MAGIX

360° MULTIMEDIA

MAGIX AG

ANNUAL REPORT 2006/2007

Key ratios of MAGIX Group according to IFRS	FY 2007 kEUR	Change in %	FY 2006 kEUR	Change in %	FY 2005 kEUR
Profit & Loss					
Sales revenue	32,662.00	-8.7%	35,788.00	30.0%	27,531.00
Gross margin	28,467.00	-9.3%	31,402.00	34.4%	23,372.00
as % of revenues	87.2%		87.7%		84.9%
EBIT	3,063.00	-62.8%	8,230.00	69.5%	4,856.00
as % of revenues	9.4%		23.0%		17.6%
Net income	2,518.00	-50.9%	5,130.00	61.1%	3,185.00
as % of revenues	7.7%		14.3%		11.6%
Consolidated balance sheet profit	8,736.00	42.8%	6,118.00	> 100%	885.00
Balance Sheet					
Balance sheet total	58,406.00	1.6%	57,469.00	88.8%	30,433.00
Cash & cash equivalents	17,391.00	-50.4%	35,095.00	> 100%	13,148.00
Shares, lifetime > 3 months from purchase	11,520.00				
Other current assets	12,593.00	3.7%	12,143.00	50.2%	8,085.00
Long-term assets	15,470.00	51.2%	10,231.00	11.2%	9,200.00
Current liabilities	9,044.00	-15.8%	10,735.00	16.0%	9,253.00
Non-current liabilities	2,525.00	> 100%	657.00	-26.3%	891.00
Equity (without minority interests)	46,837.00	4.2%	44,952.00	> 100%	19,061.00
Equity ratio	80.2%		78.2%		62.6%
Cash flow					
Cash flow from operating activities	1,593.00	-74.2%	6,186.00	-0.9%	6,244.00
Cash flow from investing activities	-19,391.00	> 100%	-3,893.00	67.4%	-2,326.00
Cash flow from financing activities	-166.00	< -100%	19,690.00	>100%	36.00
Employees					
Total	319.00	5.3%	303.00	39.6%	217.00
Sales & Marketing	87.00	-12.1%	99.00	28.6%	77.00
Research & Development	180.00	11.8%	161.00	51.9%	106.00
General & Administration	52.00	20.9%	43.00	26.5%	34.00
Ratios					
Number of registered users	7,031,853.00	65.1%	4,260,000.00	60.2%	2,660,000.00
Conversion rate	0.05	-22.2%	0.06	21.3%	0.05
Average revenue per registered user	1.42	-21.1%	1.80	-5.3%	1.90
Average purchase price	28.63	1.5%	28.20	-9.0%	31.00

An Overview of MAGIX

In 1993, Jürgen Jaron and Dieter Rein, working together with Tilman Herberger and Titus Tost, formed the company MAGIX. The company's goal was to render photographs, videos and music usable for every person in an uncomplicated and entertaining manner. Under the guidance of this principle, the MAGIX Group grew into a leading international provider of multimedia products and today operates branches in Germany, the United States, the United Kingdom, France, Italy, Spain and the Netherlands.

Since 2004, the company has linked PC software with all-inclusive service packages on the Internet and offers integrated solutions to users and business partners for licensing purposes. No other manufacturer is in a position on a world-wide scale to offer a similar variety with respect to the seamless link between Internet products and PC programs on all sub-segments of the multimedia sector.

MAGIX also has one of the most advanced technologies for music recognition and recommendation and has emerged as a pioneer in the area regarding future forms of music marketing. At the same time, its "myGOYA" provides one of the most sophisticated services in web-based software applications.

The package offered by MAGIX includes products for creating, editing, managing and presenting photos, videos and music. The package extends to online*, PC and mobile* applications.

The company thereby provides anyone with suitable workaround solutions to use digital content in his or her personal communication: MAGIX – 360° multimedia.

Note: MAGIX operates in a young industry which is highlighted by an extensive use of technical terminology and jargon. For better understanding, we have therefore explained all terms marked with a "" in a detailed glossary on pages 110–111.*

CONTENT

Dear Shareholders,

We look back on an eventful fiscal year 2006/2007, which was highlighted by the restructuring of our company into an Internet service provider with fully integrated multimedia solutions. We also were extensively involved in industry-wide developments in the retail trade.

While we were able to significantly expand the portal segment of our business with double-digit growth rates, we had to report a decline in sales from our professional and consumer segment which was dominated by the retail trade. That trend resulted primarily from the changed conditions in Germany, the United Kingdom and the United States.

The United Kingdom and the United States witnessed a fundamental change in the retail trade over the past year. Important sales partners closed a significant number of their affiliates and branches. Furthermore, retail space and warehouses for software products were discontinued in favour of other electronic products with a higher price segment. By agreeing with a number of partners on converting the sales system to a commission-based sales structure, we were able once again to expand the scope of our trading activities. However, this system change meant that we encountered significant charges for the recently completed fiscal year. As a result of this, however, we expect to recover sales in these regions in 2007/2008.

In addition, the launch of the new Microsoft operating system, Vista, in February 2007 created great uncertainty among consumers. As our contacts in the German retail trade have reported, many customers elected not to purchase new software in advance of the Microsoft Vista launch. This resulted in sales from the holiday season being quite a bit lower for this industry than in the previous year. Although the Group was able to perform better than the market, the important first quarter did not meet our expectations. MAGIX has therefore acted, as the first company in the multimedia industry, to supply a Vista-compatible version of all important software products. Nevertheless in the course of the remaining fiscal year it became apparent that there was significant hesitation in consumer purchasing within the German retail sector. It was not until the beginning of the third calendar quarter that retail software sales picked up again and remained continuously ahead of the previous year's level. Thus, we expect to see a growth potential once again in the German trade segment for the current fiscal year.

This assessment is also based on the results of our efforts to develop new sales channels in retail. In Germany we have been able to open new distribution channels with new high price products such as Xara Xtreme Pro: this refers to the professional retail sector, the so-called "VAR Channel*". In this sector, there have already been expressions of interest from professionals in European countries outside

Tilman Herberger
CTO/R&D

Jürgen Jaron
CEO

Dieter Rein
COO

(from left)

Germany, as well. Moreover, we have concluded contracts with various supermarket chains regarding the sale of our products. In response to an increasing willingness of consumers to order software online, we have increased our presence in online retail.

Even if these actions in 2006/2007 have not yet taken hold and have not yet been sufficient to make up for the entire loss in sales, they have certainly increased our options and provide flexibility for future growth.

All in all, however, the performance in the last fiscal year remains significantly below our expectations. Group sales totalled EUR 32.6 million and were therefore 8.7% below last year's level. The EBIT results of EUR 3.1 million represent a significant decline of almost 63%. On the other hand, the growth in direct online sales remained favourable. Sales recently climbed by 31% and the number of registered users rose to slightly more than 7 million by the end of the fiscal year.

This fact encourages us in our belief that we should continue to expand our company to transform it into an Internet service provider. This is also the reason why despite declining sales we elected not to save money in the current year on Research & Development, even though these costs led to a significant charge on our EBIT.

We believe that Internet-based applications will play a dominant role in the future, and we hope to be at the forefront of this trend. Given the tense situation in the retail trade, we did not feel, however, that we were in a position to pursue further staff expansions. Although there were consequently delays in developing new online services, we were able to achieve a great deal in this area in 2006/2007.

We were able in the last fiscal year to launch the announced online service, myGOYA, as a so-called “Open Beta Version”*. We will present the project in an edited version at CeBIT 2008; a version with which we also expect to generate sales.

In August, Catooh – the market place for digital media on the Internet – was launched. Since then, customers have been able to offer their own photographs for sale on the Internet. The photographs can then be used either privately or commercially.

Finally, the company continues to press ahead with the development of mufin, the new global novelty for recognising and recommending music. Since July, the software may be purchased for stationary use on home PCs. Several manufacturers of MP3 players* and mobile telephones have expressed interest in licensing this functionality, such that we expect very exciting developments in 2007/2008.

In addition to the technical developments, we have also continued to expand the group ourselves. By acquiring the remaining shares in the m2any subsidiary, and purchasing the Internet platform and database freeDB.org, we were able to solidify our position on the market

for music recognition. By acquiring the Xara Group Ltd. in January 2007, we have also added a company that will allow MAGIX to expand its portfolio in the field of digital image design by the additional factor of vector graphics.
By acquiring Xara Group Ltd. in January 2007, we have also added a company that will allow MAGIX to expand its portfolio in the field of digital image design by the additional factor of vector graphics. This acquisition, which involved a gain of additional 1.2 million registered users, also enabled us to build up our presence in online retail in the United Kingdom and the US. Although it entailed significant investments of time to integrate the Xara technology and localise the programs that had previously been available only in English, the company was still able to launch a first joint product on the market in March.

Since the end of June 2007 we were able to implement the authority granted to us by the Shareholders' Meeting in March of 2007 to purchase almost 10% of MAGIX shares.
After initially purchasing approximately 165,000 shares at a price of EUR 1.1 million on the open stock exchange, the company made a public offer in September to repurchase other shares after the close of the fiscal year. In total, almost 1.2 million company shares were bought back at a price of EUR 6.6 million, which has meant that the authority granted by the Shareholders' Meeting has been fully utilised.

We would like to take this opportunity to thank you, our shareholders, for placing your trust with us during this difficult year. We would also like to thank our employees, who contributed their very valuable efforts, so that, despite the difficult circumstances, the Group has nevertheless been able to reach many of its goals and is therefore well positioned as it moves forward into the new fiscal year.

Sincerely,

Tilman Herberger	**Jürgen Jaron**	**Dieter Rein**
CTO/R&D	CEO	COO

MAGIX – 360° MULTIMEDIA

MAGIX – 360° Multimedia

Business environment, product line and organisation, strategic focus

Business environment: Multimedia communications

Digital photos, videos and music are, more and more, finding their way into our everyday lives. In tandem with that development global networking is taking ever greater steps forward, while services such as telephone, television and Internet are merging more and more. New data formats and rapid network connections enable people to exchange enormous quantities of data in the shortest period of time. In this way, social networks can be created via the Internet in which users do not simply consume information, but exercise an influence on the content of the web* by submitting their own contributions.

Thus, on what is almost a daily basis, the digital age offers us new fascinating options for more personal communication. Especially for multimedia communication – who hasn't heard the adage: A picture is worth a thousand words. How powerfully expressive is then a photo gallery or, indeed, a video!

At the same time, the complex multiplicity of constantly new devices, formats and multimedia services is ever expanding. That complexity creates the demand for simple, uniform and technologically high-quality solutions.

With its 360° Multimedia concept, the MAGIX product range represents just such a comprehensive solution for creating and managing digital content. It permits you to seamlessly integrate your home computer, mobile telephone and the Internet, and provides problem-free integration of the widest variety of terminals and formats. On his/her own website*, the user can then present him/herself or link up with others in interesting "communities*".

The factor driving growth on the market for multimedia communications is technological innovation in the realm of consumer electronics and the convergence of the telecom industry with the entertainment industry.

In years to come, the expectation is that, in particular, high-speed and mobile Internet services will be increasingly prevalent. At the same time, this means growth potential for Internet services requiring fast connections. In particular, the SaaS services will benefit from this. These services offer applications directly via the Internet without the need for any software to be installed on the computer being used. The constant enhancements of and increasing prevalence of digital devices such as, for example, digital cameras or MP3 players, and technological progress in the software programming area will, in addition, facilitate ever greater new ways of using digital content. Thus, the expectation is that the market for multimedia applications will continue to grow over the medium term.

In this business environment, which is still young and in continuous flux, MAGIX is able to claim more than 14 years of experience. During that period of time, the company has firmly established itself as one of the globally leading multimedia solution providers. While competitors in this area have usually each focused on a single segment of the multimedia spectrum, MAGIX, by contrast, provides full coverage of the photo, video and audio sectors. In this way, MAGIX's commercial risk is distributed across three business units. At the same time, synergies are created, because it is possible to make use of developments from the audio sector in the photo/video segment, and vice versa.

The Product Line:
Global solutions for multimedia communications

MAGIX's products encompass applications for creating, processing, presenting and managing digital content. In addition to a product line for professional users, the company primarily pitches its products to the mass market. The top-selling products in this sector include:

MAGIX Movie Edit Pro
an application for processing and presenting digital video recordings

MAGIX Music Maker
an application for using a PC to create music

MAGIX Photos on CD & DVD
an application for presenting digital photos in the form of a slideshow

These programs were initially marketed as pure PC software. In the interim, all of MAGIX's applications are seamlessly integrated with the company's various Internet services. The results the user obtains at his or her computer can thus be directly used on the Internet. For example, the following are available:

MAGIX Online Album
an application over which the user can store or publish his or her digital photos, videos and music online. In this way, the user has access to the data from anywhere in the world, and can present it in an appealing way to friends and acquaintances.

MAGIX Website Maker
an application for simple generation of websites using Flash* design.

MAGIX Blog* Service
an application over which the user can maintain his or her own blog on the Internet.

It is even possible to perform important functions such as, for example, processing of photos exclusively via the Internet.

It is always the goal of the product range of MAGIX to enable the layman to make use of complicated technologies in an uncomplicated way. The intention is that the customer should be able to achieve professional results in the shortest amount of time, without any significant prior knowledge. For this reason, the company also offers digital content which MAGIX largely produces itself, such as, for example, photos, background music, video clips or sample projects, in addition to technical applications. These permit users to improve on their own presentations by using MAGIX's content.

During the current year, the company has, additionally, developed two further new multimedia solutions:

By means of the mufin Music Finder the group intends to establish itself as a force to be reckoned with in the realm of music recognition and recommendation. You will find a more detailed description of this new business unit on page 24.

myGOYA Online Desktop

The myGOYA online desktop offers customers the advantage of accessing their own familiar home computer's desktop via the Internet. In addition, this service constitutes an umbrella for all of MAGIX's other Internet applications. The functions and options for application of myGOYA are described in detail beginning on page 28.

Corporate Group Organisation:
The Portal, OEM and Professional & Consumer business units

Portal business unit:

The Portal business unit at MAGIX merges two revenue streams. First, this is where the revenues achieved with the above-referenced online services and direct sale business via the online shop with registered customers are booked. Second, revenues with MAGIX's business customers are also encompassed in this category.

During the 2006/2007 fiscal year, the group achieved revenues in the Portal business of EUR 9.9 million (2005/2006: EUR 8.1 million), corresponding to 30.2% share of overall revenues (2005/2006: 22.5%).

MAGIX online shop/direct sales to registered customers

At www.magix.com and further group websites, end customers can directly access and purchase MAGIX's complete product range via the Internet. In order to lead new customers to make purchases of products and services requiring the payment of a fee, this is also where software Internet services are made available free of charge.

In addition, MAGIX communicates with its registered customers directly by email and makes product offers to them. The company has recurring revenues from the resulting direct sales. As of September 30, 2007, 7 million users were registered with MAGIX. During the 2006/2007 fiscal year, these customers purchased 318,232 products at an average net price of EUR 28.63. This corresponds to revenues of EUR 1.42 per registered user.

Business customers

Our Portal business unit also covers the customer services provided by the MAGIX group for its business customers.

In this area, computer products are combined with the group's Internet services pursuant to our customers' wishes, enabling the customer to integrate a comprehensive multimedia solution into its own Internet portal within the shortest possible time. In this context, MAGIX's products are adapted, at the customer's request, to their customer's expectations in terms of their functionality and design. Thus, for example, the group designed the entire photo service for freenet.de AG.

Where required, the group can also perform storage of digital content, so-called hosting*, for its business customers.

For the services described here, MAGIX invoices its customers as a systems provider would. Revenues are generated from the adaptation of products as well as from licence fees for the use of individual applications. Where the business customer achieves revenues itself through the Internet services furnished by MAGIX, these are shared between the parties pursuant to a pre-arranged revenue sharing formula. If, in addition, MAGIX's products are also sold, then these revenues are likewise shared. However, these revenues are attributed to the OEM business unit.

OEM business unit

The abbreviation OEM stands for "Original Equipment Manufacturer". In recent years, this abbreviation has become established particularly in the IT industry as a buzz word for the joint marketing of hardware* together with software which usually has limited functionality. The products with reduced functionality for OEM sales are referred to as OEM versions (in contrast with the so-called full versions).

The MAGIX group licenses its products to OEM partners who manufacture digital end devices such as computers, laptops, camera phones, photo or video cameras or MP3 players. By means of the included MAGIX software and the associated Internet services, OEM partners are able to offer their end customers added value in addition to the hardware supplied, and thus to achieve greater differentiation from their competitors.

For providing OEM versions, MAGIX ordinarily receives fixed licence fees from its business associates, which, however, are significantly less than the fees for the full versions. Due to the hardware manufacturers' tight margins, MAGIX has also started demanding licence fees only for products that are actually used by end customers. To trigger the fee, the user initially must activate the program when using it for the first time. If the user later purchases the full version associated with the OEM version on a fee-paying basis ("upgrade sales") for the product, then these revenues are split between the OEM partner and MAGIX, with special attention being given to the differences as between the licence fee models described above.

In its OEM business unit, the MAGIX group generated revenues during the reporting period in the amount of EUR 1.5 million (2005/2006: EUR 1.8 million). This corresponds to a 4.6% share in group revenues (2005/2006: 5.2%).

Despite its relatively small contributions to the MAGIX group's total revenues, OEM sales constitute an extremely important element of the group's product strategy. By linking its products to the hardware of business associates, the group is also able to directly reach users who do not seek information on multimedia products on the Internet or in specialist markets in a direct way. Thus, OEM sales make a significant contribution to expansion of the group's customer base.

If the OEM partner desires a change in design or function of the products, the revenues generated through the provision of such adaptations are, however, allocated to the Portal business unit. The same applies in the case of fees that may be charged for any hosting services provided.

Professional & Consumer business unit

The Professional & Consumer business unit is the category covering the retail sales of classic computer products. Both nationally and internationally, MAGIX is listed at the retail chains with the top revenues such as Amazon, Dixons, BestBuy, Saturn/Media Markt, or Fnac. Beyond these, the group is developing new market expansion options through alternative sales channels, such as specialist retail and supermarket chains.

In the audio segment, MAGIX additionally offers products for professional users. Samplitude and Sequoia, in particular, are used by television and radio networks such as the BBC, Westdeutscher Rundfunk,

Mitteldeutscher Rundfunk, Bayerischer Rundfunk and Radio Bremen. By its acquisition of the British Xara Group Ltd., the group is in a position now to offer a program for image processing in the professional segment, with Xara Xtreme Pro. In addition, with Video Deluxe Audio & Effects Edition, a product has now also been developed for professional users in the video segment. The programs referenced have been sold in specialist trade since September 2007.

During the 2006/2007 fiscal year, EUR 21.2 million in revenues were achieved in the Professional & Consumer business unit (2005/2006: EUR 25.9 million), corresponding to a 65% share in total group revenues. During the prior year, this unit had contributed a 72.7% share to revenues. The reduction was, on the one hand, the result of the tense situation in retail trade during the reporting period, and on the other hand, the continuous growth in the Portal business led to a shift in revenue stream.

Strategic focus of the group

With its 360° Multimedia concept, MAGIX aims to offers its partners and users a one-stop global solution for digital content. Business and retail customers should regard MAGIX as their go-to partner who is able to offer an appropriate solution for every issue arising in the multimedia field.

MAGIX's individual products already have a number of interfaces. In future, these links will be expanded further. Thus, the group's various products are becoming a system of their own, as cogs meshing with one another. At MAGIX, the user finds a one-stop shop in which applications and information as well as contacts from the fields of photography, video and music are gathered under a single roof. With a maximum of ergonomic comfort, the user can effortlessly link up the various end devices. The borders between MAGIX software which is installed on a fixed basis and MAGIX Internet services are becoming ever more blurred, so that the customer will soon no longer detect any difference between offline and online applications. In this way, MAGIX enables customers to design, manage and present digital content without regard to location or device.

Therefore, MAGIX's Internet services constitute a central element of its corporate strategy. All of the group's existing product range is united under the umbrella of myGOYA. In addition, with mufin the group is introducing a new service intended to establish MAGIX as an authority in the realm of music search and recommendation. In the aggregate, the Internet services will serve the purpose of creating greater market coverage for MAGIX. By the end of 2008, the group intends to increase the number of registered customers to 10 million. Via Internet portals such as mufin, or myGOYA, in addition to classic sales transactions, it will also be possible to generate revenues from advertising.

Dear Shareholders,

During fiscal year 2006/2007, the Supervisory Board monitored the Management Board in accordance with the Corporate Governance Code. In this respect, the Supervisory Board was able to keep abreast of all significant business transactions and the development of the Group. During the reporting period, a total of seven Supervisory Board meetings were held, of which three meetings were held as part of a telephone conference call. All of the Supervisory Board members were present at all of the meetings.

At each of the individual meetings, the Supervisory Board analysed the current business developments together with the Management Board. Accordingly, board members conferred regarding the strategic orientation of the Group. If individual transactions required the consent of the Supervisory Board under the terms of the Articles and Memoranda of Association or pursuant to statutory requirements, then the Supervisory Board reviewed the transactions and decided on whether to issue its consent.

The discussion topic at these meetings was the commercial or business situation of MAGIX AG and its subsidiaries. In addition, the current and long-term development of individual business sectors as well as the product, sale and marketing strategies were discussed. The Supervisory Board and Management Board were informed each month in writing regarding the current course of business. Independent of the individual meetings, the Management Board kept the Supervisory Board chairman continuously informed of important events and significant decisions.

Given its size of 3 members, the MAGIX AG Supervisory Board also did not establish any committees during this fiscal year.

The Supervisory Board also extensively examined and addressed the topic of the German Corporate Governance Code during this fiscal year. The Management Board and Supervisory Board have taken the requisite courses of action in order to comply with the Code recommendations as far as possible. The few exceptions will be listed together with under the statement issued in conjunction with the Management Board pursuant to § 161 of the German Stock Corporation Act (AktG). They may be downloaded from the Group's website at www.magix.com/en/uk/magix-ag/investor-relations/corporate-governance/.

In fiscal year 2006/2007 the individual Supervisory Board meetings focused on the following topics:

At the meeting held on December 6, 2006, the preliminary annual financial statement for fiscal year 2005/2006 was reviewed and discussed, the final version of which was approved by the Supervisory Board at its meeting of January 11, 2007.

The key agenda items for MAGIX AG's first public Shareholders' Meeting were discussed and approved at the meeting on February 1, 2007. Directly following the Shareholders' Meeting of March 23, 2007, the Supervisory Board convened again and held a follow-up discussion regarding the organised event.

At the Supervisory Board meeting of April 5, 2007, the Supervisory Board performed, inter alia, an analysis of the outcome of an efficiency review undertaken by the Supervisory Board at the end of the last calendar year.

At the meeting held on August 1, 2007, the Board noted not only the preliminary figures for the third quarter but also, following extensive discussions, approved the acquisition of the remaining shares of m2any GmbH.

At the final meeting for 2006/2007, the forecast for the fourth quarter and the budget for the upcoming fiscal year were stipulated.

The Supervisory Board duly engaged the accounting firm of Ernst & Young AG Wirtschaftsprüfungsgesellschaft/Steuerberatergesellschaft, Berlin, to audit the annual financial statements and consolidated financial statements for fiscal year 2006/2007. That firm thereupon audited the annual financial statements and consolidated financial statements as of September 30, 2007 as well as the management report including the relevant bookkeeping, and issued its unqualified audit opinion. The audit report was submitted to the Supervisory Board and personally explained by the auditor (Wirtschaftsprüfer) who was responsible for completing the audit, together with the Management Board.

The reports were reviewed in detail by the Supervisory Board. This also included the Management Board's recommendation on use of the profits. The Supervisory Board agreed with the results of the annual financial statements and consolidated financial statements audit and the management report and approved the annual financial statements and consolidated financial statements for fiscal year 2006/2007. After the Supervisory Board's final review of the annual financial statements, consolidated financial statements, management report and recommendation on the use of profits, no objections were raised. Thus, in its conference call held on January 14, 2007 the Supervisory Board approved the annual financial statements submitted.

There were no changes in the membership of the Management Board or Supervisory Board.

The Supervisory Board thanks the Management Board as well as all employees of the Group for their commitment and the work performed in fiscal year 2006/2007.

Berlin, January 2008
The Supervisory Board

Karl-Heinz Achinger
Chairman

Corporate Governance Report

With the enactment of the German Corporate Governance Code ("Code") on February 26, 2002, the competent Government Commission completed an important step in advancing the law governing corporate management and control. The Management Board and Supervisory Board support and welcome the sound and responsible corporate management principle as memorialised in the Code. Except for only a few of the recommendations set forth below, MAGIX AG complied and still complies with the current version of the Code dated June 14, 2007:

- 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 of the Frankfurt Stock Exchange are adequate.

Stock held by members of the Management and Supervisory Boards

September 30, 2007 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 the Board members of MAGIX AG and subject to reporting since September 30, 2006:
There were no transactions conducted by Board members of MAGIX AG and subject to reporting during the reporting period.

Remuneration of the Management Board
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".

Total remuneration to the Executive Board members in fiscal year 2006/2007 was kEUR 444. Non-performance-linked components totalled kEUR 444 (fixed salary: kEUR 421, fringe benefits: kEUR 23). No bonuses (kEUR 0) were paid out. During the reporting period, 5,000 stock options were granted to Management Board members. Loans and similar payments were not granted. In addition, third party payments were neither approved nor granted to Management Board members with respect to their work on the Management Board.

The remuneration is allocated as follows:

	Jürgen Jaron	Dieter Rein	Tilman Herberger	Total	Previous year
Non-performance-linked benefits	165	165	114	444	435
Performance-linked benefits	0	0	0	0	642
Total	**165**	**165**	**114**	**444**	**1077**

Remuneration of the Supervisory Board
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:

	Karl-Heinz Achinger	Peter Coym	Dierk Borchert	Total	Previous year
Non-performance-linked benefits	40	30	20	90	90

Stock Option Plan
71,000 stock options were granted to employees of MAGIX AG according to the following model in May 2007:

One third of the options can be exercised for the first time after a period of two years, a further third after a period of three years, and the final third after four years. The right to exercise the options shall exist for a period of three years after expiry of the waiting period.

Furthermore, issue of the shares is linked to the development of the share price.

Exercise shall only be possible in the event of an increase of the share price by 0.8% per month on average during the period from the day of issue of the options to the day the options are exercised. Exercise shall be effected by purchasing shares of MAGIX AG at the issue price. In the event that an employer cannot or does not want to invest the sum required for purchasing the stocks, it will also be possible to pay him/her the difference between the issue price and the share price at the time of exercising the option.

Berlin, December 18, 2007

The Supervisory Board of MAGIX AG

The Management Board of MAGIX AG

The MAGIX share

General Development

The significant earnings growth reported on the international stock exchanges in recent years also continued in 2007.

Although experts were only relatively optimistic at the beginning of the year, the stock markets in Germany, Europe and the United States continued their superior performance despite the price adjustments that took place in the summer of 2006. In this respect, the relevant markets to a large extent performed in the same manner. After a temporary slow period in March of this year, the various stock exchanges reached historic highs throughout the period between mid-May and mid-July, including the DAX which closed at a new all-time high of 8,151.57 points on July 13, 2007. Other indexes such as the TecDAX, Eurostoxx 50, DowJones and Nasdaq reported record closers during this period of time.

Only following the increasing repercussions of the US real estate market crisis at the end of July and the continuing pressures on European banks was the upward trend temporarily halted. But by mid-August, the markets once again reached their record highs from earlier in the summer.

MAGIX Share Performance

MAGIX AG shares are listed under the ticker symbol “MGX” under ISIN DE0007220782 in the Prime Standard segment of the Frankfurt Stock Exchange.

Shares of MAGIX AG ended the year at a price of EUR 4.98 per share and were therefore almost 44% lower than the share price at the beginning of the year (EUR 8.93). The result is a significant decline in market capitalisation to EUR 62 million. MAGIX shares reported their highest price for the year at the end of October 2007 (EUR 10.15). The lowest price for the year was at the end of September 2007 (EUR 4.80). Business performance in the recently completed fiscal year can be attributed primarily to the tense situation in the German and English-speaking retail markets, which has resulted in a significant drag on sales for the entire multimedia software industry and has thereby encumbered the Group's EBIT. In addition, the new launch of two internet services with significant strategic significance for MAGIX has made it necessary to increase spending on research and development, which in turn has likewise adversely affected the EBIT.

The average number of shares traded on XETRA during the reporting period was almost 32,000 with average sales of approximately kEUR 232.

The MAGIX share (in EUR)

Shareholder Structure

With respect to the shareholder structure, the following change occurred in this fiscal year. The 3i Group was invested in MAGIX before the IPO held 11.21% of MAGIX's shares. Due to a fundamental reorganisation of its business devisions it jettisoned a substantial amount of its holdings in small mid-sized companies. As part of this restructuring of the business divisions, shares in MAGIX AG were sold in their entirety to HeidelbergCapital Equity Fund 1 GmbH & Co. KG, which now holds 11.21% of MAGIX shares.

Stock Buyback Program 2007

The Shareholders' Meeting authorised the Group on March 23, 2007 to purchase a total of 1,266,203 MAGIX shares on the stock exchange or by way of public buy-back offer.

On 25 June 2007, the company first launched a stock buy-back program over the stock exchange. Up until August 6, 2007, the Group purchased 165,394 shares at a total price of EUR 1,107,972.48 in this manner. However, the statutory provisions require that the daily quota of shares repurchased track the trading volume of the last 20 stock exchange days. Thus, only a smaller number of shares could be purchased each trading day and ranged between five and six thousand MAGIX shares.

Thus, the company decided at the end of August to make its shareholders a public buy-back offer for the remaining 1,100,809 shares, which could be repurchased in connection with the buy-back program pursuant to the shareholder resolution. The buy-back price offered was EUR 5 per share. The offer, which was limited through September 21, 2007, was met with a subscription of 1,282,374 tendered shares. Thus, the buy-back percentage resulting therefrom was 85.84% per individual shareholder. Based on any rounding off in servicing the buy-back percentage, the Group was able to acquire a total of 1,100,744 MAGIX shares, which were then transferred to the company on October 2, 2007.

Thus, in connection with the 2007 stock buy-back program, MAGIX acquired 1,266,138 of its own shares at a total price of EUR 6,611,692.48, thereby exercising nearly the full extent of the authority granted to the company by the Shareholders' Meeting.


MUFIN
AND
MUFIN
MUSIC

mufin – The Music Finder

New business line launches the sale of a world first in the field of music recognition and recommendation software

Group subsidiary m2any GmbH, 100% of the shares of which the group acquired during the fiscal year just ended, has been trading since October 2007 under the corporate name mufin GmbH, with its registered office in Berlin. With mufin GmbH, the group is setting up a new line of business in order to establish itself as the leading authority in the field of music recognition and recommendation. In order to more transparently structure our investments and business performance in this area, all business activities in this regard are being bundled within mufin GmbH.

With its patented AudioID functionality, developed by the Fraunhofer IDMT, mufin GmbH holds the exclusive rights to one of the most sophisticated technologies for music recognition and recommendation. As a component of the MPEG7 standard, AudioID guarantees optimum support in administering large music databases.

mufin's music recognition initially permits individual music titles to be quickly identified. Thanks to AudioID, only a few seconds of the audio material are required in order to supply the user with the metadata for a particular piece. mufin GmbH's recognition technology is significantly more robust in this regard than the comparable functions of other software providers. Even in the presence of high levels of acoustic distortion, audio signals can be recognised and the accompanying metadata supplied in each case.

However, attributes such as titles, album names and artists don't yet say very much about the music itself. Even categorising it within various genres such as Pop, Rock or Classical music, may be nothing more than a rough approximation, often leading to misunderstandings. If a user is looking for music that suits his mood at the moment, this type of information in text form will only be of limited use. There is thus a need here for a search function oriented not to the description of music, but rather to its substantive content. mufin GmbH's AudioID music recommendation function is precisely such a technology for finding music.

Of course, various methods of music recommendation already exist, but they are all based on the prior evaluation by other people. mufin GmbH makes use of a technical analysis of the music itself, by which up to 30 audio parameters such as, for example, rhythm or

MUFIN – THE MUSIC FINDER

tempo are compared. The advantage is obvious: it is possible to give a recommendation for every piece of music without it ever having been heard before by a third party. This saves time and resources. Furthermore, the evaluation of the music is performed on the basis of musical parameters, and is independent of the personal taste of an evaluator, because it is based exclusively on the analysis of technical parameters.

The AudioID technology is marketed in the following way:

Music recognition

The technology for identifying audio material is used in the following scenarios:

- identification of music by the consumer by means of a web-linked terminal that facilitates the sale of the respective titles
- automated logging of broadcast audio material in radio and television programmes, e.g. for monitoring broadcasting time agreements, ensuring royalty payments and for statistical analyses (chart analysis)
- automated search for audio material that infringes copyright
- linkage of audio material to metadata, such as titles, song texts or web links.

As a basic principle, the customer will pay a licence fee on a per-search basis for the use of the AudioID identification technology.

Music recommendation

mufin GmbH’s AudioID music recommendation function is marketed in the following way:

mufin Internet services

The mufin online portal serves two of the most important topics on the Internet: music and social networking. At www.mufin.com users can make use of the AudioID recommendation technology to find new music on mufin and, at the same time, to meet new people, under the slogan: Find music with friends, find friends with music. The user can directly purchase the music found or relevant artists' further products such as concert tickets and DVD's, via linked web shops. mufin GmbH's goal is to reach roughly 1 million users with its portal during the first year.

mufin GmbH generates revenues by taking a percentage of sales made via the portal as well as through income through advertisement displayed on the portal. In addition, at a later point in time certain functionalities of the portal will only be accessible by subscription.

mufin Music Finder software

By means of the mufin software, music collections stored, for example, on the user’s hard drive can be analysed for their audio characteristics. If the user then selects a particular piece, mufin will recommend a list of similar titles resembling the mood of the music selected. In this way, even collections containing several thousand titles can be easily organised.

mufin GmbH is offering this functionality to the manufacturers of portable replay devices such as MP3 players for licensing, so that the user can even make use of this function on the go. Mufin GmbH will license this to hardware manufacturers on a per-unit basis.

mufin music recommendation via music shops

mufin GmbH will license its music recommendation functionality to Internet music shops. The customers of those shops can then obtain recommendations for similar music directly from the shop. If a sale is made, mufin GmbH will receive a percentage of revenues.

myGOYA Online Desktop

New business unit pushes ahead with the expansion of MAGIX's online service offering

myGOYA Online Desktop is an online service based on Adobe Flash* that makes it possible to use the most important functionalities of the classic operating system independently of any site or platform.

The application creates a number of well-known and trusted user elements of the PC desktop. However, through its online desktop interface, the application provides a series of completely new options, enabling users to work independent of physical location and permitting networking with other users via the Groups function. In addition, the other online services of MAGIX are integrated into myGOYA (e.g. Online Album, Website Maker, Blog), which enables the user to have simple and centralised access to all of his digital information and data.

The core functions are:

· Create user groups on particular topics or projects; facilitate communal discussions, manage and edit data or files collectively; assign tasks, coordinate scheduling, chat with and send messages to group members
· Online management of bookmarks*, addresses and contacts (contact manager, communication module including Instant Messaging*),
· Organiser and calendar functionality
· Multimedia manager: upload digital content and present it to and share it with other users, continuous availability (Media Explorer)
· Integrated MAGIX services: Online Media Album, Web Blog, Website, Web hard drive
· Integrating Online-Office* service, which permits users to use the Internet to open word processing, calculation or presentation files and and to edit them without having to install additional software.

Unlike social networks, which focus on entertainment, myGOYA simplifies the access to, as well as the exchange, management and sharing of information. The service is therefore of particular interest to small companies, independent contractors and associations.

Since the launch of the Open-Beta version as scheduled in May of 2007, this service has been tested and expanded further. In parallel with this, the developers of MAGIX are working towards converting this service to Adobe Flex 2, a quicker version of Adobe Flash. myGOYA Service will thus be presented at the CeBIT 2008 with a new look and feel and an expanded, target group-based productivity functionality.

In order to create better transparency in terms of the investments made and results achieved, myGOYA has been organised as a new sepa-rate division of the MAGIX Group.

Xara

A completely new approach to image design

By taking over Xara Group, Ltd. in January 2007, the MAGIX portfolio was enlarged according to plan by applications for creative image design such as vector drawing, illustration and web-design. In addition to its Sequoia and Samplitude packages in the audio segment, MAGIX is now in a position to offer solutions to professional users in the graphics sector. This has provided the Group with new options in the professional trade – the so-called VAR Channel*. With this acquisition, the company is also moving forward with its strategy of making professional technology accessible to the mass market.

In addition, Xara also has a total of 1.2 million registered customers located primarily in the United States and Great Britain who have hitherto purchased their software exclusively over the Internet. Since the MAGIX Group has traditionally been very strong in the German-speaking regions, the Group was able to further improve its online presence in the English-speaking countries through this acquisition.

Based on parallels in terms of common content, MAGIX and Xara have established a connection to develop intuitive software with a comprehensible interface and the latest technology at reasonable prices. In addition, both MAGIX and Xara programs are based on the approach of object-oriented work. With the co-operative products such as MAGIX Xtreme Photo & Graphic Designer or MAGIX Xtreme Photo, Video & Graphic Suite, this will now particularly be of benefit to users.

By connecting the photo and graphic software, a completely new approach is created in image design: the user is given the opportunity to initially optimise and modify his or her own photos using photo editing. Thereafter, the material may be edited and processed using the graphic module and the photographs may be converted into, for example, an invitation, cut out for collages, set into a brochure or designed into a calendar. The intuitive manner of working and the effective co-ordination of photo and graphic software have made it possible for each user to deploy desktop publishing on a single computer from a single program. In the future, the strengths of both companies will continue to be used in order to shape a joint vision giving rise to a completely new approach to image editing.

Group Management Report

1. Overview of Fiscal Year 2006/2007

Although over the past years the Group has increased its revenue in comparison to the respective prior year, the Group suffered a drop in sales revenue in fiscal year 2006/2007 for the first time since 2002.

At EUR 32.7 million the group sales revenue was 8.7% below that of the prior year. The main reason for this drop was the difficult situation in the retail trade, which caused problems for the whole industry. In addition to this, the retail trade experienced fundamental changes in the field of multimedia software, particularly in the USA.

Together with the lower income resulting from this, it was the increase in research and development expenditure in particular that likewise led to a decrease in EBIT from EUR 8.2 million to EUR 3.1 million. Additional staff had been hired in this business segment in order to bring the myGOYA, Catooh and mufin Internet services to completion. While the first two services named were launched as planned in the course of the fiscal year, the launch of mufin was delayed until the end of 2007 due to unexpected technical challenges. The Group intends to use the above services to help strengthen its profile as an Internet service provider even further. Contrary to the prevailing trend in the retail trade, the Company registered revenue growth of 29% in the field of direct business over the period 2006/2007.

With the acquisition of Xara Group Ltd., a UK-based graphics specialist, in January 2007, the Group has added vector graphics to its image processing division and at the same time further expanded its Internet presence in Great Britain and the USA. The Company further acquired the remaining 34% of the shares in its subsidiary m2any GmbH. The ownership situation needed to be adjusted to reflect the fact that there is considerable need for investment in marketing the music recognition and music recommendation technology over the coming years and that investment will be borne by the Group alone.

2. Economic Environment

2.1. Overall Economic Situation

As a whole the global economy developed positively over the reporting period. Despite rising oil and energy prices, the euro area and emerging countries enjoyed considerable economic growth. It was only the knock-on effect of the US real estate crisis on European banks that provided for turbulence on the stock exchanges mid-2007.

In Germany, the announcement of the VAT increase at the beginning of 2007 stimulated the pre-Christmas business in 2006 and provided for additional sales of high-priced goods in particular. In the second quarter, general consumer behavior flattened out after the tax increase mentioned above. However, there was no cooling off of the economic boom, as was initially feared in some circles. Instead, economic growth continued. The number of unemployed sank to 3.5 million by September 2007, thus reaching the lowest level for almost twelve years.

2.2. Industry Performance

While there were positive influences on the economy as a whole, business development in the field of photography, video and music software was subject to other effects. On the one hand, the introduction of the new operating system Microsoft Vista caused irritation worldwide with regard to the procurement of new software products. On the other hand, the market for consumer electronics was reorganized in particular in the Anglo-American world.

For the first time, the new MS operating system was not downward-compatible, such that customers are not able to continue using some of their old software. This led to more cautious consumer spending behavior in the run-up to the introduction of Windows Vista. Consumers wanted to first await developments in this area before making new software purchases. The repeated delays in the release led to a situation where software manufacturers did not have a final version of the operating system available for them to adapt their own programs until the end of January. Thus, the manufacturers were not able to launch Vista-compatible versions of their own products on the market until the beginning of 2007. By this time, however, the pre-Christmas business had already come to a conclusion and the entire software industry suffered a considerable decline in sales.

In the Anglo-American world, the retail trade was affected by far-reaching changes on the market for entertainment electronics. In the USA, chains such as BestBuy and CompUSA closed down a number of their brick-and-mortar stores and in Great Britain there was similarly a reduction in the number of shelves dedicated to software.

In Germany, the VAT increase caused an additional drop in consumer demand for multimedia products in the lower-priced market segment. Consequently, there was a preference for higher-priced consumer goods before the turn of the year, again causing the pre-Christmas business to suffer. Consumers throughout Germany then exercised caution in the first half of 2007 due to the general increase in prices. It was not until the second half of the year that retail trade again saw an increase in software sales in the field of photography, video and music.

3. Business Development

3.1. Results of Operations

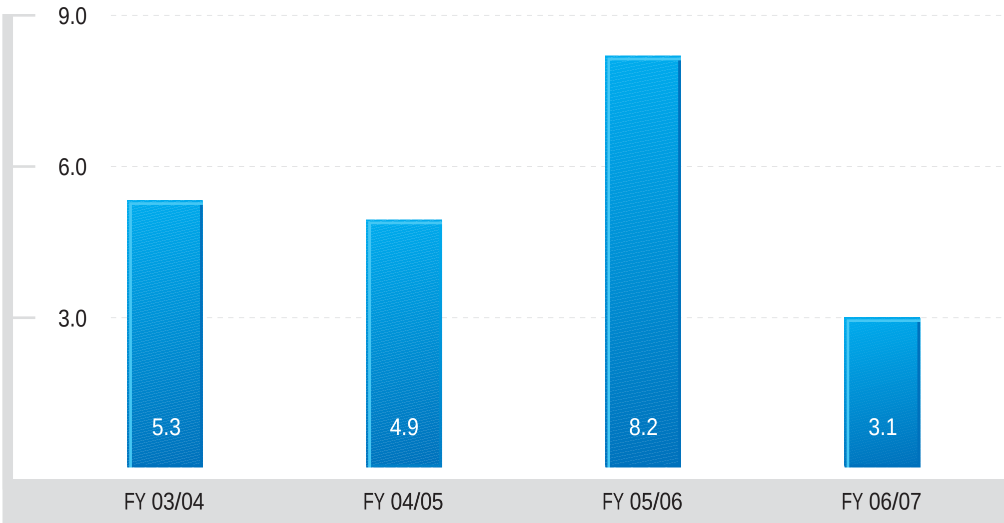
Development of Earnings

In fiscal year 2006/2007, the Group achieved earnings before interest and taxes (EBIT) of EUR 3.1 million, which amounts to a decrease of 63% in comparison to the prior year. The EBIT margin thus amounted to 9.4% after a figure of 23% in 2005/2006. The main reasons for this development are the drop in revenue amounting to EUR 3 million and the additional investments in the area of research and development amounting to EUR 1.9 million.

In the region "Europe and Rest of World" earnings before interest and taxes decreased accordingly by 53%, from EUR 6.9 million to EUR 3.2 million. The decrease in the USA amounted to EUR 1.5 million, so that it was necessary to post a negative EBIT of EUR 0.1 million for that region. This result is primarily due to a decrease in revenue of EUR 2.6 million in the region.

The net income of the Group for the period reflects the changes in the EBIT. It sank in the past fiscal year by just under 51% to EUR 2.52 million.

Retained earnings thus amount to EUR 8.6 million and can be broken down into revenue reserves from fiscal year 2005/2006 amounting to EUR 6.12 million and the current net profit of the Group for the year.



EBIT (EUR million)

Revenue

In fiscal year 2006/2007, the MAGIX Group achieved sales of EUR 32.7 million, therefore around 8.7% below the 35.8 million achieved in the prior year.

In the first quarter it was essentially the uncertainty on the part of consumers in connection with the launch of Windows Vista, as already described above, that led to a global drop in demand. In Germany this effect was additionally amplified by the imminent VAT increase. Despite increasing sales in the portal division, revenue dropped by 10.6% over this period compared with the first quarter of the fiscal year 2005/2006.

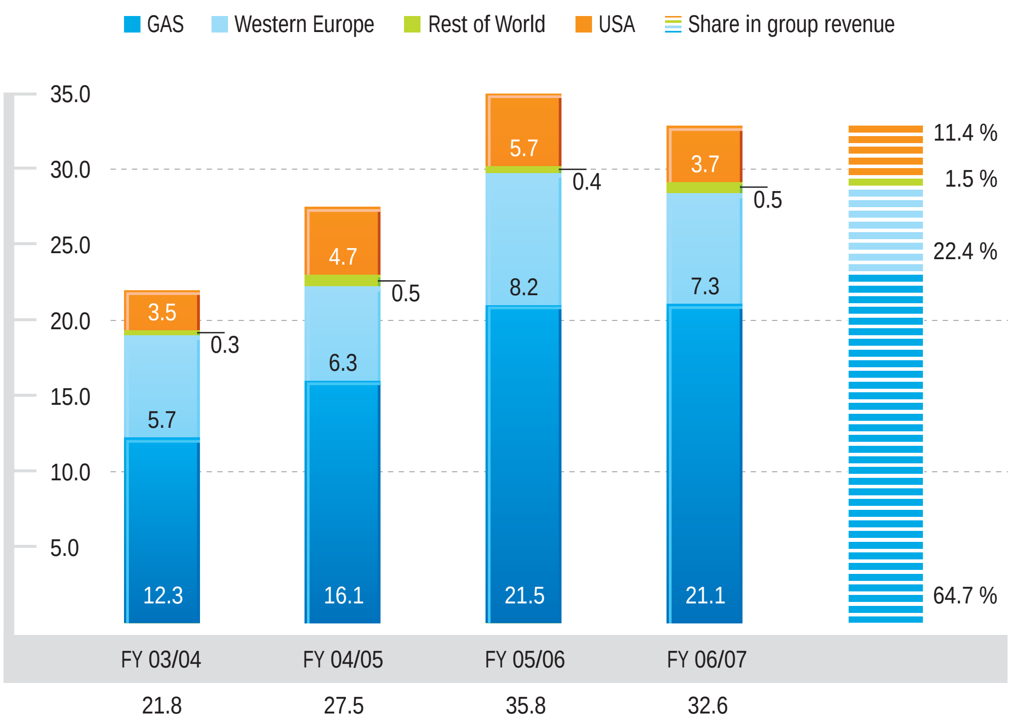
In the second and third quarter, however, it was mainly the poor results in the retail segment for the Anglo-American market that brought about the declining sales. The Group had agreed with various partners that distribution would be switched to sale on commission, meaning that the products – contrary to previous practice – are not invoiced upon shipment but only when they are sold to consumers. In return, the MAGIX Group achieved an improvement in how its products are placed in the sales areas. However, this change in the system led to a negative one-off effect which placed a considerable burden on revenue over this period. The Group had to credit products that had already been paid for at that time until they were sold on again. Alongside the revenue figures for the slowly recovering European retail segment, this switchover led to a decline in revenue of 10% in the second quarter and 14.1% in the third quarter.

While the turnaround in the USA still did not come about over the last four months of the fiscal year, the German retail segment saw a significant upward trend by the end of the fiscal year. In conjunction with the continuing growth in the portal business, this made it possible to achieve in total in the fourth quarter the revenue of the corresponding prior-year period.

Sales by Region

Sales in the various regions developed in extremely different ways over the fiscal year. This arose from special effects which did not have the same results in all areas. The following table shows the developments in both regions:

	2006/2007		2005/2006		+/-	
	kEUR	%	kEUR	%	kEUR	%
Europe and rest of world	28,842	88.3	30,064	84.0	-1,222	-4.1
USA	3,820	11.7	5,724	16.0	-1,904	-33.3
	32,662	**100.0**	**35,788**	**100.0**	**-3,126**	**-8.7**



Revenues by region (EUR million)

Along with the developments described above, the difficult situation in the British retail segment was primarily responsible for the decline in revenue in the “Europe and Rest of World” region in the past fiscal year. The switchover of the distribution system to sales on commission caused a drop in sales due to the related crediting of goods already invoiced.

Within this segment, the German-speaking world contributed EUR 21 million to the MAGIX Group’s revenue for the year. Comparatively speaking, this is just under the figure for the prior year – EUR 21.5 million. As the German-speaking area constitutes the most important market for the Company, the revenues from the rapidly expanding portal business are greater here than in other regions. This almost made up for the fall in revenue in the retail segment. The poorer performance in the US region led to an increase in the share of the German-speaking area in overall revenue from 60.2% to 64.5% in comparison to fiscal year 2005/2006. This share can be expected to decrease again as the situation on the US market continues to improve.

In some countries, such as Spain, Italy and the Netherlands, the Group recorded a slight growth in sales. Such growth was possible because in comparison with Germany, the market for multimedia products in these countries is relatively small, making the overall potential for growth greater.

Revenue by Division

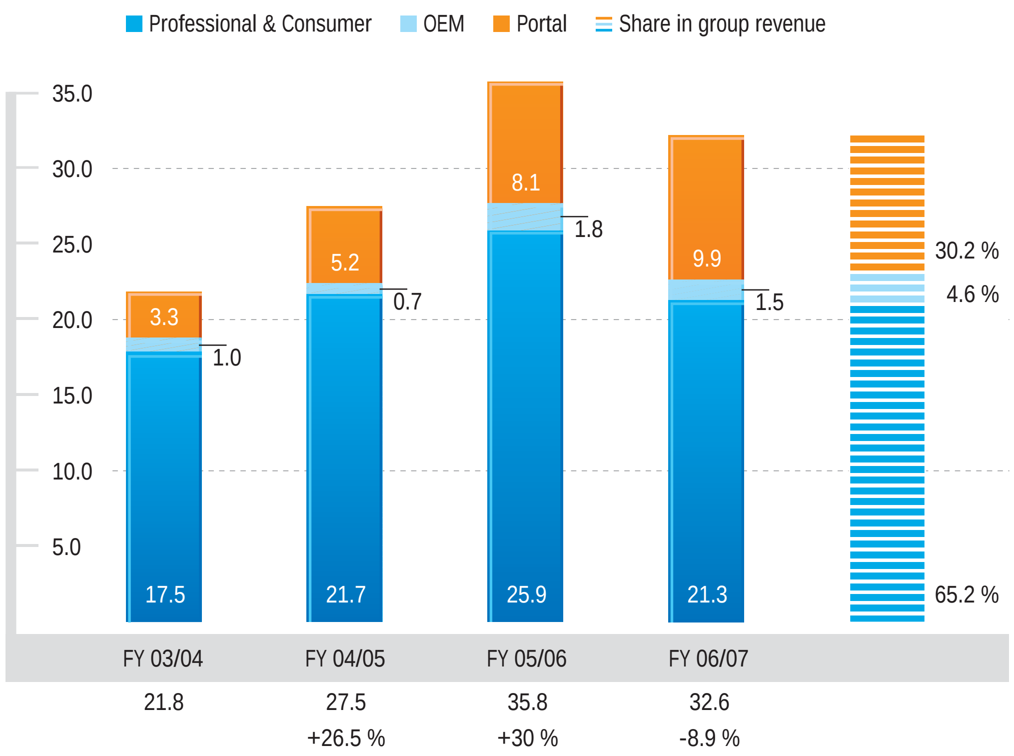
As already mentioned, development within the various business segments in the past fiscal year was mainly characterized by the specific situation in the retail trade. Due to the fact that sales did not meet expectations in that area, the portal division substantially increased its share of overall sales. The development of the individual business segments in comparison to the prior year can be seen as follows:

	2006/2007		2005/2006		+/-	
	kEUR	%	kEUR	%	kEUR	%
Professional & Consumer	21,292	65.2	25,869	72.3	-4,577	-17.7
Portal	9,862	30.2	8,057	22.5	1,805	22.4
OEM	1,508	4.6	1,862	5.2	-354	-19.0
	32,662	**100.0**	**35,788**	**100.0**	**-3,126**	**-8.7**

The drop in the share of the region "USA" primarily resulted from the fundamental changes currently being experienced by the US retail trade. Some of the largest specialist retail chains closed down a considerable number of their branches in the past fiscal year. In addition to this, the sales space for software was reduced to the benefit of higher-price consumer goods. These circumstances had a negative influence on the Group's sales. Although the US portal business increased in excess of 62% in the past fiscal year, the absolute sales figures in this area were not sufficient to balance out the drop in sales in the retail sector.

The Consumer & Professional division continued to generate the largest share of the Group's revenue in 2006/2007. As a consequence of the developments described above, revenue fell by 17.7% in comparison to the prior year. In order to counter this trend, the Group opened up various new channels of distribution in the past fiscal year. For professional audio software and the products of the newly acquired Xara Group a partner for distribution to the specialist trade in Germany was discovered in the form of what is known as the VAR Channel*. Furthermore, the Company concluded various agreements with grocery stores. These stores sell less expensive special versions of the MAGIX products and thus increase the Company's reach.

The revenue growth in the Portal business segment essentially results from the rise in the number of registered users from 4.26 to 7.03 million. This figure includes 1.2 million users that were gained through the acquisition of Xara Group Ltd. However, the remaining organic growth of 1.57 million new users practically equals the figure for the record year 2005/2006. While the revenue generated by the MAGIX portal increased by almost one third also this year, the revenue achieved with the portal partners dropped by EUR 0.2 million. Negotiations with other interested parties progressed only slowly so that it was not possible to conclude new partnerships. This resulted from the high initial investments which require an online service to be built into the partner's website. As a consequence, the Group intends to amend its B2B strategy in order to further speed up the expansion of the portal business in the coming year.



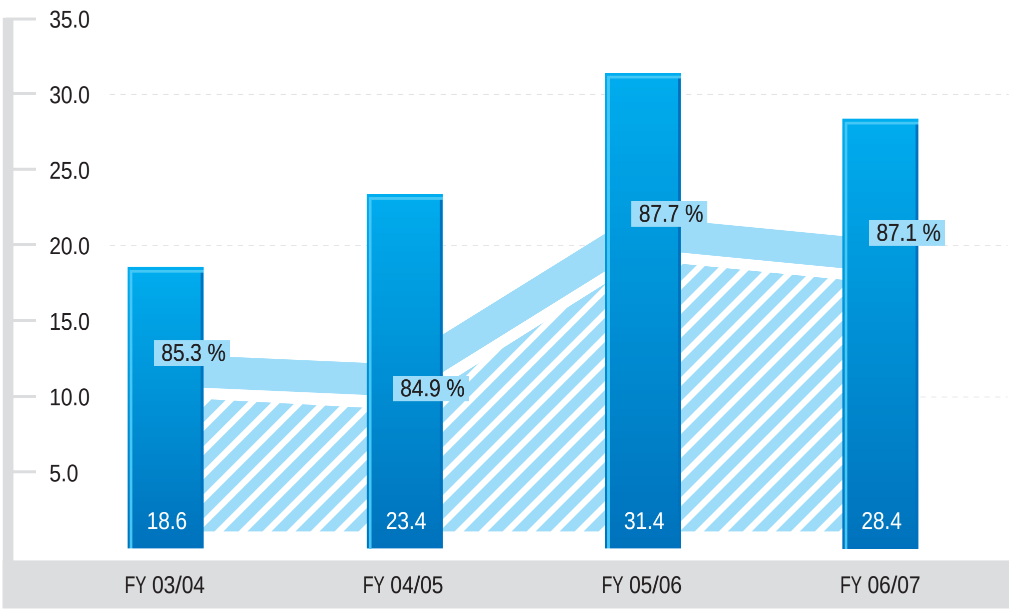
Revenues by business segment (EUR million)

Results in the OEM division in 2006/2007 were below those seen in the prior year. The revenue flow in the OEM division is generally very irregular as it is very dependent on the conclusion of individual agreements. Furthermore, in this business segment, the Group focuses more on the distribution of the products in large numbers of units than on generating income from license fees.

Gross Profit

The product costs developed virtually sideward over the past fiscal year. At 87.2%, the gross profit was only 0.5% under the prior year and thus still far above the figures from fiscal years 2004/2005 (84.9%) and 2003/2004 (85.3%).

The slight drop results from the fact that, as of the beginning of the past fiscal year, the Group has been combining various products with hardware in its audio division, and this increases product costs. As an example of this, a music creation program is supplied together with a keyboard or software for making copies



Gross margin (EUR million)

of records is using a pre-amplifier. Selling these products as a package has the advantage that the MAGIX Group's range of products is also present in different sales areas of the retail business, for example in the instrument department.

In absolute terms, the margin was 9.3% under the prior year at EUR 28.5 million due to the revenue development already depicted.

Product costs at MAGIX comprise cost of materials for packaging and any third-party licenses for "codecs". All other production steps are performed by the MAGIX Group, meaning that no other costs are incurred.

The aforementioned codecs are based on standard media formats, such as the established MP3 format. As it would not make economic sense to develop these functions internally, licenses for the use of intellectual property must be paid. The Group has drawn up its license agreements in such a way that payments only have to be paid when the codec is actually used by the consumer. This leads to a significant reduction in payments for third-party licenses.

Cost Structure

Without taking amortization, depreciation and write-downs into consideration, the operating expenses in fiscal year 2006/2007 increased by 7.7% to EUR 22.9 million, as the Group invested in the development of new technology independently of the negative revenue development. Amortization, depreciation and write-downs increased by 29% over the reporting period from EUR 2.3 million in the prior year to just under EUR 3 million. This increase primarily results from the customer base and the software development of Xara Group Ltd. as well as additional intangible assets of MAGIX AG and MAGIX Development GmbH.

In detail, operating costs (excluding amortization, depreciation and write-downs) developed as follows:

	2006/2007		2005/2006		+/-	
	kEUR	%	kEUR	%	kEUR	%
Distribution expenses	12,622	55.1	13,063	61.5	-441	-3.4
Administrative expenses	4,204	18.4	3,650	17.2	554	15.2
Research and development costs	6,069	26.5	4,540	21.4	1,529	33.7
	22,895	**100.0**	**21,253**	**100.0**	**1,642**	**7.7**

Consequently, the greatest increase was seen in the “Research and Development” (R&D) division due to the investment in new technologies. Within this division, the department responsible for preparing Internet services was expanded in particular; it is here that the new online portals “myGoya” and “mufin” were developed. In addition to this, the acquisition of the Xara Group also led to an expansion of the development department. After a significant increase in fiscal year 2005/2006, the costs for R&D consequently rose once again by 33.7%, meaning that their portion of revenue climbed from 12.7% to 18.6%. Once there is a positive revenue development this portion will decline again.

The increase in administrative costs primarily results from currency differences and loss of receivables. While these two cost items increased by around EUR 0.4 million, personnel expenses were lowered by 1%.

In contrast to this, it was possible to slightly lower the costs in the “Distribution” division. In times of weak consumption by final customers, promotional activities often fall flat without bringing about the corresponding revenue increase. For this reason, marketing expenditure was significantly decreased in the past fiscal year. The savings achieved were able to compensate for the slight increase in personnel expenses and the additional costs arising from the acquisition of Xara Group.

3.2. Financial Position and Net Assets

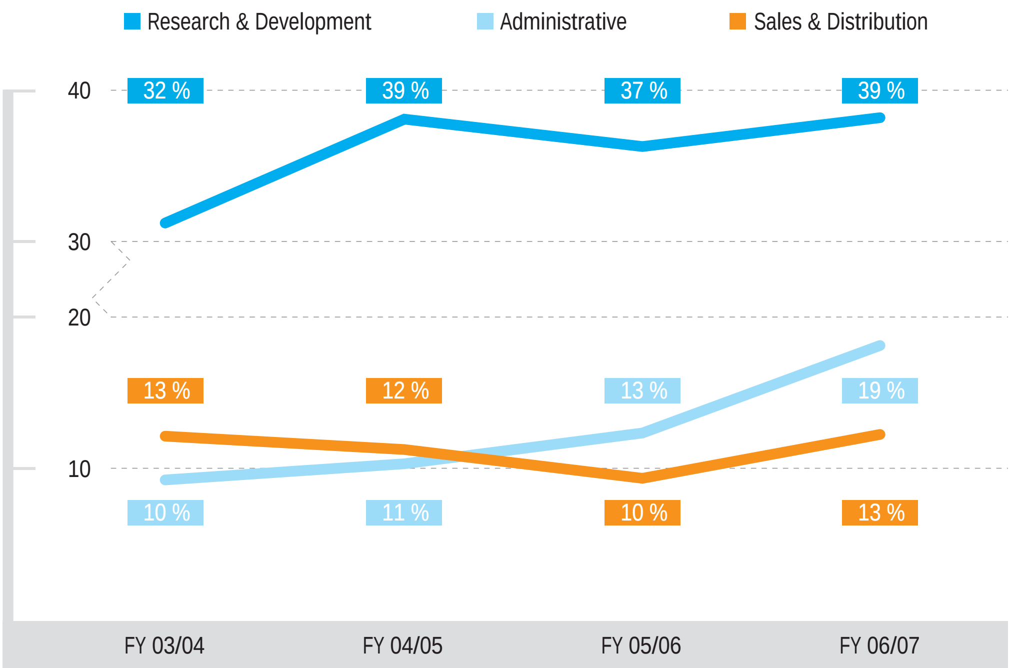
Balance Sheet

There were no material changes to the net assets in the 2006/2007 fiscal year. The balance sheet total increased by just under one million from EUR 57.5 million to EUR 58.4 million. In particular the acquisition of the Xara Group and of the remaining shares in m2any GmbH and the investment of cash and cash equivalents in other financial assets brought about a reduction in liquid funds to EUR 17.4 million. The extremely stable structure was retained. The equity ratio remains at the very high level of 80.2%.

Trade receivables dropped slightly by EUR 0.5 million and amounted to EUR 9.9 million as of September 30, 2007. With regard to non-current assets, intangible assets rose from EUR 8.7 million to EUR 11.7 million due to the acquisition of the Xara Group. With regard to property, plant and equipment, only minor investments in the technical infrastructure were necessary in 2006/2007 thanks to the investments in the prior year. There was also a claim to a tax refund in the amount of EUR 0.6 million.

Trade payables were pushed down by around EUR 0.9 million to EUR 1.2 million in the course of the reporting period. Non-current liabilities increased from EUR 0.1 million to around EUR 1.5 million because the Group had to issue a financial guarantee for the earn out within the scope of the Xara acquisition.

Furthermore, in comparison to 2005/2006, the total of other current liabilities and provisions was pushed down by EUR 0.5 million. Provisions of EUR 0.5 million were reversed. As one of these items is recorded in USD, the Group profited from the decline in the price of the US dollar. In addition to this, provisions for customer bonuses were reversed. In addition, trade payables fell by EUR 0.8 million. Tax payables fell by EUR 0.3 million.



Operating expenses excl. depreciation (in % of revenues)

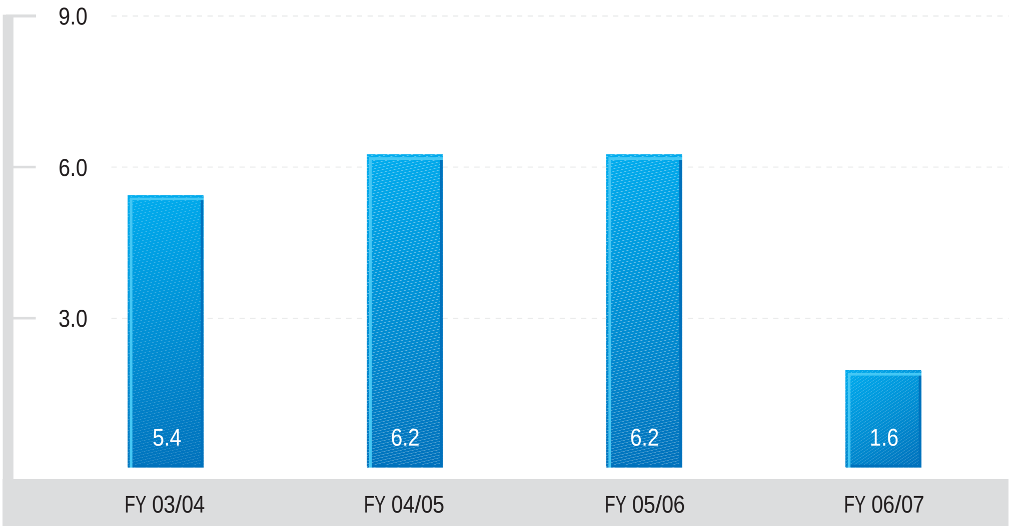
Cash Flow

Despite falling revenue, operating cash flow continued to develop positively over the reporting period. In comparison to the prior year, operating cash flow dropped by just under EUR 4.6 million to EUR 1.6 million. Advance payments on income tax in the amount of EUR 2.2 million became due as a result of the large profits in fiscal year 2005/2006. These advance payments are, however, offset by the claim to tax refunds amounting to EUR 0.6 million which will be deducted from future tax payments.

Depreciation and amortization on non-current assets increased, as this was the first time that the customer base and the software development of the Xara Group was reported. Furthermore, additional intangible assets were capitalized through MAGIX AG and MAGIX Development GmbH.

At the same time, interest income rose due to the increase in cash and cash equivalents in the course of the IPO. Trade receivables were reduced by EUR 0.5 million, on the other hand.

Total net cash flow used for investing activities increased from EUR 3.9 million to EUR 19.4 million. This includes EUR 4.7 million for the acquisition and stepping up of shares in subsidiaries. In addition to this, EUR 3.4 million was invested for non-current assets. These can primarily be broken down into additional capitalization of intangible assets.



Operating cash flow (EUR million)

In the prior year, the cash flow from financing was materially characterized by the cash flows in connection with the IPO. Adjusted to exclude this effect, there was no material change in this respect in the fiscal year.

Research and Development

The Group's past fiscal year was very much characterized by the expansion of Internet services. The past few years revealed a clear move towards using the Internet more intensely to access digital content in the fields of photography, video and music. In the future, it will be increasingly possible to use applications directly via the web. Consequently, it is imperative for the Group to invest in the area of Internet services to maintain its competitiveness. In the past fiscal year, the development focused on the two online portals, "myGoya" and "mufin". Additionally, the new media market place "Catooh" and the multimedia knowledge community "magix.info" have been completed.

Alongside this, one major concern in the field of software development was to maintain and continue to expand the Group's position as a leading developer of sophisticated multimedia solutions. As the entertainment electronics landscape is constantly undergoing change, it is necessary to constantly adapt the MAGIX Group's range of products to the developments in the field of multimedia. The Group obtained, through the acquisition of the Xara Group, core competencies in the field of graphics. Specialists consider products produced by Xara to be the fastest graphics software worldwide.

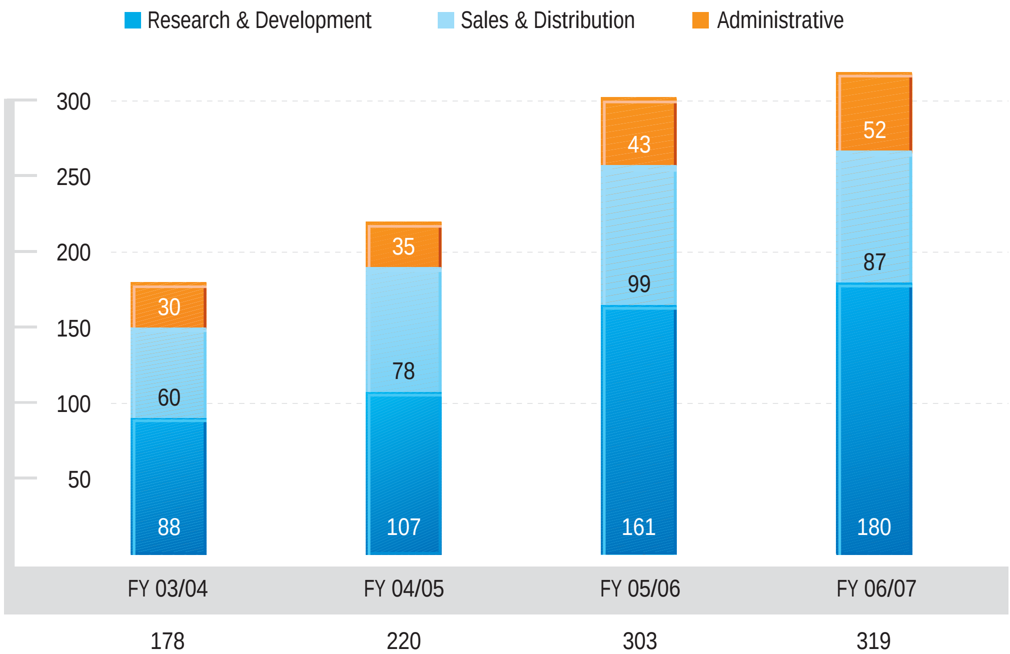
Here are some of the developments in fiscal year 2006/2007 that deserve special mention:

Online services:
- myGoya Online Desktop
- mufin
- Catooh
- magix.info
- Online Album Flash Version

Software products:
- mufin Music Finder
- Xara Xtreme Pro
- Video deluxe Audio & Effect Edition
- Xtreme Foto and Graphic Designer
- Speed
- Total Media Converter
- Music Maker Rock Edition

Employees

The Group actively implements personnel development and adapts its activities in this field to the specific circumstances arising from the current economic situation. The number of employees rose from 303 to 319 in the course of the reporting period. This constitutes a rise of just under 5 percent on the prior year. Of the



Employees as of September 30 of the corresponding fiscal year

15 new employees, 12 can be attributed to the Xara Group, which was acquired in January. It was possible to reduce its workforce by 7 employees due to synergy effects. New members of staff were recruited in particular in the Research and Development division, where 180 employees were working at the end of the reporting period. In addition to this, it was necessary to expand the Administration division from 42 to 52 employees; part of this increase is, however, similarly a result of the Xara acquisition. On the other hand, the number of employees in the Distribution division dropped to 87. The Management Board continues to have three members.

Thus, personnel expenses increased by 11% to EUR 10.9 million in comparison to fiscal year 2005/2006.

Group Structure

The following overview shows the structure of the MAGIX Group as of September 30, 2007.

		Share in equity
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, Netherlands	100%
MAGIX Development GmbH	Dresden, Germany	100%
MAGIX Limited	Hampshire, United Kingdom	100%
Xara Group Ltd.	United Kingdom	100%
m2any GmbH	Garching, Germany	100%
Catooh Corp.	Las Vegas, Nevada, USA	100%

The following changes occurred in the course of the fiscal year:

1.) The Group assumed a 100% shareholding in Xara Group Ltd. on January 30, 2007. The purchase price can be broken down into three tranches. The first totaling EUR 1.5 million became due upon signing of the purchase agreement. The second payment totaling EUR 1.5 million will be made on September 30, 2009, together with the third tranche. The amount of this payment will depend on the future development of revenue and results.

2.) The MAGIX Group assumed the remaining 34% in m2any GmbH on July 26, 2007. The purchase price totaled EUR 1.8 million and was paid in part with 139,000 treasury shares.

3.) In order to handle transactions with Catooh, the newly introduced online service, the Group formed Catooh Corp. in Las Vegas, Nevada, USA, on March 27, 2007, which was registered in the local commercial register on April 5, 2007. This company's equity amounts to USD 100.

4. Subsequent Events

Subsequent to the balance sheet date, the Group acquired 1.1 million treasury shares for a price of EUR 5.5 million on October 2 through a public repurchase offer. According to the resolution of the shareholders' meeting of March 23, 2007, the shares can be used as acquisition currency or for the stock option plan, sold on the stock exchange or withdrawn.

5. Risk Report

5.1. Risk Management

The markets for software products and Internet services are subject to rapid changes as regards technologies and industrial standards. MAGIX's success therefore depends on its ability to predict new trends and developments in time, continuously 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 at regular intervals with the managers involved. Together with the management, it defines key financial and other indicators and continuously monitors compliance with the same.
- The project managers responsible 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 there. The Management Board is regularly informed of events and results. The system is constantly checked, expanded and adapted to the rapid growth of the Company.

5.2. Individual Risks

Shareholders were informed of a variety of possible risks to business activities in the securities prospectus for the flotation 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 beyond the Company's control. The market is relatively young, which makes any reliable assessment of future developments more difficult. In addition, the market environment is highly dynamic. MAGIX AG 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 market sub-areas is minimized by partaking in 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 area, during fiscal year 2007/2008. Regardless thereof, company earnings essentially depend on the market success of new products and the mastering of new technological developments.

Competitive Risks

The 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 the MAGIX Group's comprehensive portfolio, however. The Company therefore rates the risk of a provider developing a similarly comprehensive and competitive product range in the medium term as relatively unlikely.

Legal and License Risks

The MAGIX Group must comply with the relevant legal framework when developing and selling its products. Any change to this framework may lead to considerable disadvantages for the Company. There is currently no indication that there will be any changes.

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 mitigate this risk.

Personnel Risks

The Group's products and services 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 Company is exposed to credit risks with regard to customer receivables and currency risks. The Company concluded a credit insurance policy to hedge credit risks. No hedges are used to secure currency risks. Because the Company is only exposed to interest rate risks to a very limited extent, 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.

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

6. Outlook

6.1. Economic Environment

Overall Economy

Although the economic recovery in Europe continued through 2007, forecasts for the year 2008 are becoming more cautious. This must be seen in the light of the subprime crisis in the USA which, in conjunction with the high price of oil and the weak dollar, has dampened expectations. Although these developments did not rattle the economy initially, the financial markets in particular were obviously becoming increasingly nervous towards the end of the past calendar year. This resulted from the fact that, contrary to expectations, various banks had experienced solvency problems in the course of the developments. Fears have now arisen that other unpleasant surprises may follow.

The US economy is the focal point of this crisis. Investments in residential construction have fallen by 20% since 2005 as a consequence of the lower prices of real estate and a lower volume of mortgage financing. Consumption by private households might likewise be lower over the next quarters due to the reduction in the value of assets and a slowing in the growth of employment. This could potentially be accompanied by a clear downturn in economic growth in 2008 to below 2%. The danger of recession in the USA is becoming more and more apparent.

In contrast to this, significant levels of growth can continue to be expected in Asia, Latin America and even in Africa.

In this light, the autumn report drafted by the leading economic research institutes assumes that the German economy will grow by 2.2% in 2008. An increase of 2.6% is expected for 2007. As a consequence of the developments described above, the European Commission has reduced its expectations for GNP growth in the euro area from 2.5% to 2.2%.

Industry

Various factors play a role in how the markets for multimedia products develop. For example, it is important to observe growth rates in the markets for PCs and products relating to entertainment electronics. At the same time, increasing propagation of broadband Internet connections has an influence on the use of digital content in personal communication. Finally, it should be noted that multimedia solutions only cover a small part of the overall software market. Consequently, forecasts for this market cannot be simply transposed onto multimedia products.

The European Information Technology Observatory (EITO) sees growth totaling 2.9% on the market for information and communication technology in Europe in 2008, having already seen this amount of growth in 2007. As for the USA, growth will, on the other hand, slow down in 2007 from 4.7% to 4.3% but will continue at a high level.

According to a study by the BITKOM ["Bundesverband Informationswirtschaft, Telekommunikation und neue Medien": German Association for Information Technology, Telecommunications and New Media], growth of 4.2% is expected in the field of digital entertainment electronics in Germany in the coming year. Furthermore, software was quoted as being the growth driver with an increase of 5.8%. The study further stated that the number of PCs would continue to increase – from 9.8 million in this year to 10.4 million in 2008. Furthermore, stable growth is forecast in the broadband sector – from EUR 12.4 billion to EUR 13.2 billion in the coming year.

The prerequisites for a positive development in the industry are therefore still in place.

6.2. The MAGIX Group's Strategy

The Company intends to exploit these positive prerequisites in various ways. The following gives details of the Group's strategy in various business fields and the opportunities and risks arising from the same.

Portal

With regard to MAGIX' Internet services, the current fiscal year puts an emphasis on expanding the mufin and myGoya online portals. These portals offer the Group an opportunity to generate new sales sources, for example through online advertising. At the same time this is a very lively market, however. Consequently, there is a risk that it may take longer to place the services on the market than currently planned by the Group. Special divisions are being formed for these services in order to render investments and results in this segment more transparent. These divisions can promote the products in a more targeted way and give them their own character. In the case of mufin, the focus is put on building up a social network and entering into partnerships with various online music shops. myGoya initially addresses groups which will profit most of all from the possibilities of collaboration provided by the Online Desktop. In the further course of this process, myGoya will be established as a service for small businesses which can use the Online Desktop as a digital assistant for day-to-day collaborative work processes. The Group has budgeted EUR 1 million for the market launch of each of the two services. The use of these funds is, however, linked to the success of the respective product. Alongside this, EUR 0.8 million in additional personnel costs have been earmarked for the expansion of the divisions. Over and beyond this, alongside mufin and myGoya the intention is to standardize the individual Internet services of the MAGIX Group in order to win over more users directly from the Internet in addition to MAGIX's customers.

With regard to further acquisitions, the Management Board continues to observe the market for social networks pertaining to multimedia content. However, the prices for online portals are currently extremely high as a consequence of the spectacular purchases of the shares in FaceBook, YouTube and StudiVZ. Consequently, there will only be a corporate acquisition in the current fiscal year if the price is reasonable in relation to the number of users gained.

Direct marketing will be increasingly diversified. In doing so, knowledge gained from the Customer Relation Management System will be exploited in order to make tailored offers to users.

Expanding partnerships in the B2B business was unsatisfactory in the past fiscal year. One of the reasons for this is that the MAGIX Group's partners are large corporate groups. These may take a long time to make decisions. Very frequently the required approval of the costs arising from implementation and customization causes considerable delays in the decision-making process. For this reason, there are plans to present business partners with a new model in future, in which MAGIX provides the service directly in the form of an affiliate program. This means that the partner will not have to bear the investments at the beginning of the project, making its possible to get started more quickly. At the same time, the users won in this way become direct customers of MAGIX's range of services, and the Group can turn them into repeat buyers. This increases the chances of concluding additional partnerships.

Professional & Consumer

In the Professional & Consumer division it is important to align activities in the Research & Development division to developments in the technological environment. At the same time, the marketing concept must be adapted to the changing situation in the retail trade.

One focal point of development will be placed on networking current products with the MAGIX multimedia community. The user will then be able to make direct contact with other users via the software, present his results or ask questions. This will give the Group an opportunity to gain more information on user habits which leads to enhanced customer ties and can at the same time improve customer support. Networking customers is a truly unique selling proposition in comparison to the competition thus providing a possibility to gain new customers. The first products with a networking function were already delivered in autumn 2007 and further functions are in planning.

Sales through online dealers such as Amazon are rigorously being expanded in order to take into account the increasing sales volume via the Internet. The aim over the next year is to build up an enhanced presence on well-known online portals. In addition to this, the intention is to continue to expand the VAR channel. In this respect, the plans are to expand internationally in addition to continuing sales in Germany. New channels of distribution are likewise being sought for the US market. There is great potential in the field of education there.

OEM

Generally speaking, license payments are lower in connection with OEM sales than in the retail trade. Nevertheless, hardware manufacturers are increasingly unwilling to license products due to the great pressure on margins. As a consequence, the Group will increasingly dispense with unit licenses in specific areas. Instead, a license will only be required when the program enclosed with the hardware is actually activated by the user. In this way, OEM sales will be used more intensively in future as a tool to propagate the MAGIX brand and the respective products being distributed. There is the risk that this might have a negative influence on sales in the OEM division.

The following activities are planned with regard to the marketing of music recognition and music recommendation software technology for use on hardware devices. The Management Board will present its functions at various conferences, in particular in the US and Europe. Alongside CEO Jürgen Jaron, one of the guest speakers will be Prof. Brandenburg, who invented the MP3 format and music recognition and music recommendation technology. At present, all of the major hardware manufacturers are looking into music recommendation. In order to facilitate their decisions in favor of implementation, the Group is further working towards partnerships with manufacturers of components for MP3 players. Consequently, music recognition and music recommendation technology offers the Group the chance to boost sales in the OEM division.

6.3 Expected Results of Operations

The Management Board sees growth potental in the current financial year in the Professional & Consumer segment to which new products and the additionally tapped retail channels will contribute. The situation in the US market will continue to be strained in this market, however, and it remains to be seen whether recovery in the German retail market will continue during the current financial year. Continuous growth can be expected in the Portal business due to an increasing reorientation towards online retail. Increases will be mainly outside of the GAS region*. Due to the different challenges in the retail market the Management is expecting revenues of the previous year for 2007/2008. In the coming financial year the new online services are expected to further increase returns of the portal business and thus result in growth of group revenue.

The market launch of mufin and myGoya demands additional investment by the Group. On the one hand, marketing expenditure is budgeted for and, on the other, there are plans to hire additional staff for both these divisions. As a consequence of these investments, which will total EUR 2.8 million at most, the management expects an EBIT of approx. EUR 2 million for the current year. The EBIT is expected to then increase again in the following fiscal year.

It is intended to increase the number of registered users, which is an important indicator for portal business, from the current 7.03 million. In this, the launch of the mufin and myGoya Internet services will be an additional driving force for the increase in the number of registered users.

6.4. Forecast Financial Position

With regard to the financial position, no material changes are expected in comparison to the past fiscal year. The high equity ratio of around 80% and the high level of cash and cash equivalents would only be reduced within the framework of an acquisition or another share buyback program. The operating cash flow will continue to develop in a positive way. No financing measures are planned. There are no immediate plans to distribute dividends.

In addition to expanding the technical infrastructure, there are plans to make modest investments in software development orders. These investments are intended to further promote organic growth by putting the MAGIX Group into a position to be able to continually extend its knowledge base.

7. Disclosures pursuant to Secs. 289 (4), 315 (4) HGB

Composition of Issued Capital

The issued capital of the Company amounts to EUR 12,662,038 as of September 30, 2007 and is divided into 12,662,038 no par value shares with an imputed nominal value of EUR 1.00 per share. Each share entitles the holder to one vote. The shareholders exercise their voting right at the shareholders' meeting as stipulated by the legal provisions and the articles of incorporation and bylaws. There are no restrictions relating to the voting rights or transfer of shares.

Authorized Capital

By resolution dated March 22, 2006, the shareholders' meeting of the Company further 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.

The Management Board is further 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 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.

Share Buyback

On March 23, 2007, the shareholders' meeting authorized the Management Board, with the approval of the Supervisory Board, to purchase MAGIX AG shares. This authorization is limited to the purchase of treasury shares with an imputed share in the capital stock of up to a total of EUR 1,266,203.00, which is equivalent to just under 10% of the capital stock as of September 30, 2006 amounting to EUR 12,662,038.00. Such authorization may be exercised in full or in part, at once or on more than one occasion. Such authorization is valid until August 31, 2008. The shares shall be purchased on the stock exchange by means of a public buyback offer.

On March 23, 2007, the shareholders' meeting further authorized the Management Board, with the approval of the Supervisory Board, to resell the treasury shares in the Company on the stock exchange. The shares may further be used and redeemed for the stock option plan 2006 or as acquisition currency

Shareholder Composition

As of September 30, 2007, the following shareholders held direct or indirect investments in the Company's equity that exceeded 10% of the voting rights.

Appointment/Dismissal of Management Board Members

According to Art. 7 (1) of the articles of incorporation and bylaws, the Supervisory Board appoints the members of the Management Board and determines how many there will be. Further details relating to appointment and dismissal are governed by Secs. 84 et seq. AktG

According to Art. 12 (2) of the articles of incorporation and bylaws, the Supervisory Board is only authorized to make amendments and additions to the articles of incorporation and bylaws that relate to the wording of the same. Otherwise, the articles of incorporation and bylaws are, pursuant to Sec. 179 AktG, passed by the shareholders' meeting with a majority of at least three quarters of the capital stock represented at the passing of the resolution.

Regulations Relating to a Change in Control

The Company has not entered into any material agreements subject to a change in control as a result of a takeover bid. The Company has also not entered into compensation agreements with the members of the Management Board or employees in case of a takeover bid. The statutory provisions apply.

8. Main Features of the Remuneration System

The annual remuneration of the members of the Management Board consists of fixed components, profit-based components as well as long-term profit-based components. The bonus is determined by the Supervisory Board at its dutiful discretion on the basis of the financial performance of the Company. The Supervisory Board may agree an appropriate special bonus in the case of exceptional performances.

Presto Capital Management GmbH & Co. KG*	22.87%
HeidelbergCapital Private Equity Fund I GmbH & Co. KG	11.21%
Jürgen Jaron	11.85%
Dieter Rein	11.85%

*** The limited partner's capital in Presto Capital Management GmbH & Co. KG is held by Jürgen Jaron and Dieter Rein, each 50%. Taken together, around 46.57% of the voting rights in the Company can thus be attributed, directly and indirectly, to Jürgen Jaron and Dieter Rein.*

Pursuant to Art. 13 (1) of the articles of incorporation and bylaws passed by the shareholders' meeting of MAGIX AG, the Company's Supervisory Board receives a fixed remuneration for each fiscal year. This remuneration is passed by the shareholders' meeting. In addition, any expenses incurred by the Supervisory Board are reimbursed. Its members do not receive variable remuneration.

Berlin, January 4, 2008

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

Independent Auditor's Report

We have audited the consolidated financial statements prepared by MAGIX AG, Berlin, comprising the balance sheet, the income statement, the cash flow statement, the 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, 2006 to September 30, 2007. 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. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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). Those 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 IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and full IFRS 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.

Berlin, January 4, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Glöckner	**Thielicke**
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Consolidated Financial Statements September 30, 2007

Consolidated Balance Sheet as of September 30, 2007

ASSETS	Note	Sept. 30, 2007 kEUR	Sept. 30, 2006 kEUR
Non-current assets			
Property, plant and equipment	(1)	1,674	1,501
Intangible assets	(1)	11,680	8,730
Goodwill	(1)	2,116	0
Total non-current assets		**15,470**	**10,231**
Current assets			
Inventories	(2)	1,162	934
Trade receivables	(3)	9,875	10,379
Other assets (held up to the final maturity)		940	830
Tax receivables		616	0
Financial assets	(4)	12,952	0
Cash and cash equivalents	(5)	17,391	35,095
Total current assets		**42,936**	**47,238**
Total assets		**58,406**	**57,469**

Consolidated Balance Sheet as of September 30, 2007

EQUITY AND LIABILITIES	Note	Sept. 30, 2007	Sept. 30, 2006
		kEUR	kEUR
Equity attributable to equity holders of the parent			
Issued capital	(6)	12,662	12,662
Capital reserve		25,599	26,083
Revenue reserves		8,736	6,118
Treasury shares	(6)	-177	0
Reserve for currency translation		17	89
		46,837	**44,952**
Minority interests		0	1,125
Total equity		**46,837**	**46,077**
Non-current liabilities			
Other liabilities (non-current portion)		1,480	116
Deferred tax liabilities	(12)	1,045	541
Total non-current liabilities		**2,525**	**657**
Current liabilities and provisions			
Provisions	(7)	4,127	4,616
Other liabilities (current portion)		3,362	3,334
Trade payables		1,216	2,083
Tax liabilities		339	702
Total current liabilities and provisions		**9,044**	**10,735**
Total equity and liabilities		**58,406**	**57,469**

Consolidated Income Statement
for the Fiscal Year from October 1, 2006 to September 30, 2007

	Note	Oct. 1, 2006 to Sept. 30, 2007	Oct. 1, 2005 to Sept. 30, 2006
		kEUR	kEUR
Sales revenue	(8)	32,662	35,788
Cost of sales	(9)	-4,195	-4,386
Gross profit		**28,467**	**31,402**
Selling expenses	(10)	-13,181	-13,286
Administrative expenses	(10)	-4,333	-3,806
Research and development costs	(10)	-8,347	-6,464
Other income/other expenses	(11)	457	384
Earnings before interest and taxes		**3,063**	**8,230**
Interest income		1,325	495
Interest expenses		-66	-12
Earnings before taxes		**4,322**	**8,713**
Taxes on income	(12)	-1,804	-3,583
Net income of the Group for the period		**2,518**	**5,130**
Attributable to:			
Equity holders of the parent		2,618	5,233
Minority interests		-100	-103
Earnings per share (basic and diluted)	(13)	**0.21**	**0.44**
Average number of shares outstanding		**12,646,279**	**11,970,394**

Consolidated Cash Flow Statement
for the Fiscal Year from October 1, 2006 to September 30, 2007

	Oct. 1, 2006 to Sept. 30, 2007 kEUR	Oct. 1, 2005 to Sept. 30, 2006 kEUR
CASH FLOW FROM OPERATING ACTIVITIES		
Earnings before taxes	4,322	8,713
Adjustments for:		
Amortization and depreciation of non-current assets	2,970	2,303
Interest income	-1,325	-495
Interest expenses	66	12
Other non-cash income and expenses	227	-22
Losses/gains from disposals of non-current assets	0	5
	6,260	**10,516**
Change in trade receivables	-504	-3,830
Change in inventories	-228	-146
Change in other assets	-60	21
Change in trade payables	-938	1,283
Change in provisions	-489	575
Change in other liabilities	-140	52
Cash flow from operating activities	**3,901**	**8,471**
Interest payments	-66	-12
Income tax payments	-2,242	-2,273
Net cash flows from operating activities	**1,593**	**6,186**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid for the acquisition and stepping up of shares in subsidiaries (without purchased cash and cash equivalents)	-4,659	0
Cash paid for the purchase of treasury shares	-1,110	0
Cash paid for investments in other financial assets	-11,500	0
Cash paid for investments in non-current assets	-3,447	-4,388
Interest income	1,325	495
Net cash flows used in investing activities	**-19,391**	**-3,893**
CASH FLOW FROM FINANCING ACTIVITIES		
Investment subsidies received	166	22
Equity increase through the issue of shares	0	22,140
Cash paid for IPO costs	0	-2,472
Net cash flows used in financing activities	**166**	**19,690**
Exchange differences	-72	-36
Changes in cash and cash equivalents	-17,704	21,947
Cash and cash equivalents at the beginning of the period	35,095	13,148
Cash and cash equivalents at the end of period	**17,391**	**35,095**

Consolidated Statement of Changes in Equity
for the Fiscal Year from October 1, 2006 to September 30, 2007

Equity	Equity of the equity holders of the parent							
	Issued capital	Capital reserve	Revenue reserve	Treasury shares	Reserve for currency translation	Subtotal	Minority interests	Total
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
October 1, 2005	**11,312**	**6,739**	**885**	**0**	**125**	**19,061**	**1,228**	**20,289**
Share capital increase by issue of shares	1,350	20,790				22,140		22,140
Offsetting of IPO costs (less income tax effect of kEUR 941)		-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**	**0**	**89**	**44,952**	**1,125**	**46,077**
Offsetting of costs Stock option plan		227				227		227
Repurchase of treasury shares				-1,110		-1,110		-1,110
Purchase of minority interests and offsetting of the cash contribution for the purchase of minority interests against the capital reserves (reported using the entity concept)		-711		933		228	-1,025	-803
Currency translation					-72	-72		-72
Net income/loss for the period			2,618			2,,618	-100	2,518
September 30, 2007	**12,662**	**25,599**	**8,736**	**-177**	**17**	**46,837**	**0**	**46,837**

Notes to the Consolidated Financial Statements as of September 30, 2007 pursuant to International Financial Reporting Standards (IFRS)

1. General Information on the Consolidated Financial Statements

1.1 Information on the Company

MAGIX AG (or "Company") was founded by Jürgen Jaron, Dieter Rein and Erhard Rein in 1993 under the name of "MAGIX Technology GmbH, Munich". The Company is registered in the commercial register of 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, 2007. The fiscal year 2006/2007 covers the period from October 1, 2006 to September 30, 2007.

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

On January 4, 2008 the management board released the consolidated financial statements as of September 30, 2007 to the Supervisory Board.

1.2 Basis of Preparation

The consolidated financial statements have been prepared on a historical basis. The consolidated financial statements are prepared in euro. Unless indicated otherwise, all amounts are stated in thousands of euro (kEUR).

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 the provisions of German commercial law to be applied additionally pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code].

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 the 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 deconsolidated as soon as the parent loses control over the subsidiary.

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

Share in equity		
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, Netherlands	100%
MAGIX Development GmbH	Dresden, Germany	100%
MAGIX Limited	Hampshire, United Kingdom	100%
Xara Group Ltd.	United Kingdom	100%
m2any GmbH	Garching, Germany	100%
Catooh Corp.	Las Vegas, Nevada, USA	100%

As far as the newly acquired/founded subsidiaries Xara Group Ltd. and Catooh Corp. are concerned, we refer to our comments in 3. Business Acquisitions.

On July 26, 2007, MAGIX AG acquired 34% of the shares in its subsidiary m2any GmbH, which had been held by founders of the company up until that date. The purchase price for the shares was paid by issue of 139,000 shares in MAGIX AG and a cash contribution of kEUR 803. The issue of treasury shares was treated as a non-cash transaction in the consolidated cash flow statement, and the cash contribution as cash paid for the acquisition and stepping up of shares in subsidiaries.

As MAGIX AG already had control of the economic activities of m2any GmbH prior to purchasing the 34% minority interests and there was no contractual relationship between the original acquisition of the company and the acquisition of the minority interests, the provisions for business acquisitions were not applied when accounting for the transaction. To the extent that the cost of purchasing the minority interests exceeded the minority interests (after allocation of the result) in the consolidated financial statements, the difference was offset against capital reserves.

1.3 Change in Accounting Policy

The accounting policies used generally correspond to the policies applied in the prior year. In addition the Group has applied the new and revised standards that are binding for fiscal years beginning on or after January 1, 2006.

The changes in accounting policies relates to the application of the following new or revised IFRS standards and IFRIC interpretations already adopted by the European Union:

· IFRS 6
  Exploration for and Evaluation of Mineral Resources
· IAS 19
  Employee Benefits (amended 2004/2005)
· IAS 21
  The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation (amended 2005)
· IAS 39
  Financial Instruments: Recognition and Measurement (amended 2005)
· IFRIC 4
  Determining whether an Arrangement contains a Lease
· IFRIC 5
  Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
· IFRIC 6
  Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The first-time adoption or amendment of the aforementioned IFRS standards and IFRIC interpretations does not affect the consolidated financial statements of MAXIG AG.

IFRS standards and IFRIC interpretations that have already been adopted by the European Union but are not yet mandatory were not taken into account. These include the following provisions:

· IFRS 7
  Financial Instruments: Disclosures
· IAS 1
  Presentation of Financial Statements
· IFRIC 7
  Applying the Restatement Approach under IAS 29
· IFRIC 8
  Scope of IFRS 2
· IFRIC 9
  Reassessment of Embedded Derivatives
· IFRIC 10
  Interim Financial Reporting and Impairment
· IFRIC 11
  IFRS 2 Group and Treasury Share Transactions

IFRS 7 replaces the requirements of IAS 30 applicable to banks and similar financial institutions, and assumes and revises the section of IAS 32 relating to disclosure requirements. The extended disclosure requirements must be applied across all industries in future. In connection with the publication of IFRS 7, disclosure requirements on capital management were also added to IAS 1.

IFRS 7 requires disclosures that enable users of financial statements to evaluate the significance of the Group's financial instruments for the financial position and performance of the Group and the nature and extent of risks arising from those financial instruments. The new disclosures resulting from this requirement relate in particular to financial risks.

The amendment of IAS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

Pursuant to IFRS 7.43, IFRS 7 and the amendments to IAS 1 are only mandatory for fiscal years commencing on or after January 1, 2007. The Company does not make use of the option to early adopt and expects that first-time application of the standards will result in material extensions to reporting in the notes to the consolidated financial statements.

The IFRIC 7 to IFRIC 11 interpretations are not relevant for the consolidated financial statements of the MAGIX Group. The effects resulting from application of IFRS 7 and IAS 1 are explained below.

1.4 Key Judgments

When applying the accounting policies, the management made the following decisions involving judgment which had a material effect on the amounts reported in the financial statements. This does not consider those decisions that are based on estimates:

Intangible assets: The MAGIX Group recorded intangible assets in connection with the acquisition of m2any GmbH and Xara Group Limited that are linked to patents acquired and related software, the customer base acquired and development costs. These intangible assets are measured on the basis of the planned liquidity returns from both companies. The carrying amount of the corresponding assets totals kEUR 3,109 as of September 30, 2007 at m2any GmbH (prior year: kEUR 3,331) and kEUR 2,299 at Xara Group Limited (prior year: kEUR 0). The Company tests the capitalized intangible assets for impairment by comparing the planned liquidity returns at the time of acquiring the company with the actual liquidity returns. Based on this comparison, there was no need to record an impairment for the periods ending on September 30, 2006 and September 30, 2007.

Software development costs: The MAGIX Group capitalizes software development costs provided that the criteria for recognition as an intangible asset have been met, and writes down the capitalized software development costs systematically over the useful life of the software. The capitalized software development costs are tested for impairment on the basis of the future sales revenue for the software. The carrying amount of the capitalized software development costs comes to kEUR 5,106 as of September 30, 2007 (prior year: kEUR 4,419).

Provisions for licenses: The MAGIX Group uses license products from third parties in its own production. Obligations from license payments to third parties are calculated regularly at the end of the quarter. The provisions for license fees to third parties are calculated on the basis of the sales revenue recognized by the MAGIX Group. As of September 30, 2007 these provisions have a carrying amount of kEUR 3,573 (prior year: kEUR 3,990).

The key future-oriented assumptions and other material sources of uncertainty as of the balance sheet date concerning estimates which have given rise to a considerable risk that material adjustments of carrying amounts of assets and liabilities may be required in the next fiscal year are shown in the notes on non-current assets and liabilities.

2. Summary of Significant Accounting Policies

Application of the entity method

The MAGIX Group chose the entity method for presentation of the acquisition of minority interests in the consolidated financial statements as of September 30, 2007. According to the entity method, the difference between the purchase price for minority interests in a subsidiary that is already fully consolidated and the pro rata equity acquired is offset against the capital reserves and thus does not lead to capitalization of goodwill in the consolidated financial statements. The amount of the difference offset against the capital reserves totals kEUR 711 in the fiscal year 2006/2007 (reduction of capital reserves). There were no corresponding transactions for equity investments in the prior year.

Currency Translation

The consolidated financial statements are prepared in euro, which is the functional and presentation currency of the Group. Every entity within the Group determines its own functional currency. The items contained in the financial statements of an entity are measured using that functional currency. Transactions in foreign currency are initially recorded at the spot rate between the functional currency and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the closing rate. All exchange differences are recognized in the net income or loss for the period.

The functional currency of the foreign operations is the US dollar for Magix Computer Products International Corp., Reno, Nevada, and Catooh Corp., Las Vegas, Nevada, and the pound sterling for Magix Limited, Hampshire, and Xara Group Ltd., Hemel Hempstead. The assets and liabilities of these subsidiaries are translated into the presentation currency of MAGIX AG (euro) at the closing rate. Income and expenses are translated at the weighted average exchange rate for the fiscal year. The exchange differences arising on translation are recognized as a separate component of equity.

Intangible Assets

Software and Industrial Rights

Intangible assets acquired separately are initially measured at cost. The cost of an intangible asset acquired in a business combination corresponds to its fair value at the acquisition date. After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Except for capitalized development costs, internally generated intangible assets are not capitalized. Incremental costs on these items are recognized as expenses when incurred.

As regards intangible assets, it is initially important to determine whether they have a defined or an undefined useful life. Intangible assets with a defined useful life are amortized over their useful life and tested for impairment whenever there is an indication that the intangible asset could be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at the end of each fiscal year at the latest. The amortization expense for intangible assets is recorded in the consolidated income statement in the expense category consistent with the use of the intangible asset.

Software and industrial rights acquired from third parties or in a business combination primarily comprise software for the development of products, software integrated in products or software for other business purposes. The assets reported under the software and industrial rights item are written off over an estimated useful life of three to fifteen years.

Goodwill

Goodwill arising from a business combination is initially measured at cost, which is the excess of the cost of the business combination over the interest of the MAGIX Group in the fair values of the identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least once a year or whenever facts or changes in circumstances indicate that the carrying amount could be impaired. To determine whether or not the item is impaired, the goodwill acquired in a business combination must be allocated to a cash-generating unit. An impairment loss is recorded if the recoverable amount of the cash-generating unit is lower than its carrying amount.

Research and Development Costs

Research costs are expensed in the period in which they are incurred. An intangible asset resulting from development in the course of an individual project is only recognized if the MAGIX Group can provide evidence of the technical feasibility of completing the intangible asset so that it will be available for internal use or for sale and of the intention to complete the intangible asset and to use or sell it. In addition, the Group must substantiate the creation of a future economic benefit by the asset, the availability of resources to complete the asset and the ability to determine reliably the expenses allocable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied. This requires that the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. The amounts capitalized are amortized over the period of expected future sales revenue from the related project. The carrying amount of the capitalized development costs is reviewed for impairment annually when the asset is not yet in use, or when there is any indication during the reporting year that the carrying amount may not be recoverable.

Software development costs chiefly include the costs for five software platforms and the software products purchased in the course of business combinations. The technical feasibility of these platforms can be substantiated by the successful sales in recent years. All software development costs are amortized over an expected useful life of five years based on past sales experience and the expected sales proceeds for the future.

Property, Plant and Equipment

Property, plant and equipment mainly contain computers, servers, office equipment, leasehold improvements and other fixtures.

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated systematic depreciation and accumulated impairments. These costs comprise the costs for replacement parts which are recognized at the time they are incurred, providing they meet the recognition criteria. Systematic straight-line depreciation is based on the estimated useful lives of the assets. The MAGIX Group uses useful lives of between three and fourteen years for property, plant and equipment. The carrying amounts of property, plant and equipment are tested for impairment as soon as there is any indication that the carrying amount of an asset exceeds its recoverable amount.

Property, plant and equipment are derecognized upon disposal. The gain or loss on derecognition is determined as the difference between the net sales proceeds and the carrying amount and recognized in profit or loss in the period in which the item is derecognized.

The residual values of the assets, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted if necessary.

Impairment of Non-Current Assets

The MAGIX Group assesses at each balance sheet date whether there is any indication that an asset may be impaired. If there is any indication of impairment or if an annual impairment test is required, the MAGIX Group estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount 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. If the carrying amount of an asset exceeds its recoverable amount, the asset is described as impaired and written down to its recoverable amount. In order to estimate the value in use of the asset, estimated future cash flows are discounted to their net present value using a pre-tax discount rate which reflects current market expectations of the true value of money and the specific risks of the asset.

Impairment losses attributable to continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset.

To determine whether or not the item is impaired, the goodwill acquired in a business combination must be allocated from the date of acquisition onwards to each of the cash-generating units of the MAGIX Group that are to benefit from the synergies of the combination. This is irrespective of whether other assets or liabilities of the Group have already been assigned to these units. The impairment loss is determined by calculating the recoverable amount of the cash-generating unit to which goodwill relates. If the recoverable amount of the cash-generating unit is lower than its carrying amount, an impairment loss is recorded.

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, m2any GmbH and Xara Group Ltd. originally acquired – correspond to the geographical segments. There were no indications of impairment for the cash-generating units. Growth rates of between 0,5% and 1,5% and discount rates of between 10% and 12% were used to calculate the liquidity surpluses resulting from the planning statements approved by the Supervisory Board of MAGIX AG. Sensitivity considerations showed that even increasing the discount rates used by 1, 3 and 5% would not lead to indications of impairment.

Financial Assets

Financial assets as defined by IAS 39 are broken down into financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. Initial recognition of financial assets is at fair value. The MAGIX Group decides on classification of its financial assets upon initial recognition and reviews allocation at the end of each fiscal year if permissible and appropriate.

As of September 30, 2007 and September 30, 2006 all financial investments recognized in the consolidated financial statements of the MAGIX Group are classified as loans and receivables (reported as other assets with a current and non-current portion) and as financial assets held to maturity (reported as other financial assets with a current and non-current portion up held to final maturity).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. These assets are measured at amortized cost using the effective interest method. A gain or loss is recognized in the net profit or loss for the period when the loans and receivables are derecognized or written down as well as through the amortization process.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as financial assets held to maturity if there is also an intention to hold the corresponding instruments to maturity. Financial assets held to maturity are measured at amortized cost using the effective interest method. Gains and losses are recorded with an effect on income.

The MAGIX Group tests financial assets for impairment at every balance sheet date. If there is objective evidence that an impairment loss on loans and receivables carried at amortized 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 the estimated future cash flows (with the exception of future credit defaults) discounted at the original effective interest rate of the financial asset (i.e. the interest rate determined upon initial recognition). The carrying amount of the asset is reduced either directly or by using an allowance account. The amount of the loss is recognized in profit or loss. First, the MAGIX Group determines whether objective evidence exists for impairment of financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized 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 three months. The cash and cash equivalents in the consolidated cash flow statement are classified using the above definition.

In the fiscal year 2006/2007, the Company changed the accounting with respect to the allocation of cash equivalents. As of September 30, 2006, cash equivalents also included fixed-term deposits with a term of up to 12 months in particular, as the Company recorded considerable cash inflows in the fiscal year 2005/2006 due to the IPO that was thus classified as not yet used for investing or financing activities. Further business acquisitions in the fiscal year 2006/07 and an adjusted investment strategy in the MAGIX Group meant that the prior classification of cash equivalents was no longer appropriate. The fixed-term deposits were reclassified to other financial assets accordingly.

Using the classification principles applied as of September 30, 2007, the amount of cash would have been kEUR 12,583 as of September 30, 2006. At the same time, other financial assets of kEUR 22,512 would have been reported on the asset side.

The change in classification principles for the cash and cash equivalents since the prior year was reported as a purchase of other financial assets in the cash flow from investing activities in the consolidated cash flow statement for the current fiscal year.

Trade Receivables

Trade receivables, which generally have 30-90 day terms, are recognized at the original invoice amount less an allowance for any uncollectible amounts. A bad debt allowance is recognized if there is material objective evidence that the MAGIX Group will not be able to collect the receivables. Receivables are derecognized as soon as they become uncollectible.

Inventories

Inventories are measured at the lower of cost and net realizable value. Costs incurred in bringing inventories to their current location and condition are – with the exception of borrowing costs – recorded at weighted averages (purchase price of commissioned and uncommissioned finished goods and raw materials). Net realizable 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.

Treasury Shares

If the MAGIX Group acquires treasury shares, these are deducted from equity at cost. The purchase, sale, issue or redemption of treasury shares is posted to equity. Treasury shares are reported in a separate item under equity.

Provisions

Provisions are recognized when the 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 determined by discounting the expected future cash flows at a 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 recognized as an interest expense.

Financial Liabilities/Interest-Bearing Loans and Other Liabilities

Financial liabilities reported in the consolidated balance sheet of the MAGIX Group mostly comprise interest-bearing loans and other liabilities. The initial recognition of a loan is at cost, which corresponds to the fair value of the consideration given after deducting any transaction costs needed to take out the loan. After initial recognition, all interest-bearing loans are measured at amortized cost using the effective interest rate method. A gain or loss is recognized in the net profit or loss for the period when the liabilities are derecognized or through the amortization process. Financial liabilities are derecognized when the liabilities have been settled, cancelled, or have expired.

Leases

Whether an arrangement is or contains a lease is determined on the basis of the substance of the arrangement and requires an estimate of whether performance of the contractual arrangement is dependent on the use of a certain asset or certain assets and whether a right to use the asset is granted under the arrangement.

Finance leases under which all the risks and rewards incidental to ownership of the transferred asset are substantially transferred to the MAGIX Group are recognized at the lower of the fair value of the leased asset or the present value of minimum lease payments at the inception of the lease. Lease payments are divided into the components finance costs and repayment of the lease liability in such a way that the residual carrying amount of the lease liability is subject to a constant interest rate. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the capitalized asset is depreciated over the shorter of the lease term or its useful life.

Lease payments on operating leases are recorded as an expense in the income statement on a straight-line basis over the term of the lease.

No finance leases are recorded in the consolidated financial statements of the MAGIX Group.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the MAGIX Group and the amount of revenue can be measured reliably. In addition the following conditions must be satisfied in order for revenue to be recognized:

Sale of Products

Revenue is recognized when the MAGIX Group delivers its products to an end customer or alternatively – depending on the IncoTerms – when the products are handed over to the freight forwarder, and it is likely that the revenue will be collected. For products delivered to retail partners, the delivery mainly depends on the terms and conditions agreed with the freight forwarders. In the case of products delivered to OEM partners (Original Equipment Manufacturer), the delivery either depends on the information from the OEM partner that the delivery has been made, either to it or to other resellers, or on release by the end customer.

The MAGIX Group nets amounts for returns with product sales with retail partners if a return is likely.

Rendering of Services

Sales revenue from services is recognized when the corresponding services have been provided and the amount of revenue is measurable and collection of the corresponding receivables is probable. If services are provided over agreed periods, revenue recognition is spread evenly over this period.

Royalties

The MAGIX Group recognizes its sales revenue based on the corresponding contract as soon as the license has been delivered, the sales price is fixed or can be determined, there are no significant obligations to customers and collection of the receivables is considered probable.

Interest Income

Revenue is recognized as the interest accrues (using the effective interest method, i.e. the rate that exactly discounts estimated future cash receipts over the expected life of the financial instrument) 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 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 grant date. The fair value has been 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 (vesting period). This period ends on the date of the first exercise possibility, i.e. when the entitlement of the employee in question becomes vested. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The amount charged or credited to the income statement reflects the development of the accumulated expenses recognized at the beginning and the end of the reporting period.

No expense is recognized for remuneration rights that cannot be exercised.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense that would have been incurred if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

If an equity-settled award is cancelled, this is treated as if it had been exercised on the date of cancellation. The expense not recognized so far is immediately recognized. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the grant date, the cancelled and new awards are treated as if they were a modification of the original award.

The dilutive effect of the outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 13), provided that the issue of the options and the underlying conditions result in an imputed dilution for the existing shareholders.

Government Grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grants relate to an expense item, they are recognized as income over the period necessary to match the grants on a systematic basis to the costs that they are 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 asset in equal annual installments. In fiscal 2006/2007, the MAGIX Group received investment subsidies amounting to kEUR 166 (prior year: kEUR 22). 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 Assets and Liabilities

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 calculate the amount are those that are enacted by the balance sheet date.

Deferred Taxes

Deferred taxes are recognized using the liability method for all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the tax base as of the balance sheet date. Deferred tax liabilities are recognized for all taxable temporary differences. The following exceptions apply:

- No deferred tax liabilities may be recognized from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

- No deferred tax liabilities may be recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures if the entity controls the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward 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 carryforward of unused tax credits and unused tax losses can be utilized. The following exceptions apply:

- No deferred tax assets may be recognized from deductible temporary differences arising on 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 accounting profit nor taxable profit or loss.

· Deferred tax assets may only be recognized for taxable temporary differences related to investments in subsidiaries, associates and interests in joint ventures to the extent that it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of a deferred tax asset 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 the deferred tax asset to be utilized, even partially. Unrecognized deferred tax assets are reviewed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and if they relate to income taxes levied by the same taxation authority on the same taxable entity.

3. Business Acquisitions

Xara Acquisition (Fiscal Year 2006/07)

By purchase and share transfer agreement dated January 30, 2007, MAGIX AG purchased 100% of the shares in Xara Group Limited (hereinafter referred to as “Xara”). The purchase price for the shares is broken down into three components:

· The first purchase price component amounts to kEUR 1,517 and was payable in cash upon signing the agreement. The first purchase price component is reported in the consolidated cash flow statement together with the loan liabilities to third parties assumed, which MAGIX AG has agreed to settle as part of the purchase agreement, as well as incidental acquisition costs of kEUR 98 as cash paid for the acquisition and stepping up of shares in subsidiaries (EUR 2,404).

· The second purchase price component was issued in the form of Qualifying Corporate Bonds (hereinafter referred to as “QCBs”). According to the conditions for the QCBs, MAGIX AG issues a secured convertible bond without options that falls due for cash settlement on September 30, 2009. The present value of the QCBs amounts to kEUR 1,348 as of the cut-off date of the purchase agreement (reported under other liabilities/ non-current portion). MAGIX AG pledged fixed-term deposits in favor of the bearers of the convertible bond to secure the convertible bond (reported under other financial assets). The separation of the funds used to settle the QCBs from the cash and cash equivalents is reported in the consolidated cash flow statement at the amount of the pledged fixed-term deposits as cash paid for the acquisition and stepping up of shares in subsidiaries (EUR 1,452).

- The third purchase price component will be reliably calculated on the basis of future sales and earnings on September 30, 2009. The management board of MAGIX AG assumes that the third purchase price component will be a conditional purchase price payment. Since it is not possible to determine the fair value only the first and second purchase price components have been considered as cost for the shares purchased.

The business combination was recorded as follows in the consolidated balance sheet in the course of first-time consolidation:

	Amounts recognized in the course of the business acquisition	Carrying amount
	kEUR	kEUR
Assets		
Property, plant and equipment (office equipment)	44	44
Cash and cash equivalents	-5	-5
Other assets	50	50
Intangible assets (customer base)	1,438	0
Intangible assets (software development costs)	861	0
Goodwill	2,116	0
	4.504	**89**
Liabilities		
Trade payables	71	71
Loan liabilities	735	735
Deferred tax liabilities	689	0
Other liabilities	46	44
	1,541	**850**
Fair value of net assets	**2,963**	**-761**

Xara reports negative equity of kEUR -761 on the balance sheet as of the cut-off date of the purchase agreement. The difference between the cost of the shares in Xara (first and second purchase price tranche), the incidental acquisition costs (kEUR 98) and the carrying amount of the equity of Xara totaling for the time beeing to kEUR 3,724 relates to hidden reserves in connection with the customer base at the Company (approx. kEUR 1,438), software products internally developed by Xara (kEUR 861) and goodwill (kEUR 2,116). Deferred tax liabilities of kEUR 689 relate to the customer base and internally developed software products. The acquired customer base will be amortized over an estimated useful life of ten years, while the software products purchased will be amortized over an estimated useful life of five years.

Xara recorded sales revenue of approx. kEUR 1,534 and net income for the year of kEUR 95 in the fiscal year 2006. In the fiscal year 2006/2007, Xara contributed sales revenue of kEUR 766 to MAGIX's group sales and earnings and net income for the year of kEUR 30. The reversal of hidden reserves from the purchase price allocation reduced earnings (before income taxes) in the consolidated financial statements of the MAGIX Group by kEUR 210 in the fiscal year 2006/2007.

Founding of Catooh Corp.
(Fiscal Year 2006/2007)

In the fiscal year 2006/2007, MAGIX AG founded Catooh Corp., Las Vegas, Nevada, USA, as a wholly owned subsidiary by way of cash contribution (USD 100). The Company will be involved in the MAGIX Group's new online service Catooh. The company did not record any material contributions to sales revenue or earnings in the current fiscal year.

4. Segment Reporting

Primary and Secondary Reporting Formats

The primary reporting format was defined by geographical segment, as the opportunities and risks of the MAGIX Group are mainly influenced by differences in the different geographical regions "Europe and Rest of world" and "USA". The secondary reporting format was prepared on the basis of the business segments.

The distinction between the business segments of the MAGIX Group is based on different sales channels for the products and services. In the "Professional & Consumer" segment, the products of the MAGIX Group are sold to retail partners that resell the products supplied by the MAGIX Group in their own sales networks/channels. The "Portal" segment is used for direct sales of products, services and content of the MAGIX Group via the Company's own websites or partners' websites.

The “OEM Business” segment contains all business activities with OEM partners. These partners market the software products of the MAGIX Group together with their own hardware/hardware components to end customers or resellers.

Customers

The MAGIX Group has an extensive and diversified customer base (retail partners, OEM partners, end customers). In the fiscal years ending on September 30, 2007 and September 30, 2006, no more than 10% of sales revenue was recorded with any one customer.

Geographical Segments

The following table contains information on sales revenue and earnings as well as various details on assets and liabilities in relation to the geographical segments of the MAGIX Group for the fiscal years ending on September 30, 2007 and September 30, 2006.

	Europe and rest of world 2006/2007	2005/2006	USA 2006/2007	2005/2006	Eliminations 2006/2007	2005/2006	MAGIX Group 2006/2007	2005/2006
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Sales revenue								
External sales revenue	28,842	30,064	3,820	5,724	0	0	32,662	35,788
Internal sales revenue	1,971	3,332	728	1,441	-2,699	-4,773	0	0
Total sales revenue	30,813	33,396	4,548	7,165	-2,699	-4,773	32,662	35,788
Results/earnings								
Segment result	3,201	6,874	-138	1,356	0	0	3,063	8,230
Net interest							1,259	483
Taxes on income							-1,804	-3,583
Net profit of the Group for the year							2,518	5,130
Assets								
Segment assets	57,693	56,821	1,348	2,431	-1,251	-1,783	57,790	57,469
Tax receivables							616	0
Total assets							58,406	57,469
Liabilities								
Segment liabilities	10,168	10,749	1,197	1,194	-1,180	-1,794	10,185	10,149
Deferred tax liabilities							1,045	541
Tax liabilities							339	702
Total liabilities							11,569	11,392
Other information								
Capital expenditures	8,073	3,852	51	0	0	0	8,124	3,852
Depreciation, amortization and write-downs	2,960	2,290	10	13	0	0	2,970	2,303

Business Segments

The table presented below contains information on sales revenue as well as various details on assets in relation to the business segments of the MAGIX Group for the fiscal years ending on September 30, 2007 and September 30, 2006.

	Professional & Consumer 2006/2007	Professional & Consumer 2005/2006	Portal 2006/2007	Portal 2005/2006	OEM 2006/2007	OEM 2005/2006	MAGIX Group 2006/2007	MAGIX Group 2005/2006
	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR	kEUR
Sales revenue	21,292	25,869	9,862	8,057	1,508	1,862	32,662	35,788
Assets	34,495	40,833	17,215	10,804	6,080	5,832	57,790	57,469
Capital expenditures*	2,239	2,784	5,495	867	391	200	8,124	3,852

5. Notes to the Consolidated Balance Sheet

(1) Non-Current Assets

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					Accumulated amortization, depreciation and write-downs					Carrying amount	
	Oct. 1, 2005	Additions	Disposals	Currency translation	Sept. 30, 2006	Oct. 1, 2005	Additions	Disposals	Currency translation	Sept. 30, 2006	Sept. 30, 2006	Oct. 1, 2005
I. Intangible assets												
1. Software and industrial rights	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	133	47	13	0	0	60	73	64
3. Other fixtures	2,094	785	107	-3	2,769	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**

	Cost					Accumulated amortization, depreciation and write-downs					Carrying amount	
	Oct. 1, 2006	Additions	Disposals	Currency translation	Sept. 30, 2007	Oct. 1, 2006	Additions	Disposals	Currency translation	Sept. 30, 2007	Sept. 30, 2007	Oct. 1, 2006
I. Intangible assets												
1. Software and industrial rights	7,075	1,263	0	0	8,338	3,146	823	0	0	3,969	4,369	3,930
2. Goodwill	0	2,116	0	0	2,116	0	0	0	0	0	2,216	0
3. Customer base	0	1,437	0	0	1,437	0	96	0	0	96	1,341	0
4. Software development costs	8,104	2,662	0	0	10,766	3,303	1,494	0	0	4,797	5,969	4,800
Total	**15,179**	**7,478**	**0**	**0**	**22,657**	**6,449**	**2,413**	**0**	**0**	**8,862**	**13,795**	**8,730**
II. Property, plant and equipment												
1. Leasehold improvements	300	34	0	0	334	31	33	0	0	64	270	269
2. Office equipment	133	2	0	0	135	60	18	0	0	78	57	73
3. Other fixtures	2,769	751	67	0	3,453	1,610	506	14	4	2,106	1,347	1,159
Total	**3,202**	**787**	**67**	**0**	**3,922**	**1,701**	**557**	**14**	**4**	**2,248**	**1,674**	**1,501**

EUR 1,348 of the additions to cost were of a non-cash nature in the fiscal year 2006/2007 (prior year: kEUR 2,400).

(2) Inventories

	Sept. 30, 2007	Sept. 30, 2006
	kEUR	kEUR
Raw materials	1,014	824
Finished goods	804	743
Valuation allowance on finished goods	-656	-633
	1,162	**934**

(3) Trade Receivables

	Sept. 30, 2007	Sept. 30, 2006
	kEUR	kEUR
Due within one year, gross	10,484	10,745
Valuation allowances	-609	-366
	9,875	**10,379**

The Company concluded a credit insurance agreement that secures bad debts by up to 70% for named customers and by up to 65% for customers not named individually, provided that the receivables are recognized by the customers.

(4) Other Financial Assets

Other financial assets solely comprise fixed-term deposits at different banks with original terms of six to twelve months that are held to maturity. The weighted remaining term of the fixed-term deposits amounts to approx. three months as of September 30, 2007.

The fixed-term deposits are subject to variable interest rates according to the agreed term (credit interest rate of between 2.9% and 4.6%). The corresponding interest income is posted to income on a monthly basis.

kEUR 1,452 of the fixed-term deposits is pledged in favor of the sellers of the shares in Xara. The addition to the pledged fixed-term deposits is reported under cash paid for the acquisition and stepping up of shares in subsidiaries in the consolidated cash flow statement. The further additions to the fixed-term deposits that are not pledged are reported under cash paid for investments in other financial assets in the consolidated cash flow statement.

(5) Cash and Cash Equivalents

	Sept. 30, 2007	Sept. 30, 2006
	kEUR	kEUR
Bank balances	7,579	7,566
Cash equivalents	0	3,033
Short-term deposits (fixed-term deposits)	9,800	24,480
Cash on hand	12	16
	17,391	**35,095**

Bank balances earn interest at the variable rates for on demand deposits. Short-term deposits in fiscal year 2007/2007 were made for different periods of between one day and three months depending on the respective liquidity requirements of the Group. These are subject to interest at the respective interest rates applicable for short-term deposits.

(6) Equity

The issued capital of MAGIX AG amounts to kEUR 12,662 as of September 30, 2007 and is divided into 12,662,038 no par value shares with an imputed nominal value of kEUR 1.00 per share.

IPO in April 2006

A resolution was passed at the shareholders' meeting of MAGIX AG on March 22, 2006 to increase the issued capital of the Company by kEUR 1,350,000.00 by issue of 1,350,000 new registered shares with an imputed share in issued capital of kEUR 1.00 per share in return for a cash contribution and precluding 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 kEUR 15.40 per share applied to the shares issued at an issue price of kEUR 16.40 per share for the IPO, i.e. a total of kEUR 20,790. The premium was added to the capital reserve. Costs of kEUR 1,531 were incurred as a direct result of the IPO (after taking tax effects of kEUR 941 into account) that were offset against the premium.

Authorized Capital

By resolution dated March 22, 2006, the shareholders' meeting of the Company 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 kEUR 6,331,019.00 by issue of new registered shares with an imputed share in the issued capital of kEUR 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 preclude the statutory subscription rights of the shareholders. However, subscription rights can only be precluded

- 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 preclusion 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 employed by 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 kEUR 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 kEUR 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. 392,500 stock options were issued under this stock option plan up until the cut-off date of these financial statements, with 76,000 relating to the fiscal year 2006/2007. Of this figure, 17,500 stock options subsequently lapsed due to employees leaving the company. As a result there are currently 375,000 options.

Share Repurchase

The shareholders' meeting on March 23, 2007 authorized the Company to purchase shares in MAGIX AG subject to the approval of the Supervisory Board. The authorization is limited to the purchase of treasury shares with an imputed share in issued capital of up to a total of kEUR 1,266,203.00, almost 10% of the issued capital of kEUR 12,662,038.00 as of September 30, 2006. This authorization can be carried out once or several times, in full or in parts. The authorization expires on August 31, 2008. The purchase is made via the stock exchange or using a public repurchase bid.

The shareholders' meeting on March 23, 2007 also authorized the Management Board to sell the treasury shares back to the Company again via the stock exchange, subject to the approval of the Supervisory Board. The shares can also be used or redeemed for the stock option plan or as acquisition currency.

The Company made use of the authorization in the fiscal year 2006/2007 and acquired a total of 165,394 treasury shares for a total cost of kEUR 1,110. A total of 139,000 of the treasury shares purchased were transferred to the former minority stakeholders in m2any GmbH for the acquisition of the minority interests in m2any GmbH.

The remaining 26,394 treasury shares are reported as an adjustment to equity in a separate item and measured at an average cost of kEUR 6.71 per share.

(7) Provisions

The table below shows the development of the provisions:

	Sept. 30, 2006	Utilization	Addition	Sept. 30, 2007
	kEUR	kEUR	kEUR	kEUR
Royalties	3,990	-609	168	3,549
Bonuses / vouchers	596	-570	510	536
Legal counsel	30	0	12	42
	4,616	**-1,179**	**690**	**4,127**

The provisions relate to obligations to pay royalties for software from third parties that is used in products of the MAGIX Group. Provisions for royalties payable are based on the sales revenue recognized by the MAGIX Group. One license holder has raised claims to royalties for past license periods although the legal basis is disputed and has not been resolved in full to date. If the license holder in question succeeds with the claims, the provision will be partly utilized to settle them.

The provision for bonuses/vouchers is set up on the basis of the estimated annual performance of individual sales partners as well as the estimated sale of vouchers to end customers.

The provisions for legal counsel relate to financial risks from litigation as well as the related legal advice.

The provisions contain current portions only.

6. Notes to the Consolidated Income Statement

(8) Sales Revenue

	2006/2007	2005/2006
	kEUR	kEUR
Product deliveries	31,895	34,830
Services and licenses	767	958
	32,622	**35,788**

(9) Cost of Sales

	2006/2007	2005/2006
	kEUR	kEUR
Raw materials	3,046	2,728
Third party royalties	1,226	1,679
Other	-77	-21
	4,195	**4,386**

(10) Operating Expenses

	2006/2007	2005/2006
	kEUR	kEUR
Selling expenses		
Personnel expenses	4,622	4,543
Marketing expenses	4,646	5,724
Depreciation, amortization and write-downs	559	223
Other expenses	3,354	2,796
	13,181	**13,286**

	2006/2007	2005/2006
	kEUR	kEUR
Administrative expenses		
Personnel expenses	1,817	1,875
Depreciation, amortization and write-downs	133	156
Other operating costs	525	93
Other expenses	1,858	1,682
	4,333	**3,806**
Research and development costs		
Personnel expenses	4,430	3,404
Depreciation, amortization and write-downs	2,278	1,924
Other expenses	1,639	1,136
	8,347	**6,464**
	25,861	**23,556**

Personnel expenses total kEUR 10,886 for the fiscal year 2006/2007 (EUR 9,822 for the fiscal year 2005/2006). Depreciation, amortization and write-downs total kEUR 2,970 for the fiscal year 2006/2007 (EUR 2,303 for the fiscal year 2005/2006).

(11) Other Income/Other Expenses

	2006/2007	2005/2006
	kEUR	kEUR
Exchange gains	299	367
Exchange losses	-472	-260
Insurance indemnification payments	145	0
Other	485	277
	457	**384**

(12) Taxes on Income and Deferred Taxes

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

	2006/2007	2005/2006
	kEUR	kEUR
Current income tax expense	-1,989	-3,795
Deferred tax income	185	212
thereof from timing differences	235	72
thereof from unused tax losses	-50	140
Income tax expense	-1,804	-3,583

Using a tax rate of 29.23% (considering 15.0% tax rate for corporate income tax, 0.83% solidarity surcharge on the corporate income tax and an effective trade tax rate of 13.4%), the theoretical income tax expense based on the earnings before taxes of kEUR 4,322 (prior year: kEUR 8,713) can be reconciled to the income tax expense disclosed as follows:

	2006/2007	2005/2006
	kEUR	kEUR
Earnings before taxes	4,322	8,713
Average tax rate	29.2%	38.8%
Theoretical profit tax expense	-1,262	-3,381
Transfer difference to profit tax rate to be applied to the current taxation of the financial year 2006/2007 (38%)	-727	0
Unused tax loss of financial year	261	0
Effect of tax rate change on deferred tax liabilities	134	0
Other	-210	-202
	-1,804	-3,583

Deferred tax assets and deferred tax liabilities from timing differences between the carrying amounts in the consolidated financial statements and the tax base of individual assets and liabilities relate to the following issues:

	2006/2007	Tax expense/income	2005/2006
	kEUR	kEUR	kEUR
Deferred tax assets			
Unused tax losses	90	-50	140
Timing differences between entries			
· Elimination of intercompany profits	326	-48	374
	416	**-98**	**514**
Deferred tax liabilities			
Timing differences between entries			
· Intangible assets in connection with a business acquisition (change with effect on earnings)	-540	232	-772
· Intangible assets in connection with a business acquisition (addition of kEUR 689 from a business acquisition with no effect on earnings, change with effect on earnings from date of purchase accounting)	-610	79	0
· Exchange differences	-209	-62	-147
· Valuation allowances on loans to affiliated entities	-92	31	-123
· Other	-10	3	-13
	1,461	**283**	**-1,055**
Deferred tax liability, net	**-1,045**	**185**	**-541**

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, 2007. The tax benefits from unused tax losses at foreign subsidiaries (kEUR 893 in total) were not recognized.

The tax benefits on the unused tax losses of m2any GmbH (kEUR 460) were partially recognized on the basis of the tax planning of the subsidiary, which provides for positive taxable income within the next couple of fiscal years.

(15) Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

When calculating diluted earnings per share, the net profit for the year attributable to the ordinary equity holders of the parent is divided by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued after converting all rights to ordinary shares with dilutive effect into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2006/2007	2005/2006
	kEUR	kEUR
Net profit attributable to ordinary equity holders of the parent	2,618	5,233
Weighted average number of ordinary shares for basic earnings per share	12,646	11,970
Effect of dilution:		
· Stock options	0	0
Weighted average number of ordinary shares adjusted for dilution effect	12,646	11,970
Earnings per share (basic and diluted) in EUR/share	**0.21**	**0.44**

In the period between the balance sheet date and the preparation of the consolidated financial statements, the Group acquired 1.1 million treasury shares by means of a public repurchase bid on October 2, 2007. We refer to the comments in “Subsequent Events”.

7. Other Notes

Share-Based Payments

The stock option plan introduced in 2005/06 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 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.

The shareholders' meeting on March 23, 2007 reviewed the periods in which subscription rights can be granted. Accordingly, the individual tranches of the subscription rights can now be issued not only within a period of two months from the date of the Company's shareholders' meeting but also within two weeks of the date of publication of a quarterly or annual report.

In addition, the shareholders' meeting clarified that subscription rights already issued that can no longer be exercised pursuant to Sec. 9 of the option conditions by the respective holders or – in the case of death of a holder – by those authorized to exercise the right, e.g. because the term has expired pursuant to Sec. 4 No. 2, due to non-exercise within the periods set out in Sec. 9 or after a legally valid waiver by the holder of the subscription rights granted, are reallocated to the total volume.

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 Company's shareholders' meeting or of the publication of a report by 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 create 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 76,000 subscription rights were issued in the past fiscal year, and 316,500 were issued in 2005/2006. 17,500 of those options had lapsed by September 30, 2007, and the number of subscription rights issued as of September 30, 2007 amounts to 375,500 options.

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

	Tranche 2007	Tranche 2006
Average share price (EUR/share)	8.40	13.40
Average strike price (EUR/option)	7.72	16.40
Expected volatility (% p.a.)	47.8%	35%
Expected life (years)	2.5 to 5.5 years	2.5 to 5.5 years
Risk-free interest rate (% p.a.)	4%	4%
Expected dividend (% p.a.)	0%	0%
Value of option, first tranche (EUR/option)	2.76	2.42
Value of option, second tranche (EUR/option)	3.45	3.49
Value of option, third tranche (EUR/option)	3.99	4.38

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.

The expense recorded for the stock option plan in the consolidated financial statements as of September 30, 2007 breaks down into the following tranches and option plans:

	Tranche 2007	Tranche 2006
	kEUR	kEUR
First Tranche	9	75
Second Tranche	7	68
Third Tranche	6	62
	22	205
		227

The expense recorded for the stock option plan in the consolidated financial statements as of September 30, 2006 breaks down into the following tranches:

	2006
	kEUR
First Tranche	31
Second Tranche	28
Third Tranche	26
	85

Financial Risks

Credit Risks

The Company is exposed to the credit risks customary in the industry. Retail partners with a defined annual sales volume are hedged using credit insurance that contains different limitations in terms of the products to be delivered and outstanding invoices. The Company is not dependent on any other company or group of companies that is exposed to a large risk of counterparty default.

Interest Rate Risks

As the Company does not have any material financial liabilities, interest fluctuations do not result in any material risks.

Currency Risk

The Company and its foreign subsidiaries are exposed to currency risks due to their international gearing. The MAGIX Group does not use financial instruments or derivatives to hedge against these risks.

Related Party Transactions

Transactions with individuals or entities that could influence or be influenced by the reporting entity must be disclosed if the corresponding transactions have not already been included via the separate financial statements included in the consolidated financial statements.

The following transactions were carried out with related parties of the MAGIX Group:

Management Board of MAGIX AG:

Jürgen Jaron, Berlin
(Shareholder and Management Board member)
Dieter Rein, Berlin
(Shareholder and Management Board member)
Tilman Herberger, Dresden
(Shareholder and Management Board member)

Ongoing remuneration for the members of the Management Board for the fiscal year 2006/07 amounts to:

	Jürgen Jaron	Dieter Rein	Tilman Herberger	Total	Previous year
Fixed remuneration	165	165	114	444	435
Profit-based remuneration	0	0	0	0	642
Total	**165**	**165**	**114**	**444**	**1077**

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 kEUR 20 was posted as an expense in the fiscal year 2006/07.

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, German public auditor and tax advisor, Frankfurt/Main (ordinary member of the Supervisory Board)

The remuneration for members of the Supervisory Board amounts to kEUR 90 in the fiscal year 2006/2007 (prior year: kEUR 90). Supervisory board members were not granted any stock options.
Mr. Karl-Heinz Achinger is or was a member of the Supervisory Boards of the following companies:

- eps, Unterföhring, Germany
- RWE Systems AG, Dortmund, Germany
- Software AG, Darmstadt, Germany (gave up his post on May 11, 2007)
- TDS Informationstechnologie AG, Neckarsulm, Germany
- teleson AG, Munich, Germany
- iGate Global Solutions Ltd., Bangalore, India

- Bundeswehr Informationstechnologie GmbH (BWI), Meckenheim (since January 1, 2007)
- inverto AG, Cologne, Germany (since January 1, 2007)

Dr. Peter Coym has been a member of the board of directors of State Street Corp., Boston, USA, since December 2006.

Mr. Dierk Borchert is not a member of any other Supervisory Boards.

Other Related Parties:

Titus Tost, Dresden (shareholder)
Erhard Rein, Rahden (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)

	2006/2007	2005/2006
	kEUR	kEUR
Sales revenue of Future GmbH with MAGIX AG	1,156	2,317
Sales revenue of MN Soft with Magix Computer Products International Corp.	1,239	1,271
Sales revenue of MAGIX AG with MN Soft	1,029	1,258
Sales revenue of erso GmbH with MAGIX AG	619	194
Sales revenue of MAGIX AG with erso GmbH	212	107

	Sept. 30, 2007	Sept. 30, 2006
	kEUR	kEUR
Liabilities to Future GmbH	335	612
Liabilities to erso GmbH	106	189

Future GmbH provides media services for MAGIX AG. Presto leases the land for the logistics center in Lübbecke to MAGIX AG.

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

Notice pursuant to Sec. 25 (1) WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]

On December 1, 2006, Deutsche Bank AG, Frankfurt a.M., Germany, informed us of the following pursuant to Secs. 21 (1), 24 WpHG in conjunction with Sec. 32 InvG [“Investmentgesetz”: German Investment Act] in relation to its subsidiary DWS Investment GmbH, Frankfurt a. M., Germany:
The voting share of DWS Investment GmbH in MAGIX AG exceeded the 5% threshold on November 28, 2006 and now amounts to 6.02%.

Notice pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed us of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG exceeded the threshold of 3% on February 23, 2007 and now amounts to 3.16% (399,600 voting rights).
The voting share of Credit Suisse (International) Holding AG, Zug, Switzerland, of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG exceeded the threshold of 3% on February 23, 2007 and now amounts to 3.16% (399,600 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.
The voting share of Credit Suisse Group, Zurich, Switzerland, and of Credit Suisse, Zurich, Switzerland, in MAGIX AG increased to 3.18% on February 23, 2007 (402,600 voting rights), and the allocation of this voting share of 0.02% (3,000 voting rights) and 3.17% is determined by Sec. 22 (1) Sentence 1 No. 1 WpHG.
The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Correction pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed us of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG exceeded the threshold of 3% on February 23, 2007 and now amounts to 3.16% (399,600 voting rights).
The voting share of Credit Suisse (International) Holding AG, Zug, Switzerland, of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG exceeded the threshold of 3% on February 23, 2007 and now amounts to 3.16% (399,600 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.
The voting share of Credit Suisse Group, Zurich, Switzerland, and of Credit Suisse, Zurich, Switzerland, in MAGIX AG increased to 3.18%

on February 23, 2007 (402,600 voting rights), and the allocation of this voting share of 0.02% (3,000 voting rights) and 3.16% is determined by Sec. 22 (1) Sentence 1 No. 1 WpHG.
The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Notice pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed us of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG fell below the threshold of 3% on March 15, 2007 and amounted to 2.61% on that date (330,000 voting rights).
The voting share of the following affiliated entities of Credit Suisse Securities (Europe) Limited, London, England: Credit Suisse Group, Zurich, Switzerland, Credit Suisse, Zurich, Switzerland, Credit Suisse (International) Holding AG, Zug, Switzerland, and of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG fell below the threshold of 3% on March 15, 2007 and amounted to 2.61% on that date (330,000 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.
The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Notice pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed MAGIX AG of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG exceeded the threshold of 3% on March 26, 2007 and amounted to 3.18% on that date (402,676 voting rights).
The voting share of the following affiliated entities of Credit Suisse Securities (Europe) Limited, London, England: Credit Suisse Group, Zurich, Switzerland, Credit Suisse, Zurich, Switzerland, Credit Suisse (International) Holding AG, Zug, Switzerland, and of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG exceeded the threshold of 3% on March 26, 2007 and amounted to 3.18% on that date (402,676 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.
The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse

Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Notice pursuant to Sec. 26 (1) WpHG
Deutsche Bank AG, Frankfurt am Main, informed MAGIX AG of the following pursuant to Secs. 21 (1), 24 WpHG in conjunction with Sec. 32 (2) InvG:
The subsidiary of Deutsche Bank AG, DWS Investment GmbH, Frankfurt, fell below the threshold of 5% of the voting rights in MAGIX AG, Berlin, on March 27, 2007 and now holds a voting right of 3.64% (this corresponds to 461,000 voting rights).

Notice pursuant to Sec. 26 (1) WpHG
Deutsche Bank AG, Frankfurt, informed us of the following pursuant to Secs. 21 (1), 24 WpHG in conjunction with Sec. 32 (2) InvG:
The voting share of the subsidiary DWS Investment GmbH, Frankfurt, in MAGIX AG fell below the threshold of 3% on April 4 and amounted to 2.37% on that date (300,000 voting rights).

Notice pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed us of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG exceeded the threshold of 5% on April 13, 2007 and amounted to 5.01% on that date (635,000 voting rights).
The voting share of the following affiliated entities of Credit Suisse Securities (Europe) Limited, London, England: Credit Suisse Group, Zurich, Switzerland, Credit Suisse, Zurich, Switzerland, Credit Suisse (International) Holding AG, Zug, Switzerland, and of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG exceeded the threshold of 5% on April 13, 2007 and amounted to 5.01% on that date (635,000 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.
The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Notice pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed us of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG fell below the threshold of 5% on April 19, 2007 and amounted to 4.98% on that date (631,000 voting rights).
The voting share of the following affiliated entities of Credit Suisse Securities (Europe) Limited, London, England: Credit Suisse Group, Zurich, Switzerland, Credit Suisse,

Zurich, Switzerland, Credit Suisse (International) Holding AG, Zug, Switzerland, and of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG fell below the threshold of 5% on April 19, 2007 and amounted to 4.98% on that date (631,000 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.
The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Notice pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed us of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG exceeded the threshold of 5% on April 23, 2007 and amounted to 5.05% on that date (640,000 voting rights).
The voting share of the following affiliated entities of Credit Suisse Securities (Europe) Limited, London, England: Credit Suisse Group, Zurich, Switzerland, Credit Suisse, Zurich, Switzerland, Credit Suisse (International) Holding AG, Zug, Switzerland, and of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG exceeded the threshold of 5% on April 23, 2007 and amounted to 5.05% on that date (640,000 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.
The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Notice pursuant to Sec. 26 (1) WpHG
Credit Suisse Group, Zurich, Switzerland, informed us of the following pursuant to Secs. 21 (1), 24 WpHG on its own behalf and on behalf of the following companies:
The voting share of Credit Suisse Securities (Europe) Limited, London, England, in MAGIX AG exceeded the threshold of 10% on June 1, 2007 and amounted to 10.002% on that date (1,266,500 voting rights).
The voting share of the following affiliated entities of Credit Suisse Securities (Europe) Limited, London, England: Credit Suisse Group, Zurich, Switzerland, Credit Suisse, Zurich, Switzerland, Credit Suisse (International) Holding AG, Zug, Switzerland, and of Credit Suisse Investments (UK), London, England, and of Credit Suisse Investment Holdings (UK) London, England, in MAGIX AG exceeded the threshold of 10% on June 1, 2007 and amounted to 10.002% on that date (1,266,500 voting rights). The share will be allocated to them in full in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.

The chain of the controlling entities is as follows (beginning with the lowest entity): Credit Suisse Securities (Europe) Ltd., Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse (International) Holding AG, Credit Suisse and Credit Suisse Group.

Notice pursuant to Sec. 26 WpHG
3i Group plc, London, UK, 3i Holdings plc, London, UK, 3i International Holdings plc, London, UK, 3i Deutschland Gesellschaft für Industriebeteiligungen mbH, Frankfurt am Main, Germany, 3i General Partner 2004 GmbH, Munich, Germany, 3i 2004 GmbH & Co. KG, Munich, Germany, 3i Group Investments LP, London, UK, 3i Verwaltungs GmbH, Frankfurt am Main, Germany, 3i Europartners III Verwaltungs GmbH & Co. KG, Frankfurt am Main, Germany, 3i Europartners IIIA LP, London, UK, and 3i Europartners IIIB LP, London, UK, informed us of the following in accordance with Secs. 21 (1), 22 (1) WpHG.
The voting share of 3i Investments LP in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i Europartners IIIA LP in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i Europartners IIIB LP in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i 2004 GmbH & Co. KG in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i General Partner 2004 GmbH in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i Europartners III Verwaltungs GmbH & Co. KG in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i Verwaltungs GmbH in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i Deutschland Gesellschaft für Industriebeteiligungen mbH in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i International Holdings plc in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i Holdings plc in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
The voting share of 3i Group plc in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).
Correction pursuant to Sec. 26 (1) WpHG (published on October 4, 2007)
As a correction of our notice dated September 21, 2007, we hereby issue the following notice: 3i Group plc, London, UK, 3i Holdings plc,

London, UK, 3i International Holdings plc, London, UK, 3i Deutschland Gesellschaft für Industriebeteiligungen mbH, Frankfurt am Main, Germany, 3i General Partner 2004 GmbH, Munich, Germany, 3i 2004 GmbH & Co. KG, Munich, Germany, 3i Group Investments LP, London, UK, 3i Verwaltungs GmbH, Frankfurt am Main, Germany, 3i Europartners III Verwaltungs GmbH & Co. KG, Frankfurt am Main, Germany, 3i Europartners IIIA LP, London, UK, and 3i Europartners IIIB LP, London, UK, informed us of the following in accordance with Secs. 21 (1), 22 (1) WpHG.

The voting share of 3i Group Investments LP in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i Europartners IIIA LP in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i Europartners IIIB LP in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i 2004 GmbH & Co. KG in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i General Partner 2004 GmbH in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i Europartners III Verwaltungs GmbH & Co. KG in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i Verwaltungs GmbH in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i Deutschland Gesellschaft für Industriebeteiligungen mbH in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i International Holdings plc in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i Holdings plc in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

The voting share of 3i Group plc in MAGIX AG fell below the threshold of 10, 5 and 3% on September 20, 2007 and now amounts to 0% (corresponds to 0 shares).

Notice pursuant to Sec. 26 (1) WpHG

HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG on its own behalf and on behalf of the following companies:

1.) The voting share of HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, Germany, in MAGIX AG exceeded the threshold of 3, 5 and 10% on September 18, 2007 and amounted to 11.21% on this date (1,419,203 voting rights).

2.) The voting share of Heidelberg Asset Management GmbH, Munich, Germany, as a partner of HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, Germany, in MAGIX AG exceeded the threshold of 3, 5 and 10% on September 18, 2007 and amounted to 11.21% on this date (1,419,203 voting rights). The share will be allocated to it in full in accordance with Sec. 22 (1) Sentence 1 No. 1, (3) WpHG. Heidelberg Asset Management GmbH has no other shares in MAGIX AG in its own assets, and will not be allocated any other voting rights except for its equity investment in HeidelbergCapital Private Equity Fund I GmbH & Co. KG pursuant to Sec. 22 WpHG.

The voting share of Prof. Dr. Martin Weiblen, Brühl, Germany, as the sole shareholder of Heidelberg Asset Management GmbH, Munich, Germany, in MAGIX AG fell below the threshold of 3, 5 and 10% on September 18, 2007, and amounted to 11.21% on that date (1,419,203 voting rights). The share will be allocated to him in full in accordance with Sec. 22 (1) Sentence 1 No. 1, (3) WpHG. Prof. Dr. Martin Weiblen has no other shares in MAGIX AG in his own assets, and will not be allocated any other voting rights pursuant to Sec. 22 WpHG.

Correction pursuant to Sec. 26 (1) WpHG (published on October 4, 2007)

Correcting its notice dated September 18, 2007, HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG on its own behalf and on behalf of the following companies:

1.) The voting share of HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, Germany, in MAGIX AG exceeded the threshold of 3, 5 and 10% on September 20, 2007 and amounted to 11.21% on this date (1,419,203 voting rights).
2.) The voting share of Heidelberg Asset Management GmbH, Munich, Germany, as a partner of HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Munich, Germany, in MAGIX AG exceeded the threshold of 3, 5 and 10% on September 20, 2007 and amounted to 11.21% on this date (1,419,203 voting rights). The share will be allocated to it in full in accordance with Sec. 22 (1) Sentence 1 No. 1, (3) WpHG. Heidelberg Asset Management GmbH has no other shares in MAGIX AG in its own assets, and will not be allocated any other voting rights except for its equity investment in HeidelbergCapital Private Equity Fund I GmbH & Co. KG pursuant to Sec. 22 WpHG.

The voting share of Prof. Dr. Martin Weiblen, Brühl, Germany, as the sole shareholder of Heidelberg Asset Management GmbH, Munich, Germany, in MAGIX AG fell below the threshold of 3, 5 and 10% on September 20, 2007, and amounted to 11.21% on that date (1,419,203 voting rights). The share will be allocated to him in full in accordance with Sec. 22 (1) Sentence 1 No. 1, (3) WpHG. Prof. Dr. Martin Weiblen has no other shares in MAGIX AG in his own assets, and will not be allocated any other voting rights pursuant to Sec. 22 WpHG.

Other Financial Obligations

Other financial obligations from rental and lease agreements mainly contain lease agreements for office equipment and various hardware and software components. The following payments will be due in future fiscal years from agreed lease installments:

	2007/08	2008/09	2009/10	2010/11	2011/12
	kEUR	kEUR	kEUR	kEUR	TEUR
Rental agreements	895	831	832	800	754
Leases	147	46	13	0	0
	1,042	**877**	**845**	**800**	**754**

There are other financial obligations after the fiscal year 2011/2012 from rental agreements in Germany and Italy.

Employees

The Group had 319 (prior year: 303) employees as of September 30, 2007.

Corporate Governance

MAGIX AG submitted the declaration of compliance pursuant to Sec. 161 AktG in December 2007. 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 2006/2007 the following fees were recorded for the auditors, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft:

- Annual audits: kEUR 72 (prior year: kEUR 72)
- Other services: kEUR 0 (prior year: 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. Additional disclosures on shareholdings are filed with the commercial register in a separate list.

Subsequent Events

Subsequent to the balance sheet date, the Group acquired 1.1 million treasury shares for a price of kEUR 5.5 million on October 2 through a public repurchase bid. According to the resolution of the shareholders' meeting of March 23, 2007, the shares can be used as acquisition currency or for the stock option plan, sold on the stock exchange or redeemed.

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 9,756,253.93 be carried forward.

Berlin, January 4, 2008

Jürgen Jaron	**Dieter Rein**	**Tilman Herberger**
CEO	COO	CTO/R&D

Glossary

B2B, B2C
B2B stands for Business-to-Business and means business conducted between two companies. By contrast, B2C stands for Business-to-Consumer, in other words business between companies and consumers.

Beta-Version
Beta-Versions are the first versions of any program, which manufacturers publish for test purposes. If the program is made available to only a limited number of users, then the program is considered a so-called “Closed Beta-version”. If, on the other and, access is available to everyone, then the program is known as an “Open Beta-Version”.

Blog
Blog is an abbreviation of weblog. The abbreviation is made up of a combination of the words web (see below) and log (for logbook). A blog is a diary or journal in which the user publishes his views and experiences regarding certain topics in short entries over the Internet.

Bookmarks
Bookmarks stand for various Internet addresses a user visits frequently and therefore consolidates into a collection for quick access.

Box Version
Box Version means a design of PC software, which, unlike e-versions (see below), are sold on CDs or DVDs and in packaging.

Codec, Codecs
Codec is an artificial word composed of the English word Code (to code) and the English word Decode (decode). The word refers to programs for coding and decoding data. The most famous example is the MP3-Codec, which converts an audio signal into a compressed digital file.

Community, Communities
An abbreviated form that is used to refer to online (see below) communities. It constitutes a common association in which the participants get to know each other on an Internet platform and communicate directly with each other using various means. This allows new contacts to be made, thereby creating social networks.

GAS Region
The GAS Region means the German-speaking region in Germany, Austria and Switzerland.

e-version
In contrast to Box Versions (see above), e-versions refer to a design of software that may be transferred to customers via download and which therefore does not involve any CDs or DVDs or packaging.

Flash (also Adobe Flash)
Flash refers to proprietary programming language from Adobe Systems, Inc. for generating and reproducing interactive animation on websites.

Hardware
In the field of computer technology, hardware stands for technical machinery equipment of a system performing certain tasks together with a computer program (software).

Hosting
Hosting is the service of providing storage capacity which is accessible via the Internet.

Instant Messaging
Instant Messaging is a program allowing users to communicate with one another in real-time over the Internet.

Mobile, mobile use
In this report, “Mobile” refers to the use of applications via a mobile telephone.

MP3 player
MP3 players are player devices for digital music, which is primarily stored in a format known as “MP3”. This special file format was developed by Prof. Brandenburg at the Fraunhofer Institute IDMT. It removes the frequency levels that are undetectable to the human ear from the audio files, thereby facilitating a substantial reduction of the data.

OEM
OEM stands for “Original Equipment Manufacturer”. The abbreviation has emerged specifically in the computer industry as a key term for the joint sale and distribution of hardware (see above) and software.

Office Services, Office Applications
Office services stands for computer programs one can use in a classic office setting: text processing, table calculations and presentations.

Offline, Online
In this annual report, the terms “Offline” and “Online” serve to distinguish between computer applications with (online) and without an (offline) Internet connection.

Online Desktop
An Online Desktop is an SaaS-Internet service (see below), which, to a large extent, offers the user all of the options with which he is familiar through the work interface of his home computer. By storing applications and data on the Internet, the user may act independently of his own computer and is able to access his personal data using any Internet-accessible terminal device.

Software as a Service (SaaS)
SaaS stands for applications one may use directly over the Internet without having to install them on one’s own computer. For example, there are solutions for text processing or photo processing currently available, which are provided exclusively over the Internet. Instead of purchasing a separate program, the customer subscribes to a service.

Social networks
See Community

VAR Channels
VARs (value added retailers) stand for retailers who take particularly high value individual components and link them together to create new products, offering these to customers with professional needs (in this case computers + software).

Web
Short form for World Wide Web, which, in everyday usage, is a synonym for the Internet.

Website
Website refers to an Internet presence or Internet Offering of a person or a company at a single standard Internet address. On a website, content on various pages is consolidated into a single navigational unit. E.g.: www.magix.com

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Financial Calendar

January 25, 2008
Publication of preliminary figures for the 1st Quarter

February 28, 2008:
Publication of the 1st Quarter Report

March 12, 2008
Shareholders' Meeting of MAGIX AG
Ludwig Erhard Haus,
Fasanenstr. 85, 10623 Berlin

May 30, 2008
Publication of the 2nd Quarter Report

August 28, 2008
Publication of the 3rd Quarter Report

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