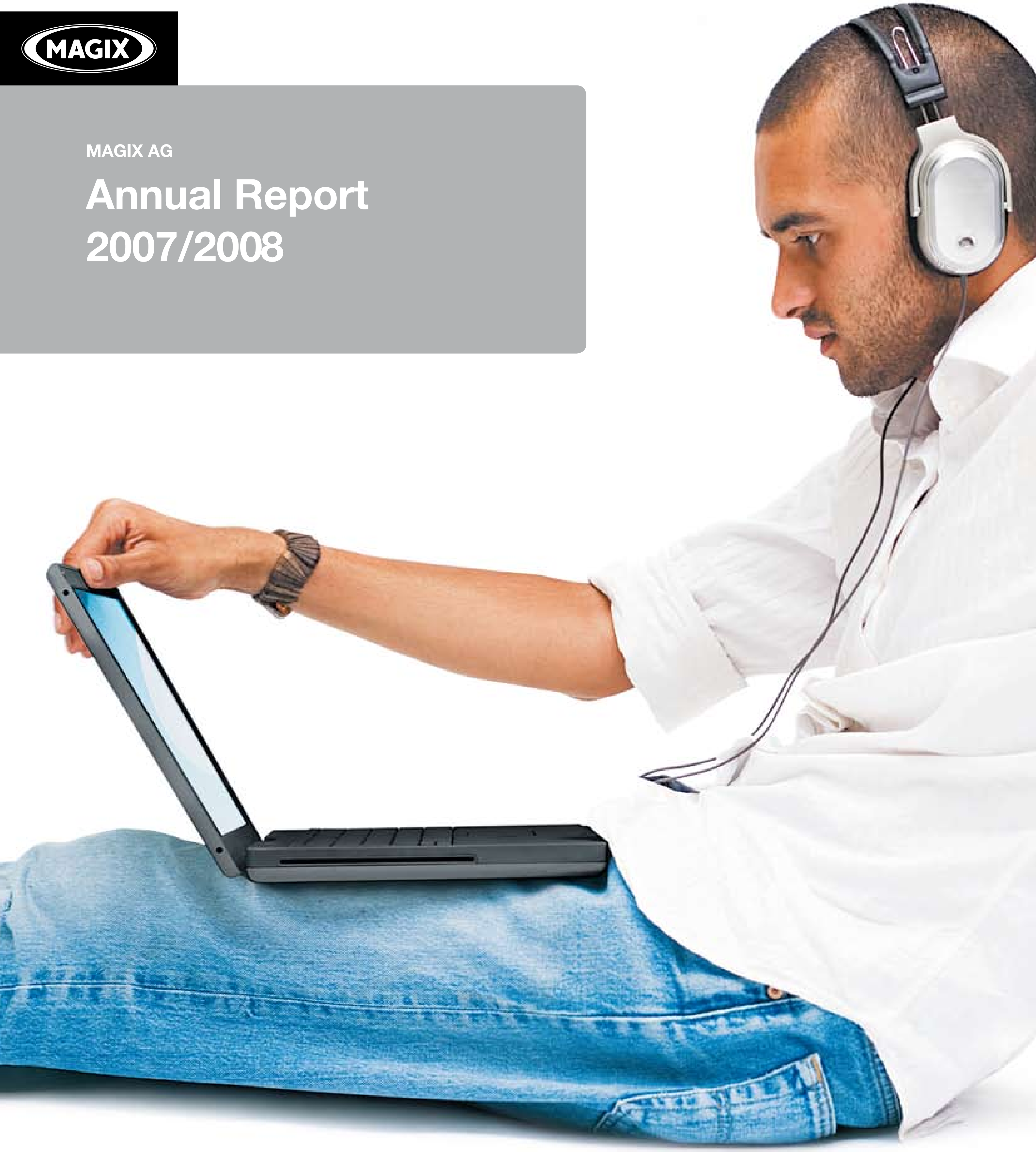
MAGIX AG

Annual Report 2007/2008



Contents

MAGIX in a Nutshell

Jürgen Jaron and Dieter Rein founded the MAGIX company together with Tilman Herberger and Titus Tost in 1993. Their goal was to offer intuitive and entertaining solutions for everyone to design, archive, and share their photos, videos, and music digitally.

Driven by this vision, MAGIX has continuously and systematically developed its product palette, and today it is an internationally leading provider of multimedia products. No other manufacturer worldwide offers a comparable range with regard to seamless integration of Internet products and PC programs from all areas of the multimedia segment.

MAGIX possesses one of the most advanced technologies for music recognition and recommendation, and is developing itself into one of the leaders in this future form of music marketing. At the same time, the company offers a thoroughly developed platform in the area of Internet-based software applications with its Online Services.

MAGIX has its roots in Germany, and its headquarters are in Berlin. The company also operates branches in the USA, Canada, the UK, France, Italy, Spain, and in the Netherlands.

MAGIX products include solutions for creating, editing, managing, and presenting photos, videos, and music. They are targeted at amateurs and professionals, and go beyond the limits of personal computers to online and mobile phone applications. In this way, the company offers a complete solution which enables anyone to utilize digital content for 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.

Key ratios of MAGIX Group according to IFRS

	FY 2007/2008 kEUR	Change in %	FY 2006/2007 kEUR
Profit & Loss			
Sales revenue	32,116	-1.7%	32,662
Gross margin	27,589	-3.1%	28,467
as % of revenues	85.9%		87.2%
EBIT	2,095	-31.6%	3,063
as % of revenues	6.5%		9.4%
Net income	2,017	-19.9%	2,518
as % of revenues	6.3%		7.7%
Consolidated balance sheet profit	5,147	-41.1%	8,736
Balance Sheet			
Balance sheet total	55,653	-4.7%	58,406
Cash & cash equivalents	15,584	-10.4%	17,391
Other financial assets	5,564	-57,0%	12.952
thereof shares, lifetime > 3 months from purchase	4,238	-63.2%	11,520
Financial assets, which are allocated for divesture	4,950		0
Non-current assets	15,491	0.1%	15,470
Current liabilities	9,158	1.3%	9,044
Non-current liabilities	2,625	4.0%	2,525
Equity (without minority interests)	43,870	-6.3%	46,837
Equity ratio	78.8%		80.2%
Cash Flow			
Cash flow from operating activities	2,745	72.3%	1,593
Cash flow from investing activities	-5,438	72.0%	-19,391
Cash flow from financing activities	667	301.8%	166
Employees			
Total	307	-3.8%	319
Sales & Marketing	106	21.8%	87
Research & Development	160	-11.1%	180
General & Administration	41	-21.2%	52
Key Ratios			
Number of registered users	8,507,781	21.0%	7,031,853
Conversion rate	4.80%	-4.0%	5.00%
Average revenue per registered user	1.25 €	-12.0%	1.42 €
Average order price	25.79 €	-9.9%	28.63 €

Greetings from the Management Board

Dear Shareholders,

The 2007/2008 fiscal year was characterized by the encroachment of the financial crisis on the 'real' economy. The difficult conditions already predominating in the retail market during the last year have worsened. On the one hand, purchase quantities have been reduced and on the other, distributors have closed unprofitable branch stores. At this time, it can only be presumed that the situation will rather get worse than better in the current financial year. However, the company still sees itself well positioned to emerge from the economic crisis even stronger than before.

The revenue and earnings before interest and taxes (EBIT) were, as expected, below last year's level. However, our core business, the multimedia segment, is still highly profitable. We have acted early and decisively: Projects that did not correspond to our profitability standards were retracted. The expenses for distribution and marketing were reduced. In contrast to our competitors, we have at the same time expanded our investment in research and development. We are sure that these investments, made mainly in Germany, are in the best long-term interest of our shareholders and employees.

We especially set our hopes and expectations on the music recognition and recommendation technology of mufin GmbH, a 100% subsidiary of MAGIX AG. The young and only marginally tapped music recognition and recommendation market offers plenty of opportunity for growth. The first MP3 players featuring mufin technology are entering the market in 2009. Their owners can organize and listen to their music collection on the go according to their mood. Many additional manufacturers of portable playback devices and mobile phones have already signaled their interest. Due to the long decision cycles of these groups, it is difficult to predict when next orders will come. Nonetheless, the technology and its applications will continue to be presented at industry conferences, especially in Asia and the USA.

Tilman Herberger
CTO/R&D

Jürgen Jaron
CEO

Dieter Rein
COO

(from left)

The MAGIX group's wide product range will stand robustly against the background of a dampened consumer climate in retail sales. Our strategy of Online Services expansion will pay off. Due to its sustained growth, the portal sector in the meantime makes up a third of the group's earnings.

In addition, we have started to expand our product range oriented to professionals and semiprofessionals during the period covered in the report. In the audio sector, we are transferring the expertise gained from the German digital audio workstation (DAW) market to international markets. In the video sector, a new professional video editing software, MAGIX Video Pro X, has been developed. The integrated photo, graphics and desktop publishing applications from the Xara Group, which was taken over at the beginning of 2007, also address new target groups of small and mid-sized businesses which create digital contents themselves to present their products and services more efficiently via the Internet. As a result of this new orientation, the professional sector grew by 20%, bringing additional growth potential with it.

Last but not least, we are finding new ways in the consumer sector to deal with the difficult conditions on the retail market. Our consumer products are developed and marketed as solution-oriented packages for specific target groups. For this, increasingly more hardware products are combined with our software to create complete solutions. With these product packages, we address target groups that were not compelled by more comprehensive solutions.

We are firmly convinced that our strategy to offer complete solutions which enable anyone to utilize digital content for personal communication – MAGIX 360° multimedia – is the right way to go. Our developer teams profit from internal know-how transfer between the areas of video, photo & graphics and music. This way, we can keep offering superior products and simultaneously realize the advantages of rising investments and revenues.

In addition to the organic growth, the market for company takeovers has again become more attractive. However, in addition to operative and strategic synergies, we demand that potential candidates show promise of a healthy company and revenue development. Due to the positive development of the operative cash flow as well as the continuing comfortable liquidity and capital structure, we are following the developments of the financial markets with comparative calm. While other companies fight for refinancing, we can follow the 'steady hand' strategy in relation to financial markets and concentrate on long-term business goals to give the company sustainable value.

As a result of the authorization by the general shareholders' meeting held on March 12, 2008, 1,127,138 own shares that were acquired in the course of the first buyback program have been retired, effective as of April 9, 2008. This reduces the total number of voting rights to 11,534,900. A second stabilizing share buyback was conducted following a disappointing share price development at the end of the 2007/2008 fiscal year during a time of low confidence on the financial markets. 444,252 own shares were bought back at a price of EUR 1.95 per share (excluding acquisition costs), corresponding to a 3.85% of the share capital. We will carefully follow the events on the stock exchange in order to secure steps required for a new share buyback and other capital market measures.

We are determined to face the current challenges and to use the chances that are offered by the situation in order to strengthen the company in a sustainable fashion. We would like to explicitly thank you, our investors, for your trust in us during these turbulent times. Additional thanks go to our employees, whose commitment and dedication has made it possible for us to enter the new fiscal year, in spite of adverse conditions, in a good position and full of expectations.

Sincerly,

Tilman Herberger
CTO/R&D

Jürgen Jaron
CEO

Dieter Rein
COO

MAGIX
360° Multimedia

The 360° Multimedia vision is keeping MAGIX on course to reach its target: To offer suitable all-around solutions for everyone.

MAGIX – 360° Multimedia

The business field, product range, organization and strategic orientation

The business field: Multimedia communication

Today, media is all around us: The PC can be used as a telephone and TV, the mobile phone lets us surf on the Internet and send image and video messages. The contents of our communication are no longer bound to a certain medium or end device. Text, speech, music, photos and videos can be combined in any way with each other in order to be communicated.

Fast net connections, new formats and end devices make it possible to send and receive information around the world in the shortest space of time. At the forefront is communication, which is no longer just bilateral. More and more people place their digital contents (using, for example, blogs* or wikis*) on the Internet, where they can be accessed by the public. Driven by this phenomenon, the volume of exchanged or presented multimedia files grows exponentially.

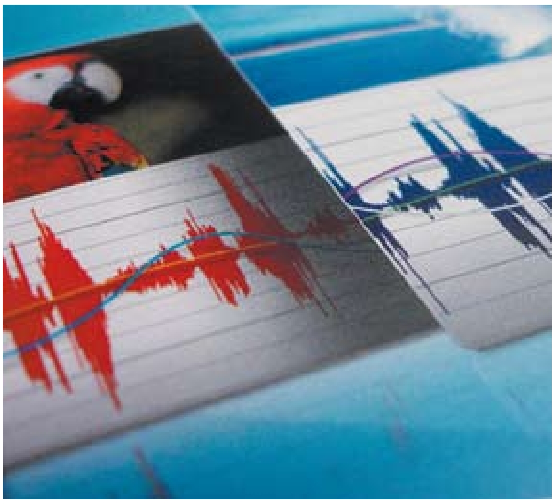
In the meantime, the amount of new devices, formats and services available to users is growing and becoming less manageable. The demand for a simple, unified and technologically advanced solution is on the rise among both professionals and amateurs.

The product range: All-around solutions for multimedia communications

MAGIX offers a complete solution, starting with content creation to management and presentation – 360° multimedia. With this comprehensive mix of products, users have a seamless connection between their home PC, mobile telephone and the Internet, with the option of easily integrating various end devices and formats.

Our most successful home-use consumer products include:

- **MAGIX Movie Edit Pro**
  an application for editing and presenting digital video recordings.
- **MAGIX PhotoStory on CD & DVD**
  an application for presentation of digital photos as a slideshow.
- **MAGIX Music Maker**
  an application for creating music on a PC.



In addition to purely software solutions, MAGIX has successively expanded its product range. More product packages that offer hardware in addition to software will be offered in the future. They are designed as solutions to specific multimedia problems and are easier to communicate to customers than comprehensive software solutions.

Some of the highlights are:

- **Rescue your Videotapes**
  an application with a video converter*, with which video cassettes or video recordings made on other analog media can be saved on PC or DVD for the future.

- **TV & Video recorder**
  an application with a DVB-T stick*, which transforms your PC into a TV and a VCR.

- **Rescue your Vinyl & Tapes**
  an application with a USB pre-amp*, which serves to transfer LPs and audio cassettes to PC or DVD.

All PC applications from MAGIX have in the meantime been connected to the company's various Online Services. This way, the results created on PC can be presented on the Internet directly. Available are, for example, the following:

- **MAGIX Online Album**
  an application allowing the user to save and publish their digital photos, videos and music online. This way, the files can be accessed from anywhere and at the same time presented to friends and family members.

- **MAGIX Website Maker**
  an application for simple website creation.

- **MAGIX myGoya Online Desktop**
  a free, location-independent online operating system, which connects all MAGIX Internet services and offers data exchange, chat and other functions.

MAGIX is constantly attempting to create a product line that allows the user to receive professional results without previous knowledge. For this reason, the company complements its technical applications with digital contents like photos, background music or video clips, which can be used to enrich the user's presentation.

Group organization:
Portal, OEM and Professional & Consumer

Business activities are organized on the basis of different distribution methods for MAGIX AG's products and services, splitting them up into Portal, OEM and Professional & Consumer sectors.

Portal sector

The portal sector, which has been continuously growing in the last years, generates its revenue mostly from the MAGIX Online Shop. The complete range of MAGIX products is distributed via the Internet on the group's own website, www.magix.com. In order to bring customers to fee-based products and services, some software and Internet services are offered for free. In addition, MAGIX communicates with registered customers directly per email and offers them new products. The direct sales resulting from these activities bring the company repeat earnings.

The portal business sector also includes services that MAGIX provides to its business partners. PC products with company Internet services are combined with the wishes of business partners, creating a comprehensive multimedia solution that can be built into their Internet portals in a short space of time. MAGIX products may also be altered in their functionality to the wishes of the client. Clients such as Freenet and Orange have come to appreciate services from MAGIX.

MAGIX bills its services to business clients as a system house. Revenue is generated from product adjustment as well as from licensing fees for individual application use. As long as the business partners create revenue from the Internet services prepared by MAGIX, this revenue is shared by all parties. If MAGIX products are sold via these services, earnings are also split. These earning are assigned to the OEM sector.

OEM sector

In the software industry, OEM stands for collective distribution of hardware and software. OEM (Original Equipment Manufacturers) sell their products in a package with software that has often been reduced in its functionality (OEM version).

MAGIX licenses its software to OEM partners that manufacture digital end devices like PCs, laptops, mobile phones, photo and video cameras. Thanks to the included MAGIX software, OEM partners can offer an added value to their customers and differentiate themselves from the competition.

MAGIX mostly receives fixed license fees from business partners for OEM versions. Due to the narrow margin of hardware manufacturers, MAGIX has switched its policy to demanding licensing fees only for products that are actually used by the end customers. For this, the user must activate the program before first use. If the user purchases the fully-functioning version of the OEM product, the revenue from the sale is divided between the OEM partner and MAGIX.

In spite of its comparatively low contribution to MAGIX AG's total revenue, OEM distribution is an extremely important part of the group's product strategy. By combining with business partners' hardware, the group can directly reach users that are not informed about multimedia products directly via the Internet or specialized retailers. The OEM distribution thus contributes to the expansion of the customer base.

Professional & Consumer sector

The Professional & Consumer sector brings the most revenue of MAGIX AG's three business sectors. It unites all product sales taking place via retail channels. Some of the strongest distribution partners nationally and internationally are: Saturn/ Media Markt, Amazon, Dixons, Fnac and BestBuy.

MAGIX has long had success on the market with its professional audio applications: Samplitude and Sequoia are used by TV and broadcasting companies like the Westdeutsche Rundfunk, Mitteldeutsche Rundfunk, Bayrische Rundfunk, Radio Bremen and the BBC.

- **Sequoia**
  is a high-definition digital audio software package for PCs, especially suited to media and post-production, broadcasting, and mastering.

- **Samplitude**
  suited for recording, mixing, surround or mastering, manages any professional audio task.

With Xara Xtreme Pro and Video Pro X MAGIX now offers solutions tailored for professional use in the areas of photo & graphics and video.

- **Xara Xtreme Pro**
  offers small and medium businesses a complete solution for design of all materials for professional business presentation. You can find more information about Xara products on page 39.

- **Video Pro X**
  is the specialized application for H(DV) recordings, hi-resolution video material, professional special effects and precise dubbing.

Strategic orientation of the group: 360° multimedia

MAGIX can now look back at 15 years of experience in an industry where change often seems to be the only constant. In this time, the company has risen to become one of the world's leading providers of multimedia applications. No competitor has a comparable product portfolio that equally covers the areas of photo & graphics, video and music, and targets both amateurs and professionals. It has been proven that, especially in economically hard times, business success depends on not being contingent on one product or market segment, and on being able to release synergies during product development.

The vision of 360° multimedia keeps MAGIX on a clear course: MAGIX will offer its users a complete solution for digital contents from a single source. In MAGIX, private customers and business clients should find a competent partner who has the fitting solution to any multimedia problem. For this, the main elements of the group's strategy will continue to be followed.

Expansion of the leading role in the consumer sector

To meet the requirements of MAGIX group's leading role, MAGIX distributes solution-oriented products targeted at specific groups, especially new customers who are less confident with multimedia contents. In addition, MAGIX constantly forms new distribution arrangements from supermarkets to specialized dealers.

Interconnection of online and PC products

Coherent interlocking of all individual components is decisive for the development of the envisioned complete solution for digital contents. Users of photo, video and music software from MAGIX can already integrate their own contents directly into MAGIX Online Services. Another step in the direction of interconnectivity of online and PC products is made by bundling many Online Services into the MAGIX Online World.

Selective expansion of the product range in the professional sector

In the audio sector, MAGIX has been one of the leading providers of professional solutions in Germany. It is the goal, on the one hand, to establish the company on the market internationally, and on the other, to win market shares for the newly-developed professional products in the areas of video and photo & graphics.

Investments in future growth

MAGIX increasingly invests against the developments on the market into research and development in order to create sustainable, organic growth. Music recognition and recommendation technology of mufin GmbH plays a critical role. For a complete description of this technology, please read starting on page 29. Additionally, the market for company takeovers will continue to be carefully examined.

Supervisory Board Report
Corporate Governance Report
The MAGIX Share

Supervisory Board Report

Dear Shareholders,

The Supervisory Board has closely occupied itself with the current situation as well as the development of the MAGIX Group, and has monitored the Management Board and its observance of the Corporate Governance Code. During the period of the report, seven Supervisory Board meetings have taken place, of which two were held in the form of a teleconference. All Supervisory Board members were present at all meetings.

During each meeting, the Supervisory Board analyzed the current development of the business together with the Management Board. The present and long-term development of individual business areas as well as product, distribution and marketing strategies were explored, and advice on the Group's strategic orientation was given. In the case of individual transactions that required the authorization of the Supervisory Board, the transactions were examined and it was decided, whether their approval was warranted.

The Management Board has informed the Supervisory Board of the current business situation every month in writing. Important events and decisions were explained to the Supervisory Board chairman by the Management Board between individual meetings.

Neither the Supervisory board nor the Management Board experienced changes in personnel. Due to its size of three members, the Supervisory Board of MAGIX AG has created no committees this fiscal year, as in the last.

The Supervisory Board occupied itself in depth with the issue of German Corporate Governance Code this year as well. The Management Board and the Supervisory Board have taken the necessary steps to follow the recommendations of the Code as closely as possible. The few exceptions are listed in the statement filed according to Section 161 of the German Stock Corporation Act together with the Management Board. The statement can be found on the Internet on the Group's website at http://www.magix.com/uk/magix-ag/investor-relations/corporate-governance/

The annual report and the group financial statement for the 2007/2008 fiscal year have been audited and given an unqualified auditor's certificate by Ernst & Young AG business auditing company, Berlin, which was selected by the shareholders' meeting. The auditor's report has been presented to the Supervisory Board. It was personally explained to the Supervisory Board and the Management Board by the auditor responsible for the audit.

The statements have been carefully checked by the Supervisory Board. This included the Managerial Board's earnings allocation proposal. The Supervisory Board seconds the results of the audit of the annual and group financial statements as well as the management report and approves the annual and group financial statements for the 2007/2008 fiscal year. After the final result of the audit conducted on the annual report, the groups financial statement, the management report as well as the earnings allocation proposal, no objections were raised. With this, the Supervisory Board has approved the presented annual report during its meeting on January 12, 2009.

The Supervisory Board would like to extend thanks to the Management Board as well as all of the Group's employees for their dedication and work completed during the 2007/2008 fiscal year.

Berlin, January 2009

The Supervisory Board

Karl Heinz Achinger
Chairman

Corporate Governance Report

MAGIX AG Management Board and Supervisory Board attach great importance to the rules of legal Corporate Governance. Both institutions support the principle of proper and responsible company management as stated in the German Corporate Governance Code (short: the Code).

Since the last compliance statement from December 18, 2007, MAGIX AG has followed and continues to follow the recommendations of the 'Governing Commission of the German Corporate Governance Code' in its version from June 14, 2007, or since its validity in the amended version from June 6, 2008 with the following exceptions:

- Consideration of the personal performance for the assessment of the variable remuneration of the members of the Management Board (Code, Section 4.2.2). The remuneration of the Board Members is dependent on their individual performance and tasks. A dependency on individual goals, however, is not intended for the evaluation of the variable remuneration. On the one hand the areas of responsibility of the members of the Management Board of MAGIX AG are interleaved to such extent that a definition of company goals for the corresponding areas of competence is not feasible. On the other hand the foundation for the success of the company is to be seen in the overall responsibility of the Management.
- Specification of a compensation cap when concluding Management Board agreements in the case of premature termination of management board activity (Code, Section 4.2.3, Sentence 4). The inclusion of a regulation concerning the payment of compensation in the event of premature termination of management board activity is not considered to be practical. It would be contradictory to the principle that agreements that have been entered into cannot be terminated prematurely. Further to this such a regulation is regarded to be unsuitable of meeting the individual circumstances. Finally, such a limitation could not be enforced on the side of the company alone.
- Age limit of the Management Board (Code, Section 5.1.2). Due to the age structure of the Management Board of MAGIX AG, such regulation is currently deemed unnecessary.
- Formation of Supervisory Board committees (Code, Sections 5.3.1, 5.3.2). The Supervisory Board of MAGIX AG currently consists of three board members, making it impossible to form committees.
- Definition of performance-related remuneration of the Supervisory Board (Code, Section 5.4.6). It is the opinion of the company that the Supervisory Board will fulfil its legal obligation as an independent supervisory body better without its remuneration being linked to the success of the company, as this serves to guarantee interest neutrality.
- Publication of the consolidated financial statement and interim reports within the limits set forth in the Code (Code, Section 7.1.2). The company will publish preliminary, unaudited quarterly and semi-annual results within the time limits set forth in the Code. With regard to the consolidated financial statement and interim reports, however, the company regards the requirements as sufficient for companies listed in the Prime Standard of the Frankfurt Stock Exchange.

Stock currently held by board members

At the time of the report's publication, the stock currently held by the members of the Management Board and the Supervisory Board was as follows:

Management Board	Number of held shares	Stake in %
Jürgen Jaron	1.500.250	13.01
Dieter Rein	1,500,250	13.01
Tilman Herberger	225,000	1.95
Presto Capital Management GmbH & Co. KG**	2,896,000	25.11

Supervisory Board	Number of held shares	Stake in %
Karl Heinz Achinger	26.000	0.23
Dr. Peter Coym	20,000	0.17
Dierk Borchert	20,000	0.17

** Jürgen Jaron and Dieter Rein each hold 50% of the share capital of Presto Capital Management GmbH & Co. KG. Thus, Jürgen Jaron and Dieter Rein collectively directly or indirectly hold approximately 51.12% of the company's voting rights.

Transactions by Board members of the MAGIX AG subject to notification since September 30, 2007

During the period of the report, the following transactions subject to notification have been conducted by Board members of MAGIX AG.

Jun 10, 2008	Dierk Borchert / Supervisory Board		
	Purchase	Frankfurt/Main	1,220 shares
	3.00	EUR	3,660 EUR

Apr 14, 2008	Dr. Peter Coym / Supervisory Board		
	Purchase	Xetra	10,000 shares
	3.10	EUR	31,000.00 EUR

Apr 1, 2008	Dr. Peter Coym / Supervisory Board		
	Purchase	Xetra	4,500 shares
	2.97	EUR	13,342.72 EUR

Mar 6, 2008	Karl Heinz Achinger / Supervisory Board		
	Purchase	Xetra	167 shares
	3.10	EUR	517.70 EUR

Mar 5, 2008	Karl Heinz Achinger / Supervisory Board		
	Purchase	Xetra	165 shares
	3.10	EUR	511.50 EUR

Mar 4, 2008	Karl Heinz Achinger / Supervisory Board		
	Purchase	Xetra	3,668 shares
	3.10	EUR	11,370.80 EUR

Dec 20, 2007	Karl Heinz Achinger / Supervisory Board		
	Purchase	Xetra	1,000 shares
	3.65	EUR	3,650 EUR

Dec 17, 2007	Karl Heinz Achinger / Supervisory Board		
	Purchase	Xetra	1,500 shares
	3.85	EUR	5,775 EUR

Remuneration of the Management Board

The members of the Management Board receive an annual remuneration that consists of success-related, success-independent as well as long-term success-dependent elements.

Members of the Management Board receive a fixed salary irrespective of the success of the company as well as fringe benefits. Such mainly include use of a company car, travel expenses and telephone costs. The bonus is determined by the Supervisory Board based on the revenue and revenue goals for the current fiscal year. In the event of extraordinary achievements, the Supervisory Board may also approve a special bonus. The long-term performance-related pay results from the appointed stock option rights corresponding to the stock option plan approved in the shareholders' meeting.

In the financial year 2007/2008 the remuneration of the members of the Management Board amounted to kEUR 885 in total. Success-independent components comprised kEUR 444 (fixed salaries: kEUR 421, fringe benefits: kEUR 23). Bonuses totaling kEUR 441 were paid. No stock options rights were allotted to the Management Board members during the period of the report. Loans or similar services were not given. In addition, Board members were not promised or granted benefits by third parties with regard to their activity as members of the Management Board.

The remunerations were apportioned as follows (in kEUR):

	Jürgen Jaron	Dieter Rein	Tilman Herberger	Total	Prior year
Fixed remuneration	165	165	114	444	444
Profit-based remuneration	162	162	117	441	0
Total	**327**	**327**	**231**	**885**	**444**

Remuneration of the Supervisory Board

In accordance with Section 13, paragraph 1 of the MAGIX AG Articles of Association concluded at the shareholders' meeting, the Supervisory Board of the company is to receive a fixed remuneration per financial year. This is to be decided at the shareholders' meeting. Furthermore, the expenses of the Supervisory Board will be refunded. These also include the value added tax added to the remuneration insofar the member of the Supervisory Board is entitled to invoicing VAT separately. In addition, an appropriate liability insurance (D&O insurance) for the members of the Supervisory Board has been purchased at the expense of the company.

The following remuneration is paid to the members of the Supervisory Board (in kEUR):

	Fixed remuneration
Karl Heinz Achinger	40
Dr. Peter Coym	30
Dierk Borchert	20
Total	**90**
Prior year	**90**

Stock option plan

No stock options were granted to employees of MAGIX AG in the 2007/2008 fiscal year.

Berlin, January, 2009

MAGIX AG Supervisory Board
MAGIX AG Management Board

The MAGIX Share

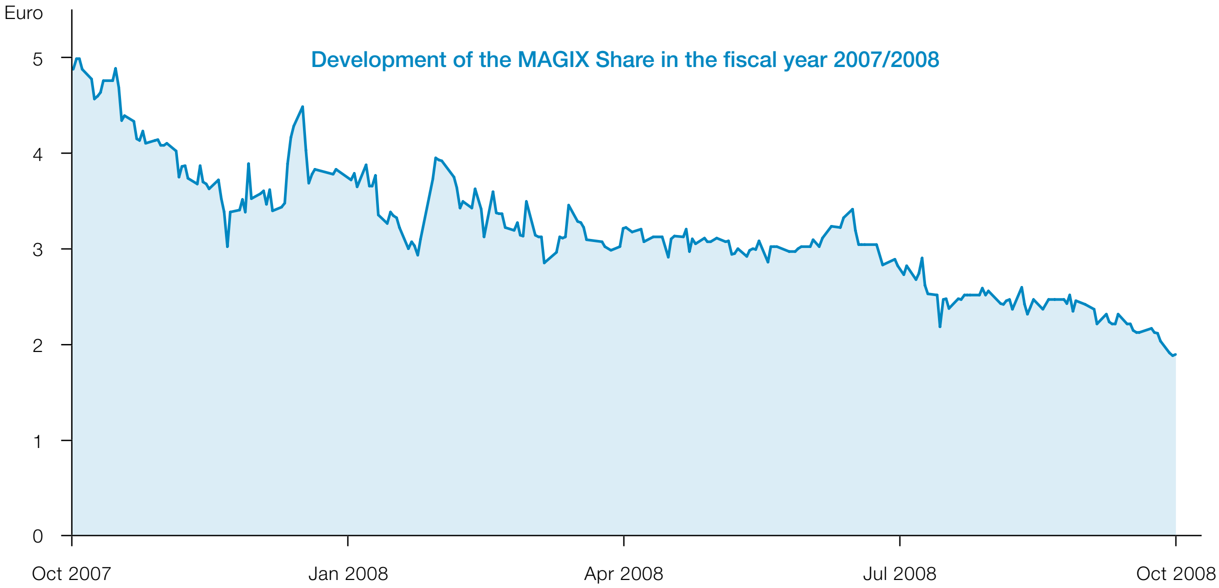
General developments

During the 2007/2008 fiscal year, the share price rally seen in the past years has come to a halt for now. From October to December, the German stock exchange index DAX was showing minor gains and closed just below the 8,000 point mark at the end of 2007. During the following nine months, the index lost more than 2,000 points, and reached 5,887 points on September 30, 2008. During the period covered in the report, the index fell by more than 25%, reflecting the financial crisis that has spread to the 'real' economy.

Development of the MAGIX share

The MAGIX AG share is listed with the stock market identification code MGX and the ISIN DE0007220782 on the Prime Standard of the Frankfurt Stock Exchange.

On September 30, 2008, the MAGIX AG share traded at EUR 1.87 on the XETRA exchange. This corresponds to a market capitalization of EUR 22 million. The shares were priced at EUR 4.98 at the end of last year. This corresponds to a decrease of 62%. The volume of trading with MAGIX shares was generally low. On average, 8,327 shares were traded each trading day on XETRA alone. The average turnover was kEUR 29. The share price course of the MAGIX share developed as follows:



Shareholder structure

The following changes took place in relation to the shareholder structure. In the course of the fiscal year, Credite Suisse Group has parted with its equity stake, which on September 30, 2007 comprised 10.02% of the issued capital. FiveT Capital AG acquired 5.28% of the issued capital during the period covered by the report.

Because other big investors did not sell shares in the course of the share buyback program in 2007, the proportion held by these shareholders rose in April 2008 proportionately as a result of the retirement of treasury shares. Particularly, the total equity share of the following shareholders rose:

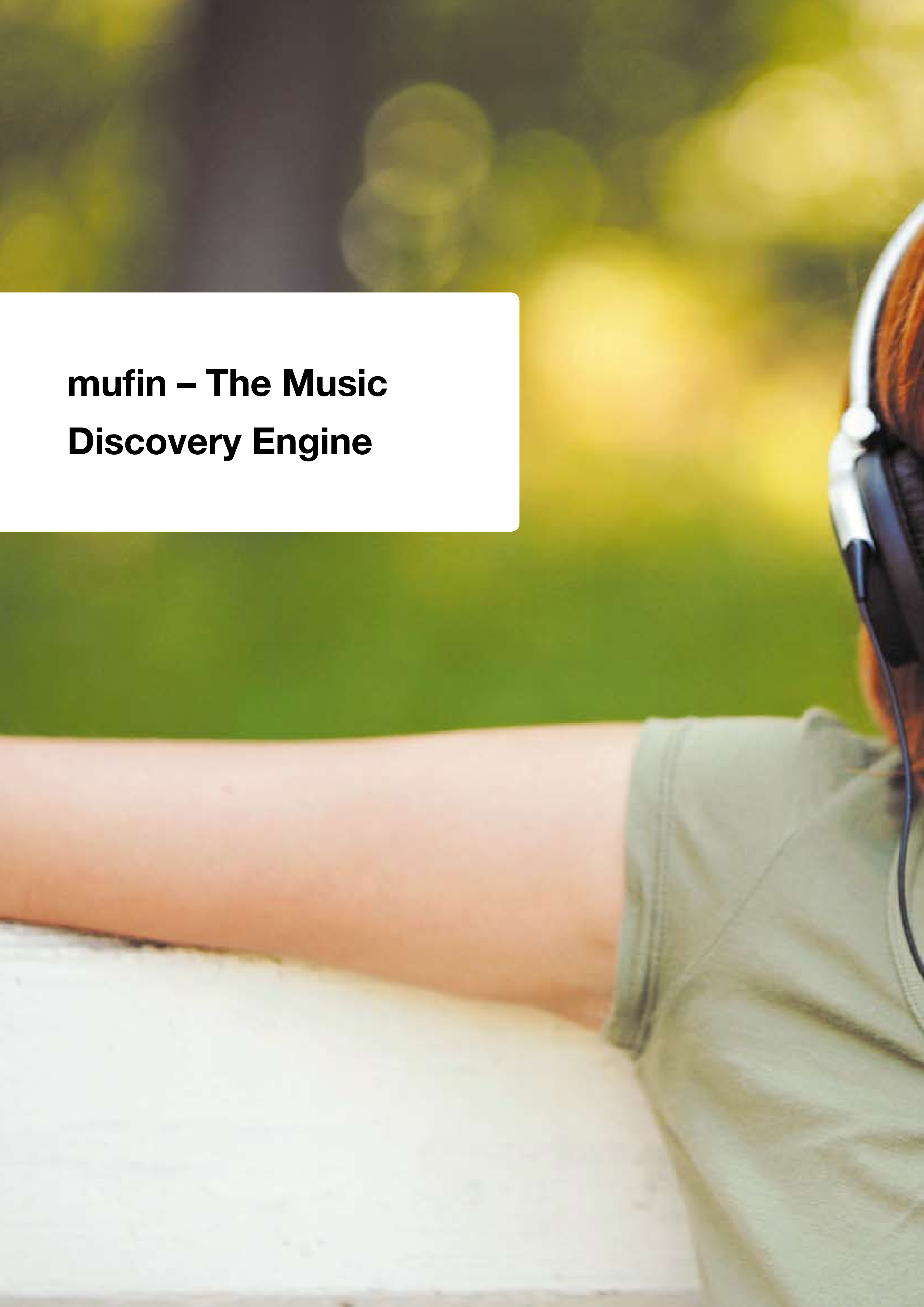
- Presto Capital Management GmbH & Co. KG from 22.87% to 25.11%,
- HeidelbergCapital Private Equity Fund I GmbH & Co. KG from 11.21% to 12.30%,
- Mr. Jürgen Jaron from 11.85% to 13.01%, as well as
- Mr. Dieter Rein from 11.85% to 13.01%.

Because Jürgen Jaron and Dieter Rein each hold 50% of the capital of Presto Capital Management GmbH & Co. KG., they collectively control circa 51.12% of the issued capital (46.57% last year). Thus, 31.29% of the issued capital is publicly floated.

Retirement of treasury shares in the course of the 2007 share buyback program

MAGIX conducted a share buyback program as a result of authorization by the shareholders' meeting on March 23, 2007, whereby 1,127,138 MAGIX shares were transferred to the company. These shares were retired on April 9, 2008 without depreciation of the share capital, so that the issued capital of EUR 12,662,038 is now divided between 11,534,900 shares.

mufin – The Music Discovery Engine



»Using mufin I can enjoy music that matches my taste and current mood.«

mufin – The music discovery engine

mufin raises the bar in music recognition and recommendation

With mufin (short for music finder) MAGIX owns a unique technology for analyzing, characterizing and identifying music and other audio signals. This new and highly innovative business area of the MAGIX Group is part of its venture segment. To ensure that all costs and results are as transparent as possible, all business activities of this area are allocated to mufin GmbH, a subsidiary fully owned by MAGIX AG and located in Berlin. Growth in this area is therefore optimally supported and guided.

In the age of digital technology the range of music on offer is endless and therefore difficult to overlook. On the one hand, providers more than ever require options to position their music products, while on the other hand consumers are searching for an easy way to find music that not only meets their taste, but also matches their current mood. With mufin, MAGIX is offering new solutions for both parties.

The technology of mufin is based on audioid, which allows for speedy recognition of music tracks.[1] audioid was developed at the Fraunhofer Institute, the inventors of the MP3* format. As part of the MPEG7* standard, audioid guarantees optimum support for managing comprehensive audio databases.

For the identification process, first a compact data record (audioid) is extracted from the track, characterizing it like a fingerprint. Then, all that is required for the recognition is a short extract of the music track, whereby its acoustic fingerprint is compared to the one contained in the audioid database. In comparison to other providers, recognition with audioid is far more robust and music tracks are identified even if they contain heavy distortions.

To recommend music, mufin even goes a step further. Unlike other music recognition formats, the subjective evaluation by friends or unknown people is not in the foreground. mufin uses objective characterization by scientifically analyzing the audio data.

[1] Although reference is made only to music tracks, the mufin technology can also be used for other audio signals.

mufin – Solutions for music recognition and music recommendation

To begin recommendation, the user first selects a piece of music with whose sound he would like to match other tracks. During the search routine, up to 40 sound parameters of the track are analyzed with regard to similarity, including rhythm, timbre or instrumentation. The user receives an automatically generated list of recommendations that may include not very well known artists as well as the current chart hits.

The benefit is obvious: any music track can be recommended without having been heard before by others, which saves time and resources. Moreover, neither subjective opinions of others or sales statistics are relevant – only the similarity of the audio signal counts.

The area of application of audio material identification lies in the

- identification of music by the consumer by means of an Internet-enabled device to promote sales of recognized and wanted tracks,
- automated recognition and listing of audio broadcasts on the radio or TV, for instance, to monitor broadcasting agreements, secure royalty payments and for statistical analysis (chart analysis),
- automated search for copyright-infringing audio material,
- linking of audio data to audio material using meta data such as tracks, song text or web links.

The business partner pays a license fee for each use of the audioid recognition technology.

The music recognition feature is marketed through the following channels:

mufin online platform

On the mufin online platform users can discover new music and artists can add their own music to be discovered. In November 2008 the platform was launched with a new user interface, now making it even easier to discover music. While searching the user can now create and save individual playlists.

The platform approach ensures that access to the recommendation technology and content is not limited to the mufin.com portal, rather it is accessible from anywhere where users may want to access music, for instance, mobile devices or software applications. Moreover, mufin technology can now be added directly to social networks such as MySpace or Facebook. Users of such networks can then access not only the full mufin music catalogue but also present the current music discoveries to their friends. This will greatly increase the level of brand awareness of mufin.

Music found on the Internet using mufin as well as further products such as concert tickets and DVDs published by the artists can be bought directly from connected online shops. Partners of mufin include Musicload, Amazon and Apple iTunes Music Store. mufin GmbH generates revenues by receiving a share in sales through the portal and by selling advertising space on its portal site.

mufin software

The mufin software can be used to analyze the sound characteristics of music collections saved on the user's hard drive. If the user selects a particular track mufin will recommend a list with similar tracks that correspond to the mood of the selected music. This way, music collections of several thousand tracks can easily be sorted without having to listen to the same tracks over and over again.

mufin for iTunes was released in November 2008. It allows millions of iTunes users worldwide to use mufin's recommendation technology with their iTunes collection, for instance, to create automatic playlists of perfectly matching tracks.

Moreover, a new version of the free mufin MusicFinder was developed in 2008 and will be released as the new mufin Player early in 2009. In addition to further optimized recommendation technology the mufin Player also features a new user interface that allows seamless integration with the mufin online platform.

This way users can access their local music collection online and display it directly in the software, listen to it and buy it. mufin GmbH generates revenue here by receiving a share in music sales and on the other hand with upgrades from MusicFinder or mufin Player to higher priced software.

mufin license

The functionality of the mufin software is offered to manufacturers of portable players and mobile phones to be licensed so that owners of such devices can sort their collection while on the move and depending on their mood. Manufacturers pay a license per item.

Licensing of mufin technology is also interesting for online music shops. Their customers can have similar music recommended to them directly from the shop. The shop pays for using the mufin technology by sharing revenue if a purchase is made based on a recommendation.

In 2008 it was possible to win even more licensors of the mufin recommendation technology. This included manufacturers of MP3 players as well as online music shops who use the technology to provide their users with even easier access to their entire music catalog.

MAGIX Online Services

Simply present online

» Creating websites is incredibly easy with our Online Services. «

MAGIX
Online Welt

Online content presentation stands as the topic of focus for the newly inaugurated Online Services department.

The Online Services, mufin and Xara Group are part of the venture segment of MAGIX AG. MAGIX Online Services are intended to make online creation and editing of personal multimedia content as simple as possible for users. Music, photos, and videos can be presented on the Internet in an especially attractive manner using MAGIX' Website Maker and Online Album products. Professionally designed templates and intuitive functionality offer even beginners a simple means to create their own multimedia-enriched website.

In this way, Online Services offers MAGIX customers absolute product-related added value. Users of photo, video, and music software from MAGIX can upload their own content to their personal Online Album or integrate it with their website. This blends MAGIX with both online & offline environments.

In 2007/2008, finalization of the new Online World www.magix-online.com portal and new versions of Online Album and Website Maker were the priorities for Online Services developers. Online Media Manager 3.0, which supports users with insertion and management of media in their personal Online Album, and Website Maker 3.0 both feature a new user interface and ample new functions intended to make online presentation even easier. For example, wizards provide not only an easy start with the product, but also quick and successful results. Furthermore, Website Maker and Online Album are client-capable and are successfully marketed as a white label solution*.

The MAGIX Online World, which was launched January 2009, will offer the entire portfolio of Online Services as a bundle. Besides Website Maker and Online Album, this includes:

- The Online Print Service for ordering digital photos printed in album format, on coffee cups, calendars, or t-shirts, or as conventional prints online
- The Catooh Online Media Marketplace, a platform which enables the sale and purchase of media such as photos, videos, songs, film templates, and special effects
- The MAGIX.info Multimedia Knowledge Community* for exchange of knowledge and experience in different areas of multimedia
- The Blog* Service, a platform for reporting and journal activities which can be set up in a design chosen by the user
- The Music Shop for ordering and downloading entire albums and individual songs with a few simple mouseclicks, and
- The myGoya Online Desktop, the free, location-independent online operating system that connects all of these Online Services with one another, and which also offers the opportunity to share files, chat, and much more.

Like Website Maker and Online Album, the Online World is also available for OEM & white label partners as a client-capable platform.

Xara goes SoHo

» With Xara, small and medium sized companies obtain an appealing, professional corporate design. «

Design for everyone:
Simple functionality and professional results for your image design

MAGIX is consistently realizing the strategy to make professional technology accessible to a broader market with the integration of the Xara Group, which is part of the venture segment. In addition to the Sequoia and Samplitude audio applications and the Video Pro X video project, MAGIX offers professional users a graphic design solution that is unique in terms of functionality, speed, and intuitive user guidance since 2007.

For designing any material concerned with professional imaging, MAGIX offers Xara Xtreme Pro, a complete solution that is especially tailor-made for the SoHo market*. This package is equally as ideal for freelancers and independents as it is for small to medium-sized enterprises. The intuitive functionality achieves results especially quickly, and when required, practical wizards and video tutorials are available to help with every creative step.

High agency costs and limited building block systems are now a thing of the past. A serious, consistent corporate design, beginning with professional company logos and including everything from advertising material to letterhead and a website can be created with Xara Xtreme Pro in flash – even by beginners. To make this as quick and easy as possible, the software includes high-quality templates which can be individually customized for any purpose, a feature that MAGIX is famous for.

Another example of how MAGIX and Xara have synergistically unified the strengths of both companies is exemplified by Xtreme Photo & Graphic Designer 2. The software offers users the option to not only optimize their own pictures, but to edit and modify them in a completely new way. Photos can be transformed directly into collages, brochures, business cards, or calendars. Besides graphics editing, influences from Xara include new functions for three dimensional objects and dynamic layouts that impress due to their speed and ease of use. The potential of both of these companies will be used in the future as well to deliver professional results at affordable prices.

Group Management Report

1. Quick overview of the 2007/2008 fiscal year

During the past fiscal year, MAGIX was only partially successful in avoiding the influence of the worsening economic environment. The earnings have developed steadily: with EUR 32.1 million, sales were 2% behind last year's figures. Specifically in the USA, but also in Europe, the situation in retail sales has worsened, and for this reason sales have dropped. At the same time, professional applications brought higher earnings than last year.

Due to elevated costs of sales, the gross profit was 86%, compared to 87% last year. Operative costs (without write-offs) were lowered from EUR 22.9 million to EUR 22.5 million. To achieve this, it was taken care to tailor marketing tasks specifically to each marketing situation. On the other hand, expenses for research and development (without write-offs) have risen.

The earnings before interest and taxes (EBIT) at EUR 2.1 million were 5% above expectations and simultaneously 32% below last year's levels. Reasons for the drop are found in the difficult situation on the turnover market and the risen costs of sales and write-offs. Cash flow from business activities rose clearly from EUR 1.6 million to EUR 2.7 million.

Financial year 2007/2008

32.1 mill.	86 %	22.9 mill.	2.1 mill.	2.7 mill.
Revenue	Gross margin	Operative costs	EBIT	Operative Cash flow

2. Basic financial conditions

2.1. General economic environment

The global economic situation worsened significantly during the period covered by the report. Originating in the USA, the crisis spread to create disruptions on markets around the world. Economic development in Europe weakened as well against the backdrop of these events. The German economy was effected to a lesser extent than, for example, the USA, but could not completely avoid following the general trend.

German export goods suffered especially due to the high external value of the Euro and the resulting decrease in foreign demand. At the same time, rising energy and food prices decreased domestic demand. Only in the fourth quarter of the fiscal year did the corrections on the foreign exchange and raw materials markets provide some relief.

Consumer confidence measured by the Consumer Research Group (GfK) deteriorated during the fiscal year, affecting all controlling components (tendency to consume as well as economic and income expectations). The retail market (excluding automobiles and petrol) was especially affected by declining consumer spending.

2.2. Industry sector development

The worldwide IT market was partially able to defy the general tendencies. In September, the ‘European Information Technology Observatory’ (EITO) recorded a 5.2% market growth for 2008. However, this growth is to be assessed cautiously, as it mainly reflects markets in China, India and Russia, which have recently experienced double-digit growth. In the European Union, EITO observed a 4.2% growth, driven by backlog demand in the IT sector of the new EU members like Poland, Czech Republic and Romania.

According to data from the German Association of Information, Telecommunications and New Media (BITKOM), growth rates in the German IT market were lower in 2008. Software and IT services, both segments which have usually experienced strong growth, have also been influenced by these events.

While the computer games market continued to develop itself further, the so-called ‘non-games’ category, to which MAGIX products belong, had to come to terms with a reduction of retail space. Due to the financial crisis, retail space was cut especially drastically in the USA. On the one hand, purchase prices have been reduced, and on the other, distributors closed unprofitable branch stores. It is to be expected that in the coming 12 months the situation will be exacerbated.

3. Business development

3.1. Profitability

Development of results

In the 2007/2008 fiscal year, the MAGIX group earned EUR 2.1 million in earnings before taxes and interest (EBIT). In spite of negative economic events, this had fulfilled expectations.

This is a drop of 32% compared to the previous year. Additional investments in research and development reduced earnings to a greater extent than last year. Above all, the increased costs of sales and write-offs prevented an earnings improvement. In general, saving made in the area of marketing had a positive effect, having had no substantial negative effect on sales. For a more differentiated view of the results please refer to the segment reporting in the notes to the consolidated financial statement.

At EUR 2.0 million, the group's net income is 20% below last year's levels of EUR 2.5 million.

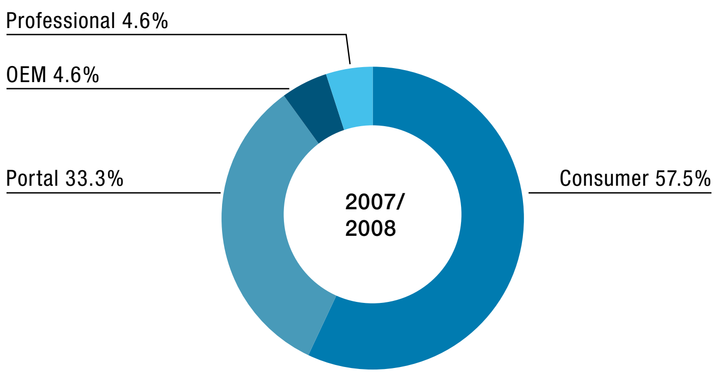
Revenue

The EUR 32.1 million earnings of the MAGIX group lay just below last year's levels of EUR 32.7 million.

In the first quarter, the earnings suffered from relatively weak Christmas sales as well as consolidation of entertainment electronics retailers in the USA. It is difficult to compare results from other quarters with those of the previous year because the publication cycle of some software products has been changed. To free capacity for the new professional video editing software Video Pro X, the products Movie Edit Pro and Photos on CD & DVD were published in the GAS region in an annual, instead of a semi-annual rhythm. The second and third quarters showed correspondingly weak earnings. Both quarters showed sales decreases of 11% in comparison to the corresponding period of last year.

Due to publication of Movie Edit Pro and Photos on CD & DVD as well as the new product Video Pro X in the fourth quarter, the sales losses of the previous two quarters were compensated for. The quarterly sales rose in comparison to the previous year by 19% to EUR 9.9 million.

Revenue by division



Revenue by division

In the financial year 2007/2008 MAGIX AG changed the segment reporting according to the new regulations of IFRS 8. The anewly segmented business areas are now displayed in Section '4. Segment reporting' of the Consolidated Financial Statements. To allow for comparability with the previous financial year the business ares displayed in 2006/2007 are explained in comparison to the financial year 2007/2008.

In 2007/2008 fiscal year the Consumer division contributed the highest revenue, making up 58% of the total, followed by the Portal division with 33%. The rest of the revenue is divided equally between the Professional and OEM* divisions.

At EUR 18.5 million, revenues in the Consumer segment dropped by 8% due to adverse conditions in the business markets. The business areas Professional and Portal, however, recorded a rise in revenues. Percent-wise, the Professional segment grew the most, which benefited from the new Xara products and the professional video editing software MAGIX Video Pro X developed during the course of the financial year. Revenue in the segment increased by 20% to EUR 1.5 million.

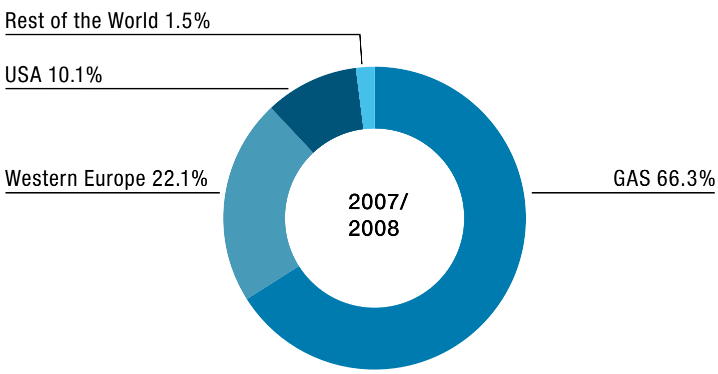
As in the previous years growth in the Portal segment was also strong in 2007/2008. Revenues rose by EUR 0.8 million here. The trend towards increased use of the MAGIX Online Services and MAGIX Online Shop still continues. With EUR 10.7 million MAGIX is already generating one third of its total revenues with the Portal business.

Revenues in the OEM business segment remained stable compared to the previous year at EUR 1.5 million (-3%). This segment generally is highly volatile, however, as relatively high revenues depend on few contracts in the OEM segment.

Revenue development in different divisions proceeded as follows in comparison to the previous year:

	2007/2008 kEUR	%	2006/2007 kEUR	%	+ / - kEUR	%
Consumer	18,457	57.5	20,048	61.4	-1,591	-7.9
Professional	1,489	4.6	1,244	3.8	245	19.7
Portal	10,709	33.3	9,862	30.2	847	8.6
OEM	1,461	4.6	1,508	4.6	-47	-3.1
	32,116	**100.0**	**32,662**	**100.0**	**-546**	**-1.7**

Revenue by region



Revenue by region

The change of the segment reporting has not affected the created regional segments.

With EUR 21.3 million the MAGIX Group generated almost two thirds of its revenues in the Germany, Austria and Switzerland (GAS) region. This was followed by the region Western Europe with EUR 7.1 million (22%), the US with EUR 3.2 million (10%) and the rest of the world with EUR 0.5 million (2%).

Despite cooling consumer sentiment, it was possible to increase revenues in the GAS area by 2% during the last financial year. The boost in revenues was mainly attributable to the positive developments in the Portal and Professional segments. The Western European region benefited less from this trend during the fiscal year, which is why revenues here dropped by 5% to EUR 7.1 million.

Business in the USA continued to suffer from restructuring in the local retail business. Moreover, consumers in the USA were more cautious than in other regions due to the financial crisis. Although the Portal business in the US generated growth again, total revenues in the USA dropped by 15%.

Gross margin

The gross margin decreased in 2007/2008 by almost EUR 0.9 million to EUR 27.6 million. With lower revenues, the rise of the cost of sales by 8%, or EUR 0.3 million, contributed to this decrease. The relative gross margin (share of sales) was 86%, compared to 87% last year.

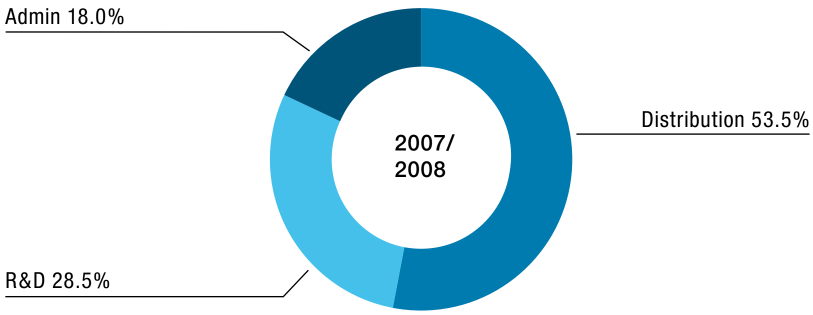
The deviation of the gross margin results from the constantly recombining mix of products. The increase of the cost of sales this year is due to the increased distribution of product packages which included third party hardware in addition to MAGIX software.

The costs of sales also include material costs for packaging and possibly arising third party licensing costs, especially for so-called codecs*. All other production steps are conducted by the MAGIX group, so no separate costs arise.

The regional development of revenues was rather diverse:

	2007/2008 kEUR	%	2006/2007 kEUR	%	+ / - kEUR	%
GAS	21,285	66.3	20,945	64.1	340	1.6
Western Europe	7,100	22.1	7,441	22.8	-341	-4.6
USA	3,241	10.1	3,820	11.7	-579	-15.2
Rest of the world	490	1.5	456	1.4	34	7.5
	32,116	**100.0**	**32,662**	**100.0**	**-546**	**-1.7**

Operative cost



The licensed codecs include standard media formats, for example, the MP3* format. Because it would not be logical to develop these functions ourselves, licensing fees are paid for their use. To reduce costs, MAGIX had arranged the license agreements in such a way, that the fees are to be paid only in the case if the codecs are in fact used by end consumers.

Cost structure

The operative costs (without write-offs) were reduced in the 2007/2008 fiscal year by EUR 0.4 million to EUR 22.5 million.

In distribution as well as administration, the costs were lowered by a total of EUR 0.7 million. In distribution, marketing costs were especially reduced without having to forgo effective measures that encourage sales.

After investing more than EUR 6 million last year into research and development (which corresponded to a 34% increase), these expenses were increased by another 6% to EUR 6.4 million. Thanks to these investments, MAGIX expects decidedly higher sales and earnings in the medium term. The department for developing the music recognition and recommendation technology was expanded in particular, where the new applications for the portal mufin.com and the B2B* solutions are being developed.

In the areas of distribution, administration as well as research and development, the costs were as following:

	2007/2008 kEUR	%	2006/2007 kEUR	%	+ / - kEUR	%
Distribution costs	12,059	53.5	12,622	55.1	-563	-4.5
Administrative costs	4,052	18.0	4,200	18.4	-148	-3.5
Research and development costs	6,420	28.5	6,069	26.5	351	5.8
	22,531	**100.0**	**22,891**	**100.0**	**-360**	**-1.6**

3.2. Financial and asset position

Balance

The balance sheet total decrease from EUR 58.4 to 55.7 million is mostly the result of the retirement of treasury shares, which were bought back in the course of the share buyback conducted in 2007. This process also reduced retained earnings and equity by EUR 5.5 million. This reduction was compensated by the consolidated net income of EUR 2.0 million.

The long-term liabilities and the short-term liabilities each rose by EUR 0.1 million (to EUR 2.6 million and EUR 9.2 million respectively). This notwithstanding, the group's capital structure with an equity rate of 79% (80% in the previous year) remains generally stable.

Investments in non-current assets have completely canceled out its write-offs. Non-current assets of EUR 15.5 million remained nearly unchanged. In the meanwhile, current assets sank from EUR 42.9 to 40.2 million. Liquid assets and financial assets both sank due to share buyback. Trade receivables from goods and services increased to EUR 11.2 million (+ EUR 1.3 million). Responsible for this were high earnings achieved in the 4th quarter, that were not yet completely cash effective.

Cash flow

The operative cash flow also continued its positive development with slightly decreasing sales. It rose from EUR 1.6 million in the previous year to EUR 2.7 million. Income tax payments, reduced by EUR 1.2 million to EUR 1.0 million, had a positive effect.

Cash flow from investment activities of EUR -5.4 million can be traced to payments connected to the share buy back program amounting to EUR 5.5 million. Other investments and divestment measures, as well as the interest payment accompanying the financial assets, evened each other out almost completely.

Cash flow from finance activities was determined, as in the previous year, using the investment subsidies. It rose from EUR 0.2 million to EUR 0.7 million.

Research & Development

In the 2007/2008 fiscal year, two topics were the focus of research and development activities. One of these was stronger development of projects in the area of online applications. The other topic was work on professional and semiprofessional applications.

The trend to place contents such as photos, videos and music on the Internet remains unchanged. More and more applications for direct use via an Internet browser are available. To strengthen the market position, it is necessary for MAGIX to continue investing in this growing sector.

Through targeted development of demanding and simultaneously easy-to-use multimedia software, MAGIX is ready to face the constantly changing entertainment electronics industry. In the areas of photo, video and music, MAGIX products cover the complete spectrum – from freeware to high-end solutions for professional users. By acquiring the Xara group, the MAGIX group has expanded its competence by adding professional graphics editing. In the past year, the first synergies were released in the course of developing overlapping software solutions.

From the developments of the past fiscal year, in addition to follow-up versions of all established titles, the following new and re-developments deserve to be highlighted:

Online services

- www.mufin.com
- MAGIX Website Maker 3
- MAGIX.info
- myGOYA Online Desktop
- Catooh.com

Software products

- Video Pro X
- Movie Edit Pro PLUS
- Xara Xtreme Pro 4
- Rescue your Videotapes!
- PC Check & Tuning

Employees

Creative, competent and highly motivated people are key for the success of a company. For this reason, acquiring, keeping and developing qualified personnel is at the heart of the human resources policy at MAGIX.

As a result of the economic crisis, it was decided to extensively limit creation of new positions this year. Departing personnel was replaced only if they occupied key positions. Therefore, the quantitative strength of personnel in the administrative and R&D areas fell by 11 and 20 employees, respectively. The distribution area alone was expanded to 105 employees. As before, the Management Board consists of 3 members. In total, the number of employees fell in the course of the last year by 4% from 319 to 307.

In the course of employee and earnings developments, personnel expenses increased in comparison to last year by 6% to EUR 11.5 million.

Group structure

The following overview shows the group structure of the MAGIX group as of September 30, 2008:

		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.	Bozen, Italy	100%
MAGIX Entertainment B.V.	Wormer, The Netherlands	100%
MAGIX Development GmbH	Dresden, Germany	100%
MAGIX Ltd.	Hampshire, UK	100%
Xara Group Ltd.	Hampshire, UK	100%
mufin GmbH	Berlin, Germany	100%
Catooh Corp.	Las Vegas, Nevada, USA	100%

During the fiscal year, the following changes were implemented: Since October 2007, m2any GmbH is known as mufin GmbH. Simultaneously, the place of business has been changed from Garching to Berlin. In July 2008, a new operating branch was opened in Toronto, Ontario, Canada.

4. Supplementary report

After the balance sheet call date – on November 19, 2008 – MAGIX bought 444,252 own shares via a public share buyback offer. This corresponds to 3.9% of the share capital. At EUR 1.95 per share, the total transaction volume was kEUR 866.

By the resolution of the Shareholders' Meeting on March 12, 2008, the shares can be sold on the stock exchange by means of a sell offer directed to all shareholders and sold to third parties. Use is also possible within the context of the stock option plan or as payment for acquisitions. Own shares can be also be retired.

5. Risk report

5.1. Risk management

Software and Internet service markets are subject to swift changes in technology and industrial standards. Therefore, the success of MAGIX depends on predicting new trends and development, constantly improving existing products and developing and introducing new ones in a timely fashion.

These risks are considered in the strategic risk management decision making process in the following way:

- Group controlling creates current and plan comparisons and short term planning, which are discussed with the responsible managers at regular intervals. Together with the management, it defines important financial and other key figures and monitors their keeping.
- The responsible project managers continuously monitor advances of development and keeping with the project plan using milestones to guarantee timely delivery of new functions, products and services.
- The personnel department discusses the necessity of continuing education of employees and sufficient recruiting of new employees possessing needed technical knowledge critical for success with the development departments.
- The IT department has developed and installed emergency procedures to guarantee a high degree of stability and security for a continuous accessibility of the Internet portal and online services.
- The legal and Internet departments continuously monitor the company's intellectual property and copyrights and check new developments for infringements on intellectual property of third parties.

The separate areas of the risk management system are combined at the level of the Management Board and continue to be monitored there. The Management Board is regularly informed of all events and their results. The system is constantly checked, expanded and adjusted to the company's progress.

5.2. Individual risks

In the prospectus for MAGIX AG's listing on the stock exchange, investors were informed of possible risks of the business. These continue to exist. The following is a selection of the points itemized therein.

Risks of business activity

Development of MAGIX AG's business activities is dependent on the general development of the market for personal multimedia communication. The market's growth is stimulated by technological and economic factors, which are not controlled by the group. The market is comparatively young, which makes it difficult to make a dependable prediction of future developments. In addition, the market environment is highly dynamic. MAGIX AG continuously invests in new products and a large product portfolio. The same applies to discovering new geographical markets and new customer groups. Dependency on the course of events in individual areas of the market is minimized in all existing segments by the widely cast range of activities. The company still expects that the European market, and especially the German-speaking countries, will continue to provide the biggest portion of its profits in the upcoming 2008/2009 fiscal year. Independent of these factors, the company's profitability is mainly dependent on the market success of the new products as well as mastery of newly developed technologies.

Competition risks

The relevant market for personal multimedia communication is influenced by global competition which, according to the company's estimates, is intensifying. Some of the current and potential MAGIX group competitors have great financial, technological and human resources as well as a bigger scope or more users. They are partially better positioned with individual products in certain foreign markets. However, a comparably wide portfolio such as that of MAGIX is not found among potential competitors. The company therefore estimates, that the risk that a manufacturer brings a similarly comprehensive product selection in the midrange term is relatively low.

Legal and license risks

The MAGIX group is dependent on the basic valid legal conditions in its product development and distribution. Changes in these basic conditions can cause great inconveniences for the company. At this time, such change is not yet recognized.

Due to the structure of the global market, it can happen that with its developments, MAGIX unknowingly infringes on third party rights to intellectual property. With the help of comprehensive monitoring of its own products by the legal team, the company has taken all possible steps to minimize this risk.

Personnel risk

The products and services of the group require qualified co-workers in the areas of research and development and distribution. Without the right pool of personnel, the strategic and economic goals of MAGIX could possibly not be reached.

Financial risks

The company is subject to default risks in relation to customer claims as well as currency risks. To minimize default risks, the company has purchased commercial credit insurance. No hedging instruments are in use to minimize currency risks. The company is not subject to significant interest changes, and no hedging instruments are used to minimize these risks as well.

General risk

Expansion of business internationalization always leads to a magnification of risk. The past has, however, shown that expansion of the business model has always strengthened the company.
In the long term, a wide positioning minimizes the company's dependency on individual markets or products. Thus, these activities contribute to the reduction of total risk.

The risk position of the company is currently stable. During the period covered in the report, none of the presented risks, both individually or in their total, have reached the determined threshold of threatening the company's stability.

6. Outlook

6.1. Basic financial conditions

Overall economy

The financial crisis has had an increasingly negative effect on the ‘real’ economy. Correspondingly, growth prognoses for the world economy have experienced downward corrections. After seeing a 3.7% growth in the past year, the International Monetary Fund (IMF) expects an economic growth of 2.2% in the following year.

This growth is primarily sustained thanks to growth seen in Asia and Latin America. The USA and Western Europe will remain at nearly the same level according to this prognosis with -0.7% or -0.5%.

In their Autumn report, the leading German economic research institutes expect a growth of 0.2% in Germany (basic scenario). This prediction is limited by the fact that a drop in the gross domestic product by 0.8% is expected, as long as measures by the Federal government are not taken (risk scenario). The institutes predict a growth in consumer spending of 0.4% in the USA and 0.2% in the European region as well as in Germany for 2009.

Industry

The market researchers of the ‘European Information Technology Observatory’ (EITO) expect an expansion of the gross IT market volume of 5.6% for 2009. The institute predicts growth of 4.4% for USA and 4.1% for EU.

In September 2008 the German Association of Information, Telecommunications and New Media (BITKOM), predicts a 3.7% growth for the German market in 2009. The IT services and software segments appear as decisive growth agents with predicted growth of 6.0% and 4.9%, respectively.

In view of the quoted general economic prognoses, it remains to be seen whether the industry can escape the projected trend.

The market for multimedia solutions comprises a relatively small part of the software market. It is subject to special, ever-changing influences, and predictions made for the entire software market cannot be applied to it without some adjustments. The small growth of private consumer spending has to be paid special attention.

In contrast, the increasing spread of quick Internet connections and multimedia enabled end devices. These are necessary precursors for multimedia solutions.

6.2. MAGIX group strategy

The company is planning to approach these various premises in different ways. The group’s strategy to approaching various economic fields and the chances and risks coming with each of these are outlined below.

Portal

In addressing its Internet services, MAGIX will expand mufin.com to a music discovery portal in the coming fiscal year. Revenue will be generated via online advertising and licensing of the service to external portals and end devices, for example, MP3 players and mobile phones. As mufin is a very innovative solution that targets young people the challenge is to meet the customer requirements and commit them to the website.

The products Online Album and Website Maker will be combined in the MAGIX Online World portal. Raising the conversion rate of free users to subscribers of premium services is crucial. MAGIX Online World has been optimized in the sense that the creation of partner portals has become substantially quicker and cheaper. MAGIX creates online services for known brands, which are then distributed using the partners' brand. MAGIX operates the complete service for the partners and shares the generated profits with them. Using this strategy, MAGIX can win a wider customer base for its services.

To increase customer loyalty and strengthen customer focus, MAGIX founded the knowledge-based community MAGIX.info. In this portal, users can exchange their experiences about creation of digital media contents. In this way, MAGIX can connect itself to its customers, raise loyalty to the company and receive important information for future product development. The customer relation management system in direct marketing is continuously being expanded in order to be able to better relate to the needs of the customers. The offers are presented in a more entertaining and informative way using videos and an improved website. In addition to its website, which is its central marketing instrument, MAGIX is also expanding its online advertising activities. Online marketing campaigns are developed in addition to search engine optimization, which should lead new target groups to the portal.

Professional & consumer

Last year, MAGIX started to expand its portfolio in the area of professional applications. These versions are to enter the market, which has been only marginally established by MAGIX products until now. For this reason, MAGIX has expanded its distribution activities in the professional audio area. In Germany, MAGIX has a very high market share in the digital audio workstation (DAW) market for radio stations. The expertise gathered in this area should be transferred to the international markets in the future.

In the area of integrated photo, graphic and desktop publishing applications, MAGIX can address new customer groups via the products of Xara Group Ltd. This also applies to the professional video solution MAGIX Video Pro X developed during the last year. With these products, MAGIX addresses especially mid-range and small businesses which increasingly create their own digital contents in order to be able to market their products and services on the Internet more efficiently. As this is a new target group for MAGIX, suitable marketing measures still have to be developed. The success of the measures is checked on a regular basis and adapted if necessary. Depending on the success of these measures there may be some delay in tapping the market.

Solution-oriented products for specific target groups are being developed and marketed for the consumer segment. In the future, more hardware products will be combined with MAGIX solutions to create total solutions for a targeted market. This lets MAGIX address targeted groups which have not employed more comprehensive applications due to their complexity. These measures are flanked by the

intermeshing of these products with the MAGIX.info portal, the knowledge-based multimedia community. The user can contact other users directly in order to present his results or ask questions. This should lower the inhibitions for multimedia product use and bind users stronger to the MAGIX brand.

Customer interconnectivity is a key differentiating feature in comparison to the competition and offers the chance to win new customers.

OEM

The financial crisis left its mark on the hardware manufacturers as well. This means that license payments for additional software products will be reduced only to the necessary, critical for marketing applications. On the other side, the new Microsoft operating system should return to the actual purpose of an operating system. This means fewer additional programs that exceed the actual function of the operating system. This strategy opens additional opportunities for the OEM* business. At the same time, the increasing success of Apple with its integrated software, service and hardware solutions with its mobile music programs places manufacturers under a significant pressure to bring innovative solutions.

For this reason, MAGIX in this market will concentrate on marketing products in the video and music areas. In this context, the music recognition and recommendation technology plays a significant role. The market for music recognition and music recommendation is still very young, however, and there are only few suppliers on the market. It promises high growth opportunities as the targeted customers are generally large corporations with a great distribution rate of their products. The risk to successful marketing lies in very lengthy decision cycles and in the fact that corporations may deliberately use their market power to achieve the best rates among competing offers.

In relation to marketing, the Management Board will continue to present the technology and its application on industry conferences, especially in Asia and the USA.

6.3 Expected profitability

The Management Board cannot effectively estimate the development of revenues due to the effects of the financial crisis. Retail space will continue to be drastically cut in the USA. This will automatically result in a higher competition pressure in online sales. In Europe, these effects will also be seen at a somewhat later time. These difficult given conditions contrast the improved company position in its total product portfolio. Additionally, important competitors are drastically reducing their personnel. It can be assumed that this will limit their innovative capacities and that the companies will concentrate on the assessment of their current technologies. These countercurrent factors prevent a reasonable estimate of revenue development. The trend is considerably influenced by which factors are more powerful or weaker.

As the development of results mainly depends on the development of revenues, it is impossible to state a precise results forecast. The Management Board will continue to adjust the costs to the current revenue situation and expects to come up with a positive result anew in the next fiscal year.

6.4 Expected financial situation

In respect to the financial situation, no significant changes are expected in the coming fiscal year. The equity ratio of 79% could experience significant changes, as well as the amount of liquid assets in the context of an acquisition or another share buyback.

Due to the solid financial situation, no financing measures are planned. A change in dividend policy is also not planned. A stable positive development of the operative cashflow is predicted. In addition to the expansion of its technical infrastructure, moderately increasing investment activities for software activities aim to place MAGIX in a position where it would be able to defend or strengthen its leading role in the multimedia landscape.

6.5 Overall statement

The MAGIX Group aligned very well to meet the demands of the future. The past financial year was used to expand the product portfolio for new markets and to optimize the cost structure. Due to its sound financial basis and the profitable core business MAGIX is capable of expanding its market position in multimedia applications. It is planned to tap new growing markets in the business customer and mobile device manufacturer markets. At the same time the market leadership positions in multimedia consumer software will be strengthened further in retail and the online portal.

7. Information in relation to Section 315, paragraph 4 of the German Commercial Code

Composition of the subscribed capital

The company's share capital amounted to EUR 12,662,038 on September 30, 2008, and currently is divided into 11,534,900 no-par shares with a calculated par value of EUR 1.10 per share. Shareholders exercise their voting rights in the shareholders' meeting according to the legal provisions as well as rules. No limitations exist in relation to the voting rights or the transfer of shares.

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 approval of the Supervisory Board, in return for cash contributions or contributions in kind by up to EUR 6,331,019.00 in total by issue of new registered shares.

The Management Board is further enabled by the Supervisory Board committee to make decisions relating to the statutory buying options of shareholders. An exclusion of subscription rights is permitted only

- to balance fraction amounts,
- if the issue price of the new shares is not significantly below the stock exchange price and the shares issued under the exclusion of subscription rights for options according Section 186, paragraph 3 of the German Stock Companies Act do not amount to more than 10%,
- for issuing shares to persons, who are employees of the company or of a company connected to it, and
- to receive contributions, especially in the form of stakes, companies or portions of companies.

In addition, the shareholders' meeting enabled the Management Board to set additional contents of the corporation laws and conditions with the agreement 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 issue of up to 700,000 new shares. 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 authorisaton for the 'stock option plan 2006' which was passed at the shareholders' meeting on January 19, 2006.

Share buyback

The shareholders' meeting on March 12, 2008 authorized the Company to purchase shares in MAGIX AG.

Authorisation applies to the acquisition of Company shares limited to a calculated amount of ordinary share capital of up to EUR 1,266,203.00 in total, being almost 10% of the existing ordinary share capital of EUR 12,662,038.00 at the time of authorization. Authorization can be exercised fully or partially, once or several times. The authorisation is valid until August 31, 2009. Acquisition may not be executed as a means of trading in own shares. The acquisition will be made via the stock market or by way of a public buyback offer.

The shareholders' meeting on March 12, 2008 also authorized the Management Board to sell own shares via the stock exchange or via a sell offer directed to its shareholders, subject to the approval of the Supervisory Board. With the approval of the Supervisory Board, own shares bought as a result of the preceding authorization may be used in ways other than the stock exchange or an offering announced to all shareholders under the exclusion of subscription rights to options of shareholders. Intended are the possibilities to exercise buying options according to the option conditions of the MAGIX share option plan adjusted in 2007, to use shares as acquisition currency as well as offer them to third parties under certain conditions. Additionally, the Management Board is empowered to redeem shares in part or completely.

Shareholder structure

The following shareholders held direct or indirect stakes in the company's capital exceeding 10% as of September 30, 2008:

Shareholder structure	
Presto Capital Management GmbH & Co. KG**	25.11%
Jürgen Jaron	13.01%
Dieter Rein	13.01%
HeidelbergCapital Private Equity Fund I GmbH & Co. KG	12.30%

** The limited liability capital of Presto Capital Management GmbH & Co. KG is owned by Jürgen Jaron and Dieter Rein each to 50%. Thus, Jürgen Jaron and Dieter Rein collectively directly or indirectly hold approximately 51.12% of the company's voting rights.

Appointing/dismissal of Management Board members

According to Section 7, paragraph 1 of the Articles of Association, the Supervisory Board names the Management Board members and determines their number. Further details or the naming and dismissal are laid out in the Sections 84 et seq. of the German Stock Corporation Act.

The Supervisory Board is authorized by Section 12 paragraph 2 of the Articles of Association to make changes and additions to the Articles that concern only their position. Otherwise, the Articles are confirmed at the shareholders' meeting by a majority of three quarters or more of the represented capital according to Section 179 of the German Stock Corporation Act.

Regulations in respect to a change of controlling share

There are no significant agreements made for the case of a change of control in case of a takeover bid. There are no compensation agreements made with the Management Board or employees for the case of a takeover bid. Legal regulations apply.

8. Main features of the reimbursement system

The members of the Management Board receive an annual remuneration that consists of success-related, success-independent as well as long-term success-dependent elements. The bonus is determined by the Supervisory Board by mandatory discretion based on the business development of the company. In the event of extraordinary achievements, the Supervisory Board may also approve a special bonus.

In accordance with Section 13, paragraph 1 of the MAGIX AG Articles of Association concluded at the shareholders' meeting, the Supervisory Board of the company is to receive a fixed remuneration per financial year. This is to be decided at the shareholders' meeting. Furthermore, the expenses of the Supervisory Board will be refunded. A variable compensation does not exist.

Please refer to the consolidated financial statements for the composition of profit-related and profit-unrelated compensation of the Management Board.

Berlin, January 6, 2009

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

Consolidated Financial Statements

September 30, 2008

Individual 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.

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, 12 January 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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

Consolidated Financial Statements, September 30, 2008

MAGIX AG, Berlin – Consolidated Balance Sheet as of September 30, 2008

ASSETS	Note	Sep 30, 2008 kEUR	Sep 30, 2007 kEUR
Non-current assets			
Property, plant and equipment	(1)	1,458	1,674
Intangible assets	(1)	11,917	11,680
Goodwill	(1)	2,116	2,116
Total non-current assets		**15,491**	**15,470**
Current assets			
Inventories	(2)	1,439	1,162
Trade receivables	(3)	11,174	9,875
Financial assets (held until final maturity)		861	940
Tax receivables		590	616
Other financial assets	(4)	5,564	12,952
Financial assets, which are allocated for divesture	(5)	4,950	0
Cash and cash equivalents	(6)	15,584	17,391
Total current assets		**40,162**	**42,936**
Total assets		**55,653**	**58,406**

MAGIX AG, Berlin – Consolidated Balance Sheet as of September 30, 2008

EQUITY AND LIABILITIES	Note	Sep 30, 2008 kEUR	Sep 30, 2007 kEUR
Equity attributable to equity holders of the parent			
Issued capital	(7)	12,662	12,662
Capital reserve		25,825	25,599
Revenue reserves		5,147	8,736
Treasury shares	(7)	0	-177
Reserve for currency translation		236	17
		43,870	**46,837**
Minority interests		**0**	**0**
Total equity		**43,870**	**46,837**
Non-current liabilities			
Other liabilities (non-current portion)		1,764	1,480
Deferred tax liabilities	(13)	861	1,045
Total non-current liabilities		**2,625**	**2,525**
Current liabilities and provisions			
Provisions	(8)	4,291	4,127
Other liabilities (current portion)		3,490	3,362
Trade payables		1,001	1,216
Tax liabilities		376	339
Total current liabilities and provisions		**9,158**	**9,044**
Total equity and liabilities		**55,653**	**58,406**

MAGIX AG, Berlin – Consolidated Income Statement for the Fiscal Year from October 1, 2007 to September 30, 2008

	Note	Oct 1, 2007 to Sep 30, 2008 kEUR	Oct 1, 2006 to Sep 30, 2007 kEUR
Sales revenue	(9)	32,116	32,662
Cost of sales	(10)	-4,527	-4,195
Gross profit		**27,589**	**28,467**
Selling expenses	(11)	-12,745	-13,181
Administrative expenses	(11)	-4,219	-4,333
Research and development costs	(11)	-9,026	-8,347
Other income	(12)	496	457
Earnings before interest and taxes		**2,095**	**3,063**
Interest income		1,166	1,325
Interest expenses		-114	-66
Earnings before taxes		**3,147**	**4,322**
Taxes on income	(13)	-1,130	-1,804
Net income of the Group for the period		**2,017**	**2,518**
Attributable to:			
Equity holders of the parent		2,017	2,618
Minority interests		0	-100
Earnings per share (basic and diluted)	(14)	**0.17**	**0.21**
Average number of shares outstanding		**11,534,900**	**12,646,279**

MAGIX AG, Berlin – Consolidated Cash Flow Statement
for the Fiscal Year from October 1, 2007 to September 30, 2008

	Oct 1, 2007 to Sep 30, 2008 kEUR	Oct 1, 2006 to Sep 30, 2007 kEUR
CASH FLOW FROM OPERATING ACTIVITIES		
Earnings before taxes	3,147	4,322
Adjustments for:		
Amortization and depreciation of non-current assets	3,459	2,970
Interest income	-1,166	-1,325
Interest expenses	114	66
Other non-cash income and expenses	-395	227
	5,159	**6,260**
Change in trade receivables	-1,299	-504
Change in inventories	-277	-228
Change in other assets	105	-60
Change in trade payables	-215	-938
Change in provisions	164	-489
Change in other liabilities	265	-140
Cash flow from operating activities	**3,902**	**3,901**
Interest payments	-114	-66
Income tax payments	-1,043	-2,242
Net cash flows from operating activities	**2,745**	**1,593**
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid for the acquisition and stepping up of shares in subsidiaries (without purchased cash and cash equivalents)	0	-4,659
Cash paid for the purchase of treasury shares	-5,541	-1,110
Cash paid for investments in other financial assets	0	-11,500
Cash received from divestment of other financial assets	2,438	0
Cash paid for investments in non-current assets	-3,501	-3,447
Interest income	1,166	1,325
Net cash flows used in investing activities	**-5,438**	**-19,391**
CASH FLOW FROM FINANCING ACTIVITIES		
Income from government grants	667	166
Net cash flows used in financing activities	**667**	**166**
Exchange differences	219	-72
Changes in cash and cash equivalents	-1,807	-17,704
Cash and cash equivalents at the beginning of the period	17,391	35,095
Cash and cash equivalents at the end of period	**15,584**	**17,391**

MAGIX AG, Berlin – Development of shareholders' equity for the Fiscal Year from October 1, 2007 to September 30, 2008

	Equity							
	Equity of the equity holders of the parent							
	Issued capital kEUR	Capital reserve kEUR	Revenue reserve kEUR	Treasury shares kEUR	Reserve for currency translation kEUR	Subtotal kEUR	Minority interests kEUR	Total kEUR
September 30, 2006	**12,662**	**26,083**	**6,118**	**0**	**89**	**44,952**	**1,125**	**46,077**
Offsetting of costs from 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		222	-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**
Offsetting of costs from stock option plan		271				271		271
Repurchase of treasury shares				-5,541		-5,541		-5,541
Retirement of treasury shares		-45	-5,673	5,718		0		0
Currency translation					219	219		219
Net revenue from financial investments available for divesture			67			67		67
Net income/loss for the period			2,017			2,017		2,017
September 30, 2008	**12,662**	**25,825**	**5,147**	**0**	**236**	**43,870**	**0**	**43,870**

Notes to the Consolidated Financial Statements as of September 30, 2008 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 listed as no. HRB 92660 in the commercial register of the Berlin municipal court ('Amtsgericht'). The company resides 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 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, 2008. The fiscal year 2007/2008 covers the period from October 1, 2007 to September 30, 2008.

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

The Management Board has prepared the consolidated financial statements for September 30, 2008 on January 6, 2009 and released it to be presented 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 bal-ances, 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:

		Equity share
MAGIX Computer Products International Corp.	Reno, Nevada, USA	100%
MAGIX Entertainment S. A. R. L.	Paris, France	100%
MAGIX Entertainment S. R. L.	Bozen, Italy	100%
MAGIX Entertainment B. V.	Wormer, The Netherlands	100%
MAGIX Development GmbH	Dresden, Germany	100%
MAGIX Ltd.	Hampshire, UK	100%
Xara Group Ltd.	Hampshire, UK	100%
mufin GmbH	Berlin, Germany	100%
Catooh Corp.	Las Vegas, Nevada, USA	100%

1.3 Change in balance and valuation methods

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 October 1, 2007.

The changes in accounting policies relate to the application of the following new or revised IFRS standards and IFRIC interpretations:

- 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 & Impairment'
- IFRIC 11 'IFRS 2 – Transactions with own shares and shares from the company group'

The first-time adoption or amendment of the aforementioned IFRS standards and IFRIC interpretations does not affect the state of MAGIX AG's assets, finances and profitability, but does create new information. In addition, the group has used the following standards and interpretations ahead of schedule.

The adoption of these standards and interpretations did not affect the state of MAGIX AG's assets, finances and profitability. They did, however, lead to additional information and to changes in balancing and valuation methods.

- IFRS 8 'Business segments'

With the exception of the standards and interpretations listed in the paragraph above, IFRS standards and IFRIC interpreteations that are not yet effectively mandatory were not adhered to. These include the following provisions:

- IFRS 2R 'Share-based reimbursement' (amended)
- IFRS 3R 'Amalgamation' (amended)
- IAS 1R 'Presentation of consolidated financial statements' (amended)
- IAS 23R 'Cost of debt' (amended)
- IAS 27R 'Group and separate individual financial statements according to IFRS' (amended)
- IAS 32R 'Financial instruments: Reporting' (amended)
- IFRIC 12 'Service concession agreements'
- IFRIC 13 'Customer bonus programs'
- IFRIC 14 'IAS 19 – Limitation of a success-dependent financial worth, minimum financing provisions and their interdependency'

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 the 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.

The IFRIC 7 to IFRIC 11 interpretations are not relevant for the consolidated financial statements of the MAGIX Group.

IFRS 8 requires the entry of information pertaining to MAGIX AG's business segments and replaces the obligation to determine primary (business segments) and secondary (geographical segments) segment statement formats for the group. The information relating to the first-time application of the IFRS 8 and each segment is reported together with the adjusted comparison information in the 4th Financial Statements Appendix on segment reporting.

According to IFRIC 13, bonuses awarded to customers out of own earnings have to be balanced separately from transactions, in whose context they were paid. Therefore, a part of the included cash value of the reward is assigned to the customer bonus and passively differentiated. The revenue realization takes place within the period, in which the bonuses are awarded, or they expire. Because MAGIX Group has such a limited customer bonus program, no significant effects on the consolidated financial statements are expected to come out of this interpretation.

The IAS 23R standard and IFRIC 12 and IFRIC 14 interpretations are not relevant for the consolidated financial statements of the MAGIX Group.

1.4 Substantial discretionary decisions

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

Intangible assets

The MAGIX Group collected intangible assets with its acquisition of mufin GmbH (previously m2any GmbH) as well as Xara Group Limited, which are linked to the acquired patents and associated software, gained customer following and development costs. These intangible assets are measured on the basis of the planned liquidity returns from both companies. The carrying amounts of the corresponding assets of the mufin GmbH (previously m2any GmbH) was kEUR 2,765 on September 30, 2008 (previous year: kEUR 2,995) and of the Xara Group Limited – kEUR 1,772 (previous year: kEUR 2,088). 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 the comparison, the period ending on September 30, 2008, as well as the period ending on September 30, 2007, did not require a valuation allowance.

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. As of September 30, 2008 software development costs have a carrying value of kEUR 5,911 (previous year: kEUR 5,106).

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, 2008 these provisions have a carrying amount of kEUR 3,582 (prior year: kEUR 3,549).

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

Currency translation

The consolidated financial statements are prepared in euro, which is the functional currency of MAGIX AG and the 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 finite or an indefinite useful life. Intangible assets with a finite 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. Assets, that are accounted for within the software and industrial rights position, will be written off over an estimated useful life of 3 to 15 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 expenses 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. The software development costs include to a large degree the costs for 7 software platforms, as well as software products acquired in the course of company takeover. The technical feasibility of these platforms can be substantiated by the successful sales in recent years. All software development costs are based on past sales experience and expected future sales revenues over an expected use life of 5 years.

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. For property, plant and equipment investments, the MAGIX Group applies use life of 3 to 14 years. 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.

An asset is derecognized upon departure. 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 and 2 percentage points would not lead to indications of impairment.

Financial assets

Financial assets as defined by IAS 39 are classified either as financial assets at fair value through profit or loss, as loans and receivables, held-to-maturity investments, or as 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, 2008 and September 30, 2007 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 held until final maturity) as well as available-for-sale financial assets (reported as assets classified as ready for divestiture).

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.

Available-for-sale financial assets are non-derivative financial assets that are classified as available-for-sale and not as loans and receivables, held-to-maturity investments, or financial assets at fair value. Following a first-time valuation the financial ready-for-sale assets are valuated at fair value. Unrealized earnings orlosses will be reported directly in equity. If such financial assets are derecognized or devalued, the earnings or losses reported in equity will be reported as having an immediate effect on the profit and loss account.

The fair value of financial assets, floated on organized markets is determined by the market price noted on the balance sheet cut-off date. The fair value of the financial assets, for which no active market exists, is determined using valuation methods. Valuation methods include using the latest business transactions between arbitrators, business partners seeking to enter into a contract and independent business partners, comparison of the fair value of another, in prinicple identical financial instrument, analysis of discounted cash flow and the use of other valuation methods.

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

The cash and cash equivalents in the group balance include bank deposit, cash holdings and demand deposits with a duration of less than 3 months. The cash and cash equivalents in the consolidated cash flow statement are classified using the above definition.

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 included in the consolidated balance sheet of the MAGIX Group mainly consist of interest-bearing loans and other liabilities. At the time of initial recording, loans are valued at the current value of the received service in return subsequent to deduction of the transaction costs related to raising of the credit. After their initial recording the interest-bearing loans are finally valued by applying the effective interest method for continued acquisition costs. Profits and losses are recorded in the net income for the period if adjustments are made for losses, as well as within the context of amortizations. A financial liability is adjusted if the liability has been settled, omitted or has 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 end 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. Finance costs are recognized immediately with an effect on profit or loss. 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

Starting from the 2005/2006 fiscal year, MAGIX Group employees receive share-based remuneration in the form of share options. The share option program is basically an option plan, which is 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 year 2007/2008, the MAGIX Group received investment subsidies and grants amounting to kEUR 667 (prior year: kEUR 166). 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. Grants involve cost allowances, which are reported as earnings during the period in which the expenditures took place in a timely manner.

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 or substantively 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. Tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date are used to do so. 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

Business acquisitions in fiscal year 2007/2008

No business acquisitions were made in fiscal year 2007/2008.

Business acquisitions in fiscal year 2006/2007

Xara Acquisition

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 (kEUR 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 of the QCBs MAGIX AG issued a secured bond without option rights, which will be due for cash settlement on Sep 30, 2009. The cash value of the QCB at cut-off date of the purchase agreement was kEUR 1,348 (reported under other liabilities/ long-term shares). 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 (kEUR 1,452).

- The third purchase price component will be 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 value 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 kEUR	Carrying amount 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 kEUR 3,724 according to the provisionary purchase price allocation 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). Passive deferred taxes in the amount of kEUR 689 do not apply to the gained customer following and the and self-created software products. The customer base will be written off in the course of the estimated use life of 10 years, and the acquired software products will be written off during the estimated use life of 5 years.

In fiscal 2006, Xara generated revenues of ca. kEUR 1,534, and a net income of kEUR 95. In fiscal 2006/2007 Xara generated revenues of kEUR 1,534 and an annual net profit of kEUR 95. For the financial year 2007 Xara added revenues of kEUR 766 to the to the consolidated sales of MAGIX AG and revenue, and an annual net profit of kEUR 30. The dissolution of the hidden reserves from the purchase price allocation before income taxes decreases the results in the consolidated financial statement of MAGIX Group by kEUR 210 for the financial year 2006/2007.

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

In fiscal 2006/2007 MAGIX AG founded the Catooh Corp., Las Vegas, Nevada as a 100% subsidiary using a cash deposit ($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

To increase revenue transparency in the external communications, in the course of a premature application of IFRS 8 accounting standards, segment reporting was introduced, whose structure orients itself on internal reporting. To properly reflect the varying risk structure within the MAGIX Group, the management separates the new section (venture segment) from the core business, operated for years (multimedia segment) when assessing earnings.

The venture segment generates its revenues from the Online Services, Xara graphic design products and marketing of mufin music recognition and music recommendation technology. With Online Services and Xara products, the Group receives revenue primarily in the still young online business. For the MAGIX Group, Xara products offer an opportunity to build up distribution of graphics design software via specialized retailers. For the music recognition and recommendation technology mufin, the biggest potential lies in market entry with new large customers like manufacturers of mobile telephones and mp3 players.

The multimedia segment includes all other software products that serve to create, edit, present and manage music, photo and video. The inner revenues result from delivery and service relationships between the multimedia and ventures segments. They are offset according to conditions usual for the market.

The management measures the success of each segment based on earnings before interest and taxes and makes resource allocation decisions within the MAGIX Group based on these results. Reconciliation report helps transfer the segment earnings via the Group EBIT to the consolidated net income. This report features expenditures and earnings that are not assigned to any operative segment because they are controlled by the overall group. On the one hand, these are EBIT-effective expenditures for the Management Board, Supervisory Board and Investor Relations, as well as income and earnings taxes.

The segment assets represent the necessary operating assets of a segment. This includes company and business values assigned to each segment asset. Due to concentrated liquidity equalization (cash pooling), the financial assets are not assigned to operative segments, but are reported in the reconciliation statement.

MAGIX Group	**Multimedia**		**Ventures**		**Reconciliation statement**		**MAGIX Group**	
Segment information (kEUR)	**2007/2008**	**2006/2007**	**2007/2008**	**2006/2007**	**2007/2008**	**2006/2007**	**2007/2008**	**2006/2007**
External sale revenues	29,583	29,845	2,533	2,817			32,116	32,662
Internal sale revenues	175	60	204	1			379	61
Sales revenue	29,758	29,905	2,737	2,817			32,495	32,723
Gross margin of the outer sale revenues	**25,279**	**25,731**	**2,310**	**2,736**			**27,589**	**28,467**
Segment result (EBIT)	**5,446**	**4,803**	**-2,171**	**-1,184**	**-1,180**	**-556**	**2,095**	**3,063**
Financial result					1,052	1,259	1,052	1,259
EBT	**5,446**	**4,803**	**-2,171**	**-1,184**	**-128**	**703**	**3,147**	**4,322**
Outstanding results					0	0	0	0
Taxes					1,130	1,804	1,130	1,804
Net income	**5,446**	**4,803**	**-2,171**	**-1,184**	**-1,258**	**-1,101**	**2,017**	**2,518**
Segment assets	20,864	19,088	8,691	8,974	26,098	30,344	55,653	58,406
including intangible assets	7,029	6,424	7,004	7,371	0	0	14,033	13,795

Customers

The MAGIX Group has an extensive and diversified customer base (retail partners, OEM partners, end customers). MAGIX draws up different contract conditions with the customers that belong to one company group, and in the fiscal years ending on September 30, 2008 and on September 30, 2007, none of them resulted in more than 10% of the total revenue.

Geographical segments

Revenue and assets of the MAGIX Groups were distributed into the following geographical segments during the period covered in the report and in the previous year

MAGIX Group	USA		Rest of World		Group	
Amount in kEUR	2007/2008	2006/2007	2007/2008	2006/2007	2007/2008	2006/2007
Segment earnings	3,241	3,820	28,875	28,842	32,116	32,662
Segment assets	792	1,348	54,861	57,058	55,653	58,406

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 of acquisition and sales					Cumulative amortization					Carrying amount	
	Oct 1, 2006	Additions	Disposals	Currency transl.	Sep 30, 2007	Oct 1, 2006	Additions	Disposals	Currency transl.	Sep 30, 2007	Sep 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	2,116	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**

	Cost of acquisition and sales					Cumulative amortization					Carrying amount	
	Oct 1, 2007	Additions	Disposals	Currency transl.	Sep 30, 2008	Oct 1, 2007	Additions	Disposals	Currency transl.	Sep 30, 2008	Sep 30, 2008	Oct 1, 2007
I. Intangible assets												
1. Software and industrial rights	8,338	612	0	0	8,950	3,969	747	0	0	4,716	4,234	4,369
2. Goodwill	2,116	0	0	0	2,116	0	0	0	0	0	2,116	2,116
3. Customer base	1,437	0	0	0	1,437	96	172	0	0	268	1,169	1,341
4. Software development costs	10,766	2,475	0	0	13,241	4,797	1,930	0	0	6,727	6,514	5,969
Total	**22,657**	**3,087**	**0**	**0**	**25,744**	**8,862**	**2,849**	**0**	**0**	**11,711**	**14,033**	**13,795**
II. Property, plant and equipment												
1. Leasehold improvements	334	2	0	0	336	64	37	0	0	101	235	270
2. Office equipment	135	6	0	0	141	78	13	0	0	91	50	57
3. Other fixtures	3,453	407	-43	0	3,817	2,106	560	25	3	2,644	1,173	1,347
Total	**3,922**	**414**	**-43**	**0**	**4,294**	**2,248**	**610**	**25**	**3**	**2,836**	**1,458**	**1,674**

From the additions to the costs of acquisition and sales, in fiscal 2007/2008, kEUR 0 were non-cash items (previous year: kEUR 1,348).

(2) Inventories

	Sep 30, 2008 kEUR	Sep 30, 2007 kEUR
Raw materials	895	1,014
Finished goods	734	804
Valuation allowance on finished goods	-190	-656
	1,439	**1,162**

(3) Trade receivables

	Sep 30, 2008 kEUR	Sep 30, 2007 kEUR
Due within one year, gross	12,037	10,484
Individual and general value adjustments	-863	-609
	11,174	**9,875**

The Company concluded a credit insurance agreement that secures bad debts by up to 90% for named customers and by up to 90% for customers not named individually, provided that the receivables are recognized by the customers.

On September 30, 2008 receivables from goods and services were impaired in value by kEUR 863 (2007: kEUR 609). The value adjustment account developed itself as follows:

	Individually adjusted values kEUR	Value adjustment based on portfolio kEUR	Total kEUR
As of October 1, 2006	312	53	365
Allowed expense allocations	420	100	520
Utilization	-249	-27	-276
As of Sep 30, 2007	483	126	609
Allowed expense allocations	700	0	700
Utilization	-390	-56	-446
Resolution			
Addition of accrued interest			
As of Sep 30, 2008	**793**	**70**	**863**

On September 30, 2008, the age distribution of the receivables from goods and services was as follows:

	Total kEUR	Neither past due nor impaired kEUR	Past due, but not impaired < 30 days kEUR	30-60 days kEUR	60-90 days kEUR	90-120 days kEUR	> 120 days kEUR
2007	10,484	8,492	406	218	135	213	411
2008	**12,037**	**9,797**	**247**	**380**	**280**	**109**	**361**

kEUR 636 of receivables (previous year: kEUR 1,005) are allocated to USD receivables of the US subsidiary. If the EUR/USD exchange rate would have risen by 5%, the equity would have been reduced by kEUR 35 (previous year: kEUR 33). If the EUR/USD exchange rate would have dropped by 5%, the equity would have risn by kEUR 27 (previous year: kEUR 34).

(4) Other financial assets

Other financial assets consist of fixed term deposits with various credit institutes with original terms of 3 to 4 months in total, which are held to maturity. On September 30, 2008 the weighted remaining duration of the fixed-term deposits was approximately 2 months.

The fixed-term deposits are subject to variable interest rates according to the agreed term (credit interest rate of between 4.85% and 5.25%). The corresponding interest income is posted to income on a monthly basis.

kEUR 1,326 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) Finacial assets, which are allocated for divesture

Financial assets, which are allocated for divesture are DWS mixed funds. The funds buy forward and sell shares at the same time. Buy forward transactions are made only via Deutsche Bank. Deutsche Bank has deposited 90% in cash according to the UCTIS regulations. These are labeled as available-for-sale and valued with corresponding fair value (market value). Value changes are reported independent of their success in equity.

kEUR 1,617 of the funds (previous year: kEUR 1,005) are allocated to USD funds. If the EUR/USD exchange rate would have risen by 5%, the equity would have been reduced by kEUR 52 (previous year: kEUR 0). If the EUR/USD exchange rate would have dropped by 5%, the equity would have increased by kEUR 56 (previous year: kEUR 0).

(6) Cash and cash equivalents

	Sep 30, 2008 kEUR	Sep 30, 2007 kEUR
Bank balances	1,626	7,579
Short-term deposits (fixed-term deposits)	13,948	9,800
Cash on hand	10	12
	15,584	**17,391**

Bank balances earn interest at the variable rates for on demand deposits. Short-term deposits are made for different periods of between one day and three months depending on the respective liquidity requirements of the Group in the financial year 2007/2008. These are subject to interest at the respective interest rates applicable for short-term deposits.

(7) Equity

The share capital of MAGIX AG amounted to kEUR 12,662 on September 30, 2008 and is divided into 11,534,900 non-par shares with a calculated par value of EUR 1.10 per share.

IPO in April 2006

By resolution dated March 22, 2006 the shareholders' meeting of MAGIX AG authorized the Management Board to increase the issued capital of the Company by EUR 1,350,000 by issuing 1,350,000 new nominal registered shares with an imputed share in the issued capital of EUR 1.00 per share for a cash deposit, excluding any right to recourse to the courts of law by the old shareholders.

The capital increase has been recorded in the commercial register after the cash deposit in connection with MAGIX AG's IPO on April 5, 2006. In the course of the public offering with the issuing price of EUR 16.40 per share, a premium of EUR 15.40 per share was dropped, kEUR 20,790 in total. The premium was assigned 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 approval of the Supervisory Board, in return for cash contributions or contributions in kind by up to EUR 6,331,019.00 in total by issue of new registered shares. 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.

An exclusion of subscription rights for options is permitted only

- 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 EUR 700,000.00 by the issue of new shares, namely by issue of up to 700,000 new shares. 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 authorisaton for the 'stock option plan 2006' which was passed at the shareholders' meeting on January 19, 2006. 316,500 stock options were issued within the context of the 'stock option plan 2006'. Within the context of this stock option plan 392,500 share options were issued up until the cut-off date of the annual report, with 76,000 relating to the 2006/2007 fiscal year. Of this figure, 17,500 stock options subsequently lapsed due to employees leaving the company. As a result there are currently 375,000 options outstanding.

Share buyback

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 EUR 1,266,203.00, almost 10% of the issued capital of EUR 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 had taken advantage of such authorization during the financial year 2006/2007 and acquired 165,394 shares in total, resulting in total acquisition costs of kEUR 1,110. A total of 139,000 of the treasury shares purchased were transferred to the former minority stakeholders in mufin GmbH (formerly m2any GmbH) for the acquisition of the minority interests in mufin GmbH. The 26,394 treasury shares remaining on September 30, 2007 were reported as an adjustment to equity in a separate item and measured at an average cost of EUR 6.71 per share.

In October 2007, the Company bought an additional 1,100,744 shares via a public share buyback offering, thereby exhausting the March 23, 2007 shareholders' meeting authorization in respect to share buyback.

The shareholders' meeting on March 12, 2008 authorized the Company to purchase shares in MAGIX AG subject to the approval of the Supervisory Board. At the same time the authorization of March 23, 2007, as far as it has not yet been used, was revoked and replaced with the authorisation of March 12. Authorisation applies to the acquisition of Company shares limited to a calculated amount of ordinary share capital of up to EUR 1,266,203.00 in total, being almost 10% of the existing ordinary share capital of EUR 12,662,038.00 at the time of authorization. Authorization can be exercised fully or partially, once or several times. The authorization expires on August 31, 2009. The purchase is made via the stock exchange or using a public repurchase bid.

Two shareholders have launched an action for rescission at the Berlin District Court regarding the authorization by the shareholders' meeting on the authorization to purchase and utilize own shares as well as regarding the exclusion of the purchase rights. A further shareholder has joined the legal dispute on the side of MAGIX AG as an intervention. The action for rescission was dismissed and the intervention was rejected at the oral hearing on July 30, 2008. A claimant has appealed against the ruling of the District Court. The interventioner reprehended the breach of legal hearing and filed an immediate appeal against the rejection of the intervention.

The shareholders' meeting on March 12, 2008 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.

On April 9, 2008 MAGIX AG took advantage of the authorization granted by the shareholders' meeting on March 23, 2007 and collected all 1,127,138 own registered ordinary non par value shares in simplified form according to § 71, sub-section 1, no. 8 sentence 6 of the German Stock Corporation Act (AktG).

After collection the share capital of the Company amounts to at this time EUR 12,662,038.00, and is divided into 11,534,900 common shares without nominal value (non-par-value shares).

With effect of April 9, 2008 the availability of the share capital, ISIN DE 0007220782, on the regulated market of the Frankfurt stock exchange and in the sub-section of the regulated market with additional requirements (Prime Standard) has been adjusted accordingly.

(8) Provisions

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.

The table below shows the development of the provisions:

	Sep. 30, 2007 kEUR	Utilization kEUR	Addition kEUR	Sep 30, 2008 kEUR
Royalties	3,549	-121	154	3,582
Bonuses / vouchers	536	-508	645	673
Legal counsel	42	-31	25	36
	4,127	**-660**	**824**	**4,291**

6. Notes to the consolidated income statement

(9) Sales revenue

	2007/2008 kEUR	2006/2007 kEUR
Product deliveries	31,623	31,895
Services and licenses	493	767
	32,116	**32,662**

(10) Cost of sales

	2007/2008 kEUR	2006/2007 kEUR
Raw materials	3,033	3,046
Royalties	1,494	1,226
Other		-77
	4,527	**4,195**

(11) Operating expenses

	2007/2008 kEUR	2006/2007 kEUR
Selling expenses		
Personnel expenses	4,688	4,622
Marketing expenses	3,806	4,646
Write-downs	686	559
Other expenses	3,565	3,354
	12,745	**13,181**
Administrative expenses		
Personnel expenses	2,046	1,817
Write-downs	167	133
Other operating costs	623	525
Other expenses	1,383	1,858
	4,219	**4,333**
Research and development costs		
Personnel expenses	4,790	4,430
Write-downs	2,606	2,278
Other expenses	1,630	1,639
	9,026	**8,347**
	25,990	**25,861**

Personnel expenses total kEUR 11,524 for the fiscal year 2007/2008 (kEUR 10,869 for the fiscal year 2006/2007). Depreciation, amortization and write-downs total kEUR 3,459 for the fiscal year 2007/2008 (kEUR 2,970 for the fiscal year 2006/2007).

(12) Other income/other expenses

	2007/2008 kEUR	2006/2007 kEUR
Exchange gains	572	299
Exchange losses	-870	-472
Insurance indemnification payments	41	145
Other	753	485
	496	**457**

(13) Taxes on income and deferred taxes

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

Consolidated Income Statement	2007/2008 kEUR	2006/2007 kEUR
Current income tax expense	-1,404	-1,989
Tax rebates for previous years	68	0
Deferred income taxes	206	185
thereof from timing differences	-74	235
thereof from unused tax losses	280	-50
Income tax expenditure recorded in the consolidated income statement	**-1,130**	**-1,804**

Consolidated statement of change in shareholders' equity	2007/2008 kEUR	2006/2007 kEUR
Deferred income taxes from positions reported in equity:		
Unrealized profit from divesture of available assets	-22	0
Income tax expenditure reported in equity	**-22**	**0**

The theoretic income tax expense, based on the earnings before taxes of kEUR 3,147 (previous year: kEUR 4,322), can be consolidated with the recorded income tax expense using the tax rate of 29.2%

	2007/2008 kEUR	2006/2007 kEUR
Earnings before taxes	3,147	4,322
Average tax rate[2]	29.2%	29.2%
Theoretical income tax expense	-919	-1,262
Tax rebates for previous years	68	0
Inactivated tax losses of the fiscal year	-371	-261
Other	92	-281
Income tax expense	**-1,130**	**-1,804**

[2] including 15.0% corporate taxes, 0.8% solidarity tax addition to the corporate tax and an effective business tax of 13.4 %

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:

	2007/2008 kEUR	**Consolidated income statement** kEUR	**Equity** kEUR	**2006/2007** kEUR
Active deferred taxes				
Accumulated carry forward	370	280	0	90
Timing differences between entries				
Elimination of intercompany profits	226	-100	0	326
	596	**180**	**0**	**416**
Deferred tax liabilities				
Timing differences between entries				
Intangible assets in connection with a business acquisition (change with effect on earnings)	-498	42	0	-540
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)	-518	92	0	-610
Exchange differences	-305	-96	0	-209
Valuation allowances on loans to affiliated entities	-104	-12	0	-92
Revaluation of the available-for-sale assets fair values	-22	0	-22	0
Other	-10	0	0	-10
	-1,457	**26**	**-22**	**-1,461**
Deferred tax liability, net	**-861**	**206**	**-22**	**-1,045**

Deferred tax assets are written down if realization is not probable. On September 30, 2008, the holding company had no carryforward taxes. The tax gains from tax expenses for foreign subsidiaries (total kEUR 2,443) were not added. The tax gains from tax losses of the mufin GmbH (formerly m2any GmbH) (kEUR 1,265) were assessed based on the tax plan of this subsidiary, which aims to reach a positive tax position within the following fiscal years.

14) 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.

On October 2, 2007 the company acquired 1,100,744 MAGIX shares at a price of EUR 5.5 million by means of a public buyback offer. The shares were retired effective April 9, 2008 without changes to the share capital.

Between the balance sheet call date and the creation of the consolidated financial statement, the group bought 444,252 own shares via a public share buyback offer on November 19, 2008. For details, please look under 'Events after the balance sheet call date'.

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

	2007/2008 kEUR	2006/2007 kEUR
Net profit attributable to ordinary equity holders of the parent	2,017	2,618
Weighted average number of ordinary shares for basic earnings per share	11,535	12,646
Effect of dilution:		
Stock options	0	0
Weighted average number of common shares adjusted for the dilution effect	11,535	12,646
Earnings per share (basic and diluted) in EUR/share	**0.17**	**0.21**

7. Other notes

Share-based payments

The stock option plan created in 2005/2006 envisions a total of 700,000 options granted to four groups of MAGIX Group's employees with 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.

Stock options can be exercised within ten stock exchange days after a scheduled shareholders' meeting of the Company or publication of a report of the Company describing the state of business in the second of 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). No stock options were issued in the course of the last fiscal year. From the total of 375,000 stock options issued until September 30, 2007, 49,500 options have expired in the previous fiscal year, bringing the number of subscription rights to 325,500 options on September 30, 2008.

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

	Tranches 2007	Tranches 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 %
Option value 1 tranches (Euro/option)	2.76	2.42
Option value 2 tranches (Euro/option)	3.45	3.49
Option value 3 tranches (Euro/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, 2008 breaks down into the following tranches and option plans:

	2007 kEUR	**2006** kEUR
1st tranches	27	75
2nd tranches	21	68
3rd tranches	18	62
	66	**205**
		271

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:

	2007 kEUR	**2006** kEUR
1st tranches	9	75
2nd tranches	7	68
3rd tranches	6	62
	22	**205**
		227

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

- Mr. Jürgen Jaron, Berlin
  (shareholder and management board member)
- Mr. Dieter Rein, Berlin
  (shareholder and management board member)
- Mr. Tilman Herberger, Dresden
  (shareholder and management board member)

Management board members were also granted stock options as part of the new stock option plan. The attached value of the stock options reserved for members of the Management Board amounts to kEUR 60, and of that amount, kEUR 20 were reported as expenses in the fiscal year 2007/2008.

Supervisory Board of MAGIX AG

- Mr. Karl Heinz Achinger, business consultant, Munich (chairman of the supervisory board)
- Mr. 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 current remuneration of the members of the Supervisory Board of the 2007/2008 fiscal year was kEUR 90 (previous 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 (gave up his post on June 27, 2008)
- RWE Systems AG, Dortmund, Germany (gave up his post on October 22, 2008)
- TDS Informationstechnologie AG, Neckarsulm, Germany (gave up his post on February 29, 2008)
- teleson AG, Munich, Germany
- iGate Global Solutions Ltd., Bangalore, India (gave up his post on January, 2008)
- Bundeswehr Informationstechnologie GmbH (BWI), Meckenheim, Germany
- inverto AG, Cologne, Germany

The current remuneration of the members of the Management Board of the 2007/2008 fiscal year is (in kEUR):

	Jürgen Jaron	Dieter Rein	Tilman Herberger	Total	Prior year
Fixed remuneration	165	165	114	444	444
Profit-based remuneration	162	162	117	441	0
Total	**327**	**327**	**231**	**885**	**444**

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 board.

Other related parties:

- Mr. Titus Tost, Dresden (shareholder)
- Mr. 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)

Revenues with related parties

	2007/2008 kEUR	2006/2007 kEUR
Sales revenue of Future GmbH with MAGIX AG	1,095	1,156
Sales revenue of MN Soft with MAGIX Computer Products International Corp.	919	1,239
Sales revenue of MAGIX AG with MN Soft	865	1,029
Sales revenue of erso GmbH with MAGIX AG	548	619
Sales revenue of MAGIX AG with erso GmbH	176	212

Liabilities to related parties

	Sep 30, 2008 kEUR	Sep. 30, 2007 kEUR
Liabilities to Future GmbH	121	335
Liabilities to erso GmbH	43	106

Future GmbH provides media services for MAGIX AG. Presto Capital Management GmbH & Co. KG leases the premises for the logistics center in Lübbecke to MAGIX AG.

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

Notice pursuant to Sec. 26 (1) WpHG

In accordance with Art. 21, Sec. 1, 24 of the WpHG, Credit Suisse Group, Zurich/Switzerland, in its own name and in the name of the subsequently named companies, has informed us of the following:

- On October 1, 2007 the voting share of Credit Suisse Securities (Europe) Limited, London/England in MAGIX AG fell below 10% and amounted to 6.16% (780,050 voting shares) on this day.
- On October 1, 2007 the voting share of the companies related to Credit Suisse Securities (Europe) Limited, London/England, being Credit Suisse Group, Zürich/Switzerland, Credit Suisse, Zürich/Switzerland, Credit Suisse (International) Holding AG, Zug/Switzerland, Credit Suisse Investments (UK), London/England and Credit Suisse Investment Holdings (UK) London/England, in MAGIX AG fell below 10% and amounted to 6.16% (780,050 voting shares) on this day. 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. 25 (1) WpHG ['Wertpapierhandelsgesetz': German Securities Trading Act]

MAGIX AG, Berlin/Germany, announces in accordance with Article 26, Sec. 1, Sentence 2 WpHG, in its own name the following:

- On October 8, 2007 the holding of MAGIX AG in its own shares exceeded the thresholds of 3 and 5 per cent and amounted to 8.90 per cent this day (1,127,138 shares).

Correction of a notice according to Article 26, Section 1 of the WpHG [the German Securities Trading Act] from September 21, 2007 with (published on October 10, 2007)

As a correction of their notice from September 21, 2007 HeidelbergCapital Private Equity Fund I GmbH & Co. KG; Munich/Germany, Heidelberg Capital Asset Management GmbH, Munich/Germany and Prof. Dr. Martin Weiblen, Germany, have in their own name informed us in accordance with Article 21, Section 1 WpHG of the following:

- On September 20, 2007 the voting share in MAGIX AG held by HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Heidelberg Capital Asset Management GmbH and Prof. Dr. Martin Weiblen each exceeded the thresholds of 3, 5 and 10 per cent and each amounted to 11.21 per cent this day (1,419,203) voting rights.
- The shares shall be allocated to Heidelberg Capital Asset Management GmbH and Prof. Dr. Martin Weiblen in full according to Art. 22 Section 1, Sentence 1, no. 1 of the WpHG

The chain of controlled companies is as follows (starting with the lowermost company):

HeidelbergCapital Private Equity Fund I GmbH & Co. KG, Heidelberg Capital Asset Management GmbH and Prof. Dr. Martin Weiblen.

Correction of a notice according to Article 26, Section 1 of the WpHG [the German Securities Trading Act] from September 21, 2007 (published on October 10, 2007)

As a correction of our publication from September 21, 2007 we hereby announce:

In accordance with Article 21, Section 1 and Article 22, Section 1 of the WpHG 3i Group plc, London/GB, 3i Holdings plc, London/GB, 3i International Holdings plc, London/GB, 3i Deutschland Gesellschaft für Industriebeteiligungen mbH, Frankfurt a. M./Germany, 3i Verwaltungs GmbH, Munich/Germany, 3i Europartners III Verwaltungs GmbH & Co. KG, Munich/Germany, 3i General Partner 2004 GmbH, Munich/Germany, 3i 2004 GmbH & Co. KG, Munich/Germany, 3i Europartners III B LP, London/GB, 3i Europartners III A LP, London/GB, 3i Group Investments LP, London/GB, have notified us of the following:

- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Group Investments LP dropped below the threshold of 10, 5 and 3 per cent and is now at zero per cent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Europartners III A LP dropped below the threshold of 10, 5 and 3 per cent and is now at zero per cent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Europartners III B LP dropped below the threshold of 10, 5 and 3 per cent and is now at zero per cent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i 2004 GmbH & Co. KG dropped below the threshold of 10, 5 and 3 per cent and is now at zero per cent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i General Partner 2004 GmbH dropped below the threshold of 10, 5 and 3 per cent and is now at zero per cent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Europartners III Verwaltungs GmbH & Co. KG dropped below the threshold of 10, 5 and 3 per cent and is now at zero percent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Verwaltungs GmbH dropped below the thresholds of 10, 5 and 3 per cent and is today at zero per cent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Deutschland Gesellschaft für Industriebeteiligungen mbH dropped below the thresholds of 10, 5 and 3 per cent and is today at zero per cent, which corresponds to zero shares.

- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i International Holdings GmbH dropped below the thresholds of 10, 5 and 3 per cent and is today at zero per cent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Holdings plc dropped below the threshold of 10, 5 and 3 per cent and is now at zero percent, which corresponds to zero shares.
- On September 20, 2007 the proportion of voting rights in MAGIX AG held by 3i Group plc dropped below the thresholds of 10, 5 and 3 per cent and is today at zero per cent, which corresponds to zero shares.

Notice pursuant to Sec. 26 (1) WpHG [‘Wertpapierhandelsgesetz’: German Securities Trading Act]
FiveT Capital AG, Zurich/Switzerland, has informed us of the following in the name of the following companies in accordance to section 21 Pp 1 of the Securities Trade Act :
- On December 11, 2007 the voting share in MAGIX AG held by FiveMore Fund Ltd., George Town (Grand Cayman)/Cayman Islands exceeded the threshold of 3 per cent and amounted to 4.07 per cent this day (515,567) voting rights.
- On December 11, 2007 the voting share in MAGIX AG held by MAGIX AG FiveT Investment Management Ltd., George Town (Grand Cayman)/Cayman Islands the threshold of 3 per cent and amounted to 4.07 per cent this day (515,567) voting rights. The share of the FiveMore Fund Ltd. shall be allocated to it in full according to Art. 22 Sec. 1, Sentence 1, no. 6 of the Securities Act.

Notice pursuant to Sec. 26 (1) WpHG [‘Wertpapierhandelsgesetz’: German Securities Trading Act]
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:
- On December 11, 2007 the voting share of Credit Suisse Securities (Europe) Limited, London/England in MAGIX AG fell below 3% and amounted to 0 per cent (0 voting shares) on this day.
- On December 11, 2007 the voting share of the companies related to Credit Suisse Securities (Europe) Limited, London/England, being Credit Suisse, Zurich/Switzerland, Credit Suisse (International) Holding AG, Zug/Switzerland, Credit Suisse Investments (UK), London/England and Credit Suisse Investment Holdings (UK) London/England, in MAGIX AG fell below 5% and 3% and was 0% (0 voting shares) on this day.
- On December 11, 2007 the voting share of the Credit Suisse Group, Zürich/Switzerland, beeing a company related to Credit Suisse Securities (Europe) Limited, London/England, in MAGIX AG fell below 5% and 3% and was 0% (0 voting shares) on this day. The share will be allocated to it in full according to Art. 22 Sec. 1, Sentence 1, no. 6 of the WpHG in connection with Art. 22, Sec. 1, Sentence 2 of the 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 [‘Wertpapierhandelsgesetz’: German Securities Trading Act]
Mr. Jürgen Jaron, Germany, and Mr. Dieter Rein, Germany, have each informed us of the following in their own name and in the name of Presto Capital Verwaltungs GmbH, Wünsdorf/Zossen, Germany, acting for itself and as the exclusive partner with unlimited liability of Presto Capital Management GmbH & Co. KG, Wünsdorf/Zossen, Germany, according to Art. 21, Sec. 1 of the Securities Trading Act and in connection with Art. 22, Sec. 2, Sentence 1 of the Securities Trading Act:

- As a result of the reduction of the total number of the MAGIX AG shares to 11,534,900 in the course of a collection, the proportion of the MAGIX AG voting rights belonging to Presto Capital Verwaltungs GmbH, Wünsdorf/Zossen, Germany, as of April 9, 2008 has risen to exceed 50% and corresponded on this day to 51.12% (5,896,500 voting rights (unchanged)). The voting rights of Presto Capital Management GmbH & Co. KG, Wünsdorf/Zossen, Germany, whose proportion of directly owned MAGIX AG voting rights on this day amounted to 25.11% (2,896,000 voting rights (unchanged)) and, as part of a pool treaty concerning the bundling of voting rights according to Art. 22, Sec. 2, Sentence 1 of the Securities Trading Act, the voting rights of Mr. Jürgen Jaron, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 13.01 % (1,500,250 voting rights (unchanged)) as well as of Mr. Dieter Rein, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 13.01 % (1,500,250 voting rights (unchanged)) were assigned in full amount to Presto Capital Verwaltungs GmbH as a limited partner GmbH according to Art. 22, Sec. 1, Sentence 1 No. 1 of the Securities Trading Act.
- As a result of the reduction of the total number of the MAGIX AG shares to 11,534,900 in the course of a collection, the proportion of the MAGIX AG voting rights belonging to Presto Capital Management GmbH, Wünsdorf/Zossen, Germany, as of April 9, 2008 has risen to exceed 50%, and corresponded on this day to 51.12% (5,896,500 voting rights (unchanged)). The proportion of MAGIX AG voting rights directly owned by Presto Capital Management GmbH & Co. KG on this day amounted to 25.11% (2,896,000 voting rights (unchanged)). In addition to this, the voting rights of Mr. Jürgen Jaron, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 13.01% (1,500,250 voting rights (unchanged)) as well as of Mr. Dieter Rein, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 13.01% (1,500,250 voting rights (unchanged)) were assigned in full amount as part of a pool treaty concerning the bundling of voting rights to Presto Capital Management GmbH & Co KG according to Art. 22, Sec., 2 Sentence 1 of the Securities Trading Act.
- As a result of the reduction of the total number of the MAGIX AG shares to 11,534,900 in the course of a collection, the proportion of the MAGIX AG voting rights belonging to Mr. Jürgen Jaron, Germany, as of April 9, 2008 has risen to exceed 50%, and corresponded on this day to 51.12%

(5,896,500 voting rights (unchanged)). The proportion of MAGIX AG voting rights directly owned by Mr. Jürgen Jaron at this time amounted to 13.01% (1,500,250 voting rights (unchanged)). In addition to this, according to Art. 22, Sec. 2, Sentence 1 of the Securities Trading Act the voting rights of Mr. Dieter Rein, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 13.01% (1,500,250 voting rights (unchanged)) as well as according to Art. 22, Sec. 1, Sentence 1, No. 1 and Art. 22 Sec. 2, Sentence 1 of the Securities Trading Act the voting rights of Presto Capital Management GmbH & Co. KG, Wünsdorf/Zossen, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 25.11% (2,896,000 voting rights (unchanged)) were assigned in full amount as part of a pool treaty concerning the bundling of voting rights to Mr. Jürgen Jaron.

- As a result of the reduction of the total number of the MAGIX AG shares to 11,534,900 in the course of a collection, the proportion of the MAGIX AG voting rights belonging to Mr. Dieter Rein, Germany, as of April 9, 2008 has risen to exceed 50%, and corresponded on this day to 51.12% (5,896,500 voting rights (unchanged)). The proportion of MAGIX AG voting rights directly owned by Mr. Dieter Rein at this time amounted to 13.01% (1,500,250 voting rights (unchanged)). In addition to this, according to Art. 22, Sec. 2, Sentence 1 of the Securities Trading Act the voting rights of Mr. Dieter Rein, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 13.01% (1,500,250 voting rights (unchanged)) as well as according to Art. 22, Sec. 1, Sentence 1, No. 1 and Art. 22 Sec. 2, Sentence 1 of the Securities Trading Act the voting rights of Presto Capital Management GmbH & Co. KG, Wünsdorf/Zossen, Germany, whose proportion of directly owned MAGIX AG voting rights at this time amounted to 25.11% (2,896,000 voting rights (unchanged)) were assigned in full amount as part of a pool treaty concerning the bundling of voting rights to Mr. Jürgen Jaron.

Notice pursuant to Sec. 26 (1) WpHG [‘Wertpapierhandelsgesetz’: German Securities Trading Act]
In accordance with Art. 21 Sec. 1 WpHG, FiveT Capital AG, Zurich/Switzerland, in the name of the subsequently named companies, has informed us of the following:

- As a result of the reduction of the total number of the MAGIX AG shares to 11,534,900 in the course of a collection, the voting share of FiveMore Fund Ltd., George Town (Grand Cayman)/Cayman Islands, in MAGIX AG as of April 9,2008 exceeded 5% and now amounts to 5.28% (609,085 voting shares).
- As a result of the reduction of the total number of the MAGIX AG shares to 11,534,900 in the course of a collection, the voting share of FiveT Investment Management Ltd., George Town (Grand Cayman)/Gayman Islands in MAGIX AG as of April 9, 2008 exceeded 5% and now amounts to 5.28% (609,085 voting shares). The share of the FiveMore Fund Ltd. shall be allocated in full to FiveT Investment Management Ltd. according to Art. 22 Sec. 1, Sentence 1, no. 6 WpHG.

Notice pursuant to Sec. 26 (1) WpHG [‘Wertpapierhandelsgesetz’: German Securities Trading Act]

In accordance with Art. 21 Para. 1, of the WpHG, Dr. Clemens Doppler has informed us in his own name of the following:

- On January 24, 2008 the voting share of Dr. Clemens Doppler, Germany, has exceeded the thresholds of 3%, 5% and 10% and amounted on this day to 11,21% (1,419,203 voting shares). The share shall be allocated to him in full according to Art. 22 Para. 1, no. 1 of the WpHG.

The chain of controlled companies is as follows (starting with the lowermost company): Heidelberg Capital Private Equity Fund I GmbH & Co. KG, Heidelberg Capital Asset Management GmbH, whereby the latter company is controlled jointly with Prof. Dr. Martin Weiblen.

Other financial obligations

Other financial obligations from rental and lease agreements mainly contain lease agreements for office equipment and various hardware and software components. Other financial obligations for the acquisition of intangible assets from long-term cooperation agreements. The following payments will be due in future fiscal years:

Auditor's fees

In the fiscal year 2007/2008 the following fees were recorded for the auditors, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft:

- Annual audits: kEUR 72 (prior year: kEUR 72)
- Other confirmation services: kEUR 15 (prior year: kEUR 0)

	2008/2009 kEUR	2009/2010 kEUR	2010/2011 kEUR	2011/2012 kEUR	2012/2013 kEUR
Rental agreements	764	766	756	754	794
Leases	43	13			
Contractual obligation for the acquisition of intangible assets	132	132	132	132	132
	939	**911**	**888**	**886**	**926**

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

Employees

As of September 30, 2008 the group employed 307 employees (previous year: 319).

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.

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

After the balance sheet call date – on November 19, 2008 – MAGIX bought 444,252 own shares via a public share buyback offer. This corresponds to 3.9% of the share capital. At EUR 1.95 per share, the total transaction volume was kEUR 866.

By the resolution of the Shareholders' Meeting on March 12, 2008, the shares can be sold on the stock exchange by means of a sell offer directed to all shareholders and sold to third parties. Use is also possible within the context of the stock option plan or as payment for acquisitions. Own shares can be also be retired.

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 kEUR 6,875 be carried forward.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Berlin, January 6, 2009

Tilman Herberger
Management Board

Jürgen Jaron
Management Board

Dieter Rein
Management Board

Selected Details from the Annual Report of MAGIX AG, Berlin

The following pages cover selected details from the audited annual report of MAGIX AG as of September 30, 2008 according to HGB ['Handelsgesetzbuch': German Commercial Code], which have been awarded an unrestricted auditor's certificate. Further information can be found in the annual document. Further information can be found in the annual document: www.magix.com/en/uk/magix-ag/investor-relations/reportspublications/annual-document/

MAGIX AG, Berlin – Balance Sheet as of September 30, 2008

ASSETS	kEUR	Sep 30, 2008 kEUR	Sep 30, 2007 kEUR
A. NON-CURRENT ASSETS			
I. Intangible assets			
1. Concessions, industrial property rights and similar rights and values as well as licenses of such rights and values	6,128		6,597
2. Down payments made	1,939		630
		8,067	7,227
II. Fixed assets			
1. Leasehold improvements	230		264
2. Technical equipment and machinery	49		53
3. Other facilities, furniture and office equipment	963		1,129
		1,242	1,446
III. Financial assets			
1. Shares in affiliated companies	7,507		7,565
2. Loans to affiliated companies	1,800		1,488
		9,307	9,053
		18,616	**17,726**
B. CURRENT ASSETS			
I. Inventories			
Finished goods	1,432		1,149
		1,432	1,149
II. Receivables and other assets			
1. Trade accounts receivable	11,164		9,399
2. Receivables from affiliated companies	1,207		2,052
3. Other assets	868		962
		13,239	12,413
III. Securities			
Own shares		0	131
IV. Cash position, cash at banks and cheques		25,703	29,242
		40,374	**42,935**
C. DEFERRED INCOME		**327**	**457**
		59,317	**61,118**

MAGIX AG, Berlin – Balance Sheet as of September 30, 2008

EQUITY AND LIABILITIES	kEUR	Sep 30, 2008 kEUR	Sep 30, 2007 kEUR
A. EQUITY			
I. Issued capital		12,662	12,662
II. Capital reserve		25,312	25,038
III. Revenue reserve			
1. Reserves for own shares	0		131
2. Other revenue reserves	126		126
		126	257
IV. Balance sheet profit		6,875	9,756
		44,975	**47,713**
B. SPECIAL RESERVE FOR BONUSES		**238**	**130**
C. PROVISIONS			
1. Provisions for taxes	226		333
2. Other provisions	7,547		6,984
		7,773	**7,317**
D. LIABILITIES			
1. Trade payables	769		1,137
2. Liabilities to affiliated companies	3,109		2,513
3. Other liabilities	2,453		2,308
thereof taxes kEUR 661 (Previous year: kEUR 461)			
thereof within the frame of social security kEUR 0 (previous year kEUR 1)			
		6,331	**5,958**
		59,317	**61,118**

MAGIX AG, Berlin – Income Statement
for the Financial Year from October 1, 2007 to September 30, 2008

	kEUR	2007/2008 kEUR	2006/2007 kEUR
1. Sales revenue	32,061		31,529
2. Costs of sales for generating the revenues	-5,363		-4,917
3. Gross profit		26,698	26,612
4. Selling expenses	-11,819		-12,109
5. Administrative expenses	-3,914		-3,605
6. Research and development costs	-7,776		-7,433
7. Other operational income	889		574
8. Other operational expenses	-1,318		-995
		-23,938	-23,568
9. Other interest and similar revenues thereof from affiliated companies kEUR 171 (Previous year: kEUR 18)	1,107		1,349
10. Write-downs on financial assets and securities from assets	-58		-145
11. Interest and similar expenditures thereof to affiliated companies kEUR 98 (Previous year: kEUR 40)	-116		-53
		933	1,151
12. Results from regular business activity		**3,693**	**4,195**
13. Taxes on income and profits	-1,014		-1,670
14. Other taxes	-56		-21
		-1,070	-1,691
15. Net income for the period		**2,623**	**2,504**
16. Profit carried forward		9,756	7,383
17. Reduction in assets due to retirement of shares		-5,635	0
18. Withdrawal from reserves for own shares		131	0
19. Transfer to reserves for own shares		0	-131
20. Net profit for the period		**6,875**	**9,756**

MAGIX AG owns shares in the following companies:

Company:	**MAGIX Entertainment S.A.R.L.**
Registered office:	Paris (France)
Share in capital:	100%
Equity:	kEUR 346 as of September 30, 2008
Annual results:	kEUR 43 profit as of September 30, 2008

Company:	**MAGIX Entertainment S.R.L.**
Registered office:	Bolzano (Italy)
Share in capital:	100%
Equity:	kEUR 121 as of September 30, 2008
Annual results:	kEUR 11 profit as of September 30, 2008

Company:	**MAGIX Computer Products International Corp.**
Registered office:	Reno, Nevada (USA)
Share in capital:	100%
Equity:	kUSD 107 as of September 30, 2008
Annual results:	kUSD 108 loss as of September 30, 2008

Company:	**MAGIX Entertainment B.V.**
Registered office:	Wormer (Netherlands)
Share in capital:	100%
Equity:	kEUR -346 as of September 30, 2008
Annual results:	kEUR 2 profit as of September 30, 2008

Company:	**MAGIX Ltd.**
Registered office:	Hampshire (UK)
Share in capital:	100%
Equity:	kGBP -253 as of September 30, 2008
Annual results:	kGBP 35 profit as of September 30, 2008

Company:	**MAGIX Development GmbH**
Registered office:	Dresden (Germany)
Share in capital:	100%
Equity:	kEUR 1.741 as of September 30, 2008
Annual results:	kEUR 640 profit as of September 30, 2008

Company:	**mufin GmbH**
Registered office:	Berlin (Germany)
Share in capital:	100%
Equity:	kEUR 1.265 as of September 30, 2008
Annual results:	kEUR 404 loss as of September 30, 2008

Company:	**Xara Group Ltd.**
Registered office:	Hampshire (UK)
Share in capital:	100%
Equity:	kGBP -831 as of September 30, 2008
Annual results:	kGBP 454 loss as of September 30, 2008

Company:	**Catooh Corp.**
Registered office:	Las Vegas (USA)
Share in capital:	100%
Equity:	kUSD 38 as of September 30, 2008
Annual results:	kUSD 37 profit as of September 30, 2008

Glossary

B2B, B2C
B2B stands for Business to Business and indicates transactions between two companies. B2B is the opposite of Business to Consumer (B2C), which involves transactions with end customers.

Blog
Blog is the short form of weblog. This is a combination of the words web and log. A blog is a diary or a journal, where the user publishes his views or experiences related to a certain topic on the Internet.

Chat
Chat refers to electronic, normally text-based realtime communication via the Internet.

Codec
Codec is a word created from words 'code' and 'decode'. Codecs are programs for encoding and decoding data. A well-known example is the MP3 codec, which transforms audio signals into a compressed digital file.

Community
This short form is used to indicate Online Communities. These are associations of people, who met each other on an Internet platform and communicate with each other in various ways. In this way, new contacts are being made, creating social networks.

Customer-Relation-Management-System
In order to use marketing measures to address customers in the most effective way possible, customer-specific information is compiled, analyzed and prepared in a customer relation management system.

G/A/S region
The G/A/S region refers to the territory of Germany, Austria and Switzerland.

DVB-T stick
DVB-T stands for digital video broadcasting terrestrial and refers to earth-bound digital TV. A DVB-T stick enables TV reception via USB on a PC.

Mobile, mobile use
In this report, 'mobile' refers to use of applications using a mobile telephone.

MP3 format, MP3 player
MP3 players are playback devices for digital music, stored mostly in the so-called MP3 format. This special file format was developed by Prof. Brandenburg at the Frauenhofer Institute IDMT. It removes the audio frequencies inaudible to the human ear, allowing a significant reduction in size.

MPEG-7 standard
In contrast to MPEG1, MPEG2 and MPEG4, MPEG-7 is not an audio/video data compression standard. It is used to characterized multimedia files.

OEM
OEM stands for 'Original Equipment Manufacturer'. The abbreviation has established itself in the computer industry as a label for bundled distribution of hardware with an often limited version of a software package.

Offline, online
In this report, the terms online and offline serve to differentiate between a computer application with (online) and without (offline) and Internet connection.

Online desktop
An online desktop is a SaaS Internet service (see below), which offers the user all functions offered by the desktop of his home PC. By relocating applications as well as storing files on the Internet, the user becomes independent of his personal computer and can access his personal files using any Internet-enabled end device.

SoHo market
SoHo stands for small office, home office. The SoHo market is named after the customer group, which looks for professional applications for small and home offices.

Software as a service (SaaS)
SaaS refers to applications, which can be used directly over the Internet without first installing them on your computer. At this time, solutions exist for text editing or photo editing, which work exclusively over the Internet. The customer buys not a single program, but subscribes to a service.

USB
USB (Universal Serial Bus) is a system for connecting computers to external devices.

USB video converter
A USB video converter lets analog video sources like VHS cassettes be transferred to the computer. Analog video material is converted in realtime into digital video data and transferred to the computer.

USB pre-amp
In contrast to CD players, regular record players have no integrated preamp and cannot, therefore, be connected to the computer directly. A USB pre-amp alters the record player’s signal in such a way, that it is transferred via USB to the computer, where it can be edited further.

Web
The short form of World Wide Web, an everyday synonym for the Internet.

Website
Website refers to the Internet presence or an Internet offering of one person or a company under one unified Internet address. The contents of various pages are brought together using a centralized navigation. Example: www.magix.com

White Label solution
White Label stands for an unprinted label. It refers to a product, to which the customer can add his label and a customized layout.

Wiki
A wiki is an easy-to-use system, which enables content to be edited by a large number of users to be published on the Internet.

Imprint & Contact Persons

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Financial Calendar

February 27, 2009
Publication of the 1st Quarter Report

March 4, 2009
Shareholders' Meeting of MAGIX AG
Ludwig Erhard Haus, Fasanenstraße 85,
10623 Berlin, Germany

May 29, 2009
Publication of the 2nd Quarter Report

August 28, 2009
Publication of the 3rd Quarter Report