

Expert System: approved results as at 31 December 2016 and business plan 2017-2019

- **Principal consolidated results as at 31/12/2016:**
 - **Value of Production of € 29.6 million (€ 23.2 million as at 31 December 2015) with a foreign component of turnover of 61%**
 - **Negative EBITDA of € 2.2 million (€ 1.5 million as at 31 December 2015)**
 - **Net financial position unchanged at € 11.1 million (€ 11.1 million as at 31/12/2015)**
- **Business plan 2017-2019 approved: envisaged strengthening on foreign markets and progressive creation of products to increase recurring licences in addition to achieving economies of scale as a result of completing the integration of foreign sites; expected value of production in 2019 € 54.0 million with EBITDA of € 11.6 million**

Modena, 27 March 2017

The Board of Directors of [Expert System](#), a market leader in cognitive computing and text analytics, listed on the AIM Italia market, organised and managed by Borsa Italiana, today approved the consolidated financial statements and draft financial statements for the year ended 31 December 2016, which will be submitted for approval to the Ordinary Shareholders' Meeting scheduled, in first call, for 27 April, and in second call, if necessary, for 28 April 2017.

Stefano Spaggiari, Chief Executive Officer of Expert System, thus declared:

"The results for 2016 reflect the great efforts made by the company in the process of development and reinforcement in a global context, on the basis of the 2014 listing project. The percentage of turnover generated on foreign markets reached 61%, with a significant presence also on the most important market worldwide, the US market, where we have a presence with two companies concerned respectively with the civil market and the government market. In this brief period of time turnover has doubled and Expert System has become the biggest semantic "pure player" at European level in the sphere of text analytics and cognitive computing. Over the course of 2016 Expert System has come first, out of over 200 players examined, in the worldwide classification of the best companies developing products for "Big Data Text Analytics" by the prestigious sector analyst Forrester, in addition to receiving various other international awards and recognition. Through a great effort at commercial development new and prestigious clients have been obtained, who represent an important investment for the future. The subject of Artificial Intelligence is beginning to be of paramount importance for companies that, in the years to come, will be

allocating more and more resources to this type of application. In terms of investment linked to the future, 2016 was also a year characterised by the integration of players acquired during 2015, in terms of human and technological resources, with changes to managerial figures, including two new CEOs in the key US and German markets, and by a redefinition of the company's offer in various countries. From this integration process emerges a corporate structure that is even more solid and cohesive and further technological advancement as evidenced by the recent release of the new version of the COGITO 14 technological platform, a unique product absolutely at the international cutting edge, in which we have brought together the best of what the various company sectors have developed. In general terms, the market for AI and applications relating to it, with a time drift compared with forecasts caused partly by the high level of innovation in these areas, is highly unstable. Managers' awareness is continuing to grow that applications such as those offered by the Cogito range could bring to their companies a strategic and "disruptive" value in the near future.

In the light of all of this we are very positive and confident that the major work carried out in the last three years, characterised by strong investment and, as is usual in the Hi-Tech sector, temporarily negative margins, will bear fruit. The board of directors has approved a plan that envisages a return to positive EBITDA in 2017 with a rapid growth of turnover and margins in the following years once market demand for Cognitive/AI applications has consolidated and is firmly growing."

Principal economic-financial results in the consolidated financial statements as at 31 December 2016¹²

The **Value of Production** is € 29.6 million (€ 23.2 million as at 31 December 2015), with a growth of 28%. **Sales and services revenues** are € 23.4 million (€ 16.4 million as at 31 December 2015), with a growth of 43%. 61% of sales and services revenues come from sales on foreign markets (€ 7.4 million as at 31 December 2015). This increase is attributable to the European and North American market, as well as the consolidation of Temis and the organic development of the domestic market.

EBITDA is negative at € 2.2 million (€ 1.5 million as at 31 December 2015) as a result, in particular, of the high organisational overheads of foreign subsidiaries affecting mainly personnel costs, which rose from € 11.3 million to € 18.5 million.

¹ Please note that for comparative purposes the results as at 31/12/2015 shown below incorporate the new OIC provisions implemented by the 2016 financial statements.

² Please note also that the consolidation of Temis took effect from 30 September 2015 and as such influences the results for 2015.

EBIT is negative at € 8.5 million (negative at € 3.8 million as at 31 December 2015), after amortisation, depreciation and provisions of € 6.3 million mainly linked to fundamental investments of a technological nature for the top-end innovation sector in which the company operates, equal to € 4.1 million, and for amortisation of the consolidation difference originating from the recent acquisition transactions, equal to € 2.2 million.

The **Group's Net Profit/Loss** is negative at € 8.5 million (negative at € 3.3 million as at 31 December 2015).

The **Net Financial Position** is substantially unchanged at € 11.1 million (€ 11.1 million as at 31 December 2015).

Principal economic-financial results of Expert System S.p.A. as at 31 December 2016

The **Value of Production** is € 16.7 million (€ 15.2 million as at 31 December 2015).

EBITDA is € 1.3 million (€ 0.7 million as at 31 December 2015).

EBIT is negative at € 1.3 million (negative at € 1.5 million as at 31 December 2015).

Net Profit/Loss is negative at € 1.2 million (negative at € 1.0 million as at 31 December 2015).

The **Net Financial Position** is unchanged at € 10.9 million (€ 10.5 million as at 31 December 2015).

Main company events occurring over the course of 2016

- *14 December:* the Intesa Sanpaolo Group chooses Cogito to innovate and enhance the digital experience of its customers. For the new website and internet banking services platform an intelligent search system was created, capable even of understanding users' intentions, analysing the meaning of sentences and words with maximum precision.
- *3 November:* Expert System becomes part of the European Cyber Security Organisation (ECSO). Founded in 2016 in Brussels with the aim of bringing the main stakeholders together in a single organisation to guide cyber security strategies at a European levels, ESCO's mission is to promote research and innovation in the field of digital security and to tackle all the forms of criminal activity that increasingly often use computerised channels.
- *19 September:* full subscription of 2,609,522 newly-issued ordinary shares offered in the context of a capital increase decided on by the Extraordinary Meeting on 28 June 2016 and concluded on 13 September 2016.

- *18 May:* Expert System wins the LT-Innovate Award (for Linguistic Technologies), which recognises technological innovation excellence, business potential and experience in the development of linguistic analysis-based solutions.
- *19 May:* Prometeia chooses Expert System to enhance its Wealth Management platform with a system capable of reading and interpreting the demands and needs of customers of Banks, Consultancy Networks and Insurance Companies. Thanks to Cogito's artificial intelligence algorithms, able to analyse all information provided by the customer, Prometeia's partner companies will be able to improve the process of profiling investors and the subsequent consulting services performed for them.
- *12 May:* the independent research company Forrester, globally recognised as one of the most authoritative in the business and technology environment, rewards Cogito's unique potential, including the company in its latest report dedicated to the top 10 big data text analytics companies (Forrester Wave™ Big Data Text Analytics Platforms, Q2 2016: The 10 Providers That Matter Most And How They Stack Up). Expert System is distinguished by its product scalability, use of intuitive interfaces and semantic functions as the core elements of products to offer full management of all activities associated with text analysis: data enrichment, tagging, automatic document categorisation, extraction of relevant entities.
- *1 March:* Expert System is awarded prestigious international recognition by the journal KMWorld as one of the 100 best companies in the Knowledge Management sector worldwide.
- *9 February:* the new version of the Cogito technology, Cogito 14, is released, further simplifying the development of advanced solutions for robotic process automation in business and information intelligence. Thanks to the synergies between the "Cogito Lab" and the enhancement of recently acquired resources (in particular through TEMIS), new languages and innovative functionalities have been implemented.
- *23 February:* FinecoBank, a multichannel direct bank in the UniCredit Group, signs an agreement with Expert System to use *Cogito* technology. This technology will enable Fineco to make the dialogue between customers and the bank even simpler and more satisfying through digital channels as well as to optimise customer service activities.
- *9 February:* Quantic Research, an Italian subsidiary for R&D of Holding Nivi Group SpA, specialised in the design of innovative solutions dedicated, in particular, to the security sector, launches close collaboration with Expert System aimed at exploiting new commercial and technological opportunities in defence and intelligence.

- *10 January*: Expert System joins “500 Startups”, the most sought-after acceleration programme in Silicon Valley, among the most prestigious in the world. Cogito's intelligence will therefore be at the disposal of the new digital companies in “500 Startups” to enable the community of developers to enhance and development cognitive computing applications for analysing data and information.

Events after the financial statements as at 31 December 2016

- *24 March 2017*: BNL Gruppo BNP Paribas, one of the main European banking groups, won the “Knowledge transfer and Change Management” category with the project “The Semantic Search Engine”, in which an automatic system for searching and categorising documents, based on Expert System's Cogito cognitive technology, was implemented.
- *14 March 2017*: Stefan Welcker appointed Managing Director for DACH (Germany, Austria, Switzerland). With over 20 years’ experience in information technology, Stefan Welcker will be responsible for guiding the growth of Expert System on the German-speaking market.
- *12 January 2017*: Louis Andre appointed new chief executive officer of Expert System USA, the company in the Group dedicated to developing solutions for US public organisations, including those operating in the Defence, Intelligence and Law Enforcement sectors. After a brilliant career in the world of defence and intelligence, culminating in his appointment as Chief Operating Officer and Chief of Staff of the DIA (the main US military intelligence agency with headquarters at the Pentagon), Louis Andre will lead during a period of significant growth for Expert System USA, with the aim of consolidating important projects launched with some of the main US federal agencies, law enforcement agencies and other government departments (Department of Justice and Department of Defense).

Approval of business plan 2017-2019

The Board of Directors furthermore approved the business plan 2017-2019, which is aimed at enhancing the Group's geographical diversification and taking advantage of the results of the significant growth trajectory pursued in the past two years.

The forecast growth is based on the general development of foreign markets, where it is considered that there are major growth margins both in terms of the size of the markets and the growth rates also forecast by analysts in the sector. The progressive creation of products and solutions and their replicability in various market sectors will enable us moreover to obtain an increase in the percentage of software and maintenance licences affecting the recurring

component of turnover. The improvement in operating cash flow will also be linked to a reduction in average payment times, which on foreign markets are must shorter than in Italy. Furthermore, by completing the process of integrating foreign sites, the Group will be able to benefit from significant economies of scale in favour of growing margins.

The Group is aiming to achieve, in 2019, revenues of € 54.0 million with EBITDA of € 11.6 million; the objective net financial position is € 5.8 million with a gearing ratio (net financial position / shareholders' equity) of 37%.

In the years of the plan the expectations are as follows:

<i>million €</i>	2017 E	2018 E	2019 E
Revenues	28.2	34.9	47.4
Value of Production	34.5	41.4	54.0
EBITDA	3.6	7.3	11.6
Net profit	(3.4)	0.1	2.7
Net financial position	9.8	9.7	5.5

In addition, investments are planned in the next three years in favour of continuing evolution of the technological platform and of the products for € 4.7 million in 2017, € 4.9 million in 2018 and € 5.0 million in 2019.

Renewal of management and supervisory bodies

The board of directors decided to called the ordinary meeting to discuss and resolve, among other points, the appointment of the board of directors, the number of members and the corresponding remuneration as well as the appointment of the board of statutory auditors and its chairman for the 2017-2019 three-year period. (The lists for the appointment of management and supervisory bodies will be submitted at the Company's registered office and on the website www.expertsystem.com, Investor Relations section.)

Other resolutions

The Board of Directors approved, in accordance with the related-parties procedure, the renewal of the intercompany financing plan, which envisages Expert System S.p.A.'s disbursement to its subsidiaries of loans up to a maximum total amount of € 5.0 million (for more details, the corresponding documentation of the framework resolution as available to the public at the Company's registered office and on the website www.expertsystem.com, Investor Relations section), as well as the conversion of trade receivables into financial receivables equal to € 1.0 million due from the 100%-controlled subsidiary Expert System USA Inc. and the conversion of financial receivables for recapitalisation of the 100%-controlled subsidiary Expert System France S.A. for € 1.3 million.

Filing of documentation

The documentation for the Shareholders' Meeting will be made available to the public on the company's website under the terms and methods established by applicable regulations.

Expert System, listed on Borsa Italiana's AIM Italia market, is a leader in the sector of Cognitive Computing and Text Analytics. Through its Cogito proprietary technology, based on semantic analysis, Expert System innovates how companies process information, offering its own artificial intelligence tool to understand the meaning of large quantities of documents, and extracting strategic knowledge from big data to increase competitive advantage and improve decision-making processes. The main clients of the Group, which has sites in Italy, France, Spain, Germany, UK, USA and Canada, include: Shell, Chevron, Gruppo Eni, Telecom Italia, Intesa Sanpaolo, Il Sole 24 ORE, Ely Lilly, BAnQ, Biogen, Bloomberg BNA, Elsevier, Gannett, IMF, RSNA, Sanofi, SOQUIJ, The McGraw-Hill Companies, Thomson Reuters, Wiley, Wolters Kluwer, Networked Insights, United States Department of Agriculture and United States Department of Justice.

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Appended:

- [Expert System Group balance sheet as at 31/12/2016](#)
- [Expert System Group income statement as at 31/12/2016](#)
- [Net financial position of Expert System Group as at 31/12/2016](#)
- [Expert System S.p.A. balance sheet as at 31/12/2016](#)
- [Expert System S.p.A. income statement as at 31/12/2016](#)
- [Net financial position of Expert System S.p.A. as at 31/12/2016](#)

Expert System Group balance sheet	31/12/2016	31/12/2015	Change
Net intangible assets	18,372,463	18,539,026	(166,564)
Net tangible assets	914,523	915,731	(1,208)
Equity investments and other non-current financial assets	3,270,381	6,246,290	(2,975,909)
Fixed capital	22,557,366	25,701,047	(3,143,681)
Short-term financial assets	4,153,074	4,153,074	
Warehouse Inventories	627,484	1,796,857	(1,169,373)
Trade receivables	10,232,837	10,227,852	4,985
Other receivables	8,444,881	7,368,503	1,076,378
Accrued income and prepaid expenses	1,003,638	1,038,403	(34,765)
Short-term assets	24,461,914	24,584,689	(122,775)
Trade payables	(2,698,583)	(2,854,713)	156,130
Advance payments	(2,247,323)	(2,909,546)	662,223
Tax and social security payables	(2,275,284)	(2,361,233)	85,949
Other payables	(1,962,195)	(1,381,590)	(580,604)
Accrued expenses and deferred income	(3,595,666)	(3,122,302)	(473,364)
Short-term operating liabilities	(12,779,051)	(12,629,385)	(149,666)
Net working capital	11,682,863	11,955,304	(272,442)
Employee severance indemnity	(1,670,520)	(1,390,984)	(279,536)
Tax and social security payables			
Accrued expenses and deferred income after 12 months	(3,640,000)	(2,452,032)	(1,187,969)
Other medium and long-term liabilities	(1,392,298)	(2,596,843)	1,204,544
Medium/long-term liabilities	(6,702,818)	(6,439,859)	(262,959)
INVESTED CAPITAL	27,537,411	31,216,492	(3,679,081)
Shareholders' equity	(16,437,209)	(20,144,926)	3,707,717
Net medium/long-term financial position	(15,251,917)	(18,239,873)	2,987,956
Net short-term financial position	4,151,714	7,168,311	(3,016,597)
OWN EQUITY AND NET FINANCIAL DEBT	(27,537,411)	(31,216,492)	3,679,081

Expert System Group Income Statement	31/12/2016	31/12/2015	Change
Net revenues	23,367,938	16,388,897	6,979,041
Change in inventories	(1,169,763)	174,751	(1,344,513)
Own work capitalised	5,665,880	3,619,440	2,046,441
Other income	1,689,042	2,979,420	(1,290,379)
Value of production	29,553,097	23,162,507	6,390,590
External operating costs	(13,312,302)	(10,397,946)	(2,914,356)
Economic value added (EVA)	16,240,795	12,764,562	3,476,233
Cost of labour	(18,486,109)	(11,301,753)	(7,184,356)
EBITDA	(2,245,314)	1,462,809	(3,708,123)
Amortisation, depreciation and other provisions	(6,303,359)	(5,237,807)	(1,065,552)
Net operating profit	(8,548,673)	(3,774,998)	(4,773,675)
Financial income and expenses	(156,016)	213,228	(369,244)
Ordinary profit	(8,704,689)	(3,561,770)	(5,142,919)
Net Extraordinary components	0	0	0
Pre-tax results	(8,704,689)	(3,561,770)	(5,142,919)
Income taxes	579,158	277,463	301,695
Net profit (loss)	(8,125,531)	(3,284,307)	(4,841,224)

Consolidated net financial position	31/12/2016	31/12/2015	Change
Bank deposits	8,994,794	11,247,267	(2,252,473)
Cash at bank and in hand	68,146	2,060	66,086
Treasury shares	0	0	
Cash and cash equivalents and treasury shares	9,062,940	11,249,327	(2,186,386)
Current financial assets	1,308,046	1,354,044	(45,998)
Bonds and convertible bonds (within 12 months)			
Payables due to shareholders for loans (within 12 months)			
Payables due to banks (within 12 months)	(5,046,595)	(4,847,800)	(198,795)
Payables due to other lenders (within 12 months)	(1,172,677)	(587,262)	(585,415)
Advances for overseas payments			
Short-term portion of loans			
Financial receivables			
Short-term financial payables	(6,219,272)	(5,435,062)	(784,210)
Net short-term financial position	4,151,714	7,168,308	(3,016,594)
Bonds and convertible bonds (after 12 months)	(5,000,000)	(5,000,000)	
Payables due to shareholders for loans (after 12 months)			
Payables due to banks (after 12 months)	(8,595,385)	(11,485,190)	2,889,805
Payables due to other lenders (after 12 months)	(1,656,532)	(1,754,683)	98,151
Advances for overseas payments			
Long-term portion of loans			
Financial receivables			
Net medium/long-term financial position	(15,251,917)	(18,239,873)	2,987,956
NET FINANCIAL POSITION	(11,100,202)	(11,071,564)	(28,638)

Expert System S.p.A. balance sheet	31/12/2016	31/12/2015	Change
Net intangible assets	6,251,067	5,720,373	530,694
Net tangible assets	667,181	697,817	(30,636)
Equity investments and other non-current financial assets	25,668,740	22,440,371	3,228,368
Fixed capital	32,586,987	28,858,561	3,728,426
Short-term financial assets	4,153,074	4,153,074	0
Warehouse Inventories	610,900	1,714,539	(1,103,638)
Trade receivables	5,429,296	6,493,691	(1,064,396)
Other receivables	7,503,858	7,105,028	398,830
Accrued income and prepaid expenses	750,255	796,548	(46,293)
Short-term assets	18,447,383	20,262,881	(1,815,497)
Trade payables	(1,396,828)	(1,579,333)	182,505
Advanced payments	(2,238,142)	(2,907,908)	669,766
Tax and social security payables	(770,591)	(900,746)	130,155
Other payables	(1,669,344)	(1,101,091)	(568,252)
Accrued expenses and deferred income	(1,504,926)	(976,286)	(528,640)
Short-term liabilities	(7,579,831)	(7,465,364)	(114,467)
Net working capital	10,867,552	12,797,517	(1,929,965)
Employee severance indemnity	(1,670,520)	(1,390,984)	(279,536)
Tax and social security payables	0	0	0
Accrued expenses and deferred income after 12 months	(1,791,230)	(2,452,032)	660,801
Other medium and long-term liabilities	(854,823)	(2,556,294)	1,701,471
Medium/long-term liabilities	(4,316,573)	(6,399,309)	2,082,737
INVESTED CAPITAL	39,137,967	35,256,768	3,881,199
Shareholders' equity	(28,275,733)	(24,775,370)	(3,500,363)
Net medium/long-term financial position	(14,360,437)	(16,795,602)	2,435,165
Net short-term financial position	3,498,203	6,314,204	(2,816,001)
OWN EQUITY AND NET FINANCIAL DEBT	(39,137,967)	(35,256,768)	(3,881,199)

Expert System S.p.A. Income Statement	31/12/2016	31/12/2015	Change
Net revenues	13,887,351	10,506,609	3,380,742
Change in inventories	(1,103,638)	151,756	(1,255,394)
Own work capitalised	2,820,274	3,033,114	(212,840)
Other income	1,186,336	1,564,996	(378,661)
Value of production	16,790,322	15,256,475	1,533,847
External operating costs	(8,079,712)	(8,202,293)	122,581
Economic value added (EVA)	8,710,610	7,054,182	1,656,428
Cost of labour	(7,390,517)	(6,336,418)	(1,054,098)
EBITDA	1,320,094	717,764	602,330
Amortisation, depreciation and provisions	(2,623,830)	(2,180,941)	(442,889)
Net operating profit	(1,303,737)	(1,463,177)	159,441
Financial income and expenses	(171,185)	182,878	(354,064)
Ordinary profit	(1,474,922)	(1,280,299)	(194,623)
Net extraordinary components	0	0	0
Pre-tax result	(1,474,922)	(1,280,299)	(194,623)
Income taxes	272,145	281,266	(9,121)
Net profit (loss)	(1,202,777)	(999,033)	(203,744)

Net financial position of Expert System S.p.A.	31/12/2016	31/12/2015	Change
Bank deposits	7,327,197	9,393,911	(2,066,714)
Cash at bank and in hand	2,680	1,772	908
Treasury shares	0	0	0
Cash and cash equivalents and treasury shares	7,329,877	9,395,683	(2,065,806)
Current financial assets	1,010,798	987,748	23,050
Bonds and convertible bonds (within 12 months)			0
Payables due to shareholders for loans (within 12 months)			0
Payables due to banks (within 12 months)	(4,487,565)	(3,680,182)	(807,383)
Payables due to other lenders (within 12 months)	(354,906)	(389,045)	34,139
Advances for overseas payments			0
Short-term portion of loans			0
Financial receivables			0
Short-term financial payables	(4,842,471)	(4,069,227)	(773,244)
Net short-term financial position	3,498,203	6,314,204	(2,816,001)
Bonds and convertible bonds (after 12 months)	(5,000,000)	(5,000,000)	0
Payables due to shareholders for loans (after 12 months)			0
Payables due to banks (after 12 months)	(8,595,385)	(11,485,190)	2,889,805
Payables due to other lenders (after 12 months)	(765,052)	(310,412)	(454,640)
Advances for overseas payments			0
Long-term portion of loans			0
Financial receivables			0
Net medium/long-term financial position	(14,360,437)	(16,795,602)	2,435,165
NET FINANCIAL POSITION	(10,862,234)	(10,481,398)	(380,836)