



**Report on operations of the interim financial statements for the period  
ended 30/06/2014**



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30/06/2014



Register of Companies no. 02608970360  
Rea (Economic and Administrative Index) 212386

## EXPERT SYSTEM SPA

Registered office in VIA FORTUNATO ZENI 8 - 38068 ROVERETO (TN) Share capital € 219,496.80 fully paid-in

### Report on operations of the interim financial statements for the period ended 30/06/2014

Dear Shareholders,

the period ended as at 30/06/2014 recorded a negative result of € (524,727).

#### Operating conditions and business development

The Company carries out its activities in the *Company Technology* sector where it deals with unstructured information and is the global leader in the development of semantic software for understanding and analysing information.

The company has always pursued the objective of developing a software platform that understands the significance of said information and the context to which it refers, therefore providing results of a decidedly higher quality compared to the output of traditional products, based on key words or statistical algorithms. The Cogito platform is able to apply the typical human understanding techniques and, therefore, makes it possible to manage all forms of unstructured information, like documents, web pages, e-mails, etc. in a revolutionary way.

The first part of 2014 was characterised by a major event, namely the listing on AIM Italia, in view of the company's development and international expansion plan. The operation was hugely successful, generating financial resources and making the company more visible. The funds collected through the share capital increase have already been partly allocated not only to achieving this key objective (which the company will continue to do) but to the constant development of COGITO technology and of derivative products, which will compete increasingly more with international competitors. The sales activities carried out by the company in recent months relate to both the development of direct contacts with customers and the construction of a network of Italian partners at international level which can act as a distributor and system integrator of the line of COGITO products. In fact, in the first part of the year, significant partnership agreements were strengthened with Italian and international companies such as, for example, with 3M in the health sector. Also in the first part of the year, an agreement was signed with Digital Magics, one of the most important Italian incubators for the provision of COGITO technology to the start-ups financed by them. This is an initiative which not only creates interesting links with innovative and emerging companies, but, in the medium-term, may also deliver economic results, should these start-ups be successful in their various sectors.

By contrast, on the technology front, some new products were presented including, for example, an integration of COGITO with the product Microsoft Sharepoint for the classification and "intelligent" tagging of documents contained within this platform. As regards international recognition, we should point out the confirmation and improvement of our position in the "Gartner Magic Quadrant 2014 for Enterprise Search" which now ranks Expert System in the top 10 companies in the world in terms of company document search products.

As regards development of the company's presence on foreign markets, a new office was opened in Palo Alto, in Silicon Valley in California, in order to achieve a constant presence at the heart of the Information Technology world, as a "technological antenna" for the company and for developing commercial relations with the key companies in that area. The finalisation of a partnership with Cloudera, one of the most

important companies in the world in the provision of cloud services, already constitutes the first significant benefit of this initiative, just a few months after it was established.

Pursuant to art. 2428, it should be noted that activities are carried out in the company's registered offices in Rovereto (TN) and in the secondary offices in Modena, Naples, Rome and Povo (TN).

From a legal viewpoint, Expert System SpA directly and indirectly controls the companies below, which perform the following activities that are complementary and/or functional to the Group's core business.

COMPANY	Equity investment	Control	Activity carried out
Admantx Spa	78.27%	Yes – direct	Software platform for contextualising on-line advertising on a semantic basis
Expert System USA Inc	100%	Yes – direct	Semantic software activities in the Information technology field
Admantx Inc	78.27%	Yes – indirect	Software platform for contextualising on-line advertising on a semantic basis

### Operating performance

On 14/02/2014, the Company was admitted to listing on AIM Italia – Mercato Alternativo del Capitale (Alternative Capital Market) and its shares were traded from 18/02/2014.

AIM (Alternative Investment Market) Italia is the market regulated by Borsa Italiana (Italian Stock Exchange) dedicated to the most dynamic and competitive SMEs with high growth potential in Italy. The market was created at the beginning of 2012 from an amalgamation of the AIM Italia and MAC markets, with a formula based on know-how acquired thanks, on the one hand, to 15 years of experience on the UK AIM, and, on the other, on the specific requirements of the Italian business system.

Semantics is taking on increasingly greater significance in the IT offer scenario due to the exponential increase in the availability of unstructured information which is managed and understood.

The decision to concentrate expansion efforts overseas on the US market derives from the fact that that environment contains various large private companies and government bodies that potentially have a watchful eye on and are receptive to advanced instruments for text analytics.

As regards the performance of the company's value of production, the trend exhibits a slight reduction in the first half compared to the first half of 2013, characterised, among other things, by a significant job. The different mix between sales and the item "work in progress" was determined by a different type of project in the first part of 2014, with longer implementation times which will lead to their conclusion, and therefore billing, in the second part of the year.

The negative performance in the first part of the year is an expected consequence of the investments underway to develop both a new technological and commercial basis for the future international development of the company. Capital was raised in order to achieve the possibility of investing significant funds upfront which previously would not have been possible, given the company could only rely on its cash flows or ordinary credit. As the reader can well imagine, it can take some time to see the results of complex technological and commercial investments, taking into account that the listing with the raising of capital was only carried out last February. The capital strength sought after by the company nonetheless allows it to adequately deal with periods of major investment like this one.

### Operating performance in sectors in which the company operates

As regards your company, the first half of 2014 closed with a loss of € 524,727.

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

	30/06/2014	31/12/2013	30/06/2013	31/12/2012
value of production	6,475,319	13,119,876	6,679,611	14,543,485

EBITDA	106,698	2,013,603	1,207,034	2,624,177
pre-tax result	(626,920)	584,298	678,562	1,148,254

The above figures show that the value of production is essentially in line with the figure in the corresponding half in the previous year. By contrast, EBITDA felt the effects of the increase in the cost of labour and the professional services required by the company to develop the special projects of the investment plan the company has set out for future years.

### Main income statement figures

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

	30/06/2014	30/06/2013	Change
Net revenues	3,231,525	4,787,344	(1,555,819)
Changes in contract work in progress	1,589,409	312,995	1,276,414
Own work capitalised	1,342,068	559,369	782,699
Operating grants	9,650	1,001,152	(991,502)
Grants related to assets - portion for the year	269,314		269,314
Sundry income	33,353	18,751	14,602
<b>Total revenues</b>	<b>6,475,319</b>	<b>6,679,611</b>	<b>(204,292)</b>
Cost of materials and overheads	(3,655,908)	(3,018,365)	(637,543)
<b>Value added</b>	<b>2,819,411</b>	<b>3,661,246</b>	<b>(841,835)</b>
Cost of labour	(2,712,713)	(2,454,212)	(258,501)
<b>EBITDA</b>	<b>106,698</b>	<b>1,207,034</b>	<b>(1,100,336)</b>
Amortisation, depreciation, write-downs and other provisions	(696,494)	(387,722)	(308,772)
<b>Net operating profit</b>	<b>(589,796)</b>	<b>819,312</b>	<b>(1,409,108)</b>
Financial income and expenses	(33,914)	(156,665)	122,751
<b>Ordinary profit</b>	<b>(623,710)</b>	<b>662,647</b>	<b>(1,286,357)</b>
Net extraordinary components	(3,210)	15,915	(19,125)
<b>Pre-tax result</b>	<b>(626,920)</b>	<b>678,562</b>	<b>(1,305,482)</b>
Income taxes	102,193	(337,798)	439,991
<b>Net profit</b>	<b>(524,727)</b>	<b>340,764</b>	<b>(865,491)</b>

As regards revenues, it should be noted that the negative differential of € 1,555,819 deriving from lower revenues at 30/06/2014, is partially offset by the increase of € 1,276,414 in contract work in progress, valued on the basis of the percentage of completion method. The differential remains, however, negative for € 279,405, registering an overall net decrease of 5.47% on a half-yearly basis compared to the previous year. The change of the technique of accounting for grants related to assets involved an increase of a total of € 60,511, deriving from the changes in the items "own work capitalised", "operating grants" and "grants related to assets". Also as regards revenues, an increase of € 14,602 was recorded in sundry income. In conclusion, an analysis of the "Revenues" section of the income statement, taking in an overall decrease of € 204,292, does not highlight a significant deviation with respect to the previous year (30/06/2013). As regards the cost of materials and overheads, a total increase of € 637,543 was recorded, as shown in the table below:

Cost item	Value at 30/06/2014	Value at 30/06/2013	change
Costs for raw materials, consumables and goods for resale	177,500	405,281	(227,781)
Service costs	3,213,945	2,324,082	889,863
For use of third party assets	236,755	268,546	(31,791)
Sundry operating expenses	27,708	20,456	7,252
<b>Total</b>	<b>3,655,908</b>	<b>3,018,365</b>	<b>637,543</b>

The item "service costs" recorded an increase of € 889,863, mainly due to the increase in the following items:

- technical consultancy: the item concerned saw an increase in the half with respect to the same period in 2013, due to the consultancy the company used for the implementation of some projects that required external know-how, totalling € 494,605.
- commercial consultancy – Italy and abroad: commercial and business development consultancy in implementation of the investment plan recorded an overall increase of € 164,248; in fact, the company availed itself of highly specialised consultancy for the development of strategies and market penetration

plans.

Therefore, on the whole, the value added fell by € 841,835 compared to the first half of 2013.

The cost of labour also reflects the implementation of the investment plan; in fact, it recorded growth of € 258,501 due to the hiring of sales personnel and linguistic and technological product development.

As a result of the above changes, the EBITDA registered a decrease of € 1,100,336 compared to the previous year.

The increase in amortisation of € 308,772 is due not only to the capitalisation of listing costs but the capitalisation of the current total of € 1,342,067 in research and development costs; the combined effect of amortisation due to higher capitalisations led to net operating loss of € - 589,796.

The improvement in the financial situation is due primarily to the cash inflows deriving from the listing transaction which led to a significant reduction in financial expenses, given the company implemented policies to optimise and reduce its financial exposure.

Income taxes reduced the loss by € 102,193 due to the positive balance of € 152,094 deriving from deferred tax assets.

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

	30/06/2014	31/12/2013	30/06/2013	31/12/2012
Net ROE	(0.03)	0.04	0.06	0.13
Gross ROE	(0.03)	0.10	0.12	0.22
ROI	(0.02)	0.04	0.04	0.09
ROS	(0.18)	0.09	0.17	0.15

### Main balance sheet figures

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

	30/06/2014	30/06/2013	Ch. H1 2014 H1 2013	31/12/2013	Ch. H1 2014 FY 2013
Net intangible fixed assets	3,877,490	1,418,761	2,458,729	2,462,442	1,415,048
Net tangible fixed assets	602,679	639,382	(36,703)	606,110	(3,431)
Equity investments and other non-current financial assets	10,480,869	5,911,598	4,569,271	6,836,332	3,644,537
<b>Fixed assets</b>	<b>14,961,038</b>	<b>7,969,741</b>	<b>6,991,297</b>	<b>9,904,884</b>	<b>5,056,154</b>
Warehouse inventories	2,065,424	1,034,508	1,030,916	476,015	1,589,409
Receivables due from customers	4,662,199	6,017,244	(1,355,045)	5,819,984	(1,157,785)
Other receivables	6,420,858	3,888,135	2,532,723	6,049,728	371,130
Accrued income and prepaid expenses	292,303	184,088	108,215	169,918	122,385
<b>Short-term operating assets</b>	<b>13,440,784</b>	<b>11,123,975</b>	<b>2,316,809</b>	<b>12,515,645</b>	<b>925,139</b>
Trade payables	1,303,816	1,593,503	(289,687)	1,103,820	199,996
Payments on account	1,436,843	263,279	1,173,564	1,524,588	(87,745)
Tax and social security payables	689,219	675,273	13,946	917,637	(228,418)
Other payables	1,092,883	1,086,144	6,739	943,140	149,743
Accrued expenses and deferred income	1,292,232	235,956	1,056,276	238,118	1,054,114
<b>Short-term operating liabilities</b>	<b>5,814,993</b>	<b>3,854,155</b>	<b>1,960,838</b>	<b>4,727,303</b>	<b>1,087,690</b>
<b>Net capital for the year</b>	<b>7,625,791</b>	<b>7,269,820</b>	<b>355,971</b>	<b>7,788,342</b>	<b>(162,551)</b>
Employee severance indemnity	1,053,219	893,101	160,118	948,598	104,621
Tax and social security payables (after 12 months)	3,467		3,467		3,467
Accrued expenses and deferred income after 12 months	3,659,733		3,659,733	3,905,115	(245,382)
Other medium and long-term liabilities	1,820,815	2,486,837	(666,022)	1,673,769	147,046
<b>Medium/long-term liabilities</b>	<b>6,537,234</b>	<b>3,379,938</b>	<b>3,157,296</b>	<b>6,527,482</b>	<b>9,752</b>
<b>Invested capital</b>	<b>16,049,595</b>	<b>11,859,623</b>	<b>4,189,972</b>	<b>11,165,744</b>	<b>4,883,851</b>

Shareholders' equity	(17,821,463)	(6,092,227)	(11,729,236)	(5,976,806)	(11,844,657)
Net medium/long-term financial position	(3,909,788)	(4,150,239)	240,451	(5,172,406)	1,262,618
Net short-term financial position	5,681,656	(1,617,157)	7,298,813	(16,532)	5,698,188
<b>Own equity and net financial debt</b>	<b>(16,049,595)</b>	<b>(11,859,623)</b>	<b>(4,189,972)</b>	<b>(11,165,744)</b>	<b>(4,883,851)</b>

The reclassified balance sheet highlights the company's capital strength (i.e. its capacity to maintain financial equilibrium over the medium/long-term).

The positive net short-term financial position of € 5,681,656 was able to fully cover the net medium/long-term financial position, also due to the liquidity generated by the company's listing transaction.

In terms of providing a better description of the company's capital strength, the table below outlines some financial statement ratios compared with the same ratios relating to the previous year's financial statements.

	30/06/2014	31/12/2013	30/06/2013	31/12/2012
Fixed asset /equity margin	2,860,425	(3,928,078)	(1,877,514)	(759,879)
Fixed asset /equity ratio	1.19	0.60	0.76	0.89

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

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

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

*Fixed asset/equity margin: shareholders' equity – fixed assets*  
 $(17,821,463 - 14,961,038) = 2,860,425$

*Fixed asset / equity ratio:*

$17,821,463 / 14,961,038 = 1.19$

The positive result of the fixed asset/equity margin with the correlated ratio higher than one indicates that the company meets its long-term financial commitments without the need for third party financing.

### Main financial figures

The net financial position as at 30/06/2014 is as follows (in Euro):

	30/06/2014	30/06/2013	Ch. H1 2014 H1 2013	31/12/2013	Ch. H1 2014 FY 2013
Bank deposits	8,213,895	1,258,333	6,955,562	2,957,350	5,256,545
Cash at bank and in hand	1,904	1,754	150	1,501	403
Treasury shares					
<b>Cash and cash equivalents and treasury shares</b>	<b>8,215,799</b>	<b>1,260,087</b>	<b>6,955,712</b>	<b>2,958,851</b>	<b>5,256,948</b>
<b>Current financial assets</b>	<b>8,400</b>	<b>13,734</b>	<b>(5,334)</b>	<b>8,400</b>	<b>-</b>
Bonds and convertible bonds (within 12 months)					
Payables due to shareholders for loans (within 12 months)					
Payables due to banks (within 12 months)	2,249,827	1,007,367	1,242,460	2,692,311	(442,484)
Payables due to other lenders (within 12 months)	292,716	383,551	(90,835)	291,472	1,244
Advances for overseas payments					
Short-term portion of loans		1,500,060	(1,500,060)		
Financial receivables					
<b>Short-term financial payables</b>	<b>2,542,543</b>	<b>2,890,978</b>	<b>(348,435)</b>	<b>2,983,783</b>	<b>(441,240)</b>



<b>Net short-term financial position</b>	<b>5,681,656</b>	<b>(1,617,157)</b>	<b>7,298,813</b>	<b>(16,532)</b>	<b>5,698,188</b>
Bonds and convertible bonds (after 12 months)					
Payables due to shareholders for loans (after 12 months)					
Payables due to banks (after 12 months)	3,399,459		3,399,459	4,462,615	(1,063,156)
Payables due to other lenders (after 12 months)	510,329	803,045	(292,716)	709,791	(199,462)
Advances for overseas payments					
Long-term portion of loans		3,347,194	(3,347,194)		
Financial receivables					
<b>Net medium/long-term financial position</b>	<b>(3,909,788)</b>	<b>(4,150,239)</b>	<b>240,451</b>	<b>(5,172,406)</b>	<b>1,262,618</b>
<b>Net financial position</b>	<b>1,771,868</b>	<b>(5,767,396)</b>	<b>7,539,264</b>	<b>(5,188,938)</b>	<b>6,960,806</b>

The company's net financial position was positively impacted by the listing on the ALTERNATIVE CAPITAL MARKET on 18/02/14

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

	<b>30/06/2014</b>	<b>31/12/2013</b>	<b>30/06/2013</b>	<b>31/12/2012</b>
Primary liquidity	2.35	1.95	1.68	2.19
Secondary liquidity	2.59	2.01	1.84	2.32
Debt	0.78	2.55	2.28	2.22
Rate of coverage of fixed assets	1.63	1.39	1.69	2.06

### Primary liquidity

#### LIQUID ASSETS:

cash and bank current account balances:

C) IV 8,215,799

#### CURRENT ASSETS:

Receivables and financial assets

C) II 1) receivables	4,662,199
C) II 2) within 12 months	1,040,165
C) II 4bis) within 12 months	96,912
C) II 4 ter) within 12 months	162,507
C) II 5) within 12 months	5,121,274
C III	8,400
D	292,303
<b>TOTAL DEFERRED ASSETS</b>	<b>11,383,760</b>

#### CURRENT LIABILITIES:

D 4) WITHIN 12 MONTHS	2,249,827
D 5) WITHIN 12 MONTHS	292,716
D 6) WITHIN 12 MONTHS	1,436,843
D 7) WITHIN 12 MONTHS	1,303,816
D 12) WITHIN 12 MONTHS	463,199
D 13) WITHIN 12 MONTHS	226,020
D 14) WITHIN 12 MONTHS	1,092,883
E ACCRUED EXPENSES AND DEFERRED INCOME – PORTION WITHIN 12 MONTHS	1,292,232
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,357,536</b>

The formulae are shown below

Primary liquidity:

$(Li+Lc)/Pc - (\text{Liquid assets}+\text{current assets})/\text{Current liabilities}$   
 $(8,215,799+ 11,383,760)/ 8,357,536 = 2.35$

The quick ratio stands at 2.35, highlighting an excellent balance between current assets and current liabilities.

**Secondary liquidity**

$AC (\text{comproso magazzino})/PC - \text{Current assets (including inventories)}/\text{Current liabilities}$   
 $(8,215,799+ 11,383,760+2,065,424)/ 8,357,536 = 2.59$

The current ratio was also excellent, standing at 2.59, thanks to the increase in inventories of contract work in progress.

**Debt ratio**

Third party financing/net capital

THIRD PARTY FINANCING	
<b>Current liabilities (without accruals)</b>	<b>7,065,304</b>
MEDIUM/LONG-TERM LIABILITIES	
D 4) AFTER 12 MONTHS	3,399,459
D 5) AFTER 12 MONTHS	510,329
D 6) AFTER 12 MONTHS	1,670,717
B) PROVISIONS FOR RISKS AND CHARGES	153,565
C) EMPLOYEE SEVERANCE INDEMNITY	1,053,219
<b>TOTAL MEDIUM/LONG-TERM LIABILITIES</b>	<b>6,787,289</b>
<b>TOTAL THIRD PARTY FINANCING</b>	<b>13,852,593</b>

Third party financing: = 13,852,593  
 Net capital = 17,821,463  
 Debt ratio = 13,852,593/17,821,463= 0.78

The debt ratio highlights the existing ratio of third party funds to own capital. It makes it possible to verify the risk connected with the company's level of dependency on external sources of financing. A high level of debt with respect to own capital, on a trend basis, increases the business risk due to a lower degree of capital coverage of potential company losses and due to a higher weight of financial expenses deriving from the use of third party funds. A ratio of 0.78 indicates a low level of company risk.

**Rate of coverage of fixed assets**

$(NC+\text{Medium/long-term liab.})/\text{fixed assets}$   
 Net capital = NC = 17,821,463  
 Medium/long-term liab. = 6,537,234

fixed assets =  
 $(17,821,463+ 6,537,234)/14,961,038 = 1.63$

In light of the rate of coverage of fixed assets of 1.63, the amount of own equity and consolidated payables is considered appropriate in relation to the amount of fixed assets.

**Information on the environment and personnel**

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

**Personnel**

No workplace fatalities of personnel recorded in the company's employee register were recorded during the year. During the year, no serious workplace accidents occurred which caused serious or very serious injuries

to personnel recorded in the company's employee register.

No charges were recorded during the year, regarding occupational illnesses, against employees or former employees and cases of mobbing, for which the company was declared definitively liable.

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

### **The Environment**

No environmental damage was recorded during the year, for which the company was held to be definitively at fault.

No definitive sanctions or penalties were imposed on our company during the year for environmental offences or damages.

On 30/06/2008, the company obtained ISO certification 9001:2008, whose revision performed on 02/07/2014 is valid until 01/07/2017.

### **Investments**

Investments were made in the following areas during the year:

	<b>Fixed assets</b>	<b>Acquisitions during the year</b>
Plant and machinery		52,645
Other assets		10,903

### **Research and development activities**

Pursuant to art. 2428, par. 2, no. 1 of the Civil Code, the following information is acknowledged:

The company is constantly conducting research and development activities to retain its leading global position in the field of semantic technology. The costs incurred for these activities are partly capitalised and partly charged directly, also in the context of certain multi-year national and international research projects the company is involved in. These activities concerned the development of the Cogito linguistics platform and connected functions, in particular, the Cogito platform for Spanish and German; further development of the advanced product Cogito Taxonomy Studio was also implemented, which integrates self-learning and cognitive computing technologies, and Cogito API was created, which will be launched in the second half of the year.

Other significant areas of research in the period included self-learning regarding relationships between entities, improvement in the understanding of the tone and sense of texts (particularly of a social nature) and of the automatic generation of categorisation rules for the reduction of development costs for projects created with Cogito Studio.

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

The company held the following relations during the year with subsidiaries, associates, parent companies and sister companies:

The company held the following relations with group companies.

<b>Company</b>	<b>Financial payables</b>	<b>Financial receivables</b>	<b>Trade receivables</b>	<b>Trade payables</b>	<b>Sales</b>	<b>Purchases</b>
Admantx Spa	-	80,000	98,335	49,326	31,224	35,284
Expert System USA Inc	-	643,387	1,301,113	-	260,008	-
<b>Total</b>	<b>-</b>	<b>723,387</b>	<b>1,399,488</b>	<b>49,326</b>	<b>291,231</b>	<b>35,284</b>

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

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

With the subsidiary Admantx S.p.A.

### **Costs:**

- 1) Technical consultancy and intercompany marketing activities, which generated consultancy costs totalling € 35,284, booked to the income statement under the item "Commercial Consultancy - Italy"; "Technical Consultancy - Italy" reclassified under item B) 7 "Service costs".

### **Revenues:**

- 1) Lease agreement for property in Naples, Via nuova Poggio Reale, Centro Polifunzionale Inail (Inail – National Institute for Insurance against Accidents at Work - Multi-purpose centre), where the company has its registered office: annual rent of € 5,033.2;
- 2) Sub-letting agreement for local office in Modena, Via Virgilio 56/Q: annual rent of € 3,667.80

The income statement item concerned by this contract is "Property income" reclassified to item A) 5 "Other revenue and income".

- 3) Services contract relating to accounting support, company economic-financial consultancy, secretary and general services:

- fee for accounting support and company consultancy – half-yearly fee of € 11,408.20
- fee for secretary activities - € 100 per month
- fee for general services (telephone, cleaning services and material, security, electricity, stationery, management software maintenance): lump-sum reimbursement (4.15%) of costs incurred by Expert System S.p.a.;

The balance sheet item concerned by this contract is "intercompany customers" and "customers for invoices to be issued" reclassified to the item C) II 2) Receivables due from subsidiaries.

The income statement item concerned by this contract is "Reimbursement of various expenses" reclassified to item A) 5 "Other revenue and income".

- 4) Contract for strategic consultancy, half-yearly fee of € 4,000.00.

The balance sheet item concerned by this contract is "customers for invoices to be issued" reclassified to the item C) II 2) Receivables due from subsidiaries, while the income statement item concerned is "Provision of intercompany services" reclassified to item A) 5 "Other revenue and income".

With the subsidiary Expert System USA Inc.:

professional service activities performed for the subsidiary, concessions of licences and granting of loans.

The balance sheet item concerned by this contract is "customers for invoices to be issued amounting to € 260,008" reclassified to the item C) II 2) "Receivables due from subsidiaries".

The income statement items concerned by this contract are:

- "Interest income from subsidiary Expert System USA Inc" reclassified to the item C) 16) d) for € 10,395
- "Intercompany activities" reclassified to the item A) 1 for a total of € 249,612

## **Treasury shares and shares/holdings in parent companies**

The company does not hold any treasury shares and does not have any parent companies.

## **Information on risks and uncertainties pursuant to art. 2428, par. 2, point 6-bis of the Civil Code**

Pursuant to art. 2428, par. 2, point 6-bis of the Civil Code, it should be noted that the company does not make use of financial instruments.

## Significant events after the close of the year

At the start of the half, the company strengthened its presence overseas with the opening of wholly-owned company Expert System Cogito Ltd in Great Britain. The UK market is particularly important thanks to the high concentration of companies operating in the Finance, Oil & Gas and Publishing sectors in which the company has acquired considerable experience. Coverage of the UK also facilitates the consolidation of different partnerships, launched with major technology and consultancy companies, and constant and direct contact with UK customers.

Expert System was then included by Gartner in the Magic Quadrant dedicated to company research solutions. The Company is once again the only Italian company to receive this significant international recognition.

August saw the completion of the capital transactions of the subsidiary Admantx Spa, needed to obtain new financial resources; the total value of the transaction came to € 2,000,000, to be used to implement future projects set out in the growth strategy and, in particular, as part of the company's new offering in Semantic Audience Profiling. Admantx therefore benefitted from the entry of a new shareholder and the continued trust of previous shareholders who subscribed the various share capital increases. At present, Expert System, with the subscription of a share capital increase for a value of € 500,000, holds a 69.42% stake in the company.

A partnership was announced at the end of August with Cloudera, a leader in data management solutions for companies based on Apache Hadoop, targeted at the integration of Cogito technology with Cloudera Enterprise 5. Thanks to the potential of semantic processing, Cloudera customers will be able to extend and improve their analysis capacity by best exploiting unstructured content through the automatic generation of metadata.

## Business outlook

The second part of 2014 saw the strengthening of increasingly more significant efforts in overseas markets, in particular in the US and North American markets; in fact, the personnel hiring process carried out in the first few months of 2014 continued, as did the process of technological product development and of commercial and business development, in view of the implementation of the business plan, but also for the extension of strategic synergies with large companies.

By contrast, in the European field, the UK branch Expert System Cogito Ltd was incorporated, proof of the company's goal of penetrating northern European markets.

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

In the Middle Eastern market, the company is aiming to expand strategic partnerships already established in the last few months, to expand its offering to new entities not in the commercial pipeline.

## Revaluation of company assets pursuant to Decree Law no. 185/2008

Your company did not avail itself of any revaluation.

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

Chairman of the Board of Directors



Marco Varone

## Interim Financial Statements at 30/06/2014



**EXPERT SYSTEM SPA**

Registered office in VIA FORTUNATO ZENI 8 - 38068 ROVERETO (TN) Share capital € 219,496.80 fully paid-in

**Interim Financial Statements at 30/06/2014**

<b>Balance sheet - assets</b>	<b>30/06/2014</b>	<b>30/06/2013</b>	<b>31/12/2013</b>
<b>A) Subscribed capital, unpaid</b> (of which already called)			
<b>B) Fixed assets</b>			
<i>I. Intangible assets</i>			
1) Start-up and expansion costs	616,287	16,514	12,031
2) Costs of research, development and advertising	3,195,406	1,015,304	2,380,534
3) Industrial patent and intellectual property rights	24,255	30,481	24,001
4) Concessions, licences, trademarks and similar rights	3,998	2,055	1,796
5) Goodwill	23,411	30,100	26,755
6) Fixed assets in progress and payments on account		309,334	
7) Other	14,133	14,973	17,325
	<u>3,877,490</u>	<u>1,418,761</u>	<u>2,462,442</u>
<i>II. Tangible assets</i>			
1) Land and buildings	401,543	412,630	407,087
2) Plant and machinery	6,482	6,905	5,407
3) Industrial and commercial equipment			
4) Other assets	194,654	219,847	193,616
5) Fixed assets in progress and payments on account			
	<u>602,679</u>	<u>639,382</u>	<u>606,110</u>
<i>III. Financial</i>			
1) Equity investments in:			
a) subsidiaries	3,653,075	501,951	1,133,651
b) associates		3,500	
c) parent companies			
d) other companies	9,138	9,138	9,138
	<u>3,662,213</u>	<u>514,589</u>	<u>1,142,789</u>
2) Receivables			
a) due from subsidiaries			
- within 12 months			
- after 12 months			
b) due from associates			
- within 12 months			
- after 12 months			

c) due from parent companies			
- within 12 months			
- after 12 months			
d) due from others			
- within 12 months			
- after 12 months			
3) Other securities			
4) Treasury shares (total nominal value)			
		3,662,213	514,589
			1,142,789
<b>Total fixed assets</b>		<b>8,142,382</b>	<b>2,572,732</b>
			<b>4,211,341</b>

### C) Current assets

#### I. Inventories

1) Raw materials and consumables			
2) Work in progress and semi-finished products			
3) Contract work in progress		2,065,424	1,034,508
4) Finished products and goods for resale			476,015
5) Payments on account			
		2,065,424	1,034,508
			476,015

#### II. Receivables

1) Due from customers			
- within 12 months	4,662,199		6,017,244
- after 12 months	210,083		5,819,984
		4,872,282	6,017,244
			5,819,984
2) Due from subsidiaries			
- within 12 months	1,040,165		1,533,495
- after 12 months	1,109,901		853,355
		2,150,066	2,386,850
			1,848,363
3) Due from associates			
- within 12 months			
- after 12 months			3,500
			3,500
4) Due from parent companies			
- within 12 months			
- after 12 months			
4-bis) For tax receivables			
- within 12 months	96,912		46,525
- after 12 months	126,524		123,057
		223,436	169,582
			265,669
4-ter) For prepaid taxes			
- within 12 months	162,507		320
- after 12 months	52,281		52,679
		214,788	52,999
			7,426
			51,801
			59,227



5) Due from others				
- within 12 months	5,121,274		2,307,795	4,659,876
- after 12 months	5,319,867		4,364,418	4,910,136
		10,441,141	6,672,213	9,570,012
		17,901,713	15,302,388	17,563,255
<b>III. Current financial assets</b>				
1) Equity investments in subsidiaries				
2) Equity investments in associates				
3) Equity investments in parent companies				
4) Other equity investments		8,400	13,734	8,400
5) Treasury shares (total nominal value)				
6) Other securities				
		8,400	13,734	8,400
<b>IV. Cash and cash equivalents</b>				
1) Bank and postal deposits		8,213,895	1,258,333	2,957,350
2) Cheques				
3) Cash at bank and in hand		1,904	1,754	1,501
		8,215,799	1,260,087	2,958,851
<b>Total current assets</b>		<b>28,191,336</b>	<b>17,610,717</b>	<b>21,006,521</b>
<b>D) Accruals and deferrals</b>				
- discount on loans				
- miscellaneous	292,303		184,088	169,918
		292,303	184,088	169,918
<b>Total assets</b>		<b>36,626,021</b>	<b>20,367,537</b>	<b>25,387,780</b>
<b>Balance Sheet - liabilities</b>				
		<b>30/06/2014</b>	<b>30/06/2013</b>	<b>31/12/2013</b>
<b>A) Shareholders' equity</b>				
I. Share capital		219,497	144,000	144,000
II. Share premium reserve		13,768,730	1,468,843	1,468,843
III. Revaluation reserve				
IV. Legal reserve		40,067	28,800	28,800
V. Statutory reserves				
VI. Reserve for treasury shares in portfolio				
VII. Other reserves				
Extraordinary or optional reserve	3,800,273		3,592,196	3,592,196
Merger surplus reserve	376,622		376,622	376,622
Reserve for exchange gains				
Euro rounding difference	1		2	1
Other	141,000		141,000	141,000
		4,317,896	4,109,820	4,109,819

## VIII. Retained earnings (losses)

IX. Profit for the year		340,764	225,344
IX. Loss for the year	(524,727)	( )	( )
Advances on dividends	( )	( )	( )
Partial coverage of loss for the year			

<b>Total shareholders' equity</b>	<b>17,821,463</b>	<b>6,092,227</b>	<b>5,976,806</b>
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**B) Provisions for risks and charges**

1) Pension provisions and similar obligations	836	3,454	836
2) Provisions for taxes, including deferred	3,467	1,842	
3) Other	149,262	160,000	160,000

<b>Total provisions for risks and charges</b>	<b>153,565</b>	<b>165,296</b>	<b>160,836</b>
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<b>C) Employee severance indemnity</b>	<b>1,053,219</b>	<b>893,101</b>	<b>948,598</b>
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**D) Payables**

1) Bonds			
- within 12 months			
- after 12 months			
2) Convertible bonds			
- within 12 months			
- after 12 months			
3) Payables due to shareholders for loans			
- within 12 months			
- after 12 months			
4) Payables due to banks			
- within 12 months	2,249,827	2,507,427	2,692,311
- after 12 months	3,399,459	3,347,194	4,462,615
		5,649,286	7,154,926
5) Payables due to other lenders			
- within 12 months	292,716	383,551	291,472
- after 12 months	510,329	803,045	709,791
		803,045	1,001,263
6) Payments on account			
- within 12 months	1,436,843	263,279	1,524,588
- after 12 months	1,670,717	2,312,683	1,512,933
		3,107,560	3,037,521
7) Trade payables			
- within 12 months	1,303,816	1,593,503	1,103,820
- after 12 months			
		1,303,816	1,593,503
8) Payables represented by credit instruments			

- within 12 months				
- after 12 months				
9) Payables due to subsidiaries				
- within 12 months				
- after 12 months				
10) Payables due to associates				
- within 12 months				
- after 12 months				
11) Payables due to parent companies				
- within 12 months				
- after 12 months				
12) Tax payables				
- within 12 months	463,199		425,195	718,443
- after 12 months				
		463,199	425,195	718,443
13) Payables due to social security institutions				
- within 12 months	226,020		250,078	199,194
- after 12 months				
		226,020	250,078	199,194
14) Other payables				
- within 12 months	1,092,883		1,086,144	943,140
- after 12 months			8,858	
		1,092,883	1,095,002	943,140
<b>Total payables</b>		<b>12,645,809</b>	<b>12,980,957</b>	<b>14,158,307</b>

**E) Accruals and deferrals**

- premium on loans				
- miscellaneous	4,951,965		235,956	4,143,233
		4,951,965	235,956	4,143,233
<b>Total liabilities</b>		<b>36,626,021</b>	<b>20,367,537</b>	<b>25,387,780</b>

**Memorandum accounts****1) Risks assumed by the company**

		30/06/2014	30/06/2013	31/12/2013
Sureties				
to subsidiaries	400,000			400,000
to associates				
to parent companies				
to subsidiaries of parent companies				
to other companies	3,618,027		3,587,067	3,594,100
		4,018,027	3,587,067	3,994,100
Endorsements				
to subsidiaries				

to associates			
to parent companies			
to subsidiaries of parent companies			
to other companies			
Other personal guarantees			
to subsidiaries			
to associates			
to parent companies			
to subsidiaries of parent companies			
to other companies			
Collaterals			
to subsidiaries			
to associates			
to parent companies			
to subsidiaries of parent companies			
to other companies			
Other risks			
receivables transferred with recourse			
other			
		4,018,027	3,587,067
			3,994,100
<b>2) Commitments undertaken by the company</b>			
<b>3) Third party assets held by the company</b>			
work in progress			
property held by the company under deposit or loan for use			
property held by the company under pledge or deposit			
other			
<b>4) Other memorandum accounts</b>			
<b>Total memorandum accounts</b>		<b>4,018,027</b>	<b>3,587,067</b>
			<b>3,994,100</b>

<b>Income statement</b>	<b>30/06/2014</b>	<b>30/06/2013</b>
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<b>A) Value of production</b>		
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1) Sales and service revenues	3,231,525	4,787,344
2) Changes in inventories of work in progress, semi-finished and finished products		
3) Variations in contract work in progress	1,589,409	312,995
4) Own work capitalised	1,342,068	559,369
5) Other income and revenue:		

- miscellaneous	33,353	18,751
- operating grants	9,650	1,001,152
- capital grants (portions for the year)	269,314	
		312,317
<b>Total value of production</b>		<b>1,019,903</b>
	<b>6,475,319</b>	<b>6,679,611</b>

**B) Costs of production**

6) For raw materials, consumables and goods for resale		177,500	405,281
7) For services		3,213,945	2,324,082
8) For use of third party assets		236,755	268,546
9) For personnel			
a) Salaries and wages	2,025,909		1,825,754
b) Social security costs	547,587		509,938
c) Employee severance indemnity	108,431		117,721
d) Pensions and similar charges			
e) Other costs	30,786		799
		2,712,713	2,454,212
10) Amortisation, depreciation and write-downs			
a) Amortisation of intangible fixed assets	612,973		300,106
b) Depreciation of tangible fixed assets	50,126		50,719
c) Other write-downs of fixed assets			
d) Write-downs of receivables included in current assets and cash and cash equivalents	33,395		36,897
		696,494	387,722
11) Changes in inventories of raw materials, consumables and goods for resale			
12) Provision for risks			
13) Other provisions			
14) Sundry operating expenses		27,708	20,456
<b>Total costs of production</b>		<b>7,065,115</b>	<b>5,860,299</b>
<b>Difference between the value and costs of production (A-B)</b>		<b>(589,796)</b>	<b>819,312</b>

**C) Financial income and expenses**

## 15) Income from equity investments:

- from subsidiaries
- from associates
- other

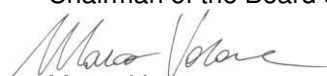
## 16) Other financial income:

- a) from receivables classified as fixed assets
  - from subsidiaries
  - from associates

- from parent companies			
- other			
b) from securities classified as fixed assets			
c) from securities included in current assets			162
d) other income:			
- from subsidiaries	10,395		11,412
- from associates			
- from parent companies			
- other	104,970		15,687
		115,365	27,261
		115,365	27,261
<b>17) Interest and other financial expenses:</b>			
- from subsidiaries			
- from associates			
- from parent companies			
- other	164,086		188,163
		164,086	188,163
<b>17-bis) Exchange gains and losses</b>		14,807	4,237
<b>Total financial income and expenses</b>		<b>(33,914)</b>	<b>(156,665)</b>
<b>D) Value adjustments to financial assets</b>			
<b>18) Revaluations:</b>			
a) of equity investments			
b) of non-current financial assets			
c) of securities included in current assets			
<b>19) Write-downs:</b>			
a) of equity investments			
b) of non-current financial assets			
c) of securities included in current assets			
<b>Total value adjustments to financial assets</b>			
<b>E) Extraordinary income and expenses</b>			
<b>20) Income:</b>			
- capital gains from disposals			
- miscellaneous	21,894		18,489
- Euro rounding difference	3		1
		21,897	18,490
<b>21) Expenses:</b>			
- capital losses from disposals			
- previous years' taxes			
- miscellaneous	25,107		2,575
- Euro rounding difference			
		25,107	2,575
<b>Total extraordinary items</b>		<b>(3,210)</b>	<b>15,915</b>

<b>Pre-tax result (A-B±C±D±E)</b>		<b>(626,920)</b>	<b>678,562</b>
<i>22) Income taxes for the year – current, deferred and prepaid</i>			
a) Current taxes	49,901		336,287
b) Deferred taxes	3,467		1,842
c) Prepaid taxes	(155,561)		(331)
d) income (expenses) resulting from compliance with tax consolidation / tax transparency			
		<u>(102,193)</u>	<u>337,798</u>
<b>23) Profit (loss) for the year</b>		<b>(524,727)</b>	<b>340,764</b>

Chairman of the Board of Directors

  
Marco Varone



**Explanatory notes to the interim financial statements for the period  
ended 30/06/2014**





**EXPERT SYSTEM SPA**

Registered office in VIA FORTUNATO ZENI 8 - 38068 ROVERETO (TN) Share capital € 219,496.80 fully paid-in

**Explanatory notes to the interim financial statements for the period ended 30/06/2014****Introduction**

Dear Shareholders,

these financial statements, subject to your review and your approval, highlight a loss for the year of € (524,727).

**Business**

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

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

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

**Significant events during the year**

On 14/02/2014, the Company was admitted to listing on AIM Italia – Mercato Alternativo del Capitale (Alternative Capital Market) and its shares were traded from 18/02/2014.

AIM (Alternative Investment Market) Italia is the market regulated by Borsa Italiana (Italian Stock Exchange) dedicated to the most dynamic and competitive SMEs with high growth potential in Italy. The market was created at the beginning of 2012 from an amalgamation of the AIM Italia and MAC markets, with a formula based on know-how acquired thanks, on the one hand, to 15 years of experience on the UK AIM, and, on the other, on the specific requirements of the Italian business system.

For the purpose of listing on the AIM Italia stock market, on 09/01/2014, by means of the report of the extraordinary shareholders' meeting, drafted by notary Rolando Rosa, index no. 117915 folder 18663, the following transactions were resolved:

- A) Elimination of the par value of the shares outstanding pursuant to art. 2346, par. 3 of the Civil Code.
- B) Free share capital increase for € 6,000.04, through the charging of part of the extraordinary reserve to share capital, with the issuing of 600,004 shares of no par value.
- C) Splitting of the outstanding shares.
- D) Increase in share capital with exclusion of the option right in favour of the contribution of Admantx S.p.a. (subsidiary) shares by IMI Fondi Chiusi società di gestione del risparmio S.p.a..
- E) Increase in share capital up to a maximum of € 10,000,000 with the issuing of a maximum of 6,000,000 shares.

In implementation of previous items A, B and C of the resolution of the extraordinary shareholders' meeting on 09/01/2014, the share capital of Expert System S.p.a. totalled € 150,000,00, split into 15,000,000 shares of no par value.

On 05/02/2014, the company carried out, pursuant to point D above, the share capital increase with exclusion of the option right in favour of the contribution of Admantx S.p.a. shares by IMI Fondi Chiusi società di gestione del risparmio S.p.a..

This transaction involved, for Expert System S.p.a., a share capital increase of € 13,996.80 plus an increase in the share premium reserve of € 2,505,427.20. This share capital increase was paid up through the contribution of 193,997 class B shares of the company Admantx S.p.a. equal to a stake of around 22.754% in share capital, owned by IMI Fondi Chiusi società di gestione del risparmio S.p.a.

The contribution of Admantx S.p.a. shares was made through the drafting of an appraisal in accordance with art. 2343 ter, par. 2 of the Civil Code by Mauro Zavani, listed in the Ordine dei Dottori Commercialisti ed Esperti Contabili (Association of Chartered and Qualified Accountants) of Massa Carrara, an appraisal which valued the company Admantx S.p.a. at € 11,072,000.

Following the contribution, the company Expert System S.p.a. issued 1,399,680 new shares of no par value and increased share capital by € 13,996.80.

As a result of the contribution of Admantx S.p.a. shares, Expert System S.p.a. now holds a total of 757,547 Admantx S.p.a. shares from a total of 967,842, increasing its stake from around 66.10% to approximately 78.27%.

Expert System S.p.a. was listed via an OPVS (Public Sale and Subscription Offer). The placement price was € 1.80 per share.

On 18/02/2014, on conclusion of the initial public offering, the sums collected came to € 9,849,960, of which € 55,500.00 intended for the share capital increase and € 9,794,460 for the share premium reserve. In respect of the placement, a total of 5,550,000 new shares with no par value were issued.

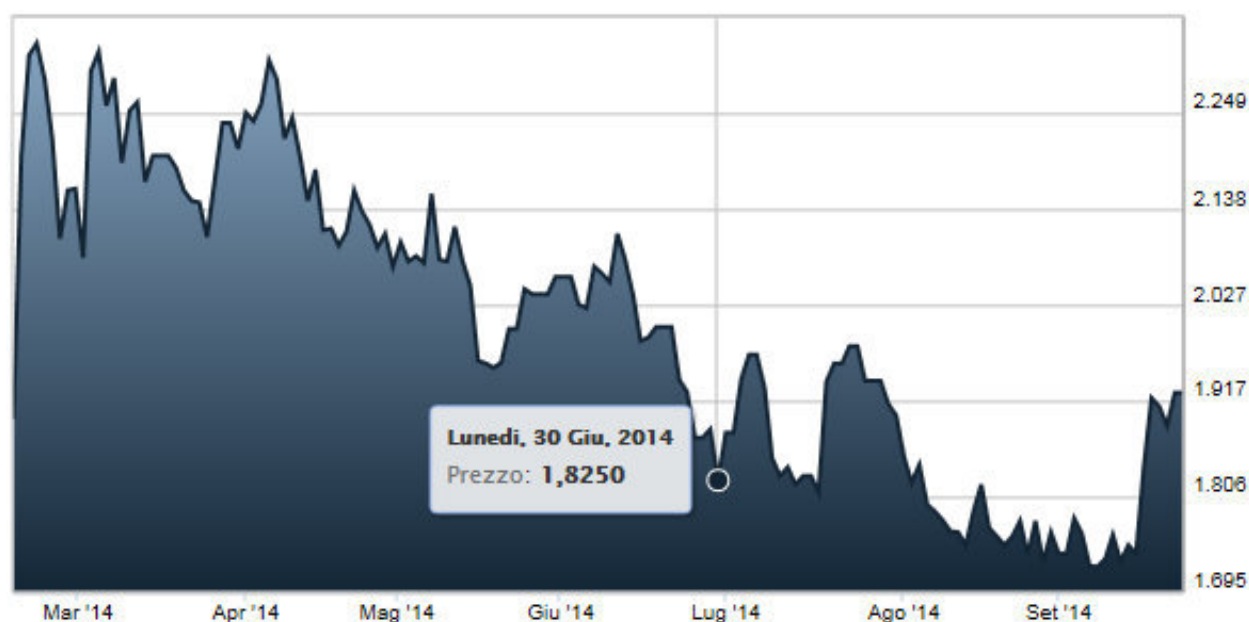
After said subscription, resolved and paid-up share capital stood at € 219,496.80, split into 21,949,680 shares of no par value.

As at 23/09/2014, the performance of the Expert System share on the AIM Italia market exhibited the following characteristics:

Share capital:	219,497
Capitalisation:	41,357,587
Placement Price:	1.80 - 18/02/14
Max. (year):	2.52 - 20/02/14
Min. (year):	1.701 - 10/09/14
Reference price:	2.12 - 25/04/14 16.35.38
Official Price:	1.8842 - 23/09/14

Source: Borsa Italiana Spa

#### Graph showing share performance from IPO to 23/09/2014



Source: Borsa Italiana Spa

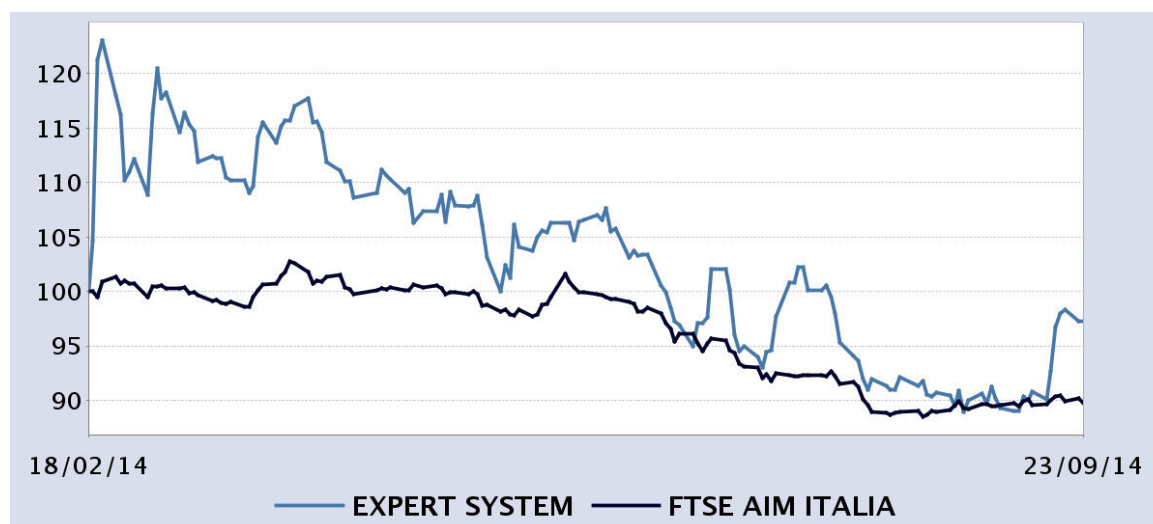
Key:

lunedì, 30 Giu 2014: Monday, 30 June 2014

prezzo: price

Mar, Apr, May, Jun, Jul, Aug, Sep

### Share performance compared to the FTSE AIM ITALIA (18/02/2014 - 23/09/2014)



Source: Borsa Italiana Spa

### Drafting criteria

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

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

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

### Measurement criteria

(Ref. art. 2427, par. 1, no. 1 of the Civil Code)

The criteria used to draft the financial statements for the period ended 30/06/2014 are the same as those used in the previous year, particularly as regards the valuations and continued use of the same standards.

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

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

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

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

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

The balance sheet items have been compared with the same figures at 31/12/2013 and at 30/06/2013, while the income statement items have been compared with the values at 30/06/2013.

## **Exceptions**

(Ref. art. 2423, par. 4, of the Civil Code)

No exceptional cases were identified that required the use of the exceptions set forth under art. 2423, par. 4 of the Civil Code.

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

### **Fixed assets**

#### *Intangible assets*

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

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

Under research & development costs, the expenses incurred for personnel employed in research and development activities were capitalised for a total of € 1,342,068 and are amortised at rate of 20%.

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

Industrial patent and intellectual property rights and trademarks are amortised according to an annual rate of 10%.

Software is amortised at a rate of 20%.

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

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

#### *Tangible assets*

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

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

Depreciation charges, booked to the income statement, were calculated on the basis of the type of use and technical-economic life of the assets, based on the residual useful life criteria, which we believe to be fully

represented by the following rates, unchanged with respect to the previous year and halved in the year the asset enters use:

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

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

### **Receivables**

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

### **Payables**

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

### **Accruals and deferrals**

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

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

### **Warehouse inventories**

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

### **Equity investments**

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

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

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

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

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

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

### **Provisions for risks and charges**

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

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

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

### **Employee Severance Indemnity Provision**

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

### Income taxes

Income taxes are allocated on an accrual basis;

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

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

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

### Revenue recognition

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

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

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

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

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

In particular, assets and liabilities that constitute fixed assets and long-term financial receivables are recorded at the spot exchange rate at year-end. Profits and losses on the translation of receivables and payables are credited/debited to/from the income statement under item 17 bis Exchange gains and losses.

### Guarantees, commitments, third-party assets and risks

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

## Employment figures

(Ref. art. 2427, par. 1, no. 15 of the Civil Code)

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

Workforce	30/06/2014	31/12/2013	Changes
Middle management	12	13	(1)
Employees	101	95	6
	<b>113</b>	<b>108</b>	<b>5</b>

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

**Assets****B) Fixed assets****I. Intangible fixed assets**

Balance at 30/06/2014	Balance at 30/06/2013	Changes	Balance at 31/12/13
3,877,490	1,418,761	2,458,729	2,462,442

**Total changes in intangible fixed assets**

(Ref. art. 2427, par. 1, no. 2 of the Civil Code)

Description of costs	Value as at 31/12/2013	Value as at 30/06/2013	Increases 01/07/13-30/06/14	Decreases 01/07/13-30/06/14	Amortisation in the year	Value as at 30/06/2014
Start-up and expansion	12,031	16,514	670,368		70,595	616,287
Research, development and advertising	2,380,534	1,015,304	2,711,673		531,571	3,195,406
Industrial patent rights	24,001	30,481		(5,643)	583	24,255
Concessions, licences, trademarks	1,796	2,055	2,268		325	3,998
Goodwill	26,755	30,100		(3,345)	3,344	23,411
Fixed assets in progress and payments on account		309,334		(309,334)		
Other	17,325	14,973	5,715		6,555	14,133
	<b>2,462,442</b>	<b>1,418,761</b>	<b>3,390,024</b>	<b>(318,322)</b>	<b>612,973</b>	<b>3,877,490</b>

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

(Ref. art. 2427, par. 1, no. 3 of the Civil Code)

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

**Start-up and expansion costs**

Description of costs	Value as at 31/12/2013	Value as at 30/06/2013	Increase 01/01/14-30/06/14	Decrease 01/01/14-30/06/14	Amortisation in the year	Value as at 30/06/2014
Merger	10,367	16,514	800	(6,147)	(1,747)	9,420
Admission to stock market listing	1,664		674,051		(68,848)	606,867
	<b>12,031</b>		<b>674,851</b>		<b>(70,595)</b>	<b>616,287</b>

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

The changes shown in the table refer to the 01/07/13 - 30/06/14 period.

The increase in capitalised costs for start-up and expansion expenses is due to costs incurred for expenses relating to listing on AIM, totalling € 676,131, incurred between 01/07/13 and 30/06/14, of which € 2,080 incurred in 2013 and € 674,051 in 2014; details are shown below:

**Start-up and expansion expenses for listing**

commissions paid to sponsors as a percentage of the overall offer value

	565,415
costs for admission to AIM Italia	18,000
legal costs	83,205
costs for fees to the independent auditors for solely non-recurring services	7,431
<b>Total</b>	<b>674,051</b>

### Research and development costs

Description of costs	Value as at 31/12/13	Value as at 30/06/2013	Increase in the year	Decrease in the year	Amortisation in the year	Value as at 30/06/2014
Increase in production	2,380,534	1,015,304	1,342,068	(4,375)	(531,571)	3,195,406
	<b>2,380,534</b>		<b>1,342,068</b>	<b>4,375</b>	<b>531,571</b>	<b>3,195,406</b>

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

The increase realised at 30/06/14 totalled € 1,342,068, represented by costs capitalised in the first half of 2014 relating to personnel employed in research and development activities.

Details are provided below on the research and development costs capitalised, broken down by relevant project:

PROJECT NAME	AMOUNT CAPITALISED in Euro
API platform	8,420
Arabic Disambiguator	472
COGITO See-E-Discovery - Development	8,808
COGITO Service Architecture -development	576
COGITO Service Architecture - operations	341
Cogito smart tagger 2014	11,618
Cogito studio Development	744
Cogito studio Operations	1,396
Cogito studio Sensigrafo Operations	151
Cogito SEE Listening Platform	8,154
Listening Platform- operations	1,086
CogitoTaxonomyStudio - Development	1,653
CogitoTaxonomyStudio - Operations	247
CoRe - Development	5,629
CoRe - Operations	4,858
CP2.0 - Categorizer Platform	24,212
DEEP REL	199,799
DICET	81,844
EEB	38,973
EUROSENTIMENT	107,081
Fashion Taxonomy Add-on	2,474
INDIGO	11,421
IPTC - 2013/14 evolution	3,596
IPTC - Taxonomy Add on	712
KEIRON	86,104
PORTDIAL	52,225
Listening Platform - development	342
Portal Development	4,965
Portal Operations	88
Promptu - Cogito francese light	5,761
Search Components - Operations	1,006



Search Components - Development	391
SEE Portal - 2012/2014	87,243
Sensigrafo	7,265
Sensigrafo Spagnolo	2,697
S-GROUPER	13,326
SICH	53,224
SIEX	56,815
SINTESYS	37,735
Smart content Chronicle - Development	222
Smart content Chronicle - Operations	411
SNAPSHOT	138,470
TECHNOLOGY DIVISION 2014	2,385
Technology Service	1,333
TENECO	136,645
Expert System Technology - Development	16,336
Internal technology - Cogito Intelligence	50,032
Internal Technology - ESSEX	62,463
Workflow components - Operations	319
<b>Total capitalisation at 30/06/2014</b>	<b>1,342,068</b>

### Grants related to assets

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

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

The change of accounting method with respect to the previous years involved the recognition, in the financial statements at 30/06/2014, under the item "receivables for research project grants" classified under the heading "receivables due from others", item C.II.5, of all receivables due to the company for grants, highlighting a significant increase in the item under review.

As a result of the change of accounting technique, the item "deferred income" at 30/06/14, recorded a significant increase compared to the balance at 30/06/13, due to the deferment in the year of the portion of grants resolved in favour of the Company. For details please see the section on Deferred income.

### II. Tangible fixed assets

Balance as at 31/12/13	Balance at 30/06/2014	Balance at 30/06/2013	Changes
606,110	602,679	639,382	(36,703)

### Land and buildings

(Ref. art. 2427, par. 1, no. 2 of the Civil Code)

Description	Amount	
Historical cost	456,980	
Depreciation of previous years	(44,350)	
<b>Balance at 30/06/2013</b>	<b>412,630</b>	of which land totalling € 87,400
Depreciation at 31/12/2013	(5,543)	
Depreciation in the current year	(5,544)	
<b>Balance at 30/06/2014</b>	<b>401,543</b>	of which land totalling € 87,400

### Plant and machinery

(Ref. art. 2427, par. 1, no. 2 of the Civil Code)

Description	Amount
Historical cost	187,550
Depreciation of previous years	(180,645)
<b>Balance at 30/06/2013</b>	<b>6,905</b>
Acquisition during the year	961
Depreciation in the year	(1,384)
<b>Balance at 30/06/2014</b>	<b>6,482</b>

### Industrial and commercial equipment

(Ref. art. 2427, par. 1, no. 2 of the Civil Code)

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

### Other assets

(Ref. art. 2427, par. 1, no. 2 of the Civil Code)

Description	Amount
Historical cost	1,123,424
Depreciation of previous years	(903,577)
<b>Balance at 30/06/2013</b>	<b>219,847</b>
Acquisition during the year	18,005
Depreciation in the year	(43,198)
<b>Balance at 30/06/2014</b>	<b>194,654</b>

### III. Non-current financial assets

Balance as at 31/12/13	Balance at 30/06/2014	Balance at 30/06/2013	Changes
1,142,789	3,662,213	514,589	3,147,624

### Equity investments

Description	31/12/2013	30/06/2013	Increase	Decrease	30/06/2014
Subsidiaries	1,133,651	501,951	3,151,124		3,653,075
Associates		3,500		3,500	
Other companies	9,138	9,138			9,138
	<b>1,142,789</b>	<b>514,589</b>	<b>3,151,124</b>	<b>(3,500)</b>	<b>3,662,213</b>

The changes which occurred are a result of:

Increases	Purchases	Revaluations	Amount
Subsidiaries			
01/07/13-31/12/13 period	631,700		
01/01/14-30/06/14 period	2,519,424		3,151,124
Associates			
	<b>3,151,124</b>		<b>3,151,124</b>

Decreases	Sales	Write-downs	Amount

Associates	(3,500)	(3,500)
	<b>(3,500)</b>	<b>(3,500)</b>

The change relating to the decrease in equity investments in associates amounting to € 3,500 is due to the full write-down of the equity investment in Semantycs S.r.l, placed into liquidation in 2013.

The increase in the book value of the equity investment in the subsidiary Admantx Spa verified in the 1/07/13 - 30/06/14 period, totalling € 3,151,124, was determined as follows:

1) € 631,700 as a result of the increase in share capital resolved by the shareholders of Admantx Spa by means of a deed dated 26/07/13, subscribed by the parent company EXPERT SYSTEM SPA, implemented through the waiving of the shareholder loan of € 430,000 provided to the subsidiary and through direct payments for the residual amounts;

2) € 2,519,424 on 05/02/2014, when the company EXPERT SYSTEM SPA carried out the share capital increase with exclusion of the option right in favour of the contribution of Admantx S.p.a shares by IMI Fondi Chiusi società di Gestione del risparmio S.p.a..

This transaction involved, for Expert System S.p.a., a share capital increase of € 13,996.80 plus an increase in the share premium reserve of € 2,505,427.20. This share capital increase was paid up through the contribution of 193,997 class B shares of the company Admantx S.p.a. equal to a stake of around 22.754% in share capital, owned by IMI Fondi Chiusi società di Gestione del risparmio S.p.a.

The contribution of Admantx S.p.a. shares was made through the drafting of an appraisal in accordance with art. 2343 ter, par. 2 of the Civil Code by Mauro Zavani, listed in the Ordine dei Dottori Commercialisti ed Esperti Contabili (Association of Chartered and Qualified Accountants) of Massa Carrara, an appraisal which valued the company Admantx S.p.a. at € 11,072,000.

Following the contribution, the company Expert System S.p.a. issued 1,399,680 new shares of no par value and increased share capital by € 13,996.80.

As a result of the contribution of Admantx S.p.a. shares, Expert System S.p.a. now holds a total of 757,547 Admantx S.p.a. shares from a total of 967,842, increasing its stake from around 66.10% to approximately 78.27%.

The equity investments in other companies are composed of the following:

- investment in Okkam Srl of € 1,000,
- Conai for € 5,
- ICT Sud for € 133
- Semantic Valley for € 1,500,
- Confidimpresa for € 5,000,
- Trentino technology district for € 1,000,
- other for € 500

Information is provided below on the equity investments held directly or indirectly through subsidiaries, associates (art. 2427, par. 1, no.5, of the Civil Code).

The data relate to the last set of approved financial statements.

## Subsidiaries

Name	City or Foreign country	Share capital	Shareholders' equity	Profit/Loss	% held	Book value	Reserves of profits/capital subject to repayments or restrictions or deferred tax
ADMANTX SPA	Naples (Italy)	155,683	368,491	(1,549,983)	78.27%	3,653,074	

EXPERT SYSTEM USA INC	Delaware (USA)	0.73	(741,296)	(813,150)	100%	0.71
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### Indirect subsidiaries

The subsidiary Admantx Spa in turn holds the following interest:

Name	City or Foreign country	Share capital	Shareholders' equity	Sales and service revenues	Profit/Loss	% held	Book value	Reserves of profits/capital subject to repayments or restrictions or deferred tax
ADMANTX INC	Connecticut (USA)	0	(1,187,854)	180,491	(606,560)	100%	0	

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

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

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

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

As regards the following equity investments in subsidiaries or associates, valued at purchase cost, which have a book value higher than the corresponding portion of shareholders' equity disclosed in the last set of financial statements of the investee, the following should be noted:

- equity investment in Admantx Spa

book value of the equity investment in the financial statements of Expert System Spa at 30/06/14	€ 3,653,074
percentage stake of	78.27%
corresponding portion of shareholders' equity as per the last set of financial statements of the investee (31/12/13)	€ 288,418
higher book value equal to	€ 2,862,706

The value of the equity investment in Admantx S.p.a. was not written down on the basis of the appraisal, carried out in accordance with art. 2343 ter, par. 2 of the Civil Code by Mauro Zavani, listed in the Ordine dei Dottori Commercialisti ed Esperti Contabili (Association of Chartered and Qualified Accountants) of Massa Carrara, an appraisal which valued the company Admantx S.p.a. at a total of € 11,072,000. In respect of said valuation, the investment in Admantx spa was not written down given not lower than the fair value.

The absence of the write-down of the Admantx investment is further supported by the increase in share capital of € 17,294, plus share premium of € 1,082,706, for a total of € 1,100,000, carried out on 30/07/2014 by means of deed of Notary Rolando Rosa of Modena, index no. 118657/19067, fully subscribed and paid-in by a third-party investor with respect to the current shareholding structure.

In respect of said subscription, 106,144 shares were issued out of a total of 1,141,532, therefore, implying an Admantx Spa valuation of around € 11,830,000.

As a result of the transaction described above, Expert System S.p.a.'s stake in Admantx S.p.a. stood at roughly 70.58%.

The last set of approved financial statements at 31/12/13 was used for valuation purposes.

As regards the equity investment in Admantx Spa, the shares held are subject to transfer restrictions governed by the applicable articles of association.

No long-term investment underwent a change of use.

There are no restrictions on long-term investments on the availability to the participating company, nor option rights or other privileges.

No non-current financial assets were recorded in the financial statements for values higher than their fair value.

## C) Current assets

### I. Inventories

Balance as at 31/12/13	Balance at 30/06/2014	Balance at 30/06/2013	Changes
476,015	2,065,424	1,034,508	1,030,916

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

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

### II. Receivables

Balance as at 31/12/13	Balance at 30/06/2014	Balance at 30/06/2013	Changes
17,563,255	17,901,713	15,302,388	2,599,325

The balance is broken down according to maturities (art. 2427, par. 1, no. 6 of the Civil Code)

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total
Due from customers	4,662,199	210,083		4,872,282
Due from subsidiaries	1,040,165	1,109,901		2,150,066
For tax receivables	96,912	126,524		223,436
For prepaid taxes	162,507	52,281		214,788
Other receivables	5,121,274	5,319,867		10,441,141
	<b>11,083,057</b>	<b>6,818,656</b>		<b>17,901,713</b>

Receivables for a significant amount due from subsidiaries at 30/06/2014 are composed as follows:

Description	Due within 12 months	Due after 12 months	Total
Due from subsidiaries			
Due from Admantx Spa	116,454		116,454
Due from Expert System USA Inc	923,711	1,109,901	2,033,612
<b>Total</b>	<b>1,040,165</b>	<b>1,109,901</b>	<b>2,150,066</b>

Tax receivables, totalling € 223,436 at 30/06/2014, are composed as follows:

Description	Due within 12 months	Due after 12 months	Total
Receivables due from the tax authorities for tax withholdings	20,292		20,292
IRES (corporate income tax) credits	67,045		67,045
IRAP (regional business tax) credits	5,570		5,570
Bonus credits – Decree Law 66/14	3,435		3,435

IRES tax advance	570		570
Non-taxable tax credits for R&D		26,578	26,578
Tax credits for IRES reimbursement from IRAP		99,946	99,946
<b>TOTAL</b>	<b>96,912</b>	<b>126,524</b>	<b>223,436</b>

Other receivables, totalling € 10,441,141 at 30/06/2014, are composed as follows:

Description	Due within 12 months	Due after 12 months	Total
Advances to suppliers	43,799		43,799
Receivables due from personnel	158,289		158,289
Sundry receivables	1,996		1,996
Security deposits		38,856	38,856
Receivables due from Okkam		17,872	17,872
Receivables for research project grants	4,917,190	5,263,139	10,180,329
	<b>5,121,274</b>	<b>5,319,867</b>	<b>10,441,141</b>

Details of receivables for research project grants are detailed below.

Tender type	Amount
FAR	1,159,093.92
FESR - Province of Trento	685,021.54
Law 6 – Province of Trento	2,367,378.00
Mise - FIT	957,630.00
MIUR - PNR Tessile	39,983.75
PON	2,471,006.02
POR FESR Lazio	419,234.60
European Project - ISEC Tender	1,384,388.50
F7P European Project	696,593.00
<b>Overall total</b>	<b>10,180,329.33</b>

Receivables for research project grants due within no later than 12 months refer to all receivables accrued at 30/06/14, relating to sums that company has to collect in that respect.

Prepaid taxes of € 214,788 relate to the temporary differences; for a description please see the section in the last part of these explanatory notes. In particular, prepaid taxes refer, for € 131,235, to tax losses of € 477,217 carried forward. For a description of the reasons for being able to recognise the potential tax benefit related to said losses, please see the relative section in these explanatory notes.

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

Description	Bad debt provision pursuant to art. 2426 of the Civil Code	Bad debt provision pursuant to art. 106 of Presidential Decree 917/1986	Total
Balance at 30/06/2013	314,799	314,799	314,799
Use in the year		404	404
Provision in the year	33,395	19,554	33,395
<b>Balance at 30/06/2014</b>	<b>347,790</b>	<b>333,949</b>	<b>347,790</b>

The breakdown of receivables at 30/06/2014 by geographic area is shown in the table below (art. 2427, par. 1, no. 6 of the Civil Code).

Receivables by geographic area	Due from customers	Due from subsidiaries	Due from associates	Due from parent companies	Other receivables	Total
Italy	4,908,806	205,122			10,441,141	15,555,069
EU	7,424					7,424
NON-EU	303,842	1,944,944				2,248,786
(Bad debt provision)	(347,790)					(347,790)
<b>Total</b>	<b>4,872,282</b>	<b>2,150,066</b>			<b>10,441,141</b>	<b>17,463,489</b>

### III. Financial assets

Balance as at 31/12/13	Balance at 30/06/2014	Balance at 30/06/2013	Changes
8,400	8,400	13,734	(5,334)

Description	30/06/2013	Increases	Decreases	30/06/2014
Other equity investments	13,734		5,334	8,400
	<b>13,734</b>		<b>5,334</b>	<b>8,400</b>

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

The amounts of unlisted securities and equity investments are not significant.

### IV. Cash and cash equivalents

Balance as at 31/12/13	Balance at 30/06/2014	Balance at 30/06/2013	Changes
2,958,851	8,215,799	1,260,087	6,955,712

Description	31/12/2013	30/06/2014	30/06/2013
Bank and postal deposits	2,957,350	8,213,895	1,258,333
Cash at bank and in hand	1,501	1,904	1,754
	<b>2,958,851</b>	<b>8,215,799</b>	<b>1,260,087</b>

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

The significant increase in cash and cash equivalents derives from the funds collected following listing on AIM on 18/02/14.

### D) Accruals and deferrals

Balance as at 31/12/2013	Balance at 30/06/2014	Balance at 30/06/2013	Changes
169,918	292,303	184,088	108,215

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

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

As at 30/06/2014, no accruals and deferrals had a duration of more than five years.

The breakdown of the item is detailed as follows (art. 2427, par. 1, no. 7, of the Civil Code).

Description	Amount
-------------	--------

Prepaid expenses	284,546
Accrued income	7,757
<b>Total</b>	<b>292,303</b>

Details of solely prepaid expenses are provided below, given the accrued income component involves an insignificant amount:

<b>Cost</b>	<b>Prepaid expenses</b>	<b>Due within 12 months</b>	<b>Due after 12 months</b>
MAGAZINE AND NEWSPAPER SUBSCRIPTIONS	167.26	167.26	
RENT AND LEASES PAYABLE	15.97	5,015.97	
VEHICLE INSURANCE AND ROAD TAX	2,561.77	2,561.77	
NON-DEDUCTIBLE INSURANCE	484.22	484.22	
MOTORCYCLE INSURANCE AND ROAD TAX	115.95	115.95	
INSURANCE FOR EMPLOYEES ABROAD	571.83	571.83	
MISCELLANEOUS INSURANCES - OFFICE	8,572.39	8,572.39	
RENTED VEHICLE FUEL	144.01	144.01	
SURETY COMMISSION	58,746.12	24,608.26	34,137.86
LOAN FEES	7,982.68	2,475.04	5,507.64
ADMINISTRATIVE/TAX CONSULTANCY	2,993.56	2,993.56	
SALES CONSULTANCY - ITALY	23,967.12	23,967.12	
TECHNICAL CONSULTANCY - ITALY	4,057.07	4,057.07	
JOB TECHNICAL CONSULTANCY	26,680.00	26,680.00	
TRADE FAIRS AND CONVENTIONS	1,350.00	1,350.00	
BOOKS, MAGAZINES AND SUBSCRIPTIONS	587.22	587.22	
BUILDING MAINTENANCE	15.63	15.63	
SOFTWARE MAINTENANCE	5,557.29	5,557.29	
ADVERTISING MATERIAL	42.50	42.50	
TRUCK RENTAL	259.63	259.63	
VEHICLE RENTAL	439.03	439.03	
VEHICLE RENTAL - FRINGE BENEFIT	8,253.66	8,253.66	
HARDWARE RENTAL	1,177.66	1,177.66	
PUBLIC RELATIONS	2,864.76	2,864.76	
MEMBERSHIP FEES	1,894.52	1,894.52	
RESEARCH, EDUCATION, TRAINING	4,420.00	4,121.77	298.23
ADMINISTRATIVE SERVICES	6,657.53	6,657.53	
COMMERCIAL SERVICES	3,043.59	3,043.59	
CLEANING SERVICES	20.41	20.41	
AIM LISTING SERVICES	50,054.64	50,054.64	



SOFTWARE	9,383.31	9,117.80	265.51
BANK CHARGES AND FEES	4,452.06	1,769.12	2,682.94
VEHICLE MANAGEMENT FEES	611.28	611.28	
INTERNET COSTS	32,697.09	32,697.09	
EXPENSES FOR TRUCK RENTAL SERVICES	538.79	538.79	
EXPENSES FOR VEHICLE RENTAL SERVICES	330.12	330.12	
EXPENSES FOR VEHICLE RENTAL SERVICES - FRINGE BENEFITS	5,248.11	5,248.11	
ORDINARY TELEPHONE EXPENSES	2,104.31	2,104.31	
TELEPHONE AND MOBILE RADIO COMMUNICATIONS EXPENSES	334.20	334.20	
CAR TRAVEL EXPENSES	70.00	70.00	
RAIL AND UNDERGROUND TRAVEL EXPENSES	29.24	29.24	
MISCELLANEOUS ADMINISTRATIVE	49.71	49.71	
<b>Overall total</b>	<b>284,546.24</b>	<b>241,654.07</b>	<b>42,892.17</b>

## Liabilities

### A) Shareholders' equity

(Ref. art. 2427, par. 1, nos. 4, 7 and 7-bis of the Civil Code)

Balance as at 31/12/2013	Balance at 30/06/2014	Balance at 30/06/2013	Changes
5,976,806	17,821,463	6,092,227	11,729,236

Description	30/06/2013	31/12/2013	Increases	Decreases	30/06/2014
Share capital	144,000	144,000	75,497		219,497
Share premium reserve	1,468,843	1,468,843	12,299,887		13,768,730
Legal reserve	28,800	28,800	11,267		40,067
Extraordinary or optional reserve	3,592,196	3,592,196	208,077		3,800,273
Merger surplus reserve	376,622	376,622			376,622
Euro rounding difference	2	1		1	1
Miscellaneous other reserves	141,000	141,000			141,000
Profit (loss) for the year	340,764	225,344	(524,727)	(225,344)	(524,727)
	<b>6,092,227</b>	<b>5,976,806</b>	<b>12,070,001</b>	<b>(225,344)</b>	<b>17,821,463</b>

The table below details changes in shareholders' equity which occurred between 01/01/2014 and 30/06/2014.

	Share capital	Share premium reserve	Legal reserve	Extraordinary reserve	Merger surplus reserve	Other reserves	Euro rounding diff.	Profit/loss for the year	Total
At start of previous year	144,000	1,468,843	28,800	3,075,585	376,622	141,000		696,611	5,931,461
Allocation of profit for the year								(696,611)	(696,611)
- allocation of dividends								180,000	
- other allocations				516,611			1		516,612
Profit/loss for the previous year								225,344	225,344
At close of previous year	144,000	1,468,843	28,800	3,592,196	376,622	141,000	1	225,344	5,976,806
Allocation of profit for the year								(225,344)	(225,344)
- allocation of dividends			11,267	214,077					225,344
Other changes									
Free share capital increase – deed of Notary Rosa 117915/18663 for issuing of 600,004 ordinary shares	6,000			(6,000)					
Share capital increase from	13,997	2,505,427							2,519,424

IMI/Admantx spa share swap - deed of Notary Rosa 118000/18718									
Share capital increase from listing on AIM on 18/02/14	55,500	9,794,460							9,849,960
Profit/loss for the current year								(524,727)	(524,727)
At close of current year	<b>219,497</b>	<b>13,768,730</b>	<b>40,067</b>	<b>3,800,273</b>	<b>376,622</b>	<b>141,000</b>	<b>1</b>	<b>(524,727)</b>	<b>17,821,463</b>

Share capital is composed as follows (art. 2427, par. 1, nos. 17 and 18. of the Civil Code).

Shares/Holdings	No.	
Ordinary shares	21,949,680	with no par value
<b>Total</b>	<b>21,949,680</b>	

At the reporting date, there were 21,949,680 outstanding ordinary shares with no par value.

Items of shareholders' equity are distinguished according to origin, possibility of use, distributability and use in the three previous years (art. 2427, par. 1, no. 7-bis of the Civil Code).

Type / Description	Amount	Possibility of use (*)	Available share	Uses made in 3 previous years to cover losses	Uses made in 3 previous years for other reasons
Share capital	219,497	B			
Share premium reserve	13,768,730	A, B, C	13,768,730		
Legal reserve	40,067	B			
Other reserves	4,317,896	A, B, C			

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

The share premium reserve is available in its entirety to cover losses, while only an amount of € 13,764,898 can be distributed.

## B) Provisions for risks and charges

(Ref. art. 2427, par. 1, no. 4 of the Civil Code)

Balance as at 31/12/2013	Balance at 30/06/2014	Balance at 30/06/2013	Changes
160,836	153,565	165,296	(11,731)

Description	31/12/2013	30/06/2013	Increases	Decreases	30/06/2014
Pension provision	836	3,454		(2,618)	836
Provisions for taxes, including deferred		1,842	1,625		3,467
Other	160,000	160,000		(10,738)	149,262
		<b>165,296</b>	<b>1,625</b>	<b>(13,356)</b>	<b>153,565</b>

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

Provisions for taxes include deferred tax liabilities of € 3,467 relating to taxable temporary differences; for a description of these please refer to the relevant section of this explanatory notes.

The item "Other provisions", amounting to € 149,262 at 30/06/2014, established in 2012 to cover the risks of legal disputes, was used for the part relating to the dispute settled in the period examined.

## C) Employee severance indemnity

(Ref. art. 2427, par. 1, no. 4 of the Civil Code)

Balance as at 31/12/2013	Balance at 30/06/2014	Balance at 30/06/2013	Changes
948,598	1,053,219	893,101	160,118

The change is composed as follows.

Changes	30/06/2013	Increases	Decreases	30/06/2014
Changes in TFR (Employee Severance Indemnity) in the year	893,101	108,431	(51,687)	1,053,219

The provision allocated represents the actual amount owed by the company, as at 30/06/2014, to employees in the workforce at said date, net of advances paid.

#### D) Payables

(Ref. art. 2427, par. 1, no. 4 of the Civil Code)

Balance as at 31/12/2013	Balance at 30/06/2014	Balance at 30/06/2013	Changes
14,158,307	12,645,809	12,980,957	(335,148)

Payables are valued at their nominal value and their maturities are broken down as follows (art. 2427, par. 1, no. 6 of the Civil Code)

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total
Payables due to banks	2,249,827	3,377,906	21,553	5,649,286
Payables due to other lenders	292,716	510,329		803,045
Payments on account	1,436,843	1,670,717		3,107,560
Trade payables	1,303,816			1,303,816
Tax payables	463,199			463,199
Payables due to social security institutions	226,020			226,020
Other payables	1,092,883			1,092,883
	<b>7,065,304</b>	<b>5,558,952</b>	<b>21,553</b>	<b>12,645,809</b>

The balance of payables due to banks at 30/06/14, amounting to € 5,649,286, including mortgage borrowings, expresses the actual amount due in principal, interest and accessory expenses accrued and payable.

Details of payables due to banks within and after 12 months and after 5 years are shown below:

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total
<b>Payables due to banks</b>				
Bank overdrafts	4,649			4,649
Advances on receivables	2,896			2,896
Banca popolare di Milano mortgage	158,859			158,859
Banca CARIGE mortgage	114,377	355,134	21,553	491,064
Unicredit mortgage	62,376	15,814		78,190
Unicredit Medio credito	195,331	397,207		592,538
Unicredit – Cogito	238,823	645,692		884,515
Banca Popolare Emilia Romagna	473,666	191,362		665,027
Credem	137,114	47,013		184,127
Carisbo	200,000			200,000
Cassa Rurale di Rovereto	36,655	56,217		92,872
Ubi	167,056	396,083		563,139
Cariparma	230,257	856,937		1,087,194

Banco Desio	227,768	416,447		644,215
<b>Total payables due to banks within 12 months</b>	<b>2,249,827</b>	<b>3,377,906</b>	<b>21,553</b>	<b>5,649,286</b>

It should be noted that the CARIGE loan, taken out to purchase a property in Naples, is secured by a mortgage on said asset for an amount of € 434,000.

Details of payables due to other lenders for a significant amount are outlined below:

Description	Due within 12 months	Due after 12 months	Due after 5 years	Total
<b>Payables due to other lenders</b>				
Pia loan	105,975	322,653		428,628
Other lenders	186,741	187,676		374,417
<b>Total payables due to other lenders</b>	<b>292,716</b>	<b>510,329</b>		<b>803,045</b>

The item "Payments on account" includes advances received from clients relating to work in progress amounting to € 3,107,560 which is detailed below by job and expected duration of the job:

Description	Due within 12 months	Due after 12 months	Total
Advances – province of Trento	1,436,843		
Advance – project Syntesis		590,936	
Advance – project Portdial		231,742	
Advance – project Eurosentiment		306,316	
Advance – co-research project Keiron		41,675	
Advance – project Sich-UE		166,243	
Advance – project EU "SIEX"		176,021	
Advance – project Snapshot		157,784	
<b>TOTAL</b>	<b>1,436,843</b>	<b>1,670,717</b>	<b>3,107,560</b>

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

The item "Tax payables" only includes liabilities for certain and specific taxes.

The item "tax payables" includes VAT payables amounting to € 185,634 and payables due to the tax authorities for tax withheld at source amounting to € 277,564.

No significant changes were recorded in the balance of the item "Tax payables".

The breakdown of payables at 30/06/2014 by geographic area is shown in the table below (art. 2427, par. 1, no. 6 of the Civil Code).

Payables by geographic area	Trade payables	Due to subsidiaries	Due to associates	Due to parent companies	Other payables	Total
Italy	1,226,207	49,326			1,092,883	2,396,699
EU	24,789					24,789
NON-EU	3,494					3,494
<b>Total</b>	<b>1,303,816</b>				<b>1,092,883</b>	<b>2,396,699</b>

## E) Accruals and deferrals

Balance as at 31/12/13	Balance at 30/06/2014	Balance at 30/06/2013	Changes
4,143,233	4,951,965	235,956	4,716,009

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 30/06/2014, no accruals and deferrals had a duration of more than five years.

The change with respect to 30/06/13 is determined by the recognition of deferred income on grants relating to assets pertaining to future years; for an explanation, please refer to the relevant section in the first part of these explanatory notes.

The breakdown of the item is detailed as follows (art. 2427, par. 1, no. 7, of the Civil Code).  
(deferred income on grants relating to assets on research projects are detailed in a separate table).

Description	Within 12 months	After 12 months	Total
<b>Deferred income within 12 months</b>			
Revenues for maintenance fees	334,079	4,793	338,872
Membership fees	5		5
Revenues for licence sale	13,704		13,704
Revenues for service provision	136,501		136,501
<b>Total within 12 months</b>	<b>484,289</b>	<b>4,793</b>	<b>489,082</b>

Deferred income after 12 months, concerning grants relating to assets on research projects, are detailed below with reference to the different projects financed:

Description	Due within 12 months	Due after 12 months	Total
<b>Deferred income after 12 months</b>			
SMARTBUILDING -EEB	11,205	100,061	111,265
TENDER - ISEC "SICH"	71,406	89,304	160,710
KEYRON –LAZIO REGION	32,815	26,980	59,795
"SNAPSHOT" ISEC TENDER	79,247	384,398	463,644
SIEX	227,246	(21,637)	205,609
SINTESYS	58,383	540,521	598,904
PORTDIAL	20,047	211,339	231,385
EUROSENTIMENT	71,984	268,799	340,783
IANCIS		209,134	209,134
DICET	69,108	872,410	941,517
DEEP RELATIONS	47,553	492,613	540,166
PUBLICAMENTE	13,027	37,030	50,057
S-GROUPER	53,384	11,093	64,478
SYPCIT		167,063	167,062
TENECO	52,538	265,833	318,372
<b>Total AFTER 12 months</b>	<b>807,943</b>	<b>3,654,939</b>	<b>4,462,882</b>

## Memorandum accounts

(Ref. art. 2427, par. 1, no. 9 of the Civil Code)

Description	31/12/2013	30/06/2014	30/06/2013	Changes
Risks assumed by the company	3,994,100	4,018,027	3,587,067	430,960
	<b>3,994,100</b>	<b>4,018,027</b>	<b>3,587,067</b>	<b>430,960</b>

The memorandum accounts total is composed, for € 3,618,027, of “other sureties to banks” and, for € 400,000, of the guarantee given by Expert System S.p.a. in favour of the subsidiary Admantx S.p.a., by means of a private agreement between Expert System Spa and IMI Fondi Chiusi società di gestione del risparmio S.p.a. (IMI).

In respect of said agreement Expert System Spa 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 is given for a maximum of 4 bonds with a par value of € 100,000 each for a total of € 400,000.

**Income statement****A) Value of production**

	Balance at 30/06/2014	Balance at 30/06/2013	Changes
	6,475,319	6,679,611	(204,292)
Description	30/06/2014	30/06/2013	Changes
Sales and service revenues	3,231,525	4,787,344	(1,555,819)
Changes in contract work in progress	1,589,409	312,995	1,276,414
Own work capitalised	1,342,068	559,369	782,699
Other revenues and income	312,317	1,019,903	(707,586)
	<b>6,475,319</b>	<b>6,679,611</b>	<b>(204,292)</b>

The change is strictly related to the information shown in the Report on operations.  
Details of capitalised costs separated by project are shown below:

PROJECT NAME	AMOUNT CAPITALISED in Euro
API platform	8,420
Arabic Disambiguator	472
COGITO See-E-Discovery - Development	8,808
COGITO Service Architecture -development	576
COGITO Service Architecture - operations	341
Cogito smart tagger 2014	11,618
Cogito studio Development	744
Cogito studio Operations	1,396
Cogito studio Sensigrafo Operations	151
Cogito SEE Listening Platform	8,154
Listening Platform- operations	1,086
CogitoTaxonomyStudio - Development	1,653
CogitoTaxonomyStudio - Operations	247
CoRe - Development	5,629
CoRe - Operations	4,858
CP2.0 - Categorizer Platform	24,212
DEEP REL	199,799
DICET	81,844
EEB	38,973
EUROSENTIMENT	107,081
Fashion Taxonomy Add-on	2,474
INDIGO	11,421
IPTC - 2013/14 evolution	3,596
IPTC - Taxonomy Add on	712
KEIRON	86,104
PORTDIAL	52,225
Listening Platform - development	342
Portal Development	4,965
Portal Operations	88
Promptu - Cogito francese light	5,761
Search Components - Operations	1,006
Search Components - Development	391
SEE Portal - 2012/2014	87,243
Sensigrafo	7,265
Sensigrafo Spagnolo	2,697
S-GROUPER	13,326
SICH	53,224
SIEX	56,816
SINTESYS	37,736
Smart content Chronicle - Development	222
Smart content Chronicle - Operations	411
SNAPSHOT	138,470

TECHNOLOGY DIVISION 2014	2,385
Technology Service	1,333
TENECO	136,646
Expert System Technology - Development	16,336
Internal technology - Cogito Intelligence	50,032
Internal Technology - ESSEX	62,463
Workflow components - Operations	319
<b>Total capitalisation at 30/06/2014</b>	<b>1,342,068</b>

The item "other revenue and income" totalling € 312,317 includes operating grants for € 9,650 relating to the hiring of personnel in the south, trainee personnel and personnel with certified disabilities, capital grants (portion for the year) equal to the portion pertaining to the half-year 01/01/14-30/06/14 of grants related to assets determined in proportion to the amortisation of R&D costs to which they refer for € 269,314, and various other income of € 33,353.

### Revenues by business sector

(Ref. art. 2427, par. 1, no. 10 of the Civil Code)

The breakdown of revenues by business sector is not significant.

### Revenues by geographic area

(Ref. art. 2427, par. 1, no. 10 of the Civil Code)

The breakdown of revenues by geographic area is not significant.

Revenues – Italy € 2,907,803

Revenues – EU € 1,388

Revenues – Non-EU € 322,334

## B) Costs of production

Balance at 30/06/2014	Balance at 30/06/2013	Changes
7,065,115	5,860,299	1,204,816

Description	30/06/2014	30/06/2013	Changes
Raw materials and goods for resale	177,500	405,281	(227,781)
Services	3,213,945	2,324,082	889,863
Use of third-party assets	236,755	268,546	(31,791)
Salaries and wages	2,025,909	1,825,754	200,155
Social security costs	547,587	509,938	37,649
Employee severance indemnity	108,431	117,721	(9,290)
Other personnel costs	30,786	799	29,987
Amortisation of intangible fixed assets	612,973	300,106	312,867
Depreciation of tangible fixed assets	50,126	50,719	(593)
Write-down of receivables included in current assets	33,395	36,897	(3,502)
Sundry operating expenses	27,708	20,456	7,252
	<b>7,065,115</b>	<b>5,860,299</b>	<b>1,204,816</b>

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

These are strictly related to the information disclosed in the relevant part of the Report on operations and to the trend in point A (Value of production) of the Income Statement.

### 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 legal provisions and collective contracts.

**Depreciation of tangible fixed assets**

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

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

The allocation to the bad debt provision was made through an accurate recognition of all receivables in the financial statements. Therefore, a total of € 333,395 was allocated, which covers doubtful receivables.

**C) Financial income and expenses**

	Balance at 30/06/2014	Balance at 30/06/2013	Changes
	(33,914)	(156,665)	122,751
Description	30/06/2014	30/06/2013	Changes
From securities recorded in current assets		162	(162)
Other income	115,365	27,099	88,266
(Interest and other financial expenses)	(164,086)	(188,163)	24,077
Exchange gains (losses)	14,807	4,237	10,570
	<b>(33,914)</b>	<b>(156,665)</b>	<b>122,751</b>

**Other financial income**

Description	Parent companies	Subsidiaries	Associates	Other	Total
Bank and postal interest				98,869	98,869
Interest on loans		10,395			10,395
Other income				6,101	6,101
		<b>10,395</b>		<b>104,970</b>	<b>115,365</b>

Interest due to subsidiaries refers to interest accrued on the loan granted to Expert System USA Inc.

**Interest and other financial expenses**

(Ref. art. 2427, par. 1, no. 12 of the Civil Code)

Description	Parent companies	Subsidiaries	Associates	Other	Total
Bank interest				608	608
Medium-term credit interest				126,777	126,777
Discounts or financial expenses				18,117	18,117
Interest on loans				490	490
Other expenses on financial transactions				18,095	18,095
Rounding				(1)	(1)
				<b>164,086</b>	<b>164,086</b>

**Exchange gains (losses)**

As regards total net profits in the income statement, the unrealised valuation-related component accounts for € 13,002, while unrealised exchange losses totalled € 394.



## E) Extraordinary income and expenses

(Ref. art. 2427, par. 1, no. 13 of the Civil Code)

Balance at 30/06/2014	Balance at 30/06/2013	Changes
(3,210)	15,915	(19,125)

Description	30/06/2014	Previous year	30/06/2013
Miscellaneous	21,897	Miscellaneous	18,490
Total income	21,897	Total income	18,490
Miscellaneous	(25,107)	Miscellaneous	(2,575)
Total expenses	(25,107)	Total expenses	(2,575)
	<b>(3,210)</b>		<b>15,915</b>

## Income taxes for the year

Balance at 30/06/2014	Balance at 30/06/2013	Changes
(102,193)	337,798	(439,991)

Taxes	Balance at 30/06/2014	Balance at 30/06/2013	Changes
<b>Current taxes:</b>	49,901	336,287	(286,386)
IRES (corporate income tax)		209,175	(209,175)
IRAP (regional business tax)	49,901	127,112	(77,211)
Substitute taxes			
<b>Deferred taxes (prepaid)</b>	(152,094)	1,511	(153,605)
IRES	(152,508)	1,511	(154,019)
IRAP	413		413
<b>Income (expenses) resulting from compliance with tax consolidation / tax transparency</b>	<b>(102,193)</b>	<b>337,798</b>	<b>(439,991)</b>

Taxes pertaining to the year were recorded.

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

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

Description	Value	Taxes
Pre-tax result	(626,920)	
Theoretical tax charge (%)		
<b>Temporary differences taxable in subsequent years:</b>	(13,002)	
<b>Temporary differences deductible in subsequent years:</b>	101,828	
<b>Reversal of temporary differences from previous years</b>	(11,476)	
<b>Differences that will not carry forward to subsequent years</b>	122,254	
	(49,901)	
	0	0
Taxable income	(477,217)	

## Calculation of taxable income for IRAP purposes

Description	Value	Taxes
-------------	-------	-------

Difference between the value and costs of production	2,156,312	
	<b>2,156,312</b>	
Theoretical tax charge (%)	3,9	84,096
<b>Costs not relevant for IRAP purposes</b>	1,098,595	
IRAP deductions	(2,023,485)	
Tax base for Irap purposes	1,231,422	49,901

Irap tax is calculated using different rates based on the regional distribution of the value of production.

Pursuant to art. 2427, Par. 1, no. 14 of the Civil Code, the required information on deferred and prepaid taxes is shown below.

### Deferred / prepaid taxes

Deferred tax is expressed by the allocation made to the provision for taxes amounting to € 3,467.

Deferred taxes were calculated according to the global allocation method, taking account of the cumulative amount of all temporary differences, based on the actual rate in the last year.

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

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

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

	31/12/2013		30/06/2014	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
<b>Prepaid taxes:</b>				
Unrealised exchange losses	27,332	7,516		
Unrealised exchange gains	329	-90		
Amortisation of trademarks	236	74	146	46
Director's fees			87,447	24,048
Write-down of receivables surplus			13,841	3,806
Tax loss at 30/06/14			477,217	131,235
<b>Total</b>	<b>27,897</b>	<b>7,500</b>	<b>578,651</b>	<b>159,135</b>
Reversal effect				
1/5 revaluation appraisal		(406)		(202)
Supplementary indemnity fund for customers		(544)		
Unrealised exchange losses		(67)		
Unrealised exchange gains		76		
Allocation to legal risks				(3,372)
Total		(941)		
<b>Net deferred (prepaid) taxes</b>		<b>6,559</b>		<b>155,561</b>

	31/12/2013		30/06/2014	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
<b>Deferred taxes:</b>				
Unrealised exchange gains			13,396	3,467
<b>Net deferred (prepaid) taxes</b>			<b>13,396</b>	<b>3,467</b>

Prepaid taxes were recorded amounting to € 131,235, deriving from tax losses carried forward of € 477,217, given the conditions required by accounting standards for the accounting of the future tax benefit were satisfied, in particular, the reasonable certainty that, in the future, the company will generate sufficient taxable income to allow said losses to be absorbed.

### Information on the financial instruments issued by the company

(Ref. art. 2427, par. 1, no. 19 of the Civil Code)  
The company has not issued any financial instruments.

### Information on the fair value of derivative financial instruments

(Ref. art. 2427-bis, par. 1, no. 1 of the Civil Code)  
The company has not issued any derivative financial instruments.

### Information on related party transactions

(Ref. art. 2427, par. 1, no. 22-bis of the Civil Code)  
The company did not enter into any significant related party transactions. In any case, information is provided below on the contracts that the Company entered into with the subsidiaries Admantx Spa and Expert System U.S.A. Inc. and the related party Admantx Inc is provided below, exclusively for the purposes of greater disclosure transparency, given they are contracts for an insignificant amount and carried out on an arm's length basis.

With the subsidiary Admantx S.p.a.:

#### **Costs:**

- 1) Technical consultancy and intercompany marketing activities, which generated consultancy costs totalling € 35,284, booked to the income statement under the item "Commercial Consultancy - Italy"; "Technical Consultancy - Italy" reclassified under item B) 7 "Service costs".

#### **Revenues:**

- 1) Lease agreement for property in Naples, Via nuova Poggio Reale, Centro Polifunzionale Inail (Inail – National Institute for Insurance against Accidents at Work - Multi-purpose centre), where the company has its registered office: annual rent of € 5,033.2;
- 2) Sub-letting agreement for local office in Modena, Via Virgilio 56/Q: annual rent of € 3,667.80

The income statement item concerned by this contract is "Property income" reclassified to item A) 5 "Other revenue and income".

- 3) Services contract relating to accounting support, company economic-financial consultancy, secretary and general services:

- fee for accounting support and company consultancy – half-yearly fee of € 11,408.20
- fee secretary activities - € 100 per month
- fee for general services (telephone, cleaning services and materials, security, electricity, stationery, management software maintenance): lump-sum reimbursement (4.15%) of costs incurred by Expert System S.p.a.;

The balance sheet item concerned by this contract is "intercompany customers" and "customers for invoices to be issued" reclassified to the item C) II 2) Receivables due from subsidiaries.

The income statement item concerned by this contract is "Reimbursement of various expenses" reclassified to item A) 5 "Other revenue and income".

- 4) Contract for strategic consultancy, half-yearly fee of € 4,000.00.

The balance sheet item concerned by this contract is "customers for invoices to be issued" reclassified to the item C) II 2) Receivables due from subsidiaries, while the income statement item concerned is "Provision of intercompany services" reclassified to item A) 5 "Other revenue and income".

With the subsidiary Expert System USA Inc.:

professional service activities performed for the subsidiary, concessions of licences and granting of loans.

The balance sheet item concerned by this contract is "customers for invoices to be issued" amounting to € 260,008" reclassified to the item C) II 2) "Receivables due from subsidiaries".

The income statement items concerned by this contract are:

- "Interest income from subsidiary Expert System USA Inc" reclassified to the item C) 16) d) for € 10,395
- "Intercompany activities" reclassified to the item A) 1 for a total of € 249,612

#### Information on off-balance sheet agreements

(Ref. art. 2427, par. 1, no. 22-ter of the Civil Code)

The company has no off-Balance Sheet agreements in place.

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

(Ref. art. 2427, par. 1, no. 16-bis of the Civil Code)

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

- fees due for the independent audit of the annual accounts: € 8,167

#### Other information

Pursuant to law, the total fees due to directors and the control body are shown below (art. 2427, par. 1, no. 16 of the Civil Code).

Role	Fee
Directors	507,669
Board of Statutory Auditors	7,000

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

Chairman of the Board of Directors



Marco Varone

**Cash flow statement at 30/06/2014**



**EXPERT SYSTEM SPA**

Registered office in VIA FORTUNATO ZENI 8 - 38068 ROVERETO (TN) Share capital € 219,496.80 fully paid-in


**Cash flow statement at 30/06/14**

<b>Description</b>	<b>30/06/2014</b>	<b>31/12/13</b>	
<b>NET OPERATING PROFIT (NOP)</b>	<b>-589,796</b>	<b>915,639</b>	
+ Amortisation/depreciation	663,099	1,061,471	*
<b>GROSS OPERATING SELF-FINANCING</b>	<b>73,303</b>	<b>1,977,110</b>	
- Taxes pertaining to the year	102,193	-358,954	*
<b>NET OPERATING SELF-FINANCING</b>	<b>175,496</b>	<b>1,618,156</b>	
+ Change in operating net working capital	-748,457	1,366,503	**
+ Change in provision for employee severance indemnity	104,621	50,794	**
- Change in other provisions	-7,271	-898	**
<b>CURRENT OPERATING CASH FLOW (COCF)</b>	<b>-475,611</b>	<b>3,034,555</b>	
- Purchase and sale of tangible and intangible fixed assets	-2,074,716	-2,383,688	**
<b>OPERATING CASH FLOW</b>	<b>-2,550,327</b>	<b>650,867</b>	
- Purchase and sale of financial assets	-2,821,127	-425,546	**
+/- Non-banking financial income and expenses	130,172	15,986	*
<b>ORDINARY CASH FLOW</b>	<b>-5,241,282</b>	<b>241,307</b>	
+/- Extraordinary income and expenses	-3,210	56,439	*
<b>CASH FLOW TO SERVICE DEBT</b>	<b>-5,244,492</b>	<b>297,746</b>	
- Reimbursement of financial payables	-1,703,858		
+ Raising of financial payables		1,181,968	**
- Financial expenses	-164,086	-392,459	*
<b>CASH FLOW TO SERVICE EQUITY</b>	<b>-7,112,436</b>	<b>1,087,255</b>	
+ Change in shareholders' equity due to listing and share capital increase	12,369,384	-179,999	*
<b>VARIATION IN CASH BALANCE</b>	<b>5,256,948</b>	<b>907,256</b>	**
Liquidity at the start of the year	2,958,851	2,051,595	
Liquidity at the close of the year	<u>8,215,799</u>	<u>2,958,851</u>	
Change in liquidity	<u>5,256,948</u>	<u>907,256</u>	

\* = costs/revenues in the year

\*\* = change with respect to the previous year

Chairman of the Board of Directors


  
Marco Varone



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