



EXPERT.AI GROUP
FINANCIAL STATEMENTS
AS AT 12/31/2020

TABLE OF CONTENTS

1. Expert.ai management report as at 12/31/2020

I. Profile of expert.ai

- Letter to shareholders
- Corporate bodies
- Key shareholders of Parent company
- Group structure
- Business & Customers

II. Research and development activities

III. Operating performance

- EXSY.MI shares
- Main corporate events occurred in the year
- General economic performance
- Reference market
- Operating performance of the Group
- Foreseeable evolution of management

IV. Environment, Personnel and Risks

2. Expert System Group Notes to the Accounts as at 12/31/2020

3. Audit firm's report as at 12/31/2020

EXPERT.AI MANAGEMENT REPORT AS AT 12/31/2020



I. PROFILE OF EXPERT.AI

LETTER TO SHAREHOLDERS

This report has been prepared in accordance with the provisions of Art. 40 of Italian Legislative Decree no. 127/1991 and is intended to supplement the consolidated financial statements so as to provide all additional information for a better and clearer understanding of the performance of the consolidated companies, which cannot result from the mere reading of the consolidated financial statements and the notes to the accounts.

2020 RESULTS

Setting the stage for accelerated growth..

Setting the stage for accelerated growth...

Dear Shareholders,

By any measure, 2020 has been a transformative year for expert.ai. We had one goal – to set the stage for global leadership as the reference platform powering language understanding in any application or process across any domain. And we executed to that goal – defining and aligning our strategy, raising growth capital, building a team, communicating our vision, and reshaping our business model to grow faster and scale.

I joined expert.ai in early 2020, brought in by the co-founders – Marco Varone and Stefano Spaggiari – and the Board of Directors as the first outside CEO in the company's 30-year history. This decision was clear evidence of their conviction that things were indeed different and that the hard work done over the years had positioned expert.ai for a unique opportunity for dramatic growth. I shared their belief in three core premises and the year since I joined has strengthened this conviction:

- **AI-enabled language understanding technology is moving rapidly toward mass adoption.** Language is data. Our belief is that enterprises and technology companies will adopt language understanding technology at scale to power knowledge discovery and accelerate applications, processes, and workflows that are driven by the data of language. We think this will extend beyond specialized domains of data scientists and linguists to the broader market of developers and business analysts.
- **Practical AI wins** – it is worth remembering that the current “hype” cycle for AI emerged only around 2017. And that hype cycle is now drawing to a close, as businesses realize both the promise and the complexity of deploying AI at scale to solve real world problems. There is a clear appetite now for AI solutions that deliver in practice, not just in theory. Our offerings – from cloud-based SaaS NL API introduced in 2020 to our end-to-end natural language understanding platform coming out in 2021 – are built to solve real problems and create real value. And we are doing that on the foundation of creating value for more customers than any other company in the market.
- **Expert.ai is uniquely positioned for leadership** – the years of delivering value to businesses through our language understanding technology gave us unique insight into the requirements for success. We know what it takes and are bringing that to bear in our technology, including the critical importance of human in the loop by design. And 2020 marked the year when many of the most advanced researchers in AI began to acknowledge publicly the need for a knowledge-based approach to natural language understanding – an approach that expert.ai has led for the last decade.

We faced real challenges over 2020 given both the scale of change and the broader crisis that enveloped the world. But I honestly could not have asked for a better outcome on the biggest potential challenge we faced - building a Team of Teams with a shared sense of purpose to seize the opportunity. The expert.ai team I joined embraced the change and welcomed the opportunity. And we were able to hire top talent attracted by both the ambitious goals we set and the strong culture that guides us.

We executed well to our strategy in focusing on recurring SaaS revenue, scaling through partners, and growing in the US. And we will build on and expand this success in 2021 through our core goals:

- **Scale first** – we will accelerate growth in our go to market through top-down enterprise sales in core verticals and a bottoms-up product range that increases awareness, consideration and conversion; expanded channel relationships; and partnerships with technology companies seeking the best of language understanding capability;
- **Product leadership** – we will establish product leadership through our SaaS NL API, Studio and Edge products and our end-to-end platform to broaden market adoption of simple but powerful tools for language understanding;
- **Agile execution** – we will focus relentlessly at being fast, focused, and bold in our execution;
- **Team of Teams** – we will unite all of what we do with a shared sense of purpose and principles to deliver to the opportunity in front of us.

Nothing easy about the journey ahead. But with the hard work that has brought us to this moment and an incredibly talented team, we like our chances. Carpe diem.

Walter Lloyd Mayo III
(CEO expert.ai)



SaaS

€100MM in
SaaS-based revenue
in 2024



US

Primary growth driver
and ~60% of revenue
in 2024



Scale First

Through “sales+growth”
model and partners
(channel & technology)

CORPORATE BODIES

Board of Directors

Chairman of the Board of Directors – Executive Chairman	STEFANO SPAGGIARI
Director - CTO	MARCO VARONE
Director - CEO	WALTER LLOYD MAYO III
Director	SARA POLATTI
Director	ETTORE LEALE
Director	KAREN JO CAMBRAY
Independent Director	ALBERTO SANGIOVANNI VINCENTELLI
Independent Director	STEFANO PEDRINI

The expert.ai Corporate Governance was renewed (June 29, 2020), confirming the following in the Board of Directors:

Stefano Spaggiari - Executive Chairman, as co-founder, his leadership helped establish the Company as a market leader in artificial intelligence technologies.

Marco Varone - Co-founder and Chief Technology Officer, he is one of the world's leading experts in semantic technology applied to the understanding and processing of natural language.

Alberto Sangiovanni-Vincentelli - Independent Director, Fellow of the Institute of Electrical and Electronics Engineers, member of U.S. National Academy of Engineering and, since 1976, professor of Electrical Engineering and Computer Science at the University of California, Berkeley.

Additionally, the following professionals were appointed as Directors alongside **Walt Mayo** - Chief Executive Officer, an executive with more than 20 years of experience in sales, marketing and strategic channel development.

Sara Polatti - Associate and CFO at CC & Soci S.r.l., where she provides financial advice on extraordinary financial transactions in Italy and abroad, organizes and structures club deals and set ups, and manages the company's operations.

Ettore Leale - US-based executive and investor in the software and digital education industries. He has led Yahoo's search engine business across emerging markets, launched new digital products and opened new markets for Harvard Business School, Instill, Digital Impact and Adaptec.

Karen Jo Cambray - Chief Financial Officer with more than 25 years of experience planning and executing financial strategies for early- and mid-stage growth companies. She is a financial and operational executive with significant experience in strategic planning, scaling operations and M&A activities.

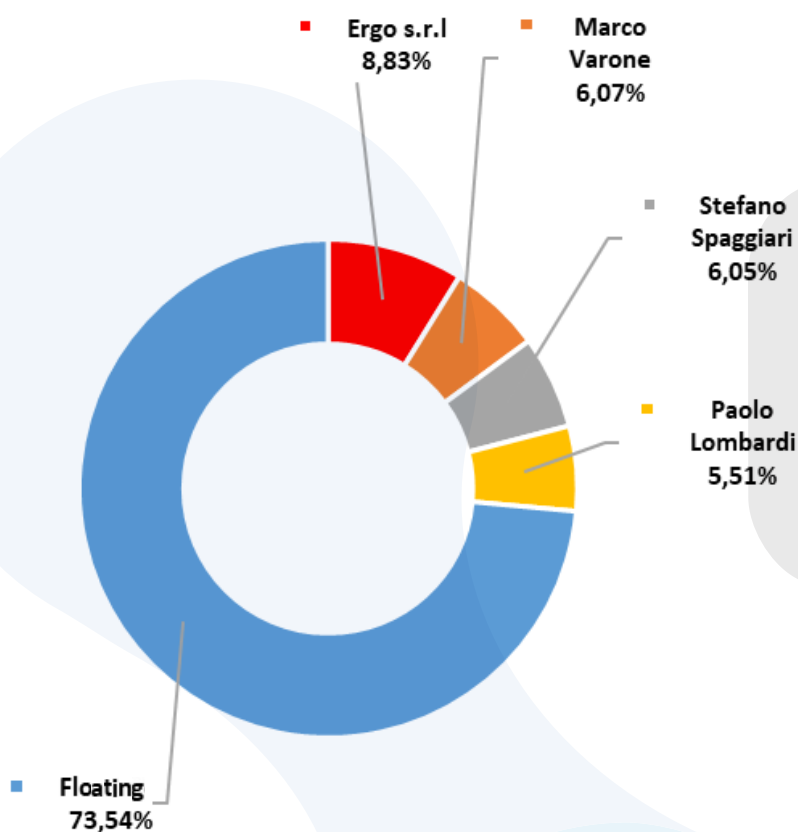
Stefano Pedrini – Independent Director, Adjunct Professor of Economics and Design Management at the Politecnico of Turin. He is an expert in management consulting and advisory activities in the area of corporate finance, management and strategy.

Board of Statutory Auditors

Chairman of the Board of Statutory Auditors	PATRIZIA ARIOLI
Statutory Auditor	FEDERICO BACCHIEGA
Statutory Auditor	DANIELE PONTE

KEY SHAREHOLDERS - PARENT COMPANY

Shareholder	% of total share capital
Ergo S.r.l.	8,83
Marco Varone	6,07
Stefano Spaggiari	6,05
Paolo Lombardi	5,51
Floating	73,54
Total	100

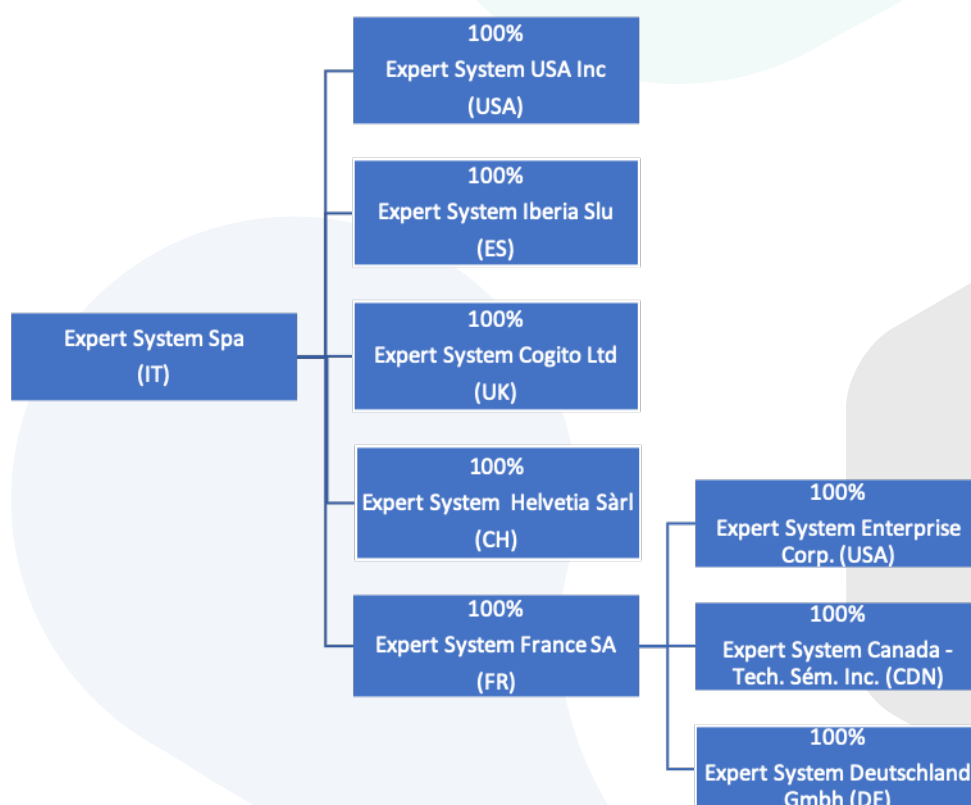


APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements as at 12/31/2019 were approved by the Board of Directors on 29/03/2021 and have been audited.

GROUP STRUCTURE

Over the last few years, the Group has consolidated its physiognomy as a company offering services to corporate and government intelligence, taking on the structure represented by the following chart:

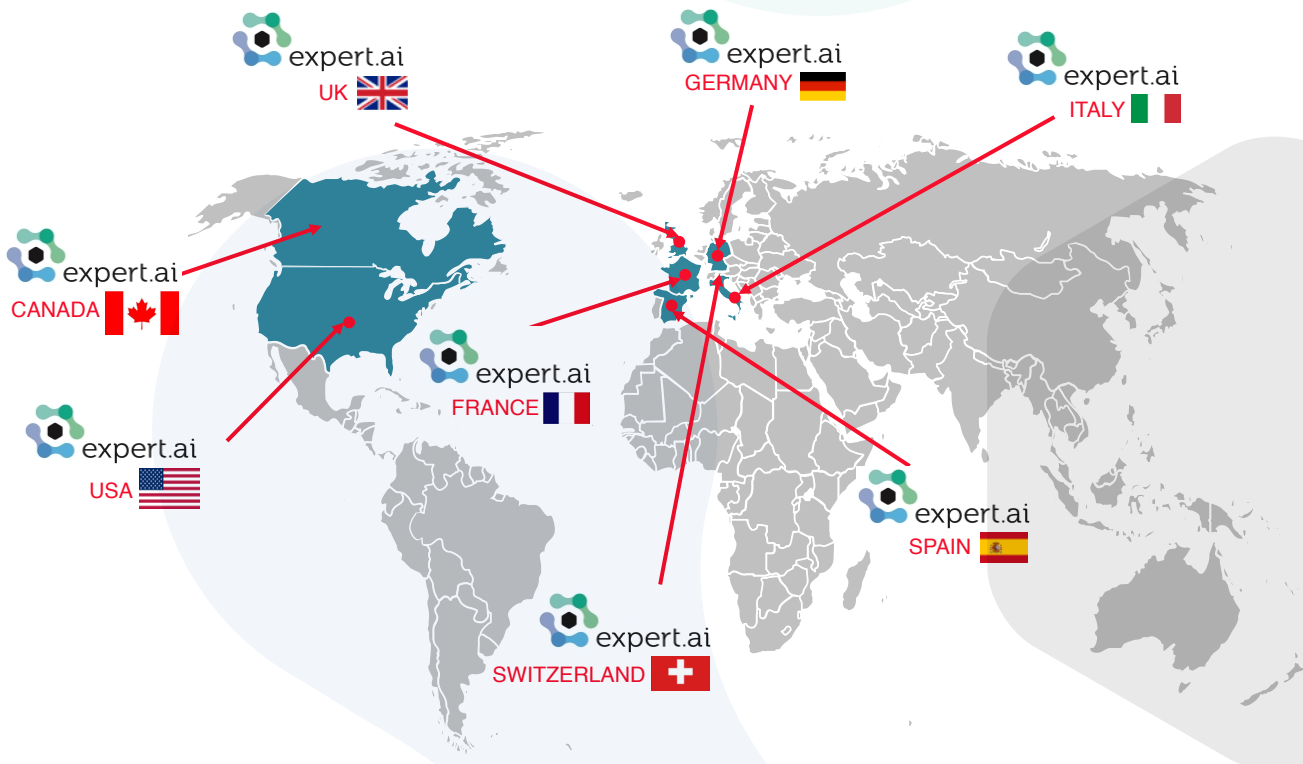


The current corporate organisational chart differs from that as at 12/31/2019 due to two significant changes that took place in the year, listed below:

- in March the subsidiary Expert System Helvetia SÀRL, with headquarters in Geneva, was established, 100% controlled by Expert System S.p.A. With the newco, the Group intends to consolidate its position in the artificial intelligence sector, establishing a direct presence in one of the world's leading financial and insurance markets, also a centre of interest for Pharma and major international organisations;

- on June 19th, 2020, Expert System announced the total sale of its minority shareholding equal to approximately 17% of the share capital of CY4Gate S.p.A., a company established in 2014 with Elettronica S.p.A., which operates in the cybersecurity industry in all-around mode, designing, developing and producing “Cyber Intelligence & Cyber Security”. On June 17th, 2020, CY4Gate S.p.A. submitted an application for admission to trading of its ordinary shares on AIM Italia, a multilateral trading system organised and managed by Borsa Italiana S.p.A. With a total collection of € 21.1 million and the determination of the price of ordinary CY4GATE S.p.A. shares at € 3.15, the shareholding of Expert System equal to 1,706,469 shares was sold for a consideration of € 5,375,377.35 (the capital gain was allocated to consolidated income statement item C15).

The Expert System group currently has a global presence and infrastructure, with offices in Italy, Spain, France, Germany, UK, Switzerland, USA and Canada:



BUSINESS

Expert.ai is the brand of Expert System (AIM - EXSY:MIL), an innovative company in the artificial intelligence (AI) technology market, founded in Modena in 1989, today an **AI platform company** based on a Group of over 300 professionals with solid technical and business skills, dedicated research laboratories and an international presence with subsidiaries and offices in Europe and North America.

The company's main goal represents one of the most fascinating challenges in computational science: to develop **artificial intelligence technology capable of understanding language** with a human-like approach. More than 50 years after the first experiments with artificial intelligence, the challenge of natural language understanding and natural language processing remains one of the most complex and strategic, at the heart of innovation and of the profound processes of digital transformation pursued worldwide by public organisations and private companies in every sector. The advent of the digital age and the explosion of information has in fact accelerated the need to focus on more advanced technological solutions, capable of increasing human capabilities and intelligence by simplifying the reading and understanding of all textual content expressed in natural language (documents, research, web news, emails, customer interactions, etc.) in order to extract the elements of interest, on which to carry out further research, provide more appropriate answers, make more informed and timely decisions.

In this scenario, expert.ai has consolidated its position as a global market leader with its **artificial intelligence platform for natural language analysis and processing**. Drawing on over 30 years of experience and hundreds of successful implementations, expert.ai stands out for its highly innovative and effective offerings, whose value is recognised by analysts and industry experts and is proven by the wide use thereof by a solid customer base from all major markets: Banking and Insurance, Publishing and Media, Defence and Intelligence, Health and Pharmaceuticals, Energy, etc.

CUSTOMERS

With a full suite of natural language artificial intelligence products (on-premise and in the cloud, private or public), expert.ai works with some of the most important organisations and government agencies in Europe, North and South America and the Middle East. It is also active in the innovation ecosystem with an API offering dedicated to developers, data scientists, computational linguists and knowledge engineers.

Expert.ai's products are widely used in all major markets; however, the company has been focusing on a few strategic business sectors:

Insurance: extensive industry experience, with solutions that simplify the most strategic processes and increase and extend human capabilities to reduce risk, improve underwriting rates and increase productivity.

Banks: comprehensive support for the innovation of models and processes that require the intensive use of textual information, optimising access to data of interest, interactions with customers and supporting more timely and informed decision-making to improve competitiveness.

Publishing and Media: in-depth knowledge of industry needs and ability to increase the value of content while reducing the manual tasks of editorial teams.

Defence and Intelligence: large international customer base (government agencies and law enforcement agencies) and a dedicated offering to support information analysis and data correlation activities to accelerate both threat detection and decision-making processes.

Health Care and Pharmaceutical Industry: support for Research & Development activities, market analysis and competitiveness, effective management of scientific information and compliance.

Energy: field-proven solutions already widely adopted in the industry to manage huge volumes of complex information on a large scale, optimise strategies to protect and enhance intellectual capital, simplify data analysis and speed up decision-making processes.

Below are statements from some customers

“

Inserm

At a time when we need to be particularly responsive, expert.ai's platform provides us with centralized access to relevant and consistent data and, above all, real-time updates. It's a real time-saver and improves efficiency for all our teams

”

“

Utwin

The integration of AI modules in our customer interaction processes provides real added-value support for our teams. It will allow them to strengthen the relationship with their customers and partners and achieve the highest levels of service quality

”

“

ING

Thanks to expert.ai's AI, all our customer relation centers in the Netherlands benefit from a much more reliable and much more accurate email management process, with 100% of emails being automatically processed by the platform

”

“

AEGIS

Artificial intelligence will continue to play a crucial role within AEGIS's digital transformation program which aims to maximize our efficiency and increase our data analytics capabilities. We've selected expert.ai for its ability to read, organize and extract relevant data so our team can be more efficient both in terms of managing repetitive tasks as well as better serving our policyholders

”

II. RESEARCH AND DEVELOPMENT ACTIVITIES

(Art. 40, paragraph 2, letter a, of Italian Legislative Decree no. 127/91)

Significant investments in research and development, which have always been crucial to expert.ai's strategy, have been and continue to be the basis of the company's success and are fundamental to maintain its competitive advantage and remain a state-of-the-art company in the field of artificial intelligence applied to the understanding of natural language.

The costs incurred for these activities have been capitalized, also within the scope of national and international multi-year research projects in which the Company has been involved. In 2020 these activities focused on the artificial intelligence platform and the products that use the platform to target the most common customer use cases.

Most of the research and development activities in 2020 were dedicated to these fronts:

- development of the platform to create new artificial intelligence tools as well as evolve and optimise existing ones with an integrated end-to-end and web-based environment for the implementation of thesaurus, categorisation and extraction language projects and with the integration of machine learning and deep learning technologies;
- development of the Natural Language API (in Cloud) in five languages and development of extensions to the basic functions (Media Topics, sentiment, emotions, attitudes);
- development of the integration of symbolic and machine learning-based techniques for natural language understanding for the fine-tuning of a hybrid language analysis system;
- implementation of expert.ai Studio that includes the new categorisation and extraction rule engine and the new inference engine.

Other significant activities and new releases in 2020 were:

- issue of a minor release of Cogito Intelligence Platform;
- update of the beta version of Cogito for Life Science;
- restructuring and expansion of the knowledge graph for several languages (French, Spanish, Italian and Arabic);
- release of the free version of expert.ai Studio;
- release of the free version of Edge NL API.

III. OPERATING PERFORMANCE

(Art. 40, paragraph 1 of Italian Legislative Decree no. 127/91)

EXSY.MI SHARES

The performance of the Expert System share price as of 12/31/2019 is shown below:

Market	AIM Italia – MAC
Share capital	€ 507,770
Capitalisation	€ 131,852,029
Minimum lot	1.00
Closing price	€ 2.597 – 30/12/2020
Performance - 1 month	+ 5.8%
Performance - 6 months	- 12.3%
Performance - 1 year	- 15.6%

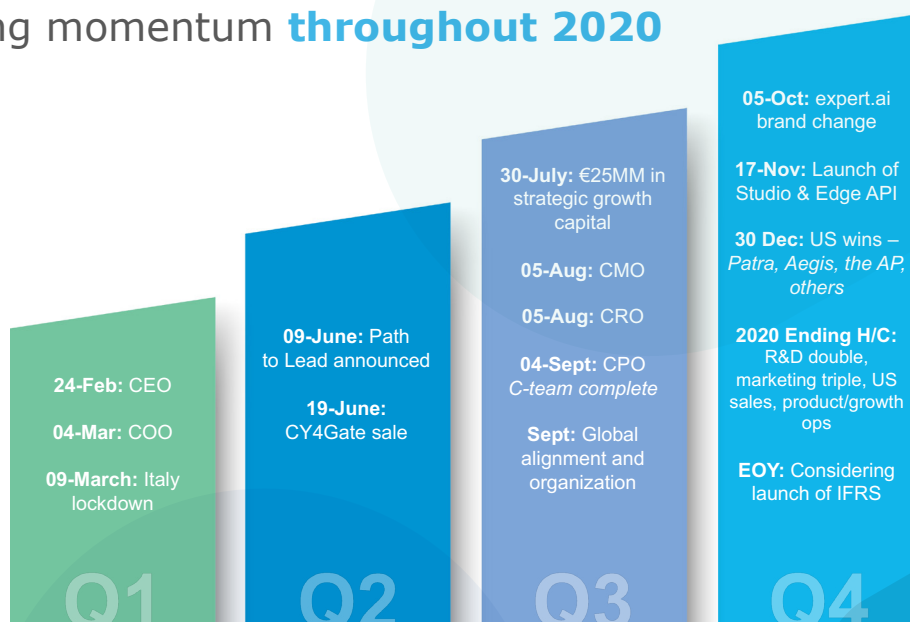


MAIN CORPORATE EVENTS OCCURRED IN THE YEAR

(Art. 40, paragraph 1 of Italian Legislative Decree no. 127/91)

With reference to the main events that affected the expert.ai group in the year, the following should be noted.

Building momentum **throughout 2020**



NEW APPOINTMENTS

On **02/24/2020**, the Board of Directors of expert.ai announced that **Walt Mayo had been appointed Chief Executive Officer of the Group**. With more than 20 years of experience in sales, marketing and strategic guidance of development channels, Walt plays a key role in the expansion of the company's business in the USA and is responsible for leading expert.ai into a new phase of global growth.

On **03/05/2020**, expert.ai set up a **new company based in Switzerland** (Expert System Helvetia SÀRL) led by **Domingo Senise de Gracia**, a manager with over twenty years of experience in innovation and artificial intelligence, to strengthen its presence in a key area not only for the financial and insurance sector but also for the pharmaceutical industry and international organisations.

In addition, with the aim of strengthening global operations and increasing synergies between countries, Expert System appointed **Gabriele Donino** as **Group Chief Operating Officer (COO)**. Thanks to his deep experience gained in technology and delivery processes for the insurance market using also artificial intelligence, Gabriele Donino is instrumental in enhancing the scalability of all operations and delivery activities.

On **08/05/2020** the Company, having successfully raised €25 million following recent capital increase transactions, announced the appointment of **Colin Matthews** as **Chief Revenue Officer (CRO)** and **Keith C. Lincoln** as **Chief Marketing Officer (CMO)**.

EQUITY INVESTMENT UPDATES

In March the subsidiary **Expert System Helvetia SÀRL**, with headquarters in Geneva, was established, 100% controlled by Expert System S.p.A. With the newco, the Group intends to consolidate its position in the artificial intelligence sector, establishing a direct presence in one of the world's leading financial and insurance markets, also a centre of interest for Pharma and major international organisations.

On **June 19, 2020**, Expert System announced the **total sale of its minority shareholding, equal to approximately 17% of the share capital of CY4Gate S.p.A.** - a company set up in 2014 together with Elettronica S.p.A., active in all the fields of the cyber market - following the IPO of CY4Gate on AIM Italia, and in the light of the setting at € 3.15 of the price of CY4Gate S.p.A. ordinary shares, Expert System's equity investment, equal to 1,706,469 shares, was sold at € 5,375,377.35 with a significant capital gain.

2020-2023 STOCK GRANT AND STOCK OPTION PLANS

On **06/29/2020**, the Shareholders' Meeting approved the "**2020-2023 Stock Grant Plan**" and the related free capital increase, **intended for the employees** of Expert System S.p.A. and its subsidiaries, which provides for the assignment of a maximum of 3,200,000 rights to receive, at a 1:1 ratio, as many ordinary shares of the Issuer, subject to the achievement of certain performance and/or personal targets in each of the four financial years ending on 31 December 2020, 2021, 2022 and 2023, respectively.

On **06/29/2020**, the "**2020-2023 Stock Option Plan**" and the related paid capital increase was also approved, **intended for members of the Board of Directors, collaborators and consultants and employees** of Expert System S.p.A. and its subsidiaries, the purpose of which is the free assignment of 1,800,000 pre-emption rights conditional on the subscription, at a previously established price, of Expert System ordinary shares (at a 1:1 ratio). The vesting of such pre-emption rights is subject to the achievement of certain performance and/or personal targets established from time to time for each beneficiary.

SHARE CAPITAL CHANGES

On **05/04/2020**, the BoD of Expert System, executing the power granted by the Extraordinary Shareholders' Meeting on 18/04/2019, approved a **divisible share capital increase, excluding pre-emption rights, for a total maximum amount of Euro 2,999,999.70, by issuing a maximum of 1,111,111 ordinary shares with no par value**, to be offered for subscription exclusively to two institutional investors:

1. Indaco Venture Partners SGR (for an amount of Euro 1,999,998.00 with the issue of 740,740 shares);
2. Invesco (for an amount of Euro 1,000,001.70 with the issue of 370,371 shares). The newly issued shares were offered at a subscription price of Euro 2.70 per share, of which Euro 0.01 to be allocated to the share capital increase and Euro 2.69 to the share premium reserve.

On **06/29/2020**, a divisible capital increase and/or the issue of convertible bonds for a maximum amount of Euro 25,000,000, including share premium, were resolved by the Extraordinary Shareholders' Meeting, with delegation to the Board of Directors, by issuing new ordinary shares with no par value, excluding pre-emption rights, within five years of the corresponding resolution.

On **07/08/2020**, the BoD decided to partially exercise the power granted by the Shareholders' Meeting of 29/06/2020 and to resolve a share capital increase for a total maximum amount of Euro 7,931,668.50, by **issuing a maximum of 2,937,655 ordinary shares**. The subscription price was set at Euro 2.70 per share and the option ratio at 1 new ordinary share for every 14 shares held.

On **07/28/2020**, the Company **successfully concluded the capital increase option offer** which was 100% subscribed, for an amount of Euro 7.9 million.

On **07/29/2020**, the BoD decided to fully exercise the power granted by the Extraordinary Shareholders' Meeting on 29/06/2020, increasing the share capital for a total maximum amount of Euro 17,068,330.80, by **issuing a maximum of 6,321,604 ordinary shares**. The newly issued shares were offered for subscription as part of an institutional placement carried out through an Accelerated Book Building procedure and issued with no pre-emption rights, reserved exclusively to "qualified investors" in Italy and "institutional investors" abroad. The shares were offered at a minimum subscription price of Euro 2.70 per share, corresponding to the subscription price of the shares offered as part of the capital increase to the parties entitled thereto, launched by the Company on 13/07/2020 and successfully completed on 28/07/2020.

On **07/30/2020**, the Company announced that **the subscription of the share capital increase** approved by the BoD on 29/07/2020 had been **successfully concluded**. The capital increase was for a total of 6,321,604 new ordinary shares, corresponding to approximately 12.5% of the new share capital, for a total value of Euro 17,068,330.80.

EXPANSION OF OFFERINGS AND CLOUD LAUNCH

On **07/27/2020**, expert.ai NL API was launched - the first step in the Group's cloud strategy to simplify the development of new apps and easily manage or integrate new features based on Natural Language (NL) capabilities. The release of the API, in line with phase 1 of the 2020-2024 "Path to Lead" Strategic Plan, is the first step to become the reference artificial intelligence platform to solve problems related to natural language.

On **10/28/2020**, expert.ai presented an enhanced version of expert.ai NL API at the world's largest event dedicated to APIs and innovation in artificial intelligence development (API World & AI Dev World).

The new features of expert.ai NL API include:

- the extraction of relations highlighting the link between verbs and predicative expressions, attributes and subordinate clauses,
- sentiment analysis considering the positive or negative meaning of concepts expressed in texts, calculated on the basis of the words used (polarity) and their relevance (intensity),
- a new geographical taxonomy to correctly identify and distinguish countries, localities, etc.

On **11/17/2020**, expert.ai presented two **new products** at the world's leading knowledge management and text analytics event (KMWorld & Text Analytics Forum Connect 2020): **expert.ai Studio and expert.ai Edge NL API**.

REBRANDING

On **10/05/2020**, the Company announced that it had completed the project centred on **expert.ai**, a **rebranding** to highlight the Company's vision, which is focused on extracting value from language to make the most of information.

CUSTOMERS AND PARTNERSHIPS

During the **first quarter of 2020**, expert.ai joined the fight against **COVID-19**. Together with the CBRNe - OSDIFE Security and Defence Observatory, the Department of Electronic Engineering of the "Tor Vergata" University of Rome and the University Security Training Centre of the State University of the Republic of San Marino, it developed a technological platform to improve risk analysis activities related to the spread of biological (such as "coronavirus"), chemical and radiological agents, as well as explosive substances, in order to foster shared access to new knowledge and stimulate the best strategies for safeguarding people, the environment and infrastructures.

It also provided **biomedical researchers** worldwide with **free access to its Clinical Research Navigator (CRN) artificial intelligence application** to search, filter and cross-check critical information from leading clinical trial databases, scientific publications as well as data streams from open sources and social media (structured real-time dataset of over 100 million documents and reference information on 12 million clinical researchers). In **April**, it launched a partnership with **The New England**

Journal of Medicine (NEJM), one of the world's most prestigious medical journals, and on **4 June 2020** it announced that the **French National Institute of Health and Medical Research - Inserm** had decided to implement and make the CRN platform available for a period of six months to a select group of researchers in its network.

During the **second quarter of 2020**, expert.ai entered into important new partnerships, strengthening its network of both local and global **strategic partners**:

- **Lutech**, a group specialising in the development of end-to-end solutions for digital evolution;
- **SDL**, an LSE-listed company and a leader in content creation, translation and distribution;
- **Bizmatica**, a company at the forefront of national and international innovation with a strong specialisation in Customer Management and Operational Efficiency.

On **06/16/2020**, expert.ai and **UTWIN, a French broker specialising in loan insurance**, announced they had set up a partnership to improve UTWIN's underwriting activities. With expert.ai's artificial intelligence platform, UTWIN aims to significantly improve the experience of its customers by increasing the quality of its services.

On **06/26/2020**, the **Dutch Banking Group ING** implemented expert.ai's artificial intelligence technology to enhance business automation processes and improve back office performance. The ability to understand the content of business documents, ensured by expert.ai, is a key factor in maximizing the ROI of Robotic Process Automation (RPA) investments, extending the benefits of automation to processes that require the ability to accurately understand, classify, correlate, and extract "knowledge" from captured data.

On **12/16/2020** **AEGIS, a leading insurance services company for the energy market with offices in the US, Canada and the UK**, chose expert.ai's artificial intelligence platform to enhance its risk assessment capabilities with natural language understanding (automatically analysing and extracting all relevant information from risk reports that need to be reviewed in order to proceed with the underwriting of property policies).

ASSOCIATIONS, AWARDS AND PRIZES

On **03/09/2020**, the American magazine KMWorld confirmed the company in the list of the 100 most important companies in the field of knowledge management (**KMWorld 100 Companies That Matter in KM**).

On **03/26/2020**, expert.ai participated as a member in the establishment of the **Italian Insurtech Association (IIA)**, the non-profit association that brings together insurance companies and brokers, banks and financial intermediaries, technology and service providers to promote the development of the digital insurance market.

On **06/18/2020**, the independent research and analysis company **Forrester**, one of the most authoritative in the world of technology, confirmed the Company's presence as a **Strong Performer** in two reports dedicated to artificial intelligence technologies for text analysis: "The Forrester Wave™: AI-Based Text Analytics Platforms, Q2 2020", People-Focused and Document-Focused. Special attention was given to the **knowledge graph** which, according to Forrester: "is particularly interesting, available in 12 languages, supporting full Natural Language Processing functionality, including disambiguation."

On **08/26/2020**, it was announced that expert.ai had been chosen as the **Best Overall Natural Language Processing Company** at the 2020 edition of one of the most prestigious international awards dedicated to artificial intelligence (**Artificial Intelligence Breakthrough Awards 2020**). The main objective of the award, which attracted more than 2,750 entries from 15 countries, is to recognise excellence and innovation and efficiency in the world of artificial intelligence, machine learning, deep learning and natural language processing.

On **11/04/2020**, expert.ai won the international **Fintech & Regtech** award of **Central Banking** with **Borsa Italiana**. The Company stands out as "Machine Learning and Artificial Intelligence Partner of the Year" for the innovative scope of the platform developed for Borsa Italiana, aimed at identifying potential risks and improving information processing and decision-making processes.

On **11/17/2020**, expert.ai won the **KM World Promise Award 2020** with **Rabobank**, a Dutch banking group specialising in financial services. Awarded by the American magazine KMWorld, this is one of the most prestigious awards in the field of Knowledge Management, dedicated to the most innovative and customer-oriented technology providers.

2020-2024 “PATH TO LEAD” STRATEGIC PLAN

On **9 June 2020**, the Board of Directors of Expert System approved its **2020-2024 Path to Lead Strategic Plan** aimed at significantly accelerating the Group’s global growth in the rapidly expanding market of artificial intelligence, aiming to achieve revenues of Euro 100 million (32% CAGR) in 2024 with EBITDA of Euro 22 million.

In particular, the Company aims to significantly increase the **SaaS/Recurring component** of total revenues, reaching a 79% share (63% CAGR) in 2024. The SaaS/Recurring component from the United States for 2024 is expected to be 52% of total revenues (116% CAGR). As a result, Professional Services revenues will fall steadily to around 13% in 2024 from the current 36%.

The Strategic Plan, whose implementation began as early as the second half of 2020, provides for investments in core technology so that it becomes the most intuitive, robust and complete artificial intelligence platform for language understanding on the market. Expert.ai’s main focus will be on optimising its platform and all proprietary software development features, with the aim of making the adoption of artificial intelligence easier and more pervasive. Leveraging a **“simple to design, build and operate” approach**, i.e. an approach aimed at making the implementation of artificial intelligence easy to design, develop and manage, expert.ai intends to become the global reference platform in the artificial intelligence market for Natural Language Understanding & Processing.

The Strategic Plan envisages a particular focus on the **US market**, which is believed to be the one with the highest potential, with wide development margins, and an ecosystem that is fertile for innovation and favourable to the rapid scalability of business. The Company is making strong investments in the **Go-to-Market strategy** through the recruitment of high-level professionals, particularly in the sales & marketing area.


Lastly, the indirect partner channel is also a key part of expert.ai’s Go-to-Market strategy to expand the company’s reach and support customers in their extensive digital transformation processes.

Expert.ai’s strategic plan is developed in **three phases**:


- **the first phase, covering 2020-2021**, will focus on the set-up of the Go-to-Market strategy and the new platform underpinning the plan. The implementation of this phase is heavily affected by the high degree of uncertainty caused by the crisis linked to COVID-19 all over the world, whose impacts are currently difficult to predict;
- **the second phase, which will develop over the 2022-2023 two-year period**, will be characterised by high growth rates as a result of the investments made in both sales & marketing (in terms of human resources and projects) and technology;
- **in the third phase, starting in 2024**, we will begin to reap the significant benefits of the Plan with a strong increase in revenues and above all margins, generating positive cash flows.

The Company is planning major investments in R&D, amounting to approximately Euro 50 million, and a strong focus on sales & marketing activities, with investments amounting to approximately Euro 117 million.


	2020	2021	2022	2023	2024
	Setting the Stage	Ramping Growth		Rule of 40 & Platform Leadership	
Total revenues	30.6	34	48	68	100
YoY Growth		12.9%	38.4%	43.6%	45.8%
EBITDA		(5)	(0.4)	9	22



Accelerating investment



Platform Release,
US Focus, Bottoms
up Development



"Rule of 40"
free cash flow
generation

GENERAL ECONOMIC PERFORMANCE¹

(Art. 40, paragraph 1 of Italian Legislative Decree no. 127/91)

After a better than expected recovery in the summer of 2020, global economic activity slowed in the fourth quarter, influenced by the new wave of the pandemic, especially in the advanced countries.

In the third quarter, there was a robust recovery in economic activity, although the service sector remained weak. In the United States, Japan and the United Kingdom, GDP was still below pre-pandemic levels, whereas it rose above the levels prior to the public health emergency in China, where growth strengthened.

However, the resurgence of the pandemic between October and December, particularly intense in the European Union and the United States, and the subsequent stepping up of containment measures in many countries, led to a new slowdown in the world economy.

The longer-term outlook has instead improved, thanks to the launch of vaccination campaigns in many countries; however, the distribution and large-scale vaccine administration times, on which the effects on the economic cycle will depend, remain uncertain.

In December, the purchasing managers' index for manufacturing remained above the threshold compatible with expansion in the United States, the euro area and the United Kingdom.

In the service sector, the hardest hit by the measures to contain the pandemic, the outlook remains negative overall, especially in the tourism and recreation services sectors.

Only in China, where infections have practically fallen to zero since last spring, do the indices signal an expansion in all sectors.

These trends are reflected in world trade, the contraction of which is expected to be around 9 per cent for 2020 as a whole.

Consumer price inflation in the leading advanced economies remains below pre-pandemic levels, although the long-term market-based inflation expectations rose following the positive news on the effectiveness of the vaccines, which has led to more favourable assessments of medium-term growth.

According to the OECD forecasts released in December, world GDP is expected to expand by 4.2 per cent in 2021, surpassing pre-pandemic levels by the end of the year.

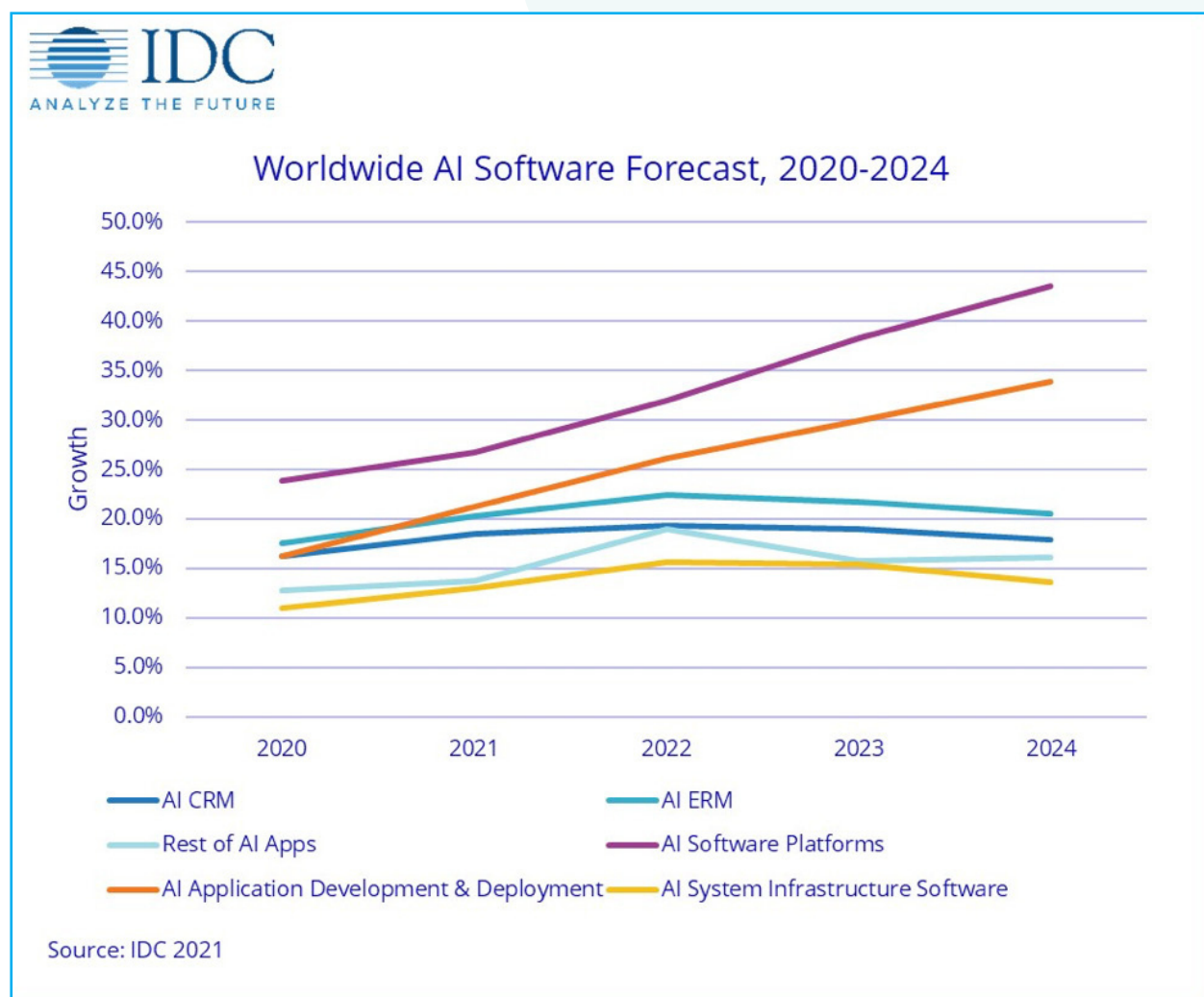
The forecasts factor in the continuance of the support provided by expansionary economic policies at international level and large-scale vaccination by the end of 2021; in addition, they already included the signing of an agreement on the bilateral relations between the United Kingdom and the European Union.

In this context, China is expected to contribute more than one third to the global expansion in 2021.

¹Source: Bank of Italy Economic Bulletin 1/2021

REFERENCE MARKET

According to the latest estimates by IDC¹, worldwide revenues for the artificial intelligence market (software, hardware, and services) are forecast to grow 16.4% year over year in 2021 to \$327.5 billion. By 2024, the market is expected to break the \$500 billion mark with a five-year compound annual growth rate (CAGR) of 17.5% and total revenues reaching \$554.3 billion. The fastest growing sector, with the highest expected growth rate, is artificial intelligence software platforms (five-year CAGR of 32.7%).



¹IDC - Forecasts Improved Growth for Global AI Market in 2021

DATA ANALYSIS AND NATURAL LANGUAGE

According to Gartner's latest estimates of key market trends in data analytics², artificial intelligence has a key role in accelerating time-to-value and fostering scalability and competitive agility models, turning increasing attention towards natural language to evolve the ability to access and analyse all business data with accuracy, speed and scalability. In fact, systems based on statistical or machine learning approaches present major criticalities when it comes to analysing data expressed in natural language, i.e. around 80-90% of business information, thus the most valuable asset for any organisation. Against this backdrop, 2020 marked only the beginning of what has been described as the 'Copernican revolution' in natural language that is set to radically change the way organisations handle data³, putting a semantic approach at the centre and leaving ancillary roles to machine learning. In fact, according to Gartner⁴, the time has come for organisations to shift from the tactical use of natural language to a strategic one, using an artificial intelligence approach centered on the use of a platform capable of understanding the meaning of data (semantics), with the possibility of enriching knowledge and ontologies with machine learning techniques.

The debate is open on the centrality of an artificial intelligence approach based on semantics, natural language to overcome the criticalities of machine learning. During the workshops organised in the course of one of the main events dedicated to natural language (SustainNLP2020, sponsored by Google), very critical studies were published on the possibility of improving the performance of artificial intelligence systems based on machine learning, also underlining how the experiments being carried out in the community of natural language processing experts have led to a worrisome increase in machine learning model complexity, not to mention the amount of computational resources needed for training⁵. The same considerations emerge from the studies carried out in the course of Neurips2020 (Neural Information Processing Systems, sponsored by Amazon Web Services), with the addition of the complexities created by the lack of explainability and verifiability of the results obtained with machine learning, as opposed to what happens with the symbolic approach, which aims to simulate the human approach to understanding language, whose strength lies in the possibility of understanding the logic behind the behaviour of algorithms and therefore the reasons why certain results are obtained⁶.

Gary Marcus (an American scientist known in the world of artificial intelligence for having founded Geometric Intelligence, a startup specialising in machine learning, acquired by Uber in 2016), underlines that a knowledge-driven approach centered around cognitive models could provide the substrate for a richer and more robust artificial intelligence⁷ than the state of the art achieved with machine learning. Judea Pearl, an academic and data scientist specialising in cognitive systems, best known for winning the Turing Prize in 2011 as well as for his work on Bayesian networks

² Gartner - Top 10 Data and Analytics Trends for 2021

³ Anthony Mullen (Gartner) - Natural Language Technologies (NLT)- where we got to in 2020 and where we are going next

⁴ Gartner - 2021 Strategic Roadmap for Enterprise AI: Natural Language Architecture

⁵ SustainNLP 2020 - First Workshop on Simple and Efficient Natural Language Processing

⁶ KR2ML - Knowledge Representation and Reasoning Meets Machine Learning

⁷ Cornell University, Computer Science > Artificial Intelligence - The Next Decade in AI: Four Steps Towards Robust Artificial Intelligence

- algorithms that perform inference and learning - emphasises that artificial intelligence systems based solely on amassing and blindly processing large volumes of data, i.e. processing them without having the slightest idea of the concepts expressed within them, are doomed to fail. On the contrary, artificial intelligence systems need world knowledge and common sense to make the most efficient use of information⁸. The same opinion is shared by Yejin Choi, professor of Computer Science at the University of Washington, who believes that common sense, precisely, is one of the fundamental missing pieces of the most common artificial intelligence systems⁹.

“
Gartner

2021 Strategic Roadmap for Enterprise AI: Natural Language Architecture

Enterprises must shift from **tactical to strategic use of Natural language...using composite AI.**

”

“
Gary Marcus

The Next Decade in AI

...knowledge-driven, reasoning-based approach...provide the substrate for a richer, more robust AI than is currently possible.

”

“
Simple & Efficient NLP

Sponsored by GOOG

...recent research efforts have...failed to identify sources of empirical gains in models, often failing to...justify the model complexity beyond benchmark performance.

”

“
Neurips 2020

Sponsored by AMZN

ML comes with several drawbacks, **such as the need for large amounts of training data and the lack of explainability.**

”

“
Judea Pearl

Turan Award winner

AI systems based only on amassing and blindly processing large volumes of data are **doomed to fail.**

”

“
Yejin Choi

University of Washington

...we cannot just get there by making the tallest building in the world taller. Therefore, GPT-4, -5, or -6 may not cut it.

”

⁸ VB, The Machine - Leading computer scientists debate the next steps for AI in 2021

⁹ VB, The Machine - Leading computer scientists debate the next steps for AI in 2021

OPERATING PERFORMANCE OF THE GROUP

(Art. 40, paragraph 1 of Italian Legislative Decree no. 127/91)



CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial report as at 31 December 2020 includes the consolidated figures of the subsidiaries included in the scope of consolidation, as well as those of the parent company Expert System S.p.A..

In order to provide a better picture of the performance and results of operations, the tables below show an Added Value reclassification of the Income Statement, a reclassification of the Balance Sheet by functional area and on a financial basis and the most significant financial statement ratios.

MAIN ECONOMIC DATA

(Art. 40, paragraph 1-bis of Italian Legislative Decree no. 127/91)

The consolidated financial statements as at 31 December 2020, which include the consolidated figures of the subsidiaries included in the scope of consolidation, as well as those of the parent company Expert System S.p.A., show what follows (figures in Euro):

CONSOLIDATED DATA OF EXPERT.AI GROUP			Main economic data	EXPERT SYSTEM S.P.A.		
FY 2019	FY 2020	CHANGE		FY 2019	FY 2020	CHANGE
39,732,416	37,446,937	(6%)	Value of production	26,222,192	26,899,352	3%
5,458,855	(1,918,980)	> (100%)	Gross operating margin (EBITDA)	5,541,714	3,189,325	(42%)
(2,878,127)	(9,511,475)	> 100%	Operating result (EBIT)	760,017	(1,345,320)	> (100%)
(983,007)	(5,424,443)	> 100%	Net result	2,614,341	2,379,655	(9%)

The reclassified income statement of the expert.ai Group is as follows (in Euro).

Consolidated Income Statement	12/31/2020	12/31/2019	Change
Revenues from sales	28,097,996	31,654,069	(3,556,073)
Change in inventories	(47,908)	(50,704)	2,796
Increase in fixed assets for internal work	6,878,007	6,070,875	807,132
Other income	2,518,842	2,058,176	460,666
Value of operating production	37,446,937	39,732,416	(2,285,479)
External operating costs	(15,704,364)	(15,481,283)	(223,081)
Added value	21,742,573	24,251,133	(2,508,560)
Personnel costs	(23,661,553)	(18,792,278)	(4,869,275)
Gross Operating Margin	(1,918,980)	5,458,855	(7,377,835)
Depreciation and provisions	(7,592,495)	(8,336,982)	744,487
Operating Result	(9,511,475)	(2,878,127)	(6,633,348)
Result of the financial area	3,138,841	2,098,161	1,040,680
Ordinary Result	(6,372,634)	(779,966)	(5,592,668)
Result of the extraordinary area	-	-	-
Result before taxes	(6,372,634)	(779,966)	(5,592,668)
Income taxes	948,191	(203,041)	1,151,232
Net result	(5,424,443)	(983,007)	(4,441,436)

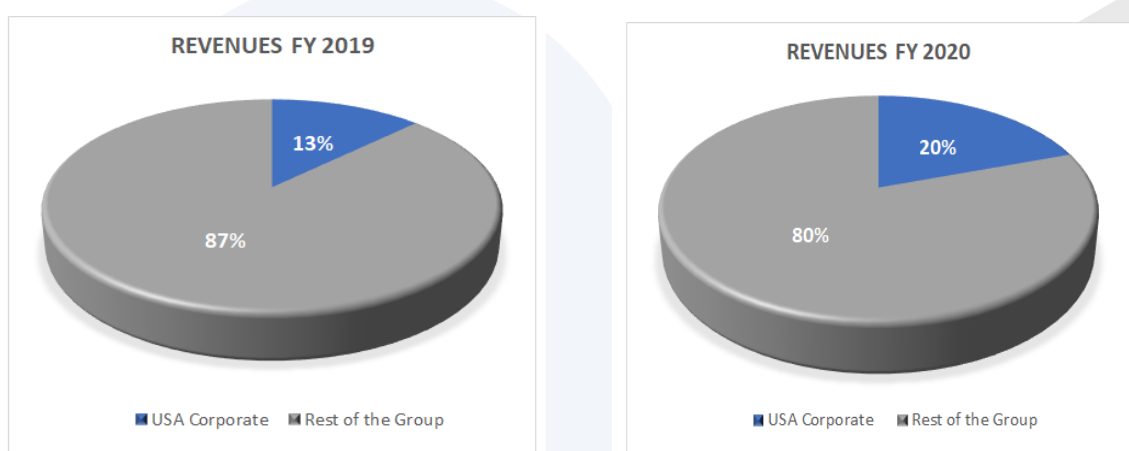
The value of production recorded a 6% decrease compared to 2019, due to the reduction in revenue, which amounted to Euro 28,097,996 at 31 December 2020, recording an 11% decrease compared to the value at 31 December 2019 (Euro 31,654,069); the COVID-19 pandemic slowed down customers' investments, mainly in the Defence & Intelligence sector, in which some activities that required physical presence were blocked or severely slowed down.

While there was a reduction in perpetual licences and associated maintenance, there was an 8% increase in recurring licences compared to 2019, whose incidence on total licences rose from 76% in 2019 to 89% in 2020, confirming the pursuit of one of the Group's main strategic lines.

The overall recurring component of revenues (temporary licences and maintenance) ensures greater stability of revenues and cash flows over time and now accounts for more than half of total revenues.

The results achieved on the American market were good and also in line with the strategic objectives, recording a significant increase in revenues from the corporate sector in the USA (+39%) with the acquisition of important new customers such as AEGIS Insurance Services Inc., Patra Corp, The Associated Press.

The following graphs show the increase in the incidence of US corporate revenues on total revenues, compared to the previous year:



Compared to the objectives of the 2020-2024 "Path to Lead" Strategic Plan, which forecast revenues of Euro 33.3 million (which include other income from research and development projects) as at 31 December 2020, the variance with respect to Euro 30.6 million (which include other income for Euro 2.5 million) is mainly attributable to the perpetual licences component, with particular reference to the Italian and international government sector where sales activities were significantly affected by the COVID-19 emergency, and to the reduction in professional services and maintenance components.

With regard to the other items included in Value of Production, the increase in fixed assets for internal work, represented by investments in research and development, amounted to Euro 6,878,007 as at 31 December 2020, up compared to 31 December 2019 (Euro 6,070,875), giving evidence of Expert.ai's strong focus on the development of its technology.

EBITDA is negative by Euro 1,918,980. The decrease is attributable to the combined effect of:

- The drop in revenues, mainly due to the crisis caused by the **COVID-19** pandemic;
- The increase in personnel costs incurred to implement the 2020-2024 "Path to Lead" Strategic Plan and associated recruitment and training costs;
- One-off costs related to the sale of the stake in CY4Gate (about Euro 380,000).

Compared to the EBITDA value of the 2020-2024 Strategic Plan, equal to Euro 2 million, the deviation is closely linked to the trend in sales, as well as influenced by higher investments in sales & marketing, especially in the American market.

EBIT is negative by Euro 9,511,475, against amortisation of intangible assets for Euro 7,302,271, mainly relating to capitalised development costs, the amortisation of which amounts to Euro 5,761,002.

Financial management shows a positive result of Euro 3,138,841 (positive by Euro 2,098,161 as at 31 December 2019), essentially due to the significant capital gain on the sale of the stake in CY4Gate S.p.A. (equal to Euro 5,149,911).

Net result is Euro 5,424,443 loss (Euro 983,007 as at 31 December 2019).

The company's income situation is further specified by the profitability ratios set out in the table below:

Profitability ratios	12/31/2020	12/31/2019
Net ROE	(0.11)	(0.04)
Gross ROE	(0.13)	(0.04)
ROI	(0.40)	(0.12)
ROS	(0.34)	(0.09)

MAIN BALANCE SHEET DATA

(Art. 40, paragraph 1-bis of Italian Legislative Decree no. 127/91)

The expert.ai Group's reclassified balance sheet compared to 12/31/2019 is as follows (in Euro):

Consolidated Balance Sheet	12/31/2020	12/31/2019	Change
Net intangible fixed assets	13,635,124	13,091,778	543,346
Net tangible fixed assets	719,210	701,666	17,544
Equity investments and other financial fixed assets	3,772,138	4,489,459	(717,321)
Fixed capital	18,126,472	18,282,903	(156,431)
Short-term financial assets	-	-	-
Inventories	10,700	58,608	(47,908)
Receivables from customers	20,860,698	20,446,973	413,725
Other receivables	4,767,709	5,305,441	(537,732)
Accrued income and prepaid expenses	459,212	433,468	25,744
Short-term operating assets	26,098,319	26,244,489	(146,170)
Payables to suppliers	(4,117,024)	(4,247,286)	130,262
Advances	(297,054)	(311,099)	14,045
Tax and social security payables	(1,732,085)	(1,617,620)	(114,465)
Other debts	(3,026,981)	(2,229,701)	(797,280)
Accrued expenses and deferred income	(4,374,410)	(4,210,877)	(163,533)

Short-term operating liabilities	(13,547,554)	(12,616,584)	(930,970)
Net working capital	12,550,765	13,627,906	(1,077,141)
Severance pay	(2,707,929)	(2,312,384)	(395,545)
Tax and social security payables due after 12 months	-	(21,902)	21,902
Accrued expenses and deferred income due after 12 months	(2,731,987)	(4,307,010)	1,575,023
Other medium and long-term liabilities	(1,518,853)	(1,563,316)	44,463
Medium-term liabilities	(6,958,769)	(8,204,612)	1,245,843
CAPITAL EMPLOYED	23,718,468	23,706,197	12,271
Shareholders' Equity	(44,569,792)	(20,900,905)	(23,668,887)
Net financial position in the medium and long term	(27,674,799)	(18,588,011)	(9,086,788)
Short-term net financial position	48,526,123	15,782,719	32,743,404
EQUITY AND NET FINANCIAL DEBT	(23,718,468)	(23,706,197)	(12,271)

Fixed assets amounting to Euro 18,126,472 (Euro 18,282,903 as at 31 December 2019) decreased by Euro 156,431. This reduction is due to the combined effect of:

- changes in financial fixed assets related to the sale of the shareholding in CY4Gate for Euro 251,266 and the collection of financial receivables from it;
- changes in net financial assets resulting from the increase in the capitalisation of research and development costs and start-up and expansion costs related to the capital increase transactions that took place in 2020.

During the year, exposure to banks and other lenders increased due to new disbursements received during the year for a total of Euro 10.5 million. The parent company Expert System Spa also benefited from the measures provided for by Article 56 of Cura Italia Decree-Law (Decree-Law No. 18 of 17 March 2020, amended by Article 65 of Decree-Law No. 104 of 14 August 2020) with the suspension, from April 2020 to January 2021, of the repayment of principal of bank loan instalments. Looking at current operations, there was a reduction of Euro 146,170 mainly due to the combined effect of the increase in trade receivables for Euro 413,725 and the decrease in other receivables for Euro 537,732 (in particular, there was a reduction in receivables for contributions to funded projects).

Short-term liabilities for the year are characterised by an increase of Euro 930,970 mainly due to the increase in other payables for Euro 797,280 referred to the increase in payables for deferred charges with regard to employees.

Therefore, net working capital is Euro 1,077,141 lower than the previous year. In any case, the largely positive value of net working capital makes it possible to report substantially balanced operations, in which short-term assets are compared with short-term liabilities.

Medium- and long-term liabilities decreased by Euro 1,245,843 due to the reduction in accrued expenses and deferred income due after 12 months for Euro 1,575,023, in particular deferred income on contributions received for funded projects and the increase in employee severance pay for Euro 395,545.

To better describe the equity balance of the company, the table below shows some financial statement ratios relating to both (i) the methods of financing medium/ long-term investments and (ii) the composition of the sources of funding, compared with the same ratios for the consolidated financial statements as at 12/31/2019.

Fixed asset financing ratios	12/31/2020	12/31/2019
Fixed asset to equity capital margin	26,443,320	2,618,002
Fixed asset to equity capital ratio	2.46	1.14
Fixed asset to equity capital and medium-long term debt margin	58,344,903	25,081,713
Fixed asset to equity capital and medium-long term debt ratio	4.22	2.37

Financing structure ratios	12/31/2020	12/31/2019
Liabilities within 12 months (A)	14,641,741	14,299,026
Liabilities after 12 months (B)	31,901,581	22,485,612
Equity (C)	44,569,792	20,900,905
Total debt ratio (A+B)/C	1.04	1.76

The fixed asset to equity capital margin and related fixed assets coverage ratio are indicators that show how the company funds its fixed assets.

The fixed asset to equity capital margin and its ratio, which correlate the value of shareholders' equity with fixed assets (as quantified in the table above), show a clear improvement on the previous year.

	12/31/2020	12/31/2019
Shareholders' Equity (A)	44,569,792	20,900,905
Net intangible fixed assets	13,635,124	13,091,778
Net tangible fixed assets	719,210	701,666
Equity investments and other financial fixed assets	3,772,138	4,489,459
Fixed capital (B)	18,126,472	18,282,903
Fixed asset to equity capital margin (A- B)	26,443,320	2,618,002
Fixed asset to equity capital ratio (A/ B)	2.46	1.14

The positive result of the fixed asset to equity capital margin, with the related ratio higher than the unit, means that the company is able to cover its entire financial needs for investments in fixed assets through equity, without having to resort to outside funding.

The fixed asset to equity capital and medium-long term debt margin and its ratio refer, instead, also to medium-long term liabilities.

	12/31/2020	12/31/2019
Shareholders' Equity (A)	44,569,792	20,900,905
Net financial position in the medium and long term (B)	27,674,799	18,588,011
Other medium and long-term liabilities (C)	1,518,853	1,563,316
Severance pay (D)	2,707,929	2,312,384
Fixed capital (E)	18,126,472	18,282,903
Fixed asset to equity capital and medium-long term debt margin (A + B + C + D - E)	58,344,903	25,081,713
Fixed asset to equity capital and medium-long term debt ratio (A + B + C + D)/E	4.22	2.37

The positive result of the fixed asset to equity capital and medium-long term debt margin, also clearly improving compared to the previous year's figure, with the related ratio above unity, highlights that long-lasting financing sources cover not only long-term investments, but also part of the working capital.

MAIN FINANCIAL DATA

(Art. 40, paragraph 1-bis of Italian Legislative Decree no. 127/91)

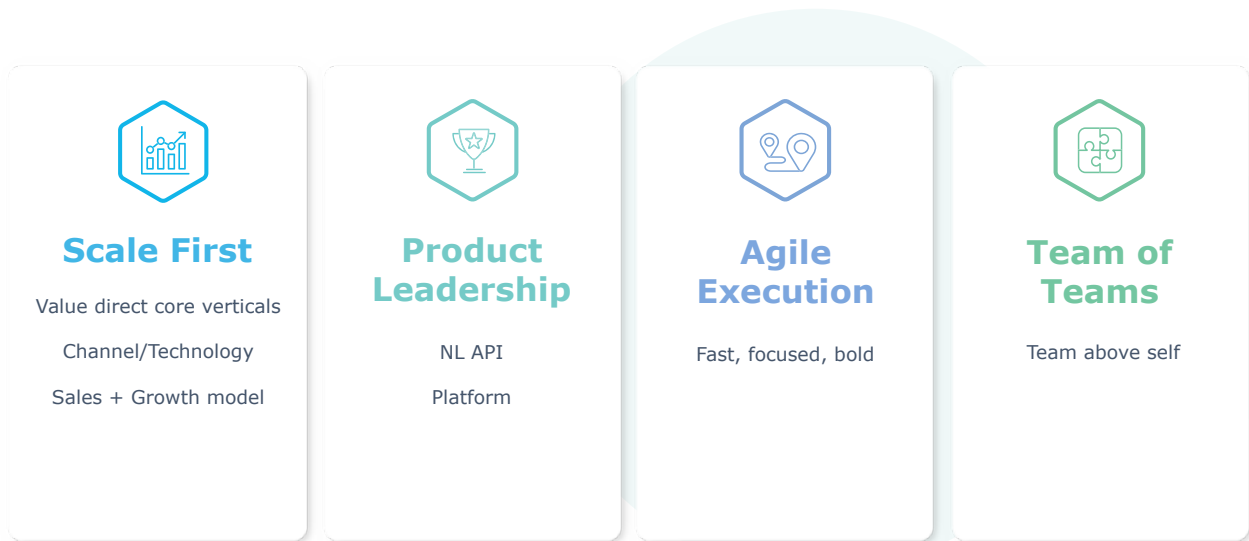
The Net Financial Position as at 12/31/2020 is as follows (in Euro):

Consolidated Net Financial Position	12/31/2020	12/31/2019	Change
Bank deposits	53,976,219	21,644,993	32,331,226
Cash on hand	2,176	2,449	(273)
Cheques	-	-	-
Treasury Shares	-	-	-
Cash and cash equivalents and treasury shares	53,978,395	21,647,442	32,330,953
Financial assets not constituting fixed assets	16,325	28,596	(12,271)
Bonds and convertible bonds (within 12 months)	(1,159,100)	(909,100)	(250,000)
Payables to shareholders for loans (within 12 months)	-	-	-
Bank debt (within 12 months)	(2,911,318)	(4,831,142)	1,919,824
Payables to other lenders (within 12 months)	(1,398,179)	(153,077)	(1,245,102)
Advances for foreign payments	-	-	-
Short-term portion of financing	-	-	-
Financial receivables	-	-	-
Short-term financial debts	(5,468,597)	(5,893,319)	424,722
Short-term net financial position	48,526,123	15,782,719	32,743,404
Bonds and convertible bonds (after 12 months)	(7,931,800)	(9,090,900)	1,159,100
Payables to shareholders for loans (after 12 months)	-	-	-
Bank debt (after 12 months)	(18,118,294)	(8,439,239)	(9,679,055)
Payables to other lenders (after 12 months)	(1,624,705)	(1,057,872)	(566,833)
Advances for foreign payments	-	-	-
Long-term portion of financing	-	-	-
Financial receivables	-	-	-
Medium/long-term net financial position	(27,674,799)	(18,588,011)	(9,086,788)
NET FINANCIAL POSITION	20,851,324	(2,805,291)	23,656,615

The positive Net Financial Position - Euro 20,851,324 - is a significant improvement compared to the negative position of Euro 2,805,291 as at 31 December 2019, mainly due to the capital increases successfully completed during 2020 (for a total amount raised of Euro 28 million) and the sale of the shareholding in CY4Gate (Euro 5.3 million).

FORESEEABLE EVOLUTION OF MANAGEMENT

(Art. 40, paragraph 2, letter c, of Italian Legislative Decree no. 127/91)



The year's performance was inevitably influenced by the COVID-19 health crisis, with particular reference to the Italian and international government sector where sales were significantly impacted by the evolution of the pandemic. After the first unexpected wave in spring, the second wave hit hard in all the countries where the company operates (Italy, France, UK, US, Spain and Germany) and in the last quarter of the year when most sales are historically concentrated. Despite the persistent difficulties linked to the global pandemic, expert.ai strengthened its investments, also thanks to the significant financial resources collected, by accelerating its transformation path according to the guidelines defined in the Plan.

The current economic context is still highly uncertain. However, the ongoing vaccination campaigns offer hope for a way out of the pandemic crisis and the consequent resumption of economic growth. In the light of this, also thanks to the progress made in the first phase of the Plan, estimates and objectives are confirmed until 2024 as well as the alignment with the further phases of the undertaken path to accelerate growth, strengthen the offer and establishing the leadership to become the reference point in the artificial intelligence market for Natural Language Understanding and Processing.

TREASURY SHARES

(Art. 40, paragraph 2, letter d, of Italian Legislative Decree no. 127/91)

As at 31 December 2020, the Parent Company Expert System S.p.A. did not hold any treasury shares.

IV. ENVIRONMENT, PERSONNEL AND RISKS

(Art. 40, paragraph 1-bis of Italian Legislative Decree no. 127/91)

ENVIRONMENT

During the year, no damage was caused to the environment for which the Company was definitively found guilty. During the year, no definitive sanctions or penalties were imposed on the company for environmental offences or damages.

Expert System S.p.A. was ISO 9001:2008 certified on 06/30/2008.

The last periodic review of the ISO 9001:2015 certification, dated 06/27/2020, is valid until 06/28/2023.

PERSONNEL

Despite the difficulties related to the health and economic crisis caused by COVID-19, the expert.ai Group dealt with the emergency by ensuring the operational continuity of its personnel from the beginning of the pandemic through remote working management. The company also recruited more than 50 new resources during the year, designing specific online onboarding programmes.

During the year, there were no fatal work injuries involving personnel entered in the employee ledger, no serious occupational accidents resulting in serious or very serious injuries to personnel entered in the employee register and no charges for occupational illnesses involving employees or former employees and no mobbing cases.

The parent company Expert System Spa also made investments in personnel safety in compliance with Italian Legislative Decree 81/08, training all employees in the safety of workers and supervisors, and providing refresher courses for first aid and fire-fighting personnel.

In addition, in May 2020, the parent company Expert System Spa drew up and communicated the "Expert System Spa Protocol" implementing the measures set out in the Decree of the President of the Council of Ministers of 11 March 2020. The document, taking into account the various measures of the Government and, most recently, the Prime Minister's Decree of 10 April 2020, as well as the measures issued by the Ministry of Health, contains guidelines to help combat and contain the spread of the COVID-19 virus in the workplace. The aim of the Protocol is to provide operational guidance aimed at increasing the effectiveness of precautionary measures. The protocol therefore contains precautionary measures that follow and

implement the requirements of law and the indications of the health authorities. The Protocol is applied within the company to protect the health of people who, by personal choice, prefer to work in the office.

The parent company Expert System Spa has implemented innovative incentive policies and tools aimed at increasing personal and family wellbeing through the activation of the Welfare Plan. The Plan aims to support workers' purchasing power and provide access to goods and services that meet individual and/or family needs.

DESCRIPTION OF THE MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED

(Art. 40, paragraph 1 of Italian Legislative Decree no. 127/91)

Risks related to the time taken to collect trade receivables: Expert System's business is characterised by customer payment terms which cannot always be determined in advance and which can sometimes reach several months, also in relation to the type of work and the general economic situation. Any extensions of customer payment terms may require Expert System to finance its working capital needs. This is significant also in view of the relevance of trade receivables due from public customers. It may take longer to collect these receivables, with such time being more difficult to predict than in case of receivables from private customers.

Risks associated with internationalisation: Expert System is pursuing its internationalisation process in the hope that an increasingly significant part of its revenues will be generated by sales outside the domestic market, in Europe and on the American market, which is a strategic area to be monitored both on the public and private front. In this regard, Expert System might be exposed to risks that are typically associated with operating internationally, including those related to changes in local economic, political, fiscal and regulatory conditions, as well as risks related to the complexity of doing business in geographically remote areas, in addition to risks related to currency exchange rate fluctuations in the case of countries outside the Eurozone. Unfavourable developments in these areas might have negative effects on the Company's business and growth prospects as well as on its economic, equity and financial position. The table below shows the exchange rates used to convert the financial statements of subsidiaries:

CURRENCY	Exchange rate as at 12/31/2020	Average exchange rate in 2020
USD	1.2271	1.1422
CAN	1.5633	1.5300
GBP	0.8990	0.8897
CHF	1.0802	1.0705

Risks associated with related party transactions: Expert System has concluded, and may continue to conclude commercial and financial transactions with related parties as part of its business. The main transactions with related parties carried out by the company mainly concern commercial transactions such as the purchase and sale of licenses, maintenance fees, technical and/or commercial consulting services, administrative service contracts and lease agreements. Contracts of a financial nature, on the other hand, mainly concern loans granted by Expert System S.p.A. to Group companies. In particular, last March Expert System adopted an intercompany financing plan which provides for the parent company's grant of loans to its subsidiaries for a total amount such as to allow the latter to obtain the necessary financial resources to meet their respective spending and investment commitments. The intercompany financing plan offers subsidiaries a simplified way of obtaining financial resources on the market which, on the whole, facilitates the execution of the group's strategic plan. All transactions have been concluded on an arm's length basis.

Risks related to claiming intellectual property rights: In order to protect the company's value against competitors, the Company registered the trademarks "Expert System" and "COGITO" several years ago. Following the rebranding of the Company, the application for registration of the two new trademarks "expert.ai" and "Nlops" was filed in 2020: the procedure has already been completed in Europe and the trademarks are therefore registered at European level, while the US Office is finishing its checks, as the bureaucratic process in the United States requires different times. In addition, the core part of the COGITO software has been patented in the United States of America.

By distinguishing the company and its products, registered trademarks assume a central value for the strategy of focusing and differentiating offerings, for brand recognition and for the protection of the company's assets. Just as brands are key factors in the identification of value by customers and the market, so the website domain conveys the corporate identity on the Internet. In this respect, in 2020 the Company was able to purchase and secure a high quality and visible Internet domain - www.expert.ai - which perfectly mirrors the name of the new brand and whose extension emphasises its link with artificial intelligence.

Interest rate risk: the interest rate risk management policy pursues the objective of limiting this volatility primarily through the identification of a balanced mix of fixed-rate and floating-rate loans and also through the use of hedging derivatives that limit interest rate fluctuations, while derivatives or similar instruments are not used and held for mere trading purposes.

Administrative liability: Italian Legislative Decree no. 231 of 8 June 2001 has introduced into the Italian legal system the administrative liability of legal persons, companies and associations, including those without legal personality (entities). The decree establishes that no administrative liability can be ascribed to companies where they have effective and efficient organisational and management models that can prevent crimes by persons with top management positions in the Company.

Expert System S.p.A. has drawn up an Organisational and Management Model and a Code of Ethics also to reflect the Company's broader business policy, which is expressed in interventions and initiatives aimed at raising awareness, both among all its personnel (from management to employees) and all external collaborators and partners, as to the company's transparent and correct management, in compliance with current legal regulations as well as the fundamental principles of business ethics in the pursuit of the corporate purpose. Within this framework, Expert System S.p.A. intends to pursue, through the adoption of the Organisational and Management Model provided for by Italian Legislative Decree 231/2001, the objective of making its existing set of rules and controls suitable also to prevent the crimes indicated in the decree itself.

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

The adoption of the model refers exclusively to the parent company Expert System S.p.A. since the legal system considers the group as a whole only from an economic perspective. The group is not an entity and therefore cannot be considered a direct centre for the attribution of liability for a crime, and thus cannot be classified as one of the subjects indicated in Art. 1 of decree 231.

The Code of Ethics, on the other hand, is applicable to Group companies as it expresses the general principles of corporate and business ethics that the Group recognises as its own and which are to be complied with by all its employees, managers and directors. Therefore, the Code of Ethics has a different scope than the Organisational and Management Model, since the Model meets specific requirements contained in the Decree, whereas the ethical principles contained in the Code of Ethics are the basic rules of conduct for the legitimate pursuit of company activities.

The Organisational and Management Model has been developed around concrete situations that characterise the company's operations, i.e. all the company's actual activities and functions and therefore the real risks of crime that can be envisaged in relation to them.

For each function in which a potential risk has been identified as existing, one or more decisional and management protocols have been defined containing the rules to be followed in carrying out the activity. The protocols are inspired by the rule of making the various stages of the decision-making process documented and verifiable, so that the motivation that guided the decision can be traced.

In particular, suitable procedures have been defined to prevent the following offences: offences against the P.A. and its assets; cyber crimes and unlawful data processing; organised crimes; forgery and crimes against industry and commerce; corporate crimes; crimes for the purpose of terrorism or subversion of the democratic order; crimes against the individual; market abuse; offences committed in violation of the rules on the protection of occupational health and safety; money laundering and receiving stolen goods; copyright infringement offences; the crime of making false statements to the judicial authorities; environmental crimes; employment of personnel without a legal residence permit.

The exemption from administrative liability as governed by Art. 6, paragraph 1, of Italian Legislative Decree 231/2001 requires, as an element of fundamental importance, the establishment of a Supervisory Body within the company, with autonomous powers of action and control, which has the task of supervising the operation of and compliance with the Model and verifying that the Board of Directors updates the Model itself.

The Supervisory Body of Expert System S.p.A. is made up of three members, one internal and two external members. All its members are individuals with proven skills and professionalism. The presence of the internal member ensures that the SB has immediate and in-depth knowledge of the entity's structure and the organisation of its activities in the light of its actual corporate function.

This solution is deemed the most suitable, based on the characteristics of its organisational structure, to ensure the effectiveness of the controls for which the Supervisory Body is institutionally responsible and meets the requirements of the recently approved Confindustria Guidelines.

In order to ensure the necessary stability and continuity of action for the aforementioned Body, its members hold this role for a period of 3 years from the date of their actual appointment.

The appointment of the Supervisory Body, as well as its possible revocation, is the responsibility of management, which provides therefor in full compliance with the law, also on the basis of the provisions of the Confindustria Guidelines.

USE OF FINANCIAL INSTRUMENTS

(Art. 40, paragraph 2, point d-bis of Italian Legislative Decree no. 127/91)

The Company uses derivative financial instruments solely to hedge its exposure to the interest rate risk, thereby stabilizing the flow of interest paid mainly on medium and long-term debt, and does not hold any speculative financial instruments.

Derivatives, recognised at fair value, are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective.

For a detailed analysis of the fair value and information on the extent and nature of each category of derivative financial instruments implemented by the company, broken down by class, taking into consideration aspects such as the characteristics of the instruments themselves and the purposes of their use, reference should be made to the section "Derivative financial instruments - Article 38, paragraph 1, letter o-ter of Italian Legislative Decree No. 127/91" in the notes to the consolidated financial statements.

GROUP FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS AS AT 12/31/2020



CONSOLIDATED FINANCIAL STATEMENTS AS AT 12.31.2020

BALANCE SHEET

ASSETS	12/31/2020	12/31/2019
A) SUBSCRIBED CAPITAL, UNPAID		
Total subscribed capital, unpaid (A)		
B) FIXED ASSETS		
I - Intangible fixed assets		
1) Start-up and expansion costs	978,132	569,394
2) Development costs	12,174,363	11,121,045
3) Industrial patent rights and intellectual property rights	362,859	484,809
4) Concessions, licenses, trademarks and similar rights	14,182	14,833
5) Goodwill	-	901,697
6) Assets under construction and advances	-	-
7) Other	105,588	-
Total intangible fixed assets	13,635,124	13,091,778
II - Tangible fixed assets		
1) Land and buildings	329,475	340,562
2) Plants and machinery	10,970	5,953
3) Industrial and commercial equipment		
4) Other tangible fixed assets	378,765	355,151
Total tangible fixed assets	719,210	701,666
III - Financial fixed assets		
1) Equity investments in:		
b) Associated companies	-	-
d-bis) Other companies	60,777	309,471
Total equity investments	60,777	309,471

2) Receivables		
a) From subsidiaries		
Due within 12 months	-	-
b) From associated companies		
Due within 12 months	-	-
Due after 12 months	-	-
d-bis) From others		
Due within 12 months	183,276	427,181
Due after 12 months	-	150,000
Total receivables (2)	183,276	577,181
3) Other securities	-	80,880
Total financial fixed assets	244,053	967,532
Total fixed assets (B)	14,598,387	14,760,976

C) CURRENT ASSETS

I - Inventory		
3) Work in process on long-term contracts	10,700	58,608
Total inventory	10,700	58,608
II) Receivables		
1) From customers		
Due within 12 months	20,860,698	20,446,973
Due after 12 months		
Total receivables from customers	20,860,698	20,446,973
2) From subsidiaries		
Due within 12 months	-	-
Due after 12 months	-	-
Total receivables from subsidiaries	-	-
3) From associated companies		
Due within 12 months	-	-
Due after 12 months		
Total receivables from associated companies	-	-

4) From parent companies	-	-
5-bis) Tax receivables		
Due within 12 months	2,138,431	1,200,026
Due after 12 months	-	6,699
Total tax receivables	2,138,431	1,206,725
5-ter) Deferred tax assets		
Due within 12 months	1,249,755	525,230
Due after 12 months	1,454,175	1,308,811
Total deferred tax assets	2,703,930	1,834,041
5-quater) From others		
Due within 12 months	1,379,523	3,580,185
Due after 12 months	2,073,910	2,206,417
Total receivables from others	3,453,433	5,786,602
Total receivables	29,156,492	29,274,341
III - Financial assets not constituting fixed assets		
1) Equity investments in subsidiaries	-	-
4) Other equity investments	8,400	8,400
6) Other securities	7,925	20,196
Total financial assets not constituting fixed assets	16,325	28,596
IV - Cash and cash equivalents		
1) Bank and postal deposits	53,976,219	21,644,993
3) Cash on hand	2,176	2,449
2) Cheques	-	-
Total cash and cash equivalents	53,978,395	21,647,442
Total current assets (C)	83,161,912	51,008,987
D) ACCRUALS AND DEFERRALS	459,212	433,468
TOTAL ASSETS	98,219,511	66,203,431

LIABILITIES	31/12/2020	31/12/2019
A) GROUP SHAREHOLDERS' EQUITY		
I) Capital	507,770	400,161
II - Share premium reserve	70,809,750	42,509,070
IV - Legal reserve	80,032	71,718
VI - Other reserves, separately indicated		
Extraordinary reserve	4,430,730	2,008,739
Merger surplus reserve	376,622	376,622
Reserve for unrealised exchange gains	398,956	398,956
Other miscellaneous reserves	775,141	688,839
Total other reserves	5,981,449	3,473,156
VII - Reserve for expected cash flow hedges	(168,818)	(70,275)
VIII - Profit (losses) carried forward	(27,215,948)	(24,499,918)
IX - Profit (loss) for the year	(5,424,443)	(983,007)
X - Negative reserve for treasury shares in portfolio	-	-
Total consolidated shareholders' equity	44,569,792	20,900,905
Minority interest in shareholders' equity		
Minority interest in capital and reserves	-	-
Minority interest in profit (loss)	-	-
Total minority interest in equity	-	-
Total consolidated shareholders' equity	44,569,792	20,900,905
B) PROVISIONS FOR RISKS AND CHARGES		
1) For pensions and similar obligations	4,341	4,341
2) For taxes, including deferred taxes	953,883	1,076,568
3) Financial derivative liabilities	168,818	70,275
4) Other provisions	29,605	54,555
Total provisions for risks and charges (B)	1,156,647	1,205,739
C) EMPLOYEE SEVERANCE INDEMNITIES	2,707,929	2,312,384

D) PAYABLES

1) Bonds		
Due within 12 months	1,159,100	909,100
Due after 12 months	7,931,800	9,090,900
Total bonds	9,090,900	10,000,000
3) Payables to shareholders for loans	-	-
Due within 12 months		
Due after 12 months	-	-
4) Bank debt		
Due within 12 months	2,911,318	4,831,142
Due after 12 months	18,118,294	8,439,239
Total bank debt	21,029,612	13,270,381
5) Payables to other lenders		
Due within 12 months	1,398,179	153,077
Due after 12 months	1,624,705	1,057,872
Total payables to other lenders	3,022,884	1,210,949
6) Advances		
Due within 12 months	297,054	311,099
Due after 12 months	362,206	357,577
Total advances	659,260	668,676
7) Payables to suppliers		
Due within 12 months	4,117,024	4,247,286
Total payables to suppliers	4,117,024	4,247,286
12) Tax payables		
Due within 12 months	967,624	1,030,945
Total tax payables	967,624	1,030,945
13) Due to social security and welfare institutions		
Due within 12 months	764,461	586,676
Due after 12 months	-	21,902
Total due to social security and welfare institutions	764,461	608,578

14) Other debts		
Due within 12 months	3,026,981	2,229,701
Total other debts	3,026,981	2,229,701
Total payables	42,678,746	33,266,516
E) ACCRUALS AND DEFERRALS	7,106,397	8,517,887
TOTAL LIABILITIES	98,219,511	66,203,431

INCOME STATEMENT

	12/31/2020	12/31/2019
A) VALUE OF PRODUCTION		
1) Revenues from sales and services	28,097,996	31,654,069
3) Changes in work in process on long-term contracts	(47,908)	(50,704)
4) Increases in fixed assets for internal work	6,878,007	6,070,875
5) Other revenues and income		
Grants for current expenses	17,924	17,610
Other	2,500,918	2,040,566
Total other revenues and income (5)	2,518,842	2,058,176
TOTAL VALUE OF PRODUCTION	37,446,937	39,732,416
B) COSTS OF PRODUCTION:		
6) For raw, ancillary and consumable materials and goods for resale	926,531	1,218,987
7) For services	11,868,539	12,043,891
8) For use of third-party assets	2,408,958	1,847,400
9) For personnel:		
a) Wages and salaries	18,262,417	14,265,732
b) Social security charges	4,456,100	4,029,793
c) Severance pay	584,439	490,180
d) Pension and similar obligations	-	-
e) Other costs	358,597	6,573
Total personnel costs (9)	23,661,553	18,792,278

10) Amortisation, depreciation and write-downs:		
a) Amortisation of intangible fixed assets	7,302,271	8,094,995
b) Depreciation of tangible fixed assets	191,869	202,432
d) Write-down of current receivables and of cash and cash equivalents	98,355	39,555
Total amortisation, depreciation and write-downs (10)	7,592,495	8,336,982
12) Provisions for risks	-	-
14) Other operating expenses	500,336	371,005
TOTAL COSTS OF PRODUCTION (B)	46,958,412	42,610,543
DIFFERENCE BETWEEN REVENUES AND COSTS OF PROD.	(9,511,475)	(2,878,127)
C) FINANCIAL INCOME AND CHARGES		
15) Income from equity investments		
From subsidiaries	-	-
Other companies	5,149,911	-
Total income from equity investments (15)	5,149,911	-
16) Other financial income:		
a) From long-term receivables		
From subsidiaries	-	1,252
From associated companies	-	-
Other	30,715	15,626
Total financial income from long-term receivables	30,715	16,878
b) From long-term securities other than equity investments	-	-
c) From securities included in current assets other than fixed assets	-	-
d) Other income		
from subsidiaries	-	2,221,171
Other	5,400	4,901
Total other income (d)	5,400	2,226,072
Total other financial income (16)	36,115	2,242,950
17) Interest and other financial charges	(581,916)	(581,660)
17 bis) Foreign exchange gains and losses	(1,465,269)	436,871
Total financial income and charges (C) (15+16-17+-17-bis)	3,138,841	2,098,161

D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES:		
18) Revaluations:	-	-
19) Write-downs:	-	-
Total value adjustments to financial assets and liabilities (D) (18-19)	-	-
RESULT BEFORE TAXES (A-B+-C+-D)	(6,372,634)	(779,966)
20) Current, deferred and prepaid income taxes for the year		
Current taxes	(44,444)	(153,300)
Deferred and prepaid taxes	992,635	(49,741)
Total current, deferred and prepaid income taxes for the year	948,191	(203,041)
21) Consolidated profit (loss) for the year	(5,424,443)	(983,007)
Result attributable to minority interests	-	-
Result attributable to the group	(5,424,443)	(983,007)

CASH FLOW STATEMENT

A. Cash flows from operating activities (indirect method)	12/31/2020	12/31/2019
Profit (loss) for the year	(5,424,443)	(983,007)
Income taxes	(948,191)	203,041
Interest expense/(income)	455,891	557,549
(Dividends)	-	-
(Gains)/Losses on disposal of assets	(5,149,911)	(2,221,171)
1. Profit/(loss) for the year before income taxes, interest, dividends and gains/losses on disposals	(11,066,655)	(2,443,589)
Provisions to funds	604,332	642,178
Amortisation and depreciation of fixed assets	7,494,140	8,297,427
Write-downs for permanent impairment	98,355	39,555
Value adjustments to asset and liability derivatives not involving cash movements	(98,543)	(31,679)
Other upward/(downward) adjustments for non-monetary items	780,349	(246,318)
Total adjustments for non-monetary items not offset in the net working capital	8,878,633	8,701,163
2. Cash flow before changes in net working capital	(2,188,021)	6,257,574

Changes in net working capital		
Decrease/(Increase) in inventory	47,908	50,704
Decrease/(Increase) in receivables from customers	(512,080)	(4,586,259)
Increase/(Decrease) in payables to suppliers	(139,678)	1,468,899
Decrease/(Increase) in accrued income and prepaid expenses	(25,744)	143,622
Increase/(Decrease) in accrued expenses and deferred income	(1,411,490)	(47,210)
Other decreases / (Other increases) in net working capital	2,369,606	(486,739)
Total changes in net working capital	328,522	(3,456,984)
3. Cash flow after changes in net working capital	(1,859,499)	2,800,591
Other adjustments		
Interest received/(paid)	(455,891)	(557,549)
(Income taxes, paid)	-	-
Dividends collected	-	-
(Use of funds)	(74,205)	(321,103)
Other collections/(payments)	-	-
Total other adjustments	(530,096)	(878,652)
Cash flow from operating activities (A)	(2,389,595)	1,921,939
<i>Tangible fixed assets</i>		
(Investments)	(209,412)	(188,675)
Divestments	-	-
<i>Intangible fixed assets</i>		
(Investments)	(7,845,618)	(6,453,124)
Divestments	-	-
<i>Financial fixed assets</i>		
(Investments)	(3,572)	(5,562)
Divestments	5,876,963	243,571
<i>Financial assets not held as fixed assets</i>		
(Investments)	-	(101,264)
Divestments	12,271	7,252,042
(Acquisition of subsidiaries net of cash and cash equivalents)		
Disposal of subsidiaries net of cash and cash equivalents		
Cash flow from investing activities (B)	(2,169,368)	746,988

Loan capital

Increase/(Decrease) in payables for bonds	(909,100)	5,000,000
Increase/(Decrease) in short-term bank debt	(12,524)	(24,422)
Loans taken	10,368,493	8,417,793
(Repayment of loans)	(784,801)	(9,382,062)

Equity

Capital increase against payment	28,227,849	7,084,420
(Capital repayment)	-	-
Sale (Purchase) of treasury shares	-	-
(Dividends and interim dividends paid)	-	-

Cash flow from financing activities (C)	36,889,916	11,095,730
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Increase (decrease) in cash and cash equivalents (A ± B ± C)	32,330,954	13,764,657
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Cash and cash equivalents at the beginning of the year	21,647,442	7,882,784
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Cash and cash equivalents at year end	53,978,395	21,647,442
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Increase (decrease) in cash and cash equivalents	32,330,954	13,764,657
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The report allows for an assessment of:

- the Group's cash and cash equivalents produced or absorbed;
- the Group's ability to meet short-term financial commitments;
- the Group's ability to finance itself.

It reconciles the changes that occurred during the year in the Group's equity with the changes in its financial situation.

The generation of cash and cash equivalents compared to the previous year, amounting to Euro 32,330,954, is mainly explained by the financing activity, which includes both the contribution of loan capital (about Euro 8.6 million, net of repayments), and equity (about Euro 28 million). The financial management of operating activities generated a reduction in liquidity for Euro 2,389,595, as did the flow from investment activities, which caused liquidity to be absorbed for Euro 2,169,368.

There are no problems with the Group's ability to meet its short-term financial commitments or to finance itself.

With regard to the method used, it should be noted that the Group has adopted the indirect method, in accordance with OIC [Italian Accounting Body] no. 10 standard, whereby the cash flow is reconstructed by adjusting the result for the year in the light of non-monetary components.

It is specified that the parent company Expert System S.p.A. benefited from the measures provided for by Article 56 of Cura Italia Decree-Law (Decree-Law No. 18 of 17 March 2020, amended by Article 65 of Decree-Law No. 104 of 14 August 2020) with the suspension, from April 2020 to January 2021, of the repayment of principal of bank loan instalments.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated financial statements as at 12/31/2020, consisting of the balance sheet, income statement, cash flow statement and notes to the accounts, are in accordance with the provisions of Chapter III (Articles 25 to 43) of Italian Legislative Decree 127/91, supplemented, for those issues not specifically regulated by the decree, by the national accounting standards published by the Italian Accounting Body (OIC) and, where missing, by those of the International Accounting Standard Board (IASB) and the Financial Accounting Standards Board (FASB), and are accompanied by the Management Report.

They are also accompanied by the following documents:

- List of companies included in the consolidated financial statements and of shareholdings;
- Companies included in the consolidation using the line-by-line method (in accordance with Art. 26);
- Other equity investments in subsidiaries and associated companies;
- Reconciliation between shareholders' equity and loss for the year of the Parent Company and consolidated shareholders' equity and loss for the year.

The amounts are expressed in Euro units.

The financial statements of the companies included in the consolidation have been prepared by their management in accordance with the accounting standards mentioned above.

It should also be noted that:

- For each item in the Balance Sheet and Income Statement, the amount of the corresponding item of the consolidated financial statements as at 31/12/2019 and 31/12/2020 is indicated, respectively;
- The values of the items stated in this year's financial statements are fully comparable with those set out in the previous year's financial statements, with the exception of item A.5 "Other revenues and income, with separate indication of grants for current expenses", which was affected by a different breakdown of grants for current expenses and, consequently, also of the residual item "others". This reclassification affected the 2019 financial statements, which have been amended accordingly; please refer to the paragraph commenting on this item for an examination of the amounts that contributed to its formation.

Derogations

There are no exceptional cases which call for application of the derogations provided for in Art. 29, paragraphs 4 and 5 of Italian Legislative Decree 127/1991.

Transposition of Directive 34/2013/EU

With reference to the financial statements for financial years starting on or after 1/1/2016, it should be noted that Italian Legislative Decree no. 139 of 18/08/2015 (the so-called “Financial Statements Decree”), published in the Official Journal 4.9.2015 no. 205, implementing EU Directive 26/6/2013 No. 34, amended the Italian Civil Code with the aim of aligning the rules contained therein on the regulation of the financial statements of corporations, with the new EU provisions.

This Directive replaces previous EU legislation with the aim of improving the scope of disclosure of accounting documents and launching a regulatory simplification process governing the preparation and publication of financial statements.

In this context of reform, the Italian Accounting Body (OIC), in accordance with the institutional purposes established by law, has also revised 20 accounting standards, which are meant to ensure the practical application of the new regulatory framework.

In particular the amendment to the financial statements of corporations concerns:

- The documents making up the financial statements;
- The principles for the preparation of financial statements;
- The contents of the Balance Sheet and Income Statement;
- Valuation criteria;
- The contents of the Notes to the Accounts.

Principles of consolidation of equity investments (Arts. 31 and 33 of Italian Legislative Decree 127/91)

The consolidated financial statements include the financial statements of Expert System S.p.A. and of the foreign companies over which control is exercised, either directly or indirectly, as at 12/31/2020 (Art. 30 Italian Legislative Decree No. 127/91).

The assets and liabilities of consolidated companies are taken on a line-by-line basis. The book value of equity investments held by the parent company in directly and indirectly controlled subsidiaries is eliminated against the related shareholders' equity. The difference between the acquisition cost and the shareholders' equity of subsidiaries at the date of consolidation is allocated, where possible, to the assets and liabilities of subsidiaries net of deferred taxes; any remaining difference, if positive and if the requirements for the recognition of goodwill set out in OIC 24 are met, is recognised under “Goodwill” under intangible fixed assets.

The remainder of the difference that cannot be allocated to assets and liabilities and goodwill is allocated to the income statement under item ‘B14 Other operating expenses’.

Goodwill is amortised on the basis of an economic utility estimated at 5 years according to its useful life, taking into account all the information available to estimate the period in which the economic benefits will manifest themselves.

Conversion of foreign companies' financial statements into euros (Art. 38, paragraph 1, letter b, of Italian Legislative Decree no. 127/91)

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

- Assets and liabilities are converted at the exchange rate in force at the end of the period;
- Income and expenses are converted by applying the average exchange rate for the period;
- Shareholders' equity items are converted at the rates in force during the relevant period of formation.

Exchange rate differences arising from the conversion of shareholders' equity at historical exchange rates at the time of acquisition compared to those in force at the date of the financial statements are entered directly under shareholders' equity, together with the differences between the economic result expressed at average exchange rates and the economic result expressed in Euro at the exchange rates in force at the end of the period under "Reserve for translation differences", included under "Other reserves".

Payable and receivable items and cost and revenue items among the companies included in the scope of consolidation have been eliminated. In particular, profits and losses deriving from transactions between Group companies not yet realised with third parties are eliminated, if significant.

The financial statements of the single companies approved by the Shareholders' Meeting or prepared by the Board of Directors for approval have been reclassified and adjusted, where necessary, to bring them into line with the accounting standards adopted by the parent company. For companies with closing dates other than the reference date of the consolidated financial statements, the specific interim annual financial statements have been prepared.

Reference date of the consolidated financial statements (Art. 30 of Italian Legislative Decree 127/91)

The reference date of the consolidated financial statements, 12/31/2019, coincides with the closing date of the financial statements of the parent company Expert System S.p.A.

List of companies included in the consolidation (Art. 38, paragraph 2, letters a) to d), of Italian Legislative Decree no. 127/91)

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

Company name	Registered office	Currency	Shareholders' Equity as at 12/31/2020	Share capital	Profit/ (Loss) 12/31/2020	Direct share of the group	Indirect share of the group
Expert System Iberia S.L.U.	Barcelona (ESP)	Euro	(1,828,023) €	€ 2,603,000	(195,906) €	100%	
Expert System France S.A.	Paris (FRA)	Euro	€ 808,630	€ 199,269	(908,486) €	100%	

Expert System Deutschland GmbH	Bad Homburg vdH (GER)	Euro	(1,596,111) €	€ 25,000	(555,994) €		100%
Expert System Cogito Ltd.	London (UK)	£	(1,387,312) £	£ 1,000	(350,913) £	100%	
Expert System USA Inc.	Alexandria (USA)	\$ USA	(7,013,872) \$	\$ 1	(1,980,596) \$	100%	
Expert System Enterprise Corp.	Rockville (USA)	\$ USA	(8,821,796) \$	\$ 200	(2,722,702) \$		100%
Expert System Canada – Technologies Sémantiques Inc.	Montreal (CAN)	\$ Can.	(199,273) CAD	1,000 CAD	(16,835) CAD		100%
Expert System Helvetia SÀRL	Geneva (CH)	CHF	(331,257) CHF	20,000 CHF	(351,257) CHF	100%	

The values shown above are those resulting from the reclassifications and adjustments made to the financial statements of the single companies to bring them into line with the accounting principles adopted by the parent company Expert System S.p.A.

List of other equity investments in subsidiaries and associated companies

It should be noted that there are no other equity investments in subsidiaries and associated companies.

Changes in the scope of consolidation

The scope of consolidation has been enlarged compared to 12/31/2019 with the establishment of the subsidiary Expert System Helvetia SàRL.

VALUATION CRITERIA

(Art. 38 paragraph 1, letter a) of Italian Legislative Decree 127/91)

The valuation criteria adopted for the preparation of the consolidated financial statements are in line with those used by the Parent Company, supplemented where necessary with the accounting principles adopted for particular items in the consolidated financial statements.

Items were valued on a prudential and going concern basis, taking into account the economic function of the assets and liabilities based on the principle of substance over form. When preparing the financial statements, income and expenses were entered on an accrual basis, irrespective of when they occurred. Risks and losses pertaining to the year were also taken into account even if they became known after year-end.

The valuation criteria adopted are unchanged compared to the previous year. In particular, the valuation criteria adopted were as follows.

Intangible fixed assets

Intangible fixed assets are recorded, within the limit of their recoverable value, at purchase or production cost, including ancillary charges, and systematically amortised in relation to their residual useful life, written down if the estimated recoverable value of the fixed assets is permanently lower than cost at year-end. It was not necessary to make write-downs pursuant to Art. 2426, paragraph 1, no. 3) of the Italian Civil Code because, as required by OIC 9, no indicators of potential impairment of intangible assets were found.

Tangible fixed assets

Tangible fixed assets are recorded at the date on which the risks and benefits associated with the assets acquired are transferred and are recorded, within the limit of their recoverable value, at purchase or production cost net of the related depreciation provisions, including all directly attributable ancillary costs and charges. The cost is revalued in accordance with monetary revaluation laws and, in any case, it does not exceed the market value.

The cost of fixed assets whose use is limited in time is systematically depreciated in each financial year on the basis of economic-technical rates determined in relation to the residual possibility of use.

If durable losses in value are entered, regardless of the depreciation already recorded, the fixed assets are written down in relation to their residual possibility of use. If the conditions for write-downs cease to apply in subsequent years, the original value is reinstated. Assets under construction and advances to suppliers are recorded under assets on the basis of the cost incurred and/or the advance paid, including directly attributable expenses.

Equity investments

Equity investments are recorded at purchase and/or subscription cost, including ancillary charges, and written down in the event of permanent impairment of value.

Debt securities

Debt securities, if any, are recognised at the time of delivery of the security and are classified under fixed assets or current assets according to their purpose.

Long-term debt securities

Unlisted and unlisted long-term debt securities are valued on a security-by-security basis, assigning the cost specifically incurred to each security.

Non-fixed securities

Securities that do not constitute fixed assets are recorded at the lower of purchase cost and estimated realisable value based on market trends.

Inventories

Work in process on long-term contracts is valued using the percentage of completion standard: costs, revenues and contract margins are recognised on the basis of production progress. The hours worked method is used for the application of this standard.

Derivative financial instruments

Derivative financial instruments are recorded at fair value corresponding to the market value, if any, or to the value resulting from valuation models and techniques that ensure a reasonable approximation to the market value. Financial instruments for which it is not possible to use such methods are valued at the purchase price. The current value is recorded on the assets side of the balance sheet, under the specific item of financial fixed assets or current assets depending on the relevant purpose, or on the liabilities side under the specific item included in the provisions for risks and charges.

Derivatives used to hedge cash flows are offset by a shareholders' equity reserve or, for the ineffective portion, the income statement.

Receivables

Receivables are classified under fixed assets or current assets on the basis of their purpose/origin with respect to ordinary activities.

Receivables must be recognised in the financial statements using the amortised cost method, taking into account the time factor and the estimated realisable value. The company has enforced the option:

- Not to discount receivables since the effective interest rate is not significantly different from the market interest rate;
- Not to apply the amortised cost standard for receivables maturing within 12 months;
- Not to apply the amortised cost standard since the relevant transaction costs, commissions and any other difference between initial value and the value at maturity are of little significance.

The amortised cost standard is thus not applied since the effects are irrelevant for the purpose of giving a truthful and accurate account; therefore, receivables are shown at their estimated realisable value based on the assessment of debtors' solvency and of the historical evolution of losses on receivables.

The adjustment of the nominal value of receivables to their estimated realisable value is obtained by means of allocations to the bad debt provision, recorded as a direct deduction from assets and determined in relation to the risk of loss resulting from the specific analysis of individual positions and in relation to the historical trend of losses on receivables, as well as the country risk.

Furthermore, the 'time factor' is not taken into account and no receivables due after 12 months are discounted since the difference between the effective interest rate and the market rate is not significant.

Cash and cash equivalents

Cash and cash equivalents as at 31/12/2020 are valued at their nominal value.

Accrual and deferrals

Accruals and deferrals are recorded on an accrual basis.

Accrued income, similar to operating receivables, are valued at their estimated realisable value.

Accrued expenses, similar to payables, are valued at their nominal value.

Provisions for risks and charges

Provisions for risks and charges are established to cover losses or payables whose existence is certain or likely, but whose amount or date of occurrence could not be determined at year-end. The provisions reflect the best possible estimate on the basis of the elements available.

The pension fund is set up to cover commitments accrued at the end of the period toward those entitled to pension benefits.

The provision for taxes includes, in addition to the deferred tax charges connected with the single companies included in the consolidation, also the deferred tax charges connected with consolidation adjustments, when it is likely that they will actually arise for one of the subsidiaries.

Employee severance indemnities

They reflect the debt, subject to revaluation by means of specific indices and net of advances paid, accrued toward all Group employees as at 31/12/2020, in compliance with the law and current employment contracts.

Payables

The company has enforced the option:

- a) Not to discount payables since the effective interest rate is not significantly different from the market interest rate;
- b) Not to apply the amortised cost standard for payables maturing within 12 months;
- c) Not to apply the amortised cost standard for payables maturing after 12 months since the relevant transaction costs, commissions and any other difference between initial value and the value at maturity are of little significance.

The amortised cost standard is thus not applied since the effects are irrelevant for the purpose of giving a truthful and accurate account; therefore, payables are shown at their nominal value.

Criteria for the conversion of values expressed in foreign currency

Monetary assets and liabilities outstanding at the end of the financial year, originally expressed in the currencies of non-Euro countries, are expressed in the financial statements at the exchange rate in force at the end of the period. Gains and losses arising from the conversion of the above mentioned payables and receivables at the exchange rate in force at the financial statements date are credited and debited to the income statement, respectively.

Non-monetary assets and liabilities in foreign currency are recorded at the exchange rate in force at the time of purchase.

Costs and revenues

They are presented on a prudential and accrual basis.

Income taxes for the year

Current income taxes are recorded, for each company, on the basis of estimated taxable income in accordance with the rates and provisions in force at the end of the period in each country, taking into account applicable exemptions and any tax receivables.

Prepaid and deferred taxes are calculated on the temporary differences between the value attributed to assets and liabilities in the financial statements and the corresponding values recognised for tax purposes, based on the rates in force at the time when the temporary differences are recognised. Prepaid taxes are recognised only if their future recovery is reasonably certain.

CHANGES IN FIXED ASSETS

(Art. 38 paragraph 1, letter b-bis, of Italian Legislative Decree 127/91)

Intangible fixed assets

Intangible fixed assets amount to Euro 13,635,124 (Euro 13,091,778 in the previous year).

The composition of and changes in individual items are represented as follows:

	Start-up and expansion costs-	Development costs	Industrial patent rights and intellectual property rights	Concessions, licenses, trademarks and similar rights	Goodwill	Other intangible fixed assets	Assets under construction	Total intangible fixed assets
Value at the beginning of the year								
Cost	2,332,907	40,077,162	1,662,252	31,405	14,065,831	-	-	58,169,556
Amortisation (Amortisation fund)	1,763,513	28,956,117	1,177,443	16,572	13,164,134	-	-	45,077,778
Book value as at 12/31/2019	569,394	11,121,045	484,809	14,833	901,697	-	-	13,091,778
Changes during the year								
Increases for acquisitions	904,206	6,867,590	15,000	-	-	131,985	-	7,918,781
Reclassifications	-	-	-	-	-	-	-	-
Decreases for disposals and divestments								-
Amortisation for the year	477,288	5,761,002	135,236	651	901,697	26,397	-	7,302,271
Other changes	(18,180)	(53,270)	(1,714)	-	-	-	-	(73,164)
Total changes	408,738	1,053,318	(121,950)	(651)	(901,697)	105,588	-	543,346
Year-end value								
Cost	3,160,100	46,798,215	1,673,624	31,405	14,065,831	131,985	-	65,861,160

Amortisation (Amortisation fund)	2,181,968	34,623,852	1,310,765	17,223	14,065,831	26,397	-	52,226,036
Book value as at 12/31/2020	978,132	12,174,363	362,859	14,182	-	105,588	-	13,635,124

Goodwill

The goodwill recorded among the assets of the subsidiary Expert System France S.A. is fully amortised as of 12/31/2020.

Breakdown of start-up and expansion costs and of development costs (Art. 38 paragraph 1, letter d, of Italian Legislative Decree 127/91)

The breakdown of start-up and expansion costs and of development costs is shown in the following tables.

	Value at the beginning of the year	Increases during the year	Amortisation for the year	Other changes	Total changes	Year-end value
Costs of incorporation/amendments to the Bylaws	4,886		1,291		(1,291)	3,595
Start-up costs	361,409		182,243	(18,180)	(200,423)	160,986
Share capital increase	203,099	904,206	293,754		610,452	813,551
Total	569,394	904,206	477,288	(18,180)	408,738	978,132

	Value at the beginning of the year	Increases during the year	Amortisation for the year	Other changes	Total changes	Year-end value
Development costs	11,121,045	6,867,590	5,761,002	(53,270)	1,053,319	12,174,363
Total	11,121,045	6,867,590	5,761,002	(53,270)	1,053,319	12,174,363

Development costs are almost entirely attributable to the parent company Expert System S.p.A., to which we can therefore attribute most of the “Research and Development activities” better detailed in the consolidated Management Report and, more specifically, in the chapter dedicated thereto pursuant to the provisions of Article 40, paragraph 2, letter a, of Italian Legislative Decree no. 127/91, to which we refer.

The costs entered are reasonably related to a useful life of several years and are systematically amortised in relation to their useful life.

Tangible fixed assets

Tangible fixed assets amount to Euro 719,210 (Euro 701,666 in the previous year).

The composition of and changes in individual items are represented as follows:

	Land and buildings	Plants and machinery	Industrial and commercial equipment	Other tangible fixed assets	Total tangible fixed assets
Value at the beginning of the year					
Cost	456,980	223,306	1,558	2,463,883	3,145,727
Depreciation (Depreciation fund)	116,418	217,353	1,558	2,108,732	2,444,061
Book value as at 12/31/2019	340,562	5,953	-	355,151	701,666
Changes during the year					
Divestments				15,500	15,500
Increases for acquisitions		7,755		184,881	192,636
Depreciation for the year	11,087	2,738	-	178,043	191,868
Other changes				32,276	32,276
Total changes	(11,087)	5,017		23,614	17,544
Year-end value					
Cost	456,980	231,061	1,558	2,633,264	3,322,863
Depreciation (Depreciation fund)	127,505	220,091	1,558	2,254,499	2,603,653
Book value as at 12/31/2020	329,475	10,970	-	378,765	719,210

The item “Other tangible fixed assets”, which includes residual values not classifiable under the previous items, amounts to Euro 378,765 (Euro 355,151 in the previous year) and is broken down as follows:

	Value at the beginning of the year	Changes during the year	Year-end value
Office furniture	89,238	(15,121)	74,118
Electronic office machines	226,194	54,444	280,637
Cars	-	-	-
Ordinary office machines	7,201	(7,201)	-
Signs	-	-	-
Mobile phones	8,455	(1,430)	7,025
Motorcycles	3,643	(1,214)	2,428
Local installations	20,420	(5,863)	14,556
Total	355,151	23,614	378,765

Financial fixed assets - Equity investments, other securities and financial derivative assets

Equity investments not included in the scope of consolidation amount to Euro 60,777 (Euro 309,471 in the previous year).

Other securities included in financial fixed assets amount to Euro 0 (Euro 80,880 in the previous year).

The composition of and changes in individual items are represented as follows:

	Equity investments in associated companies	Equity investments in other companies	Total equity investments	Other securities
Book value as at 12/31/2019	-	309,471	309,471	80,880
Changes during the year	-	(252,266)	(252,266)	(80,880)
Increases for acquisitions	-	3,572	3,572	-
Reclassifications	-	-	-	-
Book value as at 12/31/2020	-	60,777	60,777	-

Details of the value of long-term investments in other companies are shown below:

Description	Book value
Conai	5
Confidimpresa	5,000
Distretto Tecnologico Trentino S.c.a.r.l.	1,000
Buzzoole Holdings Limited	50,000
Constrtium Datum	3,572
UTE TIC x CAT	1,200
Other equity investments in other companies	60,777

Financial fixed assets - Receivables

Receivables included in financial fixed assets amount to Euro 183,276 (Euro 577,181 in the previous year). These are receivables from Cy4gate S.r.l.; it should be noted that the shareholding in this company held by the parent Expert System S.p.A. was sold in 2020, giving rise to a capital gain reclassified in item C15 of these financial statements.

The composition of and changes in individual items are represented as follows:

	Initial nominal amount	Initial write-down provision	Initial net value	Allocation to write-down provision	Utilisation of the write-down provision	(Write-downs)/Reversals of impairment losses	Other increases / (decreases)	Final nominal amount	Final write-down provision	Final net value
From subsidiaries, due within 12 months	-	-	-	-	-	-	-	-	-	-
From associated companies, due after 12 months	-	-	-	-	-	-	-	-	-	-
From associated companies, due within 12 months	-	-	-	-	-	-	-	-	-	-

From others, within 12 months	427,181	-	427,181	-	-	-	(243,905)	183,276	-	183,276
From others, due after 12 months	150,000	-	150,000	-	-	-	(150,000)	-	-	-
Total	577,181	-	577,181	-	-	-	(393,905)	183,276	-	183,276

MOST SIGNIFICANT CHANGES IN OTHER ASSET AND LIABILITY ITEMS

(Art. 38 paragraph 1, letter c, of Italian Legislative Decree 127/91)

Current assets - Inventories

Inventories included in current assets amount to Euro 10,700 (Euro 58,608 in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Raw, ancillary materials and consumables	-	-	-
Work in process on long-term contracts	58,608	(47,908)	10,700
Total inventory	58,608	(47,908)	10,700

Current assets - Receivables

Current receivables amount to Euro 29,156,492 (Euro 29,274,341 in the previous year).

The composition of the individual items is represented as follows:

	Due within 12 months	Due after 12 months	Total nominal value	(Provisions for risks/write-downs)	Net value
From customers	21,156,408	-	21,156,408	(295,710)	20,860,698
From subsidiaries	-	-	-	-	-
From associated companies	-	-	-	-	-
Tax receivables	2,138,431	-	2,138,431	-	2,138,431
Prepaid taxes	1,249,755	1,454,175	2,703,930	-	2,703,930
From others	1,379,523	2,073,910	3,453,433	-	3,453,433
Total	25,924,117	3,528,085	29,452,202	(295,710)	29,156,492

Receivables from others amount to Euro 3,453,433 (Euro 5,786,602 in the previous year).

The composition of and changes in individual items are represented as follows:

	Initial value	Change	Final value
Security deposits	623,579	51,016	674,595
Advances	126,842	25,494	101,348
Receivables for grants for research projects	4,608,635	2,091,200	2,517,435
Receivables from factoring companies	30,000	30,000	-
Other receivables	397,545	237,490	160,055
Total	5,786,602	2,333,169	3,453,433

Below is a breakdown of receivables for grants for development projects within and after 12 months, broken down by company:

	Expert System S.p.A.	Expert System Iberia S.L.U.	Expert System France S.A.
Receivables for grants for projects within 12 months	487,837	51,237	-
Receivables for grants for projects after 12 months	1,406,944	289,433	281,983
Total	1,894,781	340,670	281,983

Composition of receivables for grants by project

Expert System S.p.A.	Within 12 months	After 12 months
Horizon 2020		426,125
Horizon 2020 - EIT Digital	1,472	
PON		115,000
PON R&C 2007-2013		
POR Fesr Apiae	257,285	
POR Fesr Lazio	151,566	
European Project - ISEC Call for proposals		178,478
MISE [Italian Ministry of Economic Development]	77,514	252,966
MIUR [Italian Education, University and Research Ministry]		434,375
Total	487,837	1,406,944

Expert System Iberia S.L.U.	Receivable within 12 months	Receivable after 12 months
COINFORM	37,383	
CICCER	13,854	
ELG		37,426
AIDA		89,951
KDRIVE		92,306
XLIME		69,750
Total	51,237	289,433

Expert System France S.A.	Receivable within 12 months	Receivable after 12 months
ITRAC		-
PRESIDGE		
Faucon		185,111
Pythia		
Social Truth		55,965
Solomon		40,907
E-Compliance		
ADR PRISME		
Total	-	281,983

Current assets - Financial assets

Current financial assets amount to Euro 16,325 (Euro 28,596 in the previous year). The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Changes during the year	Year-end value
Equity investments not held as fixed assets in subsidiaries	-	-	-
Other equity investments not held as fixed assets	8,400	-	8,400
Other securities not held as fixed assets	20,196	(12,271)	7,925
Total	28,596	(12,271)	16,325

The item “other securities” includes Euro 7,925 in securities held by Expert System Deutschland GMBH as amounts intended for temporary investments.

Receivables - Breakdown by maturity (Art. 38 paragraph 1, letter e, of Italian Legislative Decree 127/91)

The breakdown of receivables by maturity is shown below:

	Value at the beginning of the year	Change during the year	Year-end value	Amount due within the financial year	Amount due after the financial year	Of which with a residual maturity of more than 5 years
Receivables from customers included in current assets	20,446,973	413,725	20,860,698	20,860,698	-	-
Receivables from subsidiaries included in current assets	-	-	-	-	-	-
Receivables from associated companies included in current assets	-	-	-	-	-	-
Tax receivables included in current assets	1,206,725	931,706	2,138,431	2,138,431	-	-
Deferred tax assets included in current assets	1,834,041	869,889	2,703,930	1,249,754	1,454,175	-
Receivables from others included in current assets	5,786,602	(2,333,169)	3,453,433	1,379,523	2,073,910	-
Total	29,274,341	(117,850)	29,156,491	25,628,406	3,528,085	-

Receivables from customers - Breakdown by geographical area

Although not required by the standard, the breakdown of receivables by geographical area is provided below.

	Receivables from customers	Invoices to be issued	CN to be issued	Other trade receivables	Total
Customers Italy	6,021,887	4,661,035	-	-	10,682,922
EEC Customers	1,900,043	1,821,486	-	-	3,721,529
EXTRA-EEC Customers	4,433,107	2,318,849	-	-	6,751,957
Totals	12,355,037	8,801,370	-	-	21,156,408
Bad debt provision	(295,710)	-	-	-	(295,710)
Totals	12,059,327	8,801,370	-	-	20,860,697

Current assets - Cash and cash equivalents

Cash and cash equivalents included in current assets amount to Euro 53,978,395 (Euro 21,647,442 in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Bank and postal deposits	21,644,993	32,331,226	53,976,219
Cash on hand	2,449	- 273	2,176
Cheques	-	-	-
Total	21,647,442	32,330,953	53,978,395

Accrued income and prepaid expenses (Art. 38 paragraph 1, letter f, of Italian Legislative Decree 127/91)

Accrued income and prepaid expenses amount to Euro 459,212 (Euro 433,468) in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Prepaid expenses	433,468	20,738	454,206
Accrued income	-	5,006	5,006
Total accrued income and prepaid expenses	433,468	25,744	459,212

Composition of prepaid expenses:

	Discounts within 12 months	Discounts after 12 months	Discounts after 5 years
Personnel recruitment and training	-	-	-
Rental and lease liabilities	12,664	-	-
Insurance	116,106	1,347	-
Commissions	76,580	32,756	-
Consulting services	86,465	15,318	-
Maintenance	106	-	-
Rentals	20,314	-	-
Miscellaneous services	13,911	263	-
Software	33,635	-	-
Internet expenses	1,194	-	-
Royalties	-	-	-
Hardware	-	-	-
Public relations costs	20,629	-	-
Other prepaid expenses	20,612	2,306	-
Totals	402,216	51,990	-

Shareholders' Equity

Shareholders' equity at the end of the year amounted to Euro 44,569,792 (Euro 20,900,905 in the previous year).

The following tables show the changes during the year in the single items making up Shareholders' Equity.

	Value at the beginning of the year	Allocation of the result for the year	Increases	Decreases	Other changes	Result for the year	Year-end value
Capital	400,161	-	107,609	-	-		507,770
Share premium reserve	42,509,070	-	28,300,680	-	-		70,809,750
Legal reserve	71,718	8,314	-	-	-		80,032
Other reserves							
Extraordinary reserve	2,008,738	2,606,027	-	(180,440)	(3,595)		4,430,730
Merger surplus reserve	376,622	-	-	-	-		376,622
Reserve for unrealised exchange gains	398,956	-	-	-	-		398,956
Other miscellaneous reserves	688,839	-	86,302	-	-		775,141
Total other reserves	3,473,155	2,606,027	86,302	(180,440)	(3,595)		5,981,449
Reserve for expected cash flow hedges	(70,275)	-	(98,543)	-	-		(168,818)
Profit (losses) carried forward	(24,499,918)		(983,007)	-	(1,733,023)		(27,215,948)
Profit (loss) for the year	(983,007)	983,007				(5,424,443)	(5,424,443)
Negative reserve for treasury shares in portfolio	-	-	-	-	-		-
Total group shareholders' equity	20,900,905	3,597,348	27,413,041	(180,440)	(1,736,618)	(5,424,443)	44,569,792

Minority interest in shareholders' equity							
Total consolidated shareholders' equity	20,900,905	3,597,348	27,413,041	(180,440)	(1,736,618)	(5,424,443)	44,569,792

Share capital

The share capital is composed as follows:

Description	Initial volume, number	Initial volume, nominal value	Shares subscribed during the year, number	Shares subscribed during the year, number	Final volume, number	Final volume, nominal value
Common shares	40,016,071	-	10,760,870	-	50,776,941	-
Total	40,016,071	-	10,760,870	-	50,776,941	-

Other miscellaneous reserves

“Other miscellaneous reserves” are composed as follows:

Description	Amount
PIA [Integrated Package of Allowances] Reserve Fund	141,000
Other reserves	432,141
Conversion reserve	202,000
Total	775,141

Reserve for expected cash flow hedges (Art. 38 paragraph 1, letter 2-quater, of Italian Legislative Decree 127/91)

The information required by article 38, paragraph 1, letter 2-quater of Italian Legislative Decree 127/1991 with regard to the specification of changes during the year is summarised in the table below:

	Reserve for expected cash flow hedges
Value at the beginning of the year	(70,275)
Changes during the year	(98,543)
Change in fair value	-
Year-end value	(168,818)

Provisions for risks and charges

The provisions for risks and charges are recorded under liabilities for a total of Euro 1,156,647 (Euro 1,205,739 in the previous year).

The composition of and changes in individual items are represented as follows:

	Provision for pensions and similar obligations	Provision for taxes, including deferred taxes	Financial derivative liabilities	Other funds	Total provisions for risks and charges
Value at the beginning of the year	4,341	1,076,568	70,275	54,555	1,205,739
Provision for the year	-	21,434	98,543	14,605	134,582
Use during the year	-	-	-	-	-
Other changes	-	(144,119)	-	(39,555)	(183,674)
Year-end value	4,341	953,883	168,818	29,605	1,156,647

These are established to cover losses or payables whose existence is certain or likely, but whose amount or date of occurrence could not be determined at year-end.

The general criteria of prudence and accrual are respected in the valuation of these provisions and no generic risk provisions without economic justification are established.

The increases relate to provisions for the year. The decreases relate to uses during the year.

Contingent liabilities are recognised in the financial statements and included under provisions since they are considered likely and the amount of the related charge can be reasonably estimated.

Severance pay

Employee severance pay is recorded under liabilities for a total of Euro 2,707,929 (Euro 2,312,384 in the previous year).

The composition of and changes in individual items are represented as follows:

	Employee severance pay
Value at the beginning of the year	2,312,384
Changes during the year	
Provision for the year	469,750
Use during the year	74,205
Other changes	
Total changes	395,545
Year-end value	2,707,929

This item represents the actual debt accrued toward employees in accordance with the law and the employment contracts in force, considering all forms of remuneration of an ongoing nature.

The provision corresponds to the total individual indemnities accrued in favour of employees at the financial statements date, net of advances paid, and is equal to what would have been payable to employees if the employment relationship had terminated on that date.

Payables

Payables are recorded under liabilities for a total of Euro 42,678,746 (Euro 33,266,516 in the previous year).

The composition of the individual items is represented as follows:

	Value at the beginning of the year	Changes during the year	Year-end value
Bonds	10,000,000	(909,100)	9,090,900
Payables to shareholders for loans	-	-	-
Bank debt	13,270,381	7,759,231	21,029,612
Payables to other lenders	1,210,949	1,811,935	3,022,884
Advances	668,676	(9,416)	659,260
Payables to suppliers	4,247,286	(130,261)	4,117,025

Tax payables	1,030,945	(63,321)	967,624
Due to social security and welfare institutions	608,578	155,883	764,461
Other debts	2,229,701	797,279	3,026,980
Total	33,266,516	9,412,230	42,678,746

The company enforced the option not to use the amortised cost method and not to discount payables.

The accounting policies adopted by the company are as follows:

- non-discounting and non-application of the amortised cost standard for payables maturing within 12 months;
- non-discounting of payables since the effective interest rate is not significantly different from the market interest rate;
- non-application of the amortised cost standard since the relevant transaction costs, commissions and any other difference between initial value and the value at maturity are of little significance.

Therefore, payables are stated at their nominal value.

The item “Bonds” consists of the bond issued by Expert System S.p.A.

The debt for bonds corresponds to the total amount of principal outstanding as at 31/12/2020, according to the repayment schedule.

The balance of the debt for bonds, amounting to Euro 9,090,900, is due:

- For Euro 4,090,900, to the issue of a bond loan reserved for professional investors, fully subscribed by Fondo Strategico Trentino-Alto Adige managed by Finint Investments SGR S.p.A.

The main terms and conditions of the Bond are set out below:

Amount	Nominal Euro 5,000,000.00
Date of issue	07/31/2015
Maturity	12/31/2024, bond repayment date
Issue price	Equal to 100% of the nominal value of each bond
Interest rate	Gross fixed rate of 4% per annum with half-yearly payment from January 2016 onwards
Bond structure	Amortising with 4 years of pre-amortisation

- For Euro 5,000,000, to the issue of a non-convertible bond, fully subscribed by Unicredit S.p.A.

The main terms and conditions of the Bond are set out below:

Amount	Nominal Euro 5,000,000.00
Date of issue	08/02/2019
Maturity	08/02/2026, bond repayment date
Issue price	Equal to 100% of the nominal value of each bond
Interest rate	Nominal floating rate equal to Euribor 3M + 225bb with quarterly payments from November 2019 onwards
Bond structure	Amortising with 2 years of pre-amortisation

Payables - Breakdown by maturity (Art. 38 paragraph 1, letter e, of Italian Legislative Decree 127/91)

The breakdown of payables by maturity is shown below:

	Value at the beginning of the year	Change during the year	Year-end value	Amount due within the financial year	Amount due after the financial year	Of which with a maturity of more than 5 years
Bonds	10,000,000	(909,100)	9,090,900	1,159,100	7,931,800	-
Payables to shareholders for loans	-	-	-	-	-	-
Bank debt	13,270,381	7,759,231	21,029,612	2,911,318	18,118,294	94,233
Payables to other lenders	1,210,949	1,811,935	3,022,884	1,398,179	1,624,705	-
Advances	668,676	(9,416)	659,260	297,054	362,206	-
Payables to suppliers	4,247,286	(130,261)	4,117,025	4,117,024	-	-
Tax payables	1,030,945	(63,321)	967,624	967,624	-	-
Due to social security and welfare institutions	608,578	155,883	764,461	764,461	-	-
Other debts	2,229,703	797,278	3,026,980	3,026,980	-	-
Total payables	33,266,518	9,412,228	42,678,746	14,641,740	28,037,005	94,233

Payables secured by collateral on company assets (Art. 38 paragraph 1, letter e, of Italian Legislative Decree 127/91)

Information about collateral on the company's assets is shown below:

	Mortgage-backed payables	Payables not secured by collateral	Total
Bonds	-	9,090,900	9,090,900
Bank debt	204,800	20,824,812	21,029,612
Payables to other lenders	-	3,022,884	3,022,884
Advances	-	659,260	659,260
Payables to suppliers	-	4,117,025	4,117,025
Tax payables	-	967,624	967,624
Due to social security and welfare institutions	-	764,461	764,461
Other debts	-	3,026,980	3,026,980
Total payables	204,800	42,473,946	42,678,746

Accrued expenses and deferred income (Art. 38 paragraph 1, letter f, of Italian Legislative Decree 127/91)

Accrued expenses and deferred income are recorded under liabilities for a total of Euro 7,106,397 (Euro 8,517,887 in the previous year).

The composition of and changes in individual items are represented as follows:

	Value at the beginning of the year	Change during the year	Year-end value
Accrued expenses	151,530	(8,547)	142,983
Deferred income	8,366,357	(1,402,943)	6,963,414
Total accrued expenses and deferred income	8,517,887	(1,411,490)	7,106,397

Composition of deferred income:

	Within 12 months	After 12 months	After 5 years
Hosting fees	201,835	-	-
Grants for research projects	1,749,404	1,813,495	-
Tax receivable	742,796	864,282	-
Licences	118,610	-	-
Maintenance	1,106,724	35,917	-
Provision of services	330,351	-	-
Other deferred income	-	-	-
Totals	4,249,720	2,713,694	-

Accrued expenses and deferred income are determined on an accrual basis. For long-term accruals and deferrals, the conditions that led to their original recognition were verified when preparing these statements, adopting, where necessary, the appropriate changes.

They represent the connection items of the financial year counted on an accrual basis.

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

As at 12/31/2020, there were no accruals and deferrals with a duration of more than five years.

AMOUNT OF FINANCIAL CHARGES ALLOCATED DURING THE YEAR TO THE ASSETS IN THE BALANCE SHEET, SEPARATELY FOR EACH ITEM

(Art. 38, paragraph 1, letter g, of Italian Legislative Decree 127/91)

It should be noted that during the year no financial charges were recorded as assets in the balance sheet.

INFORMATION ON INCOME STATEMENT

Revenue recognition

Revenues from the sale of products are recognised at the time when the corresponding risks and benefits are transferred, which is normally identified with the delivery or shipment of the goods.

Revenues of a financial nature and those deriving from the provision of services are recognised on an accrual basis.

Revenues and income, costs and charges relating to foreign currency transactions are determined at the exchange rate on the date when the transaction is carried out. Income and expenses relating to repurchase agreements, including the difference between forward price and spot price, are stated for the portion pertaining to the year.

Revenues from sales and services - breakdown by geographical area (Art. 38, paragraph 1, letter i, of Italian Legislative Decree no. 127/91)

Value of production

Description	Previous period	Current period	Change
Revenues from sales and services	31,654,069	28,097,996	(3,556,073)
Change in work in process on long-term contracts	(50,704)	(47,908)	2,796
Increases in fixed assets for internal work	6,070,875	6,878,007	807,132
Other revenues and income	2,058,176	2,518,842	460,666
Totals	39,732,416	37,446,937	(2,285,479)

The figures in the income statement as at 12/31/2020, shown above, are compared with those of the previous year.

The breakdown of revenues by geographical area is shown below:

Geographical area	Current year value
Revenues Italy	(12,423,724)
EEC Revenues	(4,910,749)
EXTRA-EEC Revenues	(10,763,523)
Total	(28,097,996)

Other revenues and income

Other revenues and income are recorded under value of production of the income statement for a total of Euro 2,518,842 (Euro 2,058,176 in the previous year).

Individual items are made up as follows:

	Previous period	Current period	Change
Revenues for tax credit	620,022	998,719	378,697
Capital contributions	1,087,779	1,396,943	309,164
Grants for current expenses	17,610	17,924	17,924
Miscellaneous refunds	102,185	7,595	(94,590)
Other revenues	218,088	87,742	(145,956)
Contingent assets	14,492	9,919	(4,573)
Totals	2,058,176	2,518,842	460,666

Expenses for services

Expenses for services are recorded under costs of production of the income statement for a total of Euro 11,868,539 (Euro 12,043,891 in the previous year).

Individual items are made up as follows:

	Previous year's value	Current year value	Change
Utilities	230,494	181,779	- 48,715
Maintenance and repair costs	251,833	250,976	- 857
Consulting services	7,125,874	8,216,698	1,090,824
Directors' fees	1,185,824	938,244	- 247,581
Fees to auditors and external auditors	44,178	81,590	37,412
Commissions payable	22,107	21,000	- 1,107
Advertising	359,911	328,832	- 31,079
Services for personnel	599,542	847,403	247,861
Fairs and corporate events	292,218	65,737	- 226,481

Condominium expenses	133,482	151,987		18,506
Services from financial enterprises and banks of a non-financial nature	63,589	47,884	-	15,706
Insurance	162,206	143,651	-	18,556
Entertainment expenses	185,784	33,155	-	152,629
Travel and business trip expenses	1,045,511	205,186	-	840,325
Rental costs	124,988	147,314		22,325
Other	216,350	207,105	-	9,244
Total	12,043,891	11,868,539	-	175,352

Use of third-party assets

Expenses for the use of third-party assets are recorded under costs of production of the income statement for a total of Euro 2,408,958 (Euro 1,847,400 in the previous year).

Individual items are made up as follows:

	Previous period	Current period	Change
Rental and lease liabilities	869,645	863,337	(6,308)
Cloud rental	560,585	1,213,873	653,288
Truck rental	-	-	-
Vehicle rental	207,950	233,823	25,873
Hardware rental	7,918	2,919	(4,999)
Royalties	201,301	95,005	(106,296)
Totals	1,847,400	2,408,958	561,558

Personnel costs

This item includes all expenses for employees, including merit salary increases, changes in category, cost-of-living adjustments, the cost of holidays not taken and provisions set aside by law and collective agreements. The increase in personnel costs incurred during the year derives from the implementation of the 2020-2024 “Path to Lead” Strategic Plan and associated recruitment and training costs.

Other operating expenses

Other operating expenses are recorded under costs of production of the income statement for a total of Euro 500,336 (Euro 371,005 in the previous year).

Individual items are made up as follows:

	Previous period	Current period	Change
Taxes and fees	102,067	59,674	(42,393)
Losses on receivables	61,110	75,404	14,294
Magazine and newspaper subscriptions	9,957	95,086	85,129
Other operating expenses	197,871	270,172	72,301
Total	371,005	500,336	129,331

Interest and other financial charges (Art. 38, paragraph 1, letter I, of Italian Legislative Decree no. 127/91)

The breakdown of the item “Interest and other financial charges” is shown below:

	Previous period	Current period	Change
Interest on debt for bonds	240,194	269,641	29,447
Interest on loans	183,279	180,020	(3,259)
Interest on factoring	20,316	-	(20,316)
Commissions for sureties	15,706	14,141	(1,565)
Overdraft charges	19,586	20,456	870
Commissions on financing	29,668	55,557	25,889
Other financial charges	72,910	42,102	(30,808)
Totals	581,660	581,916	256

Income taxes

The composition of the individual items is represented as follows:

	Current taxes	Taxes relating to previous years	Deferred taxes	Prepaid taxes	Income (expenses) from participation in the tax consolidation/tax transparency scheme	Total
IRES	-	-	(144,119)	(169,001)	-	(313,120)
IRAP	-	-	-	-	-	-
income taxes (subsidiaries)	44,444	-	21,433	(700,948)	-	(635,071)
Total	44,444	-	(122,686)	(869,949)	-	(948,191)

REVENUES OR COSTS OF AN EXCEPTIONAL AMOUNT OR INCIDENCE

(Art. 38, paragraph 1, letter m, of Italian Legislative Decree no. 127/91)

It should be noted that in 2020 no individual revenue or cost items of an exceptional amount or incidence were recorded, with the exception of the capital gain (Euro 5,149,911) relating to the sale by the parent company Expert System S.p.A. of the entire minority shareholding in CY4Gate S.p.A. This gain has been reclassified to item C15 in the consolidated financial statements.

OTHER INFORMATION

Reconciliation between shareholders' equity and profit for the year of the parent company and consolidated shareholders' equity and profit for the year

	Shareholders' Equity	of which: result for the year
Balances as per parent company's financial statements	78,955,698	2,379,655
Adjusted balances as per parent company's financial statements	78,955,698	2,379,655
Effect of the valuation of equity investments using the line-by-line method		
- Elimination of the book values of subsidiaries	(16,862,349)	-
- Shareholders' Equity of subsidiaries	(9,479,371)	
- Result for the year of subsidiaries	(7,948,862)	(7,948,862)
- Amortisation of consolidation differences	-	-
Adjustments to the sale of fixed assets	(80,130)	53,998
Other adjustments	(15,193)	90,765
Total adjustments	(34,385,906)	(7,804,098)
Group equity and result for the year	44,569,792	(5,424,443)
Consolidated equity and result for the year	44,569,792	(5,424,443)

Personnel composition

Please find below information concerning the personnel of the companies included in the consolidation, pursuant to Art. 38, paragraph 1, letter n) of Italian Legislative Decree 127/1991:

	Current average number	Previous year's average number
Executives	-	-
Middle managers	73	68
Employees	191	177
Total	264	245

Remuneration of directors and statutory auditors of the parent company

Below is the information regarding the remuneration of the directors and statutory auditors of the parent company for the performance of these functions also in other companies included in the consolidation, in accordance with Art. 38, paragraph 1, letter o) of Italian Legislative Decree 127/1991:

	Directors	Statutory auditors
Remuneration	824,077	22,127

There are no advances and/or credits granted to directors.

Derivative financial instruments (Art. 38, paragraph 1, letter o-ter, of Italian Legislative Decree no. 127/91)

For the following categories of derivative financial instruments, information is provided regarding their fair value, their extent and nature, changes in value recognized directly in the income statement, as well as those recognized in shareholders' equity reserves.

The parent company Expert System S.p.a. has entered into the following derivative contracts with:

- a) CREDIT AGRICOLE
 - Type of derivative contract: Unlisted I.R.S. no. 65611/2017 signed on 25/09/2017 and expiring on 30/01/2023;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 1,000,000;
 - Hedged liability: CREDIT AGRICOLE loan no. 0106917000000 of original Euro 1,000,000 signed on 25/09/2017 and expiring on 30/01/2023;
 - Notional amount at the reference date (31/12/2020): Euro 600,000;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 600,000.
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 7,785.15;
 - Fair value when the hedge was created: zero.
- b) BANCO BPM
 - "Maximum rate with instalment premium" OTC derivative contract ID 790526 F 00104961 D 00038973 signed on 24/07/2017 and expiring on 31/12/2022;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 400,000;
 - Hedged liability: BANCO BPM loan no. 03703813 of original Euro 400,000 signed on 24/07/2017 and expiring on 31/12/2022;
 - Notional amount at the reference date (31/12/2020): Euro 177,777.80;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 177,777.80;

- Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 1,108.76;
 - Fair value when the hedge was created: zero.
- c) UNICREDIT
- “IRS Payer” OTC derivative contract no. MMX24806135 signed on 02/08/2019 and expiring on 02/08/2026;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Reference notional amount: Euro 5,000,000;
 - Hedged liability: non-convertible debenture loan of original Euro 5,000,000 fully subscribed by UNICREDIT S.p.A. as per contract signed on 02/08/2019 and expiring on 02/08/2026;
 - Notional amount at the reference date (31/12/2020): Euro 5,000,000;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 5,000,000;
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 70,315.69;
 - Fair value when the hedge was created: zero.
- d) UBI
- Type of derivative contract: Unlisted I.R.S. no. 171206/2018 signed on 24/10/2018 and expiring on 25/10/2021;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 1,000,000;
 - Hedged liability: UBI loan no. 1276551 of original Euro 1,000,000 signed on 24/10/2018 and expiring on 24/10/2021;
 - Notional amount at the reference date (31/12/2020): Euro 337,274.99;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 337,274.99;
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 1,867.80;
 - Fair value when the hedge was created: zero.
- e) CREDIT AGRICOLE
- Type of derivative contract: Unlisted I.R.S. no. 69745/2019 signed on 22/05/2019 and expiring on 22/05/2024;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 1,000,000;
 - Hedged liability: CREDIT AGRICOLE loan no. 0120308000000 of original Euro 1,000,000 signed on 22/05/2019 and expiring on 22/05/2024;
 - Notional amount at the reference date (31/12/2020): Euro 803,330;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 803,330;
 - Underlying financial risk: interest rate risk;

- Fair value of the derivative contract: mark-to-model fair value negative by Euro 10,542.40;
 - Fair value when the hedge was created: zero.
- f) **INTESA SANPAOLO**
- Type of derivative contract: Unlisted I.R.S. no. 31011814 signed on 28/06/2019 and expiring on 15/06/2023;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 500,000;
 - Hedged liability: loan of original Euro 500,000 signed on 28/06/2019 and expiring on 15/06/2023;
 - Notional amount at the reference date (31/12/2020): Euro 312,500;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 312,500;
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 2,883.00;
 - Fair value when the hedge was created: zero.
- g) **BNL**
- Unlisted OTC derivative contract on interest rates signed on 11/07/2019 and expiring on 11/07/2022;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 1,500,000;
 - Hedged liability: loan of original Euro 1,500,000 signed on 11/07/2019 and expiring on 17/07/2022;
 - Notional amount at the reference date (31/12/2020): Euro 875,000;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 875,000;
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value positive by Euro 37.84;
 - Fair value when the hedge was created: zero.
- h) **BPER BANK**
- “Interest Rate Option Cap Premium Running” unlisted OTC derivative contract on interest rates signed on 01/07/2019 and expiring on 24/06/2022;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 3,000,000;
 - Hedged liability: loan of original Euro 3,000,000 signed on 24/06/2019 and expiring on 24/06/2022;
 - Notional amount at the reference date (31/12/2020): Euro 1,891,832.06;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 1,891,832.06;
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 5,483.71;
 - Fair value when the hedge was created: zero.

- i) UBI
- Type of derivative contract: Unlisted I.R.S. no. 171206/2018 signed on 28/02/2018 and expiring on 28/02/2024;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 1,500,000;
 - Hedged liability: UBI loan no. 1276551 of original Euro 1,500,000 signed on 24/10/2018 and expiring on 24/10/2021;
 - Notional amount at the reference date (31/12/2020): Euro 1,223,773.22;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 1,223,773.22;
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 11,374.05;
 - Fair value when the hedge was created: zero.
- j) INTESA SANPAOLO
- Type of derivative contract: Unlisted I.R.S. no. 36814226 signed on 25/09/2020 and expiring on 25/09/2026;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 2,500,000;
 - Hedged liability: loan of original Euro 2,500,000 signed on 25/09/2020 and expiring on 25/09/2020;
 - Notional amount at the reference date (31/12/2020): Euro 2,500,000;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 2,500,000.
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 43,730.00;
 - Fair value when the hedge was created: zero.
- k) INTESA SANPAOLO
- Type of derivative contract: Unlisted I.R.S. no. 36814343 signed on 25/09/2020 and expiring on 25/09/2026;
 - Purpose: hedging;
 - Operation with no capital exchange;
 - Contractual notional amount: Euro 500,000;
 - Hedged liability: loan of original Euro 500,000 signed on 28/09/2020 and expiring on 25/09/2026;
 - Notional amount at the reference date (31/12/2020): Euro 500,000;
 - Amount of liability hedged at the reference date (31/12/2020): Euro 500,000;
 - Underlying financial risk: interest rate risk;
 - Fair value of the derivative contract: mark-to-model fair value negative by Euro 9,269.00;
 - Fair value when the hedge was created: zero.

l) MPS

- Type of derivative contract: Unlisted I.R.S. no. 210496 signed on 12/07/2019 and expiring on 30/09/2024;
- Purpose: hedging;
- Operation with no capital exchange;
- Contractual notional amount: Euro 1,150,000;
- Hedged liability: loan of original Euro 1,150,000 signed on 12/07/2019 and expiring on 30/09/2024;
- Notional amount at the reference date (31/12/2020): Euro 958,333.36;
- Amount of liability hedged at the reference date (31/12/2020): Euro 958,333.56;
Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value negative by Euro 4496.15;
- Fair value when the hedge was created: zero.

Simple hedging transactions are valued according to the simplified method since the conditions required by OIC 32 are met.

As already specified in the Management Report, the parent company Expert System S.p.A. uses derivative financial instruments solely to hedge its exposure to the interest rate risk, thereby stabilizing the flow of interest paid mainly on medium and long-term debt, and does not hold any speculative financial instruments.

Derivatives, recognised at fair value, are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the hedge is highly effective.

Financial fixed assets stated at a value higher than their fair value

(Art. 38, paragraph 1, letter o-quater, of Italian Legislative Decree no. 127/91)

No data to report.

Commitments, guarantees and potential liabilities not shown on the balance sheet

(Art. 38, paragraph 1, letter h, of Italian Legislative Decree no. 127/91)

The table below shows commitments, guarantees and potential liabilities not shown on the balance sheet:

	Initial balance	Change	Final balance
SURETIES	1,214,618	130,508	1,345,126
- to other companies	1,214,618	130,508	1,345,126

These are sureties to credit institutions or insurance companies for Euro 1,345,126.

Related party transactions (Art. 38, paragraph 1, letter o-quinquies, of Italian Legislative Decree no. 127/91)

Below is information concerning related party transactions.

Trade and financial relations

Company	Financial payables	Financial receivables	Trade receivables	Trade payables	Sales	Purchases
EXPERT SYSTEM HELVETIA SÀRL	-	521,288	13,976	73,463	17,037	73,907
EXPERT SYSTEM USA INC	-	5,304,659	1,281,958	928	490,759	20
EXPERT SYSTEM COGITO LTD	-	705,556	1,345,800	246,923	761,784	247,077
EXPERT SYSTEM IBERIA S.L.U.	-	3,165,087	2,212,429	122,893	710,151	95,378
EXPERT SYSTEM FRANCE SA	-	1,424,386	351,620	1,274,759	760,784	224,794
EXPERT SYSTEM ENTERPRISE CORP	-	4,669,535	6,524,366	409,700	1,625,900	387,213
EXPERT SYSTEM DEUTSCHLAND GMBH	-	1,358,541	990,350	84,732	210,978	84,733
EXPERT SYSTEM CANADA TECHNOLOGIES SÉMANTIQUES INC	-	-	183,000	-	14,194	-
Total	-	17,149,052	12,903,499	2,213,398	4,591,587	1,113,122

Trade relations

Company	Payables	Receivables	Guarantees	Commitments	Costs	Revenues
EXPERT SYSTEM HELVETIA SÀRL	73,463	13,976	-	-	73,907	13,983
EXPERT SYSTEM USA INC	928	1,281,958	-	-	20	419,912
EXPERT SYSTEM COGITO LTD	246,923	1,345,800	-	-	247,077	752,774
EXPERT SYSTEM IBERIA S.L.U.	122,893	2,212,429	-	-	95,378	672,039
EXPERT SYSTEM FRANCE SA	1,274,759	351,620	-	-	224,794	742,818
EXPERT SYSTEM ENTERPRISE CORP	409,700	6,524,366	-	-	387,213	1,588,378
EXPERT SYSTEM DEUTSCHLAND GMBH	84,732	990,350	-	-	84,733	196,434
EXPERT SYSTEM CANADA TECHNOLOGIES SÉMANTIQUES INC	-	183,000	-	-	-	14,194
Total	2,213,398	12,903,499	-	-	1,113,122	4,400,532

Financial relations

Company	Payables	Receivables	Guarantees	Commitments	Charges	Income
EXPERT SYSTEM HELVETIA SÀRL	-	521,288	-	-	-	3,053
EXPERT SYSTEM USA INC	-	5,304,659	-	-	-	70,846
EXPERT SYSTEM COGITO LTD	-	705,556	-	-	-	9,011
EXPERT SYSTEM IBERIA S.L.U.	-	3,165,087	-	-	-	38,112
EXPERT SYSTEM FRANCE SA	-	1,424,386	-	-	-	17,966
EXPERT SYSTEM ENTERPRISE CORP	-	4,669,535	-	-	-	37,521
EXPERT SYSTEM DEUTSCHLAND GMBH	-	1,358,541	-	-	-	14,545
EXPERT SYSTEM CANADA TECHNOLOGIES SÉMANTIQUES INC	-	-	-	-	-	-
Total	-	17,149,052	-	-	-	191,054

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

With the subsidiary Expert System HELVETIA SÀRL.:

- Granting of a Euro 518,235 loan to the subsidiary with interest in 2020 for Euro 3,053.

Sale

- Provision of professional services for Euro 167;
- Reimbursement of miscellaneous expenses for Euro 13,816.

Purchase

- Costs for miscellaneous reimbursements for Euro 73,907.

With the subsidiary Expert System USA Inc:

- Granting of a Euro 5,021,174 loan to the subsidiary with interest in 2020 for Euro 70,846.

Sale

- Maintenance fees for Euro 96,223;
- Provision of professional services for Euro 19,452;
- Reimbursement of miscellaneous expenses for Euro 21,370;
- Concession of licences for Euro 282,867.

Purchase

- Provision of professional services by the subsidiary for Euro 20.

With the subsidiary Expert System Cogito Ltd.:

- Granting of a Euro 667,840 loan to the subsidiary with interest in 2020 for Euro 9,011.

Sale

- Provision of professional services for Euro 435,041;
- Concession of licences for Euro 196,332;
- Maintenance fees for Euro 16,728;
- Reimbursement of miscellaneous expenses for Euro 104,673.

Purchase

- Costs for miscellaneous reimbursements for Euro 247,077.

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

- Granting of a Euro 2,886,000 loan to the subsidiary with interest in 2020 for Euro 38,112.

Sale

- Provision of professional services for Euro 73,437;
- Concession of licences for Euro 441,322;
- Reimbursement of miscellaneous expenses for Euro 72,659;
- Maintenance fees for Euro 84,621.

Purchase

- Provision of professional services by the subsidiary for Euro 93,851;
- Costs for miscellaneous reimbursements for Euro 1,527.

With the subsidiary Expert System France S.A.:

- Granting of a Euro 1,320,501 loan to the subsidiary with interest in 2020 for Euro 17,966.

Sale

- Provision of professional services for Euro 158,999;
- Concession of licences for Euro 282,860;
- Maintenance fees for Euro 137,908;
- Reimbursement of miscellaneous expenses for Euro 163,051.

Purchase

- Professional services provided by the subsidiary for Euro 108,208;
- Costs for miscellaneous reimbursements for Euro 116,586;
- Purchase of receivables due to Expert System France S.A. from its subsidiaries for Euro 2,443,383.

With the subsidiary Expert System Enterprise Corp.:

- Granting of a Euro 4,547,307 loan to the subsidiary with interest in 2020 for Euro 37,521.

Sale

- Concession of licences for Euro 915,000;
- Provision of professional services for Euro 221,669;
- Maintenance fees for Euro 300,174;
- Reimbursement of miscellaneous expenses for Euro 151,535.

Purchase

- Provision of professional services by the subsidiary for Euro 95,643;
- Costs for miscellaneous reimbursements for Euro 291,570.

With the subsidiary Expert System Deutschland GmbH:

- Granting of a Euro 1,330,000 loan to the subsidiary with interest in 2020 for Euro 14,545.

Sale

- Provision of professional services for Euro 46,998;
- Concession of licences for Euro 100,500;
- Maintenance fees for Euro 11,892;
- Reimbursement of miscellaneous expenses for Euro 37,044.

Purchase

- Provision of professional services by the subsidiary for Euro 11,251;
- Costs for miscellaneous reimbursements for Euro 73,482.

With the subsidiary Expert System Canada - Technologies Sémantique Inc.:

Sale

- Maintenance fees for Euro 12,729;
- Provision of professional services for Euro 768;
- Reimbursement of miscellaneous expenses for Euro 697.

Agreements not shown on the balance sheet (Art. 38, paragraph 1, letter o-sexies, of Italian Legislative Decree no. 127/91)

There is no information concerning the nature and economic purpose of agreements not shown on the balance sheet.

Indication of fees pursuant to Art. 38, paragraph 1, letter o-septies of Italian Legislative Decree 127/1991

Below are details of the fees paid to the audit firm BDO Italia S.p.a., for the audit of the consolidated accounts, other audit services, tax advisory services and services other than the statutory audit provided to the Group:

	Costs for tax advisory services and other audit services	Costs for audit services
Expert System S.p.A.	35,360	25,400
Expert System France S.A.	6,300	13,857
Expert System Iberia S.L.U.	33,373	-
Expert System Deutschland GMBH	28,499	-
Expert System Cogito Ltd.	-	-
Expert System Enterprise Corp.	37,953	-
Expert System USA Inc.	5,253	-
Expert System Canada – Technologies Sémantiques Inc.	-	-
Expert System Helvetia SàRL	6,891	-

Information pursuant to Art. 1, paragraph 125, of law no. 124 of 4 August 2017

It should be noted that, pursuant to Law no. 124/2017, paragraph 125-129 of Art. 1, the so-called annual Law for the market and competition, Group companies received the following amounts in 2020, as partial coverage of costs incurred and/or by way of contributions (cash basis):

Receiving party name	Name of the grantor	Amount	Collection date	Reason for payment	Project
		(data in Euro)			
Expert System S.p.A.	LAZIO INNOVA	46,320	01/07/2020	Balance of contribution	Application PROT. No. A0112-2016-13343 - CUP F87H18000570007 - Public Notice 'LIFE 2020' referred to in Resolution No. G08726 of 29/07/2016 - POR FESR LAZIO 2014 - 2020 - Integrated Projects
	EIT DIGITAL	292,276	26/06/2020	Advance contribution	EIT DIGITAL 2019
	EIT DIGITAL	60,576	06/04/2020	Advance contribution	EIT DIGITAL 2019
	EIT DIGITAL	13,014	03/07/2020	Advance contribution	EIT DIGITAL 2020
	EIT DIGITAL	13,014	14/07/2020	Advance contribution	EIT DIGITAL 2020
	EIT DIGITAL	13,014	07/10/2020	Advance contribution	EIT DIGITAL 2020
	EC	149,144	12/06/2020	Advance contribution	PROJECT ANITA - Grant Agreement
					787061
	EIT DIGITAL	43,715	05/08/2020	Balance of contribution	EIT DIGITAL 2019
	LAZIO INNOVA	19,431	25/05/2020	Balance of contribution	COURIER APPLICATION No. A0113-2017-13652 of 31/01/2017 code CUP F83G17000860007 Public Notice "Aerospace and Security" referred to in Resolution No. G13676 of 21/11/2016 - POR FESR LAZIO 2014 - 2020 - Integrated Projects
MISE [Italian Ministry of Economic Development]	229,674	15/05/2020	Balance of contribution	SUSTAINABLE GROWTH FUND FOR: LESS DEVELOPED REGIONS NO.1 PROG.F/050035/01/X32 (HORIZON 2 020PON) - CUP B78I17000380008	

	MISE [Italian Ministry of Economic Development]	207,980	15/05/2020	Balance of facilitated financing	SUSTAINABLE GROWTH FUND FOR: LESS DEVELOPED REGIONS NO.1 PROG.F/050035/01/X32 (HORIZON 2 020PON) - CUP B78117000380008
	MIUR [Italian Education, University and Research Ministry]	146,928	22/12/2020	Work progress balance	Project ARS01_00927 - C4E - Monitoring illegal spills through the synergistic use of advanced technologies
	MIUR [Italian Education, University and Research Ministry]	593,275	05/05/2020	Balance of contribution	RESEARCH FACILITATION FUND-FAR PROG.RI PON04A2-D
	FONDO IMPRESA	13,781	15/07/2020	Training contribution	FONDIMPRESA NATIONAL INTERPROF FUND FOR CONTINUING EDUCATION
	INVITALIA	4,143	09/07/2020	reimbursement of expenses incurred in the purchase of PPE	Impresa Sicura - Invitalia call for proposals
Expert System Iberia S.L.U.	European Commission	58,935	06/03/2020	Balance	700367 — DANTE — H2020-FCT-2014-2015/H2020-FCT-2015
	European Commission	16,781	04/12/2020	Balance	740934 - TRIVALENT - H2020-SEC-2016-2017/H2020-SEC-2016-2017-1
	European Commission	58,756	04/07/2020	Balance	740466 — LETS-CROWD — H2020-SEC-2016-2017/H2020-SEC-2016-2017-1
	European Commission	87,327	05/11/2020	Advance	825627 - ELG - H2020-ICT-2018-2020/H2020-ICT-2018-2
	European Commission	269,849	09/10/2020	Advance	883596 — AIDA — H2020-SU-SEC-2018-2019-2020 / H2020-SU-SEC-2019
Expert System France S.A.	BPI France	81,451	25/06/2020	Balance	PRESIDGE
	European Union, represented by the European Commission	47,209	30/09/2020	Advance	PYTHIA
	European Union, represented by the European Commission	149,240	31/07/2020	Advance	SOCIAL TRUTH
	European Defence Agency	40,281	18/12/2020	Advance	SOLOMON
	BPI France	173,000	24/06/2020	Advance	Oncosnipe

Please also note that on 13/11/2020 we received the final decree for the granting of the project PASTEUR - “Platform for the Semantic Analysis of Texts and Research Utility in the Medical and Health Care Sector” under the Sustainable Growth Fund - Horizon 2020 PON Call for Proposals Project No. 35 CUP B78117000380008000, with the final granting of the following facilities:

a) a facilitated financing for the amount of Euro 207,980.00;
 b) a contribution to expenses for the amount of Euro 255,193.75;
 c) an increase in the contribution to expenses for the amount of Euro 51,995.00, in the light of the following incurred and eligible costs:

1) Development activities Euro 650,085.09 in less developed areas;

2) Research activities Euro 439,917.18 in less developed areas,

for a total of Euro 1,090,002.27.

These costs were incurred in relation to the following research objectives

RESEARCH OBJECTIVES	DESCRIPTION
1	Definition of algorithms for semantic analysis of medical-technical texts
2	Definition of algorithms for semantic analysis of online medical texts
3	Definition of algorithms for analysis, correlation and advanced information retrieval
4	Development of the Semantic and Database modules
5	Development of the Knowledge Map module
6	Experimental validation of the Semantic and Database modules
7	Experimental validation of the Knowledge Map module and of the overall platform

In the absence of clear indications on the part of the Ministry, the Company has referred to an Assonime circular in which non-selective advantages or those accessible to all companies according to predetermined general criteria, as is the case for tax benefits, are considered to be excluded from the disclosure obligation.

It should be noted that during the year ended 31/12/2020, Expert System S.p.A. received as a benefit the tax receivable on Research and Development pursuant to Law 190/2014 accrued in 2019 for Euro 631,561 and used for offsetting purposes in 2020 for Euro 410,843.

Lastly, in the course of 2020 Expert System France S.A. collected Euro 122,757 in relation to the “Crédit d’Impôt Recherche (CIR)” benefit, provided for under article 244 quater B of the Code Général des Impôts (CGI), accrued during 2019.

SIGNIFICANT EVENTS OCCURRED AFTER 31/12/2020

(Art. 38, paragraph 1, letter O-decies of Italian Legislative Decree no. 127/91)

With reference to the main events that affected the expert.ai group after the end of 2020, the following should be noted.

EQUITY INVESTMENT UPDATES

On **02/12/2021**, the Board of Directors of Expert System S.p.A approved the **renewal of the intercompany loans plan** which provides for the disbursement of loans to the companies controlled from time to time up to a maximum total amount of Euro 10 million. The Operation will provide the subsidiaries with a simplified way of raising financial resources in order to facilitate the development and execution of the Group's strategy.

NEW CUSTOMERS

On **01/07/2021**, an agreement was announced with **HX, a business unit of Howden Group Holdings**, specialising in digital data analysis and distribution in the insurance market.

In **February**, the acquisition of two more customers in the insurance market was announced:

- 1 **Le Conservateur**, an independent mutual insurance group with 253,000 insured members and over Euro 9.2 billion in assets under management as at 1 January 2021;
- 2 **Patra**, a North American provider of technology services for the insurance industry - one of the leaders in this market.

On **02/23/2021**, we announced the acquisition of a new customer, **The Associated Press**, the first independent international news agency, based in New York and now one of the largest agencies in the world.

On **03/23/2021**, the Company announced that it had signed an agreement with **Reale Mutua**, Italy's leading mutual insurance company, which has chosen the potential of expert.ai's natural language understanding and processing to evolve its claims management and innovate its claims settlement model.

ADVANCING CLOUD OFFERINGS AND SERVICES

On **01/11/2021**, expert.ai announced that it had launched the **commercial version of its cloud-based natural language application** (expert.ai NL API) in conjunction with the **first** knowledge graph and disambiguation **hackathon**: "Natural Language & Text Analytics API".

Other important milestones were announced in the **second half of March**:

- **03/15/2021: expert.ai's new User Community** was launched- with a dedicated website and forum (<https://community.expert.ai>), to offer information, technical documentation, insights and a virtual space to share experiences, events and webinars aimed at supporting, in an even more complete and richer way, the

community of developers, data scientists, experts and artificial intelligence enthusiasts as well as all expert.ai customers and partners;

- **03/16/2021:** the “Natural Language & Text Analytics API” **Hackathon**, which involved **1,000 developers and over 50 new apps** based on the natural language understanding and processing capabilities of expert.ai’s API, came to an end with the announcement of the winners;
- **03/16/2021:** the release of the new “PII” (Personal Identifiable Information) function in expert.ai’s API offering was announced, to identify sensitive data in huge volumes of documents before analysing or using them within business processes (health data, customer data, GDPR compliance, etc.).

PRELIMINARY CONSOLIDATED DATA FOR 2020

On **03/12/2021**, expert.ai announced that it had prepared preliminary consolidated economic and financial results as of December 31, 2020 (not subject to statutory audit), closing with revenues slightly below the 2020 targets of its “Path to Lead” Strategic Plan, a Net Financial Position of approximately Euro 21.0 million and excellent results in its strategic business areas, and confirming its “Path to Lead” targets until 2024.

Furthermore, on **03/08/2021**, expert.ai was confirmed for the seventh consecutive year in KMWorld’s ranking of the top companies specialising in knowledge management (“**100 Companies That Matter in Knowledge Management 2021**”).

On **03/17/2021** the Company was confirmed by **Gartner** as one of the selected vendors worldwide (15 in total) in the **Magic Quadrant dedicated to Insight Engines**.

Finally, on **03/29/2021** the company won the prestigious international **AI Excellence Awards**, standing out in the field of Natural Language Processing for its ability to apply the benefits of artificial intelligence to concrete use cases and real problems.

At the date of preparation of the consolidated financial statements, the effects of the Coronavirus outbreak (COVID-19) on the Italian economy and the world economy in general are still being felt. All the Group companies, in accordance with the indications provided by the competent authorities of their respective countries, have adopted preventive measures and operating instructions to contain the spread of the virus, in order to protect workers, customers and those who have contact with the Group companies. The situation is constantly being monitored so that all necessary decisions can be taken in real time to protect the health of those involved in any way. On the basis of the actions put in place to tackle the current situation and the information available at the date of preparation of this document with regard to the continuation of the emergency measures put in place by the various governments, we believe that we can confirm for 2021 the estimates and objectives of the 2020-2024 “Path to Lead” Strategic Plan, which have been specified in the Consolidated Management Report, to which reference should be made for more details.

Therefore, in the light of the aforesaid remarks, it is believed that the events that occurred after year end have no effect on the 2020 consolidated financial statements from an equity, financial and economic point of view.

*Chairman of the Board of Directors
Stefano Spaggiari*

REPORT OF THE AUDITING COMPANY AS AT 12/31/2020





EXPERT SYSTEM S.p.A.

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

Consolidated financial statements at
31 December 2020

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

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

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

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Expert System S.p.A. and its subsidiaries (the "Expert System Group"), which comprise the balance sheet as of December 31, 2020, the statement of income, the statement of changes in equity, the cash flow statements and related explanatory notes.

In our opinion the consolidated financial statements give a true and fair view of the financial position of Expert System Group as of December 31, 2020 and of the result of its operations for the year then ended in accordance with the Italian regulations and accounting principles governing financial statements.

Basis for opinion

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

The directors of Expert System S.p.A. are responsible for the preparation of the report on operations of Expert System S.p.A. as at December 31, 2020, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations, with the consolidated financial statements of Expert System S.p.A. as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations is consistent with the consolidated financial statements of Expert System Group as at December 31, 2020 and is compliant with applicable laws and regulations.

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

Bologna, April 12, 2021

BDO Italia S.p.A.

Alessandro Gallo
Partner



www.expert.ai

ir@expert.ai

REGISTERED OFFICE

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

ADMINISTRATIVE OFFICES

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