

Magma d.d.
Supervisory Board

REPORT

on performed supervision of conduct of business of the Company in 2009 and on revision of annual financial statements, the report on the state of the Company, as well as on draft decision on application of profits.

The supervisory Board members:

1. Biserka Preininger- Fižulić, Chairwoman
2. William Alastair Hayward Crewdson, Deputy Chairman
3. Ratko Žurić, member
4. Matjaž Schroll, member

1. In accordance with its duties, the Supervisory Board has completed supervision of conduct of business and has established that the Company conducts business in conformity with law, with the Statute and with other documents of the Company and decisions of the General Assembly. During previous year, the Supervisory Board performed its function of supervising conduct of business through constant review of the business records and joint meetings with the Management.

2. Over the course of 2009, the Supervisory Board held 5 sessions in total: on 27.01.2009., 09.04.2009., 26.06.2009., 01.10.2009., and 03.12.2009.

The Business Plan of the Magma Group was adopted at the session held on 27.01.2009.

On 09.04.2009., the Supervisory Board adopted the auditor's report for 2009, the Company's annual financial reports and the Magma's Group consolidated reports for the fiscal year 2008, as well as the draft decision on covering losses from 2008.

On 15.05.2009. the Supervisory Board determined the agenda and draft decisions of the General Assembly of the Company, among which were proposals for amendments of the Statute regarding the fiscal year, activities performed and the number of members of the Supervisory Board.

On 26.04.2009. the Decision on the new structure of the Management and on appointing Domagoj Vuković a member of the Management and the Director of the Financial Sector was passed.

On 01.10.2009. the Supervisory Board considered the business results for the first six months of 2009, adopted the revised Business Plan for 2009, and adopted a long-term Business Plan covering the period until 2014.

On 03.12.2009. the Supervisory Board considered the reports on the first nine months of 2009, proposal of the profit and loss account plan for the Magma Group's companies for 2010, as well as the possibility of increasing the Company's capital.

3. The Supervisory Board reviewed annual financial statements and established that they had been made in accordance with the balance in the Company's business records, and that they present the correct financial and business standing of the Company for the year ended December 31, 2009. In that respect, the Supervisory Board gives its approval to them and forwards them to the Assembly for adoption.

A component of the Company's Financial Statement for the year ended December 31, 2009, are:

- Management's report on the state of the Company in 2009
- Annual financial reports for the fiscal year 2009
- Consolidated balance sheet of the Company for the year 2009

- Report of the audit company KPMG Croatia d.o.o. for auditing, with headquarters in Zagreb, together with the opinion which was argument at a session of the Supervisory Board, and which the Supervisory Board assessed as credible, accurate and made in accordance with professional rules..

4. The Supervisory Board reviewed the Company Management's proposal for covering losses from the fiscal year ended December 31, 2009. That proposal established that in the year ended December 31, 2009, the Company realised losses in amount of HRK 118.379.000,00, and it was proposed that the realised losses be settled in such a manner that a portion of retained profits from 2008, in amount of HRK 615.065,00, be allocated to reserves for acquisition of own shares, the residue of retained profits from 2008, in amount of HRK 11.611.847,00, be allocated for covering losses from 2009, and the remaining amount of uncovered losses from 2009 be covered from future periods profits.

The Supervisory Board agrees with the stated Management's proposal for covering losses and accepts that the decision proposal be submitted to the General Assembly for adoption.

5. The Supervisory Board also reviewed the report on the state of the Company and established that it presents the true present business situation of the Company and realistically presents the possibilities for its future business development.

6. The Supervisory Board forwards this report to the Management and the General Assembly of the Company, and proposes that the General Assembly of the Company should adopt this report, the Management's report on the state of the Company in 2009, the report of the audit company with the opinion, and establish the annual financial statements for 2009.

Mrs. Biserka Preininger Fižulić
Chairwoman of the Supervisory Board

Zagreb, July 12, 2010