,400	-	8,400
Treasury shares	89,163	471,232	560,395
Other securities	4,073,169	(3,093,821)	979,348
Total current financial assets	8,323,806	(2,622,589)	5,701,217

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

Company	City or Foreign country	Share capital	Shareholders' equity	Profit/(Loss)	% held	Book value	Reserves of profits/capital subject to repayments or restrictions or deferred tax	Fair Value
ADmantX S.p.A.	Naples (ITALY)	217,359	1,918,335	(1,412,365)	60.68	4,153,074		

The value of the equity investment in ADmantX S.p.A. was not written down on the basis of the appraisal, carried out in accordance with art. 2343 ter, par. 2 of the Civil Code by Mauro Zavani, listed in the Ordine dei Dottori Commercialisti ed Esperti Contabili (Association of Chartered and Qualified Accountants) of Massa Carrara, an appraisal which valued the company ADmantX S.p.A. at a total of € 11,072,000. This appraisal was definitely enhanced by the share capital increase of this subsidiary ADmantX S.p.A., decided by the extraordinary shareholders' meeting of 4 August 2015. That occasion saw the entry of new investors in the shareholding structure, for a total outlay of € 2,160,000, of which € 2,132,633 share premium, allowing the new shareholders to become owners of an aggregate 12.6% of the new share capital, therefore now estimated at € 17,160,000. In respect of said valuation, confirmed by the aforementioned share capital increase, the equity investment in ADmantX S.p.A. was not written down as it is not below the fair value.

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

Indirect subsidiaries:

Company	City or Foreign country	Share capital	Shareholders' equity	Profit/(Loss)	% held
ADmantX Inc.	West Hartford CT 06133-0024 USA	€ 7,064	(2,187,039)	(328,819)	100.00%

Treasury shares:

Further to the resolution of the ordinary shareholders' meeting dated 09/01/2014, 270,000 treasury shares with no par value were purchased, for a total of € 560,395. In compliance with the provisions of the law, the percentage is within the limit set by articles 2357 and 2357-bis of the Italian Civil Code and a specific restricted reserve has been set up for the same amount under shareholders' equity.

The item "other securities" includes the following:

- Bonds € 979,348.

Of the € 3,093,821 decrease, € 3,000,000 relates to certificate of deposit no. 81024607, subscribed on 22 December 2014 with Banca Popolare dell'Emilia Romagna S.C. and maturing on 22 June 2015.

The analysis by homogeneous categories of the items "other equity investments" and "other securities" is not significant.

Current assets: cash and cash equivalents

Changes in cash and cash equivalents

IV. Cash and cash equivalents

Balance at 31/12/2015	Balance at 31/12/2014	Change
9,395,683	4,387,562	5,008,121

	Balance at start of the year	Changes in the year	Balance at end of the year
Equity investments in subsidiaries	4,386,192	5,007,719	9,393,911
Other equity investments	1,370	402	1,772
Total cash and cash equivalents	4,387,562	5,008,121	9,395,683

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

Accrued income and prepaid expenses

Accruals and deferrals

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

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

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

Balance at 31/12/2015	Balance at 31/12/2014	Change
796,548	187,719	608,829

	Balance at start of the year	Changes in the year	Balance at end of the year
Accrued income	-	922	922
Other prepaid expenses	187,719	607,907	795,626
Total accrued income and prepaid expenses	187,719	608,829	796,548

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

Other prepaid expenses	Due within 12 months	Due after 12 months	Due after 5 years
Rent and leases payable	9,049		
Vehicle insurance and road tax	1,661		
Non-deductible insurance	4,135		
Insurance for employees abroad	798		
Miscellaneous insurance - office	173		
Rented truck fuel	144		
Surety commissions	62,722	10,114	
Loan fees	2,484	1,796	
Sales consultancy - foreign	4,820		
Sales consultancy - Italy	37,296	21,424	
Strategic consultancy	10,631		
Technical consultancy - Italy	36,277	60,280	
Books, magazines and subscriptions	550		

Plant maintenance	41		
Truck rental	86		
Other vehicle rental	986	1,008	
Vehicle rental as fringe benefits	5,889		
Hardware rental	2,595		
Membership fees	608		
Research, education, training	6,067		
Administrative services	1,639		
Commercial services	37		
Cleaning services	42		
Software	205,383	229,678	
Jointly owned property expenses	1,311		
Bank charges and fees	15,463	38,584	5,046
Bank charges and fees			
Internet costs	7,565	110	
Expenses for truck rental services	333		
Expenses for other vehicle rental services	384		
Expenses for vehicle rental services - fringe benefits	3,905		
Expenses for vehicle rental services - directors' fringe	1,651		
Ordinary telephone expenses	1,472		
Telephone and mobile radio communications expenses	1,201		
Miscellaneous administrative	216		
Overall total	427,613	362,968	5,046

Explanatory Notes - Liabilities and shareholders' equity

Shareholders' equity

A) Shareholders' equity

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

Balance at 31/12/2015	Balance at 31/12/2014	Change
25,348,667	19,347,723	6,000,944

Changes in shareholders' equity

	Balance at start of the year	Allocation of previous year's profit		Other changes		Profit/loss for the year	Balance at end of the year
		Other allocations		Increases	Decreases		
Share capital	219,497			31,111			250,608
Share premium reserve	13,768,730			6,968,860			20,737,590
Legal reserve	40,067			3,832			43,899
Reserve for treasury shares in portfolio	89,163			471,232			560,395
<i>Other reserves</i>							
Extraordinary or optional reserve	3,711,110			780,424	471,232		4,020,302
Merger surplus reserve	376,622						376,622
Reserve for exchange gains	-			217,282			217,282
Miscellaneous other reserves	140,996	1		4			141,001
<i>Total other reserves</i>	<i>4,228,728</i>	<i>1</i>		<i>997,710</i>	<i>471,232</i>		<i>4,755,207</i>
Profit (loss) for the year	1,001,538				1,001,538	(999,032)	(999,032)
Total shareholders' equity	19,347,723	1		8,472,745	1,472,770	(999,032)	25,348,667

Breakdown of miscellaneous other reserves

Description	Amount
Euro rounding difference	1
Other	141,000
Total	141,001

Availability and use of shareholders' equity

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

	Amount	Possibility of use	Available portion
Share capital	250,608	B	-
Share premium reserve	20,737,590	A, B, C	15,017,217
Legal reserve	43,899		-
Reserve for treasury shares in portfolio	560,395		-
Other reserves			

Extraordinary or optional reserve	4,020,302	A, B, C	-
Merger surplus reserve	376,622		-
Reserve for exchange gains	217,282		-
Miscellaneous other reserves	141,001	A, B, C	-
Total other reserves	4,755,207		4,614,206
Total			19,631,423
Residual distributable portion			19,631,423

Source, possibility of use and distributability of miscellaneous other reserves

Description	Amount	Available portion
Euro rounding difference	1	1
Other	141,000	141,000
Total	141,001	

(*) A: for share capital increase; B: for coverage of losses; C: for distribution to shareholders

The available portion of the Share premium reserve was reduced by € 5,720,373 in accordance with the provisions of article 2426.5 of the Italian Civil Code.

The item "Other reserves" includes the PIA reserve for € 141,000, allocated by means of resolution of the shareholders' meeting dated 15 July 2008, referring to the funded research project entitled "Teliar" which avails itself of financial concessions as per measure 2.1.a Integrated Concessions Package - PIA Innovazione - envisaged by the P.O.N. "Sviluppo Imprenditoriale Locale" (2nd Call) Project Application A02/1276/P - 44415/13 Decree for provisional granting of the concessions No. 150160 dated 20/03/2006. This reserve is restricted until conclusion of the aforementioned project and is therefore unavailable.

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

Shareholders' equity includes the following items:

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

Reserves	Value
Share premium reserve	20,737,590
	20,737,590

Reserves incorporated in the share capital

None.

Provisions for risks and charges

Information on provisions for risks and charges

B) Provisions for risks and charges

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

Balance at 31/12/2015	Balance at 31/12/2014	Change
187,223	240,984	(53,761)

	Pension provision and similar obligations	Provision for taxes, including deferred	Other provisions	Total provisions for risks and charges
Balance at start of the year	1,969	89,753	149,262	240,984
Changes in the year				
Allocation in the year	1,182	109,602	15,000	125,784
Use in the year	-	30,283	149,262	179,545
Total changes	1,182	79,319	(134,262)	(53,761)
Balance at end of the year	3,151	169,072	15,000	187,223

Provisions for risks and charges

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

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

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

The increases relate to allocations in the year. The decreases refer to uses in the year.

The pension provision refers to the allocation of the supplementary indemnity fund for customers due to agents, as envisaged by article 1751 of the Italian Civil Code.

Provisions for taxes include deferred tax liabilities of € 169,072 relating to taxable temporary differences; for a description of these please refer to the relevant section of these explanatory notes. During the year, this same item decreased by € 30,000 in relation to the payment of taxes and penalties as determined by a tax assessment for 2013, for which the company presented a waiver pursuant to article 5-bis, Italian Legislative Decree no. 218 of 19 June 1997.

The item "Other provisions", amounting to € 15,000 as at 31 December 2015, was established in previous years and was used during the year for € 149,261 following the favourable outcome of civil proceedings, case ref. 6152/2010 of the Court of Modena brought against Expert System S.p.A., which concluded with decision no. 2450/2015 whereby the Court of Modena rejected the claims of the petitioner, ordering their payment of proceedings costs. The € 15,000 allocation for the year refers to a new dispute arising towards the end of 2015.

Employee severance indemnity

Information on employee severance indemnity

Employee Severance Indemnity Provision

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

C) Employee severance indemnity

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

Balance at 31/12/2015	Balance at 31/12/2014	Change
1,390,984	1,126,002	264,982

Employee severance indemnity	
Balance at start of the year	1,126,002
Changes in the year	
Allocation in the year	336,264
Use in the year	71,282
Total changes	264,982
Balance at end of the year	1,390,984

The provision established refers to the actual amounts accrued due to employees in compliance with law and the applicable employment contracts, in consideration of all forms of continuous pay.

The provision corresponds to the total of individual indemnities accrued by employees up to 31 December 2006, net of any advances provided, and is equal to the amount that would have been due to employees if they had ended their employment on said date.

The provision does not include indemnities accrued from 1 January 2007, destined for complementary pension plans pursuant to Italian Legislative Decree no. 252 of 5 December 2005 (i.e. transferred to the INPS treasury fund).

Payables

Payables

These are recorded at their nominal value, amended in the event of returns or billing adjustments.

D) Payables

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

Balance at 31/12/2015	Balance at 31/12/2014	Change
29,710,077	15,615,492	14,094,585

Changes and due dates of payables

Payables are valued at their nominal value and their due dates are broken down as follows (art. 2427.1 of the Italian Civil Code).

	Due within 12 months	Due after 12 months	Due after 5 years	Total	Of which relating to transactions with buy-back obligation	Of which: for mortgages	Of which: for pledges	Of which: for liens
Bonds	-	4,090,900	909,100	5,000,000				
Payables due to banks	3,680,182	10,985,190	500,000	15,165,372		158,876		
Payables due to other lenders	389,045	310,412		699,457				
Payments on account	2,907,908	1,151,231		4,059,139				
Trade payables	1,579,333			1,579,333				
Payables due to subsidiaries	204,939			204,939				
Tax payables	602,920			602,920				
Payables due to social security institutions	297,826			297,826				
Other payables	1,101,091			1,101,091				
Total payables	10,763,244	17,537,733	1,409,100	29,710,077		- 158,876	-	-

	Balance at start of the year	Change during the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year	Of which with a residual duration of over 5 years
Bonds	-	5,000,000	5,000,000	-	5,000,000	909,100
Payables due to banks	7,029,110	8,136,262	15,165,372	3,680,182	11,485,190	500,000
Payables due to other lenders	709,791	(10,334)	699,457	389,045	310,412	-
Payments on account	3,366,195	692,944	4,059,139	2,907,908	1,151,231	-
Trade payables	1,884,471	(305,138)	1,579,333	1,579,333	-	-
Payables due to subsidiaries	1,248	203,691	204,939	204,939	-	-
Tax payables	1,454,606	(851,686)	602,920	602,920	-	-
Payables due to social security institutions	235,348	62,478	297,826	297,826	-	-
Other payables	934,723	1,166,368	2,101,091	1,101,091	1,000,000	-
Total payables	15,615,492	14,094,585	29,710,077	10,763,244	18,946,833	1,409,100

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

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

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

The balance of payables due to banks at 31/12/2015, amounting to € 15,165,372, including mortgage borrowings, expresses the actual amount due in principal, interest and accessory expenses accrued and payable.

The most significant payables as at 31/12/2015 were as follows (amounts in €):

Description	Due within 12 months	Due after 12 months	Due after 5 years
Bank overdrafts	16,709	-	-
Advances on receivables	3,663	-	-
Banca CARIGE mortgage	36,925	121,951	-
Banca CARIGE mortgage	80,000	80,000	-
Banca CARIGE mortgage	146,363	1,053,637	-
UNICREDIT loan	496,660	639,202	-
UNICREDIT loan	400,000	1,600,000	-
Bper loan	64,312	-	-
Bper loan	398,282	405,096	-
Bper loan	542,595	2,457,405	-
Credem loan	216,600	-	-
Credem loan	97,307	378,600	-
Carisbo - Mediocredito	-	1,500,000	500,000
Cassa Rurale di Rovereto - Cogito	37,644	-	-
UBI loan	175,305	135,230	-
UBI loan	195,389	772,291	-
Cariparma	239,823	499,620	-
Banco Desio	333,289	340,005	-
BPV - Banco Popolare coop.	199,315	202,152	-
San Felice 1893 Banca Popolare	-	800,000	-
	3,680,182	10,985,190	500,000

The balance of the payable due to other lenders as at 31/12/2015, amounting to € 699,457, is analysed as follows:

Description	Due within 12 months	Due after 12 months
PIA loan	106,759	215,894
Other loans	282,286	94,519
	389,045	310,413

The item "Payments on account" includes advances received from customers relating to work in progress amounting to € 4,059,140 which is detailed below by job and by expected duration of the job (amounts in €):

Advances on funded projects	Advance amount	Due within 12 months	Due after 12 months
Advances from customers	1,095,297	1,095,297	
Advances from Province of Trento	1,183,689	1,183,689	
Horizon 2020	72,398		72,398
Horizon 2021	63,308		63,308
PON R&C 2007-2013	590,936		590,936
POR FESR Lazio	41,645		41,675
European Project - Tender ISEC	1,011,836	628,923	382,913
Overall total	4,059,139	2,907,909	1,151,230

"Trade payables" are recorded net of trade discounts; by contrast, cash discounts are recorded at the time of payment. The nominal value of these payables was adjusted due to returns and rebates (billing adjustments), consistent with the amount defined with the counterparty.

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

The tax payables include VAT due to tax authorities as at 31 December 2015, totalling € 119,312 of which € 106,985 as the balance of VAT after payments on account of € 250,000 and the remainder as payable for suspended VAT.

The payables to tax authorities also include amounts withheld at source totalling € 483,608.

Other payables include amounts due to directors for € 106,996, amounts due to employees for holiday entitlement not taken, salaries and bonuses accrued for € 966,275, amounts due to former shareholders of Temis S.A. for € 1,000,000 and amounts due to others for € 27,820.

Breakdown of payables by geographic area

The breakdown of payables at 31/12/2015 by geographic area is shown in the table below (art. 2427.1.6 of the Italian Civil Code).

	Italy	EU	NON-EU	Total
Bonds	5,000,000	-	-	5,000,000
Payables due to banks	15,165,372	-	-	15,165,372
Payables due to other lenders	699,457	-	-	699,457
Payments on account	4,059,139	-	-	4,059,139
Trade payables	1,500,572	22,341	56,420	1,579,333
Payables due to subsidiaries	-	16,894	188,045	204,939
Tax payables	602,920	-	-	602,920
Payables due to social security institutions	297,826	-	-	297,826
Other payables	2,101,091	-	-	2,101,091
Total payables	29,426,377	39,235	244,465	29,710,077

Payables backed by collaterals on company assets

It should be noted that the Carige loan, originally for € 347,000 and with residual debt of € 158,876 as at 31 December 2015, taken out in 2009 to purchase a property in Naples, is secured by a mortgage on said asset for an amount of € 434,000 (art. 2427.1.6 of the Italian Civil Code).

	Total payables backed by collaterals		Payables not backed by collaterals	Total
	Payables backed by mortgages	Total payables backed by collaterals		
Bonds	-	-	5,000,000	5,000,000
Payables due to banks	158,876	158,876	15,006,496	15,165,372
Payables due to other lenders	-	-	699,457	699,457
Payments on account	-	-	4,059,139	4,059,139
Trade payables	-	-	1,579,333	1,579,333
Payables due to subsidiaries	-	-	204,939	204,939
Tax payables	-	-	602,920	602,920
Payables due to social security institutions	-	-	297,826	297,826
Other payables	-	-	2,101,091	2,101,091
Total payables	158,876	158,876	29,551,201	29,710,077

Accrued expenses and deferred income

E) Accruals and deferrals

Balance at 31/12/2015	Balance at 31/12/2014	Change
3,428,317	3,341,165	87,152

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

Description	Amount
Deferred income for research project grants	2,856,617
Deferred income on R&D tax credit	130,330
Other deferred income	329,588
Accrued expenses	111,782
	3,428,317

	Balance at start of the year	Change during the year	Balance at end of the year
Accrued expenses	40,699	71,083	111,782
Other deferred income	3,300,466	16,069	3,316,535
Total accrued expenses and deferred income	3,341,165	87,152	3,428,317

Accruals and deferrals

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

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

Accruals and deferrals represent the adjusting entries for the year, accounted for using the accrual principle. As at 31/12/2015, no accruals and deferrals had a duration of more than five years.

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

Tender type	Deferred income for research project grants	Deferrals due within 12 months	Deferrals due after 12 months
FESR - Province of Trento	72,379	36,189	36,190
Provincial Law 6/99	249,939	156,309	93,630
PON	81,375	21,733	59,642
PON R&C 2007-2013	1,275,284	183,445	1,091,839
POR FESR Lazio	240,107	97,761	142,346
F7P European Project	348,376	107,905	240,471
Horizon 2020	589,157	-	589,157
Overall total	2,856,617	603,342	2,253,275

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

The item breaks down as follows:

Deferred income - grants pursuant to Min. Decree no. 17 of 27/05/2015	Item total	Deferrals due within 12 months	Deferrals due after 12 months
Deferred income	130,330	32,582	97,748
Overall total	130,330	32,582	97,748

The breakdown of other deferred income is provided below.

Deferred income	Item total	Due within 12 months	Due after 12 months
Hosting fees	6,350	6,350	-
Provision of services	15,688	15,688	-
Revenues for maintenance fees	307,509	206,499	101,010
Other	41	41	-
Overall total	329,588	228,578	101,010

Commitments not recorded in the balance sheet and memorandum accounts

Information on off-balance sheet agreements

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

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

Explanatory Notes - Income Statement

A) Value of production

Balance at 31/12/2015	Balance at 31/12/2014	Change
15,021,293	16,148,501	(1,127,208)

Description	31/12/2015	31/12/2014	Changes
Sales and service revenues	10,506,609	10,943,137	(436,528)
Changes in contract work in progress	151,756	1,086,769	(935,013)
Own work capitalised	3,033,114	3,041,447	(8,333)
Other revenues and income	1,329,814	1,077,148	252,666
	15,021,293	16,148,501	(1,127,208)

Value of production

Revenue recognition

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

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

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

Breakdown of revenue from sales and services by geographic area

Business category	Current year balance
Italy	9,240,431
EU	295,239
NON-EU	970,938
Total	10,506,609

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

Type of projects capitalised in 2015	Cost per project
Analysis of social contents	120,963
Automatic generation technology	173,741
Technologies for the recognition of natural language interaction	1,635,194
Technologies for automatic learning	193,468
Technologies for intelligence	698,603
Technologies for search engines	211,145
Overall total	3,033,114

The item "Other revenue and income" totalling € 1,329,814 includes operating grants for € 641,490 which refer to grants received for the hiring of personnel and € 635,925 for the portion pertaining to the year of grants relating to assets calculated in proportion to the amortisation of R&D costs to which they refer, plus various other income for € 52,399, broken down as follows:

- Grants € 36,156;

- Property income € 8,751;
- Reimbursement of other expenses € 7,492

Costs of production

B) Costs of production

Balance at 31/12/2015	Balance at 31/12/2014	Change
16,473,982	14,639,264	1,834,718

Description	31/12/2015	31/12/2014	Changes
Raw materials, consumables and goods for resale	623,614	306,141	317,473
Services	6,645,862	6,655,742	(9,880)
Use of third-party assets	613,629	502,007	111,622
Salaries and wages	4,644,006	3,962,215	681,791
Social security costs	1,345,724	1,086,392	259,332
Employee severance indemnity	336,264	288,312	47,952
Other personnel costs	10,425	35,665	(25,240)
Amortisation of intangible fixed assets	1,971,670	1,512,104	459,566
Depreciation of tangible fixed assets	128,668	138,566	(9,898)
Write-down of receivables included in current assets	65,603	41,665	23,938
Provision for risks	15,000	30,000	(15,000)
Sundry operating expenses	73,517	80,455	(6,938)
	16,473,982	14,639,264	1,834,718

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

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

Personnel costs

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

Depreciation of tangible fixed assets

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

Write-down of receivables included in current assets and of cash and cash equivalents

The allocation to the bad debt provision was made through an accurate recognition of all receivables in the financial statements. Therefore, a total of € 65,603 was allocated, which covers doubtful receivables.

Financial income and expenses

C) Financial income and expenses

Balance at 31/12/2015	Balance at 31/12/2014	Change
182,879	54,746	128,133

Breakdown of interest and other financial expenses by payable type

Interest and other financial expenses

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

Description	Parent companies	Subsidiaries	Associates	Other	Total
Interest on bonds				82,609	82,609
Bank interest				345	345
Supplier interest				2,467	2,467
Medium-term credit interest				215,013	215,013
Discounts or financial expenses				57,135	57,135
Interest on loans				2,228	2,228
Other expenses on financial				21,507	21,507
				381,304	381,304

Interest and other financial expenses	
Bond loans	82,609
Payables due to banks	272,493
Other	26,202
Total	381,304

Other financial income

Description	Parent companies	Subsidiaries	Associates	Other	Total
Interest on bonds				922	922
Bank and postal interest				16,838	16,838
Interest on loans		63,148	12,521		75,669
Other income				16,397	16,397
		63,148	12,521	34,157	109,826

Criteria for the translation of amounts stated in foreign currency

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

In detail, the assets and liabilities which represent the monetary balance sheet elements in currency (*receivables, payables, cash and cash equivalents, accrued income and expenses, debt securities*) are recognised at the spot exchange rate at year end and the related exchange gains and losses are respectively credited and charged to the income statement under item 17 bis Exchange gains and losses.

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

By contrast, with regard to the non-monetary assets and liabilities in foreign currency (*tangible and intangible fixed assets, equity investments and other securities which grant the right to participate in the risk capital of the issuer, inventories, advances for the purchase and sale of goods and services, prepaid expenses and deferred income*) are recognised at the exchange rate in force at the time of their acquisition or the lower rate as of the year end date, only if the negative changes have led to a permanent loss in value (impairment) of said fixed assets.

Exchange gains (losses)

As regards total net gains in the income statement, the unrealised valuation-related component accounts for € 461,168, while unrealised exchange losses totalled € 3,921.

The net gain of € 457,247 was fully absorbed by the loss for the year.

Financial income

Description	31/12/2015	31/12/2014	Changes
From receivables classified as fixed assets	75,669	-	75,669
From securities recorded in current assets	922	-	922
Other income	33,235	157,889	(124,654)
(Interest and other financial expenses)	(381,304)	(336,921)	(44,383)
Exchange gains (losses)	454,357	233,778	220,579
	182,879	54,746	128,133

Extraordinary income and expenses**E) Extraordinary income and expenses**

(Ref. art. 2427.1.13 of the Italian Civil Code)

Balance at 31/12/2015	Balance at 31/12/2014	Change
(10,488)	59,257	(69,745)

Description	31/12/2015	Previous year	31/12/2014
Capital gains from disposals	50	Capital gains from disposals	-
Miscellaneous	235,133	Miscellaneous	215,363
Total income	235,183	Total income	215,363
Capital losses	(959)	Capital losses	
Miscellaneous	(244,712)	Miscellaneous	(156,106)
Total expenses	(245,671)	Total expenses	(156,106)
	(10,488)		59,257

Extraordinary income includes the following contingent assets:

- Cancellation of the provision for legal risks € 149,262.

The extraordinary expenses recorded relate mainly to contingent liabilities, most of which referring to:

- grants taxed in previous years that were not later awarded, for a total of € 47,994;
- lower revenue recognised in previous years for € 149,000.

Income taxes for the year – current, deferred and prepaid**Current, deferred and prepaid taxes****Income taxes**

Income taxes are allocated on an accrual basis;

- the allocations for taxes paid or to be paid for the year, calculated according to the applicable rates and regulations;
- the amount of deferred or prepaid taxes in relation to the temporary differences that have arisen or been eliminated in the year.

Deferred and prepaid IRES (corporate income tax) is calculated on the temporary differences between the values of assets and liabilities determined in accordance with statutory criteria and the corresponding tax values with exclusive reference to the company.

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

Income taxes for the year

Balance at 31/12/2015	Balance at 31/12/2014	Change
(281,267)	621,702	(902,969)

Taxes	Balance at 31/12/2015	Balance at 31/12/2014	Changes
Current taxes	7,985	552,114	(544,129)
IRES	-	319,623	(319,623)
IRAP	7,985	232,491	(224,506)
Substitute taxes	-	-	-
Deferred (prepaid) taxes	(289,251)	69,588	(358,839)
IRES	(289,243)	63,361	(352,604)
IRAP	(8)	6,228	(6,236)
	(281,267)	621,702	(902,969)

Taxes pertaining to the year were recorded.

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

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

Description	Value	Taxes
Pre-tax result	(1,280,299)	
Theoretical tax charge (%)	27.5	
Temporary differences taxable in subsequent years:		
Unrealised exchange gains	(461,168)	
	(461,168)	
Temporary differences deductible in subsequent years:		
Amortisation of trademarks beyond tax limits	327	
Unrealised exchange losses	3,921	
Allocation to bad debt provision beyond tax limits	20,238	
Provision for legal dispute risks	15,000	
	39,486	
Reversal of temporary differences from previous years		
Changes in foreign currency items due to estimated collections of receivables	1,027	
1/5 assessment appraisal	(1,476)	
Use of the provision for legal risks	(149,262)	
	(149,711)	
Differences that will not be reversed in subsequent years		
Permanent increases	270,779	
Permanent decreases	(138,967)	
Taxable income	(1,719,880)	

Calculation of taxable income for IRAP purposes

Description	Value	Taxes
Difference between the value and costs of production	4,964,333	
Costs not relevant for IRAP purposes	1,828,685	
Revenues not relevant for IRAP purposes	(247,436)	
IRAP deductions	(6,331,965)	
	213,617	
Theoretical tax charge (%)	3.9	8,331
Temporary differences deductible in subsequent years		
Tax base for IRAP purposes	213,617	
Current IRAP for the year		7,985

The IRAP is calculated by applying differentiated rates in relation to the various regions in which the company operates.

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

Deferred / prepaid taxes

Deferred tax is expressed by the allocation made to the provision for taxes amounting to € 109,320.

Deferred taxes were calculated according to the global allocation method, taking account of the cumulative amount of all temporary differences, based on the average rate in force at the time the temporary differences will be reversed. Prepaid taxes were recorded given there is reasonable certainty as to the existence, in the years in which the temporary deductible differences will carry forward, in respect of which prepaid taxes were recognised, of a taxable income not lower than the amount of the differences that will be cancelled.

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

Recognition of deferred and prepaid taxes and subsequent effects:

Prepaid taxes	Year ended 31/12/2015		Year ended 31/12/2014	
Amortisation of trademarks	327	103	315	99
Excess allocation to the bad debt provision	20,238	5,565		
Tax losses for the year to be carried forward	1,719,880	430,271		
1/5 revaluation appraisal		(406)		(406)
Amortisation of trademarks		(40)		
Exchange gains (losses)				(335)
Allocation to legal risks		(36,922)		(9,193)
Total	1,740,445	398,571	315	9,835
Deferred taxes	Year ended 31/12/2015		Year ended 31/12/2014	
Unrealised exchange gains	461,168	110,680	217,282	59,753
Unrealised exchange losses	(3,921)	(1,078)		
Exchange gains realised on foreign currency items		(282)		
Total	457,247	109,320	217,282	59,753
Net deferred (prepaid) taxes		(289,251)		69,588
Tax losses to be carried forward	1,719,880			
Tax rate	24-27.5	430,271	27.5	
Other				
Net	457,247		217,282	

Prepaid taxes were recorded amounting to € 430,271, deriving from tax losses carried forward of € 1,719,880, given the conditions required by accounting standards for the accounting of the future tax benefit were satisfied, in particular, the reasonable certainty that, in the future, the company will generate sufficient taxable income to allow said losses to be absorbed. The calculation was performed by applying the 27.5% tax rate on the portion of the loss of € 500,000 expected to be absorbed in 2016. On the remainder of the tax loss for the year to be carried forward, the new 24% rate was applied, introduced by Italian Law 208/2015 and published in the Official Gazette on 22 December 2015, which amended art. 77, paragraph 1 of the Consolidated Income Tax Act, reducing the IRES tax rate from 27.5% to 24% with effect from tax periods after that in progress on 31 December 2016.

Breakdown of deductible temporary differences

	Amount at the end of the previous year	Change during the year	Amount at year end	IRES tax rate	IRES tax effect	IRAP tax rate	IRAP tax effect
Amortisation of trademarks	315	12	327	27.50%	90	3.90%	13
Excess allocation to the bad debt provision	-	20,238	20,238	27.50%	5,565	-	-
Tax losses for the year to be carried forward	-	1,719,880	1,719,880	24-27.5	430,271	-	-

Breakdown of taxable temporary differences

	Amount at the end of the previous year	Change during the year	Amount at year end	IRES tax rate	IRES tax effect
Unrealised exchange gains	217,282	243,886	461,168	24.00%	110,680
Unrealised exchange losses	-	(3,921)	(3,921)	27.50%	(1,078)

Information on the tax losses

	Current year			Previous year
	Amount	Tax rate	Prepaid taxes recognised	Tax rate
Tax losses carried forward as recoverable with reasonable certainty	1,719,880	24-27.5	430,271	27.50%

Explanatory Notes - Cash Flow Statement

As envisaged in accounting standard OIC 10, the information of a financial nature is provided below.

Indirect cash flow statement

A) CASH FLOWS FROM OPERATING ACTIVITIES	2015	2014
Profit (loss) for the year	(999,032)	1,001,538
Income taxes	(281,267)	621,702
Interest expense (income)	271,478	179,031
(Losses)/Gains from asset disposals	909	0
Profit/(Loss) for the year before taxes, interest, dividends and gains/losses from disposals	(1,007,912)	1,802,272
Allocation to provisions	462,048	379,199
Amortisation/Depreciation of fixed assets	2,100,338	1,650,670
Other adjustments for non-monetary items	(258,581)	(59,753)
TOTAL ADJUSTMENTS FOR NON-MONETARY ITEMS WITH NO BALANCING ENTRY IN NWC	2,303,806	1,970,116
CASH FLOWS BEFORE CHANGES IN NWC	1,295,893	3,772,387
CHANGES IN NET WORKING CAPITAL		
Decrease/(Increase) in inventories	(151,756)	(1,086,768)
Decrease/(Increase) in receivables due from customers	620,054	(1,293,761)
Increase/(Decrease) in trade payables	(305,138)	780,651
Decrease/(Increase) in accrued income and prepaid expenses	(608,830)	(17,801)
Increase/(Decrease) in accrued expenses and deferred income	87,152	(802,068)
Other changes in net working capital	903,468	1,656,945
Total changes in net working capital	544,950	(762,802)
CASH FLOWS AFTER CHANGES IN NWC	1,840,844	3,009,585
OTHER ADJUSTMENTS		
Interest collected (paid)	(271,478)	(179,031)
(Income taxes paid)	(762,633)	(256,273)
(Use of provisions)	(101,565)	(121,647)
TOTAL OTHER ADJUSTMENTS	(1,135,676)	(556,951)
CASH FLOWS FROM OPERATING ACTIVITIES (A)	705,168	2,452,634
(Investments in tangible assets)	(155,404)	(202,794)
Disinvestments of tangible assets	(1,652)	0
(Investments in intangible assets)	(3,052,935)	(3,690,041)
Disinvestments of intangible assets	(2)	1,273
(Investments in non-current financial assets)	(15,144,222)	(1,902,700)
Disinvestments of non-current financial assets	2,500	
(Investments in current financial assets)		(7,092,592)
Disinvestments of current financial assets	3,000,000	
CASH FLOWS FROM INVESTING ACTIVITIES (B)	(15,351,716)	(12,886,854)
THIRD PARTY FINANCING		
Increase/(Decrease) in short-term bank payables	(14,816)	-
New loans	17,470,242	3,150,000
(Loan repayments)	(4,329,499)	(3,567,074)
OWN EQUITY		
Share capital increase against payment	6,999,974	12,369,160
Disposal/(Purchase) of treasury shares	(471,232)	(89,163)
CASH FLOWS FROM FINANCING ACTIVITIES (C)	19,654,669	11,862,932
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	5,008,121	1,428,711
Cash and cash equivalents at start of year	4,387,562	2,958,851
Cash and cash equivalents at year end	9,395,683	4,387,562

Explanatory Notes - Other information

Employment figures

Employment figures

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

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

Workforce	31/12/2015	31/12/2014	Changes
Middle management	19	14	5
Employees	127	101	26
	146	115	31

The national labour contract applied is the 2011 contract for the trade sector.

Average number

Middle management	19
Employees	127
Total employees	146

Directors' and Statutory Auditors' fees

Other information

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

Role	Fee
Directors	1,074,300
Board of Statutory Auditors	14,560

Value

Directors' fees	1,074,300
Statutory Auditors' fees	14,560
Total directors' and statutory auditors' fees	1,088,860

Independent Auditor fees

Information on fees due to the independent auditor

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

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

Value

Independent audit of the annual accounts	16,953
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Class of shares issued by the company

Description	Closing balance, number
Ordinary shares	25,060,778

At the reporting date, there were 25,060,778 outstanding ordinary shares with no par value.

Information on the financial instruments issued by the company

Information on the financial instruments issued by the company

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

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

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

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

Information on the fair value of derivative financial instruments

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

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

The company has signed the following derivative contract with CARIPARMA:

- Derivative contract type: IRS no. 59746/2014, unlisted;
- Purpose: hedging;
- Transaction with no principal swap on expiry;
- Notional amount of the contract: € 1,200,000;
- Notional amount at the reference date (31/12/2015): € 739,443;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative fair value of € 12,899.89, client side;
- Liability hedged: CARIPARMA mortgage no. 04 107 0088522800000, originated for € 1,200,000, signed on 23/12/2013.

Summary financial statements of the company exercising management and coordination activities

Any Group membership

Your company is a member of the EXPERT SYSTEM Group as parent company. It is responsible for preparing the consolidated financial statements.

Explanatory Notes - Closing Section

Information on related party transactions

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

Information relating to transactions with the subsidiaries ADmantX S.p.A., Expert System USA Inc., Expert System Cogito Ltd., Expert System Iberia S.L.U., Expert System France and the associate Cy4Gate S.r.l. is provided below, exclusively for reasons of greater disclosure transparency. The agreements were in any event entered into under normal market conditions (arm's-length basis).

With the subsidiary ADmantX S.p.A.:

Sales

- Lease agreement for property in Naples, Via Nuova Poggio Reale, Centro Polifunzionale Inail (Inail – National Institute for Insurance against Accidents at Work - Multi-purpose centre), where the company has its registered office: annual fee of € 5,083;
- Sub-letting agreement for local office in Modena, Via Virgilio 56/Q: annual fee of € 3,677;
- Services contract relating to accounting support, company economic-financial consultancy, secretarial and general services:
 - fee for accounting support and company consultancy: € 24,000;
 - fee for secretarial activities: € 1,200;
 - fee for general services (telephone, cleaning services and material, security, electricity, stationery, management software maintenance): lump-sum reimbursement (4.15%) of costs totalling € 6,166 incurred by Expert System S.p.A.

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

C.II.2 Receivables due from subsidiaries

The income statement items are reclassified within the following accounts:

A.5 Other revenues and income

Purchases

Marketing consultancy contract: € 48,179

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

D) 9 Payables due to subsidiaries

The income statement items are reclassified within the following accounts:

B) 7 Service costs

With the subsidiary Expert System USA Inc.:

Loan granted to the subsidiary for € 2,255,757, bearing interest in 2015 for € 29,287.

The balance sheet item affected by this transaction is:

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

The income statement item is reclassified in the following account:

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

Sales

Professional service activities performed for the subsidiary and concessions of licences.

The balance sheet item affected by these transactions is:

C) Current assets, II) Receivables, 2) Due from subsidiaries for € 1,941,562

The income statement items affected by these transactions are:

A) Sales and service revenues for € 801,046

Purchases

Professional service activities performed by the subsidiary for € 188,045

The balance sheet item affected by these transactions is:

D) Payables, IX) Payables due to subsidiaries

The income statement items affected by these transactions are:

B) Costs of production, 7) For services

With the subsidiary Expert System Cogito Ltd:

Loan granted to the subsidiary

The balance sheet item affected by this transaction is:

III) Non-current financial assets, 2) Receivables, a) Due from subsidiaries for € 282,572

The income statement item is reclassified in the following account:

Financial income and expenses, 16) Other financial income, d) other income for € 3,261

Professional service activities performed for the subsidiary for € 74,471

The balance sheet item affected by this transaction is:

II) Receivables, 2) Due from subsidiaries

The income statement item is reclassified in the following account:

A) Sales and service revenues

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

Loan granted to the subsidiary

The balance sheet item affected by this transaction is:

III) Non-current financial assets, 2) Receivables, a) Due from subsidiaries for € 2,531,306.

The income statement item is reclassified in the following account:

Financial income and expenses, 16) Other financial income, d) other income for € 30,600.

Sales

Professional service activities performed for the subsidiary and concessions of licences.

The balance sheet item affected by these transactions is:

C) Current assets, II) Receivables, 2) Due from subsidiaries for € 172,835

The income statement items affected by these transactions are:

C) Sales and service revenues for € 161,384

Purchases

Professional service activities performed by the subsidiary for € 12,985

The balance sheet item affected by these transactions is:

D) Payables, IX) Payables due to subsidiaries

The income statement items affected by these transactions are:

Costs of production, 7) For services

Reimbursement to the subsidiary of board and lodge costs for one subsidiary employee, recognised in balance sheet item D) Payables, IX) Payables due to subsidiaries for € 2,662

With the subsidiary Expert System France:

Chargeback to the subsidiary of expenses relating to the selection of a subsidiary employee, recognised in item C)

Current assets, II) Receivables, 2) Due from subsidiaries for € 37,000

With the associate Cy4Gate S.r.l.:

Loan granted to the subsidiary

The balance sheet item affected by this transaction is:

III) Non-current financial assets, 2) Receivables, a) Due from subsidiaries for € 402,520

The income statement item is reclassified in the following account:

Financial income and expenses, 16) Other financial income, d) other income for € 12,520

Purchases

Professional service activities performed by the associate and supply of licences.

The balance sheet item affected by this transaction is:

D) Payables, VII) Trade payables for € 468,748

The income statement items affected are reclassified in the following account:

A) Costs of production, 6) Raw materials, consumables and goods for resale for € 288,120

B) Costs of production, 7) For services for € 96,100

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

Chairman of the Board of Directors

Marco Varone



**Report on operations accompanying the financial statements for the
year ended 31/12/2015**



Report on Operations accompanying the financial statements for the year ended 31/12/2015

Dear Shareholders,

the year ended as at 31/12/2015 recorded a negative result of € (999,033).

General context of the AIM

Since February 2014 the Company has been listed on the AIM Italia (Alternative Investment Market) - MAC, i.e. the Borsa Italiana market dedicated to Italian small and medium enterprises with high growth potential.

AIM Italia, in operation since 2012 in the wake of the UK's success of a similar market set up in 1995, is now a modern means of funding for Italian small caps, able to attract capital from investors interested in companies with good development prospects and which, today, seem to be less affected by market volatility than the shareholding structures listed on Borsa Italiana's larger market. This investor confidence is reflected in the growth of the AIM, which in December 2015 included no less than 72 businesses (+30% on December 2014) operating in different industries: from real estate to digital services, trade fair organisation, safety, the environment and energy.

There were 20 new listings in 2015, leading to a total AIM capitalisation value of around € 3 billion (+43% compared to 2014). For a number of the companies listed, characterised by stronger capitalisation and significant growth rates, it is expected that 2016 will see the first possible migrations from the AIM to the MTA, Borsa Italiana's screen-based market.

The performance of the share as at 26/05/2016 is presented below:

Market	AIM Italia – MAC
Share capital	250,608
Capitalisation	€ 53,873,154
Minimum parcel	1,000.00
Reference price	€ 2.16 - 26/05/2016, 16:10:33 hrs
Official price	€ 2.1497 - 26/05/2016
1 month performance	+ 1.60%
6 month performance	+ 5.99%
1 year performance	- 3.91%

The graph showing share performance from the IPO (18/02/2014) to 26/05/2016 is presented below:



Operating conditions and business development

Both at global level and in Italy, the year ending 31 December 2015 recorded significant growth of “Global Big Data and Text Analytics”, the market in which Expert Systems operates. In fact, increasing importance is seen in extracting information from large quantities of data, 80% of its total is estimated to be unstructured. Analytics are increasingly viewed by businesses as a source of competitive advantage and a tool for growing their business, which they can use to support various corporate functions such as those responsible for marketing and sales, finance and control, IT systems, purchasing, production and supply chain. Future prospects, as confirmed by high-level studies and research, also see positive developments for the sector, with strong growth rates forecast for the coming years. In this scenario, Expert System, already with a consolidated positioning on the Italian market, has aimed to further develop its international footprint, on the one hand expanding its semantics software product mix with new releases in Chinese, Korean and Japanese, as a prelude to the potential opening of new opportunities on the Asian markets, and on the other hand through a mix of organic growth and acquisitions considered indispensable for operations on a global market such as Big Data. As part of this business internationalisation strategy, the binding agreement was signed in May 2015 for the acquisition of 100% of TEMIS S.A., a French leader in text analytics solutions with branches also in Germany, the UK, the US and Canada.

The transaction closing was finalized in September for an equity value of € 11 million, to be paid in stages: € 3 million cash on closing, € 1 million over the next three years and the remaining € 7 million through a receivable in favour of the TEMIS vendors, used by them to subscribe and release (against payment) newly issued ordinary Expert System shares. The subscription price for the new Expert System shares was € 2.25 per share.

Customers of Temis, now Expert System, include major multinationals such as BASF, BNP Paribas, Volkswagen, Bayer Schering Pharma, Novartis, Sanofi, Agence France Press, Thomson Reuters, The McGraw-Hill Companies, Editions Lefebvre-Sarrut, Elsevier, EMC, Bloomberg BNA and international organisations such as the OECD, the French government agency “Invest in France Agency”, and leading institutions such as the US Department of Agriculture.

This transaction therefore combined two entities with strongly complementary business activities, able together to achieve market leadership in cognitive computing, and to partner with businesses and public administrations in the analysis, correlation and enhancement of available know-how, with particular reference to unstructured data. As a result of this transaction, Expert System can therefore gain a positioning on all the major western markets: the United States, United Kingdom, Italy, France, Germany, Spain, Canada and Switzerland.

With a view to supporting this and other significant investments in the European and US markets, a bond loan was also placed for a nominal total of € 5 million, 9-year maturity and known as “Obbligazioni Expert System 4% 2015-2024”, fully subscribed by the Fondo Strategico Trentino Alto Adige managed by Finint Investments SGR.

As a result of these events, the parent company Expert System S.p.A. directly or indirectly controls the following companies, which perform the activities indicated that are complementary and/or functional to the Group’s core business.

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

Expert System France S.A. (formerly Temis S.A.)	100.00%	N.A.	Yes	Semantic software activities in the Information technology field
Temis Canada Inc.	100.00%	Expert System France S.A.	Yes	Semantic software activities in the Information technology field
Temis GMBH	100.00%	Expert System France S.A.	Yes	Semantic software activities in the Information technology field
ADmantX S.p.A.	60.70%	N.A.	Yes	Software platform for contextualising on-line advertising on a semantic basis
ADmantX Inc.	60.70%	ADmantX S.p.A.	Yes	Software platform for contextualising on-line advertising on a semantic basis

Since its first consolidated financial statements as at 31 December 2014, Expert System S.p.A. has considered it appropriate to continue excluding ADmantX S.p.A. from the Group's scope of consolidation. In fact, the investee ADmantX uses Cogito technology to provide software to various entities operating in the digital advertising sector. Opening with an analysis of the contents of web pages visited by users to create their online behaviour profiling, it is able to generate the online behaviour profiling which is then offered to marketing agencies, advertising agencies and Brands with a particular interest in Brand Positioning and knowledge of their customers.

ADmantX's activities therefore essentially differ from the Expert System Business Model (the former based on SAAS services only, the latter on major projects with associated professional activities), both in terms of technology, since the ADmantX product uses a product expressly designed for the Digital Advertising market, and in terms of the reference markets. Expert System operates on markets that are completely different from those of ADmantX, since it focuses on the Financial, Intelligence and Energy sectors.

It is for this reason that ADmantX, in effect only a Cogito engine user which it has integrated in order to pursue its own sales purpose, is not included in the Group's scope of consolidation, and the investment in which is now down to 60.7% (from 69.4%) as a result of the share capital increase agreed in August 2015 and fully subscribed by 16 September 2015, is recorded under current assets rather than fixed assets in the financial statements.

At the same time, during 2015 the technological development of Cogito and its derivative products continued, also through the conclusion of major partnership agreements. Included among these is the integration of the Cogito platform into products developed in the environment of MongoDB, a US leader in latest generation database design. The aim of this agreement is to make available a set of even more powerful text analytics, metadata generation, document classification and data extraction for big data management to database users.

Also significant is the technology partnership agreement signed in February with Google, which for its "Work for Partner" programme has identified Cogito technology as a useful tool for extending the capacity and functions of its Google Cloud Platform with a view to developing more powerful and innovative solutions for its customers. Expert System's inclusion in this programme, after a particularly tough selection process, is the result of constant investment in R&D, aimed not only at optimising the Cogito technology, with all the derivative products, but also encouraging an increasingly greater adoption of the same via the most reliable and innovative platforms and environments.

Furthermore, also in view of the integration of Cogito® semantics technology into the Google Search Appliance (GSA), Expert System is now the "Premier Technology Partner" in the programme dedicated to solutions for businesses, with particular reference to research activities (Google for Work - Search). This title is reserved exclusively for companies capable of demonstrating the highest level of technological expertise and services based on successful innovative implementations.

Again on the technological front, the Cogito API product mix has been expanded with the release of *Cogito API Finance*, the first vertical API for banking and insurance sector needs which combines the wealth of finance sector taxonomies and ontologies with enhancement of natural language processing and semantics analysis. From the point of view of company strategy, this release certainly fits well into the Expert System growth plan, in fact making it possible to strengthen the verticalisation and specialisation process, exploiting a method of offering services that are increasingly simple, widespread and appreciated, and above all customised to the needs of specific business sectors.

Within the context of the company's product mix expansion, Cogito Risk Watcher was launched towards the end of

2015. This software based on Cogito semantic intelligence is able to provide businesses with useful information for managing their supplier and third party risk profiles, and therefore guarantee greater security in terms of financial, credit, compliance and reputation profiles. This product derives from thorough analysis of the strong turbulence and volatility of today's global economic situation, and the growing need to be able to understand, correlate and automatically summarise, with maximum precision, all external or internal information of the company. In fact, it is only by identifying events, hidden relationships and other significant data that risk mitigation and prompt threat detection can be achieved. For this purpose, through the semantic understanding of thousands of resources and documents, Cogito Risk Watcher allows the identification of information useful in mitigating various types of risk. Also in 2015 a number of partnerships continued in support of innovative start-ups, one of which was the partnership with Buzzoole, the first native content platform for businesses which, by using Cogito, offers its customers the opportunity to optimise digital marketing activities, including the sense of the information underlying every campaign. It is also important to mention the partnership with I3P, the Innovative Business Incubator of Turin Polytechnic, which has offered the chance to directly test the potential of Cogito technology in providing support to digital start-ups with a proven capacity for growth.

Lastly, another significant agreement is that signed in March 2015 with Nana Bianca, the accelerator for technology businesses in the web and Internet sector. Under the terms of this agreement, new businesses - supported by Nana Bianca and selected by Expert System - will be able to make use of Cogito technology, for 18 months free of charge, in order to apply the benefits of semantic intelligence technology to their own business models and develop new opportunities.

Given all Expert System's goals achieved in 2015, the company has received a number of major awards from leaders operating in the Information Technology sector. Among these is the US company Forrester Research, a company that analyses changes brought about by technology and their impact on different businesses, companies and end users.

In fact, Forrester Research has included Expert System in its "Techradar" study dedicated to risk management. In its report, Forrester includes the technologies proposed by Expert System among the 13 most important for risk management with respect to the various stages of market maturity and different business values, using a proactive approach capable, where necessary, of adopting suitable remedial action, together with self-reporting activities. Added to this recognition is Expert System's inclusion in the "Vendor Landscape: Big Data Text Analytics" report, dedicated to describing the most effective big data management solutions based on text. This report provides a list of companies specialised in business information management, selected on the basis of the degree to which their product mix is vertical, their coverage of market domains and the technological approach, for example linguistic rather than statistical analysis, able to provide practical indications by identifying useful relationships within large masses of data.

Another important award came from EContent, one of the most prestigious American digital publishing magazines, which recognizes the value of Expert System's API product by including Cogito API in the "EContent Magazine's 2015 Trendsetting Products List". This list was compiled by EContent Magazine's editorial staff on the basis of the unique nature of companies' products, with particular reference to publishing content management, communications and marketing.

Pursuant to art. 2428, note that business is now carried out not only at the Rovereto, Modena, Rome and Naples offices, but also in Milan in order to ensure a constant presence in the city in which our strategic partners and investors have a key interest.

Another new office opened in May 2016 at the Computer Science Park in Verona, a new hub for businesses operating in the ICT sector, set up in June 2014 as part of the IT Department of the University of Verona. Expert System's presence in this entity is sure to offer easier contact with innovation financing opportunities, whether public such as those associated with the Horizon 2020 European programme or the University of Verona's Joint Projects, or private associated with Foundations, etc. From a strategic point of view, this initiative represents a considerable advantage also in terms of direct contact with the academic world. The option of close relationships with over 1,000 university students could mean finding among them those whose skills and abilities allow further company development and at the same time gain access to a series of initiatives promoted by the Veneto Region for CSP partners.

Operating performance

General financial performance

The Italian economy in 2015 saw a slight recovery, driven by the consolidation of consumption and an acceleration in investments. Domestic economic activities have been able to benefit from a relaunch of the manufacturing industry along with consolidation of the services and building industries' recoveries. Cautious optimism is expected to remain also through 2016 as regards growth prospects, albeit with a number of warning signs associated with the heightened uncertainty concerning global trade performance. The businesses, though bolstered by the positive impact of temporary initiatives provided in the most recent Stability Act, could be forced to review their investment plans if sales should drop on non-EU markets in the first few months of the year.

Analysing some of the key macroeconomic indicators we see that, after the contraction recorded in the last three years, Italian GDP has risen by 0.8%. Even domestic end consumption (+0.5%) and gross fixed investments (+0.8%) saw moderately positive changes, whilst exports recorded a solid increase (+4.3%) though less than that of imports (+6.0%).

Then a boost to growth came from household consumption and disposable income. In 2015 Italian household spending rose by 0.9%, whilst public administration expenditure fell for the sixth year running (-0.7%). In particular, the expansion of household spending involved both goods and services - with goods rising at a pace twice that of services (+1.4% and +0.7%).

Lastly, the gradual recovery of credit continued, aided by the expansive contribution of monetary policy measures. Loans to manufacturing companies grew at rates higher than 3%, whilst the building industry and smaller-sized companies were down once again. For the banking industry as a whole, funding has not suffered in the recent financial tension. The increase in deposits and the expansion of interbank deposits from outside Italy have more than offset the decrease in bonds.

Also in terms of Eurozone figures, support for business has come first and foremost from the improvement in domestic demand, which has been able to overcome a number of negative non-EU scenarios, including a slowing of the emerging economies. The economic recovery continued throughout 2015, reaching a 1.5% average, the highest since 2011. Gradual improvements were also seen as a result of supporting measures for private consumption, such as imports and exports which were able to increase their market quotas following the strong depreciation of the Euro. The economic growth performance recorded in 2015 has certainly seen a positive impact from the ECB's monetary policy, which boosted the economy by slowing lending terms, leading to improved market confidence and keeping interest rates at very low levels, thereby supporting business investments.

Operating performance in sectors in which the company operates

The year ending 31 December 2015 closed with a loss of € (999,033).

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

	31/12/2015	31/12/2014	31/12/2013
Value of production	15,021,293	16,148,501	13,119,876
EBITDA	728,253	3,231,572	2,013,603
Pre-tax result	(1,280,299)	1,623,240	584,298

The above table shows a decrease in the value of production compared to 31 December 2014 of around 6%, a figure much improved upon the performance seen as at 30 June 2015. Though negative, the pre-tax result was considerably more contained than the figure at the end of the first half of the year, when it was slightly lower than € 1.95 million.

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

Main income statement figures

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

	31/12/2015	31/12/2014	Change
Net revenues	10,506,609	10,943,137	(436,529)
Change in inventories	151,756	1,086,769	(935,013)
Own work capitalised	3,033,114	3,041,447	(8,332)
Operating grants	641,490	528,777	112,713
Grants relating to assets	603,343	509,049	94,293
Sundry income	84,982	39,322	45,659
Cost of materials and overheads	(7,956,622)	(7,544,345)	(412,277)
Value added	7,064,671	8,604,156	(1,539,485)
Cost of labour	6,336,419	5,372,584	(963,834)
EBITDA	728,253	3,231,572	(2,503,319)
Amortisation, depreciation, write-downs and other	2,180,941	1,722,335	(458,607)
EBIT	(1,452,689)	1,509,237	(2,961,926)
Financial income and expenses	182,878	54,746	128,132
Ordinary profit	(1,269,810)	1,563,983	(2,833,794)
Net extraordinary components	(10,488)	59,257	(69,746)
Pre-tax result	(1,280,299)	1,623,240	(2,903,539)
Income taxes	281,266	(621,702)	902,968
Net profit (loss)	(999,033)	1,001,538	(2,000,571)

Initial analysis of the period figures offers an understanding of the major investments carried out in the last few years to support the subsequent growth in revenues. The downturn in a number of the indicators, such as value added, EBITDA and the pre-tax result, in fact, are primarily attributable to the significant increase in the cost of labour, up by almost 18% to give a change in absolute terms of just under € 1 million, due to the increase in the company workforce by 31 employees, almost 27% compared to the 2014 figure, which was necessary to support the innovation and research activities, business development and support for the various Cogito platform developments. In the same way, the significant increase in amortisation and depreciation (+27% on 2014) confirms the major investments undertaken to provide Expert System with the resources necessary to support the development plans envisaged by company management.

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

	31/12/2015	31/12/2014	31/12/2013
Net ROE	(0.04)	0.05	0.04
Gross ROE	(0.05)	0.09	0.10
ROI	(0.02)	0.04	0.04
ROS	(0.14)	0.14	0.09

Main balance sheet figures

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

	31/12/2015	31/12/2014	Change
Net intangible fixed assets	5,720,373	4,639,106	1,081,265
Net tangible fixed assets	697,817	670,338	27,479
Equity investments and other non-current financial assets	22,440,371	8,944,791	13,495,580
Fixed assets	28,858,561	14,254,236	14,604,325
Short-term financial assets	4,153,074	4,153,074	0
Warehouse inventories	1,714,539	1,562,783	151,756
Receivables due from customers	6,493,691	7,113,745	(620,054)

Other receivables	7,105,028	3,841,515	3,263,513
Accrued income and prepaid expenses	796,548	187,719	608,830
Short-term operating assets	20,262,881	16,858,836	3,404,044
Trade payables	(1,579,333)	(1,884,471)	305,138
Payments on account	(2,907,908)	(538,058)	(2,369,850)
Tax and social security payables	(900,746)	(1,689,954)	789,208
Other payables	(1,101,091)	(934,723)	(166,368)
Accrued expenses and deferred income	(976,286)	(979,232)	2,946
Short-term operating liabilities	(7,465,364)	(6,026,437)	(1,438,927)
Net working capital	12,797,517	10,832,399	1,965,118
Employee severance indemnity	(1,390,984)	(1,126,002)	(264,982)
Tax and social security payables (after 12 months)	0	0	0
Accrued expenses (after 12 months)	(2,452,032)	(2,361,933)	(90,099)
Other medium and long-term liabilities	(2,543,394)	(3,070,368)	526,974
Medium/long-term liabilities	(6,386,409)	(6,558,303)	171,893
Invested capital	35,269,668	18,528,334	16,741,335
Shareholders' equity	(25,348,665)	(19,347,728)	(6,000,938)
Net medium/long-term financial position	(16,795,602)	(4,798,603)	(11,996,999)
Net short-term financial position	6,874,599	5,617,997	1,256,602
Own equity and net financial debt	(35,269,668)	(18,528,334)	(16,741,335)

The net financial position's performance, which shows a definite increase over the medium/long-term horizon, and a similar increase - albeit it more limited - in the short term, is strictly associated with recourse to forms of funding able to support the growth and internationalisation process of the Expert System Group. For this reason, the company applied as much to the banking system as to the market of institutional investors, for which a bond loan issued in 2015 was reserved, pursuing an indebtedness policy compatible with forecasts of returns on investments envisaged in the company's business plan.

In the last year, Expert System has also consolidated its short-term balance, as seen from the increase in net working capital which compares current assets and liabilities. This figure, therefore, was not affected in any way by the significant investments to consolidate the Group's expansion, as confirmed by a considerable growth in fixed assets. For the purposes of a better description of the company's capital strength, the table below shows certain financial statement ratios relating to both the methods of financing medium/long-term investments and to the composition of sources of financing, compared to the same financial statement ratios in the previous year.

	31/12/2015	31/12/2014	31/12/2013
Fixed asset /equity margin	(3,509,896)	5,093,491	(3,928,078)
Fixed asset /equity ratio	0.88	1.36	1
Fixed assets / liabilities and equity margin	17,220,084	14,088,464	3,866,695
Fixed assets / liabilities and equity ratio	1.60	1.99	1.39

Capital assets and related fixed assets to equity ratio:

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

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

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

Shareholders' equity (A)	25,348,665
Net intangible fixed assets	5,720,373
Net tangible fixed assets	697,817
Equity investments and other non-current financial assets	22,440,371
Fixed assets (B)	28,858,561
Fixed assets /equity margin (A-B)	(3,509,896)
Fixed assets /equity ratio (A/B)	0.88

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

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

Fixed asset / liabilities and equity margin:

Shareholders' equity (A)	25,348,665
Net medium/long-term financial position (B)	16,795,602
Other medium and long-term liabilities (C)	2,543,394
Employee severance indemnity (D)	1,390,984
Fixed assets (E)	(28,858,561)
Fixed assets / liabilities and equity margin (A + B + C + D + E)	17,220,084
Fixed assets / liabilities and equity ratio (A + B + C + D)/(E)	1.60

Main financial figures

The net financial position as at 31/12/2015, was as follows (in Euro):

	31/12/2015	31/12/2014	Change
Bank deposits	9,393,911	4,386,192	5,007,719
Cash at bank and in hand	1,772	1,370	401
Treasury shares	560,395	89,163	471,232
Cash and cash equivalents and treasury shares	9,956,078	4,476,726	5,479,352
Current financial assets	987,748	4,081,569	(3,093,821)
Bonds and convertible bonds (within 12 months)			0
Payables due to shareholders for loans (within 12 months)			0
Payables due to banks (within 12 months)	(3,680,182)	(2,647,115)	(1,033,067)
Payables due to other lenders (within 12 months)	(389,045)	(293,183)	(95,862)
Advances for overseas payments			0
Short-term portion of loans			0
Financial receivables			0
Short-term financial payables	(4,069,227)	(2,940,298)	(1,128,929)
			0
Net short-term financial position	6,874,599	5,617,997	1,256,602

Bonds and convertible bonds (after 12 months)	(5,000,000)	0	(5,000,000)
Payables due to shareholders for loans (after 12 months)			0
Payables due to banks (after 12 months)	(11,485,190)	(4,381,995)	(7,103,194)
Payables due to other lenders (after 12 months)	(310,412)	(416,608)	106,196
Advances for overseas payments			0
Long-term portion of loans			0
Financial receivables			0
Net medium/long-term financial position	(16,795,602)	(4,798,603)	(11,996,999)
Net financial position	(9,921,003)	819,394	(10,740,397)

The company's net financial position highlights the recourse to third-party funding as an essential resource in order to serve the Group's expansion.

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

	31/12/2015	31/12/2014	31/12/2013
Primary liquidity	2.51	2.66	1.95
Secondary liquidity	2.66	2.83	2.01
Debt	1.23	0.88	2.53
Rate of coverage of fixed assets	1.60	1.99	1.37

Primary liquidity

LIQUID ASSETS:

Banks and current account receivables	9,393,911
Cash on hand	1,772
Liquid assets	9,395,683

DEFERRED ASSETS:

Receivables due from customers (within 12 months)	6,493,691
Receivables due from subsidiaries (within 12 months)	2,236,908
Tax receivables (within 12 months)	693,710
Prepaid tax assets (within 12 months)	155,088
Other receivables (within 12 months)	4,019,322
Current financial assets	5,701,217
Accrued income and prepaid expenses	796,548
Deferred assets	20,096,485

CURRENT LIABILITIES:

Payables due to banks (within 12 months)	3,680,182
Payables due to other lenders (within 12 months)	389,045
Payments on account (within 12 months)	2,907,908
Trade payables (within 12 months)	1,579,333
Payables due to subsidiaries (within 12 months)	204,939
Tax payables (within 12 months)	602,920
Payables due to social security institutions (within 12 months)	297,826
Other payables (within 12 months)	1,101,091
Accrued expenses and deferred income (within 12 months)	976,286
Current liabilities	11,739,530

The formulae are shown below

Primary liquidity:

$(La+DI) / CI$

$(9,395,683 + 20,096,485) / 11,739,530 = 2.51$

The primary liquidity ratio stands at 2.51, highlighting an excellent balance between current assets and current liabilities.

Secondary liquidity

$CA \text{ (including inventories)} / CL$

$(9,395,683 + 20,096,485 + 1,714,539) / 11,739,530 = 2.66$

The current ratio stands at 2.66, also due to the effect of receivables for research project grants, presenting a satisfactory value.

Debt ratio

Third party financing/net capital

Current liabilities (without accruals and deferrals) (A)	10,763,244
Payables for bonds (after 12 months)	5,000,000
Payables due to banks (after 12 months)	11,485,190
Payables due to other lenders (after 12 months)	310,412
Payments on account (after 12 months)	1,151,231
Payables due to subsidiaries (after 12 months)	0
Other payables (after 12 months)	1,000,000
Provisions for risks and charges	187,223
Employee severance indemnity	1,390,984
M/L-term liabilities (B)	20,525,041
TOTAL THIRD PARTY FINANCING (A+B)	31,288,285

Third party financing: = 31,288,285

Net capital = 25,348,665

Debt ratio = $31,288,285 / 25,348,665 = 1.23$

The debt ratio highlights the existing ratio of third party funds to own capital. It makes it possible to verify the risk connected with the company's level of dependency on external sources of financing. A high level of debt with respect to own capital, on a trend basis, increases the business risk due to a lower degree of capital coverage of potential company losses and due to a higher weight of financial expenses deriving from the use of third party funds. A ratio of 1.23 indicates a low level of company risk and at the same time expresses a good level of third-party lender confidence in the company's development policies.

Rate of coverage of fixed assets

Net capital (A)	25,348,665
Payables for bonds (after 12 months)	5,000,000
Payables due to banks (after 12 months)	11,485,190
Payables due to other lenders (after 12 months)	310,412
Payments on account (after 12 months)	1,151,231
Payables due to subsidiaries (after 12 months)	0
Other payables (after 12 months)	1,000,000
Provisions for risks and charges	187,223
Employee severance indemnity	1,390,984
M/L-term liabilities (B)	20,525,041
Net intangible fixed assets	5,720,373
Net tangible fixed assets	697,817
Equity investments and other non-current financial assets	22,440,371
Fixed assets (C)	28,858,561
Rate of coverage of fixed assets (A+B)/C	1.59

In light of the rate of coverage of fixed assets of 1.59, the amount of own equity and consolidated payables is considered appropriate in relation to the total fixed assets.

Information on the environment and personnel

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

Personnel

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

During the year, the company carried out investments in personnel safety in compliance with Legislative Decree 81/08, involving the provision of training to all personnel on the safety of workers and supervisors. In addition, refresher courses were also provided to first aid personnel and members of the fire safety team.

The Environment

In 2015 there was no damage to the environment for which the company was ultimately declared guilty. During the half year, no sanctions or penalties were imposed upon our company for environmental offences or damages.

On 30 June 2008 the company obtained ISO 9001:2008 certification, the review of which performed on 2 July 2014 reconfirmed validity until 1 July 2017.

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

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

Risks associated with the internationalisation: The Company has initiated an internationalisation process in the hope that an appreciable part of its revenues can be generated from sales outside Europe. In particular, the American

and European markets are major areas to be monitored, with the aim of raising the number of customers served and, consequently, the market share held. In this respect the Company could be exposed to risks typically associated with operating at international level, including those relating to changes in local economic conditions, policies, taxes and regulations together with risks associated with the complexity of conducting business in distant geographic areas, as well as those linked to changes in foreign exchange rates versus non-EU countries. Unfavourable events occurring in such areas could have negative effects on the Company's business and growth prospects, and on its income, equity and financial position.

Risks associated with related party transactions: The Company has concluded commercial and financial transactions with related parties, and as part of its operations could continue to do so. Expert's main relations with related parties refer primarily to commercial transactions such as technical and/or sales consultancy, administrative services contracts and leases. The financial contracts instead refer mainly to loans disbursed by Expert System to Group companies. In particular, last April Expert System renewed its intercompany financing plan decided in 2014 which envisages the parent company's disbursement to subsidiaries of loans of an amount sufficient to provide them with the funding necessary to meet their expense and investment commitments. The intercompany financing plan offers subsidiaries a simpler way to obtain funding on the market and therefore overall facilitates execution of the Group's business plan. All the transactions performed were at arm's length.

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

Investments

Investments were made in the following areas during the year:

Fixed assets	Acquisitions during the year
Land and buildings	
Plant and machinery	
Industrial and commercial equipment	
Other assets	156,890

During the current year, particularly significant investments are envisaged in terms of the implementation of the ERP (Enterprise Resource Planning) integrated management system which is able to not only handle the information but also to create a model with functions or processes which reflect the enterprise permitting total control and consequently increasing the efficiency, thereby decreasing the business costs.

Research and development activities

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

The company is constantly conducting research and development activities to retain its global leadership position in the field of semantic technology. The costs incurred for these activities were capitalised, also within the context of certain multi-year national and international research projects that have seen the company's involvement. These activities concerned the Cogito semantics platform and related functions, in particular the Cogito platform for French, Chinese, Japanese, Korean, Portuguese and Russian, as well as further development of Cogito Studio, the implementation of new deep learning algorithms and automatic domain word recognition.

Other significant research developments in the period were the semantics mapping between different languages, the creation of new advanced multi-dimensional browsing methods for large volumes of text, and a new boost to the development of Analyst Workspace.

Relations with subsidiaries, associates, parent companies and sister companies

During the year, the following transactions took place with group companies.

Company	Financial payables	Financial receivables	Trade receivables	Trade payables	Sales	Purchases
ADMANTX S.P.A.	26,787	-	8,221	-	40,117	48,179
EXPERT SYSTEM USA INC.	188,045	2,285,044	1,941,562	-	830,333	188,045
EXPERT SYSTEM LTD.	-	282,572	74,472	-	77,733	-
CY4GATE S.R.L.	-	402,520	-	468,748	12,520	384,220
EXPERT SYSTEM IBERIA S.L.U.	-	2,531,306	-	15,647	191,984	15,647
EXPERT SYSTEM FRANCE	-	-	37,000	-	37,000	-
Total	214,831	5,501,442	2,061,255	484,395	1,189,687	636,091

These relations, which do not include atypical and/or unusual transactions, are regulated by normal market conditions.

In particular, relations are shown analytically below, with an indication of the reasons and interests whose evaluation affected the decision.

Trade and sundry transactions

Company	Payables	Receivables	Guarantees	Commitments	Costs	Revenues
ADMANTX S.P.A.	-	8,221	-	-	48,179	40,117
EXPERT SYSTEM USA INC.	-	1,941,562	-	-	188,045	801,046
EXPERT SYSTEM LTD.	-	74,472	-	-	-	74,472
CY4GATE S.R.L.	468,748	-	-	-	384,220	-
EXPERT SYSTEM IBERIA S.L.U.	15,647	172,835	-	-	15,647	161,384
EXPERT SYSTEM FRANCE	-	37,000	-	-	-	37,000
Total	484,395	2,234,090	-	-	636,091	1,114,019

Financial transactions

Company	Payables	Receivables	Guarantees	Commitments	Expenses	Income
ADMANTX S.P.A.	26,787	-	-	-	-	-
EXPERT SYSTEM USA INC.	188,045	2,285,044	-	-	-	29,287
EXPERT SYSTEM LTD.	-	282,572	-	-	-	3,261
CY4GATE S.R.L.	-	402,520	-	-	-	12,520
EXPERT SYSTEM IBERIA S.L.U.	-	2,531,306	-	-	-	30,600
EXPERT SYSTEM FRANCE	-	-	-	-	-	-
Total	214,831	5,501,442	-	-	-	75,668

These relations, which do not include atypical and/or unusual transactions, are regulated by normal market

conditions. Indication of the reasons and interests whose assessment has affected the main decisions adopted, also in consideration of the interests of the related group, are presented below.

With the subsidiary ADmantX S.p.A.:

Sales

- Lease agreement for property in Naples, Via Nuova Poggio Reale, Centro Polifunzionale Inail (Inail – National Institute for Insurance against Accidents at Work - Multi-purpose centre), where the company has its registered office: annual fee of € 5,083;
- Sub-letting agreement for local office in Modena, Via Virgilio 56/Q: annual fee of € 3,677;
- Services contract relating to accounting support, company economic-financial consultancy, secretarial and general services:
 - fee for accounting support and company consultancy: € 24,000;
 - fee for secretarial activities: € 1,200;
 - fee for general services (telephone, cleaning services and material, security, electricity, stationery, management software maintenance): lump-sum reimbursement (4.15%) of costs totalling € 6,166 incurred by Expert System S.p.A.

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

C.II.2 Receivables due from subsidiaries

The income statement items are reclassified within the following accounts:

A.5 Other revenues and income

Purchases

Marketing consultancy contract: € 48,179

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

D) 9 Payables due to subsidiaries

The income statement items are reclassified within the following accounts:

B) 7 Service costs

With the subsidiary Expert System USA Inc.:

Loan granted to the subsidiary for € 2,255,757, bearing interest in 2015 for € 29,287.

The balance sheet item affected by this transaction is:

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

The income statement item is reclassified in the following account:

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

Sales

Professional service activities performed for the subsidiary and concessions of licences.

The balance sheet item affected by these transactions is:

C) Current assets, II) Receivables, 2) Due from subsidiaries for € 1,941,562

The income statement items affected by these transactions are:

D) Sales and service revenues for € 801,046

Purchases

Professional service activities performed by the subsidiary for € 188,045

The balance sheet item affected by these transactions is:

D) Payables, IX) Payables due to subsidiaries

The income statement items affected by these transactions are:

E) Costs of production, 7) For services

With the subsidiary Expert System Cogito Ltd:

Loan granted to the subsidiary

The balance sheet item affected by this transaction is:

III) Non-current financial assets, 2) Receivables, a) Due from subsidiaries for € 282,572

The income statement item is reclassified in the following account:

F) Financial income and expenses, 16) Other financial income, d) other income for € 3,261

Professional service activities performed for the subsidiary for € 74,471

The balance sheet item affected by this transaction is:

II) Receivables, 2) Due from subsidiaries

The income statement item is reclassified in the following account:

B) Sales and service revenues

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

Loan granted to the subsidiary

The balance sheet item affected by this transaction is:

III) Non-current financial assets, 2) Receivables, a) Due from subsidiaries for € 2,531,306.

The income statement item is reclassified in the following account:

G) Financial income and expenses, 16) Other financial income, d) other income for € 30,600.

Sales

Professional service activities performed for the subsidiary and concessions of licences.

The balance sheet item affected by these transactions is:

C) Current assets, II) Receivables, 2) Due from subsidiaries for € 172,835

The income statement items affected by these transactions are:

H) Sales and service revenues for € 161,384

Purchases

Professional service activities performed by the subsidiary for € 12,985

The balance sheet item affected by these transactions is:

D) Payables, IX) Payables due to subsidiaries

The income statement items affected by these transactions are:

I) Costs of production, 7) For services

Reimbursement to the subsidiary of board and lodge costs for one subsidiary employee, recognised in balance sheet item D) Payables, IX) Payables due to subsidiaries for € 2,662

With the subsidiary Expert System France:

Chargeback to the subsidiary of expenses relating to the selection of a subsidiary employee, recognised in item C) Current assets, II) Receivables, 2) Due from subsidiaries for € 37,000

With the associate Cy4Gate S.r.l.:

Loan granted to the subsidiary

The balance sheet item affected by this transaction is:

III) Non-current financial assets, 2) Receivables, a) Due from subsidiaries for € 402,520

The income statement item is reclassified in the following account:

J) Financial income and expenses, 16) Other financial income, d) other income for € 12,520

Purchases

Professional service activities performed by the associate and supply of licences.

The balance sheet item affected by this transaction is:

D) Payables, VII) Trade payables for € 468,748

The income statement items affected are reclassified in the following account:

C) Costs of production, 6) Raw materials, consumables and goods for resale for € 288,120.

B) Costs of production, 7) For services for € 96,100.

Treasury shares and shares/holdings in parent companies

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

Description	No. held	Market price	Share capital (%)	
Treasury shares	270,000	2.0900	1.08%	
Shares/Holdings				
Parent companies				
Shares/holdings purchased	No.	Market price	Share capital (%)	Consideration
Treasury shares	223,000	2.0900	0.89%	471,232
Shares/Holdings				
Parent companies				
Shares/holdings sold	No.	Nominal value	Share capital (%)	Consideration
Treasury shares	0			
Shares/Holdings				
Parent companies				

The purchases and disposals are justified as follows:

endow the Company with a system by means of which it will have the possibility to carry out transactions in its own interests, with the main aim - and by way of example - of supporting - possibly also via a qualified intermediary - the liquidity of the stock so as to encourage the due performance of the related trading and/or establish - possibly also via a qualified intermediary - a securities portfolio to be used within the sphere of extraordinary transactions as a possible means of payment and/or exchange of equity investments and/or other assets, also via exchange, conferral or assignment of Shares, or, in order to meet the obligations deriving from any programmes for the distribution of options on shares or of shares to directors, co-workers or employees of the Company, as well as to fulfil any programmes for the bonus assignment of shares to shareholders or other purposes associated or linked to the same.

Significant events after the close of the year

We report that the following important agreements were signed after the close of the year.

At the start of the year, in fact, the Corriere della Sera digital archive was launched, an innovation expected to redefine Italy's news panorama as a result of the unique capacity of Expert System semantics to automatically classify articles according to content and to recover them through a sophisticated search engine. Readers of this leading Italian newspaper now have the option of browsing a wealth of information without precedent: 2.5 million pages, 8 million articles, 22 thousand authors from 1876 to date, 140 years of history just one click away.

Consistent with the mission of simplifying operations for its customers, FincoBank has also chosen Expert System technology for its ability to make customer support processes more efficient, signing an agreement for the use of Cogito technology that allows bank-customer dialogue through digital channels and optimisation of customer service activities.

Expert System was also Prometeia's choice for enhancing its Wealth Management platform in order to improve the investor profiling process and subsequent advisory tasks provided to them, indicating a considerable step forward in breaking the boundaries of interaction, cooperation and customer awareness models. The system installed asks personalised questions contextualised to the type of investor and the type of service they are requesting. In this way,

the intermediaries can dialogue with investors through the wealth management platform, providing a rapid and accurate analysis of their needs, diagnosing their wealth status and highly-personalised consulting. The potential of semantic intelligence, applied to analysis of the needs freely expressed by the customers, can enable numerous new and extremely high value added services.

Also in 2016 the company received the following awards: once again this year it was included in the “100 most important companies in knowledge management”. The list, compiled by the prestigious US magazine KMWorld, the go-to source worldwide for the best technologies and most innovative experiences in the knowledge management sector, rewards companies that are distinguished for their creative approach to customer needs and for the advanced functions of the knowledge management products offered. Expert System also won the LT-Innovate Award (for Linguistic Technologies) that recognises technological innovation excellence, business potential and experience in the development of linguistic analysis-based solutions. Lastly, the independent research company Forrester, globally recognised as one of the most authoritative in the business and technology environment, also rewarded Cogito’s unique potential, including the company in its latest report dedicated to the top ten big data text analytics companies (*Forrester Wave™ Big Data Text Analytics Platforms, Q2 2016: The 10 Providers That Matter Most And How They Stack Up*).

The first few months of the year saw a number of important decisions of a strategic-organisational nature, such as the inauguration of two laboratories in the USA (in Palo Alto - Silicon Valley, and in Washington), confirming innovation as a strategic asset in support of the Group’s global growth. These laboratories will work in synergy with the other “Cogito Labs” (Modena, Rovereto, Naples, Grenoble and Madrid), encouraging cooperation between the various work groups to increase Cogito potential and continue creating the best applications for automatic understand of text-based data. During 2016 the enhancement of Cogito and the main tools for creating linguistic-semantic rules will be accompanied by new releases and new products, focusing in particular on the intelligence sector, banking and insurance services, the publishing industry and the pharmaceutical industry market. Placing the combination of product innovation and market demand foremost, Expert System’s Cogito Labs will work on developing increasingly state-of-the-art applications that are effective and in line with customer needs.

Another important decision was that of establishing the role of Executive Vice President who, operating from the Paris office, is responsible for the Group’s strategic development and growth in Europe.

Business outlook

Expert System is committed to increasingly consistent efforts as regards international markets, on which it offers its proprietary technology both directly and through relations with third-party system integrators. In particular, the focus now is on the US market, both civil and government environments, but also in Northern Europe with the aid of the French and German branches. In fact, the integration process and the optimisation of resources deriving from the Temis acquisition, along with continuous technological product development, sales and business development activities, continue with a view to implementing the business plan and also to extend strategic synergies to large corporate entities.

Again in international terms, through Expert System Iberia the plan is to continue penetration of the Spanish market, characterised by good growth prospects. At the same time, the aim is to extend Expert System’s presence to the UK, replicating the success it has seen in other European countries.

As regards the domestic market, efforts are focused on consolidating existing economic relations, together with constant and increasingly greater investments in the development of company technology.

The plan for the Middle Eastern market is to expand strategic partnerships, already established in recent months, so as to offer the product mix to new entities not in the commercial pipeline.

Allocation of profit for the year

It is proposed that the shareholders’ meeting fully covers the loss for the year of € (999,033) through the use of reserves available as at 31 December 2015 as follows:

Profit (loss) for the year as at 31/12/2015	Euro	(999,033)
Extraordinary reserve	Euro	999,033

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

Chairman of the Board of Directors
Marco Varone

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

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

Report of the financial statements

We have audited the accompanying financial statements of Expert System S.p.A., which comprise the balance sheet as of December 31st, 2015, the statement of income and related explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11, paragraph 3 of Legislative Decree NO. 39/ 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Expert System S.p.A. as of December 31st, 2015 and of the result of its operations for the year then ended in accordance with the Italian regulations and accounting principles governing financial statements.

Other matters

The financial statements for the year ended December 31st, 2014 were audited by the auditor in charge at the time who expressed an unmodified opinion on those statements on June 12nd, 2015.

Report on compliance with other laws and regulation

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

We have performed the procedures required by auditing standard (SA Italia) N0. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of Expert System S.p.A., with the financial statements of Expert System S.p.A.. In our opinion, the report on operations is consistent with the financial statements of Expert System S.p.A. as of December 31st, 2015.

Bologna, June 10th, 2016

BDO Italia S.p.A.

Signed by
Alessandro Gallo
(Partner)

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

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

**REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE FINANCIAL
STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

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

The draft financial statements as at and for the year ended 31 December 2015, which the Board of Directors submits for your approval, were prepared in accordance with the provisions of Article 2423 et seq. of the Italian Civil Code.

Activity carried out

During the year ended 31 December 2015 we supervised the compliance with law, and the Articles of Association, and compliance with the principles of sound management. In completing this assignment we made use of indications provided in the Code of Conduct for Boards of Statutory Auditors as recommended by the Italian National Institute of Chartered Accountants.

The supervisory tasks were performed through:

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

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

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

system and its reliability in correctly reporting upon operating events, by obtaining information from the department managers and by examining corporate documents. Also in this respect we have no particular matters to report;

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

1. Annual Financial Statements

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

- we verified their general format, their general compliance with law as regards their format and content, and in this respect have no particular matters to report;
- we expressed our consent to the recognition under balance sheet assets of research and development costs totalling € 3,033,114;
- to the best of our knowledge, in preparing the financial statements the Directors did not deviate from legal provisions pursuant to art. 2423, paragraph 4 of the Italian Civil Code;
- we verified correspondence between the financial statements and the events and information that came to our knowledge while performing our duties, and in this respect have no matters to report.

2. Conclusions

Based on the audits performed and information exchanged with the Independent Auditors, and also taking into account their report issued on 10 June 2016 with no irregularities found, to the extent of our specific responsibilities we believe that the annual financial statements as at 31 December 2015, as prepared by the Directors, can meet with your approval. In thanking you for the trust placed in us, we invite you to resolve accordingly.

Milan, 10 June 2016

THE STATUTORY AUDITORS

Alessandro Augusto

Andrea Cuoghi

Antonio Tazzioli



www.expertsystem.com

ir@expertsystem.com

Registered office

Rovereto (TN)
Via Fortunato Zeni n. 8
38068 Rovereto (TN) – Italy
Tel. +39 0464 443300

Administrative offices

Modena (MO)
Via Virgilio, 56/Q
41123 Modena (MO) – Italy
Tel. +39 059 894011
Fax: +39 059 894099