MAGIX AG

Annual Report
2005/2006

MAGIX

the multimedia community

Key Ratios

Key Ratios of MAGIX Group according to IFRS

	FY 05/06 kEUR	Change in %	FY 04/05 kEUR	Change in %	FY 03/04 kEUR
Profit & Loss					
Revenues	35,788	30,0%	27,531	26,5%	21,769
Gross margin	31,402	34,4%	23,372	25,8%	18,573
as % of revenues	87,7%		84,9%		85,3%
EBIT	8,230	69,5%	4,856	-7,8%	5,268
as % of revenues	23,0%		17,6%		24,2%
Net income	5,130	61,1%	3,185	-23,3%	4,150
as % of revenues	14,3%		11,6%		19,1%
Balance Sheet					
Balance sheet total	57,469	88,8%	30,433	38,4%	21,990
Cash & cash equivalents	35,095	166,9%	13,148	42,4%	9,232
Other current assets	12,143	50,2%	8,085	5,8%	7,639
Non-current assets	10,231	11,2%	9,200	79,7%	5,119
Current liabilities	10,735	16,0%	9,253	58,6%	5,835
Non-current liabilities	657	-26,3%	891	412,1%	174
Equity attributable to equity holders of the parent	44,952	135,8%	19,061	19,3%	15,981
Equity ratio	78,2%		62,6%		72,7%
Cashflow					
Cashflow from operating activities	6,186	-0,9%	6,244	16,1%	5,377
Cashflow from investing activities	-3,893	67,4%	-2,326	30,4%	-1,784
Cashflow from financing activities	19,690	> 100%	36	> 100%	-2,131
Employees					
Total	303	37,7%	220	23,6%	178
Sales & Marketing	99	27,3%	78	30,5%	60
Research & Development	161	50,9%	107	21,8%	88
General & Administration	43	23,5%	35	17,2%	30
Ratios					
Number of registered users	4,260,000	60,2%	2,660,000	47,8%	1,800,000
Conversion rate	6,43%	21,3%	5,30%		n/a
Average purchase price	28,2	-9,0%	31,0		n/a
Average revenue per registered user	1,8	-4,7%	1,9		n/a

MAGIX in a Nutshell

Where we come from

In 1993, Jürgen Jaron and Dieter Rein, together with software developers Tilman Herberger and Titus Tost, formed MAGIX as a software company. These entrepreneurs had a collective vision to make multimedia a useful tool for everyone in their day-to-day lives. In the years that followed, the Company began to market software for designing, presenting and archiving digital photos, videos and music. With products developed exclusively in Germany, MAGIX became one of the global leaders in providing multimedia software at the retail level.

Where do we stand today?

MAGIX has been developing online services since 2004 and today is a provider of comprehensive multimedia solutions. No other Company in the world offers so many seamlessly connected online services, PC software and mobile applications for the entire multimedia spectrum. In addition to the end customer market, MAGIX also does business in the B2B sector and offers its business customers one-stop shopping for individual, tailor-made multimedia packages, through which software is likewise marketed. Moreover, the Company is expanding its direct marketing of software and online services via its own Internet portal.

Where do we see ourselves in the future?

MAGIX is transforming multimedia into an everyday part of personal communications. Whether delivered through PCs, notebooks or mobile telephones, through the Internet community, our own website or IP-TV: MAGIX provides comprehensive solutions for business and end customers, allowing them to organize and present their multimedia content in an easy and entertaining manner.

Content

Foreword by the Management Board

Dear Shareholders,

The qualitative progress, which MAGIX AG made in fiscal year 2005/2006, is particularly well documented in our first published annual report, which you are now receiving at this very moment. Since April 2006, MAGIX shares have been listed on the Prime Standard segment of the Frankfurt Stock Exchange, and this publication is one of the many reforms, which emerged directly from the initial public offering.

The initial public offering itself is a serious step for MAGIX. It is the consequence of the transformation that we began back in 2004. The proceeds from the initial public offering have provided us with the foundation for continuing to expand our enterprise at a rapid pace and to successfully proceed along our path of long-term growth.

Ever since the transmission of data from one computer to the next began taking less time and producing fewer costs, the Internet has played an increasingly larger role in our day-to-day communications. Today, people all over the world routinely call one another over the Internet, surf the worldwide web with their cell phones, or watch online television. The immense impact of broadband data transmission on multimedia communications was a development we recognized at a very early stage. These trends convinced us that MAGIX had to evolve into something more than simply a software Company. In the past two years, we have therefore built the Company into one of the world's leading providers of all-inclusive multimedia solutions with integrated online and mobile applications.

For this reason, the development of new online services was the focus of our business activities in fiscal year 2005/2006. The expansion of the product range and the redirection of our technologies to the online segment have allowed us to establish MAGIX as a service provider in the B2B market segment. Through our online portals, we were able to acquire above all telecommunications companies as partners. Today, Deutsche Telekom, freenet.de AG and the Swiss provider, Bluewin (Swisscom), are among three of the largest national providers operating in Germany and Switzerland and are likewise satisfied customers of MAGIX.

Together with the sales from the OEM division, the Portal business increased by 70,5% in the recently completed fiscal year and is therefore significantly higher than the Group average. We expect that during the upcoming year the demand for our online solutions will again grow both in the B2C segment and in the B2B segment. We therefore believe that the portal business will be the largest growth segment in the coming year. With MAGIX's online desktop service and the music portal which is managed by our subsidiary, m2any, we should realize two additional large-scale projects in this segment during the current fiscal year. For this reason, we have consistently invested in research and development beginning in 2005/2006. One main focus of our investment was the hiring of programmers in order to create new online solutions and the acquisition of complimentary technologies and online services. MAGIX will continue to constantly invest in these areas.

In addition to expanding our business activities in the online sector, we are also betting on the future of classic retail trade. In the Professional & Consumer division, we were able to increase sales in the recently completed fiscal year by approximately 19%. In this regard, efforts continued to focus particularly on internationalizing our business activities.

Overall, the past fiscal year was once again a record year for us. Group sales rose by more than 30%. The EBIT margin was 23%.

We wish to continue this favourable growth in the current fiscal year as well. In addition to investments in research and development, we shall use the proceeds from the initial public offering to make acquisitions which support our organic growth. Our focus shall be on acquiring complimentary technologies and companies, which control a great number of registered users who have a fondness for multimedia.

Our goal is to integrate multimedia with MAGIX as a component of personal communications and everyday life. Thanks to our comprehensive package of software products and online services, we are optimally positioned to achieve such a goal. We are committed to pursuing this vision in the current fiscal year.

Sincerely,

Jürgen Jaron
CEO

Management Board

Jürgen Jaron (born 1962)
CEO

Responsibilities:
Strategic corporate business development; strategic product design and development; content, Internet and IT development; planning and controlling; accounting and investor relations

Dieter Rein (born 1957)
COO

Responsibilities:
Marketing, communications, sales and distribution, organisation, personnel, legal affairs, and procurement

Tilman Herberger (born 1964)
CTO/R & D

Responsibilities:
Product development and research

Supervisory Board

Karl Heinz Achinger (Chairman of the Supervisory Board)
One of the founders of DaimlerChrysler Interservices AG with over 35 years of experience in the IT industry. Member of the Supervisory Board of the following companies:
eps AG, Unterföhring; RWE Systems AG, Dortmund; Software AG, Darmstadt;
TDS Informationstechnologie AG, Neckarsulm; teleson AG, Munich;
iGate Global Solutions Ltd., Bangalore, India (Member of the Board of Directors)

Dr. Peter Coym (Deputy Chairman of the Supervisory Board)
Through June 2005, member of the Management Board of Lehman Brothers Bankhaus AG and managing director of Lehman Brothers, Inc., New York. Since July 2005, member of the advisory board of Lehman Brothers Deutschland. From 2003 to 2006, member of the advisory board of the Deutsche Bundesbank (the German Central Bank) in Frankfurt. From 2001 through June 2005, chairman of the executive board of the Verband der Auslandsbanken in Deutschland e. V. (the Association of Foreign Banks in Germany). Since December 2006 non-executive director in the board of directors of State Street Corp, Boston

Dierk Borchert
Long-time international partner and managing director of Arthur Andersen Germany. From 1979 to 1993, head of the Audit Department of Arthur Andersen's central offices in Frankfurt. Beginning in 1993, Senior Partner, Focus M&A Consulting. Since 1999, independent business consultant and auditor [Wirtschaftsprüfer].

Report of the Supervisory Board

Dear Shareholders,

The successful fiscal year 2005/2006 was strongly influenced by a major strategic development:

The task was to create the necessary conditions for successfully bringing the Company public. At the same time, the Company also sought to continue its sustained growth.

In this context, the Supervisory Board, in accordance with its mandate, dealt very extensively with the Group's strategic direction during the recently completed fiscal year. To this end, it advised the Management Board and simultaneously monitored the latter's management of the business.

From the very outset, the Supervisory Board and Management Board conferred with one another on important decisions for the Company. The Supervisory Board was kept informed in a timely and comprehensive manner about all key issues in planning and business development. Based on the reporting procedure agreed with the Management Board, the Supervisory Board received regular reports about strategic courses of action and the strategic orientation of the Company, about important business transactions and projects in the various Company divisions, and about the risk situation and risk management. Any courses of action, which under the Management Board's Rules of Procedure require the consent of the Supervisory Board, were discussed in specific detail.

Key business events and important upcoming decisions were continuously discussed by the Management Board and the Chairman of the Supervisory Board, even between Supervisory Board meetings.

In the recently completed fiscal year, a total of five (5) Supervisory Board meetings were held in which all members of the Supervisory Board and Management Board were in attendance. In addition, a number of telephone conference calls were held and a written resolution was adopted by circulating it for approval to all voting members.

Furthermore, the compliance statement [Entsprechungserklärung] to the German Corporate Governance Code 2006 was adopted.

Annual financial statements and affiliated companies report [Abhängigkeitsbericht] audited

The accounting firm of Ernst & Young, which was engaged by the Supervisory Board, has audited and issued an unqualified auditor's report concerning the annual and consolidated financial statements (including the relevant management reports) for fiscal year 2005/2006.

The Supervisory Board has reviewed the annual financial statements and consolidated financial statements as well as the management report for fiscal year 2005/2006. For this review, all Supervisory Board members had in their possession the requisite reports, which were discussed extensively at the meeting with the Management Board and the auditors in attendance. The audit also covered the Management Board's recommendation on the use of profits. The Supervisory Board agreed with the auditor's conclusions from the audit of the annual financial statements and the consolidated financial statements as well as the management report and, after detailed discussions with the Management Board and representatives of the auditor, approved the annual and consolidated financial statements for fiscal year 2005/2006. No objections were raised against the final conclusions from the audit of the annual financial statements, the consolidated financial statements, the management reports and the Supervisory Board's recommendation on the use of profits. The Supervisory Board thereby approved the annual financial statements which were submitted to the conference held today, the 11th of January.

The Supervisory Board would like to thank the Management Board as well as all employees of the Group for their commitment and their successful work and achievements in fiscal year 2005/2006.

Berlin, January 11, 2007
The Supervisory Board

Karl Heinz Achinger
Chairman

What distinguishes MAGIX: Business Fields, Products and Strategic Concepts

Multimedia Communication

MAGIX is making multimedia communication a part of everyone's everyday life. As pioneering experts, the German Company began developing products in 1993, which gave users the tools to design their very own multimedia presentations.

Multimedia is a generic term referring to content and works, which consist of various media such as images, videos, music, language or text. Since the early 1990s, the digitalization of media has created a variety of opportunities for using multimedia content. The products sold by MAGIX allow even non-professional users to create, edit, archive and present content to third parties. Users can do such work with the help of their PCs or mobile handheld devices. The increasing spread of mobile communication and broadband Internet access makes it possible today for people to integrate multimedia content into their personal communication platforms via email, MMS, CD/DVD or the Internet.

Multimedia communication is still a new phenomenon, which is only in the infancy of its development and will undergo innovations in both its technology and content. The trends below are to a considerable extent the main factors driving growth in the market for personal multimedia communication:

- the constant growth in the number of broadband Internet connections for private households and public wireless local area networks (WLAN);
- digital terminal equipment such as high-resolution camera phones, digital cameras, camcorders (HD-camcorders) as well as portable digital music players are also finding wider distribution;
- the development of new computer technology and new software solutions such as the MP3 or MPEG formats, computer languages such as Java, Flash or Symbian permit user-friendly applications on devices for the mass market, which would have been available earlier only with professional equipment.

In addition, a number of economic factors also play a key role, such as:

- the convergence of telecommunications, information processing and media;
- the need for telecommunications companies to uncover new sources of income through the transfer of large volumes of data by transmitting multimedia content such as digital photos, videos and music;
- the growing interest among private users in multimedia products and services for personal communications specifically based on an increasing dissemination of multimedia end devices.

Only 10 years ago email was a communication instrument used by only a few. Today the number of emails sent exceeds by a multiple the number of letters delivered by the postal services. We expect that in the near future, communication with the use of photos, videos or even one's own Internet television channel will become as routine as sending emails or text messages is today. With its comprehensive range of packages, MAGIX AG is in an optimal position to profit from this trend.

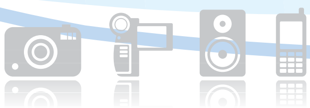
The Products of MAGIX:
Software, Online Services and Digital Content

MAGIX offers its customers technologically sophisticated and simultaneously user-friendly software and online services for designing, editing, presenting and archiving digital photos, video and music.

The products of MAGIX track primarily the demands of private users. MAGIX also licenses professional software to commercial users such as music producers as well as television and radio stations. In terms of product sales, MAGIX was the market leader in the retail sale of image, video and music software in Germany and in various other European countries in 2006 and was one of the two leading market players in the United States.

Since 2004, MAGIX has also developed and sold online services, which are in part also available on portable devices. Examples here are its Online Media Album and its Online Print Service. These services are directly integrated into the software products developed by MAGIX and may be directly downloaded from the Internet. MAGIX combines these services and the possibility of using the services together with MAGIX's software of different digital terminal equipment (e.g., PC or mobile telephone) under the multimedia platform, "iPACE". Under this platform, MAGIX also offers various applications for online communities. This platform permits members to share digital and mostly self-created photos and music. MAGIX plans to continuously expand this multimedia platform during 2007, and intends to do so by also adding new online services accessible on mobile devices.

MAGIX AG also offers digital content such as pre-produced music samples, video clips, background music, photos, ring tones or templates. These items are developed mostly by MAGIX itself or licensed from cooperating partners. The customer acquires these items either together with the software, as an independent product in the form of a CD or DVD, or by downloading them off the Internet. Thus, users may deploy the professionally produced content in various forms. Without too much musical expertise, amateurs may be able in a short period of time to produce new works by relying on music samples and video clips. The photos, templates and background music allow users to enhance the effect of their own multimedia content with suitable elements.



The Business Divisions of MAGIX:
Portal, OEM and Professional & Consumer

Portal Division

In fiscal year 2005/2006, MAGIX's portal division generated sales of EUR 8.1 million (2004/2005: EUR 5.2 million) with its products and services. The sales generated by this MAGIX division represented approximately 23% of its overall sales in fiscal year 2005/2006 (2004/2005: approximately 19%).

End Customer Business

For the end customers, MAGIX operates an online portal (www.magix.com) and other proprietary websites through which customers can directly purchase the complete range of MAGIX products over the Internet.

MAGIX also offers here free software as well as free introductory versions of the online services in order to entice new users to order fee-based products and services with additional functions and content.

In addition, registered customers are regularly sent email offers, and recurring revenue is generated when these offers lead to direct purchases. In fiscal year 2005/2006, approximately 4.26 million customers, who had registered with MAGIX as of 30 September 2006, ordered roughly 240,000 products through the online portal of MAGIX at an average net price of circa EUR 28.20.

Business Customers

The portal division also includes the sale of individualized multimedia solutions to business customers of MAGIX.

MAGIX compiles one or more online services in combination with all-inclusive integrated software programs for a comprehensive multimedia package and bundles this into the business customer's existing Internet site. In this regard, both the so-called "look and feel" as well as the functionality may be modified to accommodate the customer's wishes (so-called "customizing"). If requested by the customer, MAGIX is also in a position to provide storage capacity, to which the end customers can upload digital content (so-called "hosting").

By acting here as an IT service provider, MAGIX offers its business customers the opportunity to expand their Internet packages on short notice with individually tailored multimedia services. Since both the software and the online services are constantly tested for purposes of evaluating their suitability in practice, customers may be offered in the shortest period of time a robust Internet package for relatively low development costs.

With these services, MAGIX generates revenues from customizing the service work in order to meet the needs of the portal operators and from license fees for the use of the developed services. Moreover, MAGIX participates in the revenues, which the relevant business partners earn on the services implemented by MAGIX.

The possibility also exists for selling MAGIX software products to the customers through the portal. On offer through the portal are not only the full versions of the programs, which had been combined free of charge with the service, but also MAGIX products which are offered separately. In both cases, any sales resulting therefrom are divided between MAGIX and the business customer according to an agreed allocation key.

OEM Division

The abbreviation "OEM" stands for "Original Equipment Manufacturer" and is used primarily in the software industry for the sale of hardware together with computer programs of mostly limited functionality.

MAGIX AG licenses its products to OEM partners, which manufacture mobile or stationary digital devices such as camera phones, photo or video cameras, MP3 players or PCs. These products can provide consumers with suitable software, various online services and digital content in addition to the hardware supplied. Thus, with the purchase, the functional range of the devices produced by the OEM partners is expanded. This allows OEM partners to stand out amongst the competition and generate greater customer loyalty. The customizing of software and web hosting are among the services which MAGIX provides its OEM partners.

In most cases, MAGIX receives fixed license fees from the OEM partners for software and digital content provided. In part, MAGIX receives the license fees only after the software or digital content has been activated by the end consumer. For a fee the end user can upgrade versions with limited functionality, by adding functions or content via MAGIX's online portal (so-called "upgrades"). As a rule, the OEM partners usually receive some share of MAGIX's revenues from such upgrade sales.

In the OEM division in fiscal year 2005/2006, MAGIX reported sales revenue of EUR 1.8 million (2004/2005: EUR 0.7 million) from licenses for its software products and online services. Although the sales generated in this division are thus relatively low and are also subject to fluctuations, MAGIX believes that the software and digital content licenses to OEM partners play an important role in the further expansion of its customer base. By using the MAGIX software purchased together with the hardware, even those end consumers, who do not make purchases at the relevant professional retail markets and who otherwise would very rarely encounter MAGIX products, become aware of MAGIX.

Professional & Consumer Division

To date, the Professional & Consumer division has been the strongest division in terms of sales among the three MAGIX business divisions. This division covers the classic domestic and international retail distribution of MAGIX's range of internally developed software. Among MAGIX's distribution channels in this division are a series of high-volume retailers in Germany, France, the UK, Italy, the BeNeLux countries, Spain, further European countries and the United States. Examples of these retailers include retail chains such as Saturn/Media Markt, Amazon, Dixons, Fnac and Best Buy in which MAGIX software is sold to consumers.

In addition, this division is also responsible for licensing professional software, particularly to music producers as well as television and radio broadcasting companies. Users of MAGIX's professional software include, for example, Westdeutscher Rundfunk, Mitteldeutscher Rundfunk, Bayerischer Rundfunk, Radio Bremen and the BBC.

In fiscal year 2005/2006, MAGIX's Professional & Consumer division reported revenues of EUR 25.9 million from the sale and licensing of its software (2004/2005: EUR 21.7 million). MAGIX thereby generated 72.3% of its revenues in this business division. Given the strong growth of the portal business, future sales are expected to shift in favor of the Portal division.

Strategy

MAGIX's Range of Products

With respect to its products, MAGIX AG at a very early stage placed significant emphasis on comprehensive diversification. Starting with a single music software product, the Company within a few years has covered the entire spectrum of digital media through the creation of special photo and video programs. With the further development of the Internet and mobile telephony, MAGIX has supplemented that package with online and mobile services.

At the same time, the Company always placed the greatest emphasis on retaining the modular technology platform. The MAGIX software products are based on a single common source code. This has meant that ongoing developments, which were made for one product, could directly be incorporated into other products. With this in mind, the online services were structured in such a way that they could be integrated into each MAGIX software product.

Since MAGIX sells its products primarily on the mass market and specifically to users with limited technical expertise, high-quality together with an extremely easy-to-use interface and a good price-performance ratio are the hallmarks of MAGIX's product strategy.

Expansion of the Market Position by Broadening the Customer Base

MAGIX is pursuing the strategic objective of further expanding its market position in the market for personal multimedia communication.

For this reason, there is currently a strong drive toward internationalization, above all in the Professional & Consumer division. While the Company hopes in Germany to retain its market share of over 60% at the retail level by capturing alternative distribution channels such as grocery store chains or filling station shops, there is even greater growth potential in other markets. The opening of new sales offices and the hiring of new local sales personnel is intended to provide closer contacts to the retail market of the relevant territory and further improve revenues.

In expanding the customer base, the portal business with the business customers will play a key role. While MAGIX products may be purchased worldwide at the most well-known retail chains for consumer electronics, there is also enormous sales potential outside the customer base of these specialized stores. Not every owner of a digital camera will, for example, also go to a specialized store in order to learn more about the various possibilities in connection with using photo software. Through its partnership with the operators of large online portals, MAGIX will have an opportunity as with the OEM business to reach a great variety of customers directly at home. Consequently, the Company is gaining access to new customer groups with each business customer order.

Irrespective of the individual business divisions – Portal, OEM and Professional & Consumer – MAGIX's business model generally seeks to continually increase the number of registered customers. As soon as the customers have disclosed MAGIX their names and contact information in accordance with the statutory requirements, the Company is in a position to communicate with them directly. A certain number of the customers may be incited through such communications to routinely purchase product offerings thereby generating recurring sales here as well. In the recently completed fiscal year, the number of users registered with MAGIX grew organically by 1.6 million. At the same time the percentage of customers who, following registration, took advantage of a MAGIX product offer could be increased to 6.4%. MAGIX's strategy is to further increase this number in the future by acquiring enterprises that have a large base of registered users.

From Mozart to Mufin – The MAGIX Audio Solutions

Wolfgang Amadeus Mozart (1756–1791) created stirring worlds of sound with his music, which playfully wedded seemingly light and catchy melodies with musical complexity and sophistication. Much has changed since Mozart's time, particularly in music. Nevertheless, it is this fusion of ostensible simplicity and creative subtlety which, even today, distinguishes mass market art from timeless art.

Mozart would have greatly enjoyed the technical innovations of recent years, which have also revolutionized the realization and acceptance of musical ideas. This past summer saw the art of the Great Master from Salzburg come face to face with the modern technology from the house of MAGIX when, as a tribute to his 250th birthday, the city of his birthplace organized and presented all of the composer's operas and musicals in a six-week festival. In order to capture for the ages the vocal masterpieces performed by probably the most well-known opera singer today, Anna Netrebko, event organizers had to deploy highly sophisticated and expensive recording technology.

As evidence of the relative importance which the professional MAGIX technology enjoys today, the audio software, Sequoia, was enlisted for use at this major event in Austria. To create the extraordinary 5.1 Surround Sound – i.e. for the entire production process from recording to mixing and mastering – MAGIX provided the organizers with the Sequoia software. In recent years, the high-definition digital audio software for PCs has become one of the most widely-used and loved products, especially among professional customers.

It is not just the Old Master's sound that benefits from modern MAGIX technology, however. It is instead the Company's goal to offer a variety of individuals a high performance software package, which empowers them to unfurl their ideas and creativity using easily comprehensible support services.

The Company launched its first product line in 1993 with the MAGIX Music Maker. This first MAGIX product has sold over one million copies at the retail level and is therefore today one of the world's most successful software products in the music creation segment. The concept that was hatched at the time – i.e., helping customers attain noteworthy results through simple operability and a pre-produced content – quickly developed into a principle of success for all subsequent MAGIX products.

The experience in the professional segment therefore greatly enriched the consumer products, into which – for example – the newest technological developments could be quickly integrated. At the same time, greater attention was placed on factoring in the different uses and needs of the various user groups. Thanks to the many years of experience in creating professional solutions, beginners could now more easily access the consumer products market, and the more advanced customers would enjoy a greater range of use possibilities with each new generation of product.

The integration of professional technologies into consumer products by itself will not suffice, however, to meet the current needs of the market. Indeed, the concepts of networking, communication or exchange of information do not, by themselves, motivate the users of Web 2.0, but instead form simply part of what is expected of nearly every application. Targeted investments are constantly being made in order not only to meet these expectations, but also to help influence independent developments and give MAGIX users early access to these new technologies.

It is precisely the fields of networking and information exchange which MAGIX has pioneered. The music recognition technology, AudioID, which is sold by the MAGIX subsidiary, m2any, offers an unambiguous digital fingerprint of a musical piece, which can be matched within seconds against a database, and is able to communicate information about the titles to the users. In order to catalogue the flood of data transmitted today, users require a method and procedure that not only processes the data but also, to a certain extent, comprehends and can itself catalogue the content.

Access to AudioID can also be found via the MAGIX online portal Mufin. This Music Community has expanded the capacity for finding unknown pieces by allowing music recommendations to be communicated or swapped within a network. A title heard by the user is added to a musical profile, which is linked through so-called “channels” with a profile of another user. Within this network, music, artists, or similar topics can be discussed. Mufin will also offer new opportunities for artists and producers: the portal gives musicians guaranteed access to timely musical suggestions via a simple interface once they have authenticated their membership and have logged in.

Thus, even today, efforts are still being made to link playful simplicity with sophistication. While in Mozart’s time only a musical genius could find beauty within complexity, today MAGIX offers a broad mass of people the tools to implement their creative ideas. The art today consists of making the sophisticated technology behind the complex functionalities and applications simple, accessible and playfully usable. Hence, MAGIX makes the process of creation simple for everyone, without having to understand the complex processes which lie behind them.

Group Management Report

Overview of Fiscal Year 2005/2006

The results of fiscal year 2005/2006 were once more the best in the history of the MAGIX Group. The Company thus greatly improved on the economic success of the prior year. At EUR 8.2 million, earnings before interest and taxes (EBIT) were EUR 69.5% up on the prior year. This positive development is primarily attributable to revenue growth of 30.0% and a 2.8% increase in the gross margin. Revenue growth was mainly driven by the Portal and OEM segments. Compared to the traditional retail business (19.1%), these segments grew by 70.5%.

The initial public offering of MAGIX AG marked another milestone in the fiscal year. The Company's shares have been traded on the Prime Standard market of the Frankfurt Stock Exchange since April 6, 2006. The additional capital from the initial public offering will enable further expansion of the business segments on international markets. In this context, the Company plans to acquire complementary technologies and companies with a large number of registered users and an affinity to the multimedia segment.

Economic Conditions

Economic Environment

Compared to previous years, the overall economic environment developed well during the fiscal year. The development of the global economy was mainly driven by emerging markets and the US in prior years. During the period under review, Japan and Europe also experienced increased growth. Strong exports were complemented by increased internal demand in the Euro Zone, MAGIX's key market. Positive changes on the labor market also led to an increase in consumer confidence.

Germany also experienced strong economic growth in 2006. However, the second half of the year saw a drop in retail demand for software. This shows that strong economic growth does not guarantee strong revenues in all segments.

After Germany and the Euro Zone, the US is the most important sales market for the MAGIX Group. As in previous years, growth there was highly dynamic.

Industry Performance

According to the German Association for Information Technology, Telecommunications and New Media [“Bundesverband Informationswirtschaft, Telekommunikation und neue Medien”: BITKOM], the information technology market in Europe grew by approximately 3% to EUR 640 billion. The software segment grew most, by more than 6%.

There was also sustained demand for digital devices for photos, videos and music. Together with constant growth in the number of broadband internet connections, this created the right preconditions for growing demand for multimedia communication. The resounding success of internet communities such as “MySpace”, “YouTube” and “Flickr” is a clear reflection of this demand. All of the above Internet offers are based on the principle of exchanging digital photos, videos and music. This gave rise to a sustained increase in demand for online and offline software solutions in this segment, and thus a perfect market environment for the MAGIX Group, with its wide range of multimedia online and offline products, to develop.

Business Development

Results of Operations

Revenues

The MAGIX Group generated record revenues of EUR 35.8 million in fiscal year 2005/2006. Compared with revenues of EUR 27.5 million in the prior year, the increase is EUR 8.3 million. The Company therefore improved its revenues by a double-digit figure in the past three fiscal years. At 10.7% in 2003/2004, 26.5% in 2004/2005 and 30.0% in 2005/2006, even the growth rates themselves increased.

Development in the fiscal year was driven in particular by the excellent first two quarters in which revenues increased by 37.7% year on year. The fact that these rapid growth rates do not stretch over the whole year is due to the strong seasonal nature of MAGIX's business. This is attributable to two factors: the respective season and the launch of software products. As a result of the fiscal year, which starts in October, the first quarter, which includes Christmas business, is always the strongest of the year. Consumers also use computers and the Internet much more intensively in winter. This also supports the second quarter, which benefits from post-Christmas business. During the summer months, in contrast, consumers rather tend to spend their time outdoors. This usually leads to a drop in demand for multimedia software and online services. This effect was intensified in Europe in 2006, particularly in Germany, as a result of the FIFA World Cup. It should be noted, however, that this cycle can be influenced by the signing of contracts with business customers and the associated one-off payments at any time.

Revenues by Region

Revenue growth was driven by the positive development in all regions. Two-digit growth rates were recorded on both the European and US markets. The regional revenue split remained more or less stable in the fiscal year.

Revenues increased by 31.8% to EUR 30.1 million in the “Europe and Rest of World“ region.

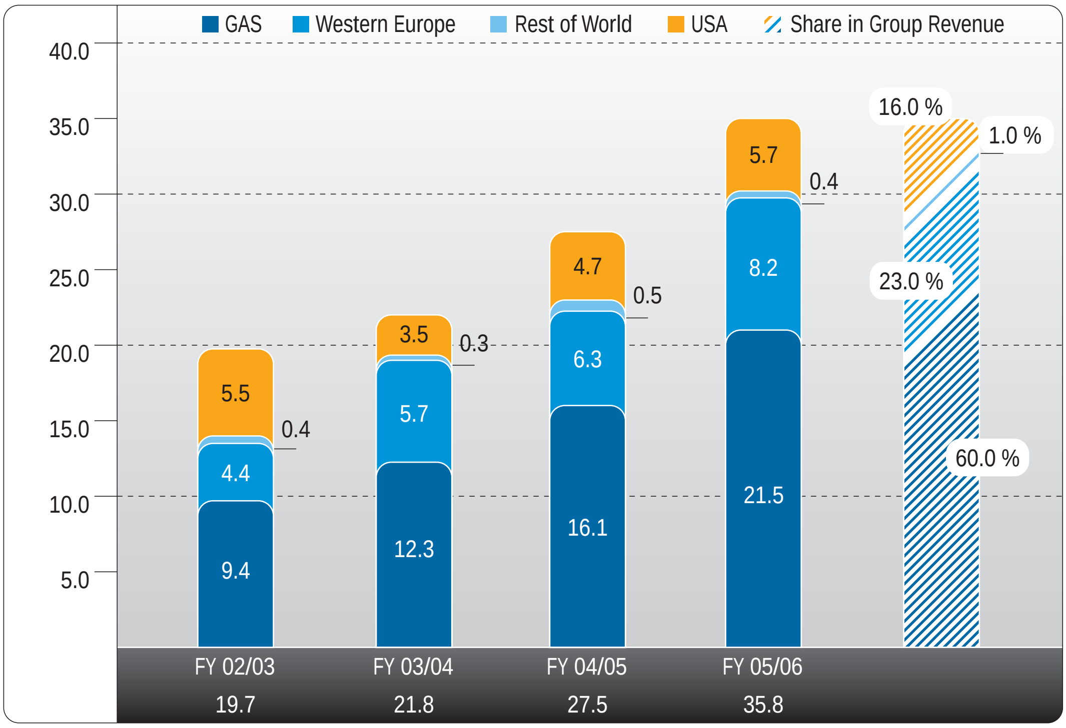
The German-speaking area is a key market and generates around 60% of total group revenues. As a German company, the parent company MAGIX AG has strong roots in these markets. This is reflected, in particular, by its strong position on the retail market. Furthermore, new products and online services are always published here first. Positive developments, such as strong growth in the portal business, are therefore noticed first in the German-speaking countries.

The MAGIX Group has also launched various initiatives to further expand its position on international markets. At the end of the prior fiscal year, the Company opened its own sales office in the UK, the activities of which have become fully evident for the first time in the period under review. All revenues now flow directly to the MAGIX Group. In the past, the Company only received a commission of the sales generated by a local publisher. Furthermore, MAGIX can negotiate sales terms directly with retail channels. A sales office was also opened in Spain at the end of the third quarter in order to push forward expansion in that market. However the improved presence among business customers in Spain will be noticeable for the first time in the current fiscal year.

In total, “Europe and Rest of World” minus the share of the German-speaking countries, accounted for 24% of total revenues. The lion's share was generated in countries in which the MAGIX Group has an established branch office, i.e. France, Italy, the Netherlands and the UK.

In the “USA” region 16% of total Group revenues were generated. Compared to the previous year, revenues increased by 21.2% to EUR 5.7 million. The MAGIX Group therefore achieved its best-ever revenue result on the US market. This growth is partly attributable to the positive development of the video and music software product lines.

Revenues by region (EUR million)



Revenues by Business Segment

Growth was also recorded within the various business segments of the MAGIX Group in the fiscal year. There was, however, evidence of a clear shift to the portal and OEM business. At EUR 9.9 million, an increase of 70.5%, revenues in these segments were well above the group's average growth rate of 30.0%.

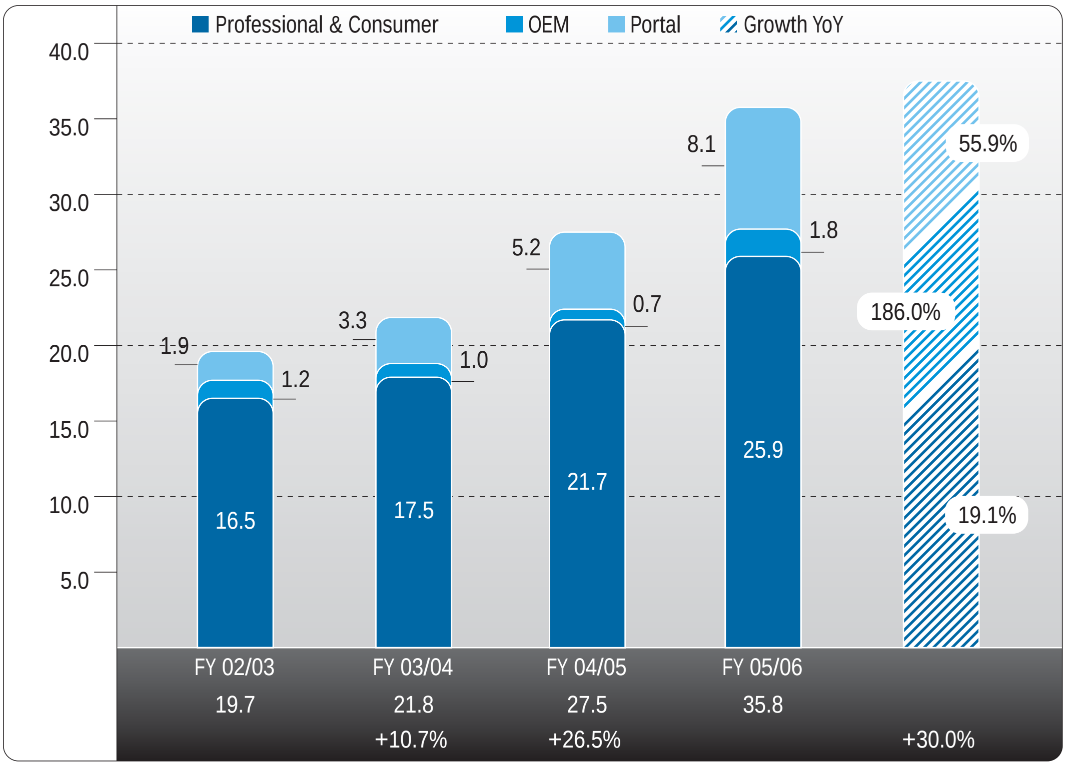
This development shows that, in addition to its traditional software sales business, MAGIX is beginning to establish itself as an Internet service provider. MAGIX's successful cooperation with its OEM and portal partners gives momentum to this trend. The Company successfully expanded business relationships in this segment. For example, for Swisscom the existing online music and video functions were upgraded. The T-Community offer, which has been available on the Internet since CeBIT 2006, was also extended with new functions and features. The Company has been in alliance with a well known PC manufacturer and large German groceries discounter since 2005. Due to the partner's high satisfaction, the photo service provided by MAGIX has been taken up by the Austrian subsidiary of that groceries discounter. The Company also entered into cooperation with freenet.de AG in September 2006. The necessary start-up phase means that effects on revenues are, as with T-Community, not expected until fiscal year 2006/2007.

In addition to its cooperation agreements with business customers, the MAGIX Group also extended its own web portal and related online services. At the end of the reporting period, the MAGIX website was registering 1.2 million visitors and approx. 6 million page views per month. Also, the number of registered users grew constantly. During the fiscal year 1.6 million customers registered with the MAGIX Group. The Company thus generated sustained, organic growth in this segment from 2.66 million to 4.26 million, an increase of 60%. The parent company MAGIX AG acquired the website www.freedb.org in September 2006. This site provides users with free music recognition services. MAGIX will use the site, which currently has around 1.2 million visitors and 11 million page views per month, to market MAGIX's music products and thus generate additional registered users in the future.

At 72.3% and EUR 25,9 million, revenues in the Professional & Consumer segment account for the largest share of total revenues. Compared with the prior-year, there was a 6.6% shift in revenues to the benefit of OEM and portal business. This is attributable to the above-mentioned rapid growth in these segments.

In the second half of the fiscal year, demand for software fell on the German retail market. Market sales figures were down 16.5% (source: GfK Media Control) on the prior year and the decrease for MAGIX products was 15% (source: GfK Media Control). The Company partly compensated for this decrease by improving direct sales figures. Furthermore, revenues increased due to a change in the product mix towards higher-margin software. Overall, the year-on-year increase in revenues in MAGIX's core business came to 19.1%.

Revenues by business segment (EUR million)



Gross Margin

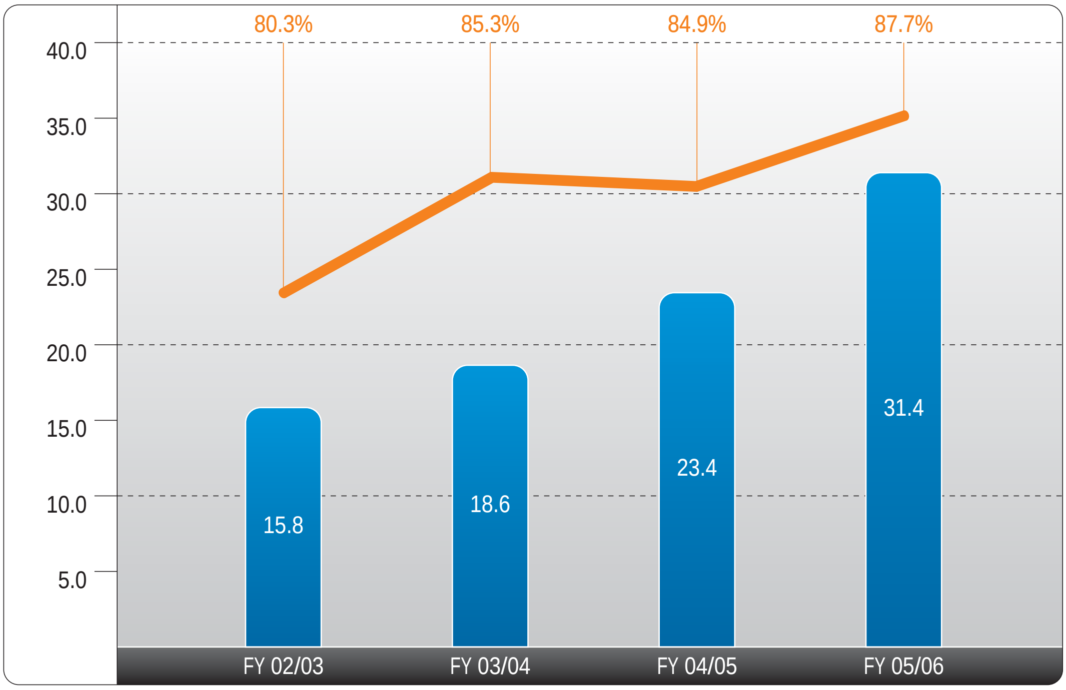
Compared to the prior fiscal year, the already high gross margin once again increased. At 87.7%, it exceeded the prior-year value by 2.8%. In absolute terms, the margin amounted to EUR 31.4 million, a 34.4% improvement on the prior-year value of EUR 23.4 million.

Product costs at MAGIX comprise the cost of packaging materials and third-party licenses for so-called software codecs. All other production steps are performed by MAGIX itself and consequently no other costs are incurred.

The aforementioned software codecs are based on standard media formats, such as the established MP3 format. As it would not make economic sense to develop these functions ourselves, licenses for the use of intellectual property must be paid to use them. At the start of the previous fiscal year, MAGIX changed license agreements to the effect that payments are only incurred if the codec is actually used by the end user. Payments for third-party licenses were therefore reduced considerably.

In addition, the above-mentioned trend towards portal and OEM business led to a reduction in production costs. Packaging costs are lower in these segments. Continued growth in the Portal and OEM segment could therefore further improve the gross margin.

Gross margin (EUR million)



Cost Structure

Operating expenses excluding amortization and depreciation increased by 23.7% to a total of EUR 21.2 million in the fiscal year and were therefore 6.3% below revenue growth.

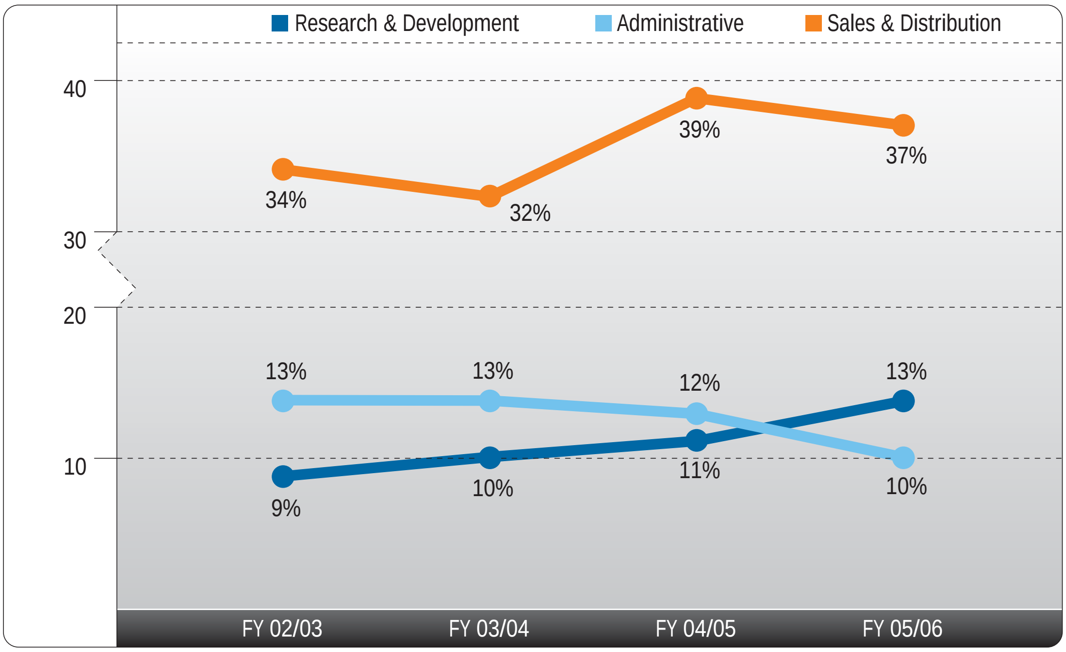
Expenses in the research and development area (R&D) increased by an above average rate of 47.1%. Additional employees were taken on during the reporting period to further expand the Internet services. Growing demand for MAGIX's online solutions led to higher development and customization efforts, which resulted in a constant demand for additional skilled employees throughout the fiscal year. The proportion of R&D costs in revenues thus increased from 11.2% to 12.7%.

On the contrary, costs increased less in the “sales” and “administration” segments. At 21.7% and 8.6% respectively, their year-on-year increase was well below revenue growth. Although marketing costs in the sales segment increased in absolute terms, their share of revenue fell from 17.2% to 16.0%.

Total selling expenses as a proportion of revenue also decreased from 39.0% to 36.5%. Administrative expenses only accounted for 10.2% of revenues in the fiscal year compared to 12.2% in the prior-year period.

Amortization and depreciation increased in the reporting period by 48.9% to EUR 2.3 million. These expenses are mainly related to increased depreciations on capitalized software expenses and intangible assets linked to the 66% equity interest in m2any acquired in the prior fiscal year.

Operating expenses excl. depreciation (in % of revenues)



Earnings

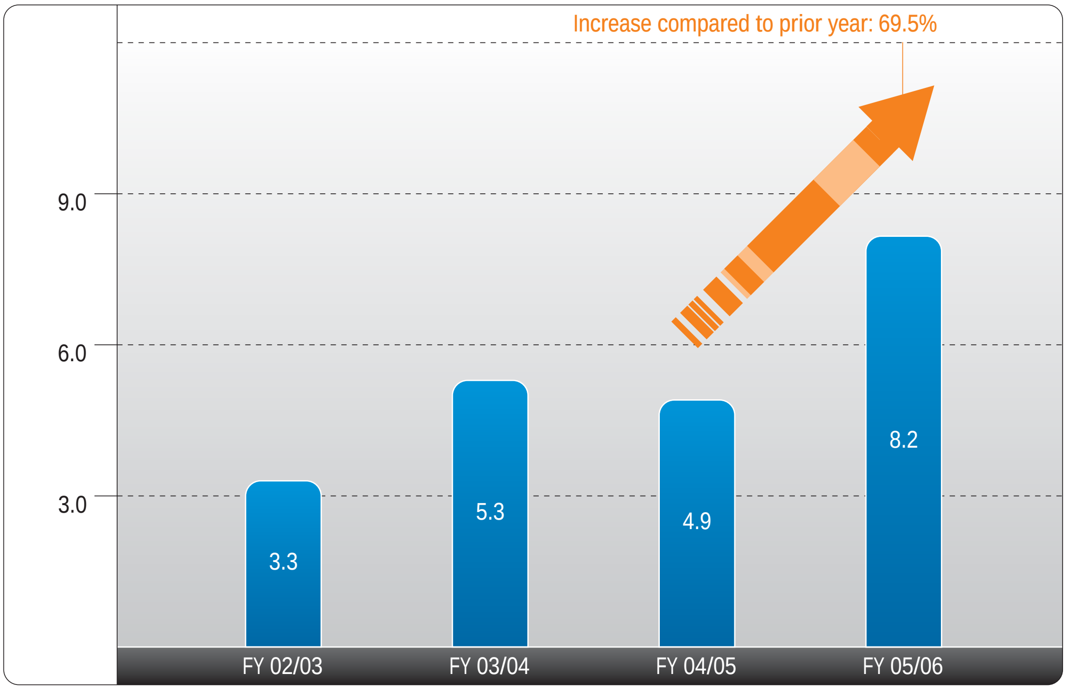
The Group's earnings before interest and taxes improved to EUR 8.2 million after decreasing slightly to EUR 4.9 million in the prior year due to one-off special expenses in the marketing segment. This represents an increase of 69.5%. The EBIT margin thus climbed from 17.6% to 23.0%. This improvement in earnings is primarily due to the increase in the gross margin and decrease in administrative and marketing expenses as a percentage of revenues.

Net income of the Group for the year experienced a similar development. It increased by 61.1%, from EUR 3.2 million in the prior year to EUR 5.1 million.

In the "Europe and Rest of World" region, earnings before interest and taxes increased to EUR 6.9 million, a year-on-year increase of 90.5%.

In order to further strengthen the market position in the US, marketing activities were boosted in the US in the past year. It should be assumed that these marketing expenses will have a similar sustained effect on revenues as such marketing efforts in Europe and the rest of the world. Increased expenses led to a slight drop in earnings before interest and taxes in the US as a percentage of revenues to 23.7%. In absolute terms, however, earnings increased to EUR 1.4 million.

EBIT (EUR million)



Financial and Assets Position

Balance Sheet

The financial position of the Company improved again in the fiscal year.

Not only the initial public offering generated additional capital but also the operating business led to an increase of around EUR 2.3 million in cash and cash equivalents. The balance sheet total came to EUR 57.5 million in the fiscal year compared to EUR 30.4 million in the prior year. The equity ratio excluding minority interests rose from 63% to 78%.

During the course of the initial public offering, common stock of the parent MAGIX AG was increased by 1,350,000 to 12,662,038 shares. Each share's nominal value was EUR 1.00. A total of 4,593,485 shares were offered on the prime standard of the Frankfurt Stock Exchange on April 6. The Company's gross proceeds amounted to EUR 22.1 million. Net of the IPO related expenses of EUR 2.4 million, the MAGIX Group realized an increase in cash and cash equivalents of EUR 19.7 million as a result of the offering.

Trade receivables increased from EUR 6.5 million to EUR 10.4 million in fiscal year 2005/2006. This increase is directly attributable to strong growth in revenues. The Company pursues an active cash collection management. As a result, there were no significant bad debts in the fiscal year.

The Company's non-current assets comprise property, plant and equipment and intangible assets. The MAGIX Group invested EUR 3.8 million in these in the period under review. EUR 0.9 million thereof related to patents, licenses and similar rights acquired from third parties. EUR 1.9 million were invested in software developed by the Company.

With regard to property, plant and equipment of EUR 1.0 million, MAGIX AG mainly invested in technical infrastructure. This expenditure was necessary to cover the constant rise in demand in the fast-growing Portal segment.

Trade payables rose by EUR 1.3 million compared to the prior year. This increase is attributable to the higher number of invoices in the fourth quarter for the production of merchandise and marketing campaigns. At the same time, payment terms were used to a better extend through improved cash flow planning.

Compared with 2004/2005, other liabilities and provisions were largely unchanged. Provisions of EUR 4.6 million are mainly related to potential payments to licensors and bonus payments to retail distributors. Other liabilities comprise current liabilities to the management board and employees. This item also contains EUR 0.6 million attributable to liabilities of m2any GmbH in connection with the acquisition of audio ID patents from Fraunhofer Institut.

Cash Flow

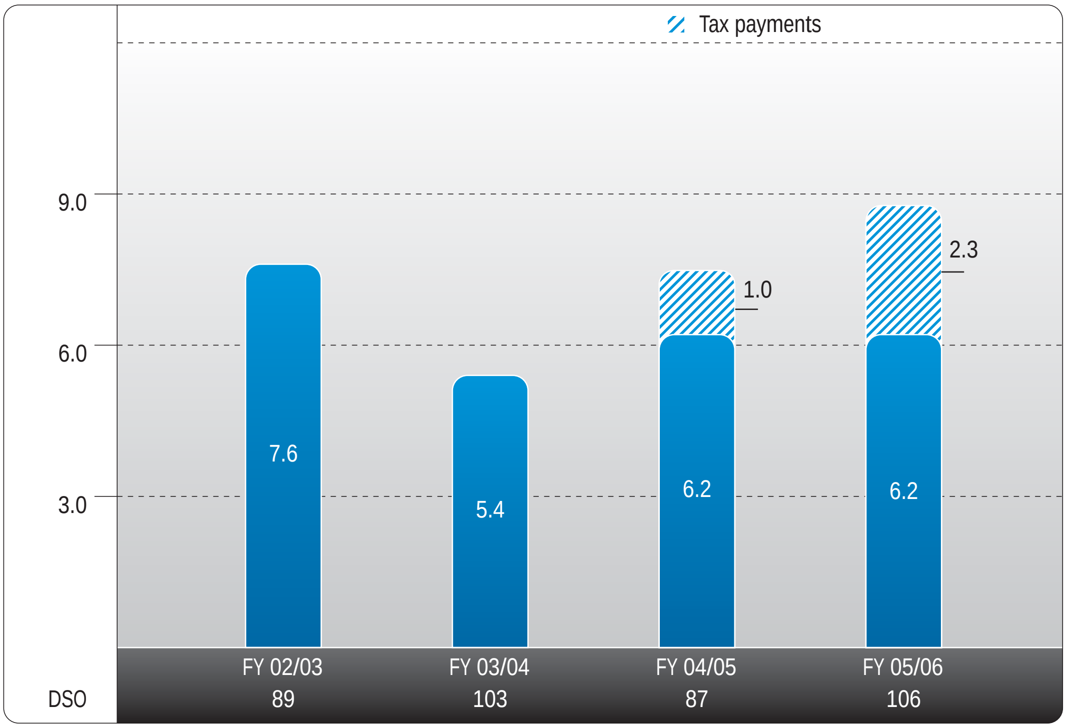
The operating cash flow developed well again and equaled the prior year value of EUR 6.2 million. Higher tax prepayments of EUR 2.3 million prevented a further increase. In the comparative prior-year period, these amounted to only EUR 1.0 million.

Trade receivables also increased. In the US in particular, the average payment terms were extended. In the past, sales were almost exclusively achieved via distributors. In the fiscal year, a number of sales agreements were directly signed with retail chains, which had a positive effect on US sales. In doing so, the usual retail credit terms in the US, which are considerably longer than in Europe, were accepted. Overall, the average credit term therefore increased from 87 to 106 days.

Cash outflow from investing activities rose to EUR 4.4 million compared with EUR 2.6 million in the prior-year period. In addition to regular investments in the Company's system infrastructure, EUR 0.6 million were paid for patents acquired by m2any from Fraunhofer in the prior fiscal year. Another EUR 0.6 million is due in this context and will probably be payable in fiscal year 2006/2007.

Cash flow from financing activities was impacted by the cash injection from the flotation, in the course of which EUR 19.7 million in net proceeds from the issue was generated.

Operating cash flow (EUR million)



Research and Development

The MAGIX Group secured and expanded its excellent position as a provider of technologically sophisticated multimedia software and online solutions in the fiscal year. The continuous further development of the technological environment and the ever-changing demands of end users mean MAGIX's product portfolio must be constantly updated. The Group must adhere to this basic principle to keep its leading position on the market for multimedia applications in the field of personal communication in the future. Headcount at R&D was therefore increased during the reporting period in order to cover new demands. Additional employees primarily responsible for client software development were taken on at the Group company subsidiary, MAGIX Development GmbH, in Dresden. However the majority of new recruits were taken on to meet growing demand in the Portal business of which the development department is located at Company headquarters in Berlin.

A primary focus of product development is the further development of online and mobile services. New functions were also developed for existing programs and new software products launched on the market.

Fiscal year 2005/2006 saw the following key developments:

Online services:

Website Maker 1.0 and Website Maker 2.0 (retail version);
Podcast Service, Blog Service

Software products:

Goya, Movies2Go, Podcast Maker

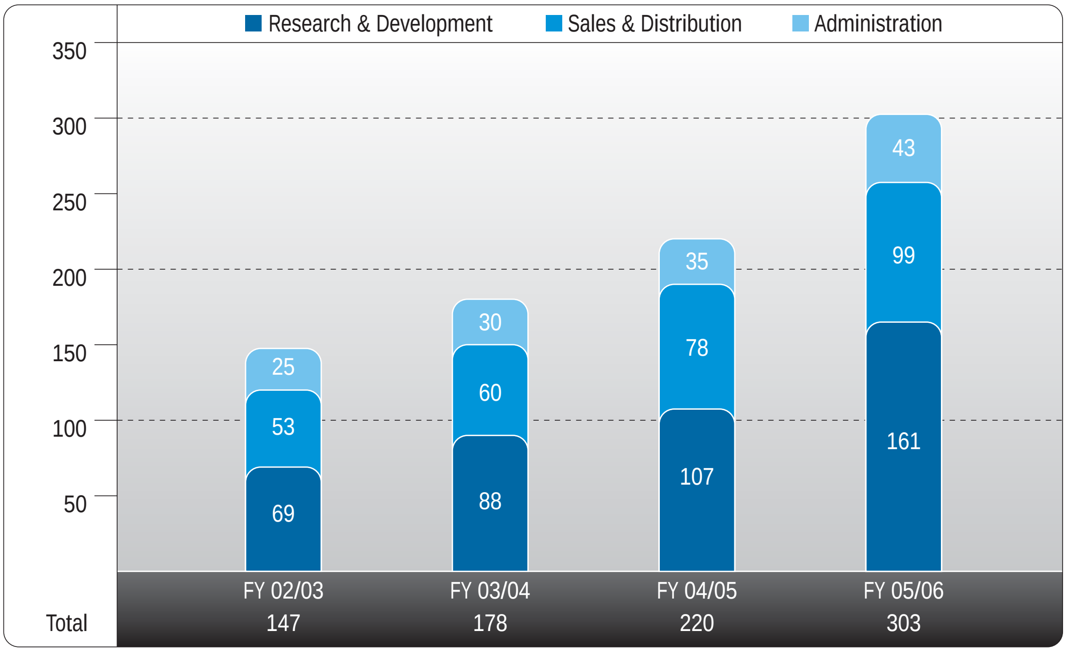
Online services for business customers:

· Development and installation of T-Community, and gradual development of new functions
· Development and installation of photo platform for freenet.de AG
· Swisscom: Enhancement of the Online Photo Album by adding video and music functionality and features

Employees

The Company has an active HR development policy. 83 new employees were taken on at the MAGIX Group in the period under review. This took total headcount to 303 permanent employees. Compared to the prior year, this is a growth rate of 38%. At the end of the prior fiscal year, the Company had 220 employees. The new recruits were taken on above all in research and development and the business development department. 99 employees were employed in sales at the end of the reporting period, 161 in R&D and 43 in administration, including production and logistics. The management board continues to have three members.

Employees as of September 30 of the corresponding fiscal year



As a result of the new recruits, personnel expenses increased by EUR 2.4 million to EUR 9.8 million, up 33.6%.

Group Structure

The following overview shows the structure of the MAGIX Group as of September 30, 2006. There were no changes to the group structure in the fiscal year:

		Shareholding
MAGIX Computer Products International Corp.	Reno, Nevada, USA	100%
MAGIX Entertainment S.A.R.L.	Paris, France	100%
MAGIX Entertainment S.R.L.	Bozen, Italy	100%
MAGIX Entertainment B.V.	Wormer, Netherlands	100%
MAGIX Development GmbH	Dresden, Germany	100%
MAGIX Limited	Hampshire, UK	100%
m2any GmbH	Garching, Germany	66%

Subsequent Events

There were no significant events after the balance sheet date.

Risks

Risk Management

The markets for software products and internet services are subject to a rapid change of technologies and industrial standards. MAGIX's success therefore depends on its ability to predict new trends and developments in time, improve existing products as well as develop and launch new products in time.

These risks are factored into strategic decision-making processes within risk management via the following measures:

- Group financial control prepares variance analyses and short-term plans, which are discussed with the managers involved at regular intervals. Together with the management, it defines key financial and other indicators and continuously monitors compliance.
- The responsible project managers continuously monitor development targets and adherence to project plans using milestones in order to ensure that new functions, products and services are delivered on time.
- In cooperation with the development departments, the HR department ensures that employees benefit from continuous further training and recruits a sufficient number of new employees with the specialist technical knowledge so crucial to the success of the Company.
- The IT department has coordinated and installed contingency procedures to ensure a high degree of stability and security with regard to the availability of the internet portal and online services.
- The legal affairs and IP departments continuously monitor the Company's intellectual property and brand rights and check new developments for violations of property rights relating to the intellectual property of third parties.

The individual areas of the risk management system are combined at management board level and continuously monitored. The management board is regularly informed of any events and results. The system is constantly checked, expanded and adapted to the rapid growth of the Company.

Individual Risks

Shareholders were informed of a variety of possible risks to business activities in the offering memorandum for the initial public offering of MAGIX AG. These risks continue to apply. A selection of the points listed therein is provided below.

Operational Risks

The development of operations in the MAGIX Group is dependent on the general development of the market for personal multimedia communication. Growth in this segment is mainly driven by technological and economic factors, which are checked throughout the Company. The market is relatively young which makes any reliable assessment of future developments more difficult. In addition, the market environment is subject to a high dynamic and thus changes extremely quickly. The MAGIX Group continuously invests in new products and a broad product portfolio. The same applies to tapping new geographical markets and new customer groups. Dependence on developments in specific markets is minimized by offering a wide range of activities in all existing segments. However, the Company expects the vast majority of sales to continue to be focused on the European market, in particular the German-speaking countries, during the fiscal year 2006/2007. Regardless thereof, Company earnings essentially depend on the market success of new products and the mastering of new technological developments.

Competitive Risks

The MAGIX Group's market - the market for personal multimedia communication - is characterized by global competition, which the Company believes will intensify. Some of the current and potential competitors of the MAGIX Group have more extensive financial, technical and human resources as well as more coverage and more users. Some of them currently have better market positions for individual products on certain foreign markets. None of the potential competitors can match MAGIX's comprehensive portfolio, however. The Company therefore rates the risk of a competitor developing a similarly comprehensive and competitive product range in the medium term as relatively unlikely.

Legal and License Risks

The MAGIX Group must conform with the relevant legal framework when developing and selling its products. Any changes to this framework can affect the development and sale of MAGIX products and lead to considerable disadvantages. No changes to the legal framework are identifiable at present.

Due to the nature of the global market, it is possible for the MAGIX Group to unwittingly breach the intellectual property of third parties with its developments. By having the legal affairs department comprehensively check its products, the Company has taken the necessary steps to minimize this risk.

Personnel Risks

The products and services of the MAGIX Group require employees with relevant qualifications in the fields of R&D and sales. Without the right staff, it might not be possible to meet the strategic and economic goals of MAGIX.

Financial Risks

The MAGIX Group is exposed to credit risks with regard to customer requirements and currency risks. The Company concluded a credit insurance policy to hedge credit risks. No hedges are used to secure currency risks. The Company is only exposed to interest rate risks to a very limited extent; therefore, no hedges are used to secure these risks.

Overall Risk

The expansion and internationalization of business inevitably lead to an increase in business risks. Experience has shown, however, that expanding the business model has always strengthened the Company. In the long term, a large portfolio reduces the Company's dependence on individual markets and products. These activities also ultimately lead to a reduction in overall risk.

Furthermore, experience shows that management has perceived and taken sufficient account of the risks to which the Company is exposed.

The Company's risk situation is stable. In the reporting the period, the risks neither individually nor collectively reached the ceiling set by the MAGIX Group to define risks that could potentially jeopardize the Company.

Outlook

Economic Environment

Overall Economy

The strong economic recovery observed in Europe in 2006 is likely to continue this year. At the time this report was prepared, most of the economic forecasts indicated that 2007 would be another good year for the global economy with good growth.

With regard to developments in Germany, however, expert opinions differ. Some assume growth will halve to around 1% due to the increase in VAT. Other experts, in contrast, believe the positive development will continue at a slower rate. The Federal Ministry of Economics predicted growth of 1.4% in its fall forecast. A negative development could have an impact on Group's revenues. Positive consumer behavior is the basic prerequisite for further growth in the Company's key market.

On the US market, growth is expected to continue, albeit at a slightly slower rate than in prior years. If the trade deficit also increases, the result could tip the scales in the negative direction for the US economy. The uncertainty gives rise to strong volatility for the US dollar exchange rate, which poses a potential risk for the MAGIX Group.

Industry

Many market analysts expect the market for multimedia products to grow once again considerably. Although hardware sales are not expected to increase, software and services are expected to gain momentum on the European market in 2007.

This development will be driven by the increasing penetration of broadband internet connections. According to a study by the European Information Technology Observatory (EITO), growth of 2.9% is expected here in Europe. Spain and the UK will be the strongest growth markets with 5.2% and 3.3% respectively. The market for multimedia devices is also expected to experience a sustained upturn.

The sensational success of multimedia communities, such as MySpace or YouTube, and the prevailing pressure on telecommunication companies to tap new business areas also offers an excellent environment for the business activities of the MAGIX Group. Technical innovations, such as internet TV and online blogs will drastically change the media landscape. In addition to old, conventional TV stations and print media, multimedia software and online services are increasingly putting individual users in a position to become providers of digital content themselves.

Retail sales figures for software in Germany decreased slightly in the period under review despite the overall positive trend. It is not yet clear at present whether this is likely to be a sustained trend.

Corporate Strategy of the MAGIX Group

The continuous development of the software platform, the design of the MAGIX iPace online products and services as well as the internationalization strategy were the main factors for the pleasant and profitable growth of the Company in the previous financial year. The business model and growth strategy of the MAGIX Group are in line with the EITO forecasts for the multimedia, e-commerce markets and peer-to-peer (P2P) Internet market segments.

The MAGIX Group plans to continue to grow dynamically in the years to come. This will be achieved in the current fiscal year by investing in organic growth, on the one hand, and through acquisitions, on the other. This strategy focuses on acquiring complementary technologies and expanding the user base by acquiring multimedia online portals or software companies with registered users.

Within the “Europe and Rest of World” region, the Company will strive to maintain its leading positions on the various European markets and, where possible, extend these. The Company sees considerable development potential in France, Spain, the UK and Scandinavia in particular. Furthermore, the Group is conducting intensive negotiations with alternative sales channels in Germany to complement the major specialist stores. By broadening its offering to more channels it is the aim to counter the slight drop in retail sales it is currently experiencing. The Company also plans to expand its market position in Asia by entering into a number of new alliances. For example, in China the Company is in negotiations with several hardware manufacturers to close OEM sales agreements. In Japan negotiations are on-going with several potential distributors. Furthermore in Korea it is planning to build its own online portal which should go online in the fourth quarter.

In the “USA” region, it is intended to place more emphasis on the photo and video segments by means of specially targeted marketing activities, to bring them up to the level of the music software segment.

Regardless of expanding its positions on international markets, the Company's corporate strategy provides for the constant expansion of MAGIX's product portfolio. This involves regularly updating existing products by adding new functions. In addition new products will be released on the market.

The portal business is one of the main growth drivers of the Company and therefore there will be a special focus on offering and developing new online services within the frame of the MAGIX iPACE platform. In addition to a music community via its Group subsidiary, m2any, MAGIX will introduce the Online Desktop at CeBIT 2007, which will be independent of the operating system and offer key PC functionality accessible via the Internet. This will be of particular value to Internet service providers .

Existing cooperation agreements in the portal business segment are to be further expanded in fiscal year 2006/2007 with a special focus on internationalization. Furthermore the MAGIX Group is in Germany as well as internationally in negotiations with portal providers to conclude new partnerships. The initial success of OEM business in Germany in the fiscal year will be carried forward to international markets in this year.

Expected Profit Situation

For the next two fiscal years the MAGIX Group expects to see a positive development of revenues. During the current fiscal year, increased expenditures in R&D for new online services such as MAGIX Online Desktop and Catooh, a new marketplace for digital content, have an impact on the EBIT. Furthermore, investments in the M&A area are planned. The EBIT, however, will continue to be clearly positive for this period. We expect an increase in the EBIT for the following fiscal year.

The Company expects the quarterly revenue distribution in the fiscal year 2006/2007 to be different compared to the previous years. Several initiatives like the above mentioned implementation of new communities, the expansion of partnerships in the portal business and the upgrade potential related to the Windows Vista launch, will result in stronger revenue growth in the second half of the fiscal year. On the other hand the first quarter sales will be slightly behind revenues of last year due to the decreasing software sales in the German retail market. In the portal business the relevant key indicator of registered users is to be continuously increased from its current figure of 4.26 million, whereby the increase in registered users will be supported by the dynamic growth of the portal business.

Expected Financial Situation

Since its initial public offering in April 2006, the Company has had an equity ratio of around 80% and a high level of cash and cash equivalents. No additional financing is therefore planned. There are no immediate plans to distribute dividends.

To further support the organic growth, investments will continue to increase moderately compared to the previous years. The number of sub-contracted software development orders will continue to rise, thus enabling MAGIX to keep its technological edge. In addition more investments will be made in the technical infrastructure.

Operating cash flows will continue to develop positively; however, planned investments and potential acquisitions could lead to a reduction in cash and cash equivalents.

Berlin, January 4, 2007

Jürgen Jaron	**Dieter Rein**	**Tilman Herberger**
Management Board	Management Board	Management Board

The Final Frontier – is unbelievably close
The MAGIX Online Services

"The Internet. The final frontier. These are the online services of MAGIX iPACE, the limitless platform with an ongoing mission: To explore exciting new multimedia worlds, to seek out new creations and new forms in personal communication, to present applications with a single mouse-click, which boldly go where no one has gone before."

Although the television series Star Trek made us dream about exploring space, humans have so far succeeded in merely reaching the moon. It will be some time, therefore, before mankind is able to explore the final frontiers of space. Nevertheless, the last 15 years have seen a very different type of universe emerge; one which, like the "big bang", has developed in an explosive manner, but one whose exploration will be simply one mouse-click away: the Internet. By 2004 alone, there were more than 100 million websites, each a world of itself and each waiting to be explored. These worlds offer up limitless services and – with the growing proliferation of high-speed Internet access – ever more sophisticated multimedia functionalities.

As in the field of software development, MAGIX was once again there at the very beginning and continues to work on the cutting edge for developing innovative technologies relating to multimedia services on the Internet. For a number of years now, more and more users have elected not merely to passively consume content on the Internet, but instead actively redesign the Internet themselves. From the very outset, MAGIX's online services were designed for the phenomenon, which only much later became known as Web 2.0, inasmuch as the Company had always sought to enable users to utilize multimedia content in personal communications.

Thus, for example, MAGIX's Online Album is setting new standards in the presentation of digital photos. Using the various templates, customers are able to publish their images on the Internet in a manner that is both playfully easy and individually tailored. With only a few mouse-clicks, customers are able to integrate photographed highlights from their vacation into an online slideshow or order prints of these images through the Company's Online Print Service. In the expanded version of the Online Album, videos and music may be presented on the Internet. Naturally, customers may also publish their own creations in the MAGIX Community, where like-minded persons can swap their pictures and videos or simply exchange stories about their everyday lives.

The Website Maker enables users to design their own websites without really having to have any special prior expertise. In using the newest flash technology, this program allows users to easily integrate the content of their website using Drag & Drop features or integrate the Blog Service or the Online Album. With the assistance of MAGIX's SecuDrive, users may also save any personal content on a decentralized basis so that they may access their data from any location in the world.

Customers can find suitable content in Catooh, the Online Content Library of MAGIX, in order to carefully design their own websites, cell phones or multimedia presentations. Professionally designed photos, videos as well as music, samples, ring tones and templates may be downloaded from this site. The Online Music Shop also offers users the opportunity to download musical hits, and customers can compile their own desired programs through the Podcast Service.

In addition to the variety of different Internet solutions, another unique feature of MAGIX's products and services is that all its online services are linked to applications for PCs and mobile handsets. Through the direct integration of services, the user is thereby but one click away from the endless opportunities of the Internet and can experience multimedia in a form which he has never experienced before. No other provider of software for photographs, videos or music anywhere in the world is in a position to integrate this large selection of Internet applications directly into its programs. There is also no online service provider currently on the market who is able to offer the prospect of suitably integrating each of its services with a number of seamlessly integrated software products.

In the B2B segment, MAGIX AG also offers its business partners this unique combination of online services and integrated PC/mobile software.

Customers are thereby able to purchase from a single source individually tailored multimedia solutions for themselves, even with graphical modifications if requested. The advantage over customary IT service providers is that MAGIX does not need to program the services first, meaning that the costs for the requisite modifications are low. Since MAGIX also uses the solutions for its own end customers and is constantly improving them, the business partners are also able to routinely share in any technical advances achieved. This allows software manufacturers, IT firms and telecommunication companies to set themselves apart from the competition with MAGIX's comprehensive multimedia package and they are thereby able to better secure their own customers' loyalty.

With its variety of online services, MAGIX is one of the pioneers for using multimedia content on the Internet and in personal communications. The future, however, still offers much more. For example, MAGIX expects to add additional users to its network as a result of its new online community, Mufin, and its knowledge base community forum. The new media service known as "Online Desktop" will give users of any operating system the opportunity of working from any device with internet access in any location in the world as if they were working off their home desktop since they can use a flexible overall view based on discretionary, workflow-optimized services.

At the final frontier of the Internet, it will therefore be possible to continue discovering new opportunities with MAGIX each day.

Consolidated Financial Statements September 30, 2006

Independent Auditor's Report

To MAGIX AG Berlin, January 8, 2007

We have audited the consolidated financial statements prepared by MAGIX AG, Berlin, comprising the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the fiscal year from October 1, 2005 to September 30, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). These standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Gunnar Glöckner
Wirtschaftsprüfer [German Public Auditor]

Lars Wittan
Wirtschaftsprüfer [German Public Auditor]

Consolidated Balance Sheet as of September 30, 2006

ASSETS	Note	Sep 30, 2006 kEUR	Sep 30, 2005 kEUR
Non-current assets			
Property, plant and equipment	(1)	1,501	946
Intangible assets	(1)	8,730	7,805
Loans and receivables (non-current portion)	(2)	0	449
Non-current assets, total		**10,231**	**9,200**
Current assets			
Inventories	(5)	934	788
Trade accounts receivable	(4)	10,379	6,549
Loans and receivables (current portion)	(2)	830	402
Current tax receivables		0	346
Cash and cash equivalents	(3)	35,095	13,148
Current assets, total		**47,238**	**21,233**
Total assets		**57,469**	**30,433**

Consolidated Balance Sheet as of September 30, 2006

EQUITY AND LIABILITIES	Note	Sep 30, 2006 kEUR	Sep 30, 2005 kEUR
Equity attributable to equity holders of the parent			
Common stock	(6)	12,662	11,312
Additional paid-in capital		26,083	6,739
Retained earnings		6,118	885
Currency translation adjustment		89	125
		44,952	**19,061**
Minority interests		1,125	1,228
Shareholders' equity, total		**46,077**	**20,289**
Non-current liabilities			
Other liabilities (non-current portion)		116	138
Deferred tax liabilities	(12)	541	753
Non-current liabilities, total		**657**	**891**
Current liabilities and provisions			
Provisions	(7)	4,616	4,041
Other liabilities (current portion)	(8)	3,334	3,863
Trade accounts payable		2,083	800
Current tax liabilities		702	549
Current liabilities and provisions, total		**10,735**	**9,253**
Total equity and liabilities		**57,469**	**30,433**

Consolidated Income Statement
for the Fiscal Year from October 1, 2005 to September 30, 2006

	Note	Oct 1, 2005 to Sep 30, 2006 kEUR	Oct 1, 2004 to Sep 30, 2005 kEUR
Revenues		35,788	27,531
Cost of goods sold	(9)	-4,386	-4,159
Gross profit		**31,402**	**23,372**
Selling and distribution expenses	(10)	-13,286	-10,960
Administrative expenses	(10)	-3,806	-3,507
Research and development expenses	(10)	-6,464	-4,261
Other income	(11)	384	212
Earnings before interest and taxes		**8,230**	**4,856**
Interest income		495	268
Interest expenses		-12	-13
Earnings before taxes		**8,713**	**5,111**
Income taxes	(12)	-3,583	-1,926
Net income for the year		**5,130**	**3,185**
Attributable to:			
Equity holders of the parent		5,233	3,185
Minority interests		-103	0
Earnings per share (basic)		**0.44**	**0.28**
Earnings per share (diluted)		**0.43**	**0.28**
Average number of shares outstanding		**11,970,394**	**11,312,038**

Consolidated Cash Flow Statement
for the Fiscal Year from October 1, 2005 to September 30, 2006

	Oct 1, 2005 to Sep 30, 2006 kEUR	Oct 1, 2004 to Sep 30, 2005 kEUR
CASH FLOW FROM OPERATING ACTIVITIES		
Net income before income tax	8,713	5,111
Adjustments for:		
Amortization and depreciation on non-current assets	2,303	1,547
Interest income	-495	-268
Interest expenses	12	13
Other non-cash related income	-22	-36
Loss/income from disposal of non-current assets	5	5
	10,516	**6,372**
Change in trade accounts receivable	-3,830	-400
Change in inventories	-146	70
Change in loans and receivables	21	172
Changes in trade accounts payable	1,283	294
Change in provisions	575	1,550
Change in current and non-current liabilities	52	-796
Cash flow from operating activities	**8,471**	**7,262**
Interest paid	-12	-13
Income taxes paid	-2,273	-1,005
Net cash from operating activities	**6,186**	**6,244**
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition, foundation of subsidiaries (net of cash acquired)	0	-45
Cash paid for investments in non-current assets	-4,388	-2,579
Cash received from the disposal of non-current assets	0	30
Interest received	495	268
Net cash used in investing activities	**-3,893**	**-2,326**
CASH FLOW FROM FINANCING ACTIVITIES		
Income from government grants	22	36
Equity increase through the issue of shares	22,140	
Cash paid for IPO costs	-2,472	
Net cash from financing activities	**19,690**	**36**
Foreign exchange differences	-36	-38
Changes in cash and cash equivalents	21,947	3,916
Cash and cash equivalents at the beginning of the period	13,148	9,232
Cash and cash equivalents at the end of period	**35,095**	**13,148**

Consolidated Statement of Changes in Equity
for the Fiscal Year from October 1, 2005 to September 30, 2006

	Shareholders' equity						
	Equity attributable to equity holders of the parent Company						
	Common Stock	**Additional Paid-in-capital**	**Retained earnings**	**Currency translation adjustment**	**Subtotal**	**Minority-interests**	**Total**
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
October 1, 2004	**11,312**	**6,739**	**-2,301**	**231**	**15,981**	**0**	**15,981**
Minority interests					0	1,228	1,228
Currency translation				-106	-106		-106
Net income for the period			3,185		3,185		3,185
September 30, 2005	**11,312**	**6,739**	**885**	**125**	**19,061**	**1,228**	**20,289**
Share capital increase by issue of shares (IPO)	1,350	20,790			22,140		22,140
Offsetting of costs from the IPO		-1,531			-1,531		-1,531
Offsetting of costs from stock option plan		85			85		85
Currency translation				-36	-36		-36
Net income/loss for the period			5,233		5,233	-103	5,130
September 30, 2006	**12,662**	**26,083**	**6,118**	**89**	**45,952**	**1,125**	**46,077**

Notes to the Consolidated Financial Statements as of September 30, 2006

In Accordance with International Financial Reporting Standards (IFRS)

1. General Information on the Consolidated Financial Statements

1.1 Corporate Information

MAGIX AG (or "Company") was founded in 1993 under the name "MAGIX Technology GmbH, München" by Jürgen Jaron, Dieter Rein and Erhard Rein. The Company is filed in the commercial register of the Amtsgericht Berlin (district court) under the number HRB 92600. The Company's registered office is at Friedrichstrasse 200 in 10117 Berlin, Germany.

Together with its subsidiaries (MAGIX Group), MAGIX AG is an international provider of software, online services and digital content for the use of multimedia products and services in the field of personal communication. MAGIX offers private and professional users a technologically sophisticated and user-friendly range of software, online services and digital content for designing, processing, presenting and archiving digital photos, videos and music. MAGIX's products are mainly aimed at private users. MAGIX also sells licenses for professional software to industrial users such as music producers and TV and radio stations. Sales with retail partners are recorded via the Company's own sales companies or distributors in all major countries.

The balance sheet date is September 30, 2006. The fiscal year 2006 covers the period from October 1, 2005 to September 30, 2006.

MAGIX AG has been listed on the Frankfurt Stock Exchange (Prime Standard) since April 6, 2006.

On January 4, 2007, the Management Board released the consolidated financial statements as of September 30, 2006 to the Supervisory Board.

1.2 Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis. Exceptions include cash and cash equivalents, which are reported at fair value (current exchange rate). The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (kEUR) except when otherwise indicated.

The consolidated financial statements of MAGIX AG and its subsidiaries were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable in the EU and amended according to the requirements in Sec.1 315a HGB.

The consolidated financial statements include the financial statements of MAGIX AG and its subsidiaries as of September 30 of each fiscal year. The financial statements of subsidiaries are prepared as of the same balance sheet date as the parent, using consistent accounting policies. All interCompany balances, transactions, income and expenses and profits and losses from interCompany transactions that are included in the carrying amount of assets are eliminated in full. Subsidiaries are consolidated in full on the date of acquisition, i.e. the date on which control is transferred to the Group. Subsidiaries are no longer fully consolidated as soon as the parent loses control over the subsidiary.

The following entities belong to the MAGIX Group and were included in the consolidated financial statements:

		Shareholding
MAGIX Computer Products International Corp.	Reno, Nevada, USA	100%
MAGIX Entertainment S.A.R.L.	Paris, France	100%
MAGIX Entertainment S.R.L.	Bolzano, Italy	100%
MAGIX Entertainment B.V.	Wormer, the Netherlands	100%
MAGIX Development GmbH	Dresden, Germany	100%
MAGIX Limited	Hampshire, United Kingdom	100%
m2any GmbH	Garching, Germany	66%

There were no changes in the structure of the Group during the fiscal year.

1.3 Change in Accounting Policy

The accounting policies adopted are consistent with those of the previous year. In addition the MAGIX Group has applied the new and revised standards that are binding for fiscal years beginning on or after January 1, 2005.

In the consolidated financial statements as of September 30, 2006, exchange losses were reported in other operating income in the consolidated income statement. In prior fiscal years exchange losses were reported in the item for administrative expenses. The change in presentation improves the informative value of the consolidated financial statements, as other operating income now shows exchange gains and losses. The exchange gains and losses are presented in the notes to the consolidated financial statements. The presentation made in the prior year has been adjusted accordingly.

1.4 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies of MAGIX Group, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Intangible assets: MAGIX Group recognized from the acquisition of m2any GmbH intangible assets which are related to the acquired patents and know how. The measurement of the intangible assets bases on the projected cash flows for m2any. The carrying amount of the corresponding assets amounts to kEUR 3,109 as of September 30, 2006 (prior year: kEUR 3,331).

Software development costs: MAGIX Group capitalized software development costs which meet the criteria of an intangible asset and amortizes the capitalized software development costs over the useful life of the software. The capitalized software development costs are tested for impairment based on the planned future sales of the software. The carrying amount of the capitalized software development costs amounts to kEUR 4,419 as of September 30, 2006 (prior year: kEUR 3,836).

Provisions for licenses: MAGIX Group includes third party licenses into several of its products. Calculation and reporting of obligations is prepared mostly after quarter end. Accruals for license fees payable to several third parties are based on revenues recognized by MAGIX Group. The carrying amount of the corresponding provisions amounts to kEUR 3,990 as of September 30, 2006 (prior year: kEUR 3,499).

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed in the notes to non-current assets and liabilities.

2. Summary of Significant Accounting Policies

Foreign Currency Translation

The consolidated financial statements are presented in Euros, which is the Company’s functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

The functional currency of the foreign operations, MAGIX Computer Products International Corp., Reno, Nevada, is the United States Dollar and of MAGIX Limited, Hampshire, is the British Pound Sterling. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of MAGIX AG (the Euro) at the rate of exchange ruling at the balance sheet date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity.

Intangible Assets

Software and Licenses

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised software development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Software and licenses acquired for a consideration and in connection with a business combination include mainly software for office use and licenses used for the development of products or to be included in products. The items included in software and licenses are amortized over their expected useful life between 3 and 15 years.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the MAGIX Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Research and Development Costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on a software development project is recognised only when the MAGIX Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the ability of resources to complete and the availability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related software. The carrying value of software development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

Software development costs include currently the development costs for 5 software platforms. These platforms have proven their technical feasibility and successful sale over the last couple of years. All software development costs are amortized over the expected useful life of 5 years based on sales track records of the previous years and the expected sales periods for the future.

Property, Plant and Equipment

Property, plant and equipment mainly consist of computers, servers, office equipment, leasehold improvements and furniture and fixtures.

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets. MAGIX Group applies useful lives between 3 and 14 years for the items included in property, plant and equipment. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment of Assets

MAGIX Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, MAGIX Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the MAGIX Group's cash-generating units, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of MAGIX Group are assigned to those units. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

The MAGIX Group determines the recoverable amount of its assets on the basis of cash-generating units that – with the exception of the business operations of MAGIX Development GmbH and m2any GmbH originally acquired – correspond to the geographical segments. There were no indications of impairment for the cash-generating units.

Financial Assets/Loans and Receivables

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The MAGIX Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

As of September 30, 2006 and September 30, 2005 all financial assets included in the consolidated financial statements of MAGIX Group have been classified as loans and receivables (including current and non-current portions). Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. MAGIX Group assesses at each balance sheet date whether a financial asset is impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss. MAGIX Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Cash and Cash Equivalents

Cash in the consolidated balance sheet includes bank balances, cash on hand and demand deposits with a term of up to twelve months.

Cash equivalents comprise short-term, highly liquid investments reported at fair value. Measurement adjustments are reported in the income statement.

Trade Accounts Receivable

Trade accounts receivable, which generally have 30-90 days' terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that MAGIX Group will not be able to collect the debts. Bad debts are written off when identified.

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition, excluding borrowing costs are accounted for on a weighted average cost basis (purchase prices of assembled and unassembled finished goods and raw materials). Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Provisions

Provisions are recognised when MAGIX Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Financial Liabilities/Interest Bearing Loans and other Liabilities

Financial liabilities as presented in the consolidated balance sheet of MAGIX Group consist mainly of interest bearing loans and other liabilities. All loans, borrowings and other liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans, borrowings and other liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to MAGIX Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The MAGIX Group does not currently have any finance leases reported on the consolidated balance sheet.

Revenue Recognition

Sales revenues are recognized to the extent that it is probable that the economic benefits will flow to the MAGIX Group and the revenue can be reliably measured. The following specific recognition criteria must also met before revenue is recognized:

Sale of Goods

Revenue is recognized when MAGIX Group has delivered the product to the customer or it is handed over to the shipping agent, depending on the International Commerce Terms applied and the amount is determined to be collectible. For products sold to retail partner's delivery mainly depends on the terms agreed with shipping agents. For products sold to OEM (Original Equipment Manufacturer) partners delivery depends either on the notification by the OEM partner that the product has been shipped or made available to resellers or on the electronical release of the software code by the end customer. MAGIX Group deducts from the product sales with retail partners amounts for which the possibility of rejection or return is probable.

Interest Income

Revenue is recognized as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument (loans) to the net carrying amount of the financial asset.)

Share-based Payments

Employees of the MAGIX Group have been receiving share-based payments in the form of stock options since the fiscal year 2005/06. The stock option plan is basically an option plan which will be fulfilled with equity instruments. The Management Board of the MAGIX Group can also use the option plan to fulfill the stock option plan using treasury shares and/or cash.

The costs incurred from the issue of stock options are measured by reference to the fair value of the stock options granted at the date on which they are granted. The fair value was calculated using generally accepted option pricing models. The costs of issuing stock options are recognized, together with a corresponding increase in equity (capital reserve), over the period in which the performance conditions are fulfilled.

Government Grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments. In fiscal 2005/06, the MAGIX Group received investment subsidies amounting to kEUR 22 (prior year: kEUR 36). The investment subsidies are tied to conditions that the subsidized non-current assets remain in the entity, and the Management Board of the MAGIX Group assumes that these conditions will be met.

Taxes

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred Tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Adoption of IFRSs in the Year

In the prior fiscal year, the MAGIX Group applied in full all standards and interpretations that are binding for fiscal years beginning after January 1, 2005. New standards and interpretation that would have been voluntary in the fiscal year 2005/06 were not applied. The voluntary application of the corresponding standards and interpretation would not have affected the consolidated financial statements and is not expected to have any effects on future consolidated financial statements, as the new regulations deal with issues that are not relevant for the MAGIX Group.

3. Business Acquisitions

Acquisition of m2any GmbH in the Fiscal Year 2004/2005

MAGIX AG acquired 66% of m2any GmbH as of September 27, 2005 for a total cash consideration of kEUR 2,474 (thereof kEUR 2,400 cash consideration to the additional paid-in capital of m2any GmbH). m2any GmbH was founded in 2004 as a spin-off of the Fraunhofer Institute (“FhI”) and develops and sells solutions for music recognition.

The acquisition is presented as follows on the balance sheet date at the time of first time consolidation:

	Recognised on acquisition	Carrying value
	kEUR	kEUR
Assets		
Intangible assets (AUDIO ID technology and patents)	3,331	1,200
Tangible assets (office equipment)	42	42
Cash	30	30
Other assets (receivables due from MAGIX AG)	2,407	2,407
	5.810	**3.679**
Liabilities		
Accounts payables (lpayables due to to FhI)	1,250	1,250
Provisions	9	9
Deferred tax liabilities	828	0
Other liabilities	21	21
	2.108	**1.280**
Fair value of net assets	**3,702**	**2,399**
thereof MAGIX AG share	2,474	
thereof minority interests	1,228	

The non-current assets recognized on acquisition include identifiable intangible assets of kEUR 2,131 which relate to AUDIO ID technology, including related patents and software necessary to run the AUDIO ID technology. The identifiable intangible assets recognized on acquisition will be amortized over a useful life of 15 years. The useful life of 15 years corresponds to the expected useful life of the intangible asset (AUDIO ID technology, including patents and related software) included in the non-current assets at carrying value of kEUR 1,200. The portion acquired prior to the business combination and the portion acquired in the business combination are commonly referred to as intangible asset/AUDIO ID technology and patents.

The net cash outflow for the acquisition of m2any GmbH amounts to kEUR 44 (cash consideration of kEUR 2,474 less outstanding cash consideration of kEUR 2,400 as at balance sheet date less cash acquired of kEUR 30).

Due to the fact that m2any had no major business activities between the period of foundation and the acquisition date there would have been no significant changes to the profit and revenues of MAGIX Group if the combination had taken place at the beginning of the fiscal year.

Foundation of MAGIX Limited in the Fiscal Year 2004/2005

In the prior year, MAGIX AG founded by cash contribution (kGBP 1) MAGIX Limited, Hampshire, Great Britain, as 100% subsidiary. MAGIX Limited will operate as sales channel for MAGIX Group.

4. Segment Reporting

Primary and Secondary Reporting Format

The primary segment reporting format is determined to be geographical segments as the MAGIX Group's risks and rates of return are affected predominantly by differences in the main different geographical regions "Europe and the rest of the world" and "USA". Secondary information is reported based on business segments.

The MAGIX Group's business segments are based on the sales channels used for providing products and services. The "Professional & Consumer" segment supplies large retail partners with the products of MAGIX Group. The retail partners distribute and sell the products of MAGIX Group through their own sales network/channels.

The "Portal" segment includes direct sales of MAGIX Group's products through the Company's own websites or partner websites as well as services and content.

The "OEM business" includes all business activities with OEM partners. These partners combine the MAGIX Group's software products with hardware devices and sell these solutions as bundles to end customers or resellers.

Customers

MAGIX Group has a large and diverse customer base (retail customers, OEM partners, end customers). There were no revenues with single customers that accounted for more than 10% of total net revenues during the years ended September 30, 2006, and September 30, 2005.

Geographical Segments

The following table presents revenue and profit information and certain asset and liability information regarding the MAGIX Group's geographical segments for the years ended September 30, 2006 and September 30, 2005.

	Europe and rest of world		USA		Eliminations		MAGIX Group	
	FY 05/06 kEUR	FY 04/05 kEUR	FY 05/06 kEUR	FY 04/05 kEUR	FY 05/06 kEUR	FY 04/05 kEUR	FY 05/06 kEUR	FY 04/05 kEUR
Revenues								
External revenues	30,064	22,808	5,724	4,723	0	0	35,788	27,531
Internal revenues	3,332	3,188	1,441	888	-4,773	-4,076	0	0
Total revenues	33,396	25,996	7,165	5,611	-4,773	-4,076	35,788	27,531
Income								
Segment result	6,874	3,608	1,356	1,248	0	0	8,230	4,856
Interest income, net							483	255
Taxes on income							-3,583	-1,926
Net income							5,130	3,185
Assets								
Segment assets	56,821	29,806	2,431	1,583	-1,783	-1,302	57,469	30,087
Deferred tax assets							0	0
Current tax credits							0	346
Total assets							57,469	30,433
Liabilities								
Segment liabilities	10,749	8,784	1,194	1,390	-1,794	-1,332	10,149	8,842
Deferred tax liabilities							541	753
Current tax liabilities							702	549
Total liabilities							11,392	10,144
Other information								
Investments*	3,852	5,938	0	2	0	0	3,852	5,940
Amortization/Depreciation	2,290	1,533	13	14	0	0	2,303	1,547

* Investments total and investments for the segment "Europe and rest of world" include investments of kEUR 3.301 for which no cash outflow has occurred until September 30, 2005

Business Segments

The following table presents revenue and profit information and certain asset and liability information regarding the MAGIX Group's geographical segments for the years ended September 30, 2006 and September 30, 2005.

	Professional & Consumer		Portal		OEM		MAGIX Group	
	FY 05/06	FY 04/05	FY 05/06	FY 04/05	FY 05/06	FY 04/05	FY 05/06	FY 04/05
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Revenues	25,869	21,712	8,057	5,168	1,862	651	35,788	27,531
Assets	40,833	23,402	10,804	2,229	5,832	4,456	57,469	30,087
Investments*	2,784	5,736	867	88	200	116	3,852	5,940

* Investments total and investments for the segment "Professional & Consumer" include investments of kEUR 3.301 for which no cash outflow has occurred until September 30, 2005.

5. Notes to the Consolidated Balance Sheet

(1) Intangible Assets and Property, Plant and Equipment

The development of the individual items of intangible assets and property, plant and equipment is shown in the following table (all figures in kEUR):

	Cost					Amortization and depreciation					Carrying amount	
	Oct 1 2004	Additions	Disposals	FX Diff.	Sep 30 2005	Oct 1 2004	Additions	Disposals	FX Diff.	Sep 30 2005	Sep 30 2005	Oct 1 2004
I. Intangible assets												
1. Software and licenses	2,899	3,589	0	0	6,488	2,255	264	0	0	2,519	3,969	644
2. Goodwill	128	0	0	0	128	0	128	0	0	128	0	128
3. Software development costs	4,078	1,771	0	0	5,849	1,075	938	0	0	2,013	3,836	3,003
Total	**7,105**	**5,360**	**0**	**0**	**12,465**	**3,330**	**1,330**	**0**	**0**	**4,660**	**7,805**	**3,775**
II. Property, plant and equipment												
1. Leasehold improvements	17	83	0	0	100	3	3	0	0	6	94	14
2. Office equipment	97	14	0	0	111	41	9	3	0	47	64	56
3. Furniture and fixtures	1,654	483	45	2	2,094	1,119	205	7	-11	1,306	788	535
Total	**1,768**	**580**	**45**	**2**	**2,305**	**1,163**	**217**	**10**	**-11**	**1,359**	**946**	**605**

	Cost					Amortization and depreciation					Carrying amount	
	Oct 1 2005	Additions	Disposals	FX Diff.	Sep 30 2006	Oct 1 2005	Additions	Disposals	FX Diff.	Sep 30 2006	Sep 30 2006	Oct 1 2005
I. Intangible assets												
1. Software and licenses	6,488	587	0	0	7,075	2,519	627	0	0	3,146	3,930	3,969
2. Goodwill	128	0	128	0	0	128	0	128	0	0	0	0
3. Software development costs	5,849	2,258	0	-3	8,104	2,013	1,290	0	0	3,303	4,800	3,836
Total	**12.465**	**2.845**	**128**	**-3**	**15.179**	**4.660**	**1.917**	**128**	**0**	**6.449**	**8.730**	**7.805**
II. Property, plant and equipment												
1. Leasehold improvements	100	200	0	0	300	6	25	0	0	31	269	94
2. Office equipment	111	22	0	0	134	47	13	0	0	60	73	64
3. Furniture and fixtures	2,094	785	107	-3	2,768	1,306	348	42	2	1,610	1,159	788
Total	**2.305**	**1.007**	**107**	**-3**	**3.202**	**1.359**	**386**	**42**	**2**	**1.701**	**1.501**	**946**

The additions to the cost of software and licenses for the fiscal year ending on September 30, 2006 do not include any additions from business acquisitions (kEUR 3,331 for the fiscal year ending on September 30, 2005). The additions to historical costs of furniture and fixtures for the fiscal year ending on September 30, 2006 do not include any additions from business acquisitions (kEUR 42 for the fiscal year ending on September 30, 2005).

(2) Loans and Receivables (current and non-current Portion)

	Sep 30, 2006 kEUR	Sep 30, 2005 kEUR
Licenses and prepaid commission	376	117
Rent deposits	68	52
Loans to related parties	0	521
Other	386	161
	830	**851**
Thereof current portion	830	402
Thereof non-current portion	0	449
	830	**851**

The loans granted to shareholders were repaid in full during the fiscal year.

(3) Cash and Cash Equivalents

	Sep 30, 2006	Sep 30, 2005
	kEUR	kEUR
Fixed term deposits	24,480	0
Bank balances	7,566	13,138
Fund units	3,033	0
Cash	16	10
	35,095	**13,148**

The fund units reported as of September 30, 2006 relate to shares acquired and held as short-term deposits in an investment fund with a daily value date and a re-payment guarantee of the acquisition costs. The shares in this fund show little volatility due to the nature of the investment fund.

(4) Trade Accounts Receivable

	Sep 30, 2006	Sep 30, 2005
	kEUR	kEUR
Due within one year, gross	10,745	7,002
Specific valuation allowances	-366	-453
	10,379	**6,549**

The Company has closed a trade credit insurance, according to which bad debts of specific named customers are covered up to 70% and unnamed customers up to 65%, provided that retention of title has been agreed with the customer.

(5) Inventories

	Sep 30, 2006	Sep 30, 2005
	kEUR	kEUR
Raw materials	824	511
Finished goods	743	546
Valuation allowance on finished goods	-633	-269
	934	**788**

(6) Shareholders' Equity

The issued capital of MAGIX AG amounts to kEUR 12,662 as of September 30, 2006 and is divided into 12,662,038 no par value shares with a notional par value of EUR 1.00 per share.

The following change took place during the fiscal year:
A resolution was passed at the shareholders' meeting of MAGIX AG on March 22, 2006 to increase the common capital of the Company by EUR 1,350,000.00 by issue of 1,350,000 new registered shares with a notional par value of EUR 1.00 per share in return for a cash contribution and excluding existing shareholders' subscription rights.

The capital increase was filed in the commercial register after payment of the cash contributions in connection with the IPO of MAGIX AG on April 5, 2006. A premium of EUR 15.40 per share applied to the shares issued at an issue price of EUR 16.40 per share for the IPO, i.e. a total of kEUR 20,790. The premium was added to the additional paid-in capital. Costs of kEUR 1,531 were incurred as a direct result of the IPO (after taking tax effects into account) that were offset against the premium.

Authorized Capital

By resolution dated March 22, 2006, the shareholders' meeting of the Company also authorized the Management Board to increase the issued capital of the Company in the period up until March 22, 2011, once or several times, subject to the approval of the Supervisory Board, in return for cash contributions or contributions in kind by up to a total of EUR 6,331,019.00 by issue of new registered shares with an imputed share in the issued capital of EUR 1.00 per share. This authorization takes effect upon filing in the commercial register. Once the entry is made in the commercial register, the Management Board is also authorized, subject to the approval of the Supervisory Board, to decide to exclude the statutory subscription rights of the shareholders. However, subscription rights can only be excluded

- to offset fractional amounts,
- if the issue price of the new share is not substantially below the stock exchange price and the shares issued under exclusion of the subscription right pursuant to Sec. 186 (3) AktG ["Aktiengesetz": German Stock Corporation Act] do not exceed a total of 10% of the issued capital,
- to issue shares to persons that are in an employment relationship with the Company or one of its affiliated entities, and
- to obtain contributions in kind, in particular in the form of equity investments, entities or parts of entities.

The Management Board was also authorized at the shareholders' meeting to determine the further content of the share rights and the conditions of share issue with the approval of the Supervisory Board.

Conditional Capital

A resolution was passed at the shareholders' meeting on January 19, 2006 to increase the issued capital of the Company conditionally by up to EUR 700,000.00 by the issue of new shares, namely by issuing up to 700,000 registered shares with an imputed share in issued capital of EUR 1.00 each. The conditional capital increase serves solely to grant up to 700,000 subscription rights (stock options) to members of the Management Board of the Company and to employees of the Company as well as to managing directors and employees of group entities pursuant to the authorization for the 'stock option plan 2006' passed at the shareholders' meeting on January 19, 2006. 316,500 stock options were issued under this stock option plan up until the cut-off date of these financial statements.

(7) Provisions

The following table shows the development of the provisions:

	Sep 30, 2005	Utilization	Addition	Sep 30, 2006
	kEUR	kEUR	kEUR	kEUR
Licenses	3,499	-248	739	3,990
Bonuses/vouchers	497	-485	584	596
Legal counsel	45	-45	30	30
	4,041	**-778**	**1,353**	**4,616**

The provisions concern license fee obligations for third-party software used in MAGIX Group's products. Accruals for license fees payable to several third parties are based on revenues recognized by MAGIX Group. One licensor currently claims royalty payments for alleged past licensing periods. The legal basis of these claims is controversial and remains doubtful as of today. Should the licensor succeed to justify his assertions, the provisions would be partially consumed by the liability claims.

The provision for bonus and vouchers are performance-based annual bonus for distributors and issued but not yet submitted vouchers by end customers.

The provision for legal and consulting expenses include legal fees and potential financial risks.

The provisions only consist of short-term portions.

(8) Other Liabilities

Other liabilities (current portion) include an amount of kEUR 600 payable by the subsidiary m2any GmbH in connection with the acquisition of Audio ID patents from FhI.

6. Notes to the Consolidated Income Statement

(9) Cost of Sales

	FY 05/06	FY 04/05
	kEUR	kEUR
Raw materials	2,728	2,468
Licenses	1,679	1,802
Other	-21	-111
	4,386	**4,159**

(10) Operating Expenses

	FY 05/06 kEUR	FY 04/05 kEUR
Selling and distribution expenses		
Personnel expenses	4,543	3,547
Marketing expenses	5,724	4,738
Depreciation, amortization and write-downs	223	227
Other expenses	2,796	2,448
	13,286	**10,960**
Administrative expenses		
Personnel expenses	1,875	1,670
Depreciation, amortization and write-downs	156	146
Other operating costs	93	124
Other expenses	1,682	1,567
	3,806	**3,507**
Research and development expenses		
Personnel expenses	3,404	2,135
Depreciation, amortization and write-downs	1,924	1,174
Other expenses	1136	952
	6,464	**4,261**
	23,556	**18,728**

Personnel expenses total kEUR 9,822 for the fiscal year 2005/2006 (kEUR 7,352 for the fiscal year 2004/2005). Depreciation and amortization total kEUR 2,303 for the fiscal year 2005/2006 (kEUR 1,547 for the fiscal year 2004/2005).

Exchange losses of kEUR 356 were reclassified from the administrative expenses/other operating costs to other operating income for the fiscal year 2004/2005.

(11) Other Income

	FY 05/06 kEUR	FY 04/05 kEUR
Exchange gains	367	393
Exchange losses	-260	-356
Other	277	175
	384	**212**

(12) Taxes on Income and Deferred Taxes

The income tax expense can be broken down by source as follows:

	FY 05/06 kEUR	FY 04/05 kEUR
Current income tax expense	-3,795	-1,812
Deferred tax expense	212	-114
thereof from temporary measurement differences	90	245
thereof from (un)used tax losses	122	-359
Income tax expense	**-3,583**	**-1,926**

The theoretical tax expenses on the basis of earnings before taxes of EUR 8,713 (prior year: kEUR 5,111) and the applicable tax rate of 38.8% (considering 25.0% coporate tax rate, solidarity surcharge on coporate tax rate of 5.5% and effective municipal trade tax rate of 13.4%) are reconciled with the current tax expense as follows:

	FY 05/06 kEUR	FY 04/05 kEUR
Earnings before taxes	8,713	5,111
Average tax rate	38.80%	38.80%
Theoretical income tax expense	-3,380	-1,984
Use of tax losses carried forward	0	359
Impairment of goodwill and other permanent differences	0	-50
Other	-203	-251
Income tax expense	**-3,583**	**-1,926**

Deferred tax assets and liabilities from temporary differences between the carrying amounts and the tax base of assets and liabilities are shown below:

	FY 05/06 kEUR	Tax expense/income kEUR	FY 04/05 kEUR
Deferred tax assets			
Unused tax losses	140	140	0
Timing differences between entries			
· Elimination of interCompany profits	374	102	272
	514	242	272
Deferred tax liabilities			
Timing differences between entries			
· Intangible assets in connection with a business acquisition	-772	57	-829
· Exchange differences	-147	-67	-80
· Valuation allowances on loans to affiliated entities	-123	-7	-116
· Cash equivalents	-13	-13	0
	-1,055	**-30**	**-1,025**
Deferred tax liability, net	**-541**		**-753**

Deferred tax assets are written down if realization is not probable. There were no longer any unused tax losses in the parent as of September 30, 2006. The tax benefits from unused tax losses at the English, French and Dutch subsidiaries (kEUR 226 in total) were not recognized. The tax benefits on the unused tax losses of m2any GmbH were recognized in full on the basis of the tax planning of the subsidiary, which provides for positive taxable income within the next couple of fiscal years.

(13) Earnings per Share

Net income attributable to the equity holders of the parent divided by the weighted average number of common shares outstanding is used for the calculation of the basic earnings per share.

For the calculation of the diluted earnings per share the net income attributable to the equity holders of the parent is divided by the weighted average number of common shares outstanding plus the weighted average number of common shares which are issued after the potential conversion of options into common shares.

The following table shows the numbers used for the calculation of the basic and diluted earnings per share.

	FY 05/06 kEUR	FY 04/05 kEUR
Net income attributable to the equity holders of the parent	5,233	3,185
Weighted average number of common shares used for the calculation of the basic earnings per share	11,970	11,312
Dilution effect: Share options	131	0
Weighted average number of common shares adjusted for the dilution effect	12,101	11,312
Earnings per common share (basic) in EUR/share	**0.44**	**0.28**
Earnings per common share (diluted) in EUR/share	**0.43**	**0.28**

There were no transactions with common shares or potential common shares in the period between the balance sheet date and approval of the consolidated financial statements.

7. Other Notes

Share-based Payments

The stock option plan introduced in 2005/2006 provides for the issue of a total of 700,000 subscription rights to four different groups of employees in the MAGIX Group at the following conditions:

The subscription rights will be issued to holders in annual tranches within a period of four years from the date of entering the conditional capital in the commercial register. The first tranche cannot exceed 50% of the total volume and the remaining tranches cannot exceed 30% of the total volume. Each of the individual tranches of the subscription rights will be issued within a period of two months of the Company's annual general meeting. In the first fiscal year 2005/2006, the period commences on the date the conditional capital is filed in the commercial register and ends one month after the date on which the shares are listed on a stock exchange for the first time.

As far as the subscription rights are concerned

- one third can be exercised at the earliest after two years,
- a further third can be exercised at the earliest after three years, and
- the rest can only be exercised after four years

from the date of issue of the respective tranche.

Subscription rights can be exercised within three years of the end of the vesting period and lapse at the end of the corresponding period.

The subscription rights can only be exercised within ten trading days of the date of the annual general meeting of the Company or of the publication of a report from the Company on the business development in the second or third quarter of a fiscal year.

The subscription rights can only be exercised if the average closing rate of the Company's share in electronic trading on the Frankfurt Stock Exchange during the twenty trading days preceding the respective exercise period has risen by an average of at least 0.8% per full month on the subscription price since the subscription rights were issued until the beginning of the exercise period.

To the extent that the shares are purchased by exercising subscription rights that were issued prior to the date of first-time listing of the Company's shares on a stock exchange or within a period of one month from this date, the subscription price payable by the holders for the acquisition of the shares corresponds to the placement price set in the course of the first-time listing (EUR 16.40), or otherwise to the average closing rate of the Company's share in electronic trading on the Frankfurt Stock Exchange during the ten trading days preceding the issue date of the subscription right.

The shares purchased after the options are exercised have full voting rights and dividend entitlements.

The Company is entitled to fulfill its obligations to issue shares after exercising of the subscription rights either by issue of shares from the conditional capital created for this purpose, by sale of treasury shares or by payment of the difference per share between the subscription price and the average closing rate of the Company's shares in electronic trading on the Frankfurt Stock Exchange during the ten trading days preceding the exercise of the subscription right. If fulfillment takes the form of paying the difference, the holder is no longer obliged to pay the subscription price.

The Management Board of the Company currently assumes that the stock options will be fulfilled by issuing shares from the conditional capital and use will only be made of the option to pay a settlement in cash in cases where it is not legally possible to grant subscription rights (foreign entities of the MAGIX Group).

A total of 319,500 subscription rights were issued for the first time in the fiscal year 2005/2006. 3,000 of those options lapsed by September 30, 2006, and the number of subscription rights issued as of September 30, 2006 amounts to 316,500 options.

The following parameters were used in the Black Scholes model to measure the options:

	2006
Average share price	EUR 13.40
Average strike price	EUR 16.40
Expected volatility	35% p.a.
Expected duration	3 years
Risk-free interest rate	4%
Expected dividend	0% p.a.

Expected volatility was determined using a comparison with a peer group of companies, as there was no historical information on the MAGIX Group. The expected life used in the model was adjusted by management according to the best estimate in order to take into account the special aspects of employee options, in particular non-transferability, the restriction on exercise and the remuneration character.

Financial Risks

Credit Risks

The Company has to deal with the usual credit risks. For the distributors with a defined annual volume the risks are covered through a trade credit insurance, which puts limits on the goods to be delivered and outstanding invoices. The Company does not depend on a single or group of companies where a significant amount of credit risk is concentrated.

Interest Risks

Interest rate fluctuations do not affect the Company due to the lack of interest bearing loans or borrowings.

Foreign Exchange Risks

Foreign exchange risks are related to the international positioning of the Company and its foreign subsidiaries. The MAGIX Group does not use financial instruments/derivatives to cover the foreign exchange risk.

Related Party Transactions

Foreign exchange risks are related to the international positioning of the Company and its foreign subsidiaries. The MAGIX Group does not use financial instruments/derivatives to cover the foreign exchange risk. The following transactions were carried out with related parties of the MAGIX Group:

Management Board of MAGIX AG:

Jürgen Jaron	Berlin	(shareholder and member of Management Board)
Dieter Rein	Berlin	(shareholder and member of Management Board)
Tilman Herberger	Dresden	(shareholder and member of Management Board)

Ongoing remuneration for the members of the Management Board for the fiscal year 2005/2006 amounts to:

	Jürgen Jaron kEUR	Dieter Rein kEUR	Tilman Herberger kEUR	Total kEUR	Previous year kEUR
Fixed remuneration	154	167	114	435	435
Profit-based remuneration	236	236	170	642	402
Total	390	403	284	1.077	837

Management Board members were also granted stock options as part of the new stock option plan. The fair value of stock options granted to Management Board members amounts to kEUR 60, of which EUR 20 k was posted as an expense in the fiscal year 2005/06.

Supervisory Board of MAGIX AG:

Mr. Karl Heinz Achinger, business consultant, Munich (chairman of the Supervisory Board)
Dr. Peter Coym, banker, Frankfurt/Main (deputy chairman of the Supervisory Board)
Mr. Dierk Borchert, auditor, Frankfurt/Main (member of the Supervisory Board)

The remuneration for members of the Supervisory Board amounts to kEUR 90 in the fiscal year 2005/2006 (prior year: kEUR 36). Supervisory Board members were not granted any stock options.

Mr. Karl Heinz Achinger is a member of the Supervisory Boards of the following companies:

· eps, Unterföhring, Germany
· RWE Systems AG, Dortmund, Germany
· Software AG, Darmstadt, Germany
· TDS Informationstechnologie AG, Neckarsulm, Germany
· teleson AG, Munich, Germany
· iGate Global Solutions Ltd., Bangalore, India

Dr. Peter Coym and Mr. Dierk Borchert are not members of any other Supervisory Boards.

Other related Parties:

- Titus Tost, Dresden (shareholder)
- Erhard Rein, Rahden (shareholder)
- 3i Group Investments LP, London (shareholder)
- 3i Europartners III LP, London (shareholder)
- tbg Technologie Beteiligungs GmbH, Bonn (shareholder)
- Future GmbH, Munich (100% owned by the shareholders Jürgen Jaron and Dieter Rein)
- Presto Capital Management GmbH & Co. KG, Berlin (100% owned by the shareholders Jürgen Jaron and Dieter Rein)
- MN Soft (100% owned by Michael Niermann, an employee of MAGIX Computer Products International Corp., Reno, Nevada, USA)
- Erso Media GmbH, Berlin (100% owned by the shareholder Erhard Rein)

	FY 05/06	FY 04/05
	kEUR	kEUR
Revenue of Future GmbH with MAGIX AG	2,317	1,812
Revenue of MN Soft with MAGIX Computer Products International Corp.	1,271	959
Revenue of MAGIX AG with MN Soft	1,258	952
Revenue of Erso Media GmbH with MAGIX AG	194	0
Revenue of MAGIX AG with Erso Media GmbH	107	0
	Sep 30, 2006	Sep 30, 2005
	kEUR	kEUR
Liabilities to Future GmbH	612	108
Liabilities to Erso Media GmbH	189	0

Notes Pursuant to Sec. 160 (1) No. 8 AktG

On September 19, 2006, MAGIX AG reported a notice from DWS stating that its holding fell below 5% of the shares in MAGIX.

On June 29, 2006, MAGIX AG reported a notice from DWS stating that its holding exceeded 5% of the shares in MAGIX.

On May 20, 2006, MAGIX AG reported a notice from the 3i Group stating that its holding exceeded 10% of the shares in MAGIX.

On April 26, 2006, MAGIX AG reported a notice from the 3i Group stating that its holding fell below 10% of the shares in MAGIX.

On the same day, MAGIX AG reported a notice from Mr. Jürgen Jaron that his share amounted to 60.50% on the first date of recording, with the shares of Mr. Dieter Rein and Presto Capital Management GmbH & Co. KG allocated to him in full, and that this share had fallen to 45.78% as a result of the IPO.

On the same day, MAGIX AG reported a notice from Mr. Dieter Rein that his share amounted to 60.50% on the first date of recording, with the shares of Mr. Jürgen Jaron and Presto Capital Management GmbH & Co. KG allocated to him in full, and that this share had fallen to 45.78% as a result of the IPO.

On the same day, MAGIX AG reported a notice from Presto Capital Management GmbH & Co. KG that its share amounted to 60.50% on the first date of recording, with the shares of Mr. Jürgen Jaron and Mr. Dieter Rein allocated to it in full, and that this share had fallen to 45.78% as a result of the IPO.

On the same day, MAGIX AG reported a notice from Presto Capital Verwaltungs GmbH that its share amounted to 60.50% on the first date of recording, with the shares of Mr. Jürgen Jaron and Mr. Dieter Rein allocated to it in full, and that this share had fallen to 45.78% as a result of the IPO.

On July 21, 2006, July 20, 2006, July 19, 2006, July 10, 2006, July 7, 2006, July 6, 2006, July 5, 2006, June 30, 2006 and June 29, 2006, MAGIX AG reported that the Management Board members Jürgen Jaron and Dieter Rein purchased a total of 83,000 MAGIX shares via their investment Company Presto Capital Management GmbH & Co. KG. MAGIX AG also reported that Presto Capital Management GmbH & Co. KG sold 1,864,000 MAGIX shares on April 10, 2006 in the course of the replacement.

MAGIX AG also reported that Tilman Herberger, a member of the Management Board, sold 75,000 MAGIX shares on April 10, 2006.

MAGIX AG also reported that the chairman of the Supervisory Board, Mr. Karl Heinz Achinger, bought 5,000 MAGIX shares on April 6, 2006, sold 2,500 MAGIX shares on June 1, 2006 and bought 2,500 MAGIX shares on June 8, 2006.

Finally, MAGIX AG reported that Mr. Dierk Borchert, a Supervisory Board member, bought 2,500 MAGIX shares on April 6, 2006.

Other Financial Obligations

The obligations from rent and lease agreements primarily include the rent agreements for the offices and lease agreements for various hardware and software components. The following payments will fall due for non-cancelable rent and lease agreements in future fiscal years:

	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
	kEUR	kEUR	kEUR	kEUR	kEUR
Rental agreements	798	726	726	734	692
Leases	374	142	29	0	0
Other agreements	315	200			
	1.487	**1.068**	**755**	**734**	**692**

There are other financial obligations after the fiscal year 2010/2011 from lease agreements in Germany and Italy.

Employees

Per September 30, 2006 the MAGIX Group employed 303 (previous year 220) employees.

Corporate Governance

MAGIX AG submitted the declaration of compliance pursuant to Sec. 161 AktG in December 2006. It is constantly available to shareholders on the homepage of MAGIX AG (www.magix.com) under Investor Relations.

Auditor's Fees

In the fiscal year 2005/2006 the following fees were recorded for the auditors, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft:

· Audits of financial statements (kEUR 72.5)
· Other assurance services (kEUR 218)

Consolidated Financial Statements

The Company is publicly listed in the Prime Standard on the Frankfurt Stock Exchange (WKN 722078). The Company prepares consolidated financial statements in accordance with international accounting standards pursuant to Sec. 315a HGB.

Subsequent Events

There were no significant events after the balance sheet date.

Profit Appropriation at MAGIX AG (separate Financial Statements under Commercial Law)

The Management Board proposes that the retained earnings under commercial law of MAGIX AG of EUR 7,383,360.51 be carried forward.

Berlin, January 4, 2007

Jürgen Jaron	**Dieter Rein**	**Tilman Herberger**
Management Board	Management Board	Management Board

Moving Pictures
The MAGIX Photo and Video Solutions

The two Frenchmen, Joseph Nicéphore Niepce and Louis Daguerre, could never have imaged the impact their invention might someday have. In the 19th Century, these two developed the technical and chemical process for recording images. Although electronics and later digitalization radically changed these new processes, the criteria for successful photography and filmmaking have remained the same over the past two centuries:

Themes, which are worthy of recordation, and a public, which enjoys viewing such renderings.

Although the subject matter in front the lens has not changed much over the years, the manner in which those pictures are presented has undergone changes, which are almost as radical as those taking place in recording technology. While in the past only a few selected individuals had the means to view such work, today the entire world is watching. In light of these transformations, it is crucial that enterprises in this business identify new trends as early as possible and design their products around such trends. MAGIX's Photos on CD & DVD has for years been one of the Company's most popular products and has had a permanent impact on how images are consumed. The possibility of enhancing recordings (e.g. with music or stylish effects), burning them on DVDs and presenting them in the form of a multimedia show either at home or at more public venue has already captivated a great number of users.

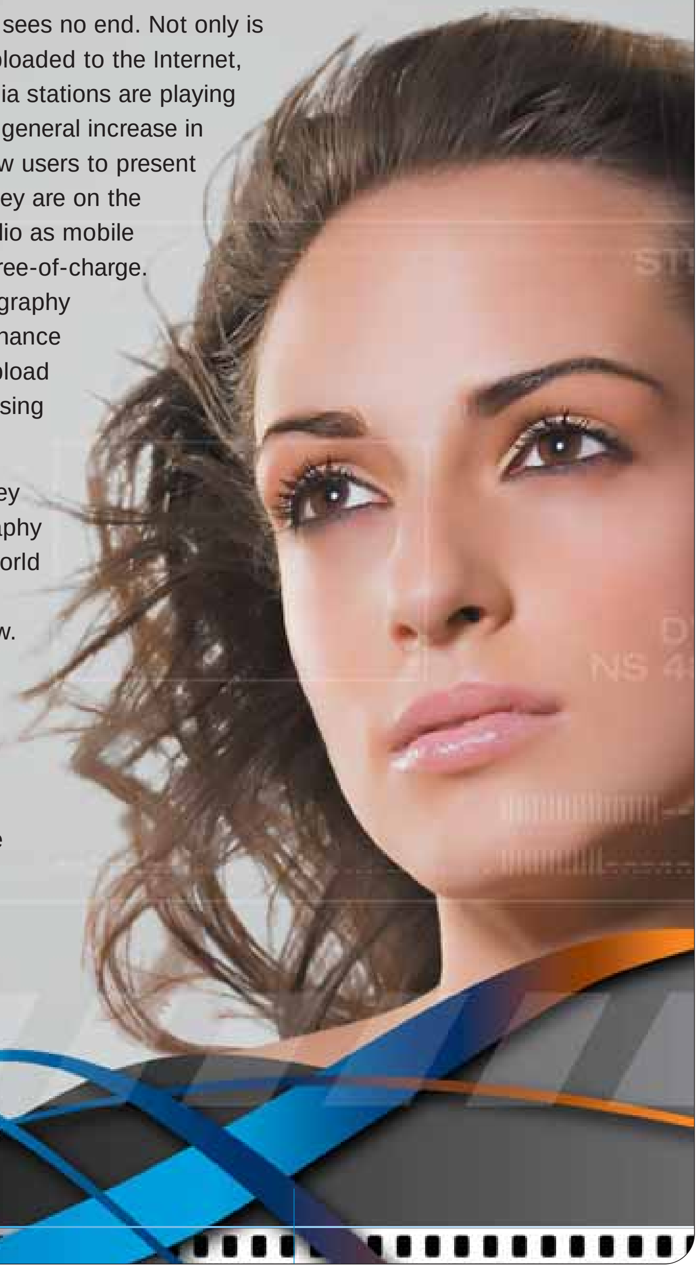
Since the digital photo revolution has generated a tremendous volume of image data, there has been a renewed need for and focus on archiving. To this end, MAGIX has developed clever new identification methods, which assist programs such as the Digital Photo Maker in bringing order to the visual chaos of the hard drive. For example, the FaceID product, which was developed by the Fraunhofer Institut für Digitale Medientechnologie (IDMT), automatically recognizes faces on photos. By classifying persons, this function supports the user by providing ever more precise suggestions and by saving all names (including the portrait) in a person's own index file. As with other MAGIX programs, procedures are used here which are capable of intelligently editing and classifying the ever-increasing volume of multimedia content.

The moving images sector has also undergone some stunning developments over the years. One hundred years have passed since the age of silent films, the emergence of sound and color film, the launch of VHS, and finally the digital film experience with its near perfect picture and audio recording quality. Although we have no way of knowing today where image recording is heading over the next one hundred years, one thing is for sure: without moving pictures, nothing can be done. Whether the cameraman is young and equipped with the most modern handheld digital recorder or older and accompanied by a video camcorder, almost every image he captures today will be digitally retained for the ages.

Moreover, the greater the number of digital films created, the stronger the need will be to share with others the experiences captured therein. Even shaky amateur films have their charm. Ultimately, however, each filmmaker – whether young or old, professional or amateur – seeks to move his or her audience with emotive image material. MAGIX Movie Edit Pro is the ultimate tool for enhancing the quality of the filmmaker's own recordings using the simplest editing procedures and without having to have any prior technical expertise. With its software packages, which this year again garnered numerous awards and enjoy glowing reviews from not merely the trade journal editors, MAGIX offers every product and service which permits filmmakers to celebrate their films, whether by sharing them with friends or uploading them to portals such as YouTube and MySpace.

The boom in moving and still images sees no end. Not only is more and more film material being uploaded to the Internet, but portable devices and mobile media stations are playing an increasingly greater role given the general increase in our society's mobility. In order to allow users to present and manage their data, even when they are on the road, MAGIX offers parts of its portfolio as mobile editions, which can be downloaded free-of-charge. The Mobile Photo Suite allows photography enthusiasts of all ages to edit and enhance their camera phone images and to upload such images directly to the Internet using their mobile phones.

Pictures move people even before they learn to walk, and for many, photography will be their first introduction to the world of multimedia. Yet even the share in amateur filmmaking continues to grow. Modern technology – such as multimedia handheld recorders and digital cameras – allows people to record on the move. MAGIX offers people the suitable product tools for global presentations – from any place and at any time.



Corporate Governance Report

Except for the points listed below, MAGIX AG complies with the recommendations of the German Corporate Governance Code, which was enacted by the Government Commission on the German Corporate Governance Code ("Regierungskommission Deutscher Corporate Governance Kodex") on 26 February 2002 and most recently amended on 12 June 2006 (hereinafter referred to as the "Code").

The Management Board and Supervisory Board support the principle of good and responsible Company management as stipulated in the Code. The recommendations and spirit of the Code were implemented to the extent they appeared appropriate with respect to MAGIX AG.

MAGIX AG currently does not adhere to the following recommendations:

- Age limits for Management Board members (Code, Section 5.1.2). Given the current ages of the members of MAGIX AG's Management Board, this provision is deemed unnecessary at this time.
- Creation of Supervisory Board committees (Code, Sections 5.3.1, 5.3.2 of the Code). Since the MAGIX AG Supervisory Board consists of three members, the creation of committees is not possible.
- Establishment of a performance-linked remuneration scheme for the Supervisory Board (Code, Section 5.4.7). The Company believes that the Supervisory Board will better discharge its statutory role as an independent supervisory body if its compensation is not linked to the Company's success since the Board's impartiality will be better guaranteed by not linking performance and remuneration.
- Publication of the consolidated financial statements and interim reports within the time periods set forth in the Code (Code, Section 7.1.2). The Company shall initially publish unaudited quarterly and annual results within the deadline periods stated in the Code. The Company believes, however, that with respect to the consolidated financial statements and interim reports, the requirements for enterprises listed on the Prime Standard are adequate.

Stock currently held by Members of the Management and Supervisory Boards

At the time this publication went to press, the members of the Company's governing bodies held the following shares:

Management Board	Number of shares held	Shares in %
Jürgen Jaron	1,500,250	11.85
Dieter Rein	1,500,250	11.85
Tilman Herberger	225,000	1.78
Presto Capital Management GmbH & Co. KG*	2,896,000	22.87

* Jürgen Jaron and Dieter Rein each hold 50% of the limited partnership capital of Presto Capital Management GmbH & Co. KG. Accordingly, Jürgen Jaron and Dieter Rein collectively hold, either directly or indirectly, approximately 46.57 % of the voting rights in the Company.

Supervisory Board	Number of shares held	Shares in %
Karl Heinz Achinger	16,000	0.13
Dr. Peter Coym	5,500	0.04
Dierk Borchert	5,500	0.04

Transactions conducted by Board Members of MAGIX AG and Subject to Reporting since the Initial Public Offering on 6 April 2006:

Aug 3, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	2.000 Shares
	8.89	EUR	17.780 EUR
Aug 2, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	2.000 Shares
	9.00	EUR	18.000 EUR
Aug 1, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	2.000 Shares
	9.00	EUR	18.000 EUR
Jul 27, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	2.000 Shares
	9.10	EUR	18.200 EUR
Jul 24, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	2.000 Shares
	9.265	EUR	18.530 EUR
Jul 21, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	2.000 Shares
	9.32	EUR	18.640 EUR
Jul 20, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	2.000 Shares
	9.75	EUR	19.500 EUR
Jul 19, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	1.000 Shares
	8.90	EUR	8.900 EUR
Jul 18, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	5,000 Shares
	8.93	EUR	44.650 EUR
Jul 6, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	5.000 Shares
	8.75	EUR	43.700 EUR
Jul 5, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	5.000 Shares
	8.34	EUR	41.700 EUR

Jul 4, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	5.000 Shares
	8.46	EUR	42.300 EUR
Jul 3, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	20.000 Shares
	8.09	EUR	161.800 EUR
Jun 30, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	20.000 Shares
	7.75	EUR	155.000 EUR
Jun 29, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	20.000 Shares
	7.64	EUR	152.800 EUR
Jun 28, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Purchase	Frankfurt/Main	5.000 Shares
	7.17	EUR	38.850 EUR
Jun 8, 2006	Karl Heinz Achinger/Supervisory Board		
	Purchase	Xetra	2.500 Shares
	9.24	EUR	23.338.50 EUR
Jun 1, 2006	Karl Heinz Achinger/Supervisory Board		
	Sale	Xetra	2.500 Shares
	9.50	EUR	23.750 EUR
Apr 10, 2006	Tilman Herberger/Management Board		
	Sale	off-market	75.000 Shares
	16.40	EUR	1.230.000 EUR
Apr 10, 2006	Presto Capital Management GmbH & Co. KG/Management Board*		
	Sale	off-market	1.864.000 Shares
	16.40	EUR	30.569.600 EUR
Apr 6, 2006	Dierk Borchert/Supervisory Board		
	Purchase	Frankfurt/Main	2.500 Shares
	16.30	EUR	40.750 EUR
Apr 6, 2006	Karl Heinz Achinger/Supervisory Board		
	Purchase	Xetra	5.000 Shares
	16.23	EUR	81.150 EUR

* The members of the Management Board, Jürgen Jaron and Dieter Rein, each hold 50% of the limited partnership capital of Presto Capital Management GmbH & Co. KG

Management Board Remuneration

The Management Board members are paid an annual remuneration package, which consists of non-performance-linked, performance-linked and long-term-performance-linked components.

The Management Board members are paid a fixed salary, plus fringe benefits, which are not linked to or based on the Company's performance. These fringe benefits include, above all, use of a Company car, travel cost indemnification and telephone cost reimbursement. The Supervisory Board in its own discretion sets the bonus, which is based on the Company's business performance. Where there has been extraordinary performance, the Supervisory Board may also approve the payment of a reasonable special bonus. Long-term performance-linked remuneration takes the form of options that are granted in accordance with the stock option plan approved by the shareholders. Details about this component are explained in the section entitled "Stock Option Plan".

In fiscal year 2005/2006, the remuneration of the Management Board members totalled kEUR 1,077. Of this amount, kEUR 435 consisted of non-performance-linked components (fixed salaries: kEUR 422, fringe benefits: kEUR 13). For bonuses, kEUR 642 was agreed. The Management Board members were also granted during the reporting period stock options valued at kEUR 38. The Management Board members did not receive loans or similar benefits. In regard to their work as Management Board members, these individuals were neither promised nor granted any benefits by third parties.

The different remuneration components are distributed as follows:

(All figures in kEUR)	Jürgen Jaron	Dieter Rein	Tilman Herberger	Total	Previous year
Non-performance-linked benefits	154	167	114	435	435
Performance-linked benefits	236	236	170	642	402
Total	390	403	284	1.077	837

Supervisory Board Remuneration

Pursuant to § 13 (1) of the MAGIX AG Articles and Memorandum of Association approved by the Shareholders' Meeting, the Company's Supervisory Board is paid fixed remuneration each fiscal year, which is determined by the Shareholders' Meeting. In addition, Supervisory Board members will also be reimbursed the out-of-pocket expenditures which they incur.

This also includes the value added tax (VAT) charged on any remuneration, to the extent the Supervisory Board member is entitled to separately invoice value added tax. Furthermore, the Company may at its own expense purchase reasonable liability insurance (D&O insurance) for members of the Supervisory Board.

The Supervisory Board members are paid the following remuneration:

(All figures in kEUR)	Karl Heinz Achinger	Peter Coym	Dierk Borchert	Total	Previous year
Non-performance-linked benefits	40	30	20	90	36

Stock Option Plan

In May of 2006, employees of MAGIX Group were granted 319,500 stock options pursuant to the following model:

One-third of the options may be exercised after a period of two years, a second third after a period of three years, and the final third after a period of four years. The right to exercise the option thereby exists for a period of three years from the date on which the waiting period expires.

Furthermore, the issuance of stock is linked to the performance of the share price.

According to this plan, the options may be exercised only if the average increase in stock price reaches 0.8% per month for the period from the date on which the options were issued to the date on which the options are exercised. The options are exercised by purchasing the shares of MAGIX AG at the issue price. If the employee does not wish or is unable to invest the requisite cash amount for purposes of buying the stock, then there is still an opportunity to pay the option holder the difference between the issue price and the share price on the date the option is exercised.

MAGIX Stock

General Developments

After the stock markets enjoyed a very successful year in 2005, trading began auspiciously in 2006.

For the first time since Germany's Neue Markt segment collapsed, a significant number of initial public offerings were once again being planned in Germany. Thus, in early 2006, small- and mid-cap companies became the focus of interest among institutional investors. This trend continued through about the middle of April. Thereafter, the mood on the markets changed to skepticism about new issues, and the institutional investors redirected much of their attention back to the blue chips.

Consistent with this skeptical mood, the stock markets underwent a worldwide correction in early May. As part of this correction, the DAX fell 13% from 6100 points down to just under 5300 points through mid-June. Even more dramatic was the development on the TecDAX, which dropped 178 points from 761, thereby declining by 23%. By the end of the reporting period in early October 2006, the DAX recovered most of it losses. Buoyed by a more favorable mood on the stock markets, the DAX was even able at times to exceed the highs by about 9%, which it had hit during the summer, closing at more than 6600 points as of the end of the calendar year. On the other hand, the TecDAX was unable to similarly benefit from this trend. At the end of September, when it closed at about 650 points, this index was still 14% below the highs reached in May, which could not be attained again during the remaining part of the calendar year.

MAGIX Stock Performance

The MAGIX AG shares were admitted for trading for the first time on April 6, 2006: the very apex of the IPO phase in early 2006. The issue price for the shares listed on the Prime Standard segment was EUR 16.40.

Although the Company was able to report unusually good half-year results in May, the stock price could not escape the detrimental effects from what – in some cases – were dramatic movements in the marketplace. After the stock markets underwent the general correction, the shares hit their lowest listed price at EUR 7.05. By the end of the fiscal year, the stock was able to regain some of its value, however, and reached an even EUR 9.00 on September 29, 2006. This represents a market capitalization of approximately EUR 114 million.

During the reporting period, an average of 29,579 MAGIX shares were traded each day on XETRA. This generated on average a turnover of approximately 257,000. To factor out any distortion caused by the initial public offering, the first 20 days on which the stock was traded were not included in the aforementioned calculation.

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Would you like to have more information?

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Financial Calendar

January 24, 2007:	Financial Press Conference, Berlin MAGIX AG, Friedrichstraße 200, 10117 Berlin
February 27, 2007:	Publication of the 1st Quarter Report
March 23, 2007:	Shareholders’ Meeting of MAGIX AG Begins: 10:00 am Ludwig Erhard Haus, Fasanenstr. 85, 10623 Berlin
May 30, 2007:	Publication of the 2nd Quarter Report
August 28, 2007:	Publication of the 3rd Quarter Report