

15/11/2010

## REPORT OF THE MANAGEMENT BOARD ON THE RESULTS FOR 3Q 2010

In 3Q 2010 Magma Group (the Group) still operated in extremely difficult circumstances, which were far more affected by the lack of working capital rather than personal consumption crisis and constraints arising from market conditions. Therefore, during the third quarter 2010 the Group realised further drop in sales results over the same period 2009.

According to the official statistics for Croatia, which is the Group's main market, it is noted that the negative trend in the retail sector has been stopped with some modest growth over the same period last year. The Group, whose results have always been better than the industry's average, was not able to participate in the aforementioned recovery of the retail sector facing great difficulties in the supply chain.

In order to overcome the current difficulties, the Management Board proposed to the Supervisory Board share capital increase with adequate change in ownership structure.

Over the last period, the Management Board conducted negotiations with several potential investors interested for entering into the ownership structure of Magma (the Company). In accordance with the decision of the Supervisory Board session held on 12.11.2010 the Management Board is authorized to continue negotiations with potential investors with a view to agree exclusive partner for further negotiations and to inform the Supervisory Board at the meeting to be held on Wednesday 17.11.2010.

The above mentioned capital increase will enable to prevail all problems related to daily liquidity by providing short-term cash funding to the completion of the entire process of new share capital issuance.

The Management Board expects that due to new capital the Company will meet the targets set for 2011 and also keep the leading market position in certain segments, ensuring future growth and development.

Management Board  
Magma d.d

ATTACHMENT 1			
Reporting period:	1.1.2010	to	30.9.2010
<b>Quarterly financial statement of the entrepreneur-TFI-POD</b>			
Tax number (MB):	03299015		
Company registration number (MBS):	080048595		
Personal identification number (OIB):			
Issuing company:	MAGMA d.d.		
Postal code and place	10000	Zagreb	
Street and house number:	BAŠTIJANOVA 52 A		
E-mail address:	magma@magma.hr		
Internet address	www.magma.hr		
Municipality/city code and name	133	Zagreb	
County code and name	21	City of Zagreb	Number of employees: 1.345 (quarter end)
Consolidated report:	YES		NKD code: 52420
Companies of the consolidation subject (according to IF)	Seat:	MB:	
Magma d.d.	Baštijanova 52 a, Zagreb, Hrvatska	03299015	
Magma International d.o.o.	Jurija Gagarina 32 A, Beograd, Srbija	17415875	
Magma -B d.o.o.	M. Tita 38, Sarajevo, BIH	20381027	
Magma S d.o.o.	Poljska ulica 6, Maribor, Slovenia	19414227	
Magma Internarional ltd	RN 810, 8/F, Ocean centre, Hong Kong	28511737	
Magma H kft	Andrassy ut 2.4, Budimpešta, Mađarska	13992570	
Bookkeeping service:			
Contact person:	(please enter only contact person's family name and name)		
Telephone:		Facsimile:	
E-mail address:			
Family name and name:	(person authorized to represent the company)		
Documents to be published.			
1. Financial statements (balance sheet, profit and loss statement, cash flow statement, statement of changes in equity, and notes to financial statements			
2. Statement of persons responsible for the drawing-up of financial statements			
3. Report of the Management Board on the Company Status			
	L.S.	signature of the person authorized to represent the company	

<b>BALANCE SHEET</b>			
as of		<b>30.9.2010</b>	
			thousands HRK
Position	AOP	Previous period	Current period
1	2	3	4
<b>ASSETS</b>			
<b>A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL</b>	<b>001</b>		
B) NON-CURRENT ASSETS	<b>002</b>	528.811	536.454
I. INTANGIBLE ASSETS	<b>003</b>	27.094	24.925
II. PROPERTY, PLANT AND EQUIPMENT	<b>004</b>	471.788	477.783
III. NON-CURRENT FINANCIAL ASSETS	<b>005</b>	4.494	8.311
IV. RECEIVABLES	<b>006</b>		
V. DEFERRED TAX ASSET	<b>007</b>	25.435	25.435
C) CURRENT ASSETS	<b>008</b>	235.350	138.588
I. INVENTORIES	<b>009</b>	160.536	105.616
II. RECEIVABLES	<b>010</b>	64.554	32.193
III. CURRENT FINANCIAL ASSETS	<b>011</b>	5.461	
IV. CASH AND CASH EQUIVALENTS	<b>012</b>	4.799	779
D) PREPAYMENTS AND ACCRUED INCOME	<b>013</b>	10.296	7.019
E) LOSS ABOVE SUBSCRIBED CAPITAL	<b>014</b>		
F) TOTAL ASSETS	<b>015</b>	774.457	682.061
G) OFF BALANCE SHEET ITEMS	<b>016</b>		
<b>EQUITY AND LIABILITIES</b>			
<b>A) ISSUED CAPITAL AND RESERVES</b>	<b>017</b>	16.438	-33.746
I. SUBSCRIBED SHARE CAPITAL	<b>018</b>	48.742	67.749
II. CAPITAL RESERVES	<b>019</b>	116.431	205.750
III. LEGAL RESERVES	<b>020</b>		
IV. REVALUATION RESERVES	<b>021</b>	50.091	49.026
V. RETAINED EARNINGS	<b>022</b>		
VI. LOSS CARRIED FORWARD	<b>023</b>	74.973	189.716
VII. NET PROFIT FOR THE PERIOD	<b>024</b>		
VIII. LOSS FOR THE PERIOD	<b>025</b>	123.853	166.555
IX. MINORITY INTEREST	<b>026</b>		
<b>B) PROVISIONS</b>	<b>027</b>		
C) NON-CURRENT LIABILITIES	<b>028</b>	225.361	228.251
D) CURRENT LIABILITIES	<b>029</b>	523.462	485.848
E) ACCRUED EXPENSES AND DEFERRED INCOME	<b>030</b>	9.196	1.708
F) TOTAL EQUITY AND LIABILITIES	<b>031</b>	774.457	682.061
G) OFF BALANCE SHEET ITEMS	<b>032</b>		
<b>ADDITION TO BALANCE SHEET (only for consolidated financial statements)</b>			
<b>ISSUED CAPITAL AND RESERVES</b>			
1. Attributable to majority owners	<b>033</b>		
2. Attributable to minority interest	<b>034</b>		

PROFIT AND LOSS STATEMENT					
		for period	1.1.2010	to	30.9.2010
					thousands HRK
Position	AOP oznaka	Previous period		Current period	
		Cummulative	Periodical	Cummulative	Periodical
1	2	3	4	5	6
<b>I. OPERATING INCOME</b>	<b>035</b>	<b>624.518</b>	<b>204.990</b>	<b>418.915</b>	<b>105.777</b>
1. Rendering of services	036	613.656	200.860	414.155	109.997
2. Income from usage of own products, merchandise and services	037				
3. Other operating income	038	10.861	4.130	4.760	-4.220
<b>II. OPERATING COSTS</b>	<b>039</b>	<b>684.037</b>	<b>244.057</b>	<b>545.799</b>	<b>192.134</b>
1. Decrease of work in progress and merchandise	040				
2. Increase of work in progress and merchandise	041				
3. Material expenses	042	339.262	121.885	235.252	70.417
4. Employee benefits expenses	043	95.263	28.748	74.845	24.023
5. Depreciation and amortisation	044	43.845	16.797	43.118	14.169
6. Other expenses	045	205.667	76.626	192.584	83.525
7. Write down of assets	046				
8. Provisions	047				
9. Other operating costs	048				
<b>III. FINANCIAL INCOME</b>	<b>049</b>	<b>10.825</b>	<b>7.169</b>	<b>6.918</b>	<b>1.539</b>
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	10.825	7.169	6.918	1.539
3. Income from investments in associates and joint ventures	052				
4. Unrealised gains (income)	053				
5. Other financial income	054				
<b>IV. FINANCIAL EXPENSES</b>	<b>055</b>	<b>33.523</b>	<b>10.530</b>	<b>46.589</b>	<b>17.784</b>
1. Interest, foreign exchange differences and similar expenses from subsidiaries	056				
2. Interest, foreign exchange differences and similar expenses from third parties	057	33.523	10.530	46.589	17.784
3. Unrealised losses (expenses) from financial assets	058				
4. Other financial expenses	059				
<b>V. EXTRAORDINARY - OTHER INCOME</b>	<b>060</b>				
<b>VI. EXTRAORDINARY - OTHER EXPENSES</b>	<b>061</b>				
<b>VII. TOTAL INCOME</b>	<b>062</b>	<b>635.342</b>	<b>212.159</b>	<b>425.833</b>	<b>107.316</b>
<b>VIII. TOTAL EXPENSES</b>	<b>063</b>	<b>717.560</b>	<b>254.587</b>	<b>592.388</b>	<b>209.918</b>
<b>IX. PROFIT BEFORE TAXES</b>	<b>064</b>				
<b>X. LOSS BEFORE TAXES</b>	<b>065</b>	<b>-82.218</b>	<b>-42.428</b>	<b>-166.555</b>	<b>-102.602</b>
<b>XI. TAXATION</b>	<b>066</b>				
<b>XII. NET PROFIT FOR THE PERIOD</b>	<b>067</b>				
<b>XIII. LOSS FOR THE PERIOD</b>	<b>068</b>				
<b>ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)</b>					
<b>XIV.* NET PROFIT ATTRIBUTABLE TO MAJORITY OWNERS</b>	<b>069</b>				
<b>XV.* NET PROFIT ATTRIBUTABLE TO MINORITY INTEREST</b>	<b>070</b>				
<b>XVI.* LOSS ATTRIBUTABLE TO MAJORITY OWNERS</b>	<b>071</b>				
<b>XVII.* LOSS ATTRIBUTABLE TO MINORITY INTEREST</b>	<b>072</b>				

<b>CASH FLOW STATEMENT - Indirect method</b>			
period	<b>1.1.2010</b>	to	<b>30.9.2010</b>
			thousands HRK
Position	AOP oznaka	Previous period	Current period
1	2	ž	4
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
1. Profit before tax	<b>073</b>	-82.218	-166.555
2. Depreciation and amortisation	<b>074</b>	43.845	43.118
3. Increase of current liabilities	<b>075</b>		
4. Decrease of current receivables	<b>076</b>	45.574	32.361
5. Decrease of inventories	<b>077</b>	42.383	54.920
6. Other cash flow increases	<b>078</b>	62.220	73.057
<b>I. Total increase of cash flow from operating activities</b>	<b>079</b>	<b>111.804</b>	<b>36.901</b>
1. Decrease of current liabilities	<b>080</b>	42.766	37.614
2. Increase of current receivables	<b>081</b>		
3. Increase of inventories	<b>082</b>		
4. Other cash flow decreases	<b>083</b>		
<b>II. Total decrease of cash flow from operating activities</b>	<b>084</b>	<b>42.766</b>	<b>37.614</b>
<b>A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>085</b>	<b>69.038</b>	
<b>A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>086</b>		<b>713</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1. Proceeds from sale of non-current assets	<b>087</b>		
2. Proceeds from sale of non-current financial assets	<b>088</b>		
3. Interest received	<b>089</b>		102
4. Dividend received	<b>090</b>		
5. Other proceeds from investing activities	<b>091</b>		
<b>III. Total cash inflows from investing activities</b>	<b>092</b>	<b>0</b>	<b>102</b>
1. Purchase of non-current assets	<b>093</b>	19.618	59.217
2. Purchase of non-current financial assets	<b>094</b>		
3. Other cash outflows from investing activities	<b>095</b>		3.828
<b>IV. Total cash outflows from investing activities</b>	<b>096</b>	<b>19.618</b>	<b>63.045</b>
<b>B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>097</b>		
<b>B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>098</b>	19.618	62.943
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
1. Proceeds from issue of equity securities and debt securities	<b>099</b>	125.637	108.341
2. Proceeds from loans and borrowings	<b>100</b>	57.677	82.346
3. Other proceeds from financing activities	<b>101</b>		
<b>V. Total cash inflows from financing activities</b>	<b>102</b>	<b>183.314</b>	<b>190.687</b>
1. Repayment of loans and bonds	<b>103</b>	253.793	131.051
2. Dividends paid	<b>104</b>		
3. Repayment of finance lease	<b>105</b>		
4. Purchase of treasury shares	<b>106</b>	572	
5. Other cash outflows from financing activities	<b>107</b>		
<b>VI. Total cash outflows from financing activities</b>	<b>108</b>	<b>254.365</b>	<b>131.051</b>
<b>C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>109</b>		<b>59.636</b>
<b>C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>110</b>	71.051	
Total increases of cash flows	<b>111</b>	69.038	59.636
Total decreases of cash flows	<b>112</b>	90.669	63.656
Cash and cash equivalents at the beginning of period	<b>113</b>	23.865	4.799
Increase of cash and cash equivalents	<b>114</b>		
Decrease of cash and cash equivalents	<b>115</b>	<b>21.631</b>	<b>4.020</b>
Cash and cash equivalents at the end of period	<b>116</b>	2.234	779

<b>STATEMENT OF CHANGES IN EQUITY</b>					
	from	1.1.2010	to	30.9.2010	
					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	89.319		205.750
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	-166.555	-123.853	-166.555
6. Revaluation of property, plant and equipment	122	50.091		1.065	49.026
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	9.110		18.396
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				
<b>16. Total increase or decrease of equity</b>	<b>132</b>	<b>16.438</b>	<b>-172.972</b>	<b>-122.788</b>	<b>-33.746</b>
16a. Attributable to majority owners	133				
16b. Attributable to minority interest	134				