



**EXPERT SYSTEM S.P.A.  
FINANCIAL STATEMENTS  
for the year ended 31/12/2017**



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## CORPORATE BODIES

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### Board of Directors

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

### Board of Statutory Auditors

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

## REPORT ON OPERATIONS AS AT 31/12/2017

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Dear Shareholders,

the year ended as at 31/12/2017 recorded a negative result of € (1,071,519).

### GENERAL CONTEXT OF THE AIM ITALIA

Dear Shareholders,

Expert System, an international leader in Cognitive Computing and Text Analytics, has been listed since February 2014 on the AIM Italia (Alternative Investment Market), i.e. the Borsa Italiana market dedicated to Italian small and medium enterprises with high growth potential, to which it provides valuable alternative finance to the banking system, improving the raising of capital for the development of the SMEs within it.

During 2017 the performance of the Ftse AIM Italia index recorded a 23% increase, driven in particular by the introduction of the IIPs (Individual Investment Plans), which are new investment instruments, 70% of which must be addressed to purchase of shares or bonds of Italian companies, 30% of which must consist of small or medium enterprises, with tax exemptions granted at set conditions, for the capital gains obtained by such equity investments. The IIPs (Individual Investment Plans) certainly played a strategic role in the

growth of the market, catalysing the interest of new institutional and professional investors, with positive effects encountered in the increase of the AIM liquidity which recorded growth of 6 times compared to the 2016 average, of the equity performance and number of IPOs.

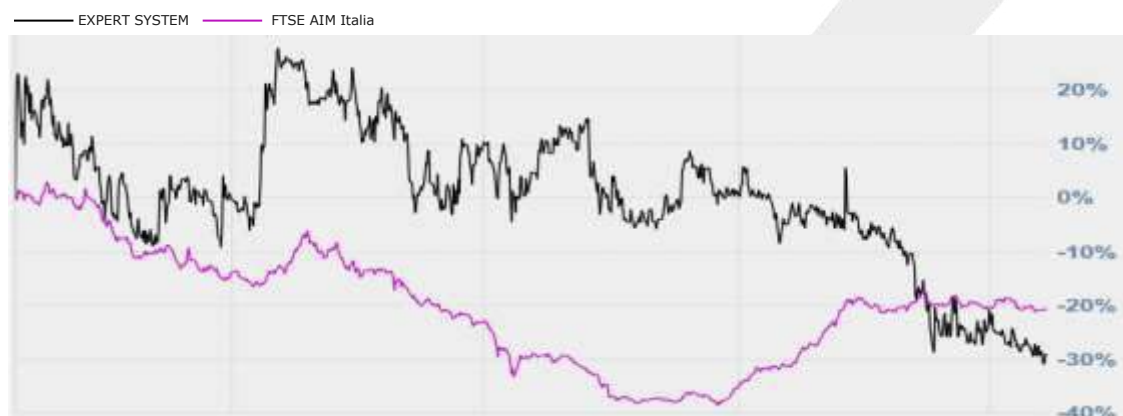
The index dedicated to SMEs, characterised by lower requirements in admission phase and post listing provisions, reached 95 companies overall (23% more than in 2016), with a capitalisation of € 5.7 billion (+96%).

In this scenario, Expert System’s obtaining the qualification of innovative SME was very important, taking place on 03/08/2017: this allowed potential investors in the risk capital of the company to access the grants envisaged for investments in Innovative Small and Medium Enterprises, which allow tax savings to be obtained in proportion to the investments made in the capital of these companies, upon the occurrence of some conditions including a minimum investment duration equal to 3 years.

The performance of the Expert System share as at 22 March 2018 is presented below:

Market	AIM Italia – MAC
Share capital	€ 357,207
Capitalisation	€ 47,415,672
Minimum parcel	1,000.00
Reference price	€ 1.325 – 22/03/2018 h 17.27.51
Official price	€ 1.3274 - 21/03/2018
1 month performance	- 2.57%
6 month performance	- 16.29%
1 year performance	- 26.59%

The chart below instead shows the share performance from the IPO (18/02/2014) to 22/03/2018. In particular, the chart compares the Expert System performance against that of the FTSE AIM Italia index (Source: [www.borsaitaliana.it](http://www.borsaitaliana.it)).



## OPERATING CONDITIONS AND BUSINESS DEVELOPMENT

Artificial Intelligence is revolutionising the way companies work, offering a real successful method: it actually allows you to go beyond a purely “numeric” management of data, adding the capacity to understand and manage information to obtain the maximum business value from it.

In the modern world, it is vitally important for organisations of any size to have the ability to create, capture, archive, identify and share knowledge, but also have suitable platforms which allow the use of information necessary at the right time.

Semantic technology, with its capacity similar to that of a human mind of understanding the meaning of the words based on the context, supports individual and organisations in the crucial process of managing the information available, and more and more allows companies to quickly respond to changes of the business, obtain in-depth information on customers, industries and markets, and become more proactive subjects.

The increased awareness of the opportunities offered by Big Data is in turn reflected in the planning of data driven strategies that target the predictive aspects and the automation of processes and services, and in consequent investments of an increasingly certain and measurable result, adopting new and specialised figures, such as data scientists, where necessary. The Big Data Text Analytics sector Expert System is engaged in continues therefore to retain considerable growth potential both at global level, where during 2017 it reached \$ 150.8 billion, and on the domestic market, where the € 1 billion threshold has been exceeded. This growth concerned the most varied business sectors, i.e. the banking and insurance sector, manufacturing, telco and media, PA and healthcare, service, large scale distribution and utility, proving how transversal the opportunity to seize promising results is compared to the reference economic activity. Expert System experienced great interest during the first Cogito AI Day, organised in Milan on 19 October 2017, with the aim of sharing with companies, analysts and industry experts the real advantages and solid uses of artificial intelligence, as well as the evolution of the market of these technologies. The large amount of attention on Cogito AI Day, in which leading representatives of the “real” national and international economy participated coming from leading companies such as Intesa Sanpaolo, Lloyd’s of London, Forrester, Fastweb, Prometeia, 3M Italia and Generali, demonstrated a significant common consensus about the determining impact that AI solutions will be able to generate in the near future.

In this scenario, Expert System's activity on the technology front has resulted in a new release on the market of the new Cogito semantic technology engine, which further simplifies the development of advanced solutions for robotic process automation and information intelligence. Cogito 14, the latest version released by Cogito Labs, today offers customers the best semantic analysis technology through its key products, Cogito Studio and Cogito Discover. On the one hand, Cogito Studio Platform offers an integrated system for text analytics projects and includes Cogito Studio, a semantics application editor that allows assessment of the effectiveness of categorizing or configuring extraction from collections of documents, measuring precision and recall, and Cogito Studio Express, an ontology editor that provides a simple, accessible method for importing customer dictionaries and thesauri, envisaging how ontology is applied to the contents. Cogito Discover, on the other hand, is a scalable platform for the automatic generation of semantic big data and autclassification that can be integrated into any application and workflow, and implemented on a cloud platform or hybrid environment.

Cogito is confirmed as the text analytics technology that forms the basis for all Expert System products, this time enhanced in the number of languages supported, which now includes Portuguese, Russian and Dutch. Cogito 14 therefore now supports 14 languages: Italian, English, Spanish, French, German, Portuguese, Russian, Korean, Chinese, Japanese, Arabic, Greek, Polish and Dutch.

Also note that the additional functions implemented included:

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

Strengthened by its renewed technology platform, during 2017, Expert System pursued its growth and achievement path encountering once again a positive response from its customers; the profitable work carried out allowed various important deals to be finalised among which the following are worth a special mention:

- the development for the banking group BNL of an “internal customer support” service, to made available to its employees, that optimises help desk activities by exploiting the potential of Cogito information management. Expert System technology provided BNL employees with Cogito’s capacity to automatically process language, correctly understanding the meaning of sentences, associated with a customised taxonomy created in partnership with the Innovation Team of BPI, the consortium of the BNP Paribas Group in Italy. The capacity of this system to ensure maximum analysis precision and pertinent responses, with a significant saving in terms of time and resources, is also among the factors which allowed its customer BNL to win the “ABI Award for Innovation in Banking Services”;
- the partnership with Esri, leader in geospatial solutions to support operating and decision-making processes: the integration between the Esri’s ArcGIS platform for the management of spatial and georeferenced data and the Expert System Cogito technology for semantic analysis of the information, based on artificial intelligence algorithms, makes it today possible to offer an effective support to intelligence analysts of any organisation in tactical and strategic analysis processes.
- the partnership with Eudata, an innovative industrial group founded in Milan in 2006, operating in the Customer Engagement sector, launched with the aim of maximising the effectiveness of customer-business interaction, with a view to combining forces to work alongside companies innovating their relations with customers, exploiting the potential of artificial intelligence in assistance, sales support and marketing. The integration between the Cogito cognitive technology and the Eudata omnichannel suite, provides the companies with the opportunity to rapidly implement chatbots. These systems generate the shift from the model in which individuals adapt to computers to that where the computer adapts to individuals’ expectations, with dual benefits: offering users new means of access to information of interest through automatic human-like dialogue, i.e. freely expressed as it would via chat; increasing the operational efficiency of companies, automating repeat activities that do not call for specific capacity or specialist skills (recovery of standard information, most common support needs, requests for quotes, common offers, etc.);
- the integration between the Cogito cognitive technology and the speech recognition of the new technological partner Cedat 85, active for more than 30 years and leader in the speech recognition technology market. This event is particularly significant since it



is deemed that it will offer evolved interaction systems with customers and users which, in the guise of virtual agents or assistants, are not only able to find information of interest more easily than in the past, but also know how to immediately carry out the commands provided. It is feasible to consider that this will open the door to new customer analytics opportunities, such as customer profile enhancement with identification of behaviour and new demands.

Today Expert System heads a Group which assumed its current characteristics following the acquisitions taking place in the second part of 2015, truly a turning point in a growth path which aims at seizing important results by enhancing the geographic diversification of the business. The corporate strategy actually aims to the strong development of the foreign markets, where it is considered there are major prospects for growth in terms of market size and the growth rates forecast also by sector analysts.

In addition, it is believed that the completion of the integration process for the foreign offices will allow the Group to benefit from important scale economies that increase profit margins. As at 31/12/2017 the Expert System Group directly or indirectly includes the following business entities:

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

ADmantX S.p.A.	60.80%	N.A.	Yes	Software platform for contextualising advertising on a semantic basis on-line
ADmantX Inc.	60.80%	ADmantX S.p.A.	Yes	Software platform for contextualising advertising on a semantic basis on-line

Expert System considered it appropriate to continue excluding ADmantX S.p.A. and ADmantX Inc. from the Group's scope of consolidation. In fact, both companies provide semantic solutions for the advertising market, offering advertisers software that is able to automatically determine which ads are most suitable for advertising on a given website. Expert System has, over time, reduced its equity investment in ADmantX S.p.A. to the current 60.8%, no longer considering it part of its long-term strategic objectives, since the on-line advertising market has specific characteristics which call for considerable experience in the sector, in addition to the availability of dedicated resources.

## OPERATING PERFORMANCE

### General financial performance

During the year, global economic activity continued on the path of a solid and widespread expansion, though a general underlying inflation weakness persists; the short-term growth prospects are in any case favourable.

The recovery of the international economic cycle strengthened in an expanding context of global trade, with positive outlooks for emerging economies; however, note how the uncertainty about the future direction of economic policies in advanced areas and international geopolitical factors still represent a risk factor for world growth.

In the Euro area, the growth prospects have improved and allow an expansion in GDP to be estimated for the Euro system of around 2.3%, against inflation which in December 2017 stood at 1.4%; with the figure in mind, the Executive Board of the ECB recalibrated its monetary policy tools, however preserving, also in prospective terms, the highly expansive monetary conditions which remain necessary for a lasting return of inflation at levels lower but close to 2%. On the whole, the good performance of the labour market and low inflation continue to support the available household income, encouraging private consumption which would provide a positive contribution to growth also in 2018.

With reference to Italy, in 2017 a gross domestic product of 1.5% in real terms is expected; this growth rate is accelerating compared to 2016 (+0.9%) and the improvement is expected to continue at a similar rate also in 2018 (+1.4%).

Domestic growth, though remaining below the European average, mainly concerned services and the industry in the strict sense: confidence is among companies being restored to pre-recession levels, and conditions are returning to be favourable for capital accumulation, as confirmed by the acceleration of the expenditure for investments observed in the second part of the year. The resumption of investment activities will be driven by both the improved expectations on the economic development and the positive effects on the credit market, deriving from the continuation of the expansive monetary policy of the European Central Bank.

A similar rise is expected in loans to households and businesses, manufacturing companies in particular, which will accompany and overall improvement in credit quality. The flow of the non-performing loans in proportion to loans dropped below the levels recorded before the global crisis, mainly as a result of the conclusion of the transactions for the assignment of bad debts, which strengthened the banks' capital ratios.

The scenario of continued growth, which assumes the persistence of accommodating financial conditions, with a very gradual adjustment of short and long-term interest rates, sees the GDP performance continuing to depend on the support from expansive economic policies, albeit to a lower extent than in the past.

Among the risks which affect this scenario, those linked to the rising global tensions or the greater uncertainty concerning economic policies in the various areas remain important which could translate into increased volatility in the financial markets and the risk premiums, negatively affecting the economy of the Euro area.

## Financial performance of the company

The year ending 31 December 2017 closed with a loss of € (1,070,519).

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

	31/12/2017	31/12/2016
Value of production	19,254,068	16,790,322
EBITDA	3,309,453	1,320,094
Pre-tax result	(1,277,476)	(1,474,922)

The value of production, equal to € 19.3 million, grew by more than 14% compared to the previous year, ending with an amount equal to € 16.8 million. This increase, together with the reduced growth of the cost of operating materials and overheads (1.5%) and personnel costs (+4.7%) led to a considerable improvement in profit margins compared to the previous year, with an EBITDA of € 3.3 million, up by more than 150% compared to the figure of € 1.3 million recorded in 2016. The improved pre-tax result, negative for € 1.3 million (negative for € 1.5 million as at 31/12/2016) is less significant from the time that it discounts a growth in amortisation (+25%) strictly connected to the higher investments development activities and is affected by non-monetary components such as the valuation of balance sheet items in currencies other than the Euro, essentially linked to intercompany loan agreements, which have a negative effect of € 1 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):

Main income statement figures	31/12/2017	31/12/2016	Change
Net revenues	15,529,468	13,887,351	1,642,118
Change in inventories	(571,692)	(1,103,638)	531,947
Own work capitalised	3,225,947	2,820,274	405,673
Operating grants	46,402	274,134	(227,731)
Grants relating to assets	559,366	680,400	(121,034)
Sundry income	464,575	231,802	232,774
Cost of materials and overheads	(8,202,213)	(8,079,712)	(122,501)
<b>Value added</b>	<b>11,051,854</b>	<b>8,710,610</b>	<b>2,341,244</b>
Cost of labour	(7,742,402)	(7,390,517)	(351,885)
<b>EBITDA</b>	<b>3,309,453</b>	<b>1,320,094</b>	<b>1,989,359</b>
Amortisation, depreciation, write-downs and other provisions	(3,274,897)	(2,623,830)	(651,067)
<b>EBIT</b>	<b>34,556</b>	<b>(1,303,737)</b>	<b>1,338,292</b>
Financial income and expenses	(1,312,032)	(171,185)	(1,140,846)
<b>Ordinary profit</b>	<b>(1,277,476)</b>	<b>(1,474,922)</b>	<b>197,446</b>
Net extraordinary components	0	0	0

<b>Pre-tax result</b>	<b>(1,277,476)</b>	<b>(1,474,922)</b>	<b>197,446</b>
Income taxes	205,957	272,145	(66,188)
<b>Net profit (loss)</b>	<b>(1,071,519)</b>	<b>(1,202,777)</b>	<b>131,258</b>

The statement above shows sales revenues of € 15 million in 2017, net of the change in inventories, with a 17% growth compared to 2016; the second half of the period significantly outperformed the first six months, which ended with a turnover net of inventories of € 5.0 million, confirming the strong seasonality of Expert System's business, linked to the modus operandi of the Group's public and private customers. The increase in revenues is due to the growth in the Italian and European market where Expert System consolidated its presence by focusing its commercial efforts on promising sectors such as, for example, the banking and the insurance sector, which saw very successful case histories.

The increase in own work capitalised, which grew by 14% from € 2.8 million to € 3.2 million, confirms Expert System's commitment to developing technologies and applications of a high innovative content, while the other income and revenues dropped by 10% mainly as a consequence of the uneven performance of the award of the contributions due for research and development for specific projects implemented by Expert System.

The margins are affected a negligible change in the cost of operating materials and overheads, growing by 1.5% from € 8.1 million to € 8.2 million. Cost of labour rose by 5% instead, from € 7.4 million to € 7.7 million.

Consequently to the above, EBITDA as at 31/12/2017 equalled € 3.3 million, growing by 150% compared to 2016, also thanks to the cost rationalisation and optimisation action taken by Expert System, which is believed to allow the recovery of additional profitability also in the future. EBIT also shows an improvement, reaching € 0.03 million against the negative figure of € 1.3 million as at 31/12/2016, despite amortisation and depreciation up 25% on the previous year from € 2.6 million to € 3.3 million

Financial management, negative for € 1.3 million (a negative € 0.2 million as at 31/12/2016), highlights the reduced financial expenses incurred for the loans from banks and the subscribers of the bond loan, down from € 0.6 million to € 0.5 million on the one hand, and the negative effect of the exposure in dollars on the other, with an incidence of € 1 million, due to unrealised exchange losses essentially linked to intercompany loan agreements.

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.

	31/12/2017	31/12/2016
Net ROE	(0.03)	(0.04)
Gross ROE	(0.03)	(0.05)
ROI	0.00	(0.02)
ROS	0.00	(0.09)

## Main balance sheet figures

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

BALANCE SHEET	31/12/2017	31/12/2016	Change
Net intangible fixed assets	6,881,909	6,251,067	630,843
Net tangible fixed assets	629,668	667,181	(37,513)
Equity investments and other non-current financial assets	29,700,251	25,668,740	4,031,511
<b>Fixed assets</b>	<b>37,211,828</b>	<b>32,586,987</b>	<b>4,624,841</b>
Short-term financial assets	4,583,074	4,153,074	430,000
Inventories	39,209	610,900	(571,692)
Receivables due from customers	7,415,708	5,429,296	1,986,413
Other receivables	7,027,164	7,503,858	(476,694)
Accrued income and prepaid expenses	484,463	750,255	(265,792)
<b>Short-term operating assets</b>	<b>19,549,618</b>	<b>18,447,383</b>	<b>1,102,235</b>
Trade payables	(1,585,486)	(1,396,828)	(188,657)
Payments on account	(759,920)	(2,238,142)	1,478,222
Tax and social security payables	(965,347)	(770,591)	(194,756)
Other payables	(2,885,886)	(1,669,344)	(1,216,542)
Accrued expenses and deferred income	(1,230,651)	(1,504,926)	274,276
<b>Short-term operating liabilities</b>	<b>(7,427,289)</b>	<b>(7,579,831)</b>	<b>152,542</b>
<b>Net working capital</b>	<b>12,122,329</b>	<b>10,867,552</b>	<b>1,254,777</b>
Employee severance indemnity	(1,876,192)	(1,670,520)	(205,673)
Tax and social security payables	0	0	0
Accrued expenses and deferred income after 12 months	(1,118,738)	(1,791,230)	672,492

Other medium and long-term liabilities	(310,660)	(854,823)	544,163
<b>Medium-term liabilities</b>	<b>(3,305,591)</b>	<b>(4,316,573)</b>	<b>1,010,982</b>
<b>INVESTED CAPITAL</b>	<b>46,028,567</b>	<b>39,137,967</b>	<b>6,890,600</b>
Shareholders' equity	(37,187,044)	(28,275,733)	(8,911,311)
Net medium/long-term financial position	(13,492,536)	(14,360,437)	867,901
Net short-term financial position	4,651,013	3,498,203	1,152,810
<b>OWN EQUITY AND NET FINANCIAL DEBT</b>	<b>(46,028,567)</b>	<b>(39,137,967)</b>	<b>(6,890,600)</b>

The change in fixed assets, which increased by € 4.6 million during 2017, relates mainly to the increase in intangible fixed assets for € 0.6 million (net of € 3.1 million in amortisation), with the contribution of € 3.2 million referring to capitalised development costs. Equity investments and other non-current financial assets rose by € 4 million, net of € 0.8 million relating to the unrealised negative exchange difference, mainly as a consequence of the further loans disbursed to subsidiaries and associates during the year (€ 5.1 million), while the portion of receivables due beyond the next year for research project grants decreased by € 0.3 million.

A balance is essentially seen between fixed assets and shareholders' equity, both at € 37.2 million, highlighting how long-term investments are financed with own funds. In this respect, in 2017 a total of € 10 million was contributed as subscription of the capital increase resolved in July and aimed at providing the company with useful resources to pursue its strategic and market-positioning objectives.

During the year the need for credit from banks and other lenders decreased, with the amount of debt finance decreasing by € 1.5 million net of the new disbursements received in the year for € 3.6 million.

When analysing the current business-related aspects, note the € 1.1 million increase in short-term assets, due mainly by the positive change in trade receivables, growing by € 2 million, and current financial assets, up € 0.4 million; as a consequence, inventories decreased by € 0.6 million and other receivables by € 0.5 million. In light of the decrease in current liabilities of € 0.2 million, due mainly to the change in advances, which decreased by € 1.5 million, the net working capital rose by € 1.3 million to € 12.1 million, thus confirming the essential short-term balance.

Finally, medium and long-term liabilities decreased by € 1 million due mostly to the reduction in other payables with due after one year, down € 0.5 million, and in accrued expenses and deferred income within 12 months, which decreased by € 0.7 million.

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

	31/12/2017	31/12/2016
Fixed asset/equity margin	(24,784)	(4,311,256)
Fixed asset/equity ratio	1.00	0.87
Fixed assets/liabilities and equity margin	15,654,604	12,574,524
Fixed assets/liabilities and equity ratio	1.42	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

<b>Shareholders' equity</b>	<b>37,187,044</b>
Net intangible fixed assets	6,881,909
Net tangible fixed assets	629,668
Equity investments and other non-current financial assets	29,700,251
<b>Fixed assets</b>	<b>37,211,828</b>
<b>Fixed asset/equity margin</b>	<b>(24,784)</b>
<b>Fixed asset/equity ratio</b>	<b>1.00</b>

The result of the fixed asset/equity margin with the correlated ratio equal to one indicates that the company is able to meet its long-term financial commitments with its permanent funding.



The *fixed assets / liabilities and equity margin* and its related *ratio* also take as a reference medium/long-term liabilities. In the case of Expert System S.p.A they show a more than satisfactory correlation between medium and long-term funding and investments.

Fixed assets/liabilities and equity margin:

Shareholders' equity	37,187,044
Net medium/long-term financial position	13,492,536
Other medium and long-term liabilities	310,660
Employee severance indemnity	1,876,192
Fixed assets	(37,211,828)
<b>Fixed assets/liabilities and equity margin</b>	<b>15,654,604</b>
<b>Fixed assets/liabilities and equity ratio</b>	<b>1.42</b>

## Main financial figures

As at 31/12/2017 the financial position of Expert System S.p.A. was negative and equal to € 8.8 million, showing a decrease of € 2 million compared to the negative figure of € 10.9 million of the previous year.

NET FINANCIAL POSITION	31/12/2017	31/12/2016	Change
Bank deposits	8,840,305	7,327,197	1,513,109
Cash at bank and in hand	2,796	2,680	116
<b>Cash and cash equivalents</b>	<b>8,843,101</b>	<b>7,329,877</b>	<b>1,513,225</b>
<b>Current financial assets</b>	<b>8,400</b>	<b>1,010,798</b>	<b>(1,002,398)</b>
Bonds and convertible bonds (within 12 months)			
Payables due to shareholders for loans (within 12 months)			
Payables due to banks (within 12 months)	(3,910,162)	(4,487,565)	577,402
Payables due to other lenders (within 12 months)	(290,325)	(354,906)	64,581
Advances for overseas payments			
Short-term portion of loans			
Financial receivables			
<b>Short-term financial payables</b>	<b>(4,200,488)</b>	<b>(4,842,471)</b>	<b>641,983</b>
<b>Net short-term financial position</b>	<b>4,651,013</b>	<b>3,498,203</b>	<b>1,152,810</b>
Bonds and convertible bonds (after 12 months)	(5,000,000)	(5,000,000)	
Payables due to shareholders for loans (after 12 months)			
Payables due to banks (after 12 months)	(7,846,031)	(8,595,385)	749,354
Payables due to other lenders (after 12 months)	(646,505)	(765,052)	118,547
Advances for overseas payments			
Long-term portion of loans			

Financial receivables			
<b>Net medium/long-term financial position</b>	<b>(13,492,536)</b>	<b>(14,360,437)</b>	<b>867,901</b>
<b>NET FINANCIAL POSITION</b>	<b>(8,841,522)</b>	<b>(10,862,234)</b>	<b>2,020,711</b>

Worth noting is the increase in cash and cash equivalents in particular, which are equal to € 8.8 million, up € 1.5 million compared to the figure of the previous year, a disinvestment of current financial assets for € 1 million and a decrease of € 1.5 million in the ratio of debt from banks and other lenders, despite the disbursement of new loans during the year for € 3.6 million.

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.

	31/12/2017	31/12/2016
Primary liquidity	2.44	2.11
Secondary liquidity	2.44	2.16
Debt	0.70	0.98
Rate of coverage of fixed assets	1.42	1.39

## Primary liquidity

### LIQUID ASSETS:

Banks and current account receivables	8,840,305
Cash on hand	2,796
<b>Liquid assets</b>	<b>8,843,101</b>

### DEFERRED ASSETS:

Receivables due from customers (within 12 months)	7,415,708
Receivables due from subsidiaries (within 12 months)	3,457,407
Receivables due from associates (within 12 months)	34,831
Tax receivables (within 12 months)	306,215
Prepaid tax assets (within 12 months)	240,000
Other receivables (within 12 months)	2,988,711
Current financial assets	4,591,474
Accrued income and prepaid expenses	484,463
<b>Deferred assets</b>	<b>19,518,809</b>

## CURRENT LIABILITIES:

Payables due to banks (within 12 months)	3,910,162
Payables due to other lenders (within 12 months)	290,325
Payments on account (within 12 months)	759,920
Trade payables (within 12 months)	1,585,486
Payables due to subsidiaries (within 12 months)	873,332
Tax payables (within 12 months)	602,759
Payables due to social security institutions (within 12 months)	362,588
Other payables (within 12 months)	2,012,554
Accrued expenses and deferred income (within 12 months)	1,230,651
<b>Current liabilities</b>	<b>11,627,777</b>

The formulae are shown below

Primary liquidity: (La+DI) / Cl

$$(8,843,101 + 19,518,809) / 11,627,777 = 2.44$$

The primary liquidity ratio stands at 2.44, highlighting how the inflows deriving from the most liquid entries of current assets are comfortably able to cover the short-term outflows consisting of current liabilities.

## Secondary liquidity

CA (including inventories) / CL

$$(8,843,101 + 19,518,809 + 39,209) / 11,627,777 = 2.44$$

The current ratio also stands at 2.44 and is to be considered positive.

## Debt ratio

Third party financing/net capital

<b>Current liabilities (without accruals and deferrals) (A)</b>	<b>9,897,127</b>
Payables for bonds (after 12 months)	5,000,000
Payables due to banks (after 12 months)	7,846,031
Payables due to other lenders (after 12 months)	646,505
Payments on account (after 12 months)	234,980
Provisions for risks and charges	75,679
Employee severance indemnity	1,876,192
<b>M/L-term liabilities (B)</b>	<b>15,679,388</b>
<b>TOTAL THIRD PARTY FINANCING (A+B)</b>	<b>26,076,514</b>

Third party financing = 26,076,514

Net capital = 37,187,045

Debt ratio =  $26,076,514 / 37,187,045 = 0.70$

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. The value of the ratio equal to 0.70 shows how Expert System mainly resorted to internal funding sources, allowing it to limit the business risk linked to the burden of financial expenses deriving from using other lenders' capital.

### Rate of coverage of fixed assets

<b>Net capital (A)</b>	<b>37,187,044</b>
Payables for bonds (after 12 months)	5,000,000
Payables due to banks (after 12 months)	7,846,031
Payables due to other lenders (after 12 months)	646,505
Payments on account (after 12 months)	234,980
Provisions for risks and charges	75,679
Employee severance indemnity	1,876,192
<b>M/L-term liabilities (B)</b>	<b>15,679,388</b>
Net intangible fixed assets	6,881,909
Net tangible fixed assets	629,668
Equity investments and other non-current financial assets	29,700,251
<b>Fixed assets (C)</b>	<b>37,211,828</b>
<b>Rate of coverage of fixed assets (A+B)/C</b>	<b>1.42</b>

The rate of coverage of fixed assets, standing at 1.42, indicates that fixed assets, and consequently the long-term investments, are entirely financed from consolidated liabilities.

### Information on the environment and personnel

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

## Personnel

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

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

## The Environment

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

On 30 June 2008, Expert System S.p.A. obtained ISO 9001:2000 certification.

The latest review of the ISO 9001:2008 certification was performed on 29 June 2017, reconfirming validity until 15 September 2018.

## Risks

Pursuant to art. 2428, par. 3.6 bis of the Italian Civil Code, the main risks to which the company is exposed are as follows:

*Risks associated with trade receivable collection times:* Expert System's business activities are characterised by customer payment timing that cannot easily be determined and can occasionally be several months, also in relation to the type of assignment and the contingent general economic situation. Any lengthening of payment times by customers can lead to Expert System needing to finance the related current capital needs. Such situations can therefore have a negative effect on the Company's income, equity and financial position. The above takes on further significance in consideration of the relevance of the trade receivables due from European public entities. These receivables can have longer and more difficult to predict collection times compared to receivables due from private customers. Although as part of its normal operations Expert System makes use of bank credit facilities and is

considering the future expansion of its operating market to private international customers, it cannot be ruled out at this time that there will be no difficult to collect receivables.

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

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

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

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

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

The company has signed the following derivative contracts:

a) CARIPARMA

- Derivative contract type: IRS no. 59746/2014, unlisted, signed on 15/01/2014, expiring 31/12/2018;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 1,200,000;
- Liability hedged: CARIPARMA mortgage no. 04 107 008852280000, originated for € 1,200,000, signed on 23/12/2013 and expiring on 31/12/2018.
- Notional amount at the reference date (31/12/2017): € 253,199;
- Amount of the liability hedged at the reference date (31/12/2017): € 253,199;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 2,006.57;
- fair value at the start of the hedge: zero

b) CARIPARMA

- Derivative contract type: IRS no. 65611/2017, unlisted, signed on 25/09/2017, expiring 30/01/2023;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 1,000,000;
- Liability hedged: CARIPARMA mortgage no. 0106917000000, originated for € 1,000,000, signed on 25/09/2017 and expiring on 30/01/2023.
- Notional amount at the reference date (31/12/2017): € 1,000,000;
- Amount of the liability hedged at the reference date (31/12/2017): € 1,000,000.

- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 15,080.21;
- fair value at the start of the hedge: zero

c) BANCO BPM

- OTC derivative contract “Maximum rate with fractioned premium” ID 790526 F 00104961 D 00038973 signed on 24/07/2017 and expiring on 31/12/2022;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 400,000;
- Liability hedged: BANCO BPM mortgage no. 03703813, originated for € 400,000, signed on 24/07/2017 and expiring on 31/12/2022.
- Notional amount at the reference date (31/12/2017): € 400,000;
- Amount of the liability hedged at the reference date (31/12/2017): € 400,000.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 3,837.38;
- fair value at the start of the hedge: zero

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

Italian Legislative Decree no. 231 of 8 June 2001 introduced administrative liability of legal entities, companies and associations with or without legal status into Italian law. This decree envisages the exemption from administrative liability for companies adopting effective and efficient organisation and management models suitable to preventing offences that could be committed by senior officers of the company.

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



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

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

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

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

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

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

- offences against P.A. and its assets;
- computer crimes and unlawful data processing;
- organised crime;
- falsification offences and industry and trade-related criminal offences;
- corporate offences;
- offences for the purpose of terrorism or overthrow of democratic order;
- criminal offences against the individual;
- market abuse offences;
- offences in violation of occupational health and safety regulations;
- anti-money laundering and receiving stolen goods;
- copyright violation offences;

- offences related to fraudulent statements to judicial authorities;
- environmental offences;
- offence of employing individuals without a valid residence/work permit.

Exemption from administrative liability as governed by art. 6, par. 1 of Legislative Decree 231/2001 envisages the setup within the entity of a Supervisory Body as an element of fundamental importance. This Body has independent powers of initiative and control, with the duties of supervising the operations of and compliance with the Model and verifying its updating by the Board of Directors.

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

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

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

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

## Investments

Investments were made in the following areas during the year:

Fixed assets	Acquisitions during the year
Land and buildings	
Plant and machinery	
Industrial and commercial equipment	
Other assets	87,340

## Development activities

The ongoing investments in research and development activities is a key element in the Expert System strategy and it is necessary to remain state of the art in the cognitive technology field applied to unstructured data, therefore being able to satisfy the growing customer demand and retain its competitive advantage for customers. 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 involved the Cogito semantics platform and the products that use the platform to address the most common cases of customer usage.

As regards the development tools used to customise the projects, the greatest efforts focused on the inclusion and fine-tuning of machine learning/deep learning approaches, the enhancement of functions for the knowledge graph management (Sensigrafo) and completion of the integration with the components of the technology stack deriving from acquisition of the current French subsidiary.

Other sources of major research during the year 2017 included:

- the implementation of a new series of summary views of cognitive analysis performed by Cogito;
- the development of new reporting functions integrated in the product Cogito Intelligence Platform;
- the completion of the new link for Microsoft Sharepoint;
- the completion of version 1.3 of Analyst WorkSpace, which integrates the new functions of data analysis and editing by analysts;
- the development of a new version of Cogito Answers;
- the Dutch semantic implementation and integration in the current version in Cogito 14.2;
- the restructuring and expansion of the knowledge graph for Korean, Japanese and Portuguese;
- the integration of hybrid techniques of machine learning within Cogito 14.2
- the development of a new version of the analysis workflow for process automation projects.

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

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

## Treasury shares and shares/holdings in parent companies

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

Description	No. held	Nominal value	Share capital (%)
Treasury shares	141,139		0.40%
Shares/Holdings			
Parent companies			

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

Shares/holdings sold	No.	Nominal value	Share capital (%)	Consideration
Treasury shares	128,861		0.36%	-
Shares/Holdings				
Parent companies				

## BUSINESS OUTLOOK

Expert System S.p.A. will continue to be the driving company at the forefront of research and development, within a group which is becoming increasingly international. The development continues in terms of technology and vertically integrated products especially. This will allow the company to offer specific and timely solutions for its customers' needs, in an increasingly standardised manner and with clear returns also with regard to project profitability.

The 2017 annual results, both at group level and at Expert System S.p.A. level, following a weak first half, were very good and this paves the way for their consolidation for the years to come. The Italian market, though not having the potential and dimensions of some foreign markets where the company's branches work, in any case shows a good quality and interesting development opportunities, both in the more mature sectors (financial, insurance, media and

governmental) and in the manufacturing sector, which characterises the Italian production world.

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

It is proposed that the shareholders' meeting fully covers the loss for the year of € (1,071,519) through the use of reserves available as at 31 December 2017 as follows:

Profit (loss) for the year as at 31/12/2017	€ (1,071,519).
Share premium reserve	€ 1,071,519.

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

Chairman of the Board of Directors  
Marco Varone

# FINANCIAL STATEMENTS FOR THE YEAR ENDED 31/12/2017

## BALANCE SHEET

ASSETS	31/12/2017	31/12/2016
<b>A) SUBSCRIBED CAPITAL, UNPAID</b>		
<b>Total subscribed capital, unpaid (A)</b>	<b>0</b>	<b>0</b>
<b>B) FIXED ASSETS</b>		
<i>I - Intangible fixed assets</i>		
1) Start-up and expansion costs	513,984	440,383
2) Development costs	6,150,743	5,777,429
3) Industrial patent and intellectual property rights	191,940	19,818
4) Concessions, licences, trademarks and similar rights	3,860	4,589
5) Goodwill	0	6,689
6) Fixed assets in progress and payments on account	20,798	0
7) Other intangible fixed assets	585	2,160
<b>Total intangible fixed assets (I)</b>	<b>6,881,910</b>	<b>6,251,068</b>
<i>II - Tangible fixed assets</i>		
1) Land and buildings	362,737	373,825
2) Plant and machinery	11,142	17,290
4) Other assets	255,789	276,066
<b>Total tangible fixed assets (II)</b>	<b>629,668</b>	<b>667,181</b>
<i>III - Non-current financial assets</i>		
1) Equity investments		
a) subsidiaries	13,191,495	11,859,423

b) associates	251,266	251,266
d) other companies	57,138	57,138
Total equity investments (1)	13,499,899	12,167,828
2) Receivables		
a) due from subsidiaries		
After 12 months	360,176	261,327
After 12 months	14,000,306	11,208,042
Total receivables due from subsidiaries	14,360,482	11,469,369
b) Due from associates		
Within 12 months	43,823	0
After 12 months	690,000	701,809
Total receivables due from associates	733,823	701,809
Total Receivables (2)	15,094,305	12,171,179
Total non-current financial assets (III)	28,594,204	24,339,006

<b>Total fixed assets (B)</b>	<b>36,105,782</b>	<b>31,257,254</b>
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### C) CURRENT ASSETS

#### I) Inventories

3) Contract work in progress	39,209	610,900
Total inventories (I)	39,209	610,900

#### II) Receivables

1) Due from customers		
Within 12 months	7,415,708	5,429,296
Total receivables due from customers (1)	7,415,708	5,429,296
2) Due from subsidiaries		
Within 12 months	3,457,407	2,246,817
After 12 months	26,787	26,787

Total receivables due from subsidiaries (2)	3,484,194	2,273,604
3) Due from associates		
Within 12 months	34,831	255,626
Total receivables due from associates (3)	34,831	255,626
4-bis) Tax receivables		
Within 12 months	306,215	331,139
After 12 months	0	29,610
Total tax receivables (4-bis)	306,215	360,749
4-ter) Prepaid taxes		
Total prepaid taxes (4-ter)	828,237	756,528
5) Other receivables		
Within 12 months	2,988,712	4,334,277
After 12 months	491,022	852,808
Total other receivables (5)	3,479,734	5,187,085
Total receivables (II)	15,548,919	14,262,887
<i>III - Current financial assets</i>		
1) Equity investments in subsidiaries	4,583,074	4,153,074
4) Other equity investments	8,400	8,400
6) Other securities	0	1,002,398
Total current financial assets (III)	4,591,474	5,163,872
<i>IV - Cash and cash equivalents</i>		
1) Bank and postal deposits	8,840,305	7,327,197
3) Cash at bank and in hand	2,796	2,680
Total cash and cash equivalents (IV)	8,843,101	7,329,877
<b>Total current assets (C)</b>	<b>29,022,703</b>	<b>27,367,536</b>

#### **D) ACCRUALS AND DEFERRALS**



Accrued income and prepaid expenses	484,463	750,255
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<b>Total accruals and deferrals (D)</b>	<b>484,463</b>	<b>750,255</b>
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<b>TOTAL ASSETS</b>	<b>65,612,948</b>	<b>59,375,046</b>
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## BALANCE SHEET

<b>LIABILITIES</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
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### A) SHAREHOLDERS' EQUITY

I - Share capital	357,207	276,703
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II - Share premium reserve	35,980,236	25,408,688
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III - Revaluation reserves	0	0
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IV - Legal reserve	43,899	43,899
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V - Statutory reserves	0	0
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*VII - Other reserves, indicated separately*

Extraordinary or optional reserve	1,493,354	3,618,898
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Merger surplus reserve	376,622	376,622
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Reserve for unrealised exchange gains	180,049	180,049
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Miscellaneous other reserves	141,000	141,002
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Total other reserves	2,191,025	4,316,571
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VII - Cash flow hedging reserve	(20,924)	(6,954)
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IX - Profit (loss) for the year	(1,071,519)	(1,202,777)
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X - Negative reserve for treasury shares in portfolio	(292,879)	(560,395)
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<b>Total shareholders' equity</b>	<b>37,187,045</b>	<b>28,275,735</b>
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### B) PROVISIONS FOR RISKS AND CHARGES

1) Pensions and similar obligations	4,341	4,341
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2) Taxation, including deferred	0	192,821
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3) Derivative financial instruments - liabilities	20,924	6,954
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4) Other	50,414	15,000
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<b>Total provisions for risks and charges (B)</b>	<b>75,679</b>	<b>219,116</b>
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<b>C) EMPLOYEE SEVERANCE INDEMNITY</b>	<b>1,876,192</b>	<b>1,670,520</b>
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#### D) PAYABLES

##### 1) Bonds

After 12 months	5,000,000	5,000,000
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Total bonds (1)	5,000,000	5,000,000
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##### 4) Payables due to banks

Within 12 months	3,910,162	4,487,565
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After 12 months	7,846,031	8,595,385
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Total payables due to banks (4)	11,756,193	13,082,950
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##### 5) Payables due to other lenders

Within 12 months	290,325	354,906
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After 12 months	646,505	765,052
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Total payables due to other lenders (5)	936,830	1,119,958
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##### 6) Payments on account

Within 12 months	759,921	2,238,142
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After 12 months	234,980	135,706
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Total payments on account (6)	994,901	2,373,848
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##### 7) Trade payables

Within 12 months	1,585,486	1,396,828
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Total trade payables (7)	1,585,486	1,396,828
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##### 9) Payables due to subsidiaries

Within 12 months	873,332	28,301
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Total payables due to subsidiaries (9)	873,332	28,301
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##### 12) Tax payables

Within 12 months	602,759	449,576
Total tax payables (12)	602,759	449,576
13) Payables due to social security institutions		
Within 12 months	362,588	321,015
Total payables due to social security institutions (13)	362,588	321,015
14) Other payables		
Within 12 months	2,012,554	1,641,043
After 12 months	0	500,000
Total other payables (14)	2,012,554	2,141,043
<b>Total payables (D)</b>	<b>24,124,643</b>	<b>25,913,519</b>
<b>E) ACCRUALS AND DEFERRALS</b>		
Accrued expenses and deferred income	2,349,389	3,296,156
<b>Total accruals and deferrals (E)</b>	<b>2,349,389</b>	<b>3,296,156</b>
<b>TOTAL LIABILITIES</b>	<b>65,612,948</b>	<b>59,375,046</b>

## INCOME STATEMENT

	31/12/2017	31/12/2016
<b>A) VALUE OF PRODUCTION</b>		
1) Sales and service revenues	15,529,468	13,887,350
3) Changes in contract work in progress	(571,692)	(1,103,638)
4) Own work capitalised	3,225,947	2,820,274
5) Other revenues and income		
Other	464,575	199,219
Operating grants	605,769	987,116
Total other revenues and income (5)	1,070,344	1,186,335
<b>Total value of production (A)</b>	<b>19,254,067</b>	<b>16,790,321</b>
<b>B) COSTS OF PRODUCTION:</b>		
6) Raw materials, consumables and goods for resale	1,004,853	650,696
7) For services	6,470,330	6,256,801
8) Use of third-party assets	653,631	613,419
9) Personnel:		
a) Salaries and wages	5,636,281	5,422,070
b) Social security costs	1,672,293	1,581,947
c) Employee severance indemnity	420,857	372,887
e) Other costs	12,970	13,612
Total personnel costs (9)	7,742,401	7,390,516
10) Amortisation, depreciation and write-downs:		
a) Amortisation of intangible fixed assets	3,117,232	2,478,903
b) Depreciation of tangible fixed assets	122,251	144,927
Total amortisation, depreciation and write-downs (10)	3,239,483	2,623,830

12) Provisions for risks	35,414	0
14) Sundry operating expenses	73,400	558,795

<b>Total costs of production (B)</b>	<b>19,219,512</b>	<b>18,094,058</b>
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<b>Difference between the value and costs of production (A-B)</b>	<b>34,555</b>	<b>(1,303,736)</b>
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### C) FINANCIAL INCOME AND EXPENSES

15) Income from equity investments		
Other	0	73,593
Total income from equity investments	0	73,593
16) Other financial income:		
a) From receivables classified as fixed assets		
From subsidiaries	180,479	146,818
From associates	23,713	11,809
Total financial income from receivables classified as fixed assets	204,192	158,627
c) From securities included in current assets	0	28,029
d) Other income		
Other	17,360	13,685
Total other income (d)	17,360	13,685
Total other financial income (16)	221,552	200,341
17) Interest and other financial expenses		
Other	463,064	594,731
Total interest and other financial expenses (17)	463,064	594,731
17-bis) Exchange gains and losses	(1,070,519)	149,611

<b>Total financial income and expenses (C) (15+16-17+-17-bis)</b>	<b>(1,312,031)</b>	<b>(171,186)</b>
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<b>PRE-TAX RESULT (A-B+-C+-D)</b>	<b>(1,277,476)</b>	<b>(1,474,922)</b>
20) Income taxes for the year – current, deferred and prepaid		
Current taxes	58,572	12,672
Deferred and prepaid taxes	(264,529)	(284,817)
<b>Income taxes for the year – current, deferred and prepaid (20)</b>	<b>(205,957)</b>	<b>(272,145)</b>
<b>21) Profit (loss) for the year</b>	<b>(1,071,519)</b>	<b>(1,202,777)</b>

### CASH FLOW STATEMENT, INDIRECT METHOD

<b>A) CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)</b>	<b>31/12/2017</b>	<b>31/12/2016</b>
Profit (loss) for the year	(1,071,519)	(1,202,777)
Income taxes	(205,957)	(272,145)
Interest expense (income)	241,512	394,390
(Capital gains)/Capital losses from asset disposals	10	(73,676)
<b>Profit/(Loss) for the year before income taxes, interest, dividends and capital gains/losses from disposals</b>	<b>(1,035,953)</b>	<b>(1,154,208)</b>
Allocation to provisions	456,271	415,060
Amortisation/Depreciation of fixed assets	3,239,483	2,623,830
Other adjustments for non-monetary items	192,821	(23,749)
<b>TOTAL ADJUSTMENTS FOR NON-MONETARY ITEMS WITH NO BALANCING ENTRY IN NWC</b>	<b>3,888,575</b>	<b>3,015,142</b>
<b>CASH FLOWS BEFORE CHANGES IN NWC</b>	<b>2,852,622</b>	<b>1,860,934</b>
<b>CHANGES IN NET WORKING CAPITAL</b>		
Decrease/(Increase) in inventories	571,692	1,103,639
Decrease/(Increase) in receivables due from customers	(1,986,413)	1,064,395
Increase/(Decrease) in trade payables	188,657	(182,505)
Decrease/(Increase) in accrued income and prepaid expenses	265,792	46,293
Increase/(Decrease) in accrued expenses and deferred income	(946,767)	(132,161)
Other decreases/(Other increases) in net working capital	260,003	845,770
<b>Total changes in net working capital</b>	<b>(1,647,035)</b>	<b>2,745,431</b>

<b>CASH FLOWS AFTER CHANGES IN NWC</b>	<b>1,205,587</b>	<b>4,606,363</b>
<b>OTHER ADJUSTMENTS</b>		
Interest collected (paid)	(241,512)	(394,390)
(Income taxes paid)	(14,136)	484,123
(Use of provisions)	(394,036)	(116,531)
<b>TOTAL OTHER ADJUSTMENTS</b>	<b>(649,684)</b>	<b>(26,798)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES (A)</b>	<b>555,903</b>	<b>4,579,565</b>
(Investments in tangible assets)	(87,340)	(116,286)
Disinvestments of tangible assets	2,602	2,078
(Investments in intangible assets)	(3,748,076)	(3,009,597)
Disinvestments of intangible assets	0	0
(Investments in non-current financial assets)	(4,255,199)	(6,669,736)
Disinvestments of non-current financial assets	0	130,000
(Investments in current financial assets)	(430,000)	(1,002,398)
Disinvestments of current financial assets	1,002,398	979,348
<b>CASH FLOWS FROM INVESTING ACTIVITIES (B)</b>	<b>(7,515,615)</b>	<b>(9,686,591)</b>
<b>THIRD PARTY FINANCING</b>		
Increase/(Decrease) in short-term bank payables	1,982	11,985
New loans	3,600,000	2,608,120
(Reimbursement of loans to banks and other lenders)	(5,111,867)	(4,282,028)
<b>Increase/(Decrease) in third party financing</b>	<b>(1,509,885)</b>	<b>(1,661,922)</b>
<b>OWN EQUITY</b>		
Share capital increase against payment	9,996,800	4,697,194
Change in other reserves	(13,970)	5,946
<b>Increase/(Decrease) in own equity</b>	<b>9,982,830</b>	<b>4,703,139</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES (C)</b>	<b>8,472,945</b>	<b>3,041,217</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)</b>	<b>1,513,233</b>	<b>(2,065,806)</b>
Cash and cash equivalents at start of year	7,329,877	9,395,683
Cash and cash equivalents at year end	8,843,101	7,329,877
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,513,225</b>	<b>(2,065,806)</b>

# EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31/12/2017



## Explanatory Notes - Introductory section

Dear Shareholders,

these financial statements, submitted for your review and your approval, highlight a loss for the year of € (1,071,519).

## Business

Expert System is a company listed on the AIM of Borsa Italiana, which develops semantic software based on artificial intelligence algorithms that, starting from large quantities of data, manage to obtain strategic information, allowing private companies and government bodies to take more informed and aware decisions, automate the processes based on large volumes of information and mitigate operational risks.

Cogito's artificial intelligence, i.e. the software of Expert System S.p.A. for text analytics, ensures the user an understanding of written texts, going beyond the systems based on



traditional statistic approaches or with keyword technologies that are unable to understand the language, and offering a broad set of functions for any business need, including semantic research, automatic classification and metadata creation, processing of the natural language, development and management of taxonomies and ontologies.

Over the years the versatility of the solutions proposed by Expert System, together with the undoubted business advantages generated by it, have resulted in a transversal establishment among the various business sectors, i.e.:

- Banking and Insurance, which choose the Cogito-based text mining solutions and applications to improve the customer assistance processes or mitigate the financial risks;
- Public Administration, where Expert System's products better manage the complexity and scalability of the information to obtain strategic knowledge from it;
- Defence and Intelligence, with particular reference to the most important agencies in the world to protect law and security, which need to identify threats, identify and pursue crime or assess risks, by analysing any type of communication, documents or specific data sets;
- Healthcare and pharmaceutical industry, to which Cogito provides a quicker access to scientific information and may benefit from advanced functions to monitor social media, communicate with patients or develop the ability to listen more effectively to specific problems;
- Energy, for which Cogito analyses vast quantities of data collected through engineering, geology and production activities to provide valuable information to support the decision-making process, ensure the competitive advantage and make sharing useful knowledge on workers' safety more efficient;
- Publishing and Media, a business that has its most important asset in content and whose operators need to have cognitive and semantic content enhancement applications that ensure a more comprehensive use of the resources available;
- Other sectors, such as the Manufacturing world, but also Telco, IT, Utilities, OEM within which large businesses have implemented Cogito for the management of knowledge, customer assistance, corporate intelligence, reducing operational risks and process automation.

## Significant events during the year

Dear Shareholders,

during 2017 Expert System focused on some fundamental drivers, i.e.:

- the acquisition, especially via the companies within its network, of new customers among the largest and most important companies and government organisations in the USA and Europe;
- the consolidation of partnerships deemed strategic, also to strengthen the indirect channel;
- focusing on the sectors with the highest growth potential;
- a different modulation of its revenues deriving from the sale of licences, privileging their recurring component to the detriment of perpetual sales;
- the concentration of sales revenues on high standard top customers.

It is worth underlining how the market has shown to have great trust in this growth project, and more generally in the significant trend that characterises the world of Artificial Intelligence within which Expert System competes as a leading player at international level. As a confirmation of this, on 7 July 2017, by deed recorded by Notary Rolando Rosa (index no. 121989, folder 21233, what followed the extraordinary shareholders' meeting was positively accepted. It resolved upon a divisible share capital increase and/or the issue of convertible bonds for a maximum € 10,000,000 including share premium, through the issue of new ordinary shares without par value, with powers delegated to the Board of Directors pursuant to articles 2443 and 2420 ter of the Italian Civil Code.

The resolutions taken at the mentioned shareholders' meeting were thus implemented by the Board of Directors, which on 13/10/2017, as duly recorded by Notary Rolando Rosa (index no. 122232, folder 21411) decided to partially exercise powers delegated to it, resolving on a capital increase of a maximum total amount of € 4,990,000, through the issue of new ordinary shares optioned to shareholders, establishing, at the subsequent meeting of 08/11/2017, to issue maximum 3,718,654 ordinary shares of Expert System S.p.A..

The share capital increase was optioned to shareholders, assigning the option of subscribing 2 newly issued shares for every 15 shares held at the price of € 1.30 per share, of which € 0.01 allocated as share capital increase and € 1.29 to the share premium reserve.

The share capital increase decided by the Board of Directors on 13 October 2017 was fully subscribed, with the final subscription in December 2017 for a total value of € 4,834,250.20,

including share premium; as a result of all of the above, the share capital of Expert System S.p.A. now totals € 317,497.11, subdivided into 31,749,711 ordinary shares without par value. On 13 December 2017, as duly recorded by Notary Rolando Rosa (index no. 122421, folder 21548), the Board of Directors resolved to further execute the powers assigned by the Extraordinary Shareholders' Meeting of 7 July 2017, increasing the share capital, against payment and divisible, by a maximum amount of € 4,252,300, establishing to offer 3,271,000 newly issued shares as part of a private placement to take place through the accelerated bookbuilding procedure, and to implement this issue with exclusion of the option right pursuant to art. 2441, par.5, of the Italian Civil Code, as this is to be exclusively reserved for "qualified investors" in Italy and "Institutional investors" abroad. Also in this case, the newly issued shares were offered at a subscription price of € 1.30 per share, of which € 0.01 allocated as share capital increase and € 1.29 to the share premium reserve.

Having acknowledged that demand exceeds supply, an increase was made on 15 December 2017, as duly recorded by Notary Rolando Rosa index no. 122440 folder 21560, to the increase previously resolved on 13 December 2017 for an additional € 910,000, establishing to issue a maximum number of 700,000 shares at the same conditions of the previous capital increases. Again on 15 December 2017, following the full subscription of the share capital increase of 13-15 December 2017, for a total value of € 5,162,300.00, including the share premium, the share capital of Expert System S.p.A. rose to € 357,207.11, subdivided into 35,720,711 ordinary shares without par value.

As a result, the Board of Directors essentially fully executed the powers assigned to it by the extraordinary shareholders' meeting on 7 July 2017, renouncing, to this effect, the portion not exercised for a total of Euro 3,449.80.

This positive finding constitutes for Expert System the premise to further increase its commitment to reach the main development objectives of the business, which include consolidating the group's presence in international markets, both in Europe and in the United States.

With reference to other changes that concerned the share capital, it is also specified that on 28 June 2017, duly recorded by Notary Rolando Rosa (index no. 121949, folder 21215) and by the powers granted to the Board of Directors, the share capital increase was carried out in implementation of the Temis 2016-2020 Stock Grant Plan.

The stock grant plan envisages the free assignment to employees or directors of Temis S.A., now Expert System France S.A., of 978,967 shares.

The plan was implemented by the issue of 721,245 new shares and the remaining 257,722 shares through the assignment of treasury shares held by the company.

28 June 2017 saw the initial share capital increase in implementation of the Temis 2016-2020 Stock Grant Plan, which led to issue of the first tranche of 360,623 new shares through the free share capital increase of € 3,606.23, using funds for the same amount from the extraordinary reserve.

On the same date, again in implementation of the Temis 2016-2020 Stock Grant Plan, the company arranged the free-of-charge assignment to beneficiaries of 128,861 treasury shares, equal to 50% of the total value of the plan.

Finally, note that during the first period of exercise of the Expert System S.p.A. 2016-2018 warrants ("Warrant") between 1 October 2017 and 31 October 2017 included, 104 newly issued ordinary shares were assigned, according to a ratio of 1 ordinary share to every 4 Warrants exercised. Note that these Warrants were assigned free of charge to the subscribers of the share capital increase decided by the Board of Directors of Expert System S.p.A. on 13 July 2016 and fully subscribed, with the final subscription in September 2016, in the ratio of 1 Warrant to every new share subscribed.

The considerable boost from development and innovation activities, strong in the resources obtained on the market and the renewed confidence of investors mentioned above, allowed Expert System to finalise new important partnership arrangements and technological synergies, made possible by the considerable expertise gathered in managing useful information to provide high technological content of solutions.

In the banking and insurance sector, which features the highest growth potential for cognitive solutions, worth mentioning is the global agreement signed with Zurich Insurance Ltd.. Expert System's support in this case will concern the automation and strategic interaction processes, making available all the benefits of Cogito artificial intelligence with short implementation times and maximum efficiency, improving the quality of services provided by Zurich Insurance Ltd. to its customers.

In terms of public organisations, Expert System became a partner of EIT Digital, the Community aimed at supporting the processes of digital transformation in EU countries, created by EIT, European Institute of Innovation and Technology. EIT Digital represents one of the reference points for the Open Innovation at European level, which is in charge of putting the business community in contact through various forms of partnership and invest in

strategic areas in order to accelerate the distribution on the market of research-based digital technologies and spread business talent in Europe. The association's innovation and training activities are based on centres where students, researchers, engineers, business developers and entrepreneurs meet to guide social digitalisation. In its capacity as EIT Digital partner, Expert System will undertake to actively participate in the initiatives of the community, making its experience available within the area of artificial intelligence and working in synergy with the other leading organisations of the sector, universities and research centres.

In the cyber security field, Expert System was awarded the tender promoted by AGID, the Italian Digital Agency. As a result, Cogito technology will be made available to the new operating platform which will be used in a major project regarding IT security in public administrations. The tender concerns the Cert-Pa (Computer Emergency Response Team for Public Administration), a section of the Prime Minister's Office which plays a particularly important role in the prevention and management of Public Administration IT security incidents since it analyses all the data and information available in relation to cyber security in order to prevent such incidents. Integrating the cyber threats analysis configuration with a specific semantics analysis system, the platform will monitor unstructured data from public access sources such as web sites, blogs, etc., but also from sources not directly accessible by all, such as the "dark web".

Cogito technology was also the basis for the partnership with Esri, leader in geospatial solutions to support operating and decision-making processes. The integration between the Esri's ArcGIS platform for the management of spatial and georeferenced data and Expert System technology for semantic analysis of the information, based on artificial intelligence algorithms, in this case has made it possible to offer an effective support to intelligence analysts of any organisation in tactical and strategic analysis processes.

In the medical area, where the application of artificial intelligence to the vast quantity of data and documents created offers the opportunity to manage in a prompt, accurate and complete manner all the information potentially useful for health, Expert System was involved with its Cogito Labs in various projects. Worth mentioning are:

- S-Grouper, a tool that uses semantic analysis of discharge letters and other documents to support the enabling of automatic coding control processes in hospitals and helps to improve the quality of clinical governance administrative processes;
- TENECO - a TeleNeurosurgery Support System to memorise, classify, search and process clinical surgery and statistics and all patient data for care purposes (from

hospital stay to final results, including any rehabilitation);

- the Pasteur project, based on a platform using Cogito to try to identify reliability indexes of medical content and indications published on the web without specific prior control of the sources.

The intense activity carried out has allowed Expert System to obtain various major recognition again in 2017, in particular:

- the inclusion again for 2017 in the “KMWorld 100 Companies that Matter in Knowledge Management” rankings, compiled by a group of sector experts and market analysts working together under the guidance of the prestigious US magazine KMWorld to select the best solutions worldwide offered by companies operating in Knowledge Management. For the third consecutive year, KMWorld, the key point of reference worldwide in the Knowledge Management sector, awards Expert System’s innovation: the Cogito® cognitive technology is the “Trend-Setting Product of the Year”.

The Trend-Setting Products of KMWorld aim to identify the best solutions for the management of the knowledge both in terms of innovation and creativity. KMWorld acknowledges the uniqueness of the intuitions behind the Cogito® technology and, especially, the ability to satisfy the business needs connected with transforming information into knowledge;

- the inclusion by the prestigious Forbes magazine in an article on the top ten best Artificial Intelligence solutions destined to change the near future, allowing unstructured data to be extracted and analysed to rapidly identify the information necessary to support business decision-making processes;
- the selection by the US-based Gartner, global leader in strategic consulting, research and analysis in the Information Technology field, for the first “2017 Insight Engines Magic Quadrant” dedicated to business insight search applications, i.e. particularly advanced solutions to combine search simplicity with the most sophisticated analysis needs, thereby allowing companies to mine strategic information from available big data;
- as already said, the qualification as Innovative SME, which recognised the company’s broad propensity towards technological innovation in developing its own business

models.

### Significant events after the close of the year

The inclusion of Expert System is confirmed again for 2018 in the “KMWorld 100 Companies that Matter in Knowledge Management” rankings, which lists the best solutions worldwide offered by companies operating in Knowledge Management, selected by a group of sector experts and market analysts.

In 2018 Expert System is continuing to strengthen its role in the digitalisation of the companies operating in the insurance market. Gruppo GENERALI will implement in Spain the artificial intelligence potential of the Cogito® technology in managing corporate processes. The insurance group, in line with its innovation and digitalisation strategy, will benefit from Cogito’s unique advantages in managing large volumes of non-structured information for the automatic classification of about 1 million emails that the insurance company receives every year as part of customer support. The objective is to extend the benefits of artificial intelligence and cognitive computing also to other business areas.

Finally, on 23/03/2018, the Board of Directors of Expert System S.p.A. resolved to recapitalise the investee companies Expert System France S.A. and Expert System Iberia S.L.U. by waiving part of the financial receivables from the two subsidiaries. In particular, the waiver to the credit by Expert System S.p.A. took place:

- for € 2,681,383 as part of the financial receivable due from Expert System France S.A.;
- for € 1,100,000 as part of the financial receivable due from Expert System S.L.U.

### Transposition of Directive 34/2013/EU

With reference to the financial statements for the years starting from 1/1/2016, Legislative Decree no. 139 of 18/08/2015 (so-called “financial statement decree”), published in the Official Gazette no. 205 of 4.9.2015, issued to implement Directive EU no. 34 of 26/6/2013, amended the Italian Civil Code with the aim of aligning the provisions contained therein on the regulation on the financial statements of corporations to the new EU provisions.

The above mentioned directive replaced the EU regulation in force with the purpose of improving the extent of information provided by the accounting document and start a process of simplification of the regulation that governs the preparation and publication of the financial statements.

In this context of reform, also the Italian Accounting Body (OIC), in compliance with the institutional purposes set by law, reviewed 20 accounting standards, which are used with regard to the practical aspects of the new regulatory structure.

The amendment to the financial statements of corporations concerned in particular:

- the documents that make up the financial statements;
- the accounting policies;
- the content of the Balance Sheet and the Income Statement;
- the measurement criteria;
- the content of the explanatory notes.

## Introduction

The financial statements as at 31/12/2017, of which these explanatory notes constitute an integral part pursuant to art. 2423, par. 1, of the Italian Civil Code, were prepared on a going concern basis and correspond to the results of the accounting records regularly kept. They are prepared in compliance with the principle of clarity and with the aim of providing a true and fair view of the financial position of the company and the result for the year.

Due to the rounding of the amounts in euro, in some statements containing detailed data, the sum of the details may differ from the amount shown in the total line.

These explanatory notes are prepared in compliance with the restrictions set by the XBRL taxonomy currently in force.

## General accounting policies

In preparing the financial statements for the year, the following general policies were followed (art. 2423-bis of the Italian Civil Code):

- the measurement of items is based on prudence and in the assumption of a going concern;
- the recognition and presentation of the items took into account the substance of the transaction or contract;
- only the profits realised at the close of the year were stated;
- income and expenses relating to the year were considered, regardless of the date of collection or payment;
- the risks and losses relating to the year were considered even if known after its end.



It should be noted that:

- pursuant to art. 2423, par. 3, of the Italian Civil Code, if the information requested by specific legal provisions is insufficient to provide a true and fair view of the corporate position, additional information deemed useful for the purpose is also provided;
- pursuant to art. 2423, par. 3-bis of the Italian Civil Code, there was no compliance with the obligations of recognition, measurement, presentation and disclosure when such compliance would have had an immaterial impact in providing a true and fair view.

The structure of the Balance Sheet and of the Income Statement is as follows.

The Balance Sheet and Income Statement reflect the provisions of articles 2423-ter, 2424 and 2425 of the Italian Civil Code, as amended by Italian Legislative Decree No. 139/2015.

It is also specified that:

- for each item of the Balance Sheet and the Income Statement, the amount of the item corresponding to the previous year was indicated;
- the entry of the balance sheet and income statement items was made according to the principles of Articles 2424-bis and 2425-bis of the Civil Code;
- there are no heterogeneous elements included in the individual items;
- the values of the balance sheet items for the year underway are perfectly comparable with those of the balance sheet items of the previous year.

No exceptional cases were identified that required the use of the deviations set forth under art. 2423, par. 4 and 5, and the art. 2423-bis, par. 2 of the Italian Civil Code.

### **Consolidated financial statements**

It should be noted that the company is obliged, in its capacity as parent company, to prepare the consolidated financial statements since it is listed on the AIM market of Borsa Italiana.

### **Measurement criteria**

The measurement criteria adopted are those specifically provided for by art. 2426 and the other provisions of the Italian Civil Code, as amended by Italian Legislative Decree no. 139/2015, and have not changed from those of the previous year, taking into account what will be specified further down with regard to the application of the national accounting standards.

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

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

For the valuation of specific cases not expressly regulated by the above-mentioned regulations use was made to the national accounting standards published by the Italian Accounting Body (OIC) and the Italian National Institute of Chartered Accountants.

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

## EXPLANATORY NOTES - ASSETS

### FIXED ASSETS

#### Intangible fixed assets

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code).

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
6,881,910	6,251,068	630,842

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

Under development costs, the expenses for personnel employed and outside technical consultancy used in development activities were capitalised for a total of € 3,225,947, amortised over a period of 5 years.

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

Type of projects capitalised in 2017	Cost per project
Analyst Workspace	441,838
Cogito Answer	80,852
Cogito Discover	50,122
Cogito Intelligence Platform	687,051
Cogito Studio	181,884
Core Technology	1,784,199
<b>Overall total</b>	<b>3,225,947</b>

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

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

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

If, regardless of the 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 depreciation.

## Changes in intangible fixed assets

(Art. 2427, par. 1, point 2 of the Italian Civil Code)

	Start-up and expansion costs	Development costs	Industrial patent and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Fixed assets in progress and payments on account	Other intangible fixed assets	Total
Cost	961,543	18,320,342	596,170	19,052	33,444	-	38,464	19,969,015
Amortisation (Accumulated amortisation)	521,160	12,542,913	576,352	14,463	26,755	-	36,304	13,717,947
<b>Net value as at 31/12/2016</b>	<b>440,383</b>	<b>5,777,429</b>	<b>19,818</b>	<b>4,589</b>	<b>6,689</b>	-	<b>2,160</b>	<b>6,251,068</b>
Increases due to purchases	321,161	3,225,947	180,170	-	-	20,798	-	3,748,076
Amortisation in the year	247,560	2,852,633	8,048	729	6,689	-	1,575	3,117,234
Other changes	-	-	-	-	-	-	(1)	(1)
<b>Total changes in the year</b>	<b>73,601</b>	<b>373,314</b>	<b>172,122</b>	<b>(729)</b>	<b>(6,689)</b>	<b>20,798</b>	<b>(1,575)</b>	<b>630,841</b>
Cost	1,282,704	21,546,289	776,340	19,052	33,444	20,798	38,463	23,717,090
Amortisation (Accumulated amortisation)	768,720	15,395,546	584,400	15,192	33,444	-	37,879	16,835,181
<b>Net value as at 31/12/2017</b>	<b>513,984</b>	<b>6,150,743</b>	<b>191,940</b>	<b>3,860</b>	-	<b>20,798</b>	<b>584</b>	<b>6,881,910</b>

## Breakdown of start-up and expansion costs

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

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

## Start-up and expansion costs

Description of costs	Value 31/12/2016	Increase in the year	Decrease in the year	Amortisation in the year	Value 31/12/2017
Merger	685	-	-	685	-
Share capital increase	439,698	321,161	-	246,875	513,984
<b>Total</b>	<b>440,383</b>	<b>321,161</b>	-	<b>247,560</b>	<b>513,984</b>

Measurement and reasons of the value reductions applied to intangible fixed assets (art. 2427 par. 1, point 3-bis of the Italian Civil Code)

No intangible fixed assets were written down since their amortisation was deemed to represent a correct criterion which considers their residual useful life, in accordance with a systematic plan.

### Tangible fixed assets

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code.

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
629,668	667,181	(37,513)

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

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

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

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

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

### Land and buildings

Description	Amount
Historical cost	456,980

Depreciation of previous years	(72,068)	
<b>Balance as at 31/12/2016</b>	<b>373,825</b>	<b>of which land totalling € 87,400</b>
Acquisitions during the year	-	
Depreciation in the year	(11,087)	
<b>Balance as at 31/12/2017</b>	<b>362,737</b>	<b>of which land totalling € 87,400</b>

### Plant and machinery

Description	Amount
Historical cost	213,491
Depreciation of previous years	(194,521)
<b>Balance as at 31/12/2016</b>	<b>17,290</b>
Acquisitions during the year	0
Depreciation in the year	(6,148)
<b>Balance as at 31/12/2017</b>	<b>11,142</b>

### Industrial and commercial equipment

Description	Amount
Historical cost	1,558
Depreciation of previous years	(1,558)
<b>Balance as at 31/12/2016</b>	<b>-</b>
Acquisitions during the year	-
Depreciation in the year	-
<b>Balance as at 31/12/2017</b>	<b>-</b>

### Other assets

Description	Amount
Historical cost	1,565,449
Depreciation of previous years	(1,289,383)
<b>Balance as at 31/12/2016</b>	<b>276,066</b>
Acquisitions during the year	87,340
Decreases in the year	(2,602)
Depreciation in the year	(105,014)
<b>Balance as at 31/12/2017</b>	<b>255,789</b>

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total tangible fixed assets
Cost	456,981	218,291	1,558	1,562,375	2,239,205
Depreciation (Accumulated depreciation)	83,156	201,001	1,558	1,286,309	1,572,024
<b>Book value as at 31/12/2016</b>	<b>373,825</b>	<b>17,290</b>	<b>-</b>	<b>276,066</b>	<b>667,181</b>
Increases due to purchases	-	-	-	87,340	87,340
Decreases	-	-	-	2,602	2,602
Depreciation in the year	11,087	6,148	-	105,015	122,250
<b>Total changes</b>	<b>(11,087)</b>	<b>(6,148)</b>	<b>-</b>	<b>(20,277)</b>	<b>(37,512)</b>
Cost	456,981	218,291	1,558	1,647,112	2,323,942
Depreciation (Accumulated depreciation)	94,243	207,149	1,558	1,391,324	1,694,274
<b>Book value as at 31/12/2017</b>	<b>362,737</b>	<b>11,142</b>	<b>-</b>	<b>255,789</b>	<b>629,668</b>

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

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

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

#### Measurement and reasons of the value reductions applied to tangible fixed assets (art. 2427 par. 1, point 3-bis of the Civil Code)

No intangible fixed assets were written down since their amortisation was deemed to represent a correct criterion which considers their residual useful life, in accordance with a systematic plan.

## Non-current financial assets

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code).

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
28,594,204	24,339,005	4,255,199

## Treasury shares

As specified in the introduction to these notes, during the year the company, as part of the “Stock Grant Temis 2016-2020” plan assigned 128,861 treasury shares to the beneficiaries, former employees or directors of the company Temis S.A., today Expert System France S.A., acquired in 2015.

To date, these types of plan are not governed by current OICs, and they are not even deemed to be subject to the application of the accounting model IFRS 2 (“Share-based Payment”) until this is introduced in our system, subject to a related ruling by the main national accounting standards (as reported in Assonime note 101/2017). As a consequence, in these financial statements for the year, this assignment of shares had a use of the extraordinary reserve as balancing entry for an amount equal to the number of attributed shares multiplied by the average book value, without effecting the income statement and, therefore, the result for 2017, according to the arrangement shared by Consob with Communication no. DEM/2053725 of 30 July 2002.

## Derivative financial instruments

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

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



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

The company has signed the following derivative contracts:

a) CARIPARMA

- Derivative contract type: IRS no. 59746/2014, unlisted, signed on 15/01/2014, expiring 31/12/2018;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 1,200,000;
- Liability hedged: CARIPARMA mortgage no. 04 107 008852280000, originated for € 1,200,000, signed on 23/12/2013 and expiring on 31/12/2018.
- Notional amount at the reference date (31/12/2017): € 253,199;
- amount of the liability hedged at the reference date (31/12/2017): € 253,199;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 2,006.57;
- fair value at the start of the hedge: zero

b) CARIPARMA

- Derivative contract type: IRS no. 65611/2017, unlisted, signed on 25/09/2017, expiring 30/01/2023;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 1,000,000;
- Liability hedged: CARIPARMA mortgage no. 0106917000000, originated for € 1,000,000, signed on 25/09/2017 and expiring on 30/01/2023.
- Notional amount at the reference date (31/12/2017): € 1,000,000;
- amount of the liability hedged at the reference date (31/12/2017): € 1,000,000.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 15,080.21;
- fair value at the start of the hedge: zero

c) BANCO BPM

- OTC derivative contract “Maximum rate with fractioned premium” ID 790526 F 00104961 D 00038973 signed on 24/07/2017 and expiring on 31/12/2022;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 400,000;
- Liability hedged: BANCO BPM mortgage no. 03703813, originated for € 400,000, signed on 24/07/2017 and expiring on 31/12/2022.
- Notional amount at the reference date (31/12/2017): € 400,000;
- amount of the liability hedged at the reference date (31/12/2017): € 400,000.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 3,837.38;
- fair value at the start of the hedge: zero

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

### Equity investments

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

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

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

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

Changes in equity investments, other securities and derivative financial instruments classed as fixed assets (Art. 2427 par. 1, point 2 of the Italian Civil Code).

	Equity investments in subsidiaries	Equity investments in associates	Equity investments in other companies	Total equity investments
Cost	11,859,423	251,266	57,138	12,167,827
<b>Book value as at 31/12/2016</b>	<b>11,859,423</b>	<b>251,266</b>	<b>57,138</b>	<b>12,167,827</b>
Changes in the year	1,332,072	-	-	1,332,072
<b>Total changes</b>	<b>1,332,072</b>	<b>-</b>	<b>-</b>	<b>1,332,072</b>
Cost	13,191,495	251,266	57,138	13,499,899
<b>Book value as at 31/12/2017</b>	<b>13,191,495</b>	<b>251,266</b>	<b>57,138</b>	<b>13,499,899</b>

As regards the changes affecting equity investments in subsidiaries, the change of € 1,332,072 is attributable to the subscription by Expert System S.p.A. of an increase in the capital of the subsidiary Expert System France S.A. by renouncing financial receivables from the subsidiary itself for the same amount.

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.

#### Changes in non-current financial assets: receivables

##### Receivables

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total	Of which relating to transactions with buy-back obligation	Fair Value
Subsidiaries	360,176	14,000,306	-	14,360,482		
Associates	-	733,823	-	733,823	-	-
<b>Book value as at 31/12/2017</b>	<b>360,176</b>	<b>14,734,129</b>	<b>-</b>	<b>15,094,305</b>		

With reference to these amounts, note that they were disbursed in implementation of an interest-bearing intercompany financing plan which envisages Expert System S.p.A.'s disbursement to its subsidiaries of loans of an amount sufficient to provide these subsidiaries

with the funding necessary to meet their expense and investment commitments. The plan, approved by the Board of Directors of Expert System S.p.A. on 27 March 2017, has a duration expiring 27 March 2018.

The changes during the year were as follows:

	Balance at start of the year	Changes in the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year
Long-term receivables - subsidiaries	11,469,369	2,891,113	14,360,482	360,176	14,000,306
Long-term receivables - associates	701,809	32,014	733,823	43,823	690,000
<b>Total long-term receivables</b>	<b>12,171,178</b>	<b>2,923,127</b>	<b>15,094,305</b>	<b>403,999</b>	<b>14,690,306</b>

In compliance with the resolution of the Board of Directors relating to intercompany loans of 27/03/2017, on the long-term receivables due from subsidiaries, totalling € 14,000,306, an interest rate “agreed or which would have been agreed for a similar loan agreement between independent companies” was applied, assuming the reference market to be that on which Expert System operates since “it is the lender’s market which must be considered ‘significant’” (see Ministerial Circular no. 32/1980, chapter IV).

The change in long-term receivables from subsidiaries, equal to € 2,891,113, is attributable to additional loans disbursed to the investee companies for € 4,223,185, net of the waiver of financial receivables for € 1,332,072 described previously.

As described in the paragraph of the Report on Operations entitled “Significant events after the close of the financial year”, part of the long-term receivables from subsidiaries, equal to € 3,781,383, will be used to re-capitalise the subsidiaries Expert System France S.A. and Expert System Iberia S.L.U., with the dual objective of covering the losses for the year while strengthening the equity and financial position of the investee companies.

#### The breakdown of equity investments in subsidiaries owned directly or through a trust company or an intermediary (Art. 2427, par. 1, point 5 of the Italian Civil Code)

In compliance with the provisions of art. 2427 par. 1, point 5 of the Italian Civil Code, provided below are the details regarding the book value and any changes regarding the equity investments in subsidiaries, based on the situation as of the date of the latest financial statements approved.

## Details on equity investments in subsidiaries

Information on equity investments in subsidiaries:

Name	Italian city or Foreign country	Share capital in €	% held	Book value or corresponding receivable	SE as at 31/12/2017	Profit/ (Loss) 2017	Fair Value
Expert System France S.A.	Paris France	1,332,072	100%	13,142,903	(454,403)	(1,850,131)	Included between € 12,674,000 and € 16,583,000 *
Expert System Cogito Ltd.	London UK	1,127	100%	1,248	(694,287)	(95,437)	-
Expert System Iberia S.L.U.	Barcelona, Spain	3,000	100%	47,344	(2,724,576)	(1,033,584)	Included between € 1,552,000 and € 2,011,000 **
Expert System USA Inc.	Delaware, USA	1	100%	1	(4,303,571)	(642,815)	-
<b>Total</b>				<b>13,191,495</b>			

Value of Expert System France S.A. and its subsidiaries Expert System Enterprise Corp., Expert System Canada Inc. and Expert System Deutschland GMBH, as indicated in the appraisal signed by Mr. Maurizio Dallochio, an independent professional, on 18/09/2015  
 \*\* As indicated in the appraisal signed by Accuracy, dated December 2014

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

Company	Italian city or Foreign country	Share capital in €	Shareholders' equity (excluding profit/loss for the year)	Profit/ (Loss) 2017	Stake held (%)	Fair Value
Expert System Enterprise Corp.	Rockville, USA	167	(1,987,528)	(1,105,543)	100.00%	Included between € 12,674,000 and € 16,583,000 *
Expert System Canada – Semantic Technologies Inc.	Montreal, Canada	665	(56,321)	(45,085)	100.00%	
Expert System Deutschland GMBH	Heidelberg, Germany	25,000	(780,857)	(732,094)	100.00%	

Value of Expert System France S.A. and its subsidiaries Expert System Enterprise Corp., Expert System Canada Inc. and Expert System Deutschland GMBH, as indicated in the appraisal signed by Mr. Maurizio Dallochio, an independent professional, on 18/09/2015

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

The breakdown of equity investments in associates owned directly or through a trust company or an intermediary (Art. 2427, par. 1, point 5 of the Italian Civil Code)

In compliance with the provisions of art. 2427 par. 1, point 5 of the Italian Civil Code, provided below are the details regarding the book value and any changes regarding the equity investments in associates, based on the situation as of the date of the latest financial statements approved.

Information on equity investments in associates:

Name	Italian city or Foreign country	Tax code (for Italian companies)	Share capital in €	Profit (Loss) previous year in €	Shareholders' equity in €	Stake held in €	% held	Book value or corresponding receivable
CY4Gate S.r.l.	Rome	13129151000	300,000	(885,544)	385,774	73,500	24.50%	251,266
<b>Total</b>								<b>251,266</b>

With reference to the equity investment in the associate CY4Gate S.r.l., on 02/02/2018, as agreed before the Notary Elena with Offices in Formello (Rome), the associate resolved, pursuant to art. 2482 bis of the Italian Civil Code, the reduction of the share capital from € 300,000 to € 231,443.52, subsequently establishing to increase said share capital by € 89,556.48 in total, to € 321,000, against payment and with the issue of new equity investments to be offered to the shareholders proportionally to the stakes they already hold pursuant to art. 2481 bis first paragraph of the Italian Civil Code, with premium reserve of € 3,910,443.52. Having Expert System S.p.A. waived the subscription right granted to it on the capital increase resolved, the stake has decreased to 17.66%.

Breakdown of long-term receivables by geographic area (Art. 2427, par. 1, point 6 of the Italian Civil Code)

In relation to the provisions in the last part of art. 2427, par. 1, point 6 of the Italian Civil Code, with reference to the indication of the breakdown by geographic area of the receivables, the following is highlighted.

Geographic area	Long-term receivables - subsidiaries	Long-term receivables - associates	Total long-term receivables
Italy	-	733,823	733,823
EU	8,578,604	-	8,578,604
NON-EU	5,781,878	-	5,781,878
<b>Total</b>	<b>14,360,482</b>	<b>733,823</b>	<b>15,094,305</b>

### Analysis of the value of non-current financial assets

	Book value
Equity investments in other companies	57,138
Receivables due from subsidiaries	14,360,482
Receivables due from associates	733,823

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

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

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

Description	Book value
Financial receivables due from Expert System USA Inc.	4,282,615
Financial receivables due from Expert System Cogito Ltd.	631,865
Financial receivables due from Expert System Iberia S.L.U.	4,178,691
Financial receivables due from Expert System Enterprise Corp.	1,499,264
Financial receivables due from Expert System France S.A.	3,437,378
Invoices to be issued to Expert System Deutschland GMBH	330,663
<b>Total</b>	<b>14,360,482</b>

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

Description	Book value
Receivables due from CY4Gate S.r.l.	733,823
<b>Total</b>	<b>733,823</b>

## CURRENT ASSETS

### Warehouse inventories

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code).

These are contract work in progress, recognised on the basis of the percentage of completion criterion: costs, revenues and the job profit are recognised on the basis of the progress of production activities. For the application of this criterion the hours worked method is adopted.

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

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

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

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
39,209	610,900	(571,691)

	Value at start of the year	Changes in the year	Value at end of the year
Contract work in progress	610,900	(571,691)	39,209
<b>Total inventories</b>	<b>610,900</b>	<b>(571,691)</b>	<b>39,209</b>

## Current assets - receivables

### Receivables

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code).

The company opted:

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

The receivables were therefore valued at their estimated recoverable amount.

The adjustment of the nominal value of receivables into line with the estimated realisable value is obtained using the appropriate bad debt provision, taking into consideration any impairment indicators. Receivables originally due within twelve months and later transformed



into long-term receivables are recorded in shareholders' equity under non-current financial assets.

### Receivables

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
15,548,919	14,262,888	1,286,031

A significant portion of the receivables at 31/12/2017, totalling € 3,418,650, is in foreign currency. Criteria for the translation of amounts stated in foreign currency in these Explanatory Notes.

### Analysis of the changes and the maturity of current receivables (Art. 2427, par. 1, point 4 of the Italian Civil Code)

	Balance at start of the year	Changes in the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year
Current receivables due from customers	5,429,296	1,986,413	7,415,708	7,415,708	-
Current receivables due from subsidiaries	2,273,604	1,210,590	3,484,194	3,457,407	26,787
Current receivables due from associates	255,626	(220,795)	34,831	34,831	-
Current tax receivables	360,749	(54,534)	306,215	306,215	
Current prepaid tax assets	756,528	71,709	828,237	240,000	588,237
Current other receivables	5,187,085	(1,707,351)	3,479,734	2,988,712	491,022
<b>Total receivables recorded under current assets</b>	<b>14,262,888</b>	<b>1,286,031</b>	<b>15,548,919</b>	<b>14,442,873</b>	<b>1,106,046</b>

### Changes in current receivables

Receivables for a significant amount at 31/12/2017 are composed as follows:

Receivables for a significant amount due from subsidiaries at 31/12/2017:

Description	Due within 12 months	Due after 12 months
Due from ADmantX S.p.A.	33,982	26,787
Due from Expert System USA Inc.	796,000	-
Due from Expert System Cogito Ltd.	272,119	-
Due from Expert System France S.A.	375,923	-
Due from Expert System Iberia S.L.U.	566,354	-
Due from Expert System Enterprise Corp.	1,343,771	-
Due from Expert System Deutschland GMBH	69,259	-
<b>Total</b>	<b>3,457,407</b>	<b>26,787</b>

Tax receivables at 31/12/2017, amounting to € 306,215, are broken down as follows:

Description	Due within 12 months	Due after 12 months
Bonus credit – Decree Law 66/14	4,674	-
Non-taxable tax credits for R&D, Law Decree 70/2011	2,311	-
Non-taxable tax credits for R&D, Min.Decree no. 17, 27 May 2015	203,344	-
IRES (corporate income tax) credits	31,487	-
VAT receivables	64,398	-
<b>Total</b>	<b>306,215</b>	<b>-</b>

Prepaid tax assets at 31/12/2017, amounting to € 828,237, are broken down by due date as follows:

Description	Due within 12 months	Due after 12 months	Total
Prepaid tax assets	240,000	588,237	828,237
<b>Total</b>	<b>240,000</b>	<b>588,238</b>	<b>828,237</b>

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

In Prepaid tax assets of € 828,237, prepaid taxes were recorded amounting to € 32,899, deriving from tax losses carried forward of € 137,081, 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.

Other receivables, totalling € 3,479,734 at 31/12/2017, are composed as follows:

Description	Due within 12 months	Due after 12 months
Receivables due from Okkam	68,871	
Receivables due from personnel	10,350	
Guarantee deposits in cash		45,429
Sundry receivables	7,376	
Supplier for credit notes to be received	27,003	
Advances to suppliers	89,872	
Receivables for research project grants	2,785,239	445,593
<b>Total</b>	<b>2,988,712</b>	<b>491,022</b>

Receivables for research project grants due within no later than 12 months refer to all receivables accrued as at 31/12/2017, relating to sums that the company has to collect in that respect.

Details of receivables for research project grants are presented below.

Description	Due within 12 months	Due after 12 months
Horizon 2020	-	330,593
Mise (Ministry of Economic Development) - FIT	252,966	-
MIUR (Ministry of Education, Universities and Research) - FAR	243,892	-
PON	-	115,000
PON R&C 2007-2013	1,952,119	-
European Project - Tender ISEC	336,262	-
<b>Total</b>	<b>2,785,239</b>	<b>445,593</b>

#### Breakdown of current receivables by geographic area (Art. 2427, par. 1, point 6 of the Italian Civil Code)

In relation to the provisions in the last part of art. 2427, par. 1, point 6 of the Italian Civil Code, with reference to the indication of the breakdown by geographic area of the receivables, the following is highlighted.

#### Details of current receivables by geographic area

Geographic area	Italy	EU customers	Non-EU customers	Customers on invoices to be issued - Non-EU	Customers on invoices to be issued	(Bad debt provision)	Total
Current receivables due from customers	3,802,683	40,000	1,631,184	1,189,881	902,140	(150,180)	7,415,708

Current receivables due from subsidiaries	60,768	1,283,655	2,139,771				3,484,194
Current receivables due from associates	34,831						34,831
Current tax receivables	306,215						306,215
Current prepaid tax assets	828,237						828,237
Current other receivables	3,479,734						3,479,734
<b>Total receivables recorded under current assets</b>	<b>8,512,468</b>	<b>1,323,655</b>	<b>3,770,955</b>	<b>1,189,881</b>	<b>902,140</b>	<b>(150,180)</b>	<b>15,548,919</b>

The adjustment of the nominal value of receivables to the estimated realisable value was obtained through the appropriate bad debt provision, which underwent the following changes during the year, as described in the following table:

Description	Bad debt provision pursuant to art. 2426 of the Italian Civil Code	Bad debt provision pursuant to art. 106 of It. Pres. Decree No. 917/1986	Total
Balance as at 31/12/2016	108,779	202,302	311,081
Use in the year	-	160,901	160,901
Provision in the year	-	-	-
<b>Balance as at 31/12/2017</b>	<b>108,779</b>	<b>41,401</b>	<b>150,180</b>

## Current financial assets

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code.

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

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

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

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

## Financial assets

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
4,591,474	5,163,872	(572,398)

Information is provided below on the equity investments held directly or indirectly through subsidiaries, associates (art. 2427.1.4, of the Italian Civil Code).

## Analysis of changes in current financial assets (statement)

	Balance at start of the	Changes in the year	Balance at end of the
Current equity investments in subsidiaries	4,153,074	430,000	4,583,074
Other current equity investments	8,400	-	8,400
Other current securities	1,002,398	(1,002,398)	-
<b>Total current financial assets</b>	<b>5,163,872</b>	<b>(572,398)</b>	<b>4,591,474</b>

The change in “Current equity investments in subsidiaries”, equal to € 430,000, is attributable to:

- € 200,000 for the conversion of two convertible bond certificates of a value of € 100,000 each, in the share capital of ADmantX S.p.A., a company in which Expert System holds 60.80% of the share capital, as specified previously. Expert System had previously acquired these convertible bond certificates from IMI Fondi Chiusi SGR S.p.A. via notary endorsement on 26/10/2017 signed by Notary Casali Paola with Offices in Milan;
- € 230,000 for the contribution, on 22/12/2017 in favour of ADmantX S.p.A. of an amount as shareholders’ advance payment for share capital increase, with the intention of making available to the investee company the useful financial resources to continue its business and attain its strategic objectives.

During the year the company arranged the sale of all the units previously held in the bond fund “AZ White Fleet II SICAV”, subscribed on 10/08/2016, recognised at the cost of € 1,002,398.

The breakdown of equity investments in subsidiaries recognised as current assets, owned directly or through a trust company or an intermediary

Name	Italian city or Foreign country	Tax code (for Italian companies)	Share capital in €	Profit (Loss) previous year in €	Shareholder s' equity in €	Stake held in €	% held	Book value or corresponding receivable
ADmantX S.p.A.	Naples	02634571208	223,359	(736,745)	383,486	135,802	60.80%	4,583,074
<b>Total</b>								<b>4,583,074</b>

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

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

Company	City or Foreign country	Share capital	Shareholders' equity	Profit /(Loss) 2017	% held
ADmantX Inc.	West Hartford CT 06133-0024, USA	€ 7,064	(€ 2,377,257)	(€ 63,382)	100.00%

### Cash and cash equivalents

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
8,843,101	7,329,877	1,513,224

### Analysis of the changes in cash and cash equivalents (Art. 2427, par. 1, point 4 of the Italian Civil Code)

	Balance at start of the	Changes in the year	Balance at end of the
Bank and postal deposits	7,327,197	1,513,108	8,840,305
Cash at bank and in hand	2,680	116	2,796
<b>Total cash and cash</b>	<b>7,329,877</b>	<b>1,513,224</b>	<b>8,843,101</b>

### Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code.

The cash and cash equivalents, represented by cash at bank and in hand and bank deposits, were recorded at par value.

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

## D) ACCRUALS AND DEFERRALS

### Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code.

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

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

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

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

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
484,463	750,255	(265,792)

Analysis of the changes in accrued income and prepaid expenses (Art. 2427, par. 1, point 4 of the Italian Civil Code)

	Balance at start of the	Changes in the year	Balance at end of the
Accrued income	-	-	-
Prepaid expenses	750,255	(265,792)	484,463
<b>Total accrued income and</b>	<b>750,255</b>	<b>(265,792)</b>	<b>484,463</b>

The breakdown of the time is detailed below (Art. 2427, par. 1, point 7 of the Italian Civil Code).

Prepaid expenses	Due within 12 months	Due after 12 months	Due after 5 years
Rent	10,371		
Other deferrals	3,829		
Insurance	6,437		
Commissions	20,497	44,045	79
Consultancy	63,105		
Software licences	204,358	5,015	
Maintenance	36		
Rental	22,339	100	
Research and education	6,417		
Commercial services	33,692		
AIM listing services	10,200		
Internet costs	49,090	382	
Telephone expenses	1,867		
Miscellaneous administrative	2,604		
Rent	10,371		
<b>Total</b>	<b>434,842</b>	<b>49,542</b>	<b>79</b>

Capitalised financial expenses (Art. 2427, par. 1, point 8 of the Italian Civil Code)

The company has not capitalised financial expenses at the values recorded in the assets of the income statement.

## EXPLANATORY NOTES - LIABILITIES AND SHAREHOLDERS' EQUITY

### SHAREHOLDERS' EQUITY

Pursuant to art. 2427, par. 1, points 4 and 7-bis of the Italian Civil Code, commented on below are the main components of the Shareholders' equity and the relevant changes.



Balance as at 31/12/2017	Balance as at 31/12/2016	Change
37,187,045	28,275,735	8,911,310

### Changes in shareholders' equity

	Balance at start of the year	Allocation of previous year's profit Other allocations	Other changes			Profit/loss for the year	Balance at end of the year
			Increases	Decreases	Reclassifications		
Share capital	276,703	-	80,504	-	-		357,207
Share premium reserve	25,408,688	-	10,571,548	-	-		35,980,236
Legal reserve	43,899	-	-	-	-		43,899
Other reserves							
Extraordinary reserve	3,618,898	-	-	2,125,544	-		1,493,354
Merger surplus reserve	376,622	-	-	-	-		376,622
Reserve for unrealised exchange gains	180,049	-	-	-	-		180,049
Miscellaneous other reserves	141,002	-	-	2	-		141,000
<b>Total other reserves</b>	<b>4,316,571</b>	<b>-</b>	<b>-</b>	<b>2,125,546</b>	<b>-</b>		<b>2,191,025</b>
Cash flow hedging reserve	(6,954)	-	2,882	16,852	-		(20,924)
Profit (loss) for the year	(1,202,777)	-	1,202,777	-	-	(1,071,519)	(1,071,519)
Negative reserve for treasury shares in portfolio	(560,395)	-	267,516	-	-		(292,879)
<b>Total shareholders' equity</b>	<b>28,275,735</b>	<b>-</b>	<b>12,125,227</b>	<b>2,142,398</b>	<b>-</b>	<b>(1,071,519)</b>	<b>37,187,045</b>

### Breakdown of miscellaneous other reserves

Description	Amount
PIA Reserve provision	141,000
<b>Total</b>	<b>141,000</b>

### Availability and use of shareholders' equity (Art. 2427, par. 1, point 7-bis of the Italian Civil Code)

Items of shareholders' equity are distinguished according to origin, possibility of use, distributability and use in the three previous years.

### Source, possibility of use and distributability of the items in the shareholders' equity

	Amount	Origin/ nature	Possibility of use	Available portion*	Summary of uses made in the three previous years - for coverage of losses
Share capital	357,207		B	-	-
Share premium reserve	35,980,236	Capital reserve	A, B, C**	35,980,236	-
Legal reserve	43,899	Profit reserve	B***	-	-
<i>Other reserves</i>					
Extraordinary reserve	1,493,354		A, B, C	1,493,354	2,201,809
Merger surplus reserve	376,622	Profit reserve	A, B, C	376,622	-
Reserve for unrealised exchange gains	180,049	Profit reserve	A, B, C****	-	-
Miscellaneous other reserves	141,000			-	-
Total other reserves	2,191,025			1,869,976	2,201,809
Cash flow hedging reserve	(20,924)	Reserve for derivative financial instruments		-	-
Negative reserve for treasury shares in portfolio	(292,879)	Profit reserve		(292,879)	-
<b>Total</b>	<b>38,258,564</b>			<b>37,557,333</b>	<b>2,201,809</b>
<i>Undistributable portion</i>				6,664,727	
<i>Residual distributable portion</i>				30,892,606	

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

\* net of any reserve for treasury shares in portfolio and the retained earnings

\*\* pursuant to art. 2431 of the Italian Civil Code: usable to cover losses and for capital increases. Not usable for distribution to shareholders until the legal reserve reaches 1/5 of the share capital

\*\*\* pursuant to art. 2430 of the Italian Civil code: only when the legal reserve reaches 1/5 of the share capital will the excess become actually available

\*\*\*\* until the net profit is realised, it is not usable for distribution

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

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

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

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

20/03/2006. This reserve is restricted until conclusion of the aforementioned project and is therefore unavailable.

#### Information on the cash flow hedging reserve

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

#### Analysis of the changes in cash flow hedging reserve (table)

	Cash flow hedging reserve
Balance at start of the year	(6,954)
Changes in the year	(13,970)
Increase due to change in fair value	-
<b>Balance at end of the year</b>	<b>(20,924)</b>

The change in value of the reserve expresses the adjustment to fair value of the derivative instrument at 31/12/2017.

As required by art. 2427 par. 1, point 4 of the Italian Civil Code, information is provided below on the formation and use of shareholders' equity items:

	Share capital	Legal reserve	Reserves	Profit/loss for the year	Total
<b>At start of previous year</b>	<b>250,608</b>	<b>43,899</b>	<b>25,479,897</b>	<b>(999,032)</b>	<b>24,775,372</b>
Allocation of profit for the year				999,032	999,032
- other allocations			1		1
Other changes					
- Increases due to share capital increase	26,095		4,677,044		4,703,139
- Decreases			(999,032)		(999,032)
Profit/loss for the previous year				(1,202,777)	(1,202,777)
<b>At close of previous year</b>	<b>276,703</b>	<b>43,899</b>	<b>29,157,910</b>	<b>(1,202,777)</b>	<b>28,275,735</b>
Allocation of profit for the year				1,202,777	1,202,777
Other changes					
- Increases due to share capital increase	80,504		9,916,296		9,996,800
- Cash flow hedging reserve adjustment			(13,970)		(13,970)
- Other decreases			(1,202,777)		(1,202,777)
Profit/loss for the current year				(1,071,519)	(1,071,519)
<b>At close of current year</b>	<b>357,207</b>	<b>43,899</b>	<b>37,857,460</b>	<b>(1,071,519)</b>	<b>37,187,045</b>

The balance of “Reserves” at 31/12/2017 expresses the net value of the following reserves:

Share premium reserve	35,980,236
Extraordinary reserve	1,493,354
Merger surplus reserve	376,622
Reserve for unrealised exchange gains	180,049
Other reserves	141,000
Cash flow hedging reserve	(20,924)
Negative reserve for treasury shares in portfolio	(292,879)
<b>Total</b>	<b>37,857,458</b>

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

Shareholders’ equity includes the following items:

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

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

Reserves	Value
Share premium reserve	35,980,236
	<b>35,980,236</b>

#### Reserves incorporated in the share capital

None.

#### Negative reserve for purchase of treasury shares

The changes in treasury shares were as follows:

Description	31/12/2016	Increases	Decreases	31/12/2017
Expert System S.p.A.	560,395	-	(267,516)	292,879

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

## B) PROVISIONS FOR RISKS AND CHARGES

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.

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
75,679	219,116	(143,437)

	Provision for pensions and similar obligations	Provision for taxes, including deferred	Derivative financial instruments - liabilities	Other provisions	Total provisions for risks and charges
Balance at start of the year	4,341	192,821	6,954	15,000	219,116
Changes in the year					
Provision in the year	-	-	-	35,414	35,414
Use in the year	-	192,821	-	-	192,821
Other changes	-	-	13,970		13,970
<i>Total changes</i>	-	<i>(192,821)</i>	<i>13,970</i>	<i>35,414</i>	<i>(143,437)</i>
<b>Balance at end of the year</b>	<b>4,341</b>	<b>-</b>	<b>20,924</b>	<b>50,414</b>	<b>75,679</b>

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

Other provisions amounted to € 50,434 at 31/12/2017 and mainly refer to a dispute arising in the final part of 2017.

## C) EMPLOYEE SEVERANCE INDEMNITY

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

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

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
1,876,192	1,670,520	205,672

Analysis of the changes in employee severance indemnity (Art. 2427, par. 1, point 4 of the Italian Civil Code)

	Employee severance indemnity
Balance at start of the year	1,670,520
<i>Changes in the year</i>	
Provision in the year	420,857
Use in the year	137,359
Other changes	(77,826)
<i>Total changes</i>	<i>205,672</i>
<b>Balance at end of the year</b>	<b>1,876,192</b>

The provision allocated represents the actual amount owed by the company, as at 31/12/2017, to employees in the workforce at said date, net of advances paid.

#### D) PAYABLES

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code).

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

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

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
24,124,643	25,913,519	(1,788,876)

In relation to the provisions in the last part of art. 2427, par. 1, point 6 of the Italian Civil Code, the payables existing as at 31/12/2017 are broken down by geographic area according to the following table.

Analysis of the changes and the maturity of payables (Art. 2427, par. 1, point 4 of the Italian Civil Code)

Balance at	Changes in the	Balance at	Portion due	Portion due	Of which:
------------	----------------	------------	-------------	-------------	-----------

	start of the year	year	end of the year	within 1 year	after 1 year	portion due after 5 years
Bonds	5,000,000	-	5,000,000	-	5,000,000	2,407,850
Payables due to banks	13,082,950	(1,326,757)	11,756,193	3,910,162	7,846,031	100,000
Payables due to other lenders	1,119,958	(183,128)	936,830	290,325	646,505	130,361
Payments on account	2,373,848	(1,378,947)	994,901	759,921	234,980	-
Trade payables	1,396,828	188,658	1,585,486	1,585,486	-	-
Payables due to subsidiaries	28,301	845,031	873,332	873,332	-	-
Tax payables	449,576	153,183	602,759	602,759	-	-
Payables due to social security institutions	321,015	41,573	362,588	362,588	-	-
Other payables	2,141,043	(128,489)	2,012,554	2,012,554	-	-
<b>Total payables</b>	<b>25,913,519</b>	<b>(1,788,876)</b>	<b>24,124,643</b>	<b>10,397,127</b>	<b>13,727,516</b>	<b>2,638,211</b>

The most significant payables as at 31/12/2017 were as follows:

The balance of payables due to banks at 31/12/2017, amounting to € 11,756,193, including mortgage borrowings, expresses the actual amount due in principal, interest and accessory expenses accrued and payable. The list is shown below:

Description	Due within 12 months	Due after 12 months	Due after 5 years
Advances on receivables	555	-	-
Bank overdrafts	21,466	-	-
Amounts to be paid	12,415	-	-
Banco Desio loan	249,988	126,876	-
Bper loan	753,905	965,985	-
BPM loan	138,941	389,322	-
BPM loan	44,444	355,556	-
Cariparma loan	253,199	-	-
Cariparma loan	100,000	800,000	100,000
Carisbo - Mediocredito	400,000	1,300,000	-
Credem loan	100,383	178,711	-
MPS mortgage	200,000	500,000	-
Banca CARIGE mortgage	40,620	42,603	-
Banca CARIGE mortgage	299,964	457,865	-
San Felice 1893 Banca Popolare loan	264,389	405,089	-
UBI loan	200,392	374,023	-
UNICREDIT loan	129,502	-	-
UNICREDIT loan	400,000	800,000	-

UNICREDIT loan	300,000	1,050,000	-
<b>Total payables</b>	<b>3,910,162</b>	<b>7,746,031</b>	<b>100,000</b>

#### Payables due to other lenders at 31/12/2017

Description	Due within 12 months	Due after 12 months	Due after 5 years
PIA project financing	162,604	-	-
SOSEM subsidised loan	127,721	516,144	130,361
<b>Total</b>	<b>290,325</b>	<b>516,144</b>	<b>130,361</b>

The item “Payments on account” includes advances received from customers relating to work in progress amounting to € 994,901 which is detailed below by job and by expected duration of the job (amounts in €):

Project	Advance amount	Due within 12 months	Due after 12 months
Advances from customers	11,200	11,200	-
Horizon 2020	234,980	-	234,980
PON R&C 2007-2013	590,936	590,936	-
European Project - ISEC Tender	157,784	157,784	-
<b>Overall total</b>	<b>994,901</b>	<b>759,921</b>	<b>234,980</b>

The payable for bonds corresponds to the total residual principal amount at 31/12/2017, according to the repayment plan.

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

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

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



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

The accounting policies adopted by the company were:

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

Payables are therefore recognised at nominal value.

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

The item includes payables for IRAP taxes amounting to € 42,120, net of the advances paid over for € 16,452.

The payables to tax authorities also include amounts withheld at source totalling € 564,783.

Other payables include amounts due to directors for € 186,479, amounts due to employees for holiday entitlement not taken, salaries and bonuses accrued for € 1,180,706, amounts due to former shareholders of Temis S.A. for € 588,579, credit notes to be issued to customers for € 43,288 and minor payables for € 13,502.

#### Breakdown of payables by geographic area (Art. 2427, par. 1, point 6 of the Italian Civil Code)

The breakdown of payables at 31/12/2017 by geographic area is shown in the table below.

#### Details of payables by geographic area

Geographic area	Italy	EU	Non-EU	Invoices to be received	Total
Bonds	5,000,000	-	-	-	5,000,000
Payables due to banks	11,756,193	-	-	-	11,756,193
Payables due to other lenders	936,830	-	-	-	936,830
Payments on account	994,901	-	-	-	994,901
Trade payables	1,354,822	9,096	(348)	221,916	1,585,486
Payables due to subsidiaries	-	870,284	3,048	-	873,332
Tax payables	602,759	-	-	-	602,759

Payables due to social security institutions	362,588	-	-	-	362,588
Other payables	1,427,761	583,773	1,020	-	2,012,554
<b>Payables</b>	<b>22,435,854</b>	<b>1,463,153</b>	<b>3,720</b>	<b>221,916</b>	<b>24,124,643</b>

The following payables are backed by collaterals on company assets (Art. 2427 par. 1 point 6 of the Italian Civil Code).

#### Analysis of the payables backed by collaterals on company assets (table)

	Total payables backed by collaterals		Payables not backed by collaterals	Total
	Payables backed by mortgages			
Bonds			5,000,000	5,000,000
Payables due to banks	83,223		11,672,970	11,756,193
Payables due to other lenders			936,830	936,830
Payments on account			994,901	994,901
Trade payables			1,585,486	1,585,486
Payables due to subsidiaries			873,332	873,332
Tax payables			602,759	602,759
Payables due to social security institutions			362,588	362,588
Other payables			2,012,554	2,012,554
<b>Total payables</b>	<b>83,223</b>		<b>24,041,420</b>	<b>24,124,643</b>

It should be noted that the Carige loan, originally for € 347,000, with a residual debt of € 83,223 as at 31/12/2017, 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 par.1 no. 6 of the Italian Civil Code).

#### E) ACCRUED EXPENSES AND DEFERRED INCOME

Measurement criteria and entry in the Financial Statements (Art. 2427, par. 1, point 1 of the Italian Civil Code).

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
2,349,389	3,296,156	(946,767)

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

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

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

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

As at 31/12/2017, no accruals and deferrals had a duration of more than five years.

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	1,532,812
Deferred income on R&D tax credit	335,093
Other deferred income	383,103
Accrued expenses	98,382
	<b>2,349,389</b>

#### Analysis of the changes of accrued expenses and deferred income

	Balance at start of the year	Changes in the year	Balance at end of the year
Accrued expenses	97,963	419	98,382
Deferred income	3,198,193	(947,186)	2,251,007
<b>Total accrued expenses and deferred income</b>	<b>3,296,156</b>	<b>(946,767)</b>	<b>2,349,389</b>

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

Tender type	Deferred income for research project grants	Due within 12 months	Due after 12 months
FESR - Province of Trento	36,189	36,189	0
h2020	406,142	105,957	300,185
L.P.6/99	93,631	93,631	0
PON	37,908	21,733	16,175
PON R&C 2007-2013	731,832	183,445	548,387

POR FESR Lazio	94,544	94,544	0
F7P European Project	132,565	107,905	24,660
<b>Total</b>	<b>1,532,812</b>	<b>643,405</b>	<b>889,407</b>

Part of the deferred income, amounting to € 335,093, instead refers to grants envisaged for companies investing in research and development pursuant to Ministerial Decree no. 17 of 27 May 2015.

The item breaks down as follows:

Deferred income - grants pursuant to Min. Decree no. 17 of 27/05/2015	Item total	Due within 12 months	Due after 12 months
Deferred income	335,093	105,968	229,125
<b>Overall total</b>	<b>335,093</b>	<b>105,968</b>	<b>229,125</b>

The breakdown of other deferred income is as follows:

Deferred income	Item total	Due within 12 months	Due after 12 months
Hosting fees	2,712	2,506	206
Provision of services	61,585	61,585	-
Revenues for maintenance fees	80,072	80,072	-
Licences	237,013	237,013	-
Other revenues	1,720	1,720	-
<b>Overall total</b>	<b>383,103</b>	<b>382,897</b>	<b>206</b>

## EXPLANATORY NOTES - INCOME STATEMENT

### A) VALUE OF PRODUCTION

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
19,254,067	16,790,321	2,463,746

Description	31/12/2017	31/12/2016	Changes
Sales and service revenues	15,529,468	13,887,350	1,642,118
Changes in contract work in progress	(571,692)	(1,103,638)	531,946
Own work capitalised	3,225,947	2,820,274	405,673
Other revenues and income	1,070,344	1,186,335	(115,991)

	19,254,067	16,790,321	2,463,746
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### Revenue recognition

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

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

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

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

### Details on the sales and service performance broken down by geographic area (Art. 2427, par. 1, point 10 of the Italian Civil Code)

Geographic area	Current year balance
Italy	10,084,952
EU	1,017,375
NON-EU	4,427,141
<b>Total</b>	<b>15,529,468</b>

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

Type of projects capitalised in 2017	Cost per project
Analyst Workspace	441,838
Cogito Answer	80,852
Cogito Discover	50,122
Cogito Intelligence Platform	687,051
Cogito Studio	181,884
Cogito Technology	1,784,199
<b>Overall total</b>	<b>3,225,947</b>

The item “Other revenues and income” totalling € 1,070,344 includes operating grants for € 46,402 which refer to grants received for the hiring of personnel and € 559,366 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; this item also includes € 129,581 as revenues accrued to obtain R&D tax credits, plus various other income for € 334,994, broken down as follows:

Description	Amount
Chargeback of costs to subsidiaries	83,419
Grants	57,639
Bad debt provision adjustment	158,496
Property income	14,751
Reimbursement of other expenses	8,041
Insurance reimbursements	3,339
Capital gains from fixed asset disposals	215
Reimbursements for financed training activities	4,890
Contingent assets for lower taxes	2,248
Other minor revenues	1,956
<b>Overall total</b>	<b>334,994</b>

### Capital grants

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

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

## B) COSTS OF PRODUCTION

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
19,219,512	18,094,058	1,125,455

Description	31/12/2017	31/12/2016	Changes
Raw materials, consumables and goods for	1,004,853	650,697	354,156
Services	6,470,330	6,256,801	213,529
Use of third-party assets	653,631	613,419	40,212
Salaries and wages	5,636,281	5,422,070	214,211
Social security costs	1,672,293	1,581,947	90,436
Employee severance indemnity	420,857	372,887	47,970

Other personnel costs	12,970	13,612	(642)
Amortisation of intangible fixed assets	3,117,232	2,478,903	638,329
Depreciation of tangible fixed assets	122,251	144,927	(22,676)
Provision for risks	35,414	-	35,414
Sundry operating expenses	73,400	558,795	(485,395)
	<b>19,219,512</b>	<b>18,094,058</b>	<b>1,125,455</b>

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

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

### Service costs

Costs for services are recorded under costs of production in the income statement for a total of € 6,470,330 (€ 6,256,801 in the previous year).

The breakdown of the individual items is as follows:

Description	31/12/2017	31/12/2016	Changes
Insurance	27,805	28,558	(753)
Meal vouchers	107,023	127,948	(20,925)
ISO Certification	3,000	1,472	1,528
Directors' fees	1,100,000	1,120,000	(20,000)
Consultancy	3,715,687	3,567,146	148,541
Grants	135,213	137,394	(2,181)
Board of Statutory Auditors' emoluments	14,726	14,560	166
Charitable donations	2,290	8,100	(5,810)
Maintenance (plants, furniture, etc.)	35,666	31,526	4,140
Commissions	5,750	38,819	(33,069)
Sundry reimbursements	156,319	7,480	148,839
Administrative services	39,835	21,604	18,231
Commercial services	15,931	9,167	6,764
Marketing services	45,555	34,773	10,782
Cleaning services	49,581	50,657	(1,075)
Security services	3,280	2,920	360
AIM listing services	141,734	138,390	3,345
Supply of food and beverages	3,270	4,303	(1,033)
Jointly owned property expenses	33,606	41,574	(7,968)
Operating expenses	12,543	11,136	1,407

Rental costs	110,727	89,159	21,568
Transfer costs	406,561	411,643	(5,082)
Bank charges and fees	41,465	59,492	(18,027)
Legal costs	44,654	83,369	(38,716)
Postal expenses	1,405	1,458	(53)
Recruitment and hiring expenses	62,058	72,071	(10,013)
Translations	6,385	2,616	3,769
Utilities	148,261	139,468	8,793
<b>Overall total</b>	<b>6,470,330</b>	<b>6,256,801</b>	<b>213,529</b>

### Use of third party assets

Costs for the use of third party assets are recorded under costs of production in the income statement for a total of € 653,631 (€ 613,419 in the previous year).

The breakdown of the individual items is as follows:

Description	31/12/2017	31/12/2016	Changes
Rent and leases payable	201,991	193,127	8,864
Truck rental	67	1,035	(968)
Other vehicle rental	159,017	135,622	23,395
Cloud rental	281,556	260,635	20,921
Hardware rental	11,000	23,000	(12,000)
<b>Overall total</b>	<b>653,631</b>	<b>613,419</b>	<b>40,212</b>

### Personnel costs

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

### Depreciation of tangible fixed assets

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

### Sundry operating expenses

Sundry operating expenses are recorded under costs of production in the income statement for a total of € 73,400 (€ 558,795 in the previous year).

The breakdown of the individual items is as follows:



Description	31/12/2017	31/12/2016	Changes
Magazine and newspaper subscriptions	4,112	4,075	36
Other costs	1,656	6,580	(4,923)
Non-deductible costs	15,484	24,095	(8,610)
Taxes and duties	17,058	14,635	2,423
Capital losses	226	554	(329)
Fines and penalties	1,559	2,895	(1,335)
Membership fees	33,304	28,654	4,650
Contingent liabilities	0	477,308	(477,308)
<b>Overall total</b>	<b>73,400</b>	<b>558,795</b>	<b>(485,395)</b>

### C) FINANCIAL INCOME AND EXPENSES

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
(1,312,031)	(171,186)	(1,140,846)

Income from equity investments (Art. 2427, par. 1, point 11 of the Italian Civil Code)

No data to report.

Interest and other financial expenses (Art. 2427 par. 1, point 12 of the Italian Civil Code)

Description	Subsidiaries	Associates	Other	Total
Interest on bonds			200,000	200,000
Bank and postal interest			-	-
Medium-term credit interest			205,937	205,937
Discounts and financial expenses			22,879	22,879
Interest on loans			-	-
Other expenses on financial transactions			34,284	34,284
<b>Total</b>	<b>-</b>	<b>-</b>	<b>463,064</b>	<b>463,064</b>

### Breakdown of interest and other financial expenses by payable type (table)

	Interest and other financial expenses
Bond loans	200,000
Payables due to banks	228,816
Other	34,248
<b>Total</b>	<b>463,064</b>

### Other financial income

Description	Subsidiaries	Associates	Other	Total
Interest on bonds			-	-
Bank and postal interest			1,849	1,849
Interest on loans	180,479	23,713		204,192
Other income			15,511	15,551
<b>Total</b>	<b>180,479</b>	<b>23,713</b>	<b>17,360</b>	<b>221,552</b>

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

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

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

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

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

### Exchange gains (losses)

As regards total net gains in the income statement, the unrealised valuation-related component is negative by € 956,991, € 957,776 as unrealised exchange losses, mainly referring to loans in currency other than Euro granted to group companies, net of unrealised exchange gains for € 785. Realised exchange gains for € 5,587 and realised exchange losses for € 119,115 are also added.

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

### Income taxes for the year

Income taxes are allocated on an accrual basis;

- the allocations for taxes paid or to be paid for the year, calculated according to the applicable rates and regulations;
- the amount of deferred or prepaid taxes in relation to the temporary differences that have arisen or been eliminated in the year;
- the adjustments to balances of deferred tax liabilities to take into account any tax rate changes during the year.

Deferred and prepaid IRES (corporate income tax) is calculated on the temporary differences between the values of assets and liabilities determined in accordance with statutory criteria and the corresponding tax values with exclusive reference to the company, applying the IRES rate of 24%.

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

Balance as at 31/12/2017	Balance as at 31/12/2016	Change
(205,957)	(272,145)	66,188

Taxes	Balance as at 31/12/2017	Balance as at 31/12/2016	Changes
<i>Current taxes</i>	58,572	12,672	45,900
IRES		-	
IRAP	58,572	12,672	45,900
<i>Previous years' taxes</i>			
<i>Deferred (prepaid) taxes</i>	(264,529)	(284,817)	20,288
IRES	(264,529)	(284,804)	20,275
IRAP	(0)	(13)	13
<b>Total</b>	<b>(205,957)</b>	<b>(272,145)</b>	<b>66,188</b>

Taxes pertaining to the year were recorded.

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

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

Description	Value	Taxes
Profit (loss) for the year	(1,071,519)	
Theoretical tax charge (%)	24	
<b>Temporary differences taxable in subsequent years:</b>		
Unrealised exchange gains	(785)	
	(785)	
<b>Temporary differences deductible in subsequent years:</b>		
Unrealised exchange losses	957,776	
	957,776	
<b>Reversal of temporary differences from previous years</b>		
Changes in foreign currency items due to collections in foreign currency	(25,758)	
	(25,758)	
<b>Differences that will not be reversed in subsequent years</b>		
Increases	484,353	
Decreases	(481,148)	
	3,205	
Taxable income	(137,081)	
Current income taxes for the year		

### Calculation of taxable income for IRAP purposes

Description	Value	Taxes
Difference between the value and costs of production	7,812,371	
Costs not relevant for IRAP purposes	1,511,192	
Revenues not relevant for IRAP purposes	(288,074)	
Tax wedge	(7,531,035)	
	<b>1,504,454</b>	
Theoretical tax charge (%)	3.9	58,572
<b>Temporary differences taxable in subsequent years:</b>		
Tax base for IRAP purposes	1,504,454	
<b>Current IRAP for the year</b>		<b>58,572</b>

It should be noted that the company carries out productive activities for IRAP purposes in several regions (Emilia Romagna, Trentino Alto Adige, Campania, Lazio, Veneto and Lombardy); for this reason the overall taxable basis is determined proportionally to the amount of the remuneration and consideration due to employees and long-term collaborators operating in the various regions, against the total amount of remuneration and consideration”.

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 use, up to zero, of the provision for deferred taxation amounting to € 192,821 and the increase in prepaid tax assets for € 71,708, applying a 24% IRES tax rate.

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

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

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

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

	IRES	IRAP
<b>A) Temporary differences</b>		
Total deductible temporary differences	172,495	-
Total taxable temporary differences	931,233	-
Net temporary differences	(1,103,728)	-
<b>B) Tax effects</b>		
Provision for deferred (prepaid) taxes at the start of the year	(563,708)	-
Deferred (prepaid) taxes for the year	(264,529)	-
Provision for deferred (prepaid) taxes at the end of the year	(828,237)	-

## Breakdown of deductible temporary differences

Description	Amount at the end of the previous year	Change during the year	Amount at year end	IRES tax rate	IRES tax effect	IRAP tax rate	IRAP tax effect
Rate adjustment 24% for legal risks	15,000	35,414	50,414	24.00%	(8,499)	-	-

## Breakdown of taxable temporary differences

Description	Amount at the end of the previous year	Change during the year	Amount at year end	IRES tax rate	IRES tax effect
Reversal of unrealised exchange losses for collections in foreign current pre-2016	(105,755)	25,758	(79,997)	27.5%	(11,075)
New allocation for unrealised exchange gains 2017	-	785	785	24.00%	68,593
Unrealised exchange losses 2017	-	(957,776)	(957,776)	24.00%	(25,381)

## Information on the tax losses

	Current year			Previous year		
	Amount	Tax rate	Prepaid taxes recognised	Amount	Tax rate	Prepaid taxes recognised
Tax losses						
- in the year	137,081	24.00%	32,899	-		
- in previous years				3,115,441		747,706
<b>Total tax losses</b>	<b>137,081</b>		<b>32,899</b>	<b>3,115,441</b>		
<b>Tax losses carried forward as recoverable with reasonable certainty</b>	<b>137,081</b>	<b>24.00%</b>	<b>32,899</b>	<b>3,115,441</b>	<b>24.00%</b>	<b>747,706</b>

Prepaid taxes were recorded amounting to € 32,899, deriving from tax losses carried forward of € 137,081, given the conditions required by accounting standards for the accounting of the future tax benefit were satisfied, in particular, the reasonable certainty that, in the future, the company will generate sufficient taxable income to allow said losses to be absorbed.

## EXPLANATORY NOTES - OTHER INFORMATION

With reference to the year ended as at 31/12/2017, this section of the Explanatory notes provides, according to the arrangement provided for by XBRL taxonomy and in compliance

with the provisions of art. 2427 of the Italian Civil Code and other legal provisions, the following information:

- employment figures;
- fees, advances and loans granted to directors and statutory auditors and commitments undertaken on their behalf;
- independent Auditor fees;
- class of shares issued by the company;
- securities issued by the company;
- information on the other financial instruments issued by the company;
- off-balance sheet commitments, guarantees and potential liabilities;
- information on equity and loans allocated to a specific business;
- information on related party transactions;
- information on off-balance sheet agreements;
- information on significant events after the close of the year;
- companies preparing the consolidated financial statements for the largest/smallest group of companies in which they are a subsidiary
- information on derivative instruments;
- summary financial statements of the company exercising management and coordination activities;
- proposed allocation of profit or loss coverage.

It should also be noted that, in the final comment to these explanatory notes, the following information was provided:

- any significant effects of the changes in currency exchange rates after the close of the year (art. 2427, par. 1, point 6-bis of the Italian Civil Code).

### **Employment figures**

#### **(Art. 2427, par. 1, point 15 of the Italian Civil Code)**

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

Workforce	31/12/2017	31/12/2016	Changes
Middle management	23	21	2
Employees	129	138	-9
	<b>152</b>	<b>159</b>	<b>-7</b>

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

#### Information on fees due to the directors and statutory auditors (Art. 2427, par. 1, point 16 of the Italian Civil Code)

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).

Fees, advances and loans granted to directors and statutory auditors and commitments undertaken on their behalf (statement)

	Directors	Statutory Auditors
Fee	1,253,213	14,726

#### Information on fees due to the independent auditor (Art. 2427, par. 1, point 16-bis of the Italian Civil Code)

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

#### Independent Auditor fees (statement)

	Value
Independent audit of the annual accounts	23,500
<b>Total Independent Auditor fees</b>	<b>23,500</b>

#### Classes of shares issued by the company (Art. 2427, par. 1, point 17 of the Italian Civil Code)

Analysis of the classes of shares issued by the company (statement)

Description	Shares subscribed during the year, number	Opening balance, number	Closing balance, number
Ordinary shares	8,050,381	27,670,330	35,720,711
<b>Total</b>	<b>8,050,381</b>	<b>27,670,330</b>	<b>35,720,711</b>



During the year, 8,050,381 new ordinary shares were subscribed with no par value, of which:

- 360,623 implementing the “Stock Grant Temis 2016-2020” plan;
- 104 following the exercise of conversion rights taking place in the first period of exercising the Expert System S.p.A. 2016-2018 Warrants included between 1 October 2017 and 31 October 2017.
- 7,689,654 as part of the overall increase of € 10,000,000 resolved on 07/07/2017 by the shareholders' meeting of Expert System S.p.A. with powers delegated to the Board of Directors pursuant to articles 2443 and 2420 ter of the Civil Code.

For further details on the transactions mentioned here, please refer to the initial part of the Explanatory Notes.

**Bonus shares, bonds convertible into shares, securities or similar assets issued by the company (Art. 2427, par. 1, point 18 of the Italian Civil Code)**

The shares and securities in circulation at 31/12/2017 were as follows:

Shares and securities issued by the	No.	Rate	Maturity	Assigned rights
Ordinary shares	35,720,711			
Bonds	50	4%	31/12/2024	
Warrants	2,497,136		2017-2018	

**Analysis of the securities issued by the company**

	No.	Assigned rights
Bonus shares		
Convertible bonds		
Warrants		
Options		
Other securities or similar assets		

**Information on the financial instruments issued by the company (Art. 2427, par. 1, point 19 of the Italian Civil Code)**

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

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

- Maximum number of conversion shares that can be assigned 652,388, without par

value, with the same characteristics of Expert System shares in circulation.

Following the exercise of conversion rights taking place in the first period of exercising the Expert System S.p.A. 2016-2018 Warrants included between 1 October 2017 and 31 October 2017, to date there are 2,497,136 Warrants in circulation.

The residual warrants may be exercised by and no later than the exercise period provided for in the regulation; the second and last period of exercising (conversion) the Warrants is between 01/10/2018 and 31/10/2018. In this period, warrant holders will have the option to subscribe conversion shares in the ratio of 1 new share for every 4 warrants at the price of € 2.70. The allocation of this value is € 0.01 to the share capital and € 2.69 to the share premium reserve.

The warrants were admitted to listing on the AIM market operated by Borsa Italiana, ISIN code IT005204281. The first listing date was 09/08/2016 at a price of € 0.03 per warrant and at 29/12/2017 their value was € 0.10.

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

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

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

### **Introduction, off-balance sheet commitments, guarantees and potential liabilities (Art. 2427, par. 1, point 9 of the Italian Civil Code)**

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

	<b>Opening balance</b>	<b>Closing balance</b>	<b>Change</b>
<b>SURETIES</b>	3,728,067	2,564,869	(1,163,198)
- to subsidiaries	300,000	600,000	300,000
- to other companies	3,428,067	1,964,869	(1,463,198)

These refer to surety guarantees to banks for € 1,470,469. The remaining € 1,094,400 is made up as follows:

- € 494,400 is made up of the surety undertaken in favour of the investee company Okkam S.r.l.
- € 600,000 of the specific surety guarantee regarding an unsecured loan of the same amount started in 2017, issued in favour of the subsidiary ADmantX S.p.A..

After the conversion, in the year 2017, of all the convertible bonds of the investee company ADmantX S.p.A., which as at 31/12/2016 had a total value of € 300,000, the guarantee was redeemed, which had been given by Expert System S.p.A. to the subsidiary ADmantX S.p.A., assumed by means of a private agreement between Expert System S.p.A. and IMI Fondi Chiusi società di gestione del risparmio S.p.A. (IMI) to guarantee the redemption of the bond loan on the expiry dates set by the relevant regulation.

#### **Equity allocated to a specific business (Art. 2427 par. 1, point 20 of the Italian Civil Code)**

The company has not allocated equity for a specific business.

#### **Loans allocated to a specific business (Art. 2427 par. 1, point 21 of the Italian Civil Code)**

At the year end date in question, the company does not have loan agreements for a specific business.

#### **Financial leasing transactions (Art. 2427 par. 1, point 22 of the Italian Civil Code)**

The company has no financial lease agreements as of 31/12/2017.

#### **Information on related party transactions (Art. 2427, par. 1, point 22-bis of the Italian Civil Code)**

The information concerning transactions of the parent company Expert System S.p.A. with related parties, pursuant to art. 38.1, letter o-quinquies) of Italian Legislative Decree 127/1991, is presented after the paragraph providing the information required by law with regard to innovative startups and SMEs.

#### **Information required by law with regard to innovative startups and SMEs**

The ongoing investment in research and development activities is a key element in the Expert System strategy; this is necessary to remain state of the art in the cognitive technology field applied to unstructured data and therefore be able to satisfy the growing demand of

customers while retaining its competitive advantage in their regard. 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 involved the Cogito semantics platform and the products that use the platform to address the most common cases of customer usage.

As regards the development tools used to customise the projects, the greatest efforts focused on the inclusion and fine-tuning of machine learning/deep learning approaches, the enhancement of functions for the knowledge graph management (sensigrafo) and completion of the integration with the components of the technology stack deriving from acquisition of the current French subsidiary.

Other sources of major research during the year 2017 included:

- implementation of a new series of summary views of cognitive analysis performed by Cogito;
- development of new reporting functions integrated in the product Cogito Intelligence Platform;
- completion of the new link for Microsoft Sharepoint;
- completion of version 1.3 of Analyst WorkSpace, which integrates the new functions of data analysis and editing by analysts;
- development of a new version of Cogito Answers.
- Dutch semantic implementation and integration in the current version in Cogito 14.2;
- restructuring and expansion of the knowledge graph for Korean, Japanese and Portuguese;
- integration of hybrid techniques of machine learning within Cogito 14.2
- development of a new version of the analysis workflow for process automation projects.

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

## Type of projects capitalised in 2017

Type of projects capitalised in 2017	Cost per project
a) Analyst Workspace	441,838
b) Cogito Answer	80,852
c) Cogito Discover	50,122
d) Cogito Intelligence Platform	687,051
e) Cogito Studio	181,884
f) Core Technology	1,784,199
<b>Overall total</b>	<b>3,225,947</b>

Before moving on to a brief description of the individual projects, please note that capitalised research and development costs (relating to employees and external technical consultants), equal to € 3,225,947, are more than 3% (€ 577,622) of the higher value between the production value (€ 19,254,067) and costs (€ 19,219,512), thus satisfying one of the three requirements for maintaining its status as an innovative SME; the second requirement satisfied to maintain its status as innovative SME relates to the possession of an exclusive right (US application number 11/744, 479 - publication date 1/3/2011 - registration date 4/5/2007 - priority date 4/5/2007).

The patent is named “METHOD AND SYSTEM FOR AUTOMATICALLY EXTRACTING RELATIONS BETWEEN CONCEPTS INCLUDED IN TEXT”.

### a) Analyst Workspace

The working group has been committed to designing and implementing a case management product. The specific features of the product were designed to achieve the intelligence lifecycle. Expert System’s semantic technology constitutes the core part of the product and all documents used in the product are analysed by specific linguistic tasks to provide domain analysts with information relevant to the context.

The working group was selected while privileging the capacity of people to be able to handle all of the various technological layers of the architecture stack. The figure selected was the Full Stack Developer.

As Full Stack Developer, each team member was assigned responsibility for one or more microservices of the entire architecture. The technical skills of the working group increased

during the releases until reaching an optimal level of knowledge in the following open source and other technologies.

### b) Cogito Answers

This is the new Expert System product for search functions in multiple entities and objectives that use our semantic capabilities. It exploits semantic technology to offer natural language search using a Knowledge Base.

The main objectives are:

- facilitating access to information in a simple and clear manner;
- simplifying the construction from the functional as well as architectural perspective.

Development activities regarded the following functions:

- FAQ search;
- document search;
- sponsored content search;
- text analysis;
- integration of the semantic engine;
- crawlers;
- analytics;
- environment.

### c) Cogito Discover

It now has an integrated load balancing proxy that can be used and configured for parallel processing on a cluster of servers and is capable of supporting OCR (Optical Character Recognition).

The supported input formats are:

- image files (BMP, DCX, DjVu, GIF, JBIG2, JPEG, JPEG 2000, PCX, PNG, TIFF, WDP);
- pdf formats (text level extraction, image only, vectorised, password protected).

### d) Cogito Intelligence Platform

Some of the activities carried out in 2017 are described below

- CRAWLING TECHNIQUE

Optimised cleaning of the html document and extraction of content for a more accurate representation of documents within CIP and to allow for high-quality linguistic analyses.

Improvement of architecture for better crawling with respect to the number of scanning tasks and the quantity of open source data acquired.

- SEARCHING

Refactoring of indexing and search of the architecture which adopts the best open source solution in its class. This activity includes software selection, data modelling, the identification of best practices and documentation. The increased data analysis capacity will allow for the study of innovative data representation and search techniques.

### e) Cogito Studio

Cogito Studio 14.2 now has the ability to learn extractions and tagging from a series of documents annotated by the customer.

As it is possible to automatically generate rules for a categorisation project, it is possible to ask Cogito Studio to generate an extraction model which attempts to run data extractions by learning from the annotated corpus provided by the customer. In Testbench, a user can import a library as it typically does for a Cogito Studio project. Therefore, it can highlight the target data using the annotation interface; thus, a customer creates a training corpus, which is a set of documents which Cogito Studio will use to learn how to run the extraction. When the training corpus is ready, a user may run a model generation for the extraction in the same manner in which a rules analysis is run in TestBench.

### f) Core Technology

The set of information and knowledge used by Cogito to comprehend texts is saved within the knowledge graph and represents the most valuable asset of the Cogito platform. The activities carried out in 2017 are intended to achieve specific objectives:

- greater coverage of the lexicon and concepts for some vertical markets (banking, insurance, legal and industrial);
- addition of millions of data points (people, companies, products, services and other data) to boost the precision of the analysis of content coming from open sources;
- rearrangement of geographical knowledge.

## Trade and financial transactions

Company	Financial payables	Financial receivables	Trade receivables	Trade payables	Sales	Purchases
ADMANTX S.P.A.	-	26,787	33,982	-	76,792	-
EXPERT SYSTEM USA INC.	-	4,282,615	796,589	-	498,884	8,536
EXPERT SYSTEM COGITO LTD.	-	631,865	272,119	-	284,881	142,699
CY4GATE S.R.L.	-	733,823	34,831	-	122,213	-
EXPERT SYSTEM IBERIA S.L.U.	-	4,178,698	566,354	22,075	319,091	22,075
EXPERT SYSTEM FRANCE S.A.	-	3,437,378	375,923	838,132	315,615	663,132
EXPERT SYSTEM ENT. CORP	-	1,499,264	1,343,771	3,048	886,967	3,048
EXPERT SYSTEM DEUT. GMBH	-	330,663	69,259	8,830	70,132	8,830
<b>Total</b>	<b>-</b>	<b>15,121,092</b>	<b>3,492,827</b>	<b>872,084</b>	<b>2,574,573</b>	<b>848,318</b>

## Trade transactions

Company	Payables	Receivables	Guarantees	Commitments	Costs	Revenues
ADMANTX S.P.A.	-	33,982	-	-	-	76,792
EXPERT SYSTEM USA INC.	-	796,589	-	-	8,536	440,654
EXPERT SYSTEM COGITO LTD.	-	272,119	-	-	142,699	272,119
CY4GATE S.R.L.	-	34,831	-	-	-	99,500
EXPERT SYSTEM IBERIA S.L.U.	22,075	566,354	-	-	22,075	260,014
EXPERT SYSTEM FRANCE S.A.	838,132	375,923	-	-	22,075	260,014
EXPERT SYSTEM ENT. CORP	3,048	1,343,771	-	-	3,048	864,220
EXPERT SYSTEM DEUT. GMBH	8,830	69,259	-	-	8,830	69,469
<b>Total</b>	<b>872,084</b>	<b>3,492,827</b>	<b>-</b>	<b>-</b>	<b>848,318</b>	<b>2,371,381</b>

## Financial transactions

Company	Payables	Receivables	Guarantees	Commitments	Expenses	Profits
ADMANTX S.P.A.	-	26,787	-	-	-	-
EXPERT SYSTEM USA INC.	-	4,282,615	-	-	-	58,229
EXPERT SYSTEM COGITO LTD.	-	631,865	-	-	-	12,762
CY4GATE S.R.L.	-	733,823	-	-	-	22,713



EXPERT SYSTEM IBERIA S.L.U.	-	4,178,698	-	-	-	59,077
EXPERT SYSTEM FRANCE S.A.	-	3,437,378	-	-	-	27,001
EXPERT SYSTEM ENT. CORP	-	1,499,264	-	-	-	22,747
EXPERT SYSTEM DEUT. GMBH	-	330,663	-	-	-	663
<b>Total</b>	-	<b>15,121,092</b>	-	-	-	<b>203,192</b>

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

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

#### Sales

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

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

- C.II.2 Receivables due from subsidiaries

The income statement items are reclassified within the following accounts:

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

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

- Loan granted to the subsidiary for € 4,157,828, bearing interest in 2017 for € 58,229.

#### Sales

- Granting of licences for € 260,308;
- Professional services provided for € 124,524;
- Maintenance fees for € 50,029;
- Re-invoicing of sundry expenses of € 5,793 to the subsidiary.

#### Purchases

- Re-invoicing of sundry expenses of € 8,536 by the subsidiary.

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

- Loan granted to the subsidiary for € 619,103, bearing interest in 2017 for € 12,762.

#### Sales

- Granting of licences for € 49,029;
- Professional services provided for € 179,122;
- Re-invoicing of sundry expenses of € 43,968 to the subsidiary.

#### Purchases

- Re-invoicing of sundry expenses of € 142,699 by the subsidiary.

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

- Loan granted to the subsidiary for € 4,036,000, bearing interest in 2017 for € 59,077.

#### Sales

- Professional services provided for € 106,643;
- Granting of licences for € 129,770;
- Maintenance fees for € 4,685;
- Re-invoicing of sundry expenses of € 18,916 to the subsidiary.

#### Purchases

- Professional services provided by the subsidiary for € 22,075.

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

- Loan granted to the subsidiary for € 3,398,190, bearing interest in 2017 for € 27,001.

#### Sales

- Professional services provided for € 85,005;

- Granting of licences for € 194,793;
- Re-invoicing of sundry expenses of € 8,815 to the subsidiary.

#### Purchases

- Professional service activities performed by the subsidiary for € 54,498;
- Development activities on Cogito performed by the subsidiary for € 608,634;
- Software Luxid for € 175,000 owned by the subsidiary and purchased by Expert System S.p.A. on 31/12/2017.

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

- Loan granted to the subsidiary for € 1,459,185, bearing interest in 2017 for € 22,747.

#### Sales

- Granting of licences for € 694,482;
- Professional services provided for € 41,293;
- Re-invoicing of sundry expenses of € 3,386 to the subsidiary;
- Maintenance fees for € 125,058.

#### Purchases

- Professional services provided by the subsidiary for € 3,048.

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

- Loan granted to the subsidiary for € 330,000, bearing interest in 2017 for € 663.

#### Sales

- Professional services provided for € 48,271;
- Granting of licences for € 15,000;
- Re-invoicing of sundry expenses of € 3,948 to the subsidiary;
- Maintenance fees for € 2,250.

#### Purchases

- Professional services provided by the subsidiary for € 8,830.

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

- Loan granted to the associate for € 690,000, bearing interest in 2017 for € 22,713.

The balance sheet item affected by this transaction is:

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

The income statement item is reclassified in the following account:

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

#### Sales

- Granting of licences for € 22,500;
- Professional services provided for € 77,000.

#### **Information on off-balance sheet agreements (Art. 2427, par. 1, point 22-ter of the Italian Civil Code)**

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

#### **Information on significant events after the close of the year (Art. 2427, par. 1, point 22-quer of the Italian Civil Code)**

Please refer to the preamble of this document.

#### **Companies preparing the consolidated financial statements for the largest/smallest group of companies in which they are a subsidiary (Art. 2427, par. 1, points 22-quinquies and 22-sexies of the Italian Civil Code)**

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

#### **Information on the fair value of derivative financial instruments (Art. 2427, par. 1, point 1 of the Italian Civil Code)**

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

For the description of the existing derivative contracts, please refer to the previous paragraphs of these Notes.

#### **Information on the company or body that exercises the management and coordination activities (Art. 2497-bis, par. 4 of the Italian Civil Code)**

The company is not subject to management and coordination activities by a third party company or entity.

#### **Proposed allocation of the profit (loss) for the year (Art. 2427 par. 1, point 22-septies of the Italian Civil Code)**

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

<b>Profit (loss) for the year as at 31/12/2017</b>	<b>(1,071,519)</b>
Use of share premium reserve	1,071,519

**Changes in currency exchange rates (Art. 2427, par. 1, point 6-bis of the Italian Civil Code)**

Compared to the year end date as at 31/12/2017 no significant exchange rate changes occurred.

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*



[www.expertsystem.com](http://www.expertsystem.com)

[ir@expertsystem.com](mailto:ir@expertsystem.com)

### **Registered offices**

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Tel. +39 0464 443300

### **Administrative offices**

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**EXPERT SYSTEM S.p.A.**

Independent auditor's report pursuant to article 14  
of Legislative Decree n. 39, dated January 27, 2010

Financial statements at 31 December 2017

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

## Independent auditor's Report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010

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

### Report on the financial statements

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#### Opinion

We have audited the financial statements of EXPERT SYSTEM SPA (the Company), which comprise the balance sheet as of December 31, 2017, the statement of income, the statement of changes in equity, the cash flow statements and related explanatory notes.

In our opinion the financial statements give a true and fair view of the financial statements of the Company as at December 31, 2017 and of the result of its operations for the year then ended in accordance with the Italian regulations and accounting principles governing financial statements.

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#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

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

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#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Italian regulations and accounting principles governing financial statements and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

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## Report on other legal and regulatory requirements

### Opinion pursuant to article 14, paragraph 2, letter e) of Legislative Decree n. 39/10.

The directors of EXPERT SYSTEM S.p.A. are responsible for the preparation of the report on operations of EXPERT SYSTEM S.p.A. as at December 31, 2017, including its consistency with the financial statements and the compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations, with the financial statements of EXPERT SYSTEM S.p.A. as at December 31, 2017 and on its compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations is consistent with the financial statements of EXPERT SYSTEM S.p.A. as at December 31, 2017 and is compliant with applicable laws and regulations.

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With reference to the assessment pursuant to article 14, paragraph. 2, letter e) of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

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Bologna, April 7, 2018

BDO Italia S.p.A.



Alessandro Gallo  
Partner

**EXPERT SYSTEM S.p.A.**  
Via Fortunato Zeni 8, Rovereto (Trento)  
Share capital € 357,207.11 fully paid-in  
Tax Code and Modena Register of Companies no. 02608970360  
Trento Economic and Administrative Index ref. no. 212386  
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**REPORT OF THE BOARD OF STATUTORY AUDITORS**  
**ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31**  
**DECEMBER 2017**

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

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The draft financial statements as at and for the year ended 31 December 2017, 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 2017 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 2017, note that:

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

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

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

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

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

- we verified their general format, their general compliance with law as regards their format and content, and in this respect have no particular matters to report;
- we expressed our consent to the recognition under balance sheet assets of start-up and expansion costs for € 321,161, and development costs totalling € 3,225,947;
- to the best of our knowledge, in preparing the financial statements the Directors did not deviate from legal provisions pursuant to art. 2423, paragraphs 4 and 5, and art. 2423-bis, par. 2, 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 7 April 2018 with no irregularities found, to the extent of our specific responsibilities we believe that the annual financial statements as at 31 December 2017, 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, 7 April 2018

**THE STATUTORY AUDITORS**

Alessandro Augusto

Andrea Cuoghi

Antonio Tazzioli