EXPERT.AI GROUP

HALF-YEARLY FINANCIAL REPORT

PREPARED IN ACCORDANCE WITH IFRS ACCOUNTING STANDARDS APPROVED BY THE EUROPEAN UNION

AS AT 30 June 2023

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I. PROFILE OF EXPERT.AI

Dear Shareholders,

This report supplements 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 explanatory notes.

CORPORATE BODIES

Board of Directors

Chairman of the Board of Directors	DARIO PARDI
Director - CEO	WALTER LLOYD MAYO III
Director - CTO	MARCO VARONE
Deputy Chairman of the Board of Directors	STEFANO SPAGGIARI
Director	SARA POLATTI
Independent Director	ALAN PACKER
Independent Director	ANDREA GABOLA
Independent Director	ETTORE LEALE
Independent Director	KAREN JO CAMBRAY
Independent Director	STEFANO PEDRINI
Independent Director	MARCO DI TEODORO

In light of new appointments (3 May 2023) and of Governance renewal (25 July 2023), the members of the Board of Directors are:

Dario Pardi - Chairman, legal representative and major shareholder of GUM Group S.p.A., has decades of experience working for major ICT multinationals, holding senior positions both internationally and in Italy;

Walt Mayo - Chief Executive Officer, accomplished manager with more than two decades of experience in sales, marketing and strategic leadership of development;

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

Stefano Spaggiari - Deputy Chairman and Head of investor relations, one of the founding partners of the company which, under his leadership, has become an artificial intelligence technology market leader;

Sara Polatti - Director, Associate and CFO at CC & Soci S.r.l., where she provides financial advice on extraordinary finance transactions in Italy and abroad, club deal organisation and structuring as well as company set up and operational;

Alan Packer - Independent Director, former Technical Director of Amazon's Alexa natural language understanding team, has almost 30 years of experience in artificial intelligence, machine learning and language technologies;

Andrea Gabola - Independent Director, Chartered Accountant and Auditor, partner of the firm Ranalli e associati in Turin, holds senior positions in several companies in various industry and service sectors;

Ettore Leale - Independent Director, U.S.-based executive and investor working in software and digital education. He has led Yahoo's search engine business in emerging markets, launched new digital products and opened new markets for Harvard Business School, Instill, Digital Impact and Adaptec;

Karen Jo Cambray - Independent Director, Chief Financial Officer with over 25 years of experience in planning and executing financial strategies for early and mid-stage growth companies, finance and operations executive with significant experience in strategic planning, scaling transactions and M&A activities;

Stefano Pedrini - Independent Director, Professor of Economics and Design Organization at the Polytechnic of Turin, expert in management consulting and advisory in corporate finance, management control and strategy;

Marco di Teodoro - Independent director, Chartered Accountant and Auditor at corporations as well as trainer at SDA Bocconi and the Cattolica del Sacro Cuore University.

The Board of Directors also resolved to set up an **Executive Committee**, whose members are:

- **Dario Pardi**, who also serves as Chairman of the Committee;

- **Walt Mayo**; and

- **Marco Varone**;

and also appointed Director Marco di Teodoro as a member of the Management Control Committee, whose members are thus:

Andrea Gabola - Chairman

Stefano Pedrini - Member

Marco di Teodoro - Member

Supervisory Body

Costantino di Miceli - Chairman

Stefano Termanini - External Member

Nicola Bortoletto - Internal Member

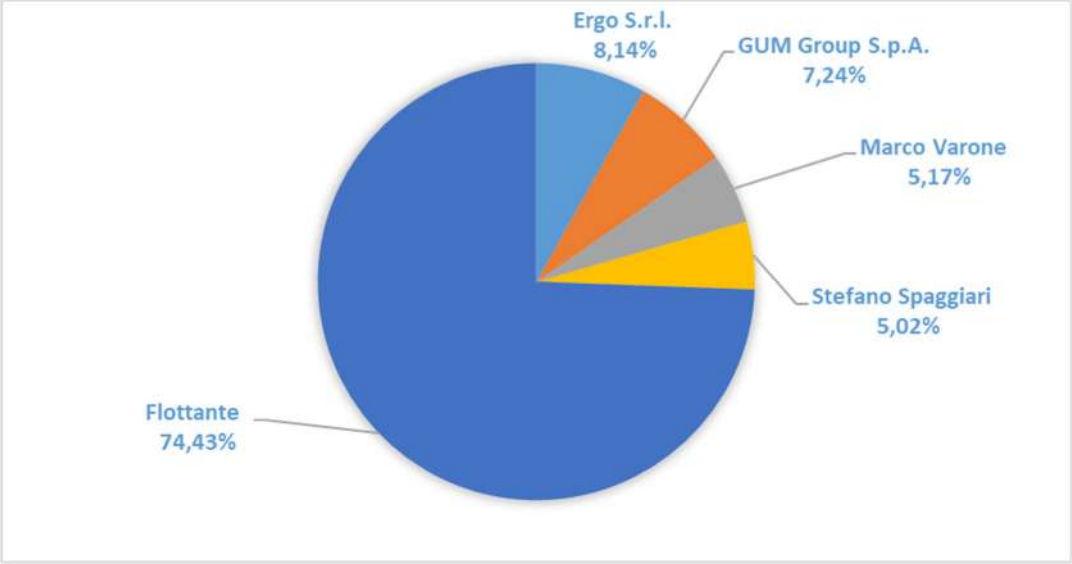
Audit Firm

BDO Italy S.p.A.

KEY SHAREHOLDERS OF PARENT COMPANY

Expert.ai S.p.A. is a company with registered office in Rovereto, in Via Fortunato Zeni 8 and with operational headquarters in Modena, in Viale Virgilio 56/Q. Its shareholders are shown in the table below.

Shareholder	**% of total share capital**
Ergo S.r.l.	8.14
GUM Group S.p.A.	7.24
Marco Varone	5.17
Stefano Spaggiari	5.02
Floating	74.43
Total	**100**

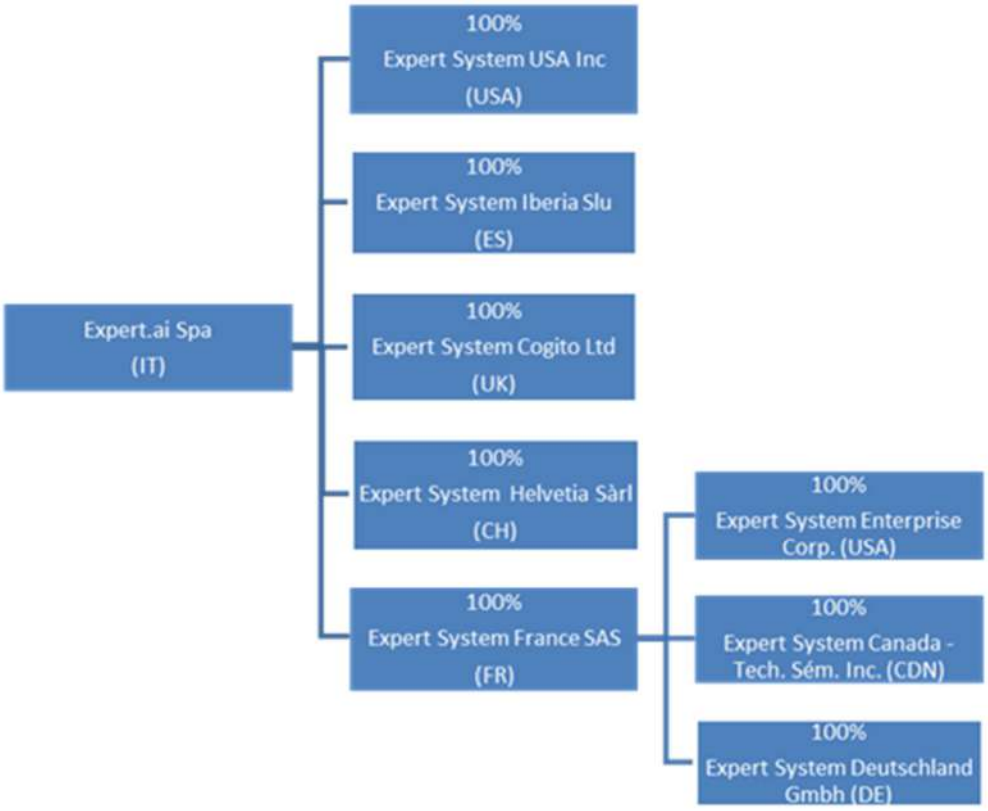


APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The half-yearly financial report as at 30/06/2023 was approved by the Board of Directors on 28/09/2023 and is not 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 has not changed substantially from that of 31/12/2022.

The **expert.ai** group currently has a global presence and infrastructure, with headquarters in Italy, Spain, France, Germany, UK, Switzerland, USA and Canada:



BUSINESS

Expert.ai is listed on the Euro Growth Milan (EXAI:IM) market and is a leader in artificial intelligence applied to natural language understanding and natural language processing. The company's main goal is to help companies and public organisations **transform language into useful data** to **improve decision-making processes, accelerate intelligent process automation, analyse complex documents and identify market risks and opportunities**.

In today's world, characterised by the centrality of mostly unstructured business data (expressed in the language we usually use to communicate - natural language), the ability to effectively exploit the plethora of information available, which is constantly growing exponentially, is fundamental to gaining a competitive advantage. Expert.ai has **more than 30 years of experience with hundreds of successful projects and implementations**. It employs a team of experts in natural language technology and a unique artificial intelligence technology, which has won major awards from analysts and industry experts, including Gartner[1] and Forrester[2]. The most distinctive and cutting-edge aspect of expert.ai's platform and solutions is its ability to make the most of and offer a hybrid approach to artificial intelligence ('Hybrid AI').



Expert.ai Platform: expert.ai's platform is capable of handling even very complex use cases and, at the same time, is simple and intuitive enough to be used easily even by novices. Taking advantage of the best solutions offered by different artificial intelligence (hybrid AI) technologies, it 'understands' the language used in business activities to enhance any process or application that requires the processing of unstructured data, expressed in natural language.

Symbolic understanding based on knowledge graphs and language rules, machine learning, large language models (such as GPT) and an open platform, which makes the most of and offers the strengths and benefits of all artificial intelligence approaches. Expert.ai's unique mix of technology and solutions ensures maximum accuracy in linguistic analysis as well as the speed, flexibility and scalability needed to transform any information content into **valuable knowledge** and **immediately usable data**.

The company also collaborates with a global partner network. Leveraging the integration of its platform and solutions with other technologies, expert.ai is able to respond effectively to any challenges and opportunities related to intelligent process automation, natural language interaction and 'intelligent' information management.

[1] 'Hype Cycle for Natural Language Technologies, 2023' Gartner - Bern Elliot, Adrian Lee, Gabriele Rigon - 27 July 2023. Expert.ai, listed by Gartner for four consecutive years in the 'Hype Cycle for NLT' report, is a 'Sample Vendor' in several categories, including ontologies and knowledge graphs, semantic search and insight engine.

[2] 'The Forrester Wave™: People-Oriented Text Analytics Platforms, Q2 2022' - 'The Forrester Wave™: Document-Oriented Text Analytics Platforms, Q2 2022'. Both reports focus on the selection of the best text analytics platforms (only 13 platforms/companies for the 'people-oriented' wave and 12 for the 'document-oriented' wave). Expert.ai was rated as a strong performer in both searches, scoring highest in several criteria, including data enrichment and labelling, support for strategic use cases, knowledge-based artificial intelligence (knowledge graph) and natural language inferences.

CUSTOMERS

Expert.ai works with global companies and organisations such as AXA XL, Zurich Insurance Group, Generali, The Associated Press, Bloomberg, ING, BNP Paribas, Rabobank, Gannett and EBSCO. Insurance, banking and financial services companies, healthcare and pharmaceutical organisations, publishing and media groups use expert.ai's platform and solutions on a daily basis to make more timely and informed decisions, improve research, categorisation and intelligence, innovate customer care services and accelerate intelligent process automation, effectively supporting robotic process automation (RPA).

In the main areas of the company's business, the following use cases particularly stand out:

- Insurance: broad and in-depth experience with artificial intelligence solutions, NLU/NLP specific to all major application areas (risk engineering, automated claims management, policy review, quote management);
- Banking and Financial Services: NLU/NLP solutions for customer digital interaction, risk management, legal and compliance, corporate intelligence, intelligent business process automation, robotic process automation;
- Pharmaceutical industry and Healthcare: analysis of information in scientific publications, analysis of pre-clinical reports, identification of adverse events, monitoring of clinical trials, information activities supporting drug discovery, solutions for digital health objectives.
- Publishing and Media: taxonomy management and editorial content enrichment, editorial support (e.g. to track news on social media and other sources, identify and filter fake news), automatic categorisation of articles and news, content recommendation, information services.

II. RESEARCH AND DEVELOPMENT ACTIVITIES

Investments in research and development, which have always been at the heart of expert.ai's strategy, have been and continue to be the basis of the company's business 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 the first half of 2023 these activities focused on the artificial intelligence platform and the products that use the platform to target the most common customer use cases. Below are the main research and development activities in 2023.

Development of the artificial intelligence platform

The platform stands out for its 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.

The most important activities pursued in the first half of 2023 were focused on:

- integration with third-party LLMs, via API or local deployment
- addition of new feature extraction and machine learning algorithms,
- revision and expansion of the worflow engine for volume and cost optimisation
- implementation of the architecture for Openshift and for private deployments of Kubernetes
- revision and extension of OCR and IDP components.

Knowledge model

New knowledge models were implemented for solving specific problems and reducing the implementation time of new projects. The most important models developed are:

- medical claims
- advanced ESG
- cyber crime
- ICD 9
- ICD 10

Hybrid approach

Further progress was made in the development and integration of symbolic and machine learning-based techniques for natural language understanding, and the automatic extraction rule generation system was improved.

Extract

The development of expert.ai Extract - a component for the analysis and recognition of the 'semantic' structure of documents for the recognition of all significant elements (titles, formatting, lists, tables of contents, headers, footers, tables, columns, highlights) and the correct reading order - was further pursued.

The following features were added:

- recognition of form/module type templates
- optimisation on CPU architectures
- fusion of linguistic and positional elements.

Other significant activities and new releases in 2023 were:

• release of the fourth version of the platform-based search engine with new scoring and summarisation features;

• restructuring and expansion of the knowledge graph for several languages (Italian, English, Spanish).

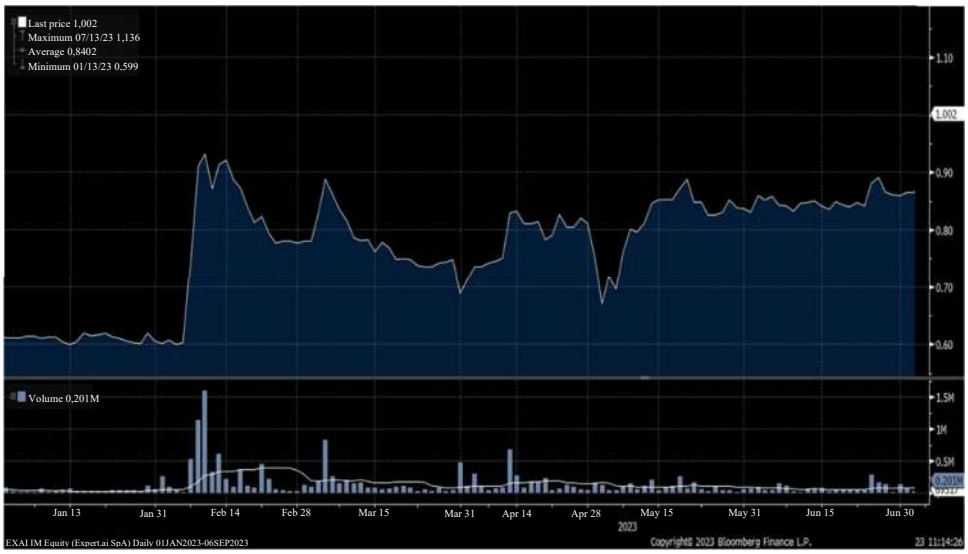
III. OPERATING PERFORMANCE

EXAI.MI SHARE PRICE

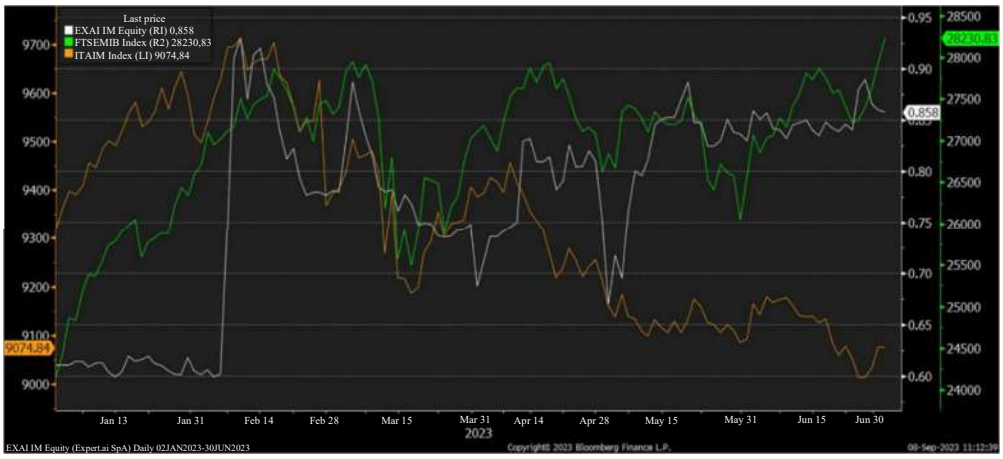
The performance of the **expert.ai** share price as of 30/06/2023 is shown below:

Market	Euronext Growth Milan
Share capital	*€ 639,098.82*
Minimum lot	*1.00*
Capitalisation	*€ 54,834,679 mln*
Closing price	*€ 0.858*
Performance - 1 month	*0.82%*
Performance - 6 months	*40.43%*
Performance - 1 year	*7.254%*

Expert.ai Performance & Volume Chart



Expert.ai Performance Graph



MAIN CORPORATE EVENTS OCCURRED IN THE HALF-YEAR

With reference to the main events that affected the **expert.ai group** in the period, the following is reported.

MAIN EVENTS OF 2023

FINANCIAL EVENTS

On **27 January 2023**, expert.ai's Board of Directors resolved on a reserved capital increase, one tranche of which was awarded to Walt Mayo, the Company's CEO; it also updated the estimates of the 2022B-2024E business plan, awarded a total of 665,000 stock grants from the second tranche of the 2020-2023 Stock Grant Plan, and appointed the supervisory body.

On **14 February 2023**, the Shareholders' Meeting resolved to appoint BDO Italia S.p.A. as its audit firm for the period 2022-2024.

On **3 May 2023** , the Shareholders' Meeting appointed the new Board of Directors and announced that Alan Packer, former Technical Director of Amazon's Alexa team with 30 years of experience in artificial intelligence, machine learning and natural language understanding, would join the Board.

On **5 May 2023,** the Board of Directors of expert.ai appointed the members of the Management Control Committee (Andrea Gabola, Stefano Pedrini, Cecilia Garattini).

On **15 May 2023**, the Board of Directors resolved to grant 790,360 ordinary shares of the issuer, for no consideration, following the vesting of the third tranche of the 2020-2023 Stock Grant Plan.

On **19 June 2023** expert.ai announced that it had appointed MIT SIM S.p.A. as Specialist Operator.

CUSTOMERS, PARTNERSHIPS AND AWARDS

On **7 February 2023**, expert.ai unveiled new features that make the expert.ai Platform even more powerful and flexible, including more on-premise deployment options and improved taxonomy management.

On **15 February 2023**, expert.ai announced the integration of OpenAI's GPT into its artificial intelligence platform.

On **8 March 2023**, expert.ai announced that it had been confirmed for the ninth year in a row in the 'Top 100 best companies in knowledge management' ranking by the American magazine KMWorld.

On **15 March 2023,** expert.ai announced a new partnership with Telefónica Tech, a leading digital transformation company with more than 5.5 million B2B customers in 175 countries, to integrate expert.ai's platform and products into Telefónica Tech's 'AI for Things' offering.

On **28 March 2023**, expert.ai announced a partnership with the leading company INTEGRATEDXR® Vection Technologies (ASX:VR1, OTC:VCTNY) to develop a solution for digitising technical manuals, based on artificial intelligence.

On **4 April 2023**, expert.ai received the SOC Type 2 security certification as further confirmation of the company's dedication to and continued focus on customer data protection and cybersecurity.

On **5 April 2023**, expert.ai and the North American process automation company Reveal Group signed a partnership to offer organisations simplified workflows via 'intelligent robots' by combining robotic process automation and natural language understanding/processing.

On **11 April 2023**, expert.ai announced that Generali España had chosen expert.ai's artificial intelligence platform to improve operational efficiency, optimising business processes and lightening the internal workload.

On **13 April 2023**, expert.ai signed a partnership with Humanativa Group, a holding company that controls and manages all ICT activities of Commini Group S.p.A., to promote innovation and digital transformation of agencies and organisations in the public administration, utility world and private companies.

On **19 April 2023**, expert.ai and KPMG, a global leader in professional business services, announced the development of a news analysis solution to support the Anti Money Laundering processes of the BCC Iccrea Group. The innovative solution based on expert.ai's artificial intelligence capabilities received an award at the 2023 MF-Milano Finanza Innovation Awards.

On **26 April 2023**, expert.ai announced its collaboration with Microsoft Italy as a partner for the 'Ambizione Italia Cloud Region Partner Alliance', the initiative aimed at accelerating digital development in Italy, which includes the opening of Microsoft's first Italian Cloud Region in Milan.

On **16 May 2023**, expert.ai unveiled its new artificial intelligence platform for the pharmaceutical industry, which also allows for the use of large language models from third parties, as well as predefined and customised knowledge models for customised solutions.

On **13 June 2023**, expert.ai announced the consolidation of its partnership with SS&C Blue Prism (Nasdaq:SSNC), integrating its hybrid artificial intelligence platform with SS&C Blue Prism's platform for intelligent business process automation.

On **26 June 2023**, expert.ai launched its new artificial intelligence platform for the insurance market to develop and enhance AI solutions for policy underwriting and claims management.

General economic performance[3]

Global economic activity is being curbed by high inflation and by tight financing conditions. GDP is decelerating in the United States, and the recovery in economic activity in China is losing momentum again after benefiting from the

[3] Source: World Economic Outlook January 2023

pandemic containment policies being lifted. Despite the brisk growth in services in the main economies, activity is affected by the weakening of the manufacturing cycle, which is contributing to reducing the growth prospects for global trade and for commodity and energy prices. The lower contribution of the energy component is matched by the fall in consumer price inflation in the leading industrial countries, except for Japan. However, core inflation is still struggling to come down.

In the first quarter of this year, euro-area GDP declined slightly for the second consecutive quarter. The further decrease in manufacturing activity was partially offset by the expansion in services. Employment continued to increase and wage growth gathered pace. Consumer price inflation declined again but core inflation remains high.

Between May and June, the Governing Council of the European Central Bank raised its key interest rates by 50 basis points overall Decisions on interest rates will continue to be made on a meeting-by-meeting basis, taking account of data as they become available, so as to achieve a timely return of inflation to the 2 per cent medium-term target. The Council also confirmed the end of the reinvestments under the asset purchase programme, starting from July, as well as the full reinvestment, in a flexible manner, of the maturing securities purchased under the pandemic emergency purchase programme, at least until the end of 2024. The yields on ten-year government bonds rose slightly in the euro area, while the spreads with the corresponding German bond moved heterogeneously across countries, narrowing in Italy.

The scenario of the national economy[4]

After rebounding in the first quarter, according to Bank of Italy estimates, GDP remained broadly unchanged in the spring, above all because of the contraction in manufacturing activity, which was affected by the weakening of the industrial cycle at global level. The expansion in household consumption continued at a slower pace. Investment was held back by the tightening of financing conditions and by a less favourable outlook for demand.

Exports have declined in volume since the start of the year, reflecting the weakness of world trade. However, the current account balance has improved, partly thanks to the performance of energy imports, which are benefiting from falling world prices. The energy deficit is expected to decrease in 2023 as a whole. Foreign investors have shown keen interest in Italian portfolio securities. The Bank of Italy's negative TARGET2 balance has narrowed. The net international investment position remains positive.

Consumer price inflation fell further in the spring, thanks to the sharp decline in the energy component, although it remains high. The first falls in inflation were recorded in relation to food and non-energy industrial goods, which are beginning to reflect the marked reduction in the prices of energy inputs. Inflation in services also showed some signs of reduction in June. Households and firms expect inflationary pressures to ease further.

Loans to the non-financial private sector decreased further between February and May, driven by the rise in the cost of credit, the reduced financing needs for investment and the continued tightening of credit standards. The latter are affected by the higher risk perception and the lower risk tolerance on the part of intermediaries. The non-performing loan rate has remained low while the ratio of the flow of loans in arrears has increased.

REFERENCE MARKET

[4] Source: Bank of Italy Economic Bulletin 1/2023

The launch of ChatGPT (November 2022) by OpenAI had a huge media resonance and greatly stimulated corporate interest in artificial intelligence (AI) and natural language processing (NLP) technologies. Indeed, in a market scenario where global spending on AI is estimated to reach $154 billion in 2023 (up 26.9% from the amount spent in 2022)[5], the focus on language technologies is progressively influencing strategic choices, investments and business plans. According to Gartner, 45% of executives were prompted by ChatGPT to increase their AI investment[6]. The field of language technology[7] has made remarkable progress, accelerating the search for ever more innovative and effective solutions; this trend is also confirmed by Forrester[8] which, in identifying the technologies with the highest added value, listed NLP among those capable of guaranteeing ROI in the shortest period.

On the other hand, the digitisation of linguistic data, the volumes of which continue to grow exponentially, has directed attention towards increasingly innovative and sophisticated solutions, highlighting the limitations of 'pure' machine learning and deep learning approaches, as in the case of GPT models, and the advantages that can be obtained, instead, by combining different artificial intelligence approaches. According to many leading experts in the field, in fact, 'We need to depart from the "let's throw more data at the problem" approach often taken by AI today, pointing more towards approaches based on curation, metadata, and semantic reconciliation. In other words, the focus is shifting away from machine learning and there is a move towards a knowledge-based symbolic AI approach'[9], with more and more being heard about **hybrid artificial** intelligence (Hybrid AI).

Gartner[10] defines Composite or Hybrid AI as follows: 'hybrid artificial intelligence combines different artificial intelligence technologies to make the learning process more effective, expand knowledge representations and a wider range of business problems in a more effective manner'. In fact, according to Gartner[11], 'By 2024, 70% of organisations relying solely on machine learning applications for artificial intelligence projects will spend more money than those exploiting composite AI techniques'. And according to Forrester[12], 'To have it all without giving anything up, you need a flexible NLP solution that can be easily adapted to future needs, is accurate and ready to use, requires only moderate support and can continuously learn and improve on its own. Basically, an NLP solution based on hybrid artificial intelligence'.

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[5] 'Worldwide Spending on AI-Centric Systems Forecast to Reach $154 Billion in 2023, According to IDC' - 7 March 2023 Worldwide Spending on AI-Centric Systems Forecast to Reach $154 Billion in 2023, According to IDC

[6] 'Gartner Poll Finds 45% of Executives Say ChatGPT Has Prompted an Increase in AI Investment' - 3 May 2023 Gartner Poll Finds 45% of Executives Say ChatGPT Has Prompted an Increase in AI Investment

[7] 'Hype Cycle for Natural Language Technologies, 2023' Gartner - Bern Elliot, Adrian Lee, Gabriele Rigon – 27 July 2023. Expert.ai, listed by Gartner for four consecutive years in the 'Hype Cycle for NLT' report, is a 'Sample Vendor' in several categories, including ontologies and knowledge graphs, semantic search and insight engine.

[8] 'Show Me The Value (Of Emerging Technology)', Brian Hopkins, VP, Emerging Tech Portfolio - 19 September 2022 https://www.forrester.com/blogs/show-me-the-value-of-emerging-technology/?ref_search=3482760_1663661866998

[9] 'Andrew Ng predicts the next 10 years in AI', VentureBeat - 21 March 2022 *https://venturebeat.com/ai/andrew-ng-predicts-the-next-10-years-in-ai/*

[10] 'Innovation Insight for Composite AI', Gartner - Pieter den Hamer, Erick Brethenoux, Leinar Ramos - 10 January 2022. https://www.gartner.com/en/documents/4010110

[11] 'Innovation Insight for Composite AI', Gartner - Pieter den Hamer, Erick Brethenoux, Leinar Ramos - 10 January 2022. https://www.gartner.com/en/documents/4010110

[12] 'Hybrid AI Delivers Best Results for NLP Applications', Forrester Research - 22 November 2022, https://www.forrester.com/report/hybrid-ai-delivers-best-results-for-nlp-applications/RES178429

The aim is to combine different artificial intelligence approaches, compensating for the weaknesses of each approach with a combined use of different technologies (such as semantics, natural language understanding, machine learning and/or deep learning), thus ensuring not only greater efficiency of systems but also the possibility of moving towards **responsible artificial intelligence** (Responsible AI).

Responsible AI (also together with Hybrid AI) continue to be key innovations, according to Gartner 'hype cycle'[13], highlighting the interest on the part of companies (or real need, e.g. in highly regulated sectors or particularly sensitive contexts) to be able to understand the decisions taken by artificial intelligence algorithms. In fact, reference is made to 'explainable artificial intelligence' (the behaviour of algorithms is transparent, easily understandable, therefore clear, explainable and reliable), as a first step towards intelligent systems that can ensure greater accountability. On this front, expert.ai has been a pioneer, being one of the first companies to share the need for responsible artificial intelligence and promote the need to benefit from it in a sustainable manner, developing practical and transparent solutions, according to a green and human-centred approach[14].

OPERATING PERFORMANCE OF THE GROUP

The consolidated financial report as at 30 June 2023 includes the consolidated figures of the subsidiaries included in the scope of consolidation, as well as those of the parent company Expert.ai 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

The consolidated financial statements as at 30 June 2023, which include the consolidated figures of the subsidiaries included in the scope of consolidation, as well as those of the parent company Expert.ai S.p.A., show what follows (figures in Euro):

Expert Ai Group			Main economic data	Expert.AI S.p.a.		
HY 2022	HY 2023	CHANGE		HY 2022	HY 2023	CHANGE
18,459,956	16,939,137	(8%)	VALUE OF PRODUCTION	14,475,795	13,513,358	(7%)
(11,062,124)	(3,154,081)	71%	EBITDA	(3,060,561)	(393,830)	87%
(14,910,691)	(7,235,782)	51%	Operating result	(5,955,780)	(3,873,200)	35%
(14,738,079)	(7,685,107)	48%	Net result for the period	(5,996,958)	(4,352,632)	27%

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

Consolidated Income Statement	**30/06/2023**	**30/06/2022**	**Change**
Revenues from sales	11,885,102	12,681,887	(796,785)
Other income	1,253,250	1,170,242	83,008
Change in inventories	(14,560)	0	(14,560)
Total Revenues	**13,123,792**	**13,852,129**	**(728,337)**
Increase in fixed assets for internal work	3,815,345	4,607,827	(792,482)
Value of operating production	**16,939,137**	**18,459,956**	**(1,520,819)**
External operating costs	(7,073,475)	(10,124,737)	3,051,262
Added value	**9,865,662**	**8,335,219**	**1,530,443**
Personnel costs	(13,019,743)	(19,397,343)	6,377,600

[13] 'What's New in Artificial Intelligence from the 2023 Gartner Hype Cycle', 17 August 2023 What's New in Artificial Intelligence From the 2023 Gartner Hype Cycle™

[14] 'Expert.ai Advances Responsible AI in the Enterprise with Green Glass Approach', Green Glass Approach to advancing Responsible AI in the Enterprise - expert.ai | expert.ai

Gross operating margin (EBITDA)	**(3,154,081)**	**(11,062,124)**	**7,908,043**
Depreciation and provisions	(4,081,701)	(3,848,567)	(233,134)
Operating result (EBIT)	**(7,235,782)**	**(14,910,691)**	**7,674,909**
Result of the financial area	(497,269)	(169,986)	(327,283)
Result before taxes	**(7,733,051)**	**(15,080,677)**	**7,347,626**
Income taxes	47,944	342,598	(294,654)
Net result	**(7,685,107)**	**(14,738,079)**	**7,052,972**

Sales revenues in the first half of the year were slightly down compared to the first half of last year; however, it should be noted that the breakdown of revenues in 2022 was more concentrated in the first half of the year (44%) than the historically recorded incidence (35-37%).

The value of production is lower due to the aforementioned lower revenues and lower capitalisation, which peaked in 2022.

Total Revenues (net of Other income) are broken down by type as follows:

Description	30/06/2023	%	30/06/2022	%	Change
Recurring licences	6,120,736	51%	6,797,570	54%	(676,834)
Maintenance	1,461,184	12%	1,654,672	13%	(193,488)
Perpetual licences	20,000	0%	92,000	1%	(72,000)
Professional services	3,688,913	31%	3,643,041	29%	45,872
Hosting	594,270	5%	494,604	4%	99,666
Total	**11,885,102**	**100%**	**12,681,887**	**100%**	**(796,785)**

Recurring licences decreased by 10% compared to the first half of 2022.

The recurring revenue component (temporary licences, maintenance and hosting) now firmly accounts for more than two thirds of the total.

Perpetual licences are now residual, reflecting completion of the business model change initiated in 2020.

The increase in fixed assets for internal work, represented by investments in research and development, amounted to Euro 3.8 million, demonstrating the centrality of these investments in expert.ai's policy, which is always focused on the constant development of its technology. These increases are down compared to 30 June 2022 (Euro 4.6 million), as investments in technology were accelerated in 2022 in order to make the new technology platform available as soon as possible.

Value of Production thus decreased by Euro 1.5 million compared to the same period last year due to the aforementioned reductions in revenues and increases in fixed assets for internal work.

EBITDA was negative by Euro 3.2 million though improving significantly compared to last year (negative by Euro 11 million as at 30 June 2022). Due to the strong seasonality of revenues, which are concentrated in the last quarter of the year, EBITDA in the first half of the year always suffers. However, the results of the initiatives taken to return to positive EBITDA within the current financial year are evident.

As early as the second half of 2022, initiatives were launched to optimise all operational areas, aiming at a return to profitability in the context of sustainable growth.

After the peak of the investments needed to make the new technology platform available and to increase awareness of the Go to Market strategies, contracts for one-off technology consultancy and commercial and communication activities with low ROI were terminated, and general and administrative expenses were optimised. On the other hand, staff efficiency was increased by reorganising and optimising the workload of each department.

The combination of these actions led to over Euro 8 million in savings, half-year on half-year, prompting management to believe that the cost containment targets that had been planned and communicated in the industrial plan issued on 27 January 2023 might be exceeded for the entire year.

The substantial technological investments of the past years have ensured the full operation of the expert.ai platform, on which expansion and enhancement activities are still ongoing. The hybrid artificial intelligence platform allows for the combination of different artificial intelligence approaches, associating symbolic-semantic technologies with machine learning, deep learning and large language models, thus exploiting the strengths of each so that they can be used in combination and ensuring process supervision. For example, as evidence of the effectiveness of this approach, which was conceived in 2020 at the beginning of the technology repositioning project, the OpenAI's GPT language model was seamlessly integrated into the expert.ai Platform and, more recently, large-scale language models from third parties such as BioBert and Bio-GPT for the pharmaceutical industry.

The US market continues to be the focus area for the group's growth. Local branches recorded an increase of Euro 0.4 million (+10%), while the absolute change in revenues from US customers posted a half-year on half-year decrease in the amount of Euro 0.3 million (-9%). These revenues were achieved with highly prestigious customers, in a naturally very competitive environment against major local competitors, including top companies in global Big Tech.

EBIT was negative by Euro 7.2 million (negative by Euro 14.9 million as at 30 June 2022), against amortisation of intangible assets for Euro 4 million, mainly relating to capitalised development costs, the amortisation of which was in the amount of Euro 3.4 million.

The negative result from financial management of Euro 0.5 million decreased compared to 30 June 2022 (negative by Euro 0.2 million).

Net result posted a Euro 7.7 million loss (Euro 14.7 million as at 30 June 2022).

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

Profitability ratios	**30/06/2023**	**30/06/2022**
Net ROE	(0.75)	(0.84)
Gross ROE	(0.75)	(0.86)
ROI	(0.24)	(0.45)
ROS	(0.61)	

Main balance sheet data

The **expert.ai Group**'s reclassified balance sheet compared with that as at 30/06/2022 is as follows (in Euro):

Consolidated Balance Sheet	**30/06/2023**	**31/12/2022**	**Change**
Intangible fixed assets	20,869,672	20,307,822	561,850
Rights of use	1,439,787	1,728,077	(288,290)
Tangible fixed assets	748,232	825,387	(77,155)
Equity investments, other non-current assets	10,579,245	13,137,483	(2,558,238)
Fixed capital	**33,636,936**	**35,998,769**	**(2,361,833)**
Inventories	0	14,560	(14,560)
Receivables from customers	14,223,546	18,136,474	(3,912,928)
Other receivables	6,898,900	7,011,175	(112,275)
Accrued income and prepaid expenses	1,536,645	1,594,700	(58,055)
Short-term operating assets	**22,659,091**	**26,756,909**	**(4,097,818)**
Payables to suppliers	(5,003,849)	(6,543,906)	1,540,057
Advances	(904,747)	(904,747)	0
Tax and social security payables	(1,935,333)	(1,909,787)	(25,546)
Other payables	(4,281,562)	(5,290,729)	1,009,167
Accrued expenses and deferred income	(5,623,394)	(6,452,238)	828,844

Short-term operating liabilities	**(17,748,885)**	**(21,101,407)**	**3,352,522**
Net working capital	**4,910,206**	**5,655,502**	**(745,296)**
Severance pay	(3,897,763)	(3,794,957)	(102,806)
Accrued expenses and deferred income due after 12 months	(3,221,489)	(3,143,791)	(77,698)
Other medium and long-term liabilities	(1,508,382)	(1,375,330)	(133,052)
Medium-term liabilities	**(8,627,634)**	**(8,314,078)**	**(313,556)**
CAPITAL EMPLOYED	**29,919,508**	**33,340,193**	**(3,420,685)**
Shareholders' Equity	(10,303,148)	(17,492,121)	7,188,973
Medium- and long-term net financial payable	(14,663,712)	(19,270,531)	4,606,819
Short-term net financial payable	(4,952,648)	3,422,458	(8,375,106)
EQUITY AND NET FINANCIAL PAYABLE	**(29,919,508)**	**(33,340,194)**	**3,420,686**

Fixed assets amounting to Euro 33,636,936 (Euro 35,998,769 as at 30 June 2022) decreased by Euro (2,361,833). This decreases is mainly due to the combined effect of:

- changes in intangible fixed assets deriving from the increase in the capitalisation of research and development costs;
- reduction in receivables for invoices to be issued.

Looking at **current assets**, there was a decrease of Euro 4,097,818, mainly due to a decrease in receivables from customers in the amount of Euro 3,912,928.

Short-term operating liabilities were characterised by a decrease of Euro 3,352,522, mainly due to the decrease in payables to suppliers in the amount of Euro 1,540,057 and other payables in the amount of Euro 1,009,167, relating mainly to payables to employees.

Net working capital is Euro 745,296 lower than the previous year. In any case, the positive value of net working capital makes it possible to report substantially balanced current operations, in which short-term assets are compared with short-term liabilities.

Medium- and long-term liabilities increased by Euro 313,556 due to the increase in severance pay in the amount of Euro 102,806 and the increase in other medium- and long-term liabilities in the amount of Euro 133,052.

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 31/12/2022.

Fixed asset financing ratios	**30/06/2023**	**31/12/2022**
Fixed asset to equity capital margin	(23,333,788)	(18,506,648)
Fixed asset to equity capital ratio	0.31	0.49
Fixed asset to equity capital and medium-long term debt margin	(3,263,931)	5,934,170
Fixed asset to equity capital and medium-long term debt ratio	0.90	1.16

Financing structure ratios	**30/06/2023**	**31/12/2022**
Liabilities within 12 months (A)	21,303,471	23,267,480
Liabilities after 12 months (B)	20,069,857	24,440,817
Equity (C)	10,303,148	17,492,121
Total debt ratio (A+B)/C	**4.02**	**2.73**

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

company funds its fixed assets.

	30/06/2023	31/12/2022
Shareholders' Equity (A)	**10,303,148**	**17,492,121**
Net intangible fixed assets	20,869,672	20,307,822
Net rights of use	1,439,787	1,728,077
Net tangible fixed assets	748,232	825,387
Equity investments and other financial fixed assets	10,579,245	13,137,483
Fixed capital (B)	**33,636,936**	**35,998,769**
Fixed asset to equity capital margin (A- B)	**(23,333,788)**	**(18,506,648)**
Fixed asset to equity capital ratio (A/ B)	**0.31**	**0.49**

The **negative result of the fixed asset to equity capital margin**, with the corresponding ratio lower than the unit, is mainly related to the erosion of Shareholders' Equity due to the loss carried forward from the previous year.

The fixed asset to equity capital and medium-long term debt margin and its ratio refer, instead, also to medium-long term liabilities (as quantified in the table below).

	30/06/2023	31/12/2022
Shareholders' Equity (A)	10,303,148	17,492,121
Net financial position in the medium and long term (B)	14,663,712	19,270,531
Other medium and long-term liabilities (C)	1,508,382	1,375,330
Severance pay (D)	3,897,763	3,794,957
Fixed capital (E)	33,636,936	35,998,769
Fixed asset to equity capital and medium-long term debt margin (A + B + C + D - E)	**(3,263,931)**	**5,934,170**
Fixed asset to equity capital and medium-long term debt ratio (A + B + C + D)/E	**0.90**	**1.16**

Main financial data

The Group's Net Financial Position (or net financial payable) is determined as the result of current and non-current financial payables less cash and cash equivalents and current financial assets, as well as non-current financial assets related to derivatives. It also includes financial liabilities relating to short-term and/or long-term leases and non-interest-bearing debts that have a significant implicit or explicit financing component (e.g. payables to suppliers with a maturity of more than 12 months), and any other non-interest-bearing loans (as defined by the 'Guidelines on disclosure requirements under the Prospectus Regulation' published by ESMA on 4 March 2021 with document 'ESMA32-382-1138' and incorporated by CONSOB in its communication 5/21 of 29 April 2021).

The Group's Net Financial Payable is shown below:

Consolidated Net Financial Payable	30/06/2023	31/12/2022	Change
A - Cash and cash equivalents	4,208,602	12,024,125	(7,815,523)
C- Other current financial assets	16,730	16,644	86
D- Liquidity (A + B + C)	4,225,332	12,040,769	(7,815,437)
E - Current financial payable (including debt instruments but excluding the current portion of non-current financial debt	5,858,917	3,530,191	2,328,726
F - Current portion of non-current financial payable	3,319,063	5,088,120	(1,769,057)
G - Current financial payable (E + F)	9,177,980	8,618,311	559,669
H - Net current financial payable (D-G)	(4,952,648)	3,422,458	(8,375,106)
I - Non-current financial payable (excluding current portion and debt instruments)	14,085,627	15,156,930	(1,071,303)
J - Debt instruments	454,500	4,113,600	(3,659,100)
K - Trade payables and other non-current payables	123,585	1	123,584
L - Non-current financial payable (I+J+K)	14,663,712	19,270,531	(4,606,819)

M - Net financial payable (H+L)	**(19,616,360)**	**(15,848,073)**	**(3,768,287)**

FORESEEABLE EVOLUTION OF MANAGEMENT

In a complex and constantly changing macroeconomic scenario, expert.ai is continuing on the path of business development and transformation. At the same time, it has taken measures to increase productivity and optimise the cost component.

With regard to the targets set out in the consolidated business plan for 2022B - 2024E reviewed on 27 January, it should be noted that revenues are historically and mostly (about 45% on average) concentrated in the last quarter of each period, which is a distinctive feature of expert.ai's business model. The Group's top management is constantly striving to achieve the economic and capital targets for the years 2023E and 2024E. The Group's objective remains to close the financial year with a positive EBITDA by continuing with the cost-saving actions already undertaken, the trend of which can be seen in the consolidated results for the first half of 2023, which will develop their effects until the end of the current financial year.

The company intends to intensify its commercial activities in the most receptive markets (the Italian and American market) and in the highest-potential sectors (insurance, banking, media, healthcare and pharmaceuticals) where interest in cognitive AI solutions is growing and new interesting opportunities are opening up.

The strong public interest in large-scale language models (such as those underpinning ChatGPT) has, in fact, brought the knowledge management and utilisation sector in which the company operates into the limelight. This phenomenon has attracted new potential customers, but at the same time has created a lack of clarity and false expectations as to what can actually be done with artificial intelligence; a period of market 'education' will therefore be necessary to advise and guide companies in their choices.

TREASURY SHARES

As of 30 June 2023, the Parent Company Expert.ai S.p.A. did not hold any treasury shares, as it did not hold any as of 31 December 2022, nor were any traded during the period.

IV. ENVIRONMENT, PERSONNEL AND RISKS

ENVIRONMENT

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

On 04/01/2023, Expert.ai started a new ISO 9001:2015 certification cycle aligned with the ISO\IEC 27001:2013 model, already held by the company, creating an integrated model called Information Security and Quality Management System (ISQMS).

The current ISO 9001:2015 certificate is valid until 26/06/2026.

PERSONNEL

The company continued to make dedicated investments in personnel training and growth. Using different types of training (asynchronous distance training, webinars and face-to-face sessions), employees were offered initiatives focused on developing both technical and behavioural skills. Training sessions were organised involving some employees as trainers, in order to capitalise on the skills and know-how within the company and encourage their sharing.

The parent company expert.ai S.p.A. also made investments, as usual, in occupational health and safety in compliance with Italian Legislative Decree 81/08, training all employees (including supervisors) in the safety of workers, and providing new courses and refresher courses for occupational safety representatives, first aid and fire-fighting personnel. Specific attention was paid to Privacy and Data Protection, Cyber Security (of particular importance given the business sector in which Expert.ai is active) and the Organisational Model relating to Legislative Decree 231/01. For all these topics, both introductory courses for new employees and refresher courses for existing employees were organised, accompanied by the corresponding learning tests.

During the period, 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 existing personnel and no charges for occupational illnesses involving employees or former employees and no mobbing cases.

The parent company expert.ai S.p.a. continues to apply the 'Expert.ai Spa Protocol', reviewed in May 2022 to implement the measures established by the Prime Minister's Decree of 11 March 2020. The document, taking into account the various measures of the Government 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 measures that follow the logic of precaution and follow and implement the requirements of Parliament and the indications of the Health Authority. The Protocol is applied within the company to protect the health of people who personally prefer to work in the office, though Smart Working is used too.

The parent company Expert.ai S.p.a. continues to support the purchasing power of workers and personal and family well-being by implementing the Welfare Plan.

The parent company, which is committed to achieving a significant cost-cutting objective which has been extensively discussed in the Management Report, to which reference should be made, signed on 21 March a 'defensive' solidarity agreement (pursuant to Article 21, paragraph 5 and Article 22, paragraph 3 of Legislative Decree No. 148 of 14 September 2015) lasting 12 months, with a 45% maximum percentage of working hours reduction. The contract is still in force; however, to date, the application of particularly high reduction percentages in all departments has not been necessary.

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

General risks: regarding the risks arising from the current conflict, reference should be made to the information provided above in the point regarding the 'National economic scenario', in the commentary on 'General economic performance' and in the Notes to the Financial Statements, commenting on point 22-quater of art. 2427 of the Italian Civil Code.

Risks related to the time taken to collect trade receivables: **Expert.ai**'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.ai S.p.A and its subsidiaries to finance their 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.ai** 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.ai** 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 06/30/2023	Average exchange rate in 2023	Exchange rate as at 31/12/2022	Average exchange rate in 2022
USD - US Dollar	1.0866	1.0807	1.0666	1.0530
CHF - Swiss Franc	0.9788	0.9856	0.9847	1.0047
GBP - pound sterling	0.8583	0.8764	0.8869	0.8528
CAD - Canadian dollar	1.4415	1.4565	1.4440	1.3695

Risks associated with related party transactions: **Expert.ai** 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.ai S.p.A. to Group companies. In particular, last March Expert.ai 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 has registered the trade name 'Expert.ai'. 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.ai 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.ai 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.ai S.p.A. on 21 December 2016.

The adoption of the model refers exclusively to the parent company Expert.ai 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.ai 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

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 explanatory notes to the consolidated financial statements, in the point on 'Derivative financial instruments'.

IFRS CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS AS AT 30/06/2023

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IAS/IFRS consolidated financial statements as at 30/06/2023

Financial Statements

Balance Sheet - Assets

In Euro	30/06/2023	31/12/2022
Intangible fixed assets	20,869,672	20,307,822
Rights of use	1,439,787	1,728,077
Tangible fixed assets	748,232	825,387
Other non-current assets	7,099,645	9,700,442
Equity investments and securities	586,095	544,374
Deferred tax assets and other tax receivables	2,893,505	2,892,667
Total non-current assets	**33,636,936**	**35,998,769**
Inventories	0	14,560
Trade receivables and other receivables	16,500,496	20,023,651
Current tax receivables	4,621,950	5,123,998
Other current assets	1,536,645	1,594,700
Current financial assets	16,730	16,644
Cash and cash equivalents	4,208,602	12,024,125
Total current assets	**26,884,423**	**38,797,678**
Total assets	**60,521,359**	**74,796,447**

Balance Sheet - Liabilities

Share capital	639,099	620,896
Legal reserve	101,554	101,554
Other reserves	87,214,435	86,752,718
Undivided profit (loss)	(69,966,833)	(46,202,625)
Net profit (loss) for the period	(7,685,107)	(23,780,422)
Group Shareholders' Equity	**10,303,148**	**17,492,121**
Minority interest in shareholders' equity		
Shareholders' Equity	**10,303,148**	**17,492,121**
Non-current financial payables	14,540,127	19,270,530
Provisions for risks and charges	109,342	19,342
Other non-current payables	3,345,074	3,143,791
Employee benefits	3,897,763	3,794,957
Provisions for deferred taxes	1,399,040	1,355,988
Total non-current liabilities	**23,291,346**	**27,584,608**
Trade payables and other payables	10,920,706	13,536,213
Current financial payables	9,177,980	8,618,311
Current tax payables	1,204,785	1,112,956
Other current liabilities	5,623,394	6,452,238
Total current liabilities	**26,926,865**	**29,719,718**
Total liabilities	**60,521,359**	**74,796,447**

Income Statement

In Euro	30/06/2023	30/06/2022
Revenues from sales and services	11,885,102	12,681,887
Change in inventories	(14,560)	-
Other revenues	5,068,595	5,778,069
Total Revenues	**16,939,137**	**18,459,956**
Consumption of materials	1,180,741	1,122,837
Costs for services	4,315,005	7,420,679
Cost for the use of third party assets	1,349,546	1,427,658
Personnel costs	13,019,743	19,397,343
Other provisions and other costs	228,183	153,563
EBITDA	**(3,154,081)**	**(11,062,124)**
Depreciation	4,081,701	3,848,567
Write-downs of fixed assets		
Operating result	**(7,235,782)**	**(14,910,691)**
Financial charges	751,579	467,842
Financial income	254,310	297,856
Result before taxes	**(7,733,051)**	**(15,080,677)**
Income taxes	(47,944)	(342,598)
Net result for the period	**(7,685,107)**	**(14,738,079)**
Result attributable to minority interests		
Net result attributable to the group	**(7,685,107)**	**(14,738,079)**

Earnings per share	30/06/2023	30/06/2022
Base	(0.13)	(0.28)
Diluted	(0.13)	(0.28)

Total Income Statement

Other income statement components include income and expense items (including reclassification adjustments) that are not recognised in profit (loss) for the period as required or permitted by other IFRSs.

TOTAL INCOME STATEMENT	30/06/2023	30/06/2022
Net result for the period	(7,685,107)	(14,738,079)
Exchange rate changes	(116,685)	272,433
Change in severance pay reserve pursuant to IAS 19	(28,998)	451,775
Change in derivative instruments reserve	-	142,326
Other changes		
Comprehensive net result for the period	(7,830,790)	(13,871,546)

In Euro	30/06/2023	30/06/2022
Net result for the period	**(7,685,107)**	**(14,738,079)**
Other total comprehensive profit /(loss) that will not be subsequently reclassified to profit/(loss) for the period:		
Actuarial profits (losses) on defined benefit plans	(38,156)	594,440
Tax effect related to Other profit/(loss) that will not be subsequently reclassified to profit/(loss) for the period	9,157	(142,666)
Total other comprehensive profit/(loss) that will not be subsequently reclassified to profit/(loss) for the period, net of tax effect	**(28,998)**	**451,775**
Other comprehensive profit that will be subsequently reclassified to profit/(loss) for the period:		
Exchange rate differences on conversion of foreign operations	(132,949)	272,433
Change in cash flow hedge reserve	-	142,326
Tax effect related to Other profit/(loss) that will be subsequently reclassified to profit/(loss) for the period	-	(34,158)
Total other comprehensive profit/(loss) that will be subsequently reclassified to profit/(loss) for the period, net of tax effect	**(132,949)**	**380,601**
Total other components of the total income statement, net of tax effects:	**(7,847,054)**	**(13,905,704)**

Cash Flow Statement

Cash flows from operating activities (indirect method)	30/06/2023	30/06/2022
Profit (loss) for the period	(7,685,107)	(14,738,079)
Income taxes	(47,944)	(342,598)
Financial charges (Income)	497,269	169,986
Depreciation	4,081,701	3,848,567
EBITDA	**(3,154,081)**	**(11,062,124)**
Changes in net working capital		
Decrease/(Increase) in inventory	14,560	(26)
Decrease/(Increase) in receivables from customers and other receivables	3,523,155	5,199,809
Increase/(Decrease) in payables to suppliers and other payables	(2,414,224)	1,570,494
Decrease/(Increase) in other current assets	58,055	(682,508)
Increase/(Decrease) in other current liabilities	(828,844)	674,876
Net tax liabilities paid	641,821	194,931
Total changes in net working capital	**994,523**	**6,957,576**
Increase/(Decrease) in provisions for risks and charges	90,000	(45,020)
Increase/(Decrease) in deferred taxes	42,214	55,282
Increase/(Decrease) in employee benefits	102,806	(319,031)
Total other changes in operating activities	**235,020**	**(308,769)**
Cash flow from operating activities (A)	**(1,924,538)**	**(4,413,317)**
Tangible fixed assets and rights of use		
(Investments)	(163,546)	111,502
Divestments	(2,410)	544,067
Intangible fixed assets		
(Investments)	(4,111,880)	(6,426,086)
Divestments	-	-
Financial fixed assets		
(Investments)	-	-
Divestments	-	-
Decrease/(Increase) in investments and other non-current assets	2,558,806	(3,298,378)
Cash flow from investing activities (B)	**(1,719,030)**	**(9,068,895)**
Loan capital		
Increase/(Decrease) in financial payables	(4,170,734)	718,893
Decrease/(Increase) in current financial assets	(86)	(35)
Financial charges (Income)	(497,269)	(169,986)
Equity		
Capital increase against payment	254,243	-
Stock options and stock grants	385,610	-
Employee benefits	(28,998)	-
Other changes in shareholders' equity	(114,721)	2,023,157
Cash flow from financing activities (C)	**(4,171,955)**	**2,572,029**
Increase (decrease) in cash and cash equivalents (A + B + C)	**(7,815,523)**	**(10,910,183)**
Cash and cash equivalents at the beginning of the year	12,024,125	30,533,999
Cash and cash equivalents at year end	4,208,602	19,623,816
Increase (decrease) in cash and cash equivalents	**(7,815,523)**	**(10,910,183)**

Statement of Changes in Shareholders' Equity from 1 January 2023 to 30 June 2023

Shareholders' Equity	Share capital	Legal reserve	Share premium	Negative reserve for treasury shares in portfolio	Cash flow hedge reserve	FTA reserve	IFRS 2 reserve	IAS 19 reserve	Other reserves	Undistributed profits (losses)	Net profit (loss) for the period	Shareholders' Equity
BALANCES AS AT 01 January 2022	**523,907**	**101,554**	**71,185,405**	**-**	**(26,492)**	**(443,567)**	**1,575,510**	**(738,645)**	**6,325,145**	**(30,812,912)**	**(15,723,624)**	**31,966,280**
Allocation of result											15,723,624	
Dividends												
Share capital increase for subscription of newly-issued shares	96,988		5,819,293									5,916,281
Exchange rate effect												
Changes from own shares												
Change in area/extraordinary operations												
Change in cash flow hedging transactions					473,597							473,597
Change in actuarial profits/losses on severance pay								602,672				602,672
Share capital increase against payment (including stock option)												
Free share capital increase (Stock grant)												
Result for the period											(23,780,422)	(23,780,422)
Other changes							1,486,019		493,782	333,912		2,313,712
BALANCES AS AT 31 December 2022	**620,896**	**101,554**	**77,004,697**	**-**	**447,105**	**(443,567)**	**3,061,529**	**(135,973)**	**6,818,927**	**(46,202,625)**	**(23,780,422)**	**17,492,121**
BALANCES AS AT 01 January 2023	**620,896**	**101,554**	**77,004,697**	**-**	**447,105**	**(443,567)**	**3,061,529**	**(135,973)**	**6,818,928**	**(46,202,625)**	**(23,780,422)**	**17,492,122**
Allocation of result										(23,780,422)	23,780,422	
Dividends												
Share capital increase for subscription of newly-issued shares	18,203		236,040									254,243
Exchange rate effect												
Changes from own shares												
Change in cash flow hedging transactions												
Change in actuarial profits/losses on severance pay								(28,998)				(28,998)
Share capital increase against payment (including stock option)												
Free share capital increase (Stock grant)												
Result for the period											(7,685,107)	(7,685,107)
Other changes							385,610		(125,269)	16,214		276,555
BALANCES AS AT 30 June 2023	**639,099**	**101,554**	**77,240,737**	**-**	**447,105**	**(443,567)**	**3,447,139**	**(164,971)**	**6,687,991**	**(69,966,833)**	**(7,685,107)**	**10,303,148**

EXPLANATORY NOTES

GENERAL INFORMATION

Expert System S.p.A. changed its company name to Expert.ai S.p.A. by resolution of the shareholders' meeting of 29 April 2021, filed with the Chamber of Commerce on 11 May 2021.

Expert.ai is the brand of Expert S.p.A., 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.

Main industrial activities of the Group

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. 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. Its customers span all major markets: Banking and Insurance, Publishing and Media, Defence and Intelligence, Health and Pharmaceuticals, Energy, etc.

FINANCIAL STATEMENTS

With regard to the methods of presenting the financial statements, the 'current/non-current' distinction has been adopted for the Balance Sheet, while the step-by-step format with the classification of costs by nature has been adopted for the Total Income Statement and the indirect method for the Cash Flow Statement. It should also be noted that the Group has applied the provisions of Consob Resolution No. 15519 of 27 July 2006 concerning financial statement formats.

The Consolidated Financial Statements for the year ended 31 December 2022 have been prepared in accordance with IAS 1 and IAS 7 and consist of:

- Balance Sheet, which is presented by showing current and non-current assets and current and non-current liabilities separately (as is usually done by industrial and commercial entities), with a description in the notes for each asset and liability item of the amounts expected to be settled or recovered within or beyond 12 months from the date of the financial statements;
- Income Statement, the form of analysis of which is the nature of cost method;
- Total Income Statement;
- Statement of Changes in Shareholders' Equity;
- Cash Flow Statement, for which the indirect method has been used.

The Consolidated Financial Statements and the Explanatory Notes to the Consolidated Financial Statements have been drawn up in Euros.

PRESENTATION CURRENCY

These financial statements are expressed in Euros, which is the currency of the main economic environment in which the Group operates. Foreign companies are included in the Consolidated Financial Statements in accordance with the principles indicated in the following notes.
When specific cases so require, the monetary unit applied is expressly indicated, if different from the Euro.

BASIS OF PREPARATION AND ONGOING CONCERN PRINCIPLE

The Condensed Half-Yearly Consolidated Financial Statements of the Expert.ai Group have been prepared in accordance with the International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and endorsed by the European Union, and in accordance with IAS 34 Interim Financial Reporting, as also set forth in Article 154-ter of the Consolidated Law on Finance (Legislative Decree No. 58/1998). The term 'IFRS' also includes the International Accounting Standards ('IAS') in force, as well as all interpretative documents issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC, formerly 'IFRIC') previously known as the Standing Interpretations Committee ('SIC').

IFRS have been applied consistently to all periods discussed in this document. The Consolidated Financial Statements have been prepared on a going concern basis, in that the Directors have verified that there are no financial, operational or other indicators that may point to critical issues regarding the Group's ability to meet its obligations in the foreseeable future and, in particular, over the 12 months following the closing date, based on the estimated cash flows available as of the date of approval of the financial statements. In particular, the Group's solid balance sheet and cash and cash equivalents at the end of the year ensure financial autonomy to support operational needs and development programmes.

As for the ongoing conflict in Ukraine, based on the information currently known as to the possible evolution of the scenarios of the conflict and the international sanctions adopted, it is believed that the evolution of the scenarios and the sanctions imposed, albeit not entailing a risk for business continuity or any change in the values of the 2022 financial statements, will continue to cause strong tension, especially in the energy market, despite the government's interventions aimed at reducing Italy's dependence on Russian energy sources and the impact on the energy bills of companies and households. As regards revenues, it should be noted that the Company did not provide its services to customers located in Russia, Belarus and Ukraine in the first six months of 2023. It will, however, be the responsibility of the directors to constantly monitor the situation and assess the responses with due care so that any negative effects are contained as far as possible.
In any case, inflation remains a central issue. Please refer to the Management Report; in any case, the priority for the current year in most economies will be to slow down inflation.

The Consolidated Financial Statements have been prepared on the basis of the conventional criterion of historical cost, with the exception of the valuation of financial assets and liabilities, where application of the fair value standard is required.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS FROM 1 JANUARY 2023 AND APPLICABLE BY THE GROUP

The following is a description of the amendments, improvements and interpretations applied to the financial statements

for the years ended after 31 December 2022 and which became effective on or after 1 January 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (amendments to IAS 12 Income Taxes;
- International Tax Reform - Pillar Two Model Rules (Amendment to IAS 12 Income Taxes).

The adoption of these amendments had no impact on the Group's consolidated financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT YET ADOPTED IN ADVANCE BY THE GROUP

For all newly issued standards, as well as for revisions and amendments to existing standards, the Group is assessing any impacts, which cannot currently be reasonably estimated, resulting from their future application.

RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED

With regard to the risks and uncertainties to which the Group is exposed, please refer to the specific chapter in the Management Report.

REFERENCE DATE

The consolidated financial statements refer to the date of 31/12/2023.

SECTOR INFORMATION

The company does not present the information required under IFRS 8, as it does not have operating sectors identified in accordance with paragraphs 5 to 10 of that standard.

SCOPE OF CONSOLIDATION

The condensed half-yearly consolidated financial statements as at 30/06/2023 of the Group include the financial statements of Expert.ai S.p.A. and its foreign subsidiaries, which are consolidated using the line-by-line method.

SCOPE OF CONSOLIDATION AS AT 31/12/2023

Company name	*Registered office*	*CURRENCY*	*% shareholding*
Expert.ai S.p.A.	Rovereto, Italy	EUR	Parent Company
Expert System USA Inc	Rockville (USA)	USD	100% Expert.ai S.p.A..
Expert System Iberia Slu	Madrid (ESP)	EUR	100% Expert.ai S.p.A..
Expert System Cogito Ltd	London (UK)	GBP	100% Expert.ai S.p.A..

Expert System France S.A.S.	Paris (FRA)	EUR	100% Expert.ai S.p.A..
Expert System Enterprise Corp.	Rockville (USA)	USD	100% Expert System France S.A.S.
Expert System Canada - Tech. Sém. Inc.	Montreal (CAN)	CAD	100% Expert System France S.A.S.
Expert System Deutschland Gmbh	Bad Homburg vdH (GER)	EUR	100% Expert System France S.A.S.

The subsidiary Expert System Helvetia Sàrl is excluded from the scope of consolidation as it is irrelevant for the purposes of a true and fair representation of the Group's financial position and results of operations.

PRINCIPLES OF CONSOLIDATION AND CONVERSION

The condensed half-yearly consolidated financial statements of the Expert.ai Group include the financial statements of the parent company Expert.ai S.p.A. and of the companies controlled thereby (subsidiaries) drawn up as at 30/06/2023.

All Group companies have produced the data and information required to prepare the Consolidated Financial Statements in accordance with IFRS.

Subsidiaries

The Consolidated Financial Statements include the financial statements of all subsidiaries, with the exception of Expert System Helvetia Sàrl, as it is irrelevant for the purpose of a true and fair representation of the Group's financial position and results of operations. The group controls an entity when the group is exposed, or has the right, to the variability of results arising from that entity and can influence those results by exercising power over the entity.
The financial statements of subsidiaries are included in the consolidated financial statements from the date control is acquired until such control ceases to exist. Costs incurred in the acquisition process are expensed in the period in which they are incurred. Receivables and payables, as well as costs and revenues arising from transactions between companies included in the scope of consolidation are fully eliminated; capital losses and gains arising from transfers of fixed assets between consolidated companies, losses and gains arising from transactions between consolidated companies relating to the sale of goods that are held as inventory by the acquiring company, write-downs and reversals of impairment losses of investments in consolidated companies, as well as intercompany dividends, are also eliminated. The minority interest in capital and reserves in subsidiaries and the minority interest in the Profit or Loss for the period of consolidated subsidiaries, if any, are separately identified. Minority interests in losses that exceed the interest in the capital of the investee company are allocated to minority interests in shareholders' equity.
Changes in ownership interests in subsidiaries that do not result in the acquisition or loss of control are posted to changes in shareholders' equity. The difference between the price paid and the portion of shareholders' equity acquired is recorded as an offsetting entry to the Group's shareholder equity as the Profits/Losses arising from the sale of shares to minority shareholders.
When the Group loses control of a subsidiary, the fair value of the residual interest (investment) held at the date of loss of control is remeasured by recognising any resulting difference as a Profit or Loss in the Statement of Profit/(Loss) attributable to the parent company. This value will also correspond to the initial recognition value of the said remaining investment as an investment in an associated company, joint venture or financial asset. Finally, the Group will account for all amounts previously recognised in other total income statement components with respect to that subsidiary, similar to what would be required if the parent had directly disposed of the related assets or liabilities. This could result in the reclassification of such Profits or Losses from Shareholders' Equity to Profit/(Loss) for the period. The financial statements of subsidiaries are adjusted in order to bring them into line with the accounting standards adopted by the Group. The closing date of subsidiaries is aligned with that of the Parent Company; if this is not the case, the subsidiaries

prepare special balance sheets for use by the Parent Company.

Associated companies

Associated companies are those over which significant influence is exercised, which is presumed to exist when the shareholding is between 20% and 50% of the voting rights. Investments in associated companies are initially recorded at cost and subsequently valued using the Shareholders' Equity method described below. The book value of these investments is in line with the Shareholders' Equity adjusted, where necessary, to reflect the application of IFRS and includes the recognition of the higher values attributed to assets and liabilities and any goodwill identified at the time of acquisition. The financial statements of the companies valued with the Shareholders' Equity method are also adjusted to bring them into line with the accounting standards adopted by the Group.

Profits or losses pertaining to the Group are accounted for from the date on which the significant influence begins and until the date on which it ceases. If, as a result of losses, the Company valued using this method shows a negative Shareholders' Equity, the book value of the equity investment is cancelled and any surplus pertaining to the Group, where the latter has undertaken to meet the legal or implicit obligations of the investee company, or otherwise to cover its losses, is recorded in a specific provision; changes in the equity of companies accounted for by using the Shareholders' Equity method that are not reflected in the Income Statement are posted directly as an adjustment to Shareholders' Equity reserves. Unrealised Profits and Losses generated by transactions between the Parent Company/Subsidiaries and the investee company valued by using the Shareholders' Equity method are eliminated in proportion to the value of the Group's holding in the investee company; unrealised losses are eliminated, except where they represent impairment.

Business combinations

In accordance with the provisions of IFRS 3 Business Combinations, business combinations whereby control of an entity is acquired are recognised according to the acquisition method. The acquisition cost is represented by the fair value at the acquisition date of the assets sold, liabilities assumed and equity instruments issued. The identifiable assets acquired, liabilities and contingent liabilities assumed are recorded at their fair value at the date of acquisition, except for deferred tax assets and liabilities, assets and liabilities for employee benefits and assets held for sale which are recorded in accordance with the relevant accounting standards. The difference between the cost of acquisition and the fair value of the assets and liabilities acquired, if positive, is recorded under intangible assets as goodwill, or, if negative, after having verified that the fair values of the assets and liabilities acquired and the cost of acquisition have been correctly measured, is recorded directly in the Income Statement, as income. Incidental transaction costs are recognised in the Income Statement as they are incurred. The acquisition cost also includes contingent consideration, which is recognised at fair value at the date of acquisition of control. Subsequent changes in fair value are recognised in the Income Statement or the Total Income Statement if the contingent consideration is a financial asset or liability. Contingent consideration classified as Shareholders' Equity is not recalculated and the subsequent settlement is recorded directly in Shareholders' Equity. If the business combinations with which control is acquired take place in stages, the Group recalculates the interest it previously held in the acquiree at the respective fair value at the acquisition date and recognises any resulting Profit or Loss in the Income Statement. Acquisitions of minority interests relating to entities for which control already exists or the sale of minority interests that do not entail loss of control are considered transactions relating to Shareholders' Equity; therefore, any difference between the cost of the acquisition/sale and the related fraction of Shareholders' Equity acquired/sold is posted as an adjustment to Group Shareholders' Equity.

In the event of the acquisition of non-total controlling shareholdings, goodwill is recorded only for the portion attributable to the Parent Company. The value of minority shareholdings is determined in proportion to the minority interests held in the acquiree's identifiable net assets. Ancillary charges associated with the acquisition are

recognised in the Income Statement at the date the services are rendered.

Transactions eliminated in the consolidation process

In preparing the consolidated financial statements, all significant balances and transactions between Group companies are eliminated, as are unrealised profits and losses on intercompany transactions. Realised profits and losses generated on transactions with associated or jointly controlled companies are eliminated in proportion to the value of the Group's interest in those companies.

Conversion of financial statements in foreign currency

When translating financial statements denominated in foreign currency, balance sheet items are converted at year-end exchange rates, whilst income statement items are converted at the average exchange rate for the period. Shareholders' equity items are converted into euros at the exchange rate in force on the respective date of formation, or at the average exchange rate for the period if the items are formed more than once during the year. Any differences between the result for the period, deriving from conversion at average exchange rates, and that resulting from conversion at year-end exchange rates, as well as the effects on other shareholders' equity items of fluctuations between historical exchange rates and year-end rates, are recorded in shareholders' equity under the 'Conversion reserve' item. The rates applied when converting the financial statements of companies located outside the euro area are shown below.

Currency	Exchange rate as at 06/30/2023	Average exchange rate in 2023	Exchange rate as at 31/12/2022	Average exchange rate in 2022
USD - US Dollar	1.0866	1.0807	1.0666	1.0530
CHF - Swiss Franc	0.9788	0.9856	0.9847	1.0047
GBP - pound sterling	0.8583	0.8764	0.8869	0.8528
CAD - Canadian dollar	1.4415	1.4565	1.4440	1.3695

VALUATION CRITERIA

The accounting standards and valuation criteria adopted in preparing the Consolidated Financial Statements are shown below:

Intangible fixed assets

Intangible assets consist of non-monetary items that are identifiable and have no physical substance, are controllable and capable of generating future economic benefits. These items are recorded at purchase and/or production cost, including directly attributable expenses for preparing the asset for use, net of accumulated amortisation and any impairment losses. Any interest expense accrued during and in connection with the development of intangible assets is capitalised as an increase of the asset itself. Items that meet the definition of 'assets acquired in a business combination' are only accounted for separately if their fair value can be reliably determined. Intangible assets are subject to amortisation except when they have an indefinite useful life. Amortisation begins when the asset is available for use and is systematically allocated in relation to the residual possibility of use of the same, i.e. on the basis of the estimated useful life.

Costs incurred for intangible assets after purchase are only capitalised if they increase the future economic benefits of the intangible asset to which they refer. All other costs are charged to the Income Statement in the period in which they are incurred. Intangible fixed assets include those with a finite useful life or other intangible fixed assets, the valuation criteria for which are described in the following paragraphs.

Goodwill

Goodwill arising from the acquisition of a subsidiary or other business combinations represents the excess of the

acquisition cost over the Group's share of the fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill is not amortised, but is tested for impairment annually, or more frequently if specific events or changed circumstances indicate that it may be impaired. Reversals of impairment losses are not permitted in the case of a previous write-down for impairment. After initial recognition, goodwill is measured at cost, less any accumulated impairment losses.
Upon the transfer of control of the previously acquired business, the gain or loss on disposal takes into account the corresponding residual value of the previously recognised goodwill.

Research and development costs

Research costs are charged to the Income Statement in the period in which they are incurred.
Costs for the development of new products and processes are capitalised and recognised as intangible assets only if all of the following conditions are met:

- the project is clearly identified and the costs associated with it are reliably identifiable and measurable;
- the technical feasibility of the project is demonstrated;
- the intention to complete the project and sell the intangible assets generated by the project is demonstrated;
- there is a potential market or, in the case of internal use, the usefulness of the intangible asset is demonstrated;
- the technical and financial resources necessary to complete the project are available.
- they are amortised over the period in which expected future revenues arise from the same project. The useful life is established as 5 years.

Patents and Intellectual Property

The amortisation of industrial patents and intellectual property rights is calculated using the straight-line method, so as to allocate the cost incurred for the acquisition of the right over the shorter of the period of expected use and the duration of the related contracts, starting from the time at which the right acquired becomes exercisable. Software license costs are amortised using the straight-line method over the 10-year period.

Concessions, licences and trademarks

Concessions, licences and similar rights deriving from an acquisition are recorded at their fair value at the date of acquisition and are systematically amortised taking into account the shorter of the period of expected use and the period of ownership of the right. The amortisation period is 10 years.

Other intangible fixed assets

This item includes costs that qualify for capitalisation and have not been included in the above categories.

Rights of use

The accounting standard defines a single model for recognising leases, eliminating the distinction between operating and finance leases, and providing for the recognition of an asset for the right to use the asset and a liability for the lease. A contract is, or contains, a lease if, in exchange for consideration, it grants the right to control the use of a specified asset for a period of time. Assets for the right to use leased goods are initially measured at cost, and subsequently amortised over the term of the lease defined during the analysis phase, taking into account reasonably exercisable options to extend or terminate the lease. The cost of right of use assets includes the initially recognised value of the lease liability, the initial direct costs incurred, an estimate of any restoration costs to be incurred at the end of the lease term, and lease-related prepayments made at the first transition date net of any lease incentives

received.

The related liabilities for leased assets are initially measured at the present value of the payments due for fixed rentals to be paid at the date the lease agreement is signed and for the price of exercising the purchase and redemption option if reasonably exercisable, discounted using the implicit interest rate of the lease, if determinable, or the marginal financing rate at that date. Liabilities for leased assets are subsequently increased by interest accruing on such liabilities and decreased in correlation with lease payments. Liabilities for leased assets are in any case restated to take into account any changes to the payments due for the lease, adjusting the asset consisting of the right of use by the same amount. However, if the book value of the asset consisting of the right of use is zero and there is a further reduction in the valuation of the lease liability, this difference is recognised in the profit (loss) for the period. In the case of intervening changes in the lease, such changes are accounted for as a separate lease when rights of use are added to one or more underlying assets and the lease consideration increases by an amount reflecting the stand-alone price for the increase in the scope of the lease. In connection with changes that are not accounted for as a separate lease, the lease liability is restated by discounting the revised lease payments due using a revised discount rate, based on the new lease term. These adjustments to liabilities are accounted for by making a corresponding change to the asset consisting of the usage right, recording any profit or loss related to the partial or total termination of the contract in the income statement. No assets are recorded for rights of use in relation to: i) short-term leases; ii) leases where the underlying asset is of low value. Payments due under these types of leases are recognised as operating expenses on a straight-line basis. The income statement, under operating costs, shows amortisation of the right of use asset and, in the financial section, interest expense accrued on the lease liability, if not capitalized. The income statement also includes: i) payments related to short-term, low-value leases, as permitted under simplified rules; and ii) variable lease payments, which are not included in the determination of the lease liability (e.g., payments based on the use of the leased asset). The Group's rights of use relate to leased properties and motor vehicles.

The company has chosen to show them in the financial statements separately from other tangible fixed assets. The amortisation period corresponds to the duration of the respective contracts, also taking into account reasonably probable renewals.

Tangible fixed assets

Fixed assets, shown net of accumulated depreciation, are recorded at purchase or production cost, with the exception of assets whose value has been revalued on the basis of legal provisions. Cost includes ancillary charges and costs directly attributable to the asset. Fixed assets, with the exception of land, are systematically depreciated each year on a straight-line basis at economic-technical rates determined in relation to the residual possibility of use of the assets; in the event of a permanent impairment of value, irrespective of the depreciation already recorded, the fixed asset is written down accordingly. Ordinary maintenance costs are charged in full to the Income Statement. Maintenance costs of an incremental nature are allocated to the assets to which they refer and depreciated in relation to the residual possibility of use of the same. Assets under construction and advances to suppliers are recorded under assets on the basis of the cost incurred, including directly attributable expenses.

The depreciation rates applied are as follows:

CATEGORY	%
Buildings	3.0%
Specific installations	20.0%
Electronic office machines	20.0%
Office furniture and furnishings	12.0%

Mobile phones	20.0%
Motorcycles	25.0%
Other fixed assets	12.0%

Leasehold improvements, which include the costs incurred for the modernisation and extraordinary maintenance of buildings not owned by the Company (and which are nevertheless instrumental to the Group's activities) are depreciated on the basis of the duration of the lease contract, including any periods of renewal, or the useful life of the asset, if this is shorter. The cost of extraordinary maintenance is included in the book value of an asset when it is likely that the Company will obtain future economic benefits in excess of those originally determined. Such maintenance is depreciated over the remaining useful life of the related asset. All other maintenance costs are recognised in the Income Statement in the period in which they are incurred.

Impairment of non-financial assets

At each reference date of the financial statements, tangible and intangible assets are analysed in order to identify any indicators of impairment. In the presence of such indicators, the recoverable value of the said assets is estimated, allocating any write-down compared to the related book value to the Income Statement. An intangible asset with an indefinite useful life, such as goodwill, is not amortised but is subject to an impairment test every year or more frequently, whenever there is an indication that the asset may be impaired. The recoverable value of an asset is the higher of its fair value, less costs to sell it, and its value in use, this meaning the current value of the future cash flows estimated for this asset. For an asset that does not generate largely independent cash flows, the realisable value is determined in relation to the cash generating unit to which that asset belongs. In determining the value in use, the expected future cash flows are discounted using a discount rate that reflects the current market valuation of the cost of money, in relation to the period of the investment and the specific risks of the asset. The value in use is determined net of the tax effect, applying a post-tax discount rate, as this method produces values that are substantially equivalent to those that can be obtained by discounting pre-tax cash flows at a pre-tax discount rate. An impairment loss is recognised in the Income Statement when the book value of the asset is greater than its recoverable amount. If the conditions for a previous write-down no longer apply, the book value of the asset, excluding goodwill, is reinstated and charged to the Income Statement, within the limits of the net book value that the asset in question would have had if the write-down had not been carried out and amortisation had been applied.

Equity investments in other companies and other securities

Investments in companies other than subsidiaries, associated companies and joint ventures (generally with an ownership of less than 20%) fall into the category of financial assets measured at fair value, which normally corresponds, on initial recognition, to the transaction price including directly attributable transaction costs. Subsequent changes in fair value are recorded in the Income Statement (FVPL) or, if the option provided for in the standard is exercised, in the Total Income Statement (FVOCI) under the item 'Reserve for instruments at FVOCI'. For investments valued at FVOCI, impairment losses are never recognised in the Income Statement as are accumulated gains or losses when the investment is sold; only dividends distributed by the investee are recognised in the Income Statement when:

- the Group's right to receive payment of the dividend arises;
- it is likely that the Group will obtain the economic benefits arising from the dividend;
- the amount of the dividend can be reliably estimated.

If the fair value cannot be reliably determined, equity investments and securities are valued at cost, adjusted if necessary for any impairment losses. The related dividends are posted among financial income when the right to receive them is established, which generally coincides with the Shareholders' Meeting resolution.

Determination of recoverable value

In case of indicators, events or changes in circumstances that lead to the assumption of impairment losses, the standard requires intangible, tangible and financial assets to undergo impairment testing, in order to ensure that assets are not entered in the financial statements at a value higher than their recoverable value. As already mentioned, this test should be carried out at least once a year for fixed assets with an indefinite useful life. The recoverable value of assets corresponds to the higher of Fair Value, net of selling costs, and value in use. In order to determine value in use, estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the value of money and the risks associated with the Group's operations, as well as the cash flows deriving from disposal of the asset at the end of its useful life. If an independent cash flow for a single asset cannot be estimated, the cash generating unit to which the asset belongs and to which it is possible to associate future independent cash flows is identified.

Reversals of impairment losses

A reversal of an impairment loss on a financial asset carried at amortised cost should be recognised when the subsequent increase in recoverable amount can be objectively attributed to an event that occurred after an impairment loss was recognised. In the case of other non-financial assets, a reversal of an impairment loss takes place if there is an indication that the loss in value no longer exists and there has been a change in the valuations used to determine the recoverable value. A reversal of an impairment loss must be recognised immediately in the Income Statement by adjusting the book value of the asset to its recoverable amount. The latter must not exceed the book value that would have been determined, net of amortisation and depreciation, if no impairment loss had been recognised in previous years. Goodwill cannot be reversed.

Trade receivables and other receivables

Receivables are initially recorded at estimated realisable value, i.e. at face value less allowances for doubtful accounts that reflect estimated losses on receivables. Receivables are written down when there is an objective indication that the receivable is likely to be uncollectable and on the basis of historical experience and statistical data, applying an expected loss approach. Receivables are regularly reviewed for maturity and seasonality in order to prevent adjustments for unexpected losses. Any medium- and long-term receivables that include an implicit interest component are discounted using an appropriate market rate. This item includes accruals and deferrals relating to portions of costs and income that are common to two or more financial years, the amount of which varies over time, in application of the accruals principle.

Inventories

Inventories are carried at the lower of purchase or production cost and net realisable value represented by the amount the company expects to obtain from their sale in the ordinary course of business, less costs to sell. The cost of inventories of raw, ancillary and consumable materials as well as finished goods and goods for sale is determined by applying the weighted average cost method. Production cost includes raw materials, direct labour costs and other production costs

(based on normal operating capacity). Financial charges are not included in the valuation of inventories. Materials that are slow-moving or otherwise no longer reusable or saleable in the normal operating cycle are appropriately written down to align their value with their net realisable value.

Work in process on long-term contracts

The recognition of assets or liabilities for work in process on long-term contracts (hereinafter also referred to as 'contracts') depends on the method by which control is transferred to the customer of the good or service: in the case where this occurs gradually as the good is constructed or the services are rendered, the assets are recognised at the value of the agreed contractual payments, according to the method of hours worked, taking into account the stage of progress achieved and the expected contractual risks; where, instead, control is transferred at the time of the final delivery of the good or the completion of the provision of all the services promised, the assets are recognised at purchase cost.

A contract is recognised as a single asset if it identifies a single contractual obligation, i.e. if the promise is to transfer a single good/service to the customer or a series of substantially equal goods/services transferred to the customer over a period of time in the same manner. If different contractual obligations are identified within the contract, they are recognised in the accounts as separate assets derived from the same contract with the customer. Contractual changes are recognised as a new contract if they include new separate goods or services and the price of the contractual change represents the stand-alone selling price charged for additional goods and services; otherwise the additional good is accounted for as a single contract together with the original contract. Work progress is measured by referring to the contract hours used at the date of the financial statements in relation to the total estimated working hours for the contract. If the completion of a contract is expected to result in a loss in terms of the industrial margin, this is recognised in its entirety in the financial year in which it becomes reasonably foreseeable. Assets for work in process on long-term contracts are stated considering costs incurred plus recognised margins, net of related liabilities, i.e. Work progress billings and any expected losses. This analysis is carried out contract by contract. If the differential is positive, the imbalance is classified as an asset in the item 'work in process on long-term contracts'; if, on the other hand, the differential is negative, the imbalance is classified as a liability.

Financial assets

The Group classifies financial assets according to the following categories:

- financial assets valued at amortised cost;
- assets at fair value through Other Components of the Total Income Statement (FVOCI);
- assets at fair value through profit or loss for the period (FVTPL).

Given the immateriality of the financial assets in the Consolidated Financial Statements, the directors have opted to recognise them at cost, which is substantially not dissimilar to fair value.

Cash and cash equivalents

Cash and cash equivalents include cash balances and demand deposits and all highly liquid investments purchased with an original maturity of three months or less. Securities included in cash and cash equivalents are recorded at fair value.

Employee benefits

The cost related to benefits provided to employees is determined using the Projected Unit Credit Method by performing actuarial valuations at the end of each financial year. Defined-benefit plans also include severance pay (TFR) due to employees of the Group's Italian companies pursuant to article 2120 of the Italian Civil Code, accrued prior to the reform of severance pay in 2007, in that it is similar to defined-benefit plans. The amount recorded in the financial statements

is subject to actuarial calculation according to the projected unit credit method, using for discounting purposes an interest rate that reflects the market yield on securities with maturities consistent with the expected maturity of the obligation. The calculation concerns severance pay accrued for work already carried out and incorporates, for Italian subsidiaries which in 2007 had fewer than 50 employees, assumptions regarding future salary increases. Any actuarial gains or losses are recorded directly in the 'Valuation reserves' included in shareholders' equity, with immediate recognition in the Total Income Statement.

Share-based incentive plans

Certain employees of the Group, the Directors and certain consultants receive part of their remuneration in the form of share-based payments, so employees perform services in exchange for shares ('equity-settled transactions'). The cost of equity-settled transactions is determined by the fair value at the grant date, using an appropriate valuation method, as explained in Note 38.

This cost is recognised under personnel costs over the period in which the conditions relating to the achievement of targets and/or the provision of the service are met, with a corresponding increase in shareholders' equity. The cumulative costs recognised in respect of these transactions at the end of each financial year up to the vesting date are commensurate with the maturity of the vesting period and the best estimate of the number of equity instruments that will actually vest.

Service or performance conditions are not taken into account when determining the fair value of the plan at the grant date. However, the probability that these conditions will be met is taken into account when defining the best estimate of the number of capital instruments that will vest. Market conditions are reflected in the fair value at the grant date. Any other plan-related condition that does not result in a service obligation is not considered a vesting condition. Non-vesting conditions are reflected in the fair value of the plan and result in the immediate recognition of the cost of the plan unless there are also service or performance conditions.

No expense is recognised for rights that do not vest because performance and/or service conditions are not met. When rights include a market condition or a non-vesting condition, they shall be treated as if they had vested, regardless of whether the market conditions or other non-vesting conditions to which they are subject are met, provided that all other performance and/or service conditions are met.

If the terms of the plan are changed, the minimum cost to be recognised is the fair value at the grant date in the absence of the plan change, assuming the original terms of the plan are met. In addition, a cost is recognised for any change that results in an increase in the total fair value of the payment plan, or is otherwise favourable to employees; such cost is measured by reference to the date of change. When a plan is cancelled by the entity or the counterparty, any remaining element of the fair value of the plan is immediately reversed to profit or loss.

Provisions for risks and charges

Provisions for risks and charges are recorded in respect of losses and charges of a determinate nature, whose existence is certain or likely, but whose amount and/or date of occurrence cannot be precisely determined. Recognition is only made when a current obligation exists for a future outflow of economic resources as a result of past events and it is likely that such outflow will be required to settle the obligation. This amount represents the best estimate of the expense required to settle the obligation. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the funds are measured at the present value of the expected expense using a rate that reflects market conditions, the change in the cost of money over time, and the specific risk associated with the obligation. The increase in the value of the fund caused by changes in the cost of money over time is recorded as interest expense. Risks for which the occurrence of a liability is only possible are indicated in the specific section on commitments and risks for which no provision is made.

Derivative financial instruments

The derivative instruments arranged by the Group are designed to cover exposure to the interest rate risk associated primarily with loans. On the date the contract is entered into, derivative instruments are initially recognised at fair value and, if the derivative instruments cannot be classified as hedging instruments, changes in fair value recognised subsequent to initial recognition are treated as an operating or financial component of the result for the period in relation to the nature of the instrument. If, on the other hand, the derivatives meet the requirements to be classified as hedging instruments, the subsequent changes in fair value are accounted for by following the specific criteria indicated below.

For each derivative financial instrument identified as a hedging instrument, its relationship to the hedged item is documented, including risk management objectives, the hedging strategy and the assessment of hedge effectiveness. The effectiveness of each hedge is tested both at the time of inception of each derivative instrument and during its life. Generally, a hedge is considered to be highly 'effective' if, both at its inception and during its life, changes in the fair value in the case of a fair value hedge or in the expected future cash flows in the case of a cash flow hedge of the hedged item are substantially offset by changes in the fair value of the hedging instrument. When the hedge concerns changes in the fair value of assets or liabilities recorded in the financial statements (fair value hedge), both the changes in the fair value of the hedging instrument and the changes in the hedged item are posted to the Income Statement. In the case of a hedge aimed at neutralizing the risk of changes in future cash flows deriving from the future execution of transactions that are expected to be highly likely at the reference date of the financial statements (cash flow hedge), the changes in the fair value of the derivative instrument posted subsequent to initial recognition are accounted for, limited only to the effective portion, among the components of Total Income and Loss. When the economic effects arising from the hedged item become apparent, the reserve is reversed to the Income Statement among operating components. If the hedge is not perfectly effective, the change in fair value of the hedging instrument, referring to the ineffective portion of the hedge, is immediately posted to the Income Statement. If, during the life of a derivative instrument, the expected transaction for which the hedge was activated is no longer expected to take place, the portion of the 'reserves' item relating to this instrument is immediately reversed to the Income Statement for the financial year. On the other hand, if the derivative instrument is sold or no longer qualifies as an effective hedging instrument, the part of the 'reserves' item representing the changes in fair value of the instrument, recorded up to that moment, is maintained as a component of Total Income and Loss and is reversed to the Income Statement in accordance with the classification criterion described above, at the same time as occurrence of the economic effects of the transaction originally covered by the hedge. The fair value of instruments listed on public markets is determined with reference to year-end prices. The fair value of unlisted instruments is measured with reference to financial valuation techniques: in particular, the fair value of interest rate swaps is measured by discounting expected cash flows.

Financial assets and liabilities valued at fair value are classified in the three hierarchical levels described below, based on the relevance of the information (input) used to determine fair value. Specifically:

- Level 1: financial assets and liabilities whose fair value is determined based on listed prices (unmodified) on active markets for identical assets or liabilities;
- Level 2: financial assets and liabilities whose fair value is determined on the basis of inputs other than the listed prices referred to in Level 1 but which are observable directly or indirectly (such as primarily: market exchange rates at the reference date, expected rate differentials between the currencies involved and volatility of the reference markets, interest rates and commodity prices);
- Level 3: financial assets and liabilities whose fair value is determined based on inputs that are not based on observable market data.

Financial assets are removed from the balance sheet when the right to receive cash flows from the instrument has expired and the company has essentially transferred all risks and benefits relative to the instrument and the corresponding control.

Financial payables

Financial liabilities, including financial payables, trade payables, other payables and other liabilities, other than derivatives, are initially recognised at fair value and subsequently measured at amortised cost, net of any principal repayments already made. Payables and other liabilities are classified as current liabilities unless the Group has a contractual right to settle its obligations at least beyond twelve months from the date of the financial statements. Financial liabilities are eliminated when they are settled, i.e., when the obligation specified in the contract is fulfilled, cancelled or expired.

Bank overdrafts and loans

Loans are initially measured at cost, which approximates their fair value, net of transaction costs. Subsequently, they are recorded at amortised cost, with any difference between cost and the repayment value over the duration of the loan being charged to the Income Statement using the effective interest rate method. Loans are classified as current liabilities unless the Group has the unconditional right to defer settlement of such liability for at least twelve months after the date of the financial statements.

Trade payables and other payables

Trade and other payables are measured at initial recognition, at fair value, normally equal to nominal value, net of discounts, returns or billing adjustments, and are subsequently measured at amortised cost.

Capital contributions and operating grants

Any government grants are recognised in the financial statements when there is reasonable assurance that the Company will comply with all conditions for receipt of the grants and that the grants will be received. The Group has opted to present any capital contributions in the financial statements using the deferred income method and recognised on a systematic basis over the useful life of the asset. Any operating grants are reported under other revenues.

Revenues

Revenues are accounted for by applying a 5-step model:

1. Identification of the customer contract;
2. Identification of performance obligations ('P.O.s');
3. Determination of transaction consideration;
4. Allocation of consideration to the various P.O.s;
5. Revenue recognition when entity meets P.O.

Revenues are recorded net of returns, discounts, allowances and bonuses, as well as taxes directly related to the sale of goods and the provision of services. Revenues from sales are recognised when the company has transferred the significant risks and benefits associated with ownership of the asset and collection of the related receivable is reasonably certain.

Revenues from contracts with customers are recognised based on the temporal transfer of control of the goods and/or services to the customer. In the event that the transfer of control takes place as the asset is constructed or the services are rendered, revenues are recorded 'over time', that is, with the gradual progress of the activities; on the other hand,

in the event that the transfer of control does not take place as the asset is constructed or the services are rendered, revenues are recorded 'at a point in time', that is, at the time of final delivery of the asset or upon completion of service supply. In order to assess the progress of 'over time' contracts, the Group applies the criterion of the percentage of progress assessed on the basis of hours accrued. When it is likely that total whole-life contract costs will exceed total corresponding whole-life revenues, the potential loss is recognised immediately in the Income Statement.
The company records revenues from standard licences, both perpetual and time-limited (almost all cases) upon delivery and testing, 'at a point in time'. Only in the (residual) case of customised orders is the revenue recognised 'over time' on the basis of service progress, the company being entitled to collect the consideration for the services completed on the date.
Maintenance revenues are recognised 'over time' on the basis of the duration of the contract if the contract with the customer specifies a fixed maintenance fee, while they are recognised 'over time' on the basis of service progress if the contract specifies the expected hours of maintenance.

Dividends

Dividends received from investee companies are recognised in the Income Statement when:

- the Group's right to receive payment of the dividend arises;
- it is likely that the Group will obtain the economic benefits arising from the dividend;
- the amount of the dividend can be reliably estimated.

Costs

Costs and expenses are accounted for on an accrual basis.

Financial income and charges

These include all the financial items posted to the Income Statement for the period, including interest expense accrued on financial payables calculated using the effective interest method (primarily current account overdrafts, medium/long-term loans), foreign exchange gains and losses, and the portion of interest expense deriving from the accounting treatment of assets held under finance leases.
Interest income and expenses are charged to the Income Statement for the period in which they are realised/incurred.

Taxes

Income taxes for the period include current taxes and deferred taxes. Income taxes for the financial year are posted to the Income Statement; however, when they refer to items posted directly to Shareholders' Equity, they are accounted for in this latter item.
Other non-income related taxes, such as property taxes, are included in operating expenses.
Current taxes on taxable income for the period represent the tax charge determined using the tax rates in effect at the reference date of the financial statements, and any adjustments to tax liabilities calculated in prior years.
Deferred taxes are recorded for all temporary differences existing at the reference date between the book values of assets and liabilities entered in the financial statements and the corresponding values used to determine taxable income for tax purposes.
Deferred taxes refer to:
(i) temporary differences between the taxable base of an asset or liability and its book value in the financial statements;
(ii) positive income components recognised in the year in question and in past years, but taxable in subsequent years;
(iii) receivables for prepaid taxes are recorded in the financial statements;

(iv) for all deductible temporary differences, if it is likely that taxable income will be realised in respect of which the deductible temporary difference can be used, unless the deferred tax asset arises from the initial measurement of an asset or liability in a transaction other than a business combination which, at the date of the transaction, affects neither accounting result nor taxable income (tax loss);

(v) for the carryforward of unused tax losses and unused tax receivables, if it is likely that taxable income will be realised in respect of which the tax loss or tax receivable can be used.

Receivables for prepaid taxes and deferred tax liabilities are determined on the basis of the tax rates expected to apply to changes in income in the years in which the temporary differences will reverse, based on tax rates and tax laws in force or substantially in force at the reference date of the financial statements.

The effect of the change in tax rates on the aforesaid taxes is posted to the Income Statement in the year in which such change takes place. Receivables for prepaid taxes and deferred tax liabilities are only offset when they refer to taxes levied by the same tax authorities.

Use of estimates

The preparation of the financial statements requires Directors to apply principles and methods that, in certain circumstances, are based on difficult and subjective assessments of estimates based on historical experience and assumptions that are from time to time considered reasonable and realistic depending on the relevant circumstances. The application of these estimates and assumptions influences the amounts reported in the financial statements, such as the Consolidated Balance Sheet, the Total Income Statement, the Statement of Changes in Shareholders' Equity and the Cash Flow Statement, as well as the information provided. The final results of the financial statement items for which the above-mentioned estimates and assumptions are used may differ from those shown in the financial statements that reflect the effects of the estimated event, due to the uncertainty that characterises the assumptions and the conditions on which estimates are based. With regard to the business sectors in which the Group operates, the items most impacted by the use of estimates and valuations and for which a change in the conditions underlying the assumptions used might have a significant impact on the consolidated financial data, are briefly described below.

Impairment of assets

The Group's tangible and intangible assets are subject to impairment testing on at least an annual basis if they have an indefinite life or more often in case of events that indicate that the book value cannot be recovered. The write-down is determined by comparing the book value with the related recoverable value, represented by the greater of fair value, net of disposal charges, and value in use determined by discounting to present value the expected cash flows deriving from use of the asset, net of disposal charges. Expected cash flows are quantified in light of the information available at the time of the estimate on the basis of subjective opinions on the trend of future variables (prices, costs, growth rates of demand, production profiles) and are discounted using a rate that takes account of the risk pertaining to the asset concerned. Goodwill and other intangible assets with an indefinite useful life are not subject to amortisation; the recoverability of their book value is checked at least annually and otherwise when events occur that imply a reduction in value. With reference to goodwill, the verification is carried out at the level of the smallest aggregate (cash generating unit 'CGU') on the basis of which Management assesses, directly or indirectly, the return on the investment that includes goodwill itself. When the book value of the cash generating unit, including the goodwill attributed to it, is higher than the recoverable value, the difference is subject to impairment that is first attributed to goodwill up to its amount; any excess of the impairment over goodwill is attributed pro-rata to the book value of the assets making up the cash generating unit.

Business Combination transactions

Recognition of Business Combination transactions involves allocating to the assets and liabilities of the acquired company the difference between the purchase cost and the net book value of the net assets acquired. For most assets and liabilities, the difference is allocated by recognising assets and liabilities at their fair value. The unallocated portion, if positive, is recorded under goodwill, if negative it is charged to the Income Statement. In the allocation process, Management makes use of available information and, for the most significant Business Combinations, of external evaluations.

Medium/long-term share-based incentive plans

Any medium/long-term share-based incentive plans envisage that, at the end of each accounting period, the estimated number of rights that will accrue until maturity is updated. The change in the estimate is posted as an adjustment to a Shareholders' Equity reserve, created specifically for incentive plans, with a corresponding entry in 'Personnel costs'.

Basic or diluted earnings per share

Basic earnings per share are calculated by dividing the profit or loss for the period attributable to shareholders holding Ordinary Shares by the weighted average number of Ordinary Shares outstanding during the year.
The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share, but takes into account all potential dilutive ordinary shares outstanding during the year, i.e:

- profit for the period attributable to ordinary shares is increased by the amount, net of tax, of dividends and interest recognised during the year in respect of potential dilutive ordinary shares and adjusted for any other changes in income or expense resulting from the conversion of potential dilutive ordinary shares;
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would be outstanding if all potential dilutive ordinary shares were converted.

Subsequent events

For events occurring after the date of the financial statements, the Group analyses business events occurring after such date in order to verify whether, given the conditions identified by IAS 10, they should be used to adjust the amounts recognised in the financial statements or to recognise elements not previously recognised.

OTHER INFORMATION

Cash Flow Statement

The Cash Flow Statement has been prepared using the indirect method. Cash and cash equivalents included in the Cash Flow Statement include the balance sheet balances of that item as of the reference date. Other cash equivalents represent short-term, highly liquid financial resources that are readily convertible to cash and are exposed to an insignificant risk of change in value. Therefore, a financial resource is usually classified as cash equivalent when it is short term, i.e., three months or less from the date of purchase.
Overdrafts are usually part of financing activities unless they are repayable on demand and are an integral part of a Company's cash or cash equivalent management, in which case they are classified as a reduction of cash equivalents.

Foreign currency cash flows are translated at the average exchange rate for the period. Income and expenses related to interest, dividends received, and income taxes are included in cash flows from operations.

The cash flow statement shows separately the cash flows deriving from operating, investing and financing activities:

- cash flow from operating activities: cash flows from operating activities are primarily linked to income-generating activities and are reported by the Group using the indirect method. According to this method, profit for the period is adjusted for the effects of items that did not involve any disbursements during the period, i.e. did not generate cash (non-monetary transactions);
- cash flow from investing activities: investing activities are shown separately because they are, among other things, indicative of investments/disinvestments made with the aim of obtaining future revenues and positive cash flows;
- cash flow from financing activities: financing activities consist of flows that entail changes in the amount and composition of Shareholders' Equity and loans obtained.

1. Intangible fixed assets

Intangible fixed amount to Euro 20,869,672 (Euro 20,307,822 in the previous year), showing the following changes:

Description	Development costs	Industrial rights and patents	Concessions, licences and trademarks	Goodwill	Intangible fixed assets in process	Other intangible fixed assets	Total
01/01/2022	**14,424,284**	**283,491**	**13,530**	**3,421,599**	**2,800**	**195,887**	**18,341,591**
Increases for purchases	8,869,409	401,511				23,322	9,294,242
Decreases	-		-				-
Other changes	31,576	657	-	-	-		32,233
Depreciation for the period	(7,106,470)	(211,611)	(497)			(41,666)	(7,360,244)
31/12/2022	**16,218,799**	**474,048**	**13,033**	**3,421,599**	**2,800**	**177,543**	**20,307,822**
Increases for purchases	3,815,345	300,000					4,115,345
Decreases	-						-
Other changes	(3,527)	62	(1)	-	-	1	(3,465)
Depreciation for the period	(3,424,621)	(104,328)	(248)			(20,833)	(3,550,030)
30/06/2023	**16,605,996**	**669,782**	**12,784**	**3,421,599**	**2,800**	**156,711**	**20,869,672**

HISTORICAL COST	Development costs	Industrial rights and patents	Concessions, licences and trademarks	Goodwill	Intangible fixed assets in process	Other intangible fixed assets	Total
01/01/2022	**55,510,604**	**1,589,232**	**903,496**	**3,421,599**	**2,800**	**259,285**	**61,687,016**
Increases for purchases	8,869,409	401,511	-	-	-	23,322	9,294,242
Decreases	-	-	-	-	-	-	-
Other changes	115,821	1,290	53,964	-	-	-	171,075
31/12/2022	**64,495,834**	**1,992,033**	**957,460**	**3,421,599**	**2,800**	**282,607**	**71,152333**
Increases for purchases	3,815,345	300,000	-	-	-	-	4,115,345
Decreases	-	-	-	-	-	-	-
Other changes	(36,583)	(351)	(17,045)	-	-	-	(53,979)
30/06/2023	**68,274,596**	**2,291,682**	**940,415**	**3,421,599**	**2,800**	**282,607**	**75,213,699**

ACCUMULATED DEPRECIATION	Development costs	Industrial rights and patents	Concessions, licences and trademarks	Goodwill	Intangible fixed assets in process	Other intangible fixed assets	Total
01/01/2022	**41,086,320**	**1,305,741**	**889,966**	**-**		**63,398**	**43,345,425**
Increases for purchases	7,106,470	211,611	497	-		41,666	7,360,244
Decreases	-	-	-	-			-
Other changes	84,245	633	53,964	-	-	-	138,842
31/12/2022	**48,277,035**	**1,517,985**	**944,427**	**-**		**105,064**	**50,844,511**
Increases for purchases	3,424,621	104,328	248	-		20,833	3,550,030
Decreases	-	-	-	-		-	-
Other changes	(33,056)	(413)	(17,044)	-	-	(1)	(50,514)
30/06/2023	**51,668,600**	**1,621,900**	**927,631**	**-**		**125,896**	**54,344,027**

Development costs are almost entirely referable to the parent company Expert.ai S.p.A. to which most of 'Research and Development activities' can be attributed. The costs entered are reasonably related to a useful life of several years and are systematically amortised in relation to their useful life. 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.

Goodwill recorded in the financial statements corresponds to the residual part, not yet amortised at the transition date (1 January 2019) according to previously adopted OIC accounting standards. In detail, goodwill refers to:

- For Euro 320,020, to the subsidiary Expert System Iberia S.L.U. following acquisition of the company branch of the company Isoco at the time of incorporation of Expert System Iberia S.L.U. and the consolidation of this company in the Group;
- For Euro 3,101,577, to the subsidiary Expert System France S.A.S. (formerly Temis) following acquisition of the French group.

There were no impairment indicators in the first half of 2023, i.e. there were no indications that the tangible and intangible assets, including goodwill, associated with the aforementioned CGUs may have suffered an impairment loss.

Consequently, as at 30 June 2023, it was not necessary to perform an impairment test on the basis of an updated business plan.

2. Tangible fixed assets

Tangible fixed amount to Euro 748,232(Euro 825,387 in the previous year), showing the following changes:

Description	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other goods	Total
01/01/2022	**318,388**	**12,436**	**0**	**562,213**	**893,037**
Increases for purchases		39,876		127,268	167,144
Decreases				(17,577)	(17,577)
Other changes	(1)	0	0	3,366	3,365
Depreciation for the period	(11,087)	(7,542)		(201,953)	(220,582)
31/12/2022	**307,300**	**44,770**	**0**	**473,317**	**825,387**
Increases for purchases				18,544	18,544
Decreases				2,410	2,410
Other changes	0	1	0	(594)	(593)
Depreciation for the period	(5,544)	(5,765)		(86,207)	(97,516)
30/06/2023	**301,756**	**39,006**	**0**	**407,470**	**748,232**

HISTORICAL COST	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other goods	Total
01/01/2022	**456,980**	**236,061**	**2,064**	**2,863,141**	**3,558,246**
Increases for purchases	0	39,876	0	127,268	167,144
Sales	0	0	0	(63,432)	(63,432)
Other changes	0	0	(27)	19,973	19,946
31/12/2022	**456,980**	**275,937**	**2,037**	**2,946,950**	**3,681,904**
Increases for purchases	0	0	0	18,544	18,544
Sales	0	0	0	1,064	1,064
Other changes	0	0	16	(6,662)	(6,646)
30/06/2023	**456,980**	**275,937**	**2,053**	**2,959,896**	**3,694,866**

ACCUMULATED DEPRECIATION	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other goods	Total
01/01/2022	**138,592**	**223,625**	**2,064**	**2,300,928**	**2,665,209**
Depreciation for the period	11,087	7,542	0	201,953	220,582
Sales	0	0	0	(45,855)	(45,855)
Other changes	1	0	(27)	16,607	16,581
31/12/2022	**149,680**	**231,167**	**2,037**	**2,473,633**	**2,856,517**
Depreciation for the period	5,544	5,765	0	86,207	97,516
Sales	0	0	0	(1,346)	(1,346)
Other changes	0	(1)	16	(6,068)	(6,053)
30/06/2023	**155,224**	**236,931**	**2,053**	**2,552,426**	**2,946,634**

The item 'Other' includes residual values not classifiable in the previous items; specifically this item consists of:

- Office furniture for Euro 81,485
- Electronic office machines for Euro 300,707
- Cell phones for Euro 6,446
- Motorcycles for Euro 0
- Local installations for Euro 1,792

3. Rights of use

Rights of use refer to assets that are leased or rented. These rights refer in particular to properties rented by the Group and leased company cars.

01/01/2022	**2,453,906**
Purchases	364,543
Depreciation	(1,110,331)
Other changes	19,958
31/12/2022	**1,728,077**
Purchases	174,556
Depreciation	(433,885)
Other changes	(28,961)
30/06/2023	**1,439,787**

Rights of use - HISTORICAL COST	
01/01/2022	**4,611,381**
Purchases	448,496
Sales	-
Other changes	(63,994)
31/12/2022	**4,995,883**
Purchases	205,801
Sales	
Other changes	(60,206)
30/06/2023	**5,141,478**

Rights of use - ACCUMULATED AMORTISATION	
01/01/2022	**2,157,475**
Purchases	-
Depreciation	1,110,331
Other changes	-
31/12/2022	**3,267,806**
Purchases	
Depreciation	433,885
Other changes	
30/06/2023	**3,701,691**

In particular, these rights of use refer to the following companies:

Company	**Real Estate**	**Vehicles**
EXPERT SYSTEM ENTERPRISE CORP	165,726	0
EXPERT SYSTEM IBERIA S.L.U.	41,338	18,466
EXPERT SYSTEM COGITO LTD	20,005	0
EXPERT.AI S.p.A.	710,677	483,576
Total	**937,745**	**502,042**

4. Equity Investments and Securities

Equity investments and Securities amount to Euro 473,597 (Euro 473,597 in the previous period).

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

Description	30/06/2023	31/12/2022	Change
Equity investments	**112,498**	**70,777**	**41,721**
Equity investments in Cy4gate			-
Equity investments in Buzzoole Holding Limited	50,000	50,000	-
Equity investment in Datum Consortium	3,572	3,572	-
Equity investments in subsidiaries	41,721		
Equity investments in other companies	17,205	17,205	-
Securities	**473,597**	**473,597**	**-**
Other securities	473,597	473,597	-
Total	**586,095**	**544,374**	**41,721**

Equity investments not included in the scope of consolidation amount to Euro 473,597 (Euro 70,777 in the previous period). The item 'Other Securities' of Euro 473,597 represents the positive fair value of derivative instruments, finalised by the Group, to hedge its interest rate risk exposure mainly related to loans.

5. Other non-current assets

Other non-current assets amount to Euro 7,099,645 (Euro 9,700,442 in the previous period).

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

Description	30/06/2023	31/12/2022	Change
Prepaid expenses over 12 months	**53,039**	**0**	**53,039**
Other prepaid expenses over 5 years	0	100,296	(100,296)
Miscellaneous security deposits over 12 months	107,888	131,600	(23,712)
EXTRA-EEC customers for invoices to be issued > 12 months	3,029,884	2,511,845	518,039
CEE customers for invoices to be issued > 12 months	355,950	637,200	(281,250)
National customers for invoices to be issued > 12 months	725,968	2,575,887	(1,849,919)
Receivables for grants for research projects over 12 months	**2,826,916**	**3,743,614**	**(916,698)**
Total	**7,099,645**	**9,700,442**	**(2,600,797)**

The increase in receivables for invoices to be issued > 12 months is mainly attributable to the conclusion of a higher number of contracts for multi-year licences with longer invoicing schedules.

Non-current receivables for grants on research projects are detailed in the table below.

Description	Expert.AI S.p.a.	Expert System Iberia Slu	Expert System France Sas	Total
2022	3,539,643	192,821	11,150	3,743,614
2023	2,663,249	154,055	9,612	2,826,916
Total	6,202,892	346,876	20,762	6,570,530

Most of the contributions on research projects beyond 12 months are attributable to Expert.ai S.p.A.; specifically the most significant contributions are:

- MIUR (Ministry of Education, University and Research) for Euro 181,943
- MISE (Ministry for Economic Development) for Euro 844,373
- Emilia-Romagna Region for Euro 1,019,817

- European Commission for Euro 617,115.

6. Non-current tax receivables

Non-current tax receivables amount to Euro 2,893,505 (Euro 2,892,667 in the previous year).

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

Description	30/06/2023	31/12/2022	Change
Deferred tax assets after 12 months	2,893,505	2,892,667	838
Total	2,893,505	2,892,667	838

7. Inventories

Inventories included in current assets amount to Euro 0 (Euro 14,560 in the previous year).

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

Description	30/06/2023	31/12/2022	Change
Work in process on long-term contracts	0	14,560	(14,560)
Total	0	14,560	(14,560)

8. Trade receivables and other receivables

Trade receivables and other current receivables amount to Euro 16,500,496 (Euro 20,023,651 in the previous year).

This item is detailed in the table below:

Description	30/06/2023	31/12/2022	Change
Trade receivables	14,500,118	18,413,046	(3,912,928)
Bad debt provision	(276,572)	(276,572)	0
Group current trade receivables	143,179	0	143,179
Receivables from others	2,133,771	1,887,177	246,594
Total	16,500,496	20,023,651	(3,523,155)

Changes in the bad debt provision during the period are as follows:

Description	30/06/2023	Used	Provision	31/12/2023
Bad debt provision	276,572			276,572

The bad debt provision was adjusted in line with the best estimate of the credit risk and expected losses at the end of the financial year, also relying on an analysis of each past due item.

The breakdown of receivables from customers by geographical area is shown in the following table:

Description	30/06/2023	31/12/2022	Change
Italy	8,525,307	8,126,265	399,042
EEC countries	2,071,909	2,844,390	(772,481)
USA	2,614,575	5,027,716	(2,413,141)
Rest of the world	1,288,327	2,414,675	(1,126,348)
Total	14,500,118	18,413,046	(3,912,928)

The following table shows the receivables classified by seniority.

	30/06/2023	31/12/2022	Change
Current receivables (not past due)	11,053,979	14,841,837	(3,787,858)
Expired up to 30 days	1,105,297	911,219	194,078
Expired up to 60 days	379,606	334,562	45,044
Expired up to 90 days	67,190	481,976	(414,786)
Expired over 90 days	1,894,046	1,843,452	50,594
Total	14,500,118	18,413,046	(3,912,928)

Other receivables are detailed in the following table.

Description	30/06/2023	31/12/2022	Change
Advances	32,688	52,426	(19,738)
Miscellaneous security deposits within 12 months	354,459	436,300	(81,841)
Sundry receivables	1,746,624	1,398,451	348,173
Total	2,133,771	1,887,177	246,594

Sundry receivables include grants related to development projects falling due within 12 months, which are broken down by company as follows:

Description	Expert.AI S.p.a.	Expert System Iberia Slu	Expert System France Sas	Total
2022	1,114,618	134,877	0	1,249,495
2023	1,728,185	128,717	0	1,856,902
Total	2,842,803	263,594	0	3,106,397

Most of the contributions on research projects within 12 months are attributable to Expert.ai S.p.A.; specifically the most significant contributions are:

- European Commission for Euro 868,782

9.Current tax receivables

Current tax receivables amount to Euro 4,621,950 (Euro 5,123,998 in the previous year).

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

Description	30/06/2023	31/12/2022	Change
Tax receivables	3,530,010	4,105,239	(575,229)
Prepaid tax receivables	1,091,940	1,018,759	73,181
Total	4,621,950	5,123,998	(502,048)

A breakdown of tax receivables is provided below:

Description	30/06/2023	31/12/2022	Change
VAT receivable	378,270	300,473	77,797
Due from tax authorities for withholdings	69,314	170	69,144
Receivables for VAT refunds	3,367	0	3,367
IRAP [Corporate Income Tax] receivable	69,064	69,064	0
Non-taxable R&D tax receivables	2,672,714	2,974,487	(301,773)
Decree Law 66/14 bonus receivables	3,286	11,568	(8,282)
Treasury for VAT settlement	288,135	703,630	(415,495)
IRES [Regional Tax on Production] receivable	31,646	31,633	13
VAT credit to be offset	14,214	14,214	0
Total	3,530,010	4,105,239	(575,229)

10. Other current assets

Other current assets consist of accrued income and prepaid expenses amounting to Euro 1,536,645 (Euro 1,594,700 in the previous year).

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

Description	30/06/2023	31/12/2022	Change
Current prepaid expenses	1,536,645	1,594,700	(58,055)
Total	1,536,645	1,594,700	(58,055)

The most significant cost items (including the non-current portion) are shown below:

- Insurance for Euro 116,525;
- Software purchases for Euro 570,759
- Technical consultancy for Euro 390,318;
- Internet and hosting expenses for Euro 138,748;
- Public relations costs for Euro 116,621.

11. Current financial assets

Details of current financial assets are shown in the table below.

Description	30/06/2023	31/12/2022	Change
Equity investments in Eurofidi	8,400	8,400	0
Other securities	8,208	8,122	86
Certificates of Deposit	122	122	0
Total	16,730	16,644	86

The item 'other securities' includes Euro 8,122 in securities held by Expert System Deutschland GMBH as amounts intended for temporary investments.

12. Cash and cash equivalents

Cash and cash equivalents included in current assets amount to Euro 4,208,602 (Euro 12,024,125 in the previous year).

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

Description	30/06/2023	31/12/2022	Change
Bank and postal deposits	4,207,230	12,022,454	(7,815,224)
Cash on hand	1,372	1,671	(299)
Total	4,208,602	12,024,125	(7,815,523)

13. Shareholders' Equity

The following tables show the reconciliations of the parent company's shareholders' equity and consolidated shareholders' equity as at 30 June 2023.

Descriptions	Shareholders' Equity 30.06.23	Result 30.06.23
Expert.ai SPA	**64,983,008**	**(4,352,632)**
Elimination of the book values of subsidiaries	(63,959,905)	-
Shareholders Equity of subsidiaries	5,948,078	(3,330,697)
Adjustments to the sale of fixed assets	(44,562)	5,847
Other adjustments	(45,069)	(7,625)
Suspension of goodwill amortisation	3,421,599	
Total adjustments	(54,679,858)	(3,332,474)
Expert.ai Group	**10,303,149**	**(7,685,107)**

Description	30/06/2023	31/12/2022	Change
Share capital	639,099	620,896	18,203
Share premium	77,240,737	77,004,697	236,040
Legal reserve	101,554	101,554	-
Cash flow hedge reserve	447,105	447,105	-
FTA Reserve	(443,567)	(443,567)	-
IFRS 2 reserve	3,447,139	3,061,529	385,610
IAS 19 reserve	(164,971)	(135,973)	(28,998)
Other reserves	6,687,991	6,818,928	(130,936)
Undivided profit (loss)	(69,966,833)	(46,202,625)	(23,764,208)
Net profit (loss) for the period	(7,685,107)	(23,780,422)	16,095,315
Group Shareholders' Equity	10,303,148	17,492,121	(7,188,973)
Minority interest in capital/reserve			-
Minority interest result			-
Total	10,303,148	17,492,121	(7,188,973)

With regard to changes in shareholders' equity and the breakdown of individual reserves, reference should also be made to the statement of changes in shareholders' equity.

The Reserve for stock options and stock grants refers to the stock option plan approved by the Parent Company in favour of employees (including executives with strategic responsibilities), directors of **Expert.ai** and its subsidiaries. The amount recorded refers to the estimated fair value of the equity instruments granted.

The conversion reserve is generated by converting the financial statements of foreign subsidiaries expressed in currencies other than the euro.
The cash flow hedge reserve includes the fair value of derivatives used by the Parent Company to hedge its interest rate exposure until the underlying hedged item is recognised in the income statement. When this condition is met, it is reversed to the income statement, offsetting the effects generated by the economic manifestation of the hedged transaction.
The actuarial valuation reserve is generated by the recognition of actuarial gains and losses in the total income statement;.
In terms of changes, the following events had an impact, in addition to the result for the period, the effect of exchange rate differences on foreign subsidiaries and the change in the provision for risks on derivatives.

Changes in capital and number of shares

The shares of Expert.ai S.p.A. as of 30 June 2023 have no par value and are fully paid up. There are no shares issued that are not fully paid.
On 27/01/2023, in accordance with the resolution of the Board of Directors concerning the share capital increase, for consideration, in divisible form, through the issue of ordinary shares, with no indication of their express par value, to be offered on a pre-emption basis to the shareholders in partial execution of the proxy granted also pursuant to Art. 2443 c.c. to the Board of Directors, by the Shareholders' Meeting of Expert.ai S.p.A. on 15 October 2021 (index no. 126305/24347), 393,400 new shares were issued as a result of the shareholders' subscriptions, offered as part of the capital increase for a maximum of 13,097,683 newly-issued shares.
On the same date, with reference to the 2nd tranche of the 2020-2023 Stock Grant Plan (the 'Incentive Plan') already approved by the Shareholders' Meeting on 29 June 2020 and as subsequently amended by the Shareholders' Meeting on 2 May 2022, the Company's Board of Directors resolved to increase the share capital free of charge, through the use of reserves, by issuing 665,000 newly issued ordinary shares, having the same characteristics as those already outstanding, to support the Incentive Plan.
On 15/05/2023, with reference to the 3rd tranche of the 2020-2023 Stock Grant Plan (the 'Incentive Plan') already approved by the Shareholders' Meeting on 29 June 2020 and as subsequently amended by the Shareholders' Meeting on 2 May 2022, the Company's Board of Directors resolved to increase the share capital free of charge, through the use of reserves, by issuing 761,920 newly issued ordinary shares, having the same characteristics as those already outstanding, to support the Incentive Plan.
Shares at the beginning of the financial year totalled 62,089,562. Due to the events described in the Management Report, 1,820,320 shares were subscribed during the period, resulting in a total of 63,909,882 shares at the end of the period, as shown in the summary table.

number of shares 31/12/2022	**62,089,562**
Shares subscribed for capital increase	1,820,320
number of shares 30/06/2023	**63,909,882**

14. Provisions for risks and charges

The provisions for risks and charges are recorded under liabilities for a total of Euro 109,342 (Euro 19,342 in the previous year).
The composition of and changes in individual items are represented as follows:

Description	31/12/2022	Used	Provision	Other changes	30/06/2023
Provision for customer allowances	4,341			0	4,341
Provision for legal disputes	15,000		90,000	0	105,000
Other funds	1	0	0	0	1
Total	**19,342**	**0**	**90,000**	**0**	**109,342**

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 period. The decreases relate to uses during the period.
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.

15. Other non-current payables

Other non-current payables are recorded under liabilities for a total of Euro 3,345,074 (Euro 3,143,791 in the previous year).
The composition of the individual items is represented as follows:

Description	30/06/2023	31/12/2022	Change
Advances on contributions beyond 12 months	123,585	0	123,585
Accrued expenses and deferred income after 12 months	3,221,489	3,143,791	77,698
Total	3,345,074	3,143,791	201,283

Advances on contributions beyond 12 months amounted to Euro 123,585.

Prepaid expenses mainly refer to grants for research and development projects.

16. Post-employment benefits

Employee severance pay is recorded under liabilities for a total of Euro 3,897,763 (Euro 3,794,957 in the previous year).

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

Description	31/12/2022	Used	Provision	Other changes	30/06/2023
Post-termination benefits	3,794,957	(352,121)	454,927	0	3,897,763
Total	3,794,957	(352,121)	454,927		3,897,763

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.

Severance pay, which is a deferred payment plan in favour of all employees of the company Expert.ai S.p.A., amounts

to a defined benefit plan, since the company's obligation does not end with the payment of contributions accrued on the liquidated salaries, rather continues until the end of the employment relationship.

For these types of plans, the standard requires that the amount accrued must be projected into the future in order to determine the amount to be paid at the time of termination of employment, using an actuarial valuation that takes into account the rate of staff turnover, the foreseeable evolution of salary trends and any other factors. This method does not apply to those employees whose severance pay is paid into occupational pension funds, since in this case a defined contribution pension plan is involved.
It should be remembered that as from 1 January 2013, following the amendment to IAS 19, the corridor method can no longer be used; therefore, the component represented by actuarial profits/losses is allocated to a specific shareholders' equity reserve.

As of 1 January 2007, the Finance Act and related implementing decrees introduced significant changes in the rules governing severance pay, including the choice left to workers as to the use of their accruing severance pay. In particular, the new severance pay flows may be channelled by the worker into chosen pension forms or kept within the company (in which case the latter will pay severance pay contributions to a treasury account set up at INPS [National Social Security Office[).

17. Provisions for deferred taxes

The provisions for deferred taxes are recorded under liabilities for a total of Euro 1,399,040 (Euro 1,355,988 in the previous year).

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

Description	31/12/2022	Used	Provision	Other changes	30/06/2023
Provision for deferred taxes	389,729		30,478	10,312	430,519
Other deferred taxes	966,259		2,263	(1)	968,521
Total	1,355,988		32,741	10,311	1,399,040

18. Current and non-current financial liabilities

The following table provides details of both current and non-current financial liabilities:

Description	30/06/2023	31/12/2022	Change
Banks for ordinary accounts	24,570	66,195	(41,625)
Banks for advances (subject to clearance operations, advance on contracts/invoices/currency)	360,079	594,151	(234,072)

Bank debt for current accounts and advances	**384,649**	**660,346**	**(275,697)**
Mortgage loans (<12 months)	3,319,063	5,088,120	(1,769,057)
Mortgage loans (>12 months)	12,357,902	13,196,930	(839,028)
Bank debt for interest accrued	41,292	80,544	(39,252)
Bank debt for mortgages and loans	**15,718,257**	**18,365,594**	**(2,647,337)**
Payables to other current lenders	159,075	145,946	13,129
Payables to other non-current lenders	864,103	885,147	(21,044)
Payables to other lenders	**1,023,178**	**1,031,093**	**(7,915)**
Non-current bonds	454,500	4,113,600	(3,659,100)
Current bonds	4,613,700	1,909,100	2,704,600
Bonds	**5,068,200**	**6,022,700**	**(954,500)**
Payables for IFRS 16 (< 12 months)	652,570	726,624	(74,054)
Payables for IFRS 16 (> 12 months)	844,761	1,055,992	(211,231)
Payables for IFRS 16	**1,497,331**	**1,782,616**	**(285,285)**
Payables for derivative liabilities < 12 months	7,631	7,631	0
Payables for derivative liabilities > 12 months	18,861	18,861	0
Payables for derivative liabilities	**26,492**	**26,492**	**0**
Total	**23,718,107**	**27,888,841**	**(4,170,734)**
Of which due within 1 year	9,177,980	8,618,311	559,669
Of which due between 1 and 5 years	14,329,060	18,570,525	(4,241,465)
Of which due beyond 5 years	211,067	700,005	(488,938)

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.

Bank debt for current accounts and advances

These payables include current account balances and advances granted by credit institutions to the Group.
Advances primarily represent the use of short-term lines of credit to finance working capital.

Bank debt for mortgages and loans to other lenders

Exposure to banks and other lenders did not change significantly compared to the previous year; during the first half of the year, expert.ai S.p.A. obtained moratoria from various credit institutions, with suspension of principal, lasting no more than 12 months.

Bonds

The item 'Bonds' consists of the bond issued by Expert.ai S.p.A.

The debt for bonds corresponds to the total amount of principal outstanding as at 30/06/2023, according to the repayment schedule.
The balance of the debt for bonds, amounting to Euro 5,068,200, is due:

- for Euro 1,818,200.00, 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	31/07/2015
Maturity	31/12/2025, 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 3,250,000, 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	02/08/2019
Maturity	02/08/2027, 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 for IFRS 16

They represent the effects of the application of the IFRS 16-'Leases' accounting standard, applied as of 1 January 2019.

Financial liabilities	01/01/2023	Refunds	Increases	30/06/2023
Expert System Enterprise Corp	217,441	(49,141)	0	168,300
Expert System France Sas	15,964	(15,964)	0	0
Expert System Iberia Slu	87,586	(25,629)	0	61,957
Expert System Cogito LTD	19,783	660	0	20,444
Expert.AI S.p.a.	1,441,842	(195,212)	0	1,246,631
Total	**1,782,616**	**(285,285)**	**0**	**1,497,332**

For all group companies, the amount of residual debt is reconstructed mainly on the basis of the lease contracts for the properties in use.

Derivative financial instruments

The parent company Expert.ai S.p.A. uses derivative financial instruments solely to hedge its exposure to the interest rate risk on loans, 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. Changes in fair value are reported in the total income statement in a dedicated line.
Please refer to Appendix A to the financial statements for details of derivative instruments.

19. Trade payables and other payables

Trade payables and other payables are recorded under current liabilities for a total of Euro 10,920,706 (Euro 13,536,213 in the previous year).

The composition of the individual items is represented as follows:

Description	30/06/2023	31/12/2022	Change
Advances	904,747	904,747	0
Payables to suppliers	5,003,849	6,543,906	(1,540,057)
Due to social security and welfare institutions	730,548	796,831	(66,283)
Current group trade payables	295,627	0	295,627
Other payables	3,985,935	5,290,729	(1,304,794)
Total	10,920,706	13,536,213	(2,615,507)

The breakdown of current payables to suppliers by geographical area is shown in the following table:

Geographical area	30/06/2023	31/12/2022	Change
Italy	4,327,407	5,449,102	(1,121,695)
EEC countries	127,296	358,332	(231,036)
USA	351,465	557,661	(206,196)
Rest of the world	197,681	172,046	25,635
Total	5,003,849	6,543,906	(1,540,057)

A breakdown of the item 'Other payables' is provided below:

Description	30/06/2023	31/12/2022	Change
Payables to personnel	543,623	810,002	(266,379)
Payables to directors	6,308	8,382	(2,074)
Payables to collaborators	1,272	(2,825)	4,097
Payables to trade unions	68	66	2
Customers for credit notes to be issued	0	69,819	(69,819)
Payables to employees for deferred charges	3,372,407	4,397,786	(1,025,379)
Payables to personnel for accrued vacations and leaves of absence	62,257	7,499	54,758
Other current payables	62,256	7,498	54,758
Rounding down	1	1	0
Total	3,985,935	5,290,729	(1,304,794)

20. Current tax payables

Current tax payables are recorded under current liabilities for a total of Euro 1,204,785 (Euro 1,112,956 in the previous year).

The composition of the individual items is represented as follows:

Description	30/06/2023	31/12/2022	Change
Payables for withholdings	846,145	749,516	96,629

Other tax payables	358,640	363,440	(4,800)
Total	1,204,785	1,112,956	91,829

21. Other current liabilities

Other current liabilities are made up of accrued expenses and deferred income posted under current liabilities for a total of Euro 5,623,394 (Euro 6,452,238 in the previous year).

The composition of the individual items is represented as follows:

Description	30/06/2023	31/12/2022	Change
Accrued expenses	**212,360**	**240,823**	**(28,463)**
Accrued expenses	212,360	240,823	(28,463)
Deferred income	**5,411,034**	**6,211,415**	**(800,381)**
Deferred income	2,495,238	2,550,169	(54,931)
Deferred income for R&D tax receivable	1,049,506	913,707	135,799
Deferred income for grants for research projects	1,866,290	2,747,539	(881,249)
Total	5,623,394	6,452,238	(828,844)

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.

Deferred income, totalling Euro 8,632,523 (including the non-current portion), mainly consists of:

- Hosting fees for Euro 641,438;
- Contributions for research projects for Euro 2,225,906;
- Tax receivable on R&D activities for Euro 3,789,195;
- Licences for Euro 321,248;
- Maintenance for Euro 1,154,870;
- Professional services for Euro 472,822.

As at 30/06/2023, there were no accruals and deferrals with a duration of more than five years.

22. Revenues from sales and services

Revenues in the first half of the year totalled Euro 11,885,102 (Euro 12,681,887 in the previous period).

The following is a breakdown of revenues by geographical area:

Geographical area	30/06/2023	%	30/06/2022	%	Change
Italy	6,258,211	53%	6,215,727	49%	42,484
EEC countries	954,434	8%	1,238,750	10%	(284,316)
USA	3,534,961	30%	3,871,559	31%	(336,598)
Rest of the world	1,137,496	10%	1,355,851	11%	(218,355)
Total	**11,885,102**	**100%**	12,681,887	100%	(796,785)

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.

23. Change in inventories

The table below shows the changes in inventories compared with the previous year:

Description	30/06/2023	30/06/2022	Change
Closing inventory	(14,560)	0	(14,560)
Total	(14,560)	0	(14,560)

24. Other revenues and income

Other revenues and income are recorded under value of production of the income statement for a total of Euro 5,068,595 (Euro 5,778,069 in the previous year).

This item breaks down as follows:

Description	30/06/2023	30/06/2022	Change
Revenues for tax credit	361,185	328,562	32,623
Capital contributions	711,221	722,929	(11,708)
Grants for current expenses	53,224	0	53,224
Miscellaneous refunds	11,948	0	11,948
Other revenues	114,767	56,126	58,641
Contingent assets	905	62,625	(61,720)
Increases for internal work	3,815,345	4,607,827	(792,482)
Total	5,068,595	5,778,069	(709,474)

The company receives contributions from various bodies (European Community at the conditions established by Horizon 2020, Ministry of Education, University and Research, Ministry of Economic Development and other bodies) to finance research and development projects. These contributions are reclassified under grants for plants as they are intended to finance multi-year investments. The indirect method is used for the accounting of these contributions, as established

by IAS 20, which provides for their recognition in proportion to the amortisation of the R&D costs to which they refer.

25. Raw materials and consumables

The cost of purchasing raw materials and consumables at the end of the period amounted to Euro 1,180,741 (Euro 1,122,837 in the previous period).

This item breaks down as follows:

Description	30/06/2023	30/06/2022	Change
Fuel	43,866	36,243	7,623
Stationery and printers	846	14,805	(13,959)
Purchases of raw materials, semi-finished products, materials	1,136,029	1,071,789	64,240
Total	1,180,741	1,122,837	57,904

Costs for raw materials and consumables primarily include purchases of raw materials and semi-finished materials. Lastly, they are closely related to the information provided in the section of the Management Report and to performance of point A (Value of production) of the Income Statement.

26. Costs for services

Expenses for services are recorded under costs of production of the income statement for a total of Euro 4,315,005 (Euro 7,420,679 in the previous year).

The composition of the individual items is as follows:

Description	30/06/2023	30/06/2022	Change
Utilities	61,299	97,172	(35,873)
Maintenance and repair costs	96,035	83,639	12,396
Consulting services	2,458,432	4,731,593	(2,273,161)
Directors' fees	405,241	429,939	(24,698)
Fees to auditors and external auditors	53,965	72,432	(18,467)
Advertising	154,961	335,128	(180,167)
Services for personnel	217,104	461,366	(244,262)
Services (directors and consultants) for stock options	15,263	32,234	(16,971)
Fairs and corporate events	182,115	180,904	1,211
Condominium expenses	18,250	20,756	(2,506)
Services from financial enterprises and banks of a non-financial nature	27,735	27,487	248
Insurance	108,933	114,101	(5,168)
Entertainment expenses	17,674	29,344	(11,670)
Travel and business trip expenses	175,237	169,194	6,043
Rental costs	95,456	85,854	9,602
Other	227,305	549,536	(322,231)
Total	4,315,005	7,420,679	(3,105,674)

Costs for services are primarily attributable to consulting, utilities, maintenance, advertising, services for personnel and directors' fees.

27. Costs for the 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 1,349,546 (Euro 1,427,658 in the previous year).

The composition of the individual items is as follows:

Description	30/06/2023	30/06/2022	Change
Rental expenses	22,354	56,101	(33,747)
Rentals and other	1,327,192	1,371,557	(44,365)
Total	1,349,546	1,427,658	(78,112)

Costs for the use of third-party assets mainly refer to rental fees for motor vehicles and hosting, for which the IFRS 16 'Leases' was not applied, since the conditions were not met.

28. Personnel costs

Personnel costs are recorded in the Income Statement for a total of Euro 13,019,743 (Euro 19,397,343 in the previous year).

The composition of the individual items is as follows:

Description	30/06/2023	30/06/2022	Change
Wages and salaries	9,192,476	14,068,653	(4,876,177)
Social security charges	2,621,898	3,242,662	(620,764)
Severance pay	454,927	460,036	(5,109)
Other personnel costs	376,327	552,666	(176,339)
Stock grant	366,079	1,058,517	(692,438)
Stock options	8,036	14,809	(6,773)
Total	13,019,743	19,397,343	(6,377,600)

Costs associated with employee benefits include wages and salaries, social security charges, severance pay and other personnel-related costs.

The average number of employees of the Group as of 30 June 2023 is as follows:

Average number of employees by qualification	30/06/2023	31/12/2022	Change
Executives	0	0	0
Middle managers	75	83	(8)
Employees	207	228	(21)
Total	**282**	**311**	**(29)**

29. Other provisions and other costs

Other costs are recorded in the Income Statement for a total of Euro 228,183.

The composition of the items is as follows:

Description	30/06/2023	30/06/2022	Change

Provision for legal fees	90,000		90,000
Taxes and fees	55,509	41,421	14,088
Magazine and newspaper subscriptions	11,360	31,682	(20,322)
Other operating expenses	71,314	80,460	(9,146)
Total	228,183	153,563	74,620

30. Amortisation, depreciation and writedowns

As regards amortisation and depreciation, it should be noted that it is calculated on the basis of the useful life of each asset and its use in production.
No writedowns were made during the period.

The composition of the items is as follows:

Amortisation of intangible fixed assets	**30/06/2023**	**30/06/2022**	**Change**
Amortisation of development costs	3,424,621	3,120,639	303,982
Amortisation of other intangible assets	559,564	612,485	(52,921)
Total	3,984,185	3,733,124	251,061

Depreciation of tangible fixed assets	**30/06/2023**	**30/06/2022**	**Change**
Depreciation of buildings	5,544	5,544	0
Depreciation of plants and machinery	5,765	1,847	3,918
Depreciation of other tangible fixed assets	86,207	108,052	(21,845)
Total	97,516	115,443	(17,927)

Amortisation of rights of use	**30/06/2023**	**30/06/2022**	**Change**

Total amortisation	**4,081,701**	**3,848,567**	**233,134**

31. Financial income and charges

The item '**Financial income**' amounts to a total of Euro 150,262 in 2023, including exchange rate differences (Euro 120 in 2022). The item '**Financial charges**' amounts to a total of Euro 569,383 in 2023, including exchange rate differences (Euro 300,428 in 2022).

This item includes:

Description	**30/06/2023**	**30/06/2022**	**Change**
Interest income	150,262	120	150,142
Total	150,262	120	150,142

The item '**Financial charges**' includes:

Description	**30/06/2023**	**30/06/2022**	**Change**
Commissions for sureties	4,816	3,680	1,136
Overdraft charges	16,989	17,066	(77)
Interest expense on leases IFRS 16	18,568	24,167	(5,599)

Interest on debt for bonds	122,677	94,054	28,623
Commissions on financing	52,144	23,381	28,763
Other financial charges	59,595	24,384	35,211
Interest on loans	294,594	113,696	180,898
Total	569,383	300,428	268,955

The item '**Exchange rate delta**' includes:

Description	30/06/2023	30/06/2022	Change
Foreign exchange gains	104,048	297,736	(193,688)
Foreign exchange losses	(182,196)	(167,414)	(14,782)
Total	(78,148)	130,322	(208,470)

The negative difference between exchange gains and losses was primarily generated by trade collections and payments, and also includes exchange rate differences generated by the adjustment of receivables and payables in foreign currency to the exchange rate in force at year-end.

32. Income taxes

This item includes:

Description	30/06/2023	30/06/2022	Change
deferred/(prepaid)	(47,944)	(342,598)	294,654
Total	(47,944)	(342,598)	294,654

Deferred tax assets are recognised since there is reasonable certainty of the existence, in the years of transfer of the deductible temporary differences for which deferred tax assets are recognised, of taxable income not less than the amount of the differences that will be annulled.
Deferred taxation has been calculated on the basis of global allocation, taking account of the cumulative amount of all the temporary differences, based on the effective tax rate for the last financial year. As previously mentioned, changes in deferred taxation (increases and uses) derive from amortisation and depreciation deducted only in the tax return, and from the differences in statutory and fiscal values calculated as a result of the above-mentioned contribution in suspension of taxation.

OTHER INFORMATION

33. Transactions with subsidiaries, parent companies, associated companies and affiliates

Below is information concerning related party transactions.

Expert System USA INC	0	9,311	48,316	1,048	48,424	0
Expert System Cogito LTD	0	7,692	945,121	(72)	342,044	0
Expert System Iberia Slu	0	2,762	407,643	49,835	210,632	9,148
Expert System Enterprise Corp	0	20,690	4,428,783	1,584,934	1,639,643	477,026
Expert System France Sas	0	561,230	410,337	194,405	175,128	54,609
Expert System Deutschland Gmbh	0	0	44,827	3,289	44,827	3,289
Expert System Canada Technologies Sémantiques INC	0	215,681	19,370	0	5,416	0
Expert System Helvetia Sàrl	0	(273)	50,952	135,420	0	0
Total	**0**	**817,093**	**6,355,349**	**1,968,859**	**2,466,114**	**544,072**

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.:

- No relations;

With the subsidiary Expert System USA Inc:

Sale

- Maintenance fees for Euro 27,609;
- Interest income on loans granted in the amount of Euro 108;
- Concession of licences for Euro 20,707.

With the subsidiary Expert System Cogito Ltd:

Sale

- Provision of professional services for Euro 158,342;
- Concession of licences for Euro 59,315;
- Reimbursement of miscellaneous expenses for Euro 124,388.

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

Sale

- Provision of professional services for Euro 95,531;
- Concession of licences for Euro 37,650;
- Reimbursement of miscellaneous expenses for Euro 54,493;
- Maintenance fees for Euro 22,958;
- Interest income on loans granted in the amount of Euro 0.

Purchase

- Provision of professional services by the subsidiary for Euro 9,148.

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

Sale

- Provision of professional services for Euro 34,618;
- Concession of licences for Euro 60,700;
- Maintenance fees for Euro 60,085;
- Reimbursement of miscellaneous expenses for Euro 18,298;
- Interest income on loans granted in the amount of Euro 1,427.

Purchase

- Professional services provided by the subsidiary for Euro 54,512;
- Costs for miscellaneous reimbursements for Euro 98.

With the subsidiary Expert System Enterprise Corp.:

Sale

- Concession of licences for Euro 743,084;
- Provision of professional services for Euro 367,763;
- Maintenance fees for Euro 91,630;
- Reimbursement of miscellaneous expenses for Euro 437,167;
- Interest income on loans granted in the amount of Euro 0.

Purchase

- Provision of professional services by the subsidiary for Euro 11,618;
- Costs for miscellaneous reimbursements for Euro 465,409.

With the subsidiary Expert System Deutschland Gmbh:

Sale

- Provision of professional services for Euro 21,270;
- Concession of licences for Euro 12,000;
- Reimbursement of miscellaneous expenses for Euro 11,557;

Purchase

- Provision of professional services by the subsidiary for Euro 3,289;

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

Sale

- Maintenance fees for Euro 0;
- Concession of licences for Euro 0;
- Provision of professional services for Euro 4,220;
- Reimbursement of miscellaneous expenses for Euro 200;
- Interest income on loans granted in the amount of Euro 996.

34. Guarantees and commitments and contingent liabilities

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

Description	Initial balance	Change	Final balance

- Sureties to other undertakings	1,020,491	-160,078	860,413

These are guarantees to credit institutions or insurance companies. The following table shows their details.

Guarantor	Beneficiary	Guarantee Amount	date of issue	expiration date	Notes
BPER	Office rental (Rovereto facility extension)	5,621.76	21/02/2018	45291	Trentino Sviluppo - Rovereto office rental
BPER	Office rental	1,975.00	01/10/2018	45565	HABITEMA S.P.A.
BPER	MIUR - C4E PROJECT	462,500.00	12/01/2019	44742	MIUR - C4E project
COFACE	PCM S.S.	45,616.50	17/10/2019	to be released by beneficiary	PCM S.S. RIA 963.2018
Tokio Marine HCC	CONSOB	36,000.00	04/12/2019	36 months - to be released by beneficiary	CONSOB - Contract no. ?
ELBA ASSICURAZIONI S.P.A.	PCM Pineta	14,754.10	20/05/2020	to be released by beneficiary	PCM PS - 8452.2020 maintenance and support service SIUS-G Apr 2020 - March 2023
ELBA ASSICURAZIONI S.P.A.	PCM Susi	18,442.60	20/05/2020	to be released by beneficiary	PCM SS - RIA 720.2019
Tokio Marine HCC	SOGEI	40,247.50	20/11/2020	to be released by beneficiary	SOGEI - ID 2308 - CIG 8479411750
BPER	Office rental	7,381.96	17/12/2020	to be released by beneficiary	TRENTINO SVILUPPO
Unicredit	Office rental	6,105.00	12/03/2021	48650	HABITEMA S.P.A.
Tokio Marine HCC	TELEDIFE	21,331.82	11/10/2021	to be released by beneficiary	TELEDIFE: BEAGLE Programme - Case Code 013/21/0172 - CIG: Z1532915C3
Assicuratrice Milanese S.p.A.	FASTWEB	60,000.00	07/03/2022	31/12/2023	FASTWEB: contract with Eudata as official subcontractor
COFACE	CASSA DEPOSITI E PRESTITI	14,602.50	20/06/2022	to be released by beneficiary	CDP: contract no. 2022000684
COFACE	ARIA	13,790.00	28/06/2022	to be released by beneficiary	ARIA: contract no. 782/22 -- lasting until 30/06/2023
Tokio Marine HCC	PCM P.S.	15,500.00	25/08/2022	to be released by beneficiary	PCM PS: Case no. RRE37/2022
COFACE	SOGEI	60,494.50	14/10/2022	to be released by beneficiary	SOGEI: contract CSQT220325 of 29.12.2022
Assicuratrice Milanese S.p.A.	TALETE SPA	6,820.65	17/05/2022	to be released by beneficiary	TALETE: Prot. 22/11988
Tokio Marine HCC	PCM GG	4,725.00	13/01/2023	to be released by beneficiary	PCM GG: RIA 39.2023 OF 16.01.2023
Tokio Marine HCC	PCM P.S.	14,754.10	03/03/2023	to be released by beneficiary	PCM PS - Case no. 9928.2023.AERF00 CG maintenance and support

					service SIUS-G Apr 2023 - March 2026
Tokio Marine HCC	CONSOB	9,750.00	16/03/2023	to be released by beneficiary	CONSOB - Contract CIG 96432158C1
TOTAL		**860,412.99**			

35. Other information

In accordance with the law, the total fees due to the Directors, the members of the Management Control Committee and the Audit Firm are shown.

Qualification	30/06/2023	31/12/2022	Change
Directors	**352,220**	**602,333**	**(250,113)**
- Stock option fees	0	0	0
- Fixed fees	352,220	602,333	(250,113)
- Number of Shares	*0*	*0*	*0*
Management Control Committee	8,106	16,000	(7,894)
Auditing	45,858	101,432	(55,574)
Total	**406,184**	**719,765**	**(313,581)**

The Company, as provided for in Legislative Decree no. 14/2019 (Business Crisis and Insolvency Code), adopts an organisational, administrative and accounting structure appropriate to the nature of its business, also for the timely detection of any business crisis and the taking of appropriate initiatives.

36. Share-based payments

On 29/06/2020, the Shareholders' Meeting approved the '2020-2023 Stock Grant Plan' and the related free capital increase, intended for the employees of Expert.ai 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, personal targets and/or based on staying within the company. Each free capital increase tranche is completed in full the year after the required performance is achieved. Unallocated rights will be added to the rights for the next tranche.

On 29/06/2020, 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.ai S.p.A. and its subsidiaries, the purpose of which is the 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 and/or based on staying within the company. Each tranche is independent of the others. Each capital increase tranche

is completed in full the year after the required performance is achieved. Unallocated rights will be added to the rights for the next tranche.

On 29/04/2022, in order to grant the beneficiaries of the 2020-2023 Stock Option Plans and of the 2020-2023 Stock Grant Plans greater flexibility in the exercise of their pre-emption rights or in the possibility of accepting the shares assigned to them, the Shareholders' Meeting approved the amendment of the exercise/allotment periods provided for in the relevant regulations, establishing not only a different chronological position and a longer duration of the same, but also the possibility for the beneficiaries to partially accept/exercise the shares/options and to freely determine - subject to the achievement of the performance targets defined from time to time - in which of the exercise/acceptance periods indicated in the regulations they wish to exercise/accept, in whole or in part, the shares/options to which they are entitled.

On 29/04/2022, the amendment to the '2020-2023 Stock Option Plan' was also approved to determine the strike price, which will be determined from time to time by the Board of Directors and will be equal to the greater of (a) the price recorded at the close of the first trading day prior to the date of the Board of Directors' resolution with which the achievement of the targets set forth in the Plan is verified for each tranche and the actual assignment of the options is resolved; and (b) the price resulting from the weighted average of the prices recorded by the Company's stock in the 90 days prior to the date of the aforesaid resolution.

37. Significant events occurred after the end of the period and foreseeable evolution of management

No significant events occurred after the close of the period that might have a material impact on the financial, capital and economic performance of the expert.ai Group, with the exception of the following.

FINANCIAL EVENTS

On **5 July 2023**, the Board of Directors of expert.ai announced the signing of an investment agreement, designed to support its development strategy and strengthen governance, between the main shareholders of expert.ai and GUM Group S.p.A., an investment vehicle controlled by Dario Pardi; a capital increase in favour of GUM Group S.p.A. for a total of Euro 3,843,744.52; the renewal of the organisational and internal governance structures with Dario Pardi joining the Board of Directors as Chairman and the adoption of an executive committee.

On **11 July 2023**, expert.ai announced that GUM Group S.p.A. declared that as at 5 July 2023, it held 4,991,876 ordinary shares of expert.ai corresponding to a 7.24% shareholding.

On **25 July 2023**, the Shareholders' Meeting confirmed the appointment of Director Dario Pardi, who was also designated as

Chairman of the Board of Directors; the Shareholders' Meeting increased the number of Directors in office and consequently appointed Independent Director Marco di Teodoro; it updated the Articles of Association. On the same date, the Board of Directors resolved to set up an Executive Committee composed of three members (Dario Pardi, who serves as Chairman of the Committee, Walter Lloyd Mayo III and Marco Varone), to appoint Director Stefano Spaggiari as Deputy Chairman of the Board of Directors, and to appoint Marco di Teodoro as a member of the Management Control Committee (Andrea Gabola, Stefano Pedrini, Marco di Teodoro).

CUSTOMERS, PARTNERSHIPS AND AWARDS

On **1 August 2023**, expert.ai unveiled the new release of expert.ai Platform, optimising security and infrastructure while enhancing some core technology features to offer organisations even more security and flexibility in developing and enhancing natural language solutions.

On **19 September 2023**, expert.ai announced the strengthening of its partnership with the multinational Sopra Steria, the European technology leader in consulting, digital services and software development.

On **20 September 2023**, expert.ai announced that it had been selected by Fin Tech Global for the prestigious 'InsurTech 100' list, dedicated to the world's most cutting-edge technology companies in the insurance market. This year's selection of the InsurTech 100 covered more than 1,900 companies.

In the light of the above remarks, it is thus believed that the events that occurred after year end have no effect on the consolidated financial statements as at 30 June 2023 from an equity, financial and economic point of view.

APPENDIX A - derivative instruments

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

a) 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 (30/06/2023): Euro 3,250,000;
- amount of liability hedged at the reference date (30/06/2023): Euro 3,250,000;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value positive by Euro 204,184;
- Fair value when the hedge was created: zero.

b) 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 (30/06/2023): Euro 407,164;
- amount of liability hedged at the reference date (30/06/2023): Euro 407,164;
- Underlying financial risk: interest rate risk;

- Fair value of the derivative contract: mark-to-model fair value positive by Euro 4,533;
- fair value when the hedge was created: zero.

c) INTESA SANPAOLO

- Type of derivative contract: Unlisted I.R.S. no. 36814343 signed on 25/09/2020 and expiring on 30/06/2026;
- 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 (30/06/2023): Euro 1,875,000;
- amount of liability hedged at the reference date (30/06/2023): Euro 1,875,000.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value positive by Euro 114,807;
- fair value when the hedge was created: zero.

d) 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 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 (30/06/2023): Euro 406,250;
- amount of liability hedged at the reference date (30/06/2023): Euro 406,250.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value positive by Euro 26,480;
- fair value when the hedge was created: zero.

e) 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 (30/06/2023): Euro 319,444;
- amount of liability hedged at the reference date (30/06/2023): Euro 319,444.
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value positive by Euro 8,891;
- fair value when the hedge was created: zero.

f) UNICREDIT

- 'IRS Protected Pay' OTC derivative contract no. MMX27739972 signed on 18/02/2021 and expiring on 31/07/2026;

- Purpose: hedging;
- Operation with no capital exchange;
- Notional amount at the reference date (30/06/2023): Euro 1,222,911;
- amount of liability hedged at the reference date (30/06/2023): Euro 1,222,911;
- Underlying financial risk: interest rate risk;
- Fair value of the derivative contract: mark-to-model fair value positive by Euro 77,544.

Modena, 28 September 2023 For the Board of Directors

The Chairman
Dario Pardi



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