

MANAGEMENT STATEMENT IN RELATION TO FINANCIAL STATEMENTS FOR THE PERIOD JANUARY TO JUNE 2010

In the first 6 months of 2010, the MAGMA group (the Group) realised a total consolidated income of HRK 313.1 million, which is 25.36% less than income realised in the same period last year. The material costs and the cost of goods sold amount to HRK 164.8 million, which is 24.17% less compared to the previous year. The personnel costs have been decreased by 23.19%, and amount to HRK 50.8 million, whereas other costs have been decreased by 15.43%.

The amortisation cost rose by 7.03%, whereas financial costs recorded an increase by 25.28%, which is primarily due to negative exchange differences (especially in Serbia), as well as an increase in interest rates.

The total loss of the Group for the monitored period is HRK 63.9 million.

The total value of stock of merchandise was decreased from HRK 243.3 million (30.06.2009.) to HRK 174.5 million (30.06.2010.), which is a decrease by as much as 29.4%. The stock of merchandise was reduced to the level which did not enable the Group to use its entire sales potential, and to take advantage of the first signs of market recovery and the renewed customers' trust.

Long-term obligations were decreased by 28.7%, and short-term obligations were decreased by 4.3% compared to 30.06.2009.

In May 2010, Magma d.d. (the Company) carried out recapitalisation, through which the original capital was increased by HRK 108.3 million. The positive effects of the recapitalisation could not have been used in their entirety in the course of the first quarter of 2010.

On 30.06.2010, the total number of employees in the Company is 1,249, of which 1,055 are actively working, which represents a decrease by 11.6% compared to the number of actively working employees in January the current year. The total number of persons employed in daughter companies is 186.

On 30.06.2010, the total number of retail shops in the Group is 114, which is 13 retail shops less compared to 31.12.2009, whereas the sales area in the same period was decreased by 6.45%, and is 56,900 m² in total on 30.06.2010.

Should the markets on which the Company operates show stronger credit activity towards citizens and economy, personal consumption could record a considerable recovery.

The Company recorded the first signs of recovery as early as the end of the second quarter of 2010, and expects the positive trend to continue during the second half of the year.

Management
Magma d.d.

UNCOSOLIDATED RESULTS

BALANCE SHEET

as of

30.6.2010

thousands HRK

Position	AOP	Previous period	Current period
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS	002	317.001	349.494
I. INTANGIBLE ASSETS	003	12.010	11.394
II. PROPERTY, PLANT AND EQUIPMENT	004	263.389	298.466
III. NON-CURRENT FINANCIAL ASSETS	005	15.435	33.240
IV. RECEIVABLES	006	5.328	
V. DEFERRED TAX ASSET	007	20.839	20.839
C) CURRENT ASSETS	008	313.556	331.601
I. INVENTORIES	009	131.506	147.155
II. RECEIVABLES	010	176.824	164.985
III. CURRENT FINANCIAL ASSETS	011	4.110	4.489
IV. CASH AND CASH EQUIVALENTS	012	1.116	527
D) PREPAYMENTS AND ACCRUED INCOME	013	8.121	9.622
E) LOSS ABOVE SUBSCRIBED CAPITAL	014		
F) TOTAL ASSETS	015	638.678	690.717
G) OFF BALANCE SHEET ITEMS	016		
EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES	017	118.138	166.523
I. SUBSCRIBED SHARE CAPITAL	018	48.742	67.749
II. CAPITAL RESERVES	019	116.431	205.753
III. LEGAL RESERVES	020		
IV. REVALUATION RESERVES	021	50.089	49.376
V. RETAINED EARNINGS	022	11.662	
VI. LOSS CARRIED FORWARD	023		97.124
VII. NET PROFIT FOR THE PERIOD	024		
VIII. LOSS FOR THE PERIOD	025	108.786	59.231
IX. MINORITY INTEREST	026		
B) PROVISIONS	027		
C) NON-CURRENT LIABILITIES	028	58.039	54.621
D) CURRENT LIABILITIES	029	455.805	468.922
E) ACCRUED EXPENSES AND DEFERRED INCOME	030	6.696	651
F) TOTAL EQUITY AND LIABILITIES	031	638.678	690.717
G) OFF BALANCE SHEET ITEMS	032		
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	033		
2. Attributable to minority interest	034		

UNCOSOLIDATED RESULTS

PROFIT AND LOSS STATEMENT

for period **1.1.2010** to **30.6.2010**

thousands HRK

Position	AOP oznaka	Previous period		Current period	
		Cummulative	Periodical	Cummulative	Periodical
1	2	3	4	5	6
I. OPERATING INCOME	035	400.529	198.980	270.249	145.669
1. Rendering of services	036	394.309	198.112	258.034	139.686
2. Income from usage of own products, merchandise and services	037				
3. Other operating income	038	6.220	868	12.215	5.983
II. OPERATING COSTS	039	406.496	203.966	310.833	166.475
1. Decrease of work in progress and merchandise	040				
2. Increase of work in progress and merchandise	041				
3. Material expenses	042	233.764	119.796	153.923	85.414
4. Employee benefits expenses	043	57.186	28.001	43.368	22.041
5. Depreciation and amortisation	044	20.029	10.015	21.041	10.575
6. Other expenses	045	95.518	46.155	92.501	48.445
7. Write down of assets	046				
8. Provisions	047				
9. Other operating costs	048				
III. FINANCIAL INCOME	049	8.775	6.124	3.552	-63
1. Interest, foreign exchange differences, dividends and similar income from subsidiaries	050	5.372	3.506	1.004	-1.590
2. Interest, foreign exchange differences, dividends and similar income from third parties	051	3.403	2.618	2.548	1.527
3. Income from investments in associates and joint ventures	052				
4. Unrealised gains (income)	053				
5. Other financial income	054				
IV. FINANCIAL EXPENSES	055	20.966	10.767	22.199	13.760
1. Interest, foreign exchange differences and similar expenses from subsidiaries	056	3.104	579	7.379	4.567
2. Interest, foreign exchange differences and similar expenses from third parties	057	17.862	10.188	14.820	9.193
3. Unrealised losses (expenses) from financial assets	058				
4. Other financial expenses	059				
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER EXPENSES	061				
VII. TOTAL INCOME	062	409.304	205.104	273.801	145.606
VIII. TOTAL EXPENSES	063	427.462	214.733	333.032	180.235
IX. PROFIT BEFORE TAXES	064				
X. LOSS BEFORE TAXES	065	-18.158	-9.629	-59.231	-34.629
XI. TAXATION	066				
XII. NET PROFIT FOR THE PERIOD	067				
XIII. LOSS FOR THE PERIOD	068				
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV.* NET PROFIT ATTRIBUTABLE TO MAJORITY OWNERS	069				
XV.* NET PROFIT ATTRIBUTABLE TO MINORITY INTEREST	070				
XVI.* LOSS ATTRIBUTABLE TO MAJORITY OWNERS	071				
XVII.* LOSS ATTRIBUTABLE TO MINORITY INTEREST	072				

UNCOSOLIDATED RESULTS

CASH FLOW STATEMENT - Indirect method

period **1.1.2010** to **30.6.2010**

thousands HRK

Position	AOP oznaka	Previous period	Current period
1	2	ž	4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	073	-18.158	-59.231
2. Depreciation and amortisation	074	20.029	21.041
3. Increase of current liabilities	075	11.383	75.256
4. Decrease of current receivables	076		11.839
5. Decrease of inventories	077	23.924	
6. Other cash flow increases	078	31.870	57.086
I. Total increase of cash flow from operating activities	079	69.048	105.991
1. Decrease of current liabilities	080		
2. Increase of current receivables	081	49.793	
3. Increase of inventories	082		15.649
4. Other cash flow decreases	083		59.514
II. Total decrease of cash flow from operating activities	084	49.793	75.163
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	085	19.255	30.828
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	086		
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of non-current assets	087		
2. Proceeds from sale of non-current financial assets	088		
3. Interest received	089		
4. Dividend received	090		
5. Other proceeds from investing activities	091		34
III. Total cash inflows from investing activities	092		34
1. Purchase of non-current assets	093	12.973	64.488
2. Purchase of non-current financial assets	094		
3. Other cash outflows from investing activities	095		18.218
IV. Total cash outflows from investing activities	096	12.973	82.706
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	097		
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	098	12.973	82.672
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issue of equity securities and debt securities	099		108.341
2. Proceeds from loans and borrowings	100	52.810	45.716
3. Other proceeds from financing activities	101		
V. Total cash inflows from financing activities	102	52.810	154.057
1. Repayment of loans and bonds	103	74.318	102.802
2. Dividends paid	104		
3. Repayment of finance lease	105		
4. Purchase of treasury shares	106		
5. Other cash outflows from financing activities	107		
VI. Total cash outflows from financing activities	108	74.318	102.802
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	109		51.255
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	110	21.508	
Total increases of cash flows	111	19.255	82.083
Total decreases of cash flows	112	34.481	82.672
Cash and cash equivalents at the beginning of period	113	16.217	1.116
Increase of cash and cash equivalents	114		
Decrease of cash and cash equivalents	115	15.226	589
Cash and cash equivalents at the end of period	116	991	527

UNCOSOLIDATED RESULTS

STATEMENT OF CHANGES IN EQUITY

from 1.1.2010 to 30.6.2010

thousands HRK

Position	AOP	Previous period	Increase	Decrease	Current period
ž	2	31.12. previous year		3	4
1. Subscribed share capital	117	48.742	19.007		67.749
2. Capital reserves	118	116.431	89.322		205.753
3. Net income reserves	119				
4. Retained earnings or loss carried forward	120	11.657		108.781	-97.124
5. Net profit (loss) for the period	121	-108.786	108.786	59.231	-59.231
6. Revaluation of property, plant and equipment	122	50.091		715	49.376
7. Revaluation of intangible assets	123				
8. Revaluation of available for sale financial assets	124				
9. Other revaluation	125				
10. Foreign exchange differences from investments abroad	126				
11. Current and deferred taxes (part)	127				
12. Hedging	128				
13. Change of accounting policies	129				
14. Change of prior period error	130				
15. Other changes in equity	131				
16. Total increase or decrease of equity	132	118.135	217.115	168.727	166.523
16a. Attributable to majority owners	133				
16b. Attributable to minority interest	134				

CONSOLIDATED RESULTS

BALANCE SHEET

as of

30.6.2010

thousands HRK

Position	AOP	Previous period	Current period
1	2	3	4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS	002	528.811	562.485
I. INTANGIBLE ASSETS	003	27.094	25.956
II. PROPERTY, PLANT AND EQUIPMENT	004	471.788	503.194
III. NON-CURRENT FINANCIAL ASSETS	005	4.494	7.900
IV. RECEIVABLES	006		
V. DEFERRED TAX ASSET	007	25.435	25.435
C) CURRENT ASSETS	008	235.350	230.996
I. INVENTORIES	009	160.536	174.530
II. RECEIVABLES	010	64.554	49.369
III. CURRENT FINANCIAL ASSETS	011	5.461	5.493
IV. CASH AND CASH EQUIVALENTS	012	4.799	1.604
D) PREPAYMENTS AND ACCRUED INCOME	013	10.296	10.043
E) LOSS ABOVE SUBSCRIBED CAPITAL	014		
F) TOTAL ASSETS	015	774.457	803.524
G) OFF BALANCE SHEET ITEMS	016		
EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES	017	16.438	69.236
I. SUBSCRIBED SHARE CAPITAL	018	48.742	67.749
II. CAPITAL RESERVES	019	116.431	205.753
III. LEGAL RESERVES	020		
IV. REVALUATION RESERVES	021	50.091	49.376
V. RETAINED EARNINGS	022		
VI. LOSS CARRIED FORWARD	023	74.973	189.689
VII. NET PROFIT FOR THE PERIOD	024		
VIII. LOSS FOR THE PERIOD	025	123.853	63.953
IX. MINORITY INTEREST	026		
B) PROVISIONS	027		
C) NON-CURRENT LIABILITIES	028	225.361	224.812
D) CURRENT LIABILITIES	029	523.462	508.049
E) ACCRUED EXPENSES AND DEFERRED INCOME	030	9.196	1.427
F) TOTAL EQUITY AND LIABILITIES	031	774.457	803.524
G) OFF BALANCE SHEET ITEMS	032		
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	033		
2. Attributable to minority interest	034		

COSOLIDATED RESULTS

PROFIT AND LOSS STATEMENT

for period **1.1.2010** to **30.6.2010**

thousands HRK

Position	AOP oznaka	Previous period		Current period	
		Cummulative	Periodical	Cummulative	Periodical
1	2	3	4	5	6
I. OPERATING INCOME	035	419.528	213.886	313.138	153.855
1. Rendering of services	036	412.796	212.507	304.158	151.425
2. Income from usage of own products, merchandise and services	037				
3. Other operating income	038	6.731	1.379	8.980	2.430
II. OPERATING COSTS	039	439.981	230.241	353.665	182.027
1. Decrease of work in progress and merchandise	040				
2. Increase of work in progress and merchandise	041				
3. Material expenses	042	217.377	114.002	164.835	84.813
4. Employee benefits expenses	043	66.515	32.036	50.822	25.669
5. Depreciation and amortisation	044	27.047	13.691	28.949	14.515
6. Other expenses	045	129.041	70.511	109.059	57.030
7. Write down of assets	046				
8. Provisions	047				
9. Other operating costs	048				
III. FINANCIAL INCOME	049	3.656	2.413	5.379	1.062
1. Interest, foreign exchange differences, dividends and similar income from subsidiaries	050				
2. Interest, foreign exchange differences, dividends and similar income from third parties	051	3.656	2.413	5.379	1.062
3. Income from investments in associates and joint ventures	052				
4. Unrealised gains (income)	053				
5. Other financial income	054				
IV. FINANCIAL EXPENSES	055	22.993	11.170	28.805	17.226
1. Interest, foreign exchange differences and similar expenses from subsidiaries	056				
2. Interest, foreign exchange differences and similar expenses from third parties	057	22.993	11.170	28.805	17.226
3. Unrealised losses (expenses) from financial assets	058				
4. Other financial expenses	059				
V. EXTRAORDINARY - OTHER INCOME	060				
VI. EXTRAORDINARY - OTHER EXPENSES	061				
VII. TOTAL INCOME	062	423.183	216.299	318.517	154.917
VIII. TOTAL EXPENSES	063	462.974	241.411	382.470	199.253
IX. PROFIT BEFORE TAXES	064				
X. LOSS BEFORE TAXES	065	-39.790	-25.112	-63.953	-44.336
XI. TAXATION	066				
XII. NET PROFIT FOR THE PERIOD	067				
XIII. LOSS FOR THE PERIOD	068				
ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)					
XIV.* NET PROFIT ATTRIBUTABLE TO MAJORITY OWNERS	069				
XV.* NET PROFIT ATTRIBUTABLE TO MINORITY INTEREST	070				
XVI.* LOSS ATTRIBUTABLE TO MAJORITY OWNERS	071				
XVII.* LOSS ATTRIBUTABLE TO MINORITY INTEREST	072				

COSOLIDATED RESULTS

CASH FLOW STATEMENT - Indirect method

period 1.1.2010 to 30.6.2010

thousands HRK

Position	AOP oznaka	Previous period	Current period
1	2	ž	4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	073	-27.028	-63.953
2. Depreciation and amortisation	074	21.323	28.949
3. Increase of current liabilities	075	16.758	55.411
4. Decrease of current receivables	076		15.185
5. Decrease of inventories	077		
6. Other cash flow increases	078		58.720
I. Total increase of cash flow from operating activities	079	11.053	94.312
1. Decrease of current liabilities	080		
2. Increase of current receivables	081	3.303	
3. Increase of inventories	082	63.916	13.994
4. Other cash flow decreases	083	26.901	59.514
II. Total decrease of cash flow from operating activities	084	94.120	73.508
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES	085		20.804
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES	086	83.067	
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of non-current assets	087		
2. Proceeds from sale of non-current financial assets	088		
3. Interest received	089		
4. Dividend received	090		
5. Other proceeds from investing activities	091		36
III. Total cash inflows from investing activities	092	0	36
1. Purchase of non-current assets	093	65.317	64.986
2. Purchase of non-current financial assets	094		
3. Other cash outflows from investing activities	095		3.438
IV. Total cash outflows from investing activities	096	65.317	68.424
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES	097		
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES	098	65.317	68.424
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issue of equity securities and debt securities	099		108.341
2. Proceeds from loans and borrowings	100	156.518	61.954
3. Other proceeds from financing activities	101		
V. Total cash inflows from financing activities	102	156.518	170.295
1. Repayment of loans and bonds	103		125.870
2. Dividends paid	104		
3. Repayment of finance lease	105		
4. Purchase of treasury shares	106		
5. Other cash outflows from financing activities	107		
VI. Total cash outflows from financing activities	108	0	125.870
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES	109	156.518	44.425
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES	110		
Total increases of cash flows	111		65.229
Total decreases of cash flows	112		68.424
Cash and cash equivalents at the beginning of period	113	18.309	4.799
Increase of cash and cash equivalents	114	156.518	
Decrease of cash and cash equivalents	115	148.384	3.195
Cash and cash equivalents at the end of period	116	26.443	1.604

COSOLIDATED RESULTS

STATEMENT OF CHANGES IN EQUITY

from 1.1.2010 to 30.6.2010

thousands HRK

Position	AOP	Previous period	Increase	Decrease	Current period
ž	2	31.12. previous year		3	4
1. Subscribed share capital	117	48.742	19.007		67.749
2. Capital reserves	118	116.431	89.322		205.753
3. Net income reserves	119				
4. Retained earnings or loss carried forward	120	-84.259	-123.853		-208.112
5. Net profit (loss) for the period	121	-123.853	-63.953	-123.853	-63.953
6. Revaluation of property, plant and equipment	122	50.091		715	49.376
7. Revaluation of intangible assets	123				
8. Revaluation of available for sale financial assets	124				
9. Other revaluation	125				
10. Foreign exchange differences from investments abroad	126	9.286	7.667		18.423
11. Current and deferred taxes (part)	127				
12. Hedging	128				
13. Change of accounting policies	129				
14. Change of prior period error	130				
15. Other changes in equity	131				
16. Total increase or decrease of equity	132	16.438	-71.810	-123.138	69.236
16a. Attributable to majority owners	133				
16b. Attributable to minority interest	134				