



**EXPERT SYSTEM GROUP
CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31/12/2016**



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CORPORATE BODIES

Board of Directors

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

Board of Statutory Auditors

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

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31/12/2016



BALANCE SHEET

ASSETS **31/12/2016** **31/12/2015**

A) SUBSCRIBED CAPITAL, UNPAID

Total subscribed capital, unpaid (A)	0	0
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B) FIXED ASSETS

I - Intangible fixed assets

1) Start-up and expansion costs	1,173,693	906,909
2) Development costs	8,517,071	6,310,559
3) Industrial patent and intellectual property rights	56,692	85,120
4) Concessions, licences, trademarks and similar rights	4,589	5,317
5) Goodwill	8,618,260	10,183,188
7) Other	2,160	1,047,933
Total intangible fixed assets	18,372,465	18,539,026

II - Tangible fixed assets

1) Land and buildings	373,824	384,912
2) Plant and machinery	17,290	18,970
4) Other assets	523,408	511,849
Total tangible fixed assets	914,522	915,731

III - Non-current financial assets

1) Equity investments		
b) associates	251,266	307,673
d-bis) other companies	57,138	57,138
Total equity investments	308,404	364,811
2) Receivables		
b) Due from associates		
After 12 months	701,809	402,521
Total receivables due from associates	701,809	402,521
d-bis) Due from others		
Total Receivables (2)	701,809	402,521
3) Other securities	81,388	78,735
Total non-current financial assets	1,091,601	846,067

Total fixed assets (B)	20,378,588	20,300,824
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C) CURRENT ASSETS

I - Inventories		
1) Raw materials and consumables	8,157	0
3) Contract work in progress	619,326	1,796,857
Total inventories	627,483	1,796,857
II - Receivables		
1) Due from customers		
Within 12 months	10,232,836	10,227,852
Total receivables due from customers	10,232,836	10,227,852
2) Due from subsidiaries		
Within 12 months	68,528	8,221
After 12 months	26,787	26,787
Total receivables due from subsidiaries	95,315	35,008
3) Due from associates		
Within 12 months	255,626	0
Total receivables due from associates	255,626	0
5-bis) Tax receivables		
Within 12 months	1,124,273	1,501,599

After 12 months	123,799	30,766
Total tax receivables	1,248,072	1,532,365
5-ter) Prepaid taxes	1,546,098	448,224
5-quarter) Other receivables		
Within 12 months	6,232,652	5,703,588
After 12 months	1,245,897	5,049,541
Total other receivables	7,478,549	10,753,129
Total receivables	20,856,496	22,996,578
III - Current financial assets		
1) Equity investments in subsidiaries	4,153,074	4,153,074
4) Other equity investments	8,400	8,400
6) Other securities	1,299,646	1,345,646
Total current financial assets	5,461,120	5,507,120
IV - Cash and cash equivalents		
1) Bank and postal deposits	8,994,794	11,247,267
3) Cash at bank and in hand	68,146	2,060
Total cash and cash equivalents	9,062,940	11,249,327
Total current assets (C)	36,008,039	41,549,882
D) ACCRUALS AND DEFERRALS	1,003,638	1,038,403
TOTAL ASSETS	57,390,265	62,889,109

BALANCE SHEET

LIABILITIES	31/12/2016	31/12/2015
A) GROUP SHAREHOLDERS' EQUITY		
I - Share capital	276,703	250,608
II - Share premium reserve	25,408,688	20,737,590
III - Revaluation reserves	0	0
IV - Legal reserve	43,899	43,899
V - Statutory reserves	0	0
VI - Other reserves, indicated separately		
Extraordinary reserve	3,618,898	4,580,697
Merger surplus reserve	376,622	376,622
Reserve for unrealised exchange gains	180,049	217,282
Consolidation reserve	0	0
Translation differences reserve	0	0
Miscellaneous other reserves	419,128	541,768
Total other reserves	4,594,697	5,716,369
VII - Cash flow hedging reserve	-6,954	-12,900
VIII - Retained earnings (losses)	-5,193,900	-2,745,934
IX - Profit (loss) for the year	-8,125,531	-3,284,307
X - Negative reserve for treasury shares in portfolio	-560,395	-560,395
Total consolidated shareholders' equity	16,437,207	20,144,930
Shareholders' equity pertaining to minority interests		
Minority interests in capital and reserves	0	0
Profit (loss) pertaining to minority interests	0	0
Total shareholders' equity pertaining to minority shareholders	0	0
Total consolidated shareholders' equity	16,437,207	20,144,930
B) PROVISIONS FOR RISKS AND CHARGES		
1) Pensions and similar obligations	4,341	3,151
2) Taxation, including deferred	688,100	411,922
3) Derivative financial instruments - liabilities	6,954	12,900

4) Other	16,981	17,115
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Total provisions for risks and charges (B)	716,376	445,088
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C) EMPLOYEE SEVERANCE INDEMNITY	1,670,520	1,390,984
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D) PAYABLES

1) Bonds

After 12 months	5,000,000	5,000,000
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Total bonds	5,000,000	5,000,000
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3) Payables due to shareholders for loans

After 12 months	0	524
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Total payables due to shareholders for loans	0	524
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4) Payables due to banks

Within 12 months	5,046,595	4,847,800
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After 12 months	8,595,385	11,485,190
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Total payables due to banks	13,641,980	16,332,990
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5) Payables due to other lenders

Within 12 months	1,172,677	587,262
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After 12 months	1,656,532	1,754,683
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Total payables due to other lenders	2,829,209	2,341,945
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6) Payments on account

Within 12 months	2,247,323	2,909,546
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After 12 months	135,706	1,151,231
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Total payments on account	2,383,029	4,060,777
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7) Trade payables

Within 12 months	2,698,583	2,854,713
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After 12 months	40,216	0
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Total trade payables	2,738,799	2,854,713
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12) Tax payables

Within 12 months	864,641	941,582
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Total tax payables	864,641	941,582
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13) Payables due to social security institutions

Within 12 months	1,410,643	1,419,651
Total payables due to social security institutions	1,410,643	1,419,651
14) Other payables		
Within 12 months	1,962,195	1,381,590
After 12 months	500,000	1,000,000
Total other payables	2,462,195	2,381,590
Total payables	31,330,496	35,333,772
E) ACCRUALS AND DEFERRALS	7,235,666	5,574,335
TOTAL LIABILITIES	57,390,265	62,889,109

INCOME STATEMENT

	31/12/2016	31/12/2015
A) VALUE OF PRODUCTION		
1) Sales and service revenues	23,367,938	16,388,897
3) Changes in contract work in progress	-1,169,763	174,750
4) Own work capitalised	5,665,880	3,619,440
5) Other revenues and income		
Operating grants	274,134	750,421
Other	1,414,910	2,229,001
Total other revenues and income (5)	1,689,044	2,979,422
Total value of production (A)	29,553,099	23,162,509
B) COSTS OF PRODUCTION:		
6) Raw materials, consumables and goods for resale	1,057,169	955,979
7) For services	9,649,047	8,119,802
8) Use of third-party assets	1,803,011	922,051
9) Personnel:		
a) Salaries and wages	13,947,233	8,710,856

b) Social security costs	3,952,609	1,995,499
c) Employee severance indemnity	480,804	393,451
d) Pensions and similar charges	86,065	6,989
e) Other costs	19,398	194,958
Total personnel costs (9)	18,486,109	11,301,753
10) Amortisation, depreciation and write-downs:		
a) Amortisation of intangible fixed assets	6,056,703	4,977,127
b) Depreciation of tangible fixed assets	243,606	163,554
d) Write-down of receivables included in current assets and of cash and cash equivalents	3,050	82,126
Total amortisation, depreciation and write-downs (10)	6,303,359	5,222,807
12) Provisions for risks	0	15,000
14) Sundry operating expenses	803,076	400,114

Total costs of production (B)	38,101,771	26,937,506
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Difference between the value and costs of production (A-B)	- 8,548,672	- 3,774,997
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C) FINANCIAL INCOME AND EXPENSES

15) Income from equity investments		
Other	73,593	0
Total income from equity investments (15)	73,593	0
16) Other financial income:		
a) From receivables classified as fixed assets		
From associates	11,809	12,521
Other	0	2,649
Total financial income from receivables classified as fixed assets	11,809	15,170
c) From securities included in current assets	2,645	6,669
d) Other income		
Other	42,333	37,827
Total other income (d)	42,333	37,827
Total other financial income (16)	56,787	59,666
17) Interest and other financial expenses		

Other	597,680	383,418
Total interest and other financial expenses (17)	597,680	383,418
17-bis) Exchange gains and losses	311,888	539,128
Total financial income and expenses (C) (15+16-17+-17-bis)	- 155,412	215,376
D) VALUE ADJUSTMENTS OF FINANCIAL ASSETS AND LIABILITIES:		
18) Revaluations:		
c) Of securities included in current assets	0	-2,148
Total revaluations (18)	0	-2,148
19) Write-downs:		
c) Of securities included in current assets	605	0
Total write-downs (19)	605	0
Total value adjustments to financial assets and liabilities (D) (18-19)	- 605	- 2,148
PRE-TAX RESULT (A-B+C+-D)	- 8,704,689	- 3,561,769
20) Income taxes for the year – current, deferred and prepaid		
Current taxes	12,672	20,585
Deferred and prepaid taxes	-591,830	-298,047
Total income taxes for the year – current, deferred and prepaid	- 579,158	- 277,462
21) Consolidated profit (loss) for the year	- 8,125,531	- 3,284,307
Profit (loss) for the year pertaining to minority shareholders	-	-
Profit (loss) for the year pertaining to the Group	- 8,125,531	- 3,284,307

CASH FLOW STATEMENT

A) Cash flows from operating activities (indirect method)	31/12/2016	31/12/2015
Profit (loss) for the year	-8,125,531	-3,284,307
Income taxes	-579,158	-277,462
Interest expense/(income)	155,412	323,752
(Dividends)	0	0
(Capital gains)/Capital losses from asset disposals	0	2,834
1. Profit/(Loss) for the year before income taxes, interest, dividends and capital gains/losses from disposals	-8,549,277	-3,235,183
Allocation to provisions	566,869	484,971
Amortisation/Depreciation of fixed assets	6,300,309	5,140,681
Write-downs due to impairment	0	0
Adjustments to financial assets and liabilities associated with derivatives, non-monetary	0	0
Other adjustments for non-monetary items		-19,263
Total adjustments for non-monetary items with no balancing entry in net working capital	6,867,178	5,606,389
2. Cash flows before changes in net working capital	-1,682,099	2,371,206
Changes in net working capital		
Decrease/(Increase) in inventories	1,169,374	-234,074
Decrease/(Increase) in receivables due from customers	-320,917	-2,362,144
Increase/(Decrease) in trade payables	-1,793,662	940,925
Decrease/(Increase) in accrued income and prepaid expenses	34,765	-849,401
Increase/(Decrease) in accrued expenses and deferred income	1,661,331	1,136,138
Other decreases/(Other increases) in net working capital	3,034,813	1,837,144
Total changes in net working capital	3,785,704	468,588
3. Cash flows after changes in net working capital	2,103,605	2,839,794
Other adjustments		
Interest collected/(paid)	-155,412	-323,752
(Income taxes paid)	0	-1,575,542
Dividends collected	0	0
(Use of provisions)	-16,045	-101,565
Other collections/(payments)	0	0
Total other adjustments	-171,457	-2,000,859

Cash flows from operating activities (A)	1,932,148	838,935
<i>Tangible fixed assets</i>		
(Investments)	-242,397	-387,221
Disinvestments	0	-2,834
<i>Intangible fixed assets</i>		
(Investments)	-5,890,142	-18,571,916
Disinvestments	0	0
<i>Non-current financial assets</i>		
(Investments)	-245,534	-507,256
Disinvestments		48,144
<i>Current financial assets</i>		
(Investments)	0	-578,906
Disinvestments	46,000	3,000,000
(Acquisition of subsidiaries net of cash and cash equivalents)	0	0
Disposal of subsidiaries net of cash and cash equivalents	0	0
Cash flows from investing activities (B)	-6,332,073	-16,999,989
<i>Third party financing</i>		
Increase/(Decrease) in short-term bank payables	198,795	1,152,802
New loans	0	19,126,259
(Loan repayments)	-2,403,065	-4,342,504
<i>Own equity</i>		
Share capital increase against payment	4,417,808	7,044,716
(Repayments of share capital)	0	0
Disposal (Purchase) of treasury shares	0	-471,232
(Dividends and advances on dividends paid)	0	0
Cash flows from funding activities (C)	2,213,538	22,510,041
Increase/(Decrease) in cash and cash equivalents (A ± B ± C)	-2,186,387	6,438,987
Cash and cash equivalents at start of year	11,249,327	4,900,340
Cash and cash equivalents at year end	9,062,940	11,249,327
Increase/(Decrease) in cash and cash equivalents	-2,186,387	6,348,987

REPORT ON OPERATIONS



GROUP STRUCTURE AND BUSINESS ACTIVITIES

Expert System is an Italian company, listed on the AIM of Borsa Italiana (EXSY), with registered offices in Europe and North America, which develops cognitive computing software based on artificial intelligence algorithms that simulate the human ability to read and understand language similar to the way people do.

Thanks to the solutions proposed by Expert System, government organisations and companies from all sectors can find, analyse and use information more effectively to obtain strategic data from it and take the best decisions, automate information processes and reduce operating risks.

By understanding the meaning of every word based on context with its software, and applying this capacity on a large scale to the automatic analysis of millions of documents, Expert System transforms information into usable knowledge, making it a useful tool for successfully carrying out any business activity.

Cogito's value is now appreciated in various business sectors, i.e.:

Defence and public safety

- effectively supports law enforcement for crime prevention and control;
- offers new insight for investigations into criminal and trafficking networks;
- proactively supports analysts in intelligence activities.

Banks and insurance

- optimises customer service using natural language self-help solutions and automatic e-mail management;
- automates operating processes such as loan approvals, claim management or policy underwriting;
- analyses the content of customer communications using automatic categorisation to identify needs, trends and problems in real time, etc.;
- supports the application of AML laws and legal compliance procedures.

Media and Publishing

- increases productivity in editorial content creation and management with automated tagging and content linking and enrichment;
- simplifies the retrieval of information and access to archives using tagging and faceted navigation;
- increases revenue and creates value by simplifying the introduction of innovative digital products and services;
- supports investigative journalism with intuitive analysis of content and information streams.

Energy

- improves the management of information and knowledge in the oil and gas exploration and production phases, through effective integration of structured and unstructured data;
- makes trader activities more effective, facilitating real-time access to strategic information to support investment plans;
- reduces operational risks by managing information to protect production assets, the brand and employees on business travel, verify the financial viability of counterparties and prevent accidents and interruptions in production.

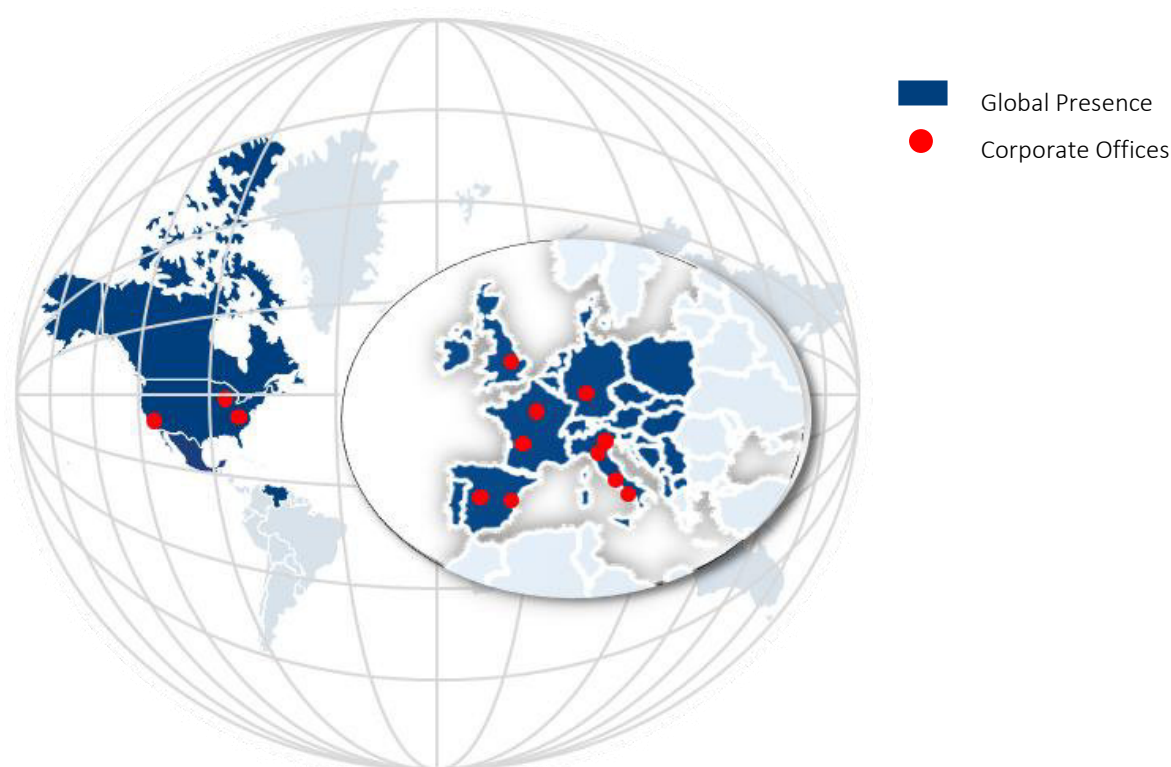
Healthcare and pharmaceutical industry

- provides top-level research strategy support, through effective analysis and access to information published in scientific and scholarly journals, identifying the main industry trends and analysing patient opinions;
- simplifies access to scientific knowledge through in-depth semantic analysis;
- makes it possible to always keep informed about competitor product development, identify the leading industry experts and analyse their reports and publications.

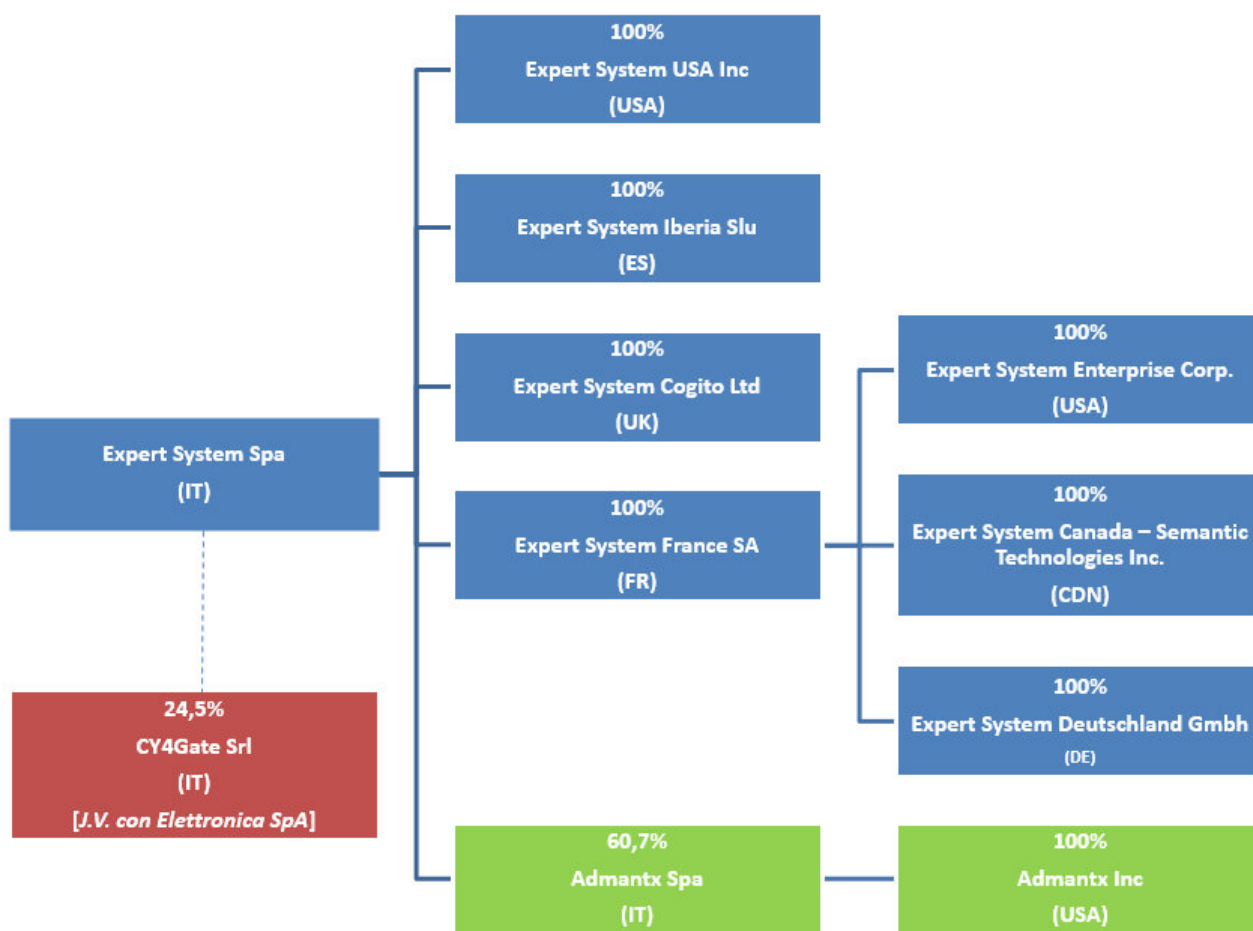
The Group's growth in the last three years has seen the following main events:

- the IPO on Borsa Italiana;
- the acquisition of two divisions operating in the semantic technology sector of the Spanish company ISOCO;
- the incorporation of CY4Gate S.r.l., in which our company holds a 24.5% stake, created from a joint venture with Italian company Elettronica S.p.A., a company operating in international cyber defence;
- the acquisition of Temis, a leading French company in text analytics solutions;
- the creation of an organisational structure in the United States targeted at meeting the growing requirements of private and public sector customers.

Thanks to the above, the Expert System Group now boasts a global presence and infrastructure, with fourteen offices located in Italy, Spain, France, Germany, United Kingdom and USA.



The following chart shows the Expert System Group organisation as at 31 December 2016:



OPERATING CONDITIONS AND BUSINESS DEVELOPMENT

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

On 28/06/2016 Expert System resolved upon a share capital increase that was fully subscribed on 13/09/2016, aimed at helping the Group achieve its 2016-2019 three-year strategic objectives, namely:

- strengthening of Cogito's cognitive capacities, by exploiting the most innovative artificial intelligence approaches (semantic technology and implementation of deep learning techniques);
- expansion of the offering, focused on the implementation of new functionalities and linguistic enrichment;
- development of innovative technologies and increasingly more intelligent semantic applications, also through the identification of new partners and expansion of the indirect sales channel;

- consolidation of the company's presence in North America and maintenance of coverage in the European cognitive computing and text analytics market.

This share capital increase was by € 4,697,193.60, of which € 26,095.52 allocated as share capital increase and € 4,671,098.08 to the share premium reserve, through the issue of a maximum 2,609,552 shares without par value.

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

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

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

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

Expert System has made every effort to consolidate the unique characteristics of its group, strengthened by the major acquisitions in 2015, and the current position of European leadership in cognitive computing. Its R&D activities in Europe and the USA intensified, confirming innovation as a strategic asset to supporting the Group's global growth. At the same time, the company continued to employ a strategy targeted at increasing business in the medium-term, by reinforcing its direct presence in the US market, the object of major investments, and by developing its current coverage of the European domain even further, according to a company vision which aims to further boost its share of revenues from foreign markets. In fact, the company has gone from a 17% revenue growth in 2013 to 61% in 2016. Included in this context is the appointment of Louis Andre as new CEO of Expert System USA Inc., the Group company dedicated to the development of solutions for public organisations, including those operating in the Defence, Intelligence and Law Enforcement sectors. Moving forward from a brilliant career in the defence and intelligence field, culminating after 26 years with his appointment as Chief Operating Officer and Chief of Staff of the DIA (the USA's main military intelligence agency based at the Pentagon), Louis Andre will spearhead a major

growth period for Expert System USA. In particular, the goal will be to consolidate important projects launched with a number of the main federal agencies in the United States, law enforcement agencies and other government departments (Justice Department and Defence Department).

Examples of the various activities and partnerships developed in 2016 include:

Recognos Financial, a US company specialising in financial sector services, has put together an innovative semantics platform for data management, implementing Expert System's Cogito cognitive technology to optimise the decision-making models through full use and enhancement of unstructured data.

L'Argus de la presse, a leading French company in marketing and competitive intelligence, chose Cogito to optimise the media intelligence services offered to a customer base incorporating more than 10,000 companies/30,000 brands: from monitoring of on-line reputation to control of discussion locations for the analysis of the information produced by influencers and opinion leaders. Through Cogito's integration in the LuQi Media Intelligence suite, *L'Argus de la presse* improves the management of its customers' information by exploiting Cogito's ability to understand the exact meaning of text for enriching the content analysed of all useful information for identifying and extracting intelligence from big data.

A licence agreement was signed in September with Mondadori Magazines France, the French subsidiary of the Mondadori Group, today among the leading European publishers. Mondadori Magazines France chose Expert System's platform dedicated to the semantic enrichment of content, in order to enhance its publishing assets and commence the creation of innovative digital products and services geared towards increasing the value of data.

Mondadori Magazines France combines the traditional paper publications with an extensive digital offering, websites and mobile applications, which encompass a wide variety of sectors including motoring, women's fashion, celebrity, health, science, leisure and entertainment. By availing itself of the innovative solutions offered by Expert System, Mondadori Magazines France aims to direct its commercial strategy at the distribution of "data-oriented" content, able to maximise traffic and the time spent on websites, by implementing, to this end, a large-scale semantic approach, in support of its digital growth with new, innovative data-based products.

Acciona, a Spanish company at the head of an international group with over 100 entities operating in different sectors of the economy (alternative energies, infrastructure, transport, etc.), has chosen Cogito to make its business information management more efficient and consequently all the processes underlying its strategic business activities. Through Cogito's semantic intelligence, significant Group information will be analysed and classified according to a series of categories and topics strategic to the company, allowing optimised analysis of opportunities and threats generated by the various markets, an activity that is fundamental for a group such as Acciona, present in multiple sectors and countries.

As a result of the contract signed with Inserm, the French National Institute of Health and Medical Research now applies the text analytics developed by Expert System for the healthcare and pharmaceuticals industry to more rapidly analyse scientific documents to precisely and efficiently identify the best talent in the pharmacological environment, selecting the profiles best qualified for the drug assessment and review committees.

Cogito's artificial intelligence algorithms, through the agreement signed between Expert System and Prometeia, will allow Prometeia's partner companies to improve the process of profiling of investors, and the subsequent consulting services performed for them; Prometeia is a leading company in semantic analysis software for the strategic management of big data, equipped with an extensive Wealth Management platform with a system capable of reading and interpreting the requirements and needs of the customers of banks, networks of consultants and insurance companies.

The Corriere della Sera digital archive which, by availing itself of the capacity of Expert System semantic analysis, is now able to automatically classify articles according to content and to retrieve them through a sophisticated search engine. Consequently, readers of this leading Italian newspaper now have the option of browsing a wealth of information without precedent: 2.5 million pages, 8 million articles, 22 thousand authors from 1876 to date, 140 years of history.

FinecoBank, a multichannel direct bank in the UniCredit Group, has signed an agreement with Expert System for the use of Cogito technology. With the adoption of Expert System's Cogito semantics technology, FinecoBank customers have a self-caring service available, based on the capacity to automatically understand language and the correct meaning of words and phrases through artificial intelligence algorithms. By submitting their questions in a text message, FinecoBank customers

automatically receive answers to their queries.

The Intesa Sanpaolo Group chose Cogito to innovate and enhance its customers' digital experience. For the new website and Internet banking services platform, redesigned in terms of user approach and browsing criteria, an intelligent search system was used, a combination of advanced searches and a virtual agent, capable of understanding users' intentions by analysing the meaning of words and phrases with maximum precision.

Exploiting the artificial intelligence algorithms for semantic analytics and natural language processing, Cogito identifies the sense of speech, return an answer in the form of the information requested or immediately suggests an action, such as direct access to credit transfers, top-ups, utility bills and many other transactions that can be performed through home banking using pre-completed values, such as amounts and/or transaction payees.

The market launches continue for new and advanced software based on Cogito technology.

The first half of 2016 saw the release of Analyst WorkSpace, a software platform dedicated to analysts and the agglomerations of data with which they must interact, characterised by growing volumes, speed and variety.

Expert System is a European leader in artificial intelligence for information management. To enhance the Group's positioning on the European market, the new Executive Vice President, Claudio Palmolungo, was appointed. He works from Expert System's Paris office and is responsible for the Group's strategic development and growth in Europe.

In 2016, business development with Cogito's semantic technology as a base saw important new partnerships strengthened.

Expert System announced Cogito's entry to "500 Startups", a Silicon Valley acceleration programme that includes some of the most innovative technological solutions specifically designed as support for the business of emerging companies. Cogito intelligence will therefore be available to the development team of "500 Startups" new digital businesses, allowing the development community to enhance and develop cognitive computing applications for data and information analytics, able to increase the capacity to find, share and easily and quickly capitalise upon available skills, and consequently accelerate the business.

A partnership was agreed based on integration of the Cogito technology into the offering of Onix,

the US company specialising in IT solutions for the corporate and government sectors, a highly qualified company in developing solutions for the search and analysis of information;

Listed below are the partnerships focusing on the promotion of research and innovation in the digital security environment:

- the entry as partner in the Sypcit project, co-financed by the European Commission's Directorate-General for Home Affairs and coordinated by Adiconsum, to promote new models and tools to combat and prevent online identity theft, to be implemented by creating a new app for consumers and a platform for the law enforcement agencies;
- the strategic partnership agreement signed with NominoData LLC, a US company dedicated to solutions for the management of business problems linked to identity and reputation, risk and compliance, that combines NominoData's wealth of experience in risk coverage (from the management of operational risks to the prevention and identification of fraud, to anti-money laundering) with Expert System's artificial intelligence solutions designed to help organisations improve their decision-making processes;
- the entry to the European Cyber Security Organisation (ECSO), founded in Brussels in 2016 with the aim of combining the major stakeholders into a single organisation capable of steering cyber security strategies at European level, aims to combat all forms of criminal activity that leverage digital channels;
- the entry as partner in the Sypcit project which aims to promote new models and tools to combat and prevent online identity theft. The project is co-financed by the European Commission, DG Home Affairs, and coordinated by Adiconsum in partnership with the University of Tor Vergata – Department of Civil Engineering and IT Engineering, Expert System and Kaspersky Lab Italia, plus the Romanian Consumer Association InfoCons and the precious support of the Guardia di Finanza – Nucleo Speciale Frodi Tecnologiche (Italian Finance Police - Special Technology Fraud Unit).

In order to create new trade and technology opportunities in the defence and intelligence fields, the collaboration has begun with QR – Quantic Research, an Italian subsidiary for the R&D of the Holding Nivi Group S.p.A., specialised in the design of innovative solutions dedicated, in particular, to the security sector.

The collaboration launched with MarkLogic, a leader in the offering of flexible and highly scalable

databases, makes it possible to organise huge volumes of any type of data in extremely quick times. This agreement, which sees the integration of Cogito in MarkLogic's platform to enhance data analysis using cognitive computing, supports Expert System's international growth strategy, strengthening the company's presence in the world of the most advanced technologies for data archiving and processing;

A partnership has begun with Computer Science Park (CSP), a major reference for companies operating in the Information and Communication Technology (ICT) sector, established in June 2014 as part of the IT Department of the University of Verona. From a strategic point of view, for Expert System this initiative represents a remarkable opportunity not only in terms of contact with the academic world, regional institutions and the possibility of accessing loans to support innovation, but also in terms of the closeness of the higher education sector, which is also expected to be boosted by the opening of an office - within CSP - that houses staff and collaborators of the company working on these innovative activities.

Expert System activities have earned major recognition.

Out of 200 companies considered, Expert System was included in the Forrester study "Big Data Text Analytics Platforms Q2 2016" among the top ten big data text analytics companies. The selective evaluation criteria included three macro-categories: quality of the offering, strategy and market presence. In particular, Expert System set itself apart for its product scalability, use of intuitive interfaces and semantic functions as the core elements of products to offer full management of all activities associated with text analysis: data enhancement, tagging, automatic document classification and big data extraction.

In 2016, Expert System was again included in the "100 most important companies in knowledge management". The list, compiled by the prestigious US magazine KMWorld, the go-to source worldwide for the best technologies and most innovative experiences in the knowledge management sector, rewards companies that distinguished themselves for their creative approach to customer needs and for the advanced functions of the knowledge management products offered.

Expert System also won the LT-Innovate Award (for Linguistic Technologies) that recognises technological innovation excellence, business potential and experience in the development of linguistic analysis-based solutions.

A finalist in the “Best Text Analytics & Semantics Technology” and “Best Metadata Management” categories, Cogito won first place in the 2016 CODiE Awards as the best software able to analyse and understand text to identify and extract information useful for businesses. The winners were announced before a jury of over 300 sector experts by Rhianna Collier, VP & Managing Directors of the Software and Services Division of SIIA (Software & Information Industry Association), the main American association in the software industry.

APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as at 31/12/2016 were approved by the Board of Directors on 27 March 2017 and audited.

OPERATING PERFORMANCE

General financial performance

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

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

In the Eurozone, growth continues at a moderate through gradually consolidating pace. This has allowed deflation risk to be contained, with consumer prices up slightly in the latter part of the year, though in a general context of extremely low values in absolute terms. This explains why, in order to maintain the expansionary monetary conditions suitable to ensuring inflation uptick, the

Executive Board of the ECB extended the duration of the securities purchase programme at least until December 2017, or beyond if necessary. From April 2017, monthly purchases will again reach € 60 billion, as seen in the initial phase of the programme.

According to available indicators, the recovery of the Italian economy also continued, albeit moderately, recording increasing trends not only as regards consumption but also in business confidence indicators.

Stimulated by the restart of investments and expansion of household spending, the economy confirmed the signs of stabilisation in the all-important building industry, whilst in December the downward trend in the consumer confidence index seen since the start of the year came to a halt. As regards stock market performance, note that share prices rose towards the end of the year, driven by a recovery in listed prices of a number of banks, thanks to the introduction of government measures to support their liquidity and capitalisation levels.

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

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

Operating performance of the Group

The consolidated financial statements as at 31 December 2016, which includes the consolidated data of subsidiaries in the scope of consolidation as well as those of the parent company Expert System S.p.A., show the following (figures in Euro):

Expert System Group			Main income statement figures	Expert System S.p.A.		
2015	2016	Change		2015	2016	Change
16,388,897	23,367,938	43%	Revenues	10,506,609	13,887,351	32%
23,162,507	29,553,097	28%	Value of production	15,256,475	16,790,322	10%
1,462,809	-2,245,314	> -100%	Gross operating profit (EBITDA)	717,764	1,320,094	84%
-3,774,998	-8,548,673	> -100%	Operating result (EBIT)	-1,463,177	-1,303,737	-11%
-3,284,307	-8,125,531	> -100%	Net profit (loss)	-999,033	-1,202,777	-20%

Note that, for comparison purposes, the results as at 31/12/2015 are provided, restated in accordance with the new OIC provisions adopted from 2016. In addition, the consolidation of Temis entered into force from 30 September 2015 and, as such, affected the 2015 results.

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 Balance sheet by business area and in financial terms and the more significant financial statement ratios.

Main income statement figures

The company's reclassified income statement is shown below (in Euro):

Income Statement	31/12/2016	31/12/2015	Change
Sales revenues	23,367,938	16,388,897	6,979,041
Change in inventories	(1,169,763)	174,751	(1,344,513)
Own work capitalised	5,665,880	3,619,440	2,046,441
Sundry income	1,689,042	2,979,420	(1,290,379)
Value of operating production	29,553,097	23,162,507	6,390,590

Cost of operating materials and overheads	(13,312,302)	(10,397,946)	(2,914,356)
Value added	16,240,795	12,764,562	3,476,233
Personnel costs	(18,486,109)	(11,301,753)	(7,184,356)
EBITDA	(2,245,314)	1,462,809	(3,708,123)
Amortisation, depreciation and provisions	(6,303,359)	(5,237,807)	(1,065,552)
EBIT	(8,548,673)	(3,774,998)	(4,773,675)
Financial area result	(156,016)	213,228	(369,244)
Ordinary profit	(8,704,689)	(3,561,770)	(5,142,919)
Extraordinary area result	0	0	0
Pre-tax result	(8,704,689)	(3,561,770)	(5,142,919)
Income taxes	579,158	277,463	301,695
Net profit (loss)	(8,125,531)	(3,284,307)	(4,841,224)

The value of production was € 29,553,097 (€ 23,162,507 as at 31 December 2015), up 28%. Sales and service revenues totalled € 23,367,938 (€ 16,388,897 as at 31 December 2015), increasing by 43%. 61% of sales and service revenues were from sales on foreign markets. This increase is attributable to the European and North American markets, also as a result of the Temis consolidation and to workforce expansion on the domestic market. EBITDA was negative for € 2,245,314 (positive for € 1,462,809 as at 31 December 2015), particularly due to the high costs of the organisational structure of the foreign subsidiaries, mainly affecting personnel costs which rose from € 11,301,753 to € 18,486,109. EBIT was negative for € 8,548,673 (negative for € 3,774,998 as at 31 December 2015), after amortisation, depreciation and provisions of € 6,303,359 associated mainly with technology investments for € 4.1 million, fundamental in the highly innovative segment in which the company operates, and the amortisation of consolidation differences for € 2.2 million arising from the recent acquisitions.

The breakdown by geographic area, based on the country of origin of each Group company, is as

follows:

	Italy		EU&UK		USA		Group	
Income Statement	2015	2016	2015	2016	2015	2016	2015	2016
Revenues	9,301,985	12,868,293	2,872,566	5,440,892	4,214,347	5,058,753	16,388,897	23,367,938
Value of Production	14,051,144	15,657,005	4,893,795	7,867,851	4,217,568	6,028,241	23,162,507	29,553,097
EBITDA	790,016	1,313,296	599,042	(2,533,948)	73,751	(1,024,662)	1,462,809	(2,245,314)
Net profit (loss)	(999,033)	(1,202,777)	(677,657)	(4,267,253)	97,495	(1,095,411)	(3,284,307)	(8,125,531)

In terms of providing a better description of the company's profits, the table below outlines certain profitability ratios.

Profitability ratios	31/12/2016	31/12/2015
Net ROE	-33%	-14%
Gross ROE	-35%	-15%
ROI	-31%	-6%
ROS	-37%	-25%

Main balance sheet figures

The company's reclassified balance sheet, compared with 31/12/2015, is shown below (in Euro):

Balance Sheet	31/12/2016	31/12/2015	Change
Net intangible fixed assets	18,372,463	18,539,026	(166,564)
Net tangible fixed assets	914,523	915,731	(1,208)
Equity investments and other non-current financial assets	3,270,381	6,246,290	(2,975,909)

Fixed assets	22,557,366	25,701,047	(3,143,681)
Short-term financial assets	4,153,074	4,153,074	
Inventories	627,484	1,796,857	(1,169,373)
Receivables due from customers	10,232,837	10,227,852	4,985
Other receivables	8,444,881	7,368,503	1,076,378
Accrued income and prepaid expenses	1,003,638	1,038,403	(34,765)
Short-term operating assets	24,461,914	24,584,689	(122,775)
Trade payables	(2,698,583)	(2,854,713)	156,130
Payments on account	(2,247,323)	(2,909,546)	662,223
Tax and social security payables	(2,275,284)	(2,361,233)	85,949
Other payables	(1,962,195)	(1,381,590)	(580,604)
Accrued expenses and deferred income	(3,595,666)	(3,122,302)	(473,364)
Short-term operating liabilities	(12,779,051)	(12,629,385)	(149,666)
Net working capital	11,682,863	11,955,304	(272,442)
Employee severance indemnity	(1,670,520)	(1,390,984)	(279,536)
Tax and social security payables			
Accrued expenses and deferred income after 12 months	(3,640,000)	(2,452,032)	(1,187,969)
Other medium and long-term liabilities	(1,392,298)	(2,596,843)	1,204,544
Medium-term liabilities	(6,702,818)	(6,439,859)	(262,959)
INVESTED CAPITAL	27,537,411	31,216,492	(3,679,081)
Shareholders' equity	(16,437,209)	(20,144,926)	3,707,717

Net medium/long-term financial position	(15,251,917)	(18,239,873)	2,987,956
Net short-term financial position	4,151,714	7,168,311	(3,016,597)
OWN EQUITY AND NET FINANCIAL DEBT	(27,537,411)	(31,216,492)	3,679,081

Fixed assets saw a decrease, given that the increase in fixed assets, mainly relating to research and development activities, were offset by higher amortisation of costs capitalised in previous years and those recognised on the consolidation difference, generated by the elimination of equity investments in subsidiaries against that of the corresponding shareholders' equities.

Net working capital, which measures the company's ability to meet its short-term obligations using the cash flows generated by its ordinary operations, remained comfortably in positive territory.

The short-term financial position reduced, mainly reflecting a decrease in cash and cash equivalents, employed to finance the investments in R&D and commercial development. Debt to the banking system fell on the whole, stabilising at levels slightly below those reached in 2015, which represented an important time for the Group as regards collecting the necessary resources for implementing acquisition-based growth operations and strengthening the company business. The company generally believes that its strategy, geared towards future growth in terms of volumes and margins, may generate the necessary returns on investments for sustaining the current debt policy.

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:

Fixed asset funding ratios	31/12/2016	31/12/2015
Fixed asset /equity margin	-6,120,161	-4,982,821
Fixed asset /equity ratio	0.73	0.81
Fixed assets / liabilities and equity margin	12,194,574	17,231,455
Fixed assets / liabilities and equity ratio	1.55	1.67

Fixed assets/equity ratio of loans	31/12/2016	31/12/2015
Liabilities due within 12 months (A)	15,402,657	14,942,144
Liabilities due after 12 months (B)	18,314,735	22,214,276
Own equity (C)	16,437,207	20,144,930
Total debt ratio (A+B)/C	2.06	1.85

The capital assets and related fixed assets to equity ratio express how the company manages to finance its 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 (or not) to finance all fixed assets with its own equity.

Shareholders' equity (A)	16,437,207
Net intangible fixed assets	18,372,465
Net tangible fixed assets	914,522
Equity investments and other non-current financial assets	3,270,381
Fixed assets (B)	22,557,368
Fixed asset /equity margin (A-B)	-6,120,161
Fixed asset /equity ratio (A/B)	0.73

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

The fixed assets/liabilities and equity margin and its related ratio instead also use medium/long-term liabilities as reference.

Shareholders' equity (A)	16,437,207
Net medium/long-term financial position (B)	15,251,917
Other medium and long-term liabilities (C)	1,392,298
Employee severance indemnity (D)	1,670,520
Fixed assets (E)	-22,557,368
Fixed assets / liabilities and equity margin (A + B + C + D + E)	12,194,574
Fixed assets / liabilities and equity ratio (A + B + C + D)/(E)	1.55

Main financial figures

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

Consolidated net financial position	31/12/2016	31/12/2015	Change
Bank deposits	8,994,794	11,247,267	(2,252,473)
Cash at bank and in hand	68,146	2,060	66,086
Treasury shares	0	0	
Cash and cash equivalents and treasury shares	9,062,940	11,249,327	(2,186,386)
Current financial assets	1,308,046	1,354,044	(45,998)
Bonds and convertible bonds (within 12 months)			
Payables due to shareholders for loans (within 12 months)			
Payables due to banks (within 12 months)	(5,046,595)	(4,847,800)	(198,795)
Payables due to other lenders (within 12 months)	(1,172,677)	(587,262)	(585,415)

Advances for overseas payments			
Short-term portion of loans			
Financial receivables			
Short-term financial payables	(6,219,272)	(5,435,062)	(784,210)
Net short-term financial position	4,151,714	7,168,308	(3,016,594)
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)	(8,595,385)	(11,485,190)	2,889,805
Payables due to other lenders (after 12 months)	(1,656,532)	(1,754,683)	98,151
Advances for overseas payments			
Long-term portion of loans			
Financial receivables			
Net medium/long-term financial position	(15,251,917)	(18,239,873)	2,987,956
NET FINANCIAL POSITION	(11,100,202)	(11,071,564)	(28,638)

The Group's net financial position was a negative € 11,100,202 million (negative € 11,071,564 million as at 31 December 2015); although, on the one hand, total debt to banks and other lenders fell by € 2,691,010, the Group used part of the cash collected to cover current spending and for its own investments in research and development activities, targeted at expanding the business in terms of products and markets.

THE ENVIRONMENT, PERSONNEL AND RISKS

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.

The Environment

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.

Personnel

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

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

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

Pursuant to art. 2428 no. 1 of the Italian Civil Code, the main risks to which the Group 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, it cannot be ruled out at this time that there will be no positions difficult to collect.

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. The following table shows the exchange rates applied to translate the financial statements of the subsidiaries:

Currency	Exchange rate at 31/12/2016	Average rate 2016
USD	1.0541	1.1069
CAN	1.4188	1.46588
GBP	0.85618	0.81948

Risks associated with related party transactions: Expert System has concluded commercial and financial transactions with related parties, and as part of its operations could continue to do so. The main relations with related parties refer primarily to commercial transactions such as technical and/or sales consultancy, administrative services contracts and leases. The financial contracts instead refer mainly to loans disbursed by Expert System S.p.A. to Group companies. In particular,

last April Expert System adopted an intercompany financing plan which envisages the parent company's disbursement to subsidiaries of loans of an amount sufficient to provide them with the funding necessary to meet their expense and investment commitments. The intercompany financing plan offers subsidiaries a simpler way to obtain funding on the market and therefore overall facilitates execution of the Group's business plan. All the transactions performed were at arm's length.

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

Interest rate risk: the interest rate risk management policy aims to limit this volatility, first and foremost through the identification of a balanced mix of fixed and floating rate loans, and also by using derivatives which limit the fluctuations in interest rates, whilst derivative instruments or similar are not generally used purely for trading purposes.

The company has signed the following derivative contract with CARIPARMA:

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

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

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

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

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

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

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

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

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

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

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

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

The Expert System S.p.A. Supervisory Body has three members: one internal and two external. All the members have proven expertise and professionalism. The presence of the internal member meets the requirement, from the outset, of giving the Supervisory Body immediate and in-depth

knowledge of the entity's structure and its business organisation based on actual company operations.

This solution was considered the most suitable, based on the characteristics of the organisational structure, to guaranteeing the effectiveness of controls institutionally expected of the Supervisory Body and compliance with the related provisions in the recently approved Confindustria Guidelines. In order to ensure the necessary stability and continuity of the Body's actions, it is envisaged that members hold office for a period of 3 years from the date of appointment.

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

DEVELOPMENT ACTIVITIES

The following information is provided pursuant to art. 2428.2.1 of the Italian Civil Code:

The market context in which Expert System operates attaches even greater importance to Big Data and their study, which must be supported with constant technological improvement. The company is constantly conducting development activities to retain its global leadership position in the field of semantic technology and cognitive computing. The costs incurred for these activities were capitalised, also within the context of certain multi-year national and international research projects that have seen the company's involvement. These activities concerned the Cogito semantics platform and related functions, in particular the Cogito platform for French, Spanish and German. As regards the development tools used to customise the project, some new components were created for the Cogito Studio suite and integration with the components of the technology stack deriving from the acquisition of the former Temis Group was initiated.

Other sources of major research in the period included:

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

TREASURY SHARES

As at 31/12/2016, the parent company Expert System S.p.A. held 270,000 treasury shares.

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31/12/2016



FORM AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated financial statements as at 31/12/2016, comprising the balance sheet, income statement, cash flow statement and explanatory notes, have been drawn up in compliance with Italian Legislative Decree No. 127/1991 supplemented, with regard to the aspects not specifically envisaged by the decree, by the national accounting standards published by the Italian Accounting Body (OIC) and, in the absence thereof, by those of the International Accounting Standard Board (IASB) and the Financial Accounting Standards Board (FASB); they are accompanied by the Report on Operations.

They are also accompanied by the following documents:

- List of the companies included in the consolidated financial statements and of the equity investments;
 - Companies consolidated line-by-line (pursuant to art. 26);
 - Other equity investments in subsidiaries and associates;
- Statement of reconciliation between shareholders' equity and loss for the year of the parent company and the corresponding consolidated balances.

The amounts are expressed in units of Euro.

The financial statements of the companies included in the scope of consolidation have been drawn

up by the respective management bodies on the basis of the accounting standards mentioned above.

Exceptions

No exceptional cases were identified that required recourse to the exceptions set forth under art. 29, sections 4 and 5 of Italian Legislative Decree No. 127/1991.

Scope of consolidation - Consolidation and translation principles

The consolidated financial statements comprise the financial statements of EXPERT SYSTEM SPA and of the foreign companies over which it directly or indirectly exercises control.

The assets and liabilities of the consolidated companies are included on a line-by-line basis. The book value of the equity investments held by the parent company and by the other companies included in the scope of consolidation is eliminated against the related shareholders' equity. The difference between the acquisition cost and the shareholders' equity at current value of the investee companies as of the date control is acquired is distributed, where possible, to the assets and liabilities of the investees, net of deferred taxes; any remaining difference, if positive and if the recognition requirements of OIC 24 are met, is recognised in the item "Goodwill" under intangible fixed assets.

The remaining difference that cannot be allocated to asset and liability items or to goodwill is recorded in item 'B14 Sundry operating expenses' in the income statement.

Goodwill is amortised on the basis of a useful life estimated at 5 years, taking into account all available information to estimate the period in which the economic benefits will be achieved.

Expert System considered it appropriate to exclude ADMANTX SPA, with headquarters in Naples, which the Group directly controls, and ADMANTX INC with headquarters in the USA, which the Group indirectly controls. 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., 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.

Scouting activities are under way via a specialised advisor for the purpose of identifying a strategic partner, of an industrial and/or financial nature, to whom a significant or total holding in the

company may be transferred, which permits ADMANTX to more fully express its potential on a market such as that of ADTech which has features and methods very different from the Expert System business model.

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

- the assets and liabilities at the exchange rate in force as of the period end date;
- the income and expenses by applying the average of the period exchange rates;
- the shareholders' equity components at the rate in force in the related formation period.

The exchange differences deriving from the conversion of the closing shareholders' equity using the original formation exchange rates with respect to those in force as of the balance sheet date are booked directly to shareholders' equity, together with the differences between the economic result expressed using the average exchange rates and the economic result expressed in Euro using the exchange rates in force as of the end of the period to the item "Translation differences reserve", included under the item "Other reserves".

The payable and receivable items and those concerning costs and revenues between the companies included in the scope of consolidation, are eliminated. In detail, the gains and losses deriving from transactions between Group companies not yet realised vis-à-vis third parties are eliminated, if significant.

The annual financial statements of the individual companies approved by the shareholders' meeting or drawn up by the Board of Directors for approval, have been reclassified and adjusted if necessary to align them with the accounting standards adopted by the Group. For companies with year-end dates other than that for the consolidated financial statements, specific interim reports are prepared.

Changes in the scope of consolidation

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

MEASUREMENT CRITERIA

The measurement criteria adopted for the drafting of the consolidated financial statements are in line with those used by the parent company, supplemented where necessary by the accounting standards adopted for specific consolidated financial statement items.

The measurement of the individual items is carried out on a prudent basis and with a view to the

business as a going-concern, and taking into account the economic function of the asset and liability elements on the basis of the principle of prevalence of substance over form.

The measurement criteria adopted are unchanged with respect to those used in the previous year. In particular, the measurement criteria adopted were as follows.

Intangible fixed assets

Intangible fixed assets are recognised, up to the recoverable value, at purchase or production cost, inclusive of any accessory charges, and are amortised systematically in relation to the residual possible useful life, possibly written down if as at the year end date the estimated recovery value of the fixed assets is permanently lower than the cost.

Tangible fixed assets

Tangible fixed assets are recorded at the date of transfer of the risks and benefits associated with the assets acquired and recognised, up to the recoverable value, at purchase or production costs net of the related accumulated depreciation, including all the costs and accessory charges directly attributable.

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

The cost of the fixed assets whose use is limited over time is systematically depreciated each year on the basis of the economic-technical rates established in relation to the residual useful life.

In the event that, irrespective of the depreciation already recognised, permanent losses in value (impairment) are registered, the fixed assets are written down in relation to the residual useful life.

If the reasons for the write-downs no longer exist in subsequent years, the original value is written back. Fixed assets in progress and payments on account to suppliers are recorded under the assets on the basis of the cost incurred and/or the payment on account made inclusive of the directly attributable costs.

Equity investments

Equity investments in associates are measured at cost.

The other equity investments are recognised at purchase and/or subscription cost, inclusive of accessory charges, and are written down in the presence of impairment losses.

Debt securities

Debt securities are recognised at the time of delivery of the security and classified as non-current assets or current assets, depending on their allocated use.

Investment securities

Listed and unlisted non-current debt securities are measured individually, assigning the specific cost incurred to each security.

Current securities

Securities which do not represent fixed assets are recognised at purchase cost or estimated realisable value taken from market trends, whichever is the lower.

Inventories

Contract work in progress is measured 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.

Derivative financial instruments

Derivative financial instruments are recognised at fair value, corresponding with the market value, if any, or with the value obtained from measurement models and approaches that ensure a reasonable approximation of the market value. Financial instruments for which these methods could not be applied are measured on the basis of purchase price.

The present value is recorded among balance sheet assets in a specific item of non-current financial assets or current assets, depending on the allocated usage, or among liabilities in a specific item under provisions for risks and charges.

The cash flow hedges have a balancing entry in a shareholders' equity reserve or, for the ineffective portion, in the income statement.

Receivables

Receivables are recorded as non-current assets or as current assets on the basis of their allocated use/source compared to the core business, and are recognised at their estimated realisable value.

The company opted not to apply the amortised cost criterion to current receivables (due in less than 12 months) and to other receivables when the difference between the original value and value at the due date is negligible, rendering the application of this criterion immaterial.

Furthermore, no account was taken of the 'time factor' and receivables due beyond 12 months were

not discounted as the difference between the effective interest rate and the market rate is immaterial.

Receivables not measured using the amortised cost criterion are recognised at their estimated realisable value.

The receivables are recognised at estimated realisable value via allocations to the bad debt provision, recorded as a direct deduction from the asset and determined in relation to the risk of loss emerging from specific analysis of the individual positions and in relation to the past performance of the losses on receivables, as well as the country risk.

Cash and cash equivalents

Cash and cash equivalents at year end are valued at face value.

Accruals and deferrals

Accrued income and prepaid expenses, and accrued expenses and deferred income are recognised on an accruals basis.

Accrued income, classed as receivables for the year, were measured at their estimated realisable value.

Accrued expenses, classed as payables, were measured at nominal value.

Provisions for risks and charges

Provisions for risks and charges 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 cannot be determined at year-end. The provisions reflect the best possible estimate on the basis of the elements available.

The pension provision is established to cover the commitments accrued at period end vis-à-vis those with the right to a pension.

The provision for taxation includes the deferred tax liabilities associated with consolidation adjustments, when the effective manifestation with regard to one of the subsidiaries is probable.

Employee severance indemnity

This reflects the liability, subject to revaluation by means of specific indices and net of the advance paid out, accrued by all the employees of the Group at year end, in compliance with the provisions of the law and current employment agreements.

Payables

The company opted not to apply the amortised cost criterion to current payables (due in less than 12 months) and to other payables when the difference between the original value and value at the due date is negligible, rendering the application of this criterion immaterial.

Furthermore, no account was taken of the 'time factor' and payables due beyond 12 months were not discounted as the difference between the effective interest rate and the market rate is immaterial.

Payables not measured using the amortised cost criterion are recognised at their nominal value.

Criteria for the translation of amounts stated in foreign currency

Monetary assets and liabilities outstanding at the end of the year, originally expressed in currencies of countries not complying with the Euro, are expressed in the financial statements at the exchange rate in force at the end of the period. Gains and losses on the translation of the receivables and payables mentioned above using the exchange rate as of the balance sheet date are respectively credited and charged to the income statement.

Assets and liabilities in non-monetary currency are recognised at the exchange rate in force at the time of purchase.

Costs and revenues

These are stated on a prudent basis in accordance with the accruals principle.

Income taxes for the year

Current income taxes are recognised, for each company, on the basis of the estimate of the taxable income in compliance with the rates and current provisions as of the period end date in each country, taking into account any applicable exemptions and the tax credits possible due.

Prepaid and deferred taxes are calculated on the temporary differences between the value assigned to an asset or liability in the financial statements and the corresponding values recognised for tax purposes, on the basis of the rates in force at the time the temporary differences will reverse. Prepaid taxes are only recognised if reasonable certainty exists with respect to their future recoverability.

INFORMATION ON THE BALANCE SHEET

Intangible fixed assets

Intangible fixed assets amount to € 18,372,465 (€ 18,539,026 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Start-up and expansion costs	Development costs	Industrial patent and intellectual property rights	Concessions, licences, trademarks and similar rights	Goodwill	Other intangible fixed assets	Total intangible fixed assets
Balance at start of the year							
Cost	1,253,294	18,282,821	1,137,158	19,052	12,745,707	1,672,964	35,110,996
Amortisation (Accumulated amortisation)	346,385	11,972,262	1,052,038	13,735	2,562,519	184,031	16,130,970
Write-downs	0	0	0	0	0	441,000	441,000
Book value as at 31/12/2015	906,909	6,310,559	85,120	5,317	10,183,188	1,047,933	18,539,026
Changes in the year							
Increases due to purchases	483,363	5,426,958	2,253	0	0	0	5,904,214
Reclassifications	0	-8,166	0	0	1,634,500	-1,634,500	-8,166
Decreases due to sales and disposals	0	0	-14,370	0	0	0	-14,370
Amortisation in the year	208,732	3,205,859	30,682	729	2,607,501	3,200	6,056,703
Other changes	-7,846	-6,421	-14,369	1	-591,927	591,927	-20,276
Total changes	266,784	2,206,512	-28,428	-728	-1,564,928	-1,045,773	-166,561
Balance at end of the year							
Cost	1,728,297	23,701,613	1,125,041	19,052	14,380,186	38,464	40,992,653
Amortisation (Accumulated amortisation)	554,604	15,184,542	1,068,349	14,463	5,761,926	36,304	22,620,188
Book value as at 31/12/2016	1,173,693	8,517,071	56,692	4,589	8,618,260	2,160	18,372,465

Goodwill

Goodwill, recognised for € 8,618,260 net of amortisation, includes the following values:

- € 877,327, net of € 584,885 amortisation, deriving from the subsidiary Expert System Iberia S.L.U. following acquisition of the business unit of Isoco at the time Expert System Iberia S.L.U. was incorporated;
- € 6,689, net of amortisation of € 26,755, deriving from the goodwill recognised among parent company assets;
- € 984,212, net of € 650,288 amortisation, deriving from the goodwill recognised among assets of the subsidiary Expert System France SA.

The remaining € 6,750,031 is the value deriving from replacing the book value of the parent company's equity investments in the consolidated companies with the corresponding net capitals at the time of acquisition, net of amortisation and depreciation applied on initial consolidation.

This value, generated at the time of netting the book value of the equity investments held by the parent company against the shareholders' equity of the consolidated subsidiaries, was recognised under intangible fixed assets and is amortised on a straight-line basis for 5 years.

Information is provided below on the most significant changes during the year:

- 1) the increase in "Start-up and expansion costs" of € 483,363 is mainly associated with the capitalisation of:
 - expense for € 187,070 incurred for the share capital increase implemented during the year by Expert System S.p.A.;
 - start-up costs for € 296,293 incurred by Expert System USA Inc. for activities required to obtain the necessary certification to operate in the US Federal market.
- 2) the increase in "Development costs", totalling € 5,426,958, can be broken down as follows:
 - € 2,820,274 as the capitalisation carried out by the parent company of costs relating to employees and costs for external consultancy used in development, illustrated in detail in the explanatory notes of Expert System S.p.A.;
 - € 478,337 as the development costs of the subsidiary Expert System Iberia S.L.U.;
 - € 1,455,292 as the development costs of the subsidiary Expert System France SA;
 - € 673,055 as the development costs of the subsidiary Expert System Enterprise Corp.

The item "Other intangible fixed assets", which includes residual balances which cannot be classified

in the previous items, amounts to € 2,160 (€ 1,047,933 in the previous year), is made up as follows:

	Balance at start of the year	Changes in the year	Balance at end of the year
Leasehold improvements	362	-362	0
Substitute tax on loans	4,619	-2,459	2,160
Loan fees	379	-379	0
Other intangible fixed assets	1,042,573	-1,042,573	0
Total	1,047,933	-1,045,773	2,160

The change compared to the previous year is mainly due to the reclassification of € 1,042,573 as “Goodwill”, in line with the nature of this amount which breaks down as follows:

- € 657,499 deriving from the acquisition of ICube by Expert System France in 2013;
- € 385,074 relating to the setup and subsequent acquisition of Temis Sarl by Expert System France in 2005.

In relation to the matters laid down by art. 38.1, letter d) of Italian Legislative Decree No. 127/1991, the breakdown of the start-up and expansion costs and development costs is illustrated in the following tables.

Breakdown of start-up and expansion costs:

	Balance at start of the year	Increases in the year	Amortisation in the year	Other decreases	Total changes	Balance at end of the year
Establishment/article of association amendment costs	111,317	0	22,595	7,846	-30,441	80,876
Start-up costs	356,142	296,293	0	0	296,293	652,435
Extraordinary transaction costs	4,179	0	3,494	0	-3,494	685
Admission to stock market listing	435,271	187,070	182,643	0	4,427	439,698
Total	906,909	483,363	208,732	7,846	266,785	1,173,694

Breakdown of development costs:

	Balance at start of the year	Increases in the year	Amortisation in the year	Other decreases	Total changes	Balance at end of the year
Expert System S.p.A.	5,228,205	2,820,274	2,271,050	0	549,224	5,777,429
Expert System Iberia SLU	790,643	478,337	444,674	0	33,663	824,306
Expert System France SA	291,711	1,455,292	361,945	8,166	1,085,181	1,376,892
Expert System Enterprise Corp	0	673,055	128,190	6,421	538,444	538,444
Total	6,310,559	5,426,958	3,205,859	14,587	2,206,512	8,517,071

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

Tangible fixed assets

Tangible fixed assets amount to € 914,522 (€ 915,731 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total tangible fixed assets
Balance at start of the year					
Cost	456,980	213,491	4,247	1,980,319	2,655,037
Depreciation (Accumulated depreciation)	72,068	194,521	4,247	1,468,470	1,739,306
Book value as at 31/12/2015	384,912	18,970	0	511,849	915,731
Changes in the year					
Increases due to purchases	0	4,800	0	203,034	207,834
Depreciation in the year	11,087	6,480	0	226,039	243,606
Other changes	-1	0	0	34,564	34,563
Total changes	-11,088	-1,680	0	11,559	-1,209
Balance at end of the year					
Cost	456,980	218,291	1,558	2,183,353	2,860,182
Depreciation (Accumulated depreciation)	83,156	201,001	1,558	1,659,945	1,945,660
Book value as at 31/12/2016	373,824	17,290	0	523,408	914,522

The item "Other assets", which includes the residual values which cannot be classified in the

previous items, amounts to € 523,408 (€ 511,849 in the previous year) and breaks down as follows:

	Balance at start of the year	Changes in the year	Balance at end of the year
Office furniture	153,827	10,754	164,581
Electronic office machines	243,193	35,490	278,683
Motor vehicles	14,609	-8,599	6,010
Ordinary office machines	42,339	-18,014	24,325
Signage	4,230	-540	3,690
Mobile phones	4,536	158	4,694
Office furniture and fittings	49,115	-7,690	41,425
Total	511,849	11,559	523,408

Non-current financial assets - Equity investments, other securities and derivative financial instruments

The equity investments not included in the scope of consolidation amounted to € 308,404 (€ 364,811 in the previous year).

Other securities classed as non-current financial assets amount to € 81,388 (€ 78,735 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Equity investments in associates	Equity investments in other companies	Total equity investments	Other securities
Cost	307,673	57,138	364,811	78,735
Book value as at 31/12/2015	307,673	57,138	364,811	78,735

Changes in the year	0	0	0	0
Increases due to purchases	0	0	0	2,653
Decreases due to disposals (of book value)	56,407	0	56,407	0
Total changes	-56,407	0	-56,407	2,653
Cost	251,266	57,138	308,404	81,388
Book value as at 31/12/2016	251,266	57,138	308,404	81,388

Receivables due from subsidiaries and other equity investments listed in the above tables, included among non-current financial assets, are recognised at a value not higher than their fair value.

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

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
Other equity investments in other companies	57,138
Total	57,138

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

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

Non-current financial assets - Receivables

Receivables classed as financial assets amount to € 701,809 (€ 402,521 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Importo nominale iniziale	Fondo svalutazione iniziale	Valore netto iniziale	Accantonam enti al fondo svalutazione	Utilizzi del fondo svalutazione	(Svalutazioni) /Ripristini di valore	Altri movimenti incrementi/ (decrementi)	Importo nominale finale	Fondo svalutazione finale	Valore netto finale
Verso imprese collegate esigibili oltre esercizio successivo	402.521	0	402.521	0	0	0	299.288	701.809	0	701.809

Current assets - Inventories

Inventories included under current assets amount to € 627,483 (€ 1,796,857 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Balance at start of the year	Change during the year	Balance at end of the year
Raw materials and consumables	0	8,157	8,157
Contract work in progress	1,796,857	-1,177,531	619,326
Total inventories	1,796,857	-1,169,374	627,483

Current assets - Receivables

Receivables included under current assets amount to € 20,856,496 (€ 22,996,578 in the previous year).

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 bad debt provision includes € 311,081 as the bad debt provision allocated by the parent company, € 21,780 as the bad debt provision of the subsidiary Expert System Iberia SLU and € 11,465 as the bad debt provision of the subsidiary Expert System France SA.

The breakdown of the individual items is as follows:

	Within 12 months	After 12 months	Total nominal value	(Provisions for risks/bad debt provision)	Net value
Due from customers	10,577,162	0	10,577,162	344,326	10,232,836
Due from subsidiaries	68,528	26,787	95,315	0	95,315
Due from associates	255,626	0	255,626	0	255,626
Tax receivables	1,124,273	123,799	1,248,072		1,248,072

Prepaid taxes			1,546,098		1,546,098
Other receivables	6,232,652	1,245,897	7,478,549	0	7,478,549
Total	18,258,241	1,396,483	21,200,822	344,326	20,856,496

Receivables due from subsidiaries, amounting to € 95,315, are receivables due from the subsidiary ADmantX S.p.A., excluded from the scope of consolidation as explained in the preamble.

Receivables due from associates, amounting to € 255,626, are composed of trade receivables due from the associate CY4Gate S.r.l.

Other receivables amount to € 7,478,549 (€ 10,753,129 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Balance at start of the year	Change during the year	Balance at end of the year
Security deposits	198,772	- 30,134.19	168,638
Payments on account	150,158	2,158.82	152,317
Receivables for research project grants	8,156,455	- 1,900,036.21	6,256,418
Receivables due from factoring companies	-	355,614.77	355,615
Other receivables	2,247,745	- 1,702,184.06	545,561
Total	10,753,129	- 3,274,580.88	7,478,548

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

	Expert System S.p.A.	Expert System Iberia	Expert System France
Receivables for project grants within 12 months	4,242,933	666,806	642,514

Receivables for project grants after 12 months	704,157	-	-
Total	4,947,090	666,806	642,514

Breakdown of receivables for project grants

Expert System S.p.A.	Receivables due within 12 months	Receivables due after 12 months
FESR - Province of Trento	347,483	-
Horizon 2020	-	589,157
Law 6 – Province of Trento	-	-
Mise (Ministry of Economic Development) - FIT	395,418	-
MIUR (Ministry of Education, Universities and Research) - PNR Tessile	39,984	-
MIUR (Ministry of Education, Universities and Research) - FAR	243,892	-
PON	-	115,000
PON R&C 2007-2013	1,952,119	-
POR FESR Lazio	33,903	-
European Project - ISEC Tender	1,230,135	-
Total	4,242,933	704,157

Expert System Iberia	Receivables due within 12 months	Receivables due after 12 months
X-Lime	69,750	-
Horizon Everest	349,525	-
K-Drive	92,306	-
Dante	99,750	-
X-Lime ES	55,475	-
Total	666,806	-

Expert System France	Receivables due within 12 months	Receivables due after 12 months
PRESIDIO	137,601	-
Inoova Gora	51,564	-
Reference value	8,636	-
COMBI	64,172	-
ADR PRISME	111,608	-
RAPID	87,000	-
ITRAC	181,118	-
E-Compliance	815	-
Total	642,514	-

Current assets - Financial assets

Current financial assets amount to € 5,461,120 (€ 5,507,120 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Balance at start of the year	Changes in the year	Balance at end of the year
Current equity investments in subsidiaries	4,153,074	0	4,153,074
Other current equity investments	8,400	0	8,400
Other current securities	1,345,646	-46,000	1,299,646
Total	5,507,120	-46,000	5,461,120

The item "Current equity investments in subsidiaries", amounting to € 4,153,074, includes the 60.70% equity investment in the subsidiary ADmantX S.p.A. held by the parent company, and excluded from the scope of consolidation for the reasons outlined in the preamble.

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

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

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

The item "other securities" includes the following:

- bonds held by Expert System S.p.A., for a total of € 1,002,398. For details please refer to

the following table:

Bond provision	Az White Fleet II SICAV – Globes Portfolio Conservative Shs
ISIN	LU1311508904
No. security	30186429
Acquisition date	09/08/2016
Quantity	9,700
Unit Value	€ 103.34
Book value as at 31/12/2016	€ 1,002,398

- certificates of deposit for € 16,536 held by Expert System Deutschland GMBH;
- other securities for € 280,712 held by Expert System Deutschland GMBH, as sums intended for temporary investments.

Receivables - broken down by maturity

The information relating to the breakdown of the receivables by maturity is presented below, in accordance with art. 38.1, letter e) of Italian Legislative Decree No. 127/1991:

	Balance at start of the year	Change during the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year	Of which with a residual duration of over 5 years
Current receivables due from customers	10,227,852	4,984	10,232,836	10,232,836	0	0
Current receivables due from subsidiaries	35,008	60,307	95,315	68,528	26,787	0
Current receivables due from associates	0	255,626	255,626	255,626	0	0
Current tax receivables	1,532,365	-284,293	1,248,072	1,124,273	123,799	0
Current prepaid tax assets	448,224	1,097,874	1,546,098			

Other current receivables	10,753,129	-3,274,580	7,478,549	6,232,652	1,245,897	0
Total	22,996,578	-2,140,082	20,856,496	17,913,915	1,396,483	0

Receivables due from customers - Breakdown by geographic area

	Receivables due from customers	Invoices to be issued	Other trade receivables	Total
Italian customers	3,354,536	866,120		4,220,656
EU customers	1,889,649	274,890	22,176	2,186,715
Non-EU customers	3,888,140	281,651		4,169,791
Total	9,132,326	1,422,661	22,176	10,577,163
Bad debt provision				(344,326)
Total				10,232,837

Current assets - Cash and cash equivalents

Cash and cash equivalents included under current assets amount to € 9,062,940 (€ 11,249,327 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Balance at start of the year	Change during the year	Balance at end of the year
Bank and postal deposits	11,247,267	-2,252,473	8,994,794
Cash at bank and in hand	2,060	66,086	68,146
Total	11,249,327	-2,186,387	9,062,940

Accrued income and prepaid expenses

Accrued income and prepaid expenses amount to € 1,003,638 (€ 1,038,403 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Accrued income	Other prepaid expenses	Total accrued income and prepaid expenses
Balance at start of the year	922	1,037,481	1,038,403
Change during the year	-922	-33,843	-34,765
Balance at end of the year	0	1,003,638	1,003,638

Breakdown of prepaid expenses:

	Deferrals within 12 months	Deferrals after 12 months	Deferrals after 5 years
Education and training	5,677	-	-
Rent and leases payable	127,539	-	-
Insurance	20,772	-	-
Surety commissions	16,168	1,168	-
Loan fees	3,425	5,969	-
Consultancy	119,716	37,301	-
Maintenance	10,488	-	-
Maintenance	179	-	-
Other vehicle rental	21,205	441	-
Commissions	5,750	-	-
Personnel recruitment	3,864	-	-
Commercial services	37,091	-	-
Services for resale	17,679	5,591	-
AIM listing services	16,577	-	-

Software	342,301	118,089	-
Transfer costs	2,139	-	-
Bank charges and fees	11,087	34,196	998
Internet costs	28,428	404	-
Telephone expenses	4,102	-	-
Travel expenses	2,007	-	-
Miscellaneous administrative	3,287	-	-
Total	799,481	203,159	998

Shareholders' equity

The shareholders' equity existing at the end of the year amounted to € 16,437,207 (€ 20,144,930 in the previous year).

The following tables disclose the change during the year in the individual items which make up the shareholders' equity and the breakdown of the item "Other reserves".

	Balance at start of the year	Other allocations	Increases	Decreases	Reclassifications	Profit (loss) for the year	Balance at end of the year
Share capital	250,608	0	26,095	0	0		276,703
Share premium reserve	20,737,590	0	4,671,098	0	0		25,408,688
Legal reserve	43,899	0	0	0	0		43,899
Other reserves							
Extraordinary reserve	4,580,697	0	0	999,033	37,234		3,618,898
Merger surplus reserve	376,622	0	0	0	0		376,622

Reserve for unrealised exchange gains	217,282	0	0	0	-37,233		180,049
Miscellaneous other reserves	541,768	0	0	122,640	0		419,128
Total other reserves	5,716,369	0	0	1,121,673	1		4,594,697
Cash flow hedging reserve	-12,900	0	5,946	0	0		-6,954
Retained earnings (losses)	-2,745,934	0	0	2,447,966	0		-5,193,900
Profit (loss) for the year	-3,284,307	3,284,307				-	-8,125,531
						8,125,531	
Negative reserve for treasury shares in portfolio	-560,395	0	0	0	0		-560,395
Total Group shareholders' equity	20,144,930	3,284,307	4,703,139	3,569,639	1	-	16,437,207
						8,125,531	
Shareholders' equity pertaining to minority interests							
Total consolidated shareholders' equity	20,144,930	3,284,307	4,703,139	3,569,639	1	-	16,437,207
						8,125,531	

The above table takes into account the retroactive effect of transposition of Italian Legislative Decree 139/2015 which amended the accounting standards, and therefore shows Shareholder' Equity balances different from those in the financial statements presented for previous years. The new Shareholders' Equity balances at the start of the previous year take into account the elimination of the item "Reserve for treasury shares in portfolio", which at 01/01/2015 totalled € 89,160. The changes to 2015 figures also take into account the amendments and reclassifications imposed by

Legislative Decree 139/2015 relating in particular to setup of the “Cash flow hedge reserve”, which at 31/12/2015 totalled € 12,899, and the “Reserve for treasury shares in portfolio” which at 31/12/2015 had increased by € 471,232.

In order to be able to better understand the changes in shareholders’ equity, the movements during the previous year in the shareholders’ equity items are illustrated below:

	Balance at start of the year	Allocation of dividends	Other allocations	Increases	Decreases	Profit (loss) for the year	Balance at end of the year
Share capital	219,497	0	0	31,111	0		250,608
Share premium reserve	13,768,730	0	0	6,968,860	0		20,737,590
Legal reserve	40,067	0	0	3,832	0		43,899
Other reserves							
Extraordinary reserve	3,800,273	0	0	780,424	0		4,580,697
Merger surplus reserve	376,622	0	0	0	0		376,622
Reserve for unrealised exchange gains		0	0	217,282	0		217,282
Miscellaneous other reserves	233,252	0	0	431,217	-122,701		541,768
Total other reserves	4,410,147	0	0	1,428,923	0		5,716,369
Cash flow hedging reserve		0	0	-12,900	0		-12,900

Retained earnings (losses)	-1,569,154	0		-1,176,780	0		-2,745,934
Profit (loss) for the year	88,529	0	-88,529			-3,284,307	-3,284,307
Negative reserve for treasury shares in portfolio	-89,163	0		-471,232	0		-560,395
Total Group shareholders' equity	16,868,653	0	-88,529	6,771,814	-122,701	-3,284,307	20,144,930
Shareholders' equity pertaining to minority interests							
Total consolidated shareholders' equity	16,868,653	0	-88,529	6,771,814	-122,701		20,144,930

Share capital

Share capital is composed as follow:

Description	Opening balance, number	Opening balance, nominal value	Shares subscribed during the year, number	Shares subscribed during the year, nominal value	Closing balance, number	Closing balance, nominal value
Ordinary shares	25,060,778	0	2,609,552	0	27,670,330	0
Total	25,060,778	0	2,609,552	0	27,670,330	0

Miscellaneous other reserves

The "Miscellaneous other reserves" are composed as follows:

Description	Amount
PIA Reserve provision	141,000
Other reserves	415,251
Translation reserve	- 137,120
Total	419,131

The translation differences reserve contains the exchange differences deriving from the translation of the foreign subsidiaries' financial statements from other currencies.

Cash flow hedging reserve

The information required by article 38.1 letter o-quater) of Italian Legislative Decree no. 127/1991 on changes occurring during the year is summarised in the following table:

Cash flow hedging reserve	
Balance at start of the year	-12,900
Changes in the year	
Increase due to change in fair value	5,946
Balance at end of the year	-6,954

Summary statement of the usability of the reserves

The information required by art. 2427, section 7-bis of the Italian Civil Code relating to the specification of the shareholders' equity items with reference to their origin, possibility of use and distributable nature, as well as their use in previous years, can be gathered from the following tables:

	Amount	Origin/nature	Possibility of use	Available portion	Summary of uses made in the three previous years - for coverage of losses	Summary of uses made in the three previous years - for other reasons
Share capital	276,703			0	0	0
Share premium reserve	25,408,688	capital reserve	share capital increase, coverage of losses, distribution to shareholders	19,179,434	0	0
Legal reserve	43,899	profit reserve	share capital increase, coverage of losses	0	0	0
Other reserves						
Extraordinary or optional reserve	3,618,898	profit reserve	share capital increase, coverage of losses, distribution to shareholders	3,618,898	999,032	0
Merger surplus reserve	376,622	profit reserve	share capital increase, coverage of losses, distribution to shareholders	376,622	0	0
Reserve for unrealised exchange gains	180,049	profit reserve	share capital increase, coverage of losses, distribution to shareholders		0	0
Miscellaneous other reserves	419,128				0	0
Total other reserves	4,594,697			3,995,520	0	0

Cash flow hedging reserve	-6,954					
Negative reserve for treasury shares in portfolio	-560,395					
Total	29,756,638			23,174,954	0	0
Residual distributable portion				23,174,954		

Provisions for risks and charges

Provisions for risks and charges are recorded under liabilities for a total of € 716,376 (€ 445,088 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Pension provision and similar obligations	Provision for taxes, including deferred	Derivative financial instruments - liabilities	Other provisions	Total provisions for risks and charges
Balance at start of the year	3,151	411,922	12,900	17,115	445,088
Changes in the year					
Provision in the year	1,190	309,742	0	0	310,932
Use in the year	0	33,564	0	134	33,698
Other changes	0	0	-5,946	0	-5,946
Total changes	1,190	276,178	-5,946	-134	271,288
Balance at end of the year	4,341	688,100	6,954	16,981	716,376

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

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

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

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

Employee severance indemnity

The employee severance indemnity is recorded under liabilities for € 1,670,520 (€ 1,390,984 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

Employee severance indemnity	
Balance at start of the year	1,390,984
Changes in the year	
Provision in the year	480,804
Use in the year	-201,268
Total changes	279,536
Balance at end of the year	1,670,520

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.

Payables

The payables are recorded under liabilities for a total of € 31,330,496 (€ 35,333,772 in the previous

year).

The breakdown of the individual items is as follows:

	Balance at start of the year	Changes in the year	Balance at end of the year
Bonds	5,000,000	0	5,000,000
Payables due to shareholders for loans	524	-524	0
Payables due to banks	16,332,990	-2,691,010	13,641,980
Payables due to other lenders	2,341,945	487,264	2,829,209
Payments on account	4,060,777	-1,677,748	2,383,029
Trade payables	2,854,713	-115,914	2,738,799
Tax payables	941,582	-76,941	864,641
Payables due to social security institutions	1,419,651	-9,008	1,410,643
Other payables	2,381,590	80,605	2,462,195
Total	35,333,772	-4,003,276	31,330,496

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 "Bonds" is composed of the bond issued by Expert System S.p.A., comprising 50 non-convertible bonds with a par value of € 100,000 each, for a total of € 5,000,000, reserved to professional investors and fully subscribed by the Strategic Fund Trentino Alto Adige managed by

Finint Investments SGR S.p.A.. For information on the bond, please refer to the section "Information on the financial instruments issued by the company".

Payables - Broken down by maturity

Information relating to the breakdown of payables by maturity is provided below, pursuant to art. 38.1, letter e) of Italian Legislative Decree 127/1991:

	Balance at start of the year	Change during the year	Balance at end of the year	Portion due within 1 year	Portion due after 1 year	Of which with a duration of over 5 years
Bonds	5,000,000	0	5,000,000	0	5,000,000	0
Payables due to shareholders for loans	524	-524	0	0	0	0
Payables due to banks	16,332,990	-2,691,010	13,641,980	5,046,595	8,595,385	0
Payables due to other lenders	2,341,945	487,264	2,829,209	1,172,677	1,656,532	0
Payments on account	4,060,777	-1,677,748	2,383,029	2,247,323	135,706	0
Trade payables	2,854,713	-115,914	2,738,799	2,698,583	40,216	0
Tax payables	941,582	-76,941	864,641	864,641	0	0
Payables due to social security institutions	1,419,651	-9,008	1,410,643	1,410,643	0	0
Other payables	2,381,590	80,605	2,462,195	1,962,195	500,000	0
Total payables	35,333,772	-4,003,276	31,330,496	15,402,657	15,927,839	0

Payables backed by collaterals on company assets

The information concerning collaterals on company assets is presented below, pursuant to art. 38.1, letter e) of Italian Legislative Decree No. 127/1991:

	Total payables backed by collaterals	Payables not backed by collaterals	Total
	Payables backed by mortgages		
Bonds		5,000,000	5,000,000
Payables due to banks	121,951	13,520,029	13,641,980
Payables due to other lenders		2,829,209	2,829,209
Payments on account		2,383,029	2,383,029
Trade payables		2,738,799	2,738,799
Tax payables		864,641	864,641
Payables due to social security institutions		1,410,643	1,410,643
Other payables		2,462,195	2,462,195
Total payables	121,951	31,208,545	31,330,496

Accrued expenses and deferred income

Accrued expenses and deferred income are recorded under liabilities for a total of € 7,235,666 (€ 5,574,335 in the previous year).

The breakdown and the changes in the individual items are presented as follows:

	Balance at start of the year	Change during the year	Balance at end of the year
Accrued expenses	200,286	-69,096	131,190

Deferred income	5,374,049	1,730,427	7,104,476
Total accrued expenses and deferred income	5,574,335	1,661,331	7,235,666

Breakdown of deferred income:

	Deferred income within 12 months	Deferred income after 12 months	Deferred income after 5 years
Hosting fees	75,241	-	-
Research project grants	681,098	3,033,143	-
Tax credits	158,361	442,233	-
Licences	195,830	134,105	-
Maintenance	1,835,372	30,248	-
Provision of services	518,845		-
Total	3,464,747	3,639,729	-

Accrued expense and deferred income were calculated on an accruals basis during the year.

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

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

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

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

INFORMATION ON THE INCOME STATEMENT

Revenue recognition

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

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

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

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

Value of production

Description	Previous period	Current period	Change
Sales and service revenues	16,388,897	23,367,938	6,979,041
Changes in contract work in progress	174,751	(1,169,763)	(1,344,513)
Increase in own work capitalised	3,619,440	5,665,880	2,046,441
Other revenues and income	2,979,420	1,689,042	(1,290,379)
Total	23,162,507	29,553,097	6,390,590

Sales and service revenues

In relation to the matters laid down by art. 38.1, letter I) of Italian Legislative Decree No. 127/1991, the breakdown of revenues by business category and geographic area is illustrated in the following tables:

Breakdown of revenue from sales and services by geographic area:

Geographic area	Current year balance
-----------------	----------------------

Revenues – Italy	9,040,839
EU revenues	5,036,888
Non-EU revenues	9,290,212
Total	23,367,938

Other revenues and income

Other revenues and income are recorded under value of production in the income statement for a total of € 1,689,042 (€ 2,979,422 in the previous year).

The breakdown of the individual items is as follows:

	Previous period	Current period	Change
Tax credits	722,198	158,362	- 563,836
Capital grants	929,111	914,531	- 14,580
Operating grants	750,421	274,134	- 476,288
Sundry reimbursements	13,080	106,052	92,973
Other revenues	49,081	131,613	82,532
Contingent assets	515,529.78	104,349.63	-411,179
Total	2,979,420	1,689,042	-1,290,378

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

These grants are classified under grants related to assets 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.

The breakdown of contingent assets is as follows:

Current year balance	
Integration of sales revenues due to incorrect prior recognition	49,743
Collection of receivables previously written off	54,606
Total	104,349

Costs for services

Costs for services are recorded under costs of production in the income statement for a total of € 9,649,047 (€ 8,119,802 in the previous year).

The breakdown of the individual items is as follows:

	Previous period	Current period	Change
Electricity	85,391	105,189	19,798
Maintenance and repair costs	51,168	186,784	135,616
Technical services and consultancy	2,907,680	3,593,404	685,724
Directors' fees	1,074,300	1,259,428	185,128
Statutory and Independent Auditors' fees	14,560	14,560	0
Services classed as employment	396,233	37,944	-358,289
Commission expense	41,231	72,608	31,377
Advertising	50,140	227,771	177,631
Legal expense and consultancy	274,864	488,897	214,033
Tax, administrative and commercial consultancy	1,530,958	1,297,072	-233,886
Telephone expenses	101,933	193,417	91,484
Non-financial services from finance companies and banks	46,640	117,689	71,049

Insurance	57,667	99,865	42,198
Entertainment costs	41,066	39,010	-2,056
Travel and accommodation costs	390,179	826,063	435,884
Updating, education and training expense	247,088	100,021	-147,067
Allocation to the supplementary indemnity fund for customers due to agents	1,182	1,190	8
Allocation to employee severance indemnities	611	557	-54
Other	806,911	987,578	180,667
Total	8,119,802	9,649,047	1,529,245

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 € 1,803,011 (€ 922,051 in the previous year).

The breakdown of the individual items is as follows:

	Previous period	Current period	Change
Rent and leases payable	461,784	792,547	330,763
Cloud rental	278,795	293,342	14,547
Truck rental	2,445	1,035	- 1,410
Other vehicle rental	120,758	163,778	43,020
Hardware rental	58,269	31,055	- 27,215
Royalties	-	521,254	521,254
Total	922,051	1,803,011	880,960

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.

Sundry operating expenses

Sundry operating expenses are recorded under costs of production in the income statement for a total of € 803,076 (€ 400,114 in the previous year).

The breakdown of the individual items is as follows:

	Previous period	Current period	Change
ICI/IMU tax	4,874	5,159	285
Losses on receivables	0	44,307	44,307
Magazine and newspaper subscriptions	8,391	36,341	27,950
Contingent and exceptional liabilities	254,202	477,308	223,106
Non-financial capital losses	2,884	554	-2,330
Other operating expenses	129,763	239,407	109,644
Total	400,114	803,076	402,962

The contingent liabilities amount to € 448,075 and are attributable to the DEEP RELATIONS research project financed by the Autonomous Province of Trento. Despite the Province having confirmed the amount of expense in accordance with the technical specifications, following the Research and Innovation Committee's allocation of part of the costs to experimental development rather than industrial research and the Committee's failure to confirm the additional percentage of 15% on the industrial research as it considered the dissemination of results of the project to be insufficient, the extent of the grant was significantly reduced.

Interest and other financial expenses

In relation to the matters laid down by art. 38.1, letter l) of Italian Legislative Decree No. 127/1991, the breakdown of the item "interest and other financial expenses" is illustrated in the following table:

	Previous period	Current period	Change
Default interest	662	24	(638)
Current account interest	345	19	(326)
Interest on bond payables	86,732	202,949	116,217
Interest on mortgages	215,690	286,272	70,582
Surety commissions	57,135	81,520	24,385
Overdraft fees	18,365	21,822	3,457
Loan fees	2,480	3,359	879
Other financial expenses	2,009	1,715	(294)
Total	383,418	597,680	214,263

Income taxes

The breakdown of the individual items is as follows:

	Current taxes	Previous years' taxes	Deferred taxes	Prepaid taxes	Income (expenses) transparency
IRES	0	0	292,508	884,338	
IRAP	12,672	0	0	0	
Total	12,672	0	292,508	884,338	0

OTHER INFORMATION

Statement of reconciliation between shareholders' equity and result for the year of the parent company and the corresponding consolidated balances

	Shareholders' equity	of which: profit (loss) for the year
Balances as per the financial statements of the parent company	28,275,733	-1,202,777
Adjusted balances as per the financial statements of the parent company	28,275,733	-1,202,777
Effect of the valuation of equity investments using the line-by-line method		
- Elimination of the book values of the investees	-11,859,423	
- Shareholders' equities of the investees	6,922,262	
- Investees' result for the year	-5,183,756	-5,183,756
- Amortisation of consolidation differences	-1,722,190	-1,722,190
	-11,843,107	-6,905,946
Other adjustments	4,583	-16,808
Total adjustments	-11,838,524	-6,922,754
Group shareholders' equity and result for the year	16,437,209	-8,125,531
Consolidated shareholders' equity and result for the year	16,437,209	-8,125,531

List of companies included in the scope of consolidation

In relation to the matters laid down by art. 38.2, letters a) to d) of Italian Legislative Decree No. 127/1991, the following lists are presented:

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

Company name	Registered offices	Currency	SE at 31/12/2016	Share capital	Profit/(Loss) 2016	Group direct holding	Group indirect holding
Expert System USA Inc.	Delaware (USA)	\$ USA	-\$4,435,341	\$0.71	-\$803,116	100.00%	
Expert System Enterprise Corp.	Rockville (USA)	\$ USA	-\$2,461,030	\$200	-\$368,232		100.00%
Expert System Cogito Ltd.	London (UK)	£	-£532,375	£1,000	-£318,921	100.00%	
Expert System Iberia S.L.U.	Barcelona (ESP)	Euro	-1,690,992 €	3,000 €	-1,134,800 €	100.00%	
Expert System France S.A.	Paris (FRA)	Euro	63,656 €	1,357,811 €	-2,416,966 €	100.00%	
Temis Canada Inc.	Montreal (CAN)	\$ Can.	-\$86,482	\$1,000	-\$54,513		100.00%
Temis GMBH	Heidelberg (GER)	Euro	-269,143 €	25,000 €	-326,322 €		100.00%

List of other equity investments in subsidiaries and associates

Company name	Registered offices	Currency	Share capital	Group direct holding	Group indirect holding
ADmantX S.p.A.	Naples (Italy)	Euro	217,359	60.70%	
ADmantX Inc.	West Hartford (USA)	\$	0		60.70%
CY4GATE S.r.l.	Rome (Italy)	Euro	300,000	24.50%	

Breakdown of personnel costs

The information concerning personnel is presented below, pursuant to art. 38.1, letter n) of Italian

Legislative Decree 127/1991:

	Average no. in current year	Average no. in previous year
Senior Managers	-	-
Middle management	61.56	57.77
Employees	171.18	156.72
Total	232.74	214.49

Fees for the directors and statutory auditors of the parent company

The information concerning the fees of the directors and statutory auditors of the parent company for the performance of these functions also in other companies included in the scope of consolidation, as per art. 38.1, letter o) of Italian Legislative Decree No. 127/1991, is presented below:

	Directors	Statutory Auditors
Fee	1,259,427	14,560

Derivative financial instruments

The company has signed the following derivative contract with CARIPARMA:

- Derivative contract type: IRS no. 59746/2014, unlisted, signed on 15/01/2014, expiring 31/12/2018;
- Purpose: hedging;
- Transaction with no principal swap;
- Notional amount of the contract: € 1,200,000;
- Liability hedged: CARIPARMA mortgage no. 04 107 008852280000, originated for € 1,200,000, signed on 23/12/2013 and expiring on 31/12/2018.

- Notional amount at the reference date (31/12/2016): € 499,620;
- Amount of the liability hedged at the reference date (31/12/2016): € 246,421;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: negative mark to model fair value of € 12,900;
- fair value at the start of the hedge: zero

The fair value measurement used the mark to model calculation.

Off-balance sheet commitments, guarantees and potential liabilities

In relation to the provisions of art. 38.1, letter h) of Italian Legislative Decree No. 127/1991, note that as at the year end date, the following guarantees were outstanding:

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

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

- € 300,000 for the guarantee given by Expert System S.p.A. to the subsidiary ADmantX S.p.A., assumed by means of a private agreement between Expert System S.p.A. and IMI Fondi Chiusi società di gestione del risparmio S.p.A. (IMI). In respect of said agreement Expert System S.p.A. undertakes to purchase from IMI, in the event the subsidiary ADmantX S.p.A. is unable to repay at the maturity dates set forth by the loan, the bond securities subscribed by IMI. The guarantee originally given for a maximum of 4 bonds with a par value of € 100,000 each for a total of € 400,000, has now dropped to € 300,000 following partial conversion of the bond issue by IMI;
- € 494,400 is made up of the surety undertaken in favour of the investee company Okkam

S.r.l.

Related party transactions

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

Trade and financial transactions

Company	Financial payables	Financial receivables	Trade receivables	Trade payables	Sales	Purchases
ADMANTX SPA	-	26,787	48,767	-	85,665	14,400
EXPERT SYSTEM USA INC	-	4,032,944	867,267	-	85,505	-
EXPERT SYSTEM LTD	1,248	661,730	168,230	10,569	147,094	-
CY4GATE S.R.L.	-	701,809	255,626	-	239,259	-
EXPERT SYSTEM IBERIA S.L.U.	-	3,441,643	310,046	5,308	209,069	5,308
EXPERT SYSTEM FRANCE	-	1,653,148	86,366	430	61,552	430
EXPERT SYSTEM ENT CORP	-	1,679,904	635,918	1,516	646,611	1,516
EXPERT SYSTEM GMBH	-	-	130,223	9,230	130,223	9,230
Total	1,247	12,197,966	2,502,443	27,053	1,604,978	30,884

Trade transactions

Company	Payables	Receivables	Guarantees	Commitments	Costs	Revenues
ADMANTX SPA	-	48,767	-	-	14,400	85,665
EXPERT SYSTEM USA INC	-	867,267	-	-	-	40,516
EXPERT SYSTEM LTD	10,569	168,230	-	-	-	137,888
CY4GATE S.R.L.	-	255,626	-	-	-	227,450

EXPERT SYSTEM IBERIA S.L.U.	5,308	310,046	-	-	5,308	148,026
EXPERT SYSTEM FRANCE	430	86,366	-	-	430	49,366
EXPERT SYSTEM ENT CORP	1,516	635,918	-	-	1,516	627,217
EXPERT SYSTEM GMBH	9,230	130,223	-	-	9,230	130,223
Total	27,053	2,502,443	-	-	30,884	1,446,350

Financial transactions

Company	Payables	Receivables	Guarantees	Commitments	Expenses	Income
ADMANTX SPA	-	26,787	-	-	-	-
EXPERT SYSTEM USA INC	-	4,032,944	-	-	-	44,989
EXPERT SYSTEM LTD	1,248	661,730	-	-	-	9,206
CY4GATE S.R.L.	-	701,809	-	-	-	11,809
EXPERT SYSTEM IBERIA S.L.U.	-	3,441,643	-	-	-	61,043
EXPERT SYSTEM FRANCE	-	1,653,148	-	-	-	12,186
EXPERT SYSTEM ENT CORP	-	1,679,904	-	-	-	19,394
EXPERT SYSTEM GMBH	-	-	-	-	-	-
Total	1,247	12,197,966	-	-	-	158,627

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

With the subsidiary ADmantX S.p.A.:

Sales

- Lease agreement for property in Naples, Via Nuova Poggio Reale, Centro Polifunzionale Inail, where the company has its registered offices: half-yearly lease instalment of € 5,083;

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

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

- C.II.2 Receivables due from subsidiaries

The income statement items are reclassified within the following accounts:

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

Purchases

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

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

- D) 9 Payables due to subsidiaries

The income statement items are reclassified within the following accounts:

- B) 7 Service costs

With the subsidiary Expert System USA Inc.:

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

Sales

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

With the subsidiary Expert System Cogito Ltd.:

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

Sales

- Granting of licences for € 13,315;

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

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

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

Sales

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

Purchases

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

With the subsidiary Expert System France S.A.:

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

Sales

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

Purchases

- Professional services provided by the subsidiary for € 430.

With the subsidiary Expert System Enterprise Corp.:

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

Sales

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

Purchases

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

With the subsidiary Expert System Deutschland GmbH:

Sales

- Professional services provided for € 113,582;
- Granting of licences for € 7,500;

- Re-invoicing of sundry expenses of € 9,141 to the subsidiary.

Purchases

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

With the associate Cy4Gate S.r.l.:

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

The balance sheet item affected by this transaction is:

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

The income statement item is reclassified in the following account:

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

Off-balance sheet agreements

Pursuant to article 38.1 letter o-sexies) of Italian Legislative Decree no. 127/1991, note that there is no information regarding the nature and economic objective of agreements not recorded in the balance sheet.

Information on fees pursuant to art. 38.1, letter o-septies of Italian Legislative Decree 127/1991

Details are provided below of the amounts paid to the independent auditors, BDO Italia S.p.A., for audit of the consolidated accounts, other audit services, tax consultancy services and non-audit services provided to the Group pursuant to article 38.1 letter o-septies), Italian Legislative Decree no. 127/1991:

	Expert System S.p.A.	Expert System France	Expert System Iberia	Expert System GMBH	Expert System LTD	Expert System ENT	Expert System USA INC	Expert System CAN
Tax consultancy costs and other audit services performed	-	-	-	-	-	-	-	-
Audit service costs	20,319	-	-	-	-	3,000	-	-

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE YEAR

In the first few months of 2017, Expert System presented the new release of the Cogito cognitive technology, 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.

Cogito Studio Platform offers an integrated system for text analytics projects and includes:

- Cogito Studio, a semantics application editor that allows assessment of the effectiveness of categorizing or configuring extraction from collections of documents, measuring precision and recall;
- Cogito Studio Express, the version of Cogito based on Luxid WebStudio, i.e. 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 is instead a scalable platform for the automatic generation of semantic big data and autoclassification that can be integrated into any application and workflow, and implemented on a cloud platform or hybrid environment.

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

Also note that the additional functions implemented included:

- Cogito Knowledge Graph, a rich knowledge base containing millions of concepts with their respective lexical formats, different properties and relationships useful to understanding and disambiguation of the meaning of the words and phrases contained in the texts. For this purpose, specific machine learning techniques are 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.

In response to the growing interest in artificial intelligence in the DACH area (Germany, Austria, Switzerland), Expert System has announced the appointment of Stefan Welcker as DACH Managing Director with the role of guiding Expert System's growth on the German-speaking market.

Again in 2017 Expert System is achieving major technological synergies, making use of its extensive experience gained in information management to rapidly create high-value added solutions. Important in this context is the partnership with Esri, leader in geospatial solutions to support operating and decision-making processes. The combination of the expertise of Expert System in information analysis with the capacity of Esri technology in spatial and georeferenced processing, offers effective support to intelligence analysts in tactical and strategic analysis.

Cogito cognitive technology was chosen for the "OncoSNIPE®" programme, designed to give artificial intelligence support to the diagnosis and treatment of tumours. The key aims of the programme will be to identify, analyse and correlate all information on patients resistant to tumour treatments so as to steer scientific research towards new and more effective therapies. The programme involves cooperation between leading entities in the technology field, academic organisations and healthcare institutions with the aim of bringing benefits to the entire community. In particular, the French company Oncodesign, specialising in biotechnologies for the pharmaceutical industry, coordinates the programme in which the two business partners - Sword (an international company based in Lyons, specialised in digital services and consulting) and Acobiom (based in Montpellier, specialising in particular in the research of new biological markers) - operate with university hospitals and academic research institutes (Hôpitaux Universitaires of Strasbourg, Centre George François Leclerc in Dijon, Institut Paoli Calmettes in Marseilles).

Eudata and Expert System have joined forces to work alongside companies to innovate their customer relations, exploiting the potential of artificial intelligence in customer care, sales support and marketing support activities, automating repetitive activities that do not call for specific skills or specialist expertise such as standard information recovery and the most common assistance needs. Conversational systems - chatbots - were implemented to carry out these activities, made available on fixed or mobile devices with the option for users to establish dialogue via text message, e-mail or social networks.

As a result of implementation of an automatic document search and classification system based on Expert System's Cogito cognitive technology, BNL - BNP Paribas Group - was the winner in the "Knowledge Transfer and Change Management" category with the project "The Semantic Search Engine" at the 2017 edition of the "ABI Awards for Innovation in Banking Services". Starting from an understanding of meaning, Expert System cognitive technology optimises help desk activities, allowing BNL to extract value from its wealth of available data and decrease pressure on customer care operators by allowing easy access to the documents of interest.

The partnership agreement signed in 2017 with a global leader in System Integration services is also of major importance. Using Expert System technology the partnership will simplify and further increase the adoption of artificial intelligence solutions.

The partnership will help the companies to accelerate the business transformation and innovation processes, particularly RPA (Robotic Process Automation). RPA is the leading field for mass adoption of artificial intelligence solutions, with prospects for further development and growth in this constantly expanding market. The main partnership segments to be developed include banking, insurance and automotive.

Also in this sector is a similar agreement signed with a European leader in Digital Transformation, which offers one of the most complete ranges of Consulting, Systems Integration, Software Development and Business Process Services available on the market at present. In this case, too, Expert System has allowed the new business partner to considerably improve the quality of services offered to its customers.

The inclusion of Expert System is confirmed again for 2017 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 the last ten years, research activities represented the dominant paradigm for access to information in the business world. The limitations of classic search engines have become increasingly evident and, in parallel, the demand from organisations has increased for access to strategic data that is more accurate and complete. This led to the migration from search to insight search, with the creation of more advanced solutions able to combine search simplicity with the

need for more sophisticated analyses. And it is in this continuously evolving context that Expert System was selected by Gartner, one of the leading strategic consulting and market analysis companies in the Information Technology sector, for the first Magic Quadrant dedicated to corporate insight search applications (Gartner in the 2017 Insight Engines Magic Quadrant).

BUSINESS OUTLOOK

The Board of Directors has approved the 2017-2019 Business Plan, which aims to enhance the geographic diversification of the Group and seize upon the results of the major growth path pursued over the last two years.

The forecast growth is based on general 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. The gradual creation of products and solutions for the ability to replicate them across various market segments will also allow an increase in the percentage of software and maintenance licences with an effect on the recurring component of the revenues. The improved operating cash flow will also be associated with a reduction in the average payment times, which on foreign markets are much shorter than in Italy. In addition, on completion of the integration process for the foreign offices, the Group will benefit from important scale economies that increase profit margins.

In 2019 the Group aims to achieve revenues for € 54.0 million with EBITDA of € 11.6 million. The target Net Financial Position is € 5.8 million with a gearing ratio (NFP/SE) of 37%.

In the final years of the plan, the forecasts are as follows (values in millions of Euro):

	2017	2018	2019
Revenues	28.2	34.9	47.4
Value of production	34.5	41.4	54
EBITDA	3.6	7.3	11.6
Net profit	-3.4	0.1	2.7
NFP	9.8	9.7	5.5

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

Chairman of the Board of Directors

Marco Varone

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

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

Report of the consolidated financial statements

We have audited the accompanying consolidated financial statements of Expert System S.p.A. and its subsidiaries (the "Expert System Group"), which comprise the balance sheet as of December 31st, 2016, the statement of income, the statement of changes in equity, the cash flow statements and related explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

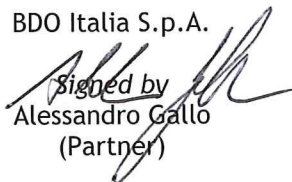
Report on compliance with other laws and regulation

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

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

Bologna, April 11th, 2017

BDO Italia S.p.A.


Signed by
Alessandro Gallo
(Partner)

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



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