

**DIGITAL MAGICS, THE FIRST INCUBATOR
OF INNOVATIVE DIGITAL STARTUPS
WITH A NATIONAL CALLING:**

EXPANDS ITS PRESENCE IN ITALY

**IS REAPING THE FIRST SUCCESSES FROM THE PARTNERSHIPS WITH EXCELLENT
ENTERPRISES WISHING TO INVEST INTO INNOVATION AND THE DIGITAL SECTOR**

**SPREADS THE PARADIGM OF *OPEN INNOVATION* IN ITALY
THANKS TO THE INITIATIVES BY *GIOIN***

- *Expansion of the presence and distributive efficiency of the incubator, for the acceleration of digital startups throughout the national territory, thanks to its **branches in Milan, Naples, Palermo, Rome and Bari** (to which Padua was added in the early months of the second semester)*
- *Launch of the first "**Open Innovation**" programs – the new services for providing information, support and training aimed towards innovation and investments in the digital area, by creating synergies between startups and our country's excellent enterprises.*
- *Success of the first "GIOIN" meetings (Gasperini Italian Open Innovation Network), which were attended by the top management of hundreds of enterprises, and that are dedicated to the dissemination of the culture of digital innovation in Italy*

BI-ANNUAL FINANCIAL REPORT AS OF 30 June 2016 APPROVED

- **Value of production** equal to 1.32 million Euro (1.28 million at June 30, 2015)
- **positive EBITDA** at 84 thousand Euro (150 thousand in June 2015), an improvement although **EBIT** is still in negative territory (-26 thousand Euro in June 2016, versus -50 thousand in June 2015) and **net result** of -116 thousand Euro in the first half 2016 (versus -173 thousand Euro in June 2015)
- *Partly due to the territorial coverage, **11 new investments in digital startups** (the same result for the entire 2015) and **1 transfer** bring **the number of startups to 59**, including **37** recorded in the Register of **Innovative Startups***
- **Equity investments** for 1.17 million Euro, with a total value of **financial fixed assets** at June 30, 2016 equal to 16.62 million Euro (15.5 million Euro at the end of 2015) and Net Invested Capital of 20.44 million Euro (17.68 million Euro at December 31, 2015)
- **Shareholders' equity** at 30 June 2016 amounted to 18 million Euro (16.6 million Euro at December 31, 2015)
- **Net financial position** negative for 2.47 million Euro (versus a negative position for 1 million Euro at the end of 2015) with **cash and cash equivalents** of 1.2 million Euro, **short-term payables** equal to 801 thousand Euro. and **medium and long-term payables** amounting to 2.86 million Euro

Milan, September 29, 2016 - **Digital Magics**, *business incubator* listed on AIM market of Italian Stock Exchange (symbol: DM), has today approved the half-yearly report at June 30, 2016.

In the first half of 2016, Digital Magics SpA opened **3 new branches** – Palermo, Rome and Bari – to which **Padua was added** early on in the second half, in order to identify and support talents and young innovative companies, and to structure *Open Innovation* programs together with local businesses, which are genuinely excellent enterprises of *Made in Italy*.

This strategy of presence and mentoring in the locality of the startups stems from the opportunity to identify and closely monitor the most promising Italian digital startups, which are not concentrated into one district, as is the case in other countries in Europe or the United States. An evenly distributed presence also allows for the nurturing of the relationship as regards Digital Magics, the startups in its portfolio, and the local public and private investors operating in the territory.

With the implementation of said program, **Digital Magics becomes the first *business incubator* for innovative digital startups with a national calling.**

The new branches (**Palermo** to cover Sicily, **Rome** for Lazio and Central Italy, **Bari** for Puglia and Basilicata, and **Padua** for Veneto, Friuli Venezia Giulia and Trentino Alto Adige) join those in **Milan and Naples**. The offices in Milan and Rome are managed directly by Digital Magics team, whereas the other branch offices are the result of structured partnerships with professionals rooted in the territory, which have experience and expertise in terms of *mentorship and advisorship* to digital startups, by incorporating the established methods of Digital Magics.

In the first half of 2016, Digital Magics has also invested into the design and structuring of *Open Innovation* programs for enterprises, notably providing:

- **information services, support and training for the *top management***, finalised at digital innovation thanks to the collaboration with the ecosystem of startups;
- **business support services for investments in the digital sector**, through scenario analysis, *scouting* for new talent and technology, support for programs of *corporate venture capital* and acceleration programs of *spinoff*;
- **support services for industrial and commercial partnerships between businesses and digital startups**, with assistance in all stages of evaluation, negotiation and management of the relationship;
- **guidance services for the creation of innovative technological applications** conceived by the startups.

The services offered by Digital Magics are integrated with those provided by **Talent Garden** – investee company of Digital Magics – the leading European *network* of coworking focused on the digital sector, which offers: information and training activities for *executive managers* and startup teams, communication, production of innovative events, design of innovative work spaces and hospitality on its campuses.

During the first six months of 2016, **GIOIN (Gasperini Italian Open Innovation Network)** was launched. It stands as the Italian reference point for entrepreneurs, management of Italian companies and professionals interested in the **fourth industrial revolution**. *GIOIN* was conceived to be a series of themed events (six over the course of 2016), which have also been implemented with the support of Talent Garden, through the involvement of entrepreneurs and startupper of national and international fame that, following this model, are making innovation in their fields. The goal is to be a source of inspiration and expertise to those looking for a solution to grow, innovate, create value in a competitive arena increasingly fierce, global and technological. **The first 4 events have already been attended by hundreds of companies**, with some of which a specific *Open Innovation* program has already started.

BI-ANNUAL REPORT AS OF 30 June 2016

In the first half of 2016, revenues from consulting and incubation services amounted to 946 thousand Euro, a decrease compared to the same period of 2015 (1.18 million Euro) as a result of the fact that some startups started to utilise the logistics services at Talent Garden campuses, whereas Digital Magics will increasingly focus the services that it offers to startups on business acceleration services, and financial and corporate *advisorship*. **The value of production** increased from 1.28 million Euro in June 2015 to 1.32 million in June 2016.

EBITDA is positive by 84 thousand Euro (compared to 150 thousand in June 2015). **EBIT** is in negative territory by 26 thousand Euro, but improved compared to the same period last year (-50 thousand in June 2015)

The result for the period, which indicates a loss of 116 thousand Euro, is an improvement as well, compared to the previous reference period (it was negative by 173 thousand Euro in June 2015).

In addition to the 49 startups as of 31 December 2015, **eleven new investments** were added in the first half of 2016, equal to the same result achieved throughout the entire year of 2015. In the first half of 2016 the transfer of the startup Mimesi Srl was also carried out, securing a capital gain of 77 thousand Euro. This brings the number of **investments in digital startups to 59, including 37 recorded in the Register of Innovative Startups**.

Investments in the first half of 2016 in startups amounted to **1.17 million Euro**. **The entry into the startups' capital as operating partners or co-founders** took place in a complementary manner to the consulting, incubation and acceleration activities aimed towards the growth and development of the companies themselves, without any binding strategy of investment and disinvestment.

The Net Invested Capital totaled 20.44 million Euro compared to 17.68 million in 2015; the increase is largely the result of the new investments, the **Financial Fixed Assets** rose from 15.5 million Euro at the end of 2015 to **16.62 million Euro** as of June 30, 2016.

Shareholders' Equity amounted to 18 million Euro, in 2015 it was 16.64 million.

The net financial position was negative for 2.47 million Euro, versus a negative position of 1 million Euro in December 2015. As of June 30 2016 Digital Magics had **cash and cash equivalents of 1.2 million Euro**, **short-term payables to banks** equal to 801 thousand Euro (1.2 million Euro as of December 31 2015), and **medium and long-term payables amounting to 2.86 million Euro** (2.2 million Euro as of December 31 2015).

The following illustrates a brief business profile of the new startups that have entered the Digital Magics incubation program:

AD2014 S.r.l.

An innovative startup that has developed Let.life, the new service that gives a voice to objects and puts brands in direct connection with users. Let.life allows users to assign a Digital Soul to their personal belongings, by associating any kind of content, deadlines and reminders to them, and gives brands the opportunity to communicate directly with each client, in a targeted and profiled manner.

As of 30/06/2016 Digital Magics holds 20% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

MORPHEOS S.r.l.

It is the innovative startup that develops Momo, the new domestic robot able to implement functions of

home automation autonomously through an artificial intelligence system and a set of sensors and actuators that can detect changes and characteristics of a given environment. Momo is able to adjust the intensity of the lights and the domestic temperature, to detect gas levels and to recognise requests for help. Thanks to the advanced proprietary technologies, Momo manages to analyze its surroundings by recognizing faces, objects and sounds, it "adjusts" rooms according to the mood and needs of the owners thus creating safer and more comfortable environments.

As of 30/06/2016 Digital Magics holds 5% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

ADD COMMUNICATIONS S.r.l.

A boutique for digital marketing, it manages the entire process of online communication, from creative development to media planning, ensuring coherence and unity of purpose of complementary skills to achieve marketing results in a faster, easier and more effective manner.

As of 30/06/2016 Digital Magics holds 10% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

BUILDING APP S.r.l.

An innovative startup that operates within the field of the Internet of Things (IoT) and Smart Home, which develops projects for the intelligent management of access in and around the home and other buildings. Conceived as a joint venture between Digital Magics and Nice: an international flagship group in the field of domestic automation and lightening (listed on the STAR segment of the Italian Stock Exchange), Building App aims to become a research hub for the development of new solutions in the innovation scene for this sector.

As of 30/06/2016 Digital Magics holds 60% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

POWERME S.r.l.

An innovative startup that has developed, designed and manufactured PowerMe, a small multifunction cable that allows the connection of two mobile devices (MicroUSB or Lightning) for the purpose of sharing electric power or data synchronization. Each device can become an emergency energy source for another device, avoiding the need to always carry power cables or external batteries. Developed with an attractive design, it is an ingenious and accessible gadget, as well as functional and practical.

As for 30/06/2016 Digital Magics holds 5% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

MADE FOR SCHOOL S.r.l.

It is the innovative startup that has invented a new "school" market: creating, bringing out and enhancing the identity of each individual institution, it feeds the sense of belonging by promoting initiatives that involve the whole school community, by providing services and customised products. Furthermore, it supports the economic autonomy of schools by helping principals to promote innovative and revolutionary ideas, even through concession fees and fundraising activities.

As of 30/06/2016 Digital Magics holds 5.26% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

EPIC S.p.A.

It is the new Fintech platform of financing for SMEs, independent of the banking system. Small and medium Italian businesses have direct access to a selected community of investors to whom they can offer minibonds, stocks, convertibles and commercial papers. In a simple and direct manner, Italians and foreign investors (institutional and qualified private investors) can support the growth of SMEs by subscribing the most appropriate financial instruments. Epic is an innovative startup and a SIM (brokerage company) authorised and regulated by Consob and Bank of Italy.

As of 30/06/2016 Digital Magics holds 2.91% of the share capital and supports the initiative aimed towards the development of the company, both strategically and technologically.

LEEVIA S.r.l.

An innovative startup that provides digital marketing tools that help in making a success of social media marketing campaigns. Leevia offers a suite of tools that is modeled on the requirements of different customers, among the most popular:

- photo-contests for companies that need to strengthen engagement on social networks and identify potential clients among the most active users;
- social media awareness to strengthen the virality of a project or an event on social media.

Through the Leevia platform the user can then engage their audience and turn *likes* and *followers* into the testimonials of the campaign.

As of 30/06/2016 Digital Magics holds 7% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

GRAMPiT S.r.l.

An innovative startup that provides an active assistance system to the elderly and allows family members to monitor activities and handle emergencies from anywhere. GRAMPiT reminds the elderly of essential tasks, exactly at the right time, it monitors the environment and the person by verifying that the daily activities are regularly carried out, it handles emergencies by informing the family when necessary. The service is based on dedicated hardware devices and software integrated with commonly used technologies. The system includes sensors to detect the performance of daily activities and monitor the presence of the person. GRAMPiT also includes a tracking app to always know where the elderly is when they are outside the home.

GRAMPiT entered the acceleration program Digital Magics Healthtech - in partnership with Healthware International, which is specialised for digital startups in the health sector.

As of 30/06/2016 Digital Magics holds 10% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

WELABS S.r.l.

An innovative startup that has developed the web and mobile platform Beecode, an idea sprung from the PR promotion model in the world of musical events. Beecode allows the user to manage, distribute and analyse marketing campaigns for events, products and services, increasing its conversion rate through digital 'word of mouth' created by *influencers*.

By analyzing the data before, during and after the event/campaign, the platform identifies *influencers* and the propagation channels, creating a relational map that represents the diffusion model and relationship between the various users affected by the spread of the campaign.

As of 30/06/2016 Digital Magics holds 7.5% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

SOTTILE S.r.l.

A startup dedicated to food delivery, Sottile (with Diet To Go brand) caters towards people who want to eat a balanced and healthy diet, by delivering dishes and menus directly to the home of the users. Initially, the startup aims to offer its services in the Milan area and then extend distribution to other Italian cities and eventually even internationally.

Diet To Go (Sottile) has been identified as being active in an industry with high growth potential and strong investments, made so far mainly in foreign markets (USA, UK, Germany, etc ...).

As of 30/06/2016 Digital Magics holds 10% of the share capital and supports the initiative with its acceleration services aimed towards the growth and the development of the company, both strategically and technologically.

Attached are the Income Statement, Balance Sheet and Cash Flow statement at June 30 2016.

This press release is available on the website www.digitalmagics.com under *Investor Relations - Press Release*. The Half-Yearly Financial Report at June 30 2016 is available under *Investor Relations - Financial Reports*.

Digital Magics, listed on AIM Italia (symbol: DM), is an incubator of digital projects that provides consulting services and acceleration services to startups and enterprises, to facilitate the development of new technological businesses. Thanks to the partnership with Talent Garden and Tamburi Investment Partners, Digital Magics has created the most important national platform for innovation for DIGITAL MADE IN ITALY, by offering services for the digital transformation and "Open Innovation" to excellent enterprises, while providing support to innovative startups to create successful projects, from conception to IPO. The incubation and acceleration services offered by Digital Magics are active in the TAG co-working campuses present throughout Italy. Complementary services include investment activities, which have produced over the years a portfolio of 60 investments in startups, scaleups and digital spinoffs with high growth rates. Accelerated companies are flanked by Digital Magics LAB, a team of highly experienced business partners, and benefit not only from the large network of private and institutional investors that support them through "club deals", but also from the many partner companies that support them on an industrial scale.

Integrae SIM acts as a Nomad and Specialist under the AIM Italia Issuers Regulations. For communication transmissions, Digital Magics makes use of the SDIR-NIS circuit, operated by Bit Market Services, a subsidiary of the London Stock Exchange Group

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RECLASSIFIED INCOME STATEMENT

(in Euro)

	I° semester 2016	%	I° semester 2015	%	Variation	Variation %
Revenues from sales and services	945.833	71,9%	1.179.901	92,2%	(234.068)	(19,8%)
Changes in inventory of work in process, semi-finished and finished goods		0,0%	59.100	4,6%	(59.100)	100,0%
Other revenues and increases in fixed assets	369.532	28,1%	40.497	3,2%	329.035	812,5%
Value of production	1.315.365	100,0%	1.279.498	100,0%	35.867	2,8%
Cost of raw materials and consumables and goods for resale	(12.059)	(0,9%)	(13.202)	(1,0%)	1.143	(8,7%)
Cost of external services, use of property not owned and other charges	(1.045.325)	(79,5%)	(1.012.379)	(79,1%)	(32.946)	3,3%
Added Value	257.981	19,6%	253.917	19,9%	4.064	1,6%
Labor cost	(173.964)	(13,2%)	(104.408)	(8,2%)	(69.556)	66,6%
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	E	6,4%	149.509	11,7%	(65.492)	(43,8%)
Depreciation and amortization	(110.008)	(8,4%)	(199.229)	(15,6%)	89.221	(44,8%)
Operating profit (EBIT)	(25.991)	(2,0%)	(49.720)	(3,9%)	23.729	(47,7%)
Net financial income (expenses)	(73.279)	(5,6%)	(55.733)	(4,4%)	(17.546)	31,5%
Value adjustments for financial assets	(180.600)	(13,7%)	(9.914)	(0,8%)	(170.686)	1.721,7%
Result before extraordinary items and tax	(279.870)	(21,3%)	(115.367)	(9,1%)	(164.503)	142,6%
Extraordinary net income (expenses)	183.924	14,0%	(12.279)	(1,0%)	196.203	0,0%
Result before taxes	(95.946)	(7,3%)	(127.646)	(10,1%)	31.700	(24,8%)
Income taxes	(19.608)	(1,5%)	(45.623)	(3,6%)	26.015	(57,0%)
Result	(115.554)	(8,8%)	(173.269)	(13,7%)	57.715	(33,3%)

RECLASSIFIED BALANCE SHEET
(in Euro)

	30/06/2016	31/12/2015	Variation
Intangible fixed assets	943.305	416.971	526.334
Tangible fixed assets	41.816	51.857	(10.041)
Financial fixed assets	16.619.871	15.485.888	1.133.983
Non-current assets	17.604.992	15.954.716	1.650.276
Inventories	254.100	254.100	
Trade receivables vs. affiliated	3.819.149	2.212.142	1.607.007
Other trade receivables	534.242	788.348	(254.106)
Financial activities that do not constitute assets	28.865	28.865	
Accruals and prepaid assets	86.552	140.733	(54.181)
Current assets	4.722.908	3.424.188	1.298.720
Total assets	22.327.900	19.378.904	2.948.996
Trade payables to affiliated	1.274.959	1.049.769	225.190
Other payables	507.894	590.029	(82.135)
Accruals and income collected in advance	35.667		35.667
Provision for risks and charges	17.018	17.018	
Short term liabilities	1.835.538	1.656.816	178.722
Net current assets	2.887.370	1.767.372	1.119.998
Provision for employee severance indemnities	48.995	40.604	8.391
NET INVESTED CAPITAL	20.443.367	17.681.484	2.761.883
Shareholders' equity	17.973.352	16.638.906	1.334.446
Cash and cash equivalents	(1.191.636)	(2.628.074)	1.436.434
Short-term bank payables	800.753	1.158.380	(357.627)
Bonds		313.500	(313.500)
<i>Net short-term financial indebtedness</i>	<i>(390.883)</i>	<i>(1.156.194)</i>	<i>765.311</i>
<i>Net m/l-term financial indebtedness</i>	<i>2.860.898</i>	<i>2.198.772</i>	<i>662.126</i>
Total net indebtedness	2.470.015	1.042.578	1.427.437
NET FINANCIAL DEBT/EQUITY	20.443.367	17.681.484	2.761.883

CASH FLOW STATEMENT

(in Euro)

	I° Semester 2016	I° Semester 2015
A. Cash flows generated by operating activities		
Net income (loss) for the period	(115.554)	(173.269)
Income taxes	19.608	11.250
Intest income/expense	73.279	55.733
(Gains) Losses on the sale of non-current assets	(4.583)	-
(Gains) Losses on the sale of financial fixed assets	-	12.279
Gains deriving from transfer and sale of business units	(69.331)	-
1. Profit (loss) before income taxes, dividends and surplus losses from sale	(96.581)	(94.007)
<i>Adjustments for non-cash items that had no counterpart in the CCA</i>		
Amortisation of intangible assets	102.132	188.894
Amortisation of tangible assets	7.876	10.335
Write-downs for impairment losses	180.600	9.914
Provision charge for leaving indemnities	9.326	6.211
Deferred tax assets and liabilities	-	34.373
2. Cash flow before changes by CCA	203.353	155.720
<i>Changes in the net working capital</i>		
Decrease (increase) in inventories	-	(59.100)
Decrease (increase) in trade receivables	(354.378)	(36.843)
Decrease (increase) in receivables from affiliated	(905.911)	(327.950)
Decrease (increase) in receivables from associated	(191.967)	(163.753)
Decrease (increase) in tax credits	(1.626)	28.397
Decrease (increase) in other assets, net	255.732	(49.333)
Decrease (increase) in prepayments and accrued income	54.181	12.878
Increase (decrease) in trade payables	256.437	(44.801)
Increase (decrease) in payables to affiliated	(112.907)	54.264
Increase (decrease) in payables to associates	6.952	2.535
Increase (decrease) in taxes payable	(63.891)	32.605
Increase (decrease) in other liabilities, net	(59.291)	343.262
Increase (decrease) in accrued expenses and deferred income	35.667	40.091
3. Cash flow after changes by CCA	(877.648)	(12.028)
<i>Other adjustments</i>		
Interest received (paid)	(73.279)	(55.733)
Employee leaving indemnity paid	(40.097)	(61)
Use of funds	-	(36.464)
4. Cash flow after other adjustments	(991.024)	(104.286)
Cash flow of operating activities (A)	(991.024)	(104.286)
B. Cash flows from investing activities		
<i>Tangible fixed assets</i>		
(Investments) - Divestments	10.532	(17.975)
<i>Intangible fixed assets</i>		
(Investments) - Divestments	165.379	(252.159)
<i>Financial fixed assets</i>		
(Investments)	(945.252)	(1.827.310)
Cash flows from investing activities (B)	(769.341)	(2.097.444)
C. Cash flows from financing activities		
<i>Third-party funding</i>		
Increase (decrease) in short-term bank debts	(524.698)	273.040

Increase (decrease) in bank debt in the medium term	662.126	(525.215)
Bond loan	(313.500)	-
<i>Equity</i>		
Capital increase in payment	500.000	4.985.552
Cash flow from financing activities(C)	323.928	4.733.377
Increase (decrease) in cash (A+B+C)	(1.436.438)	2.531.647
Cash and cash equivalents at January 1	2.628.074	2.003.769
Cash and cash equivalents at June 30	1.191.636	4.535.416