

Management Report

At their meetings held on 26 September 2008 and 9 December 2008, the shareholders of Fotex Nyrt., Fotex Group's holding company, decided to transform Fotex Nyrt. into a European public limited company. Further to the decision of the shareholders, as of 31 December 2008, the Court of Registration cancelled Fotex Nyrt. from the companies register on the grounds of transformation and, according to the Court's decision dated 9 January 2009, registered FOTEX HOLDING SE Nyilvánosan Működő Európai Részvénytársaság (FOTEX HOLDING SE European public limited company) as of 1 January 2009.

Following the transformation into a European public limited company, the Company's annual general meeting held on 28 April 2009 decided to move the Company's registered office to Luxembourg. The registration in the companies register of the new seat was concluded on 4 June 2009. The Company's new registered address is at 75, Parc d'activités, L-8308 Capellen, Luxembourg. The Metropolitan Court of Budapest, as the competent authority, struck the Company off the Hungarian companies register on 28 August 2009.

As a result of its transformation into a European public limited company, the Company's books have been carried in EUR since 1 January 2009. Accordingly, Fotex Group's consolidated financial statements for the first 9 months of 2010 are expressed in EUR.

In the first 9 months of 2010 no important events occurred, which would have significant impacts on the interim financial statements.

As part of the Group's restructuring process, the scope of consolidation has changed compared to the basis period as follows:

At 1 October 2009, Europtic Kft., Domus Zrt. and Kontúr Zrt. merged into Keringatlan Kft.

List of Shareholdings

Subsidiaries	Principal Activities	Issued capital EUR		Ownership (%)	
		30/09/2010	30/09/2009	30/09/2010	30/09/2009
Ajka Kristály Üvegipari Kft.	Crystal manufacturing and retail	5,050,721	5,050,721	100.0	100.0
Balaton Bútor Kft.	Furniture manufacturer	1,325,100	1,325,100	100.0	100.0
Balaton Glas Hotel Kft.	Property management	879,979	731,853	100.0	100.0
Downington Sàrl.	Investment holding	2,050,000	2,050,000	100.0	100.0
Domus Zrt	Property management and furniture retailer	-	6,167,384	-	99.5
Europrizma Kft.	Administration services (Note 25)	35,879	35,879	100.0	100.0
Europtic	Advertising	-	2,681,471	-	100.0
Fotex Cosmetics Kft.	Cosmetics retailing	870,723	870,723	100.0	100.0
Fotexnet Kft.	Internet retail and other services	28,349	226,603	99.97	98.6
Hungaroton Music Zrt.	Music archive	480,399	480,399	99.2	99.2
Hungaroton Records Kft.	Music publishing and music retailing	1,707,078	1,707,078	99.8	99.8
Keringatlan Kft.	Property management	20,558,176	14,911,889	100.0	100.0
Kontúr Zrt	Property management	-	4,699,207	-	99.9
Fotex Netherlands B.V.	Property management	18,000	18,000	100.0	100.0
Primo Zrt.	Clothing retailing and wholesaling	1,859,657	1,859,657	100.0	100.0
Sigma Kft.	Property services	100,650	100,650	75.1	75.1
Székhely 2007 Kft.	Property management	86,109	86,109	99.1	99.1
Upington Investments Ltd.	Investment holding	12,500	1,710	100.0	100.0

The Group operates in Luxembourg, in the Netherlands and in Hungary. Mostly the Group's operations are carried out in Hungary, geographical segments are not presented in the consolidated financial statements.

The Group management categorizes the Group's business activities along the following 7 segments. In the prior year the advertising activity was taken into account as a separate segment but now this has been reported among the administration and holding activities because of its low importance.

Furniture production and sales
Investment property management
Cosmetics retailing
Crystal and glass production and sales
Music records release and distribution
Clothing retailing and wholesaling
Other – administration and holding activities

Management separately evaluates the performance of its operating segments in order to make decisions regarding resource allocation and other decisions related to operations management. The performance of each segment is based primarily on the pre-tax profit or loss of each segment. Decisions regarding financing (including financial revenues and expenses) and taxation are made at Group level and not at segment level.

Net sales per segment

Net sales:	30 September 2010			30 September 2009		
	Net Sales external EUR	Net Sales inter-segment EUR	Net sales EUR	Net Sales external EUR	Net Sales inter-segment EUR	Net sales EUR
Furniture	1,650,549	72,163	1,722,712	2,150,806	63,676	2,214,482
Real estate	16,539,901	1,141,414	17,681,315	16,692,237	1,390,833	18,083,070
Cosmetics retailing	542,194	341	542,535	785,573	2,641	788,214
Crystal and glass production and sales	5,372,726	124	5,372,850	2,752,449	5,864	2,758,313
Music records releasing and distribution	1,225,690	131,094	1,356,784	1,600,936	44,622	1,645,558
Clothing retailing and wholesaling	508,174	38	508,212	614,415	-	614,415
Advertising	-	-	-	85,569	254,662	340,231
Other	1,786,202	962,853	2,749,055	2,535,495	1,055,322	3,590,817
Inter-segment elimination	-	(2,308,027)	(2,308,027)	-	(2,817,620)	(2,817,620)
Net sales	<u>27,625,436</u>	<u>-</u>	<u>27,625,436</u>	<u>27,217,480</u>	<u>-</u>	<u>27,217,480</u>

Profit before tax per segment

Profit before tax	30 September 2010	30 September 2009
	EUR	EUR
Furniture production and sales	(128,334)	137,492
Investment property	5,740,756	6,037,762
Cosmetics retailing	(71,200)	(52,875)
Crystal and glass production and sales	908,940	(1,107,092)
Music records releasing and distribution	91,261	171,578
Clothing retailing and wholesaling	(1,036)	36,156
Advertising*	-	(197,614)
Other	(529,036)	(304,157)
Profit before tax:	<u>6,011,351</u>	<u>4,721,250</u>

Europrizma's scope of activity has changed: it provides administrative services to other companies in stead of advertising agency services since February 1, 2010

Consolidated Cash Flow Statement of Fotex Group

	30 September 2010	30 September 2009
	EUR	EUR
Cash flows from operating activities	8,971,130	7,127,355
Income taxes paid	(957,747)	(1,035,966)
Net cash from operating activities:	8,013,383	6,091,389
Cash flows from investing activities:		
Purchase of tangible and intangible assets:	(20,054,242)	(25,976,823)
Sale of tangible and intangible assets:	13,181	59,273
Change in investments	(539,101)	925,109
Interest received	1,108,364	345,779
Net cash used in investing activities:	(19,471,798)	(24,646,662)
Cash flows from financing activities:		
Loans granted	984,387	42,315
Loans received	13,615,754	18,285,000
Dividend paid	-	(44,225)
Interest paid	(961,578)	(356,405)
Purchase of treasury shares	(83,529)	(489,928)
Change in subordinate and other long term liabilities	(33,502)	-
Cash received without repayment liability:	-	836
Cash given without repayment liability:	-	(3,403)
Net cash used in financing activities:	13,521,532	17,434,190
Net increase/decrease in cash and cash equivalents:	2,063,117	(1,121,083)
Cash and cash equivalents at beginning of year	12,997,087	18,130,262
Effect of foreign currency translation	(93,392)	261,931
Cash and cash equivalents at 30 September:	<u>14,966,812</u>	<u>17,271,110</u>

Shareholders' equity

Shareholder's equity:	30 September 2010	31 December 2009
Issued capital	30,543,933	30,543,933
Additional paid in capital	32,895,729	32,895,729
Goodwill write off reserve	(1,614,798)	(1,856,818)
Retained earnings	70,627,929	67,493,126
Treasury shares, at cost	(19,205,137)	(19,121,608)
Equity attributable to equity holders of the parent company	113,247,656	109,954,362
Minority interests in consolidated subsidiaries	92,660	83,613
Total shareholder's equity	113,340,316	110,037,975

Registered Share Capital

The authorised and issued share capital amounts to EUR 30,543,933. The nominal value of each share is EUR 0.42. The Company's issued share capital on 30 September 2010 included 70,723,650 ordinary shares and 2,000,000 dividend preference shares (31 December 2009: 70,723,650 ordinary shares, and 2,000,000 dividend preference shares). The dividend preference shares were issued by Fotex in November 2007.

Treasury Shares

The 2,000,000 dividend preference shares issued by the Company which are shown as part of "Issued Capital" on 30 September 2010 EUR 840,000; (31 December 2009: EUR 840,000) are also shown in "Treasury Shares". As of 30 September 2010, the Company has sold 1,550,000 (31 December 2009 EUR 1,550,000) dividend preference shares to some of its employees. These shares are still shown within "Treasury Shares" but also as liability (preference shares incentive scheme liability)

The Company's treasury shares (including dividend preference shares) are 12,632,549, totalling EUR 19,205,137 at 30 September 2010 (31 December 2009: 12,579,779 shares at a cost of EUR 19,121,608). During 2010, the Company purchased 52,770 shares (2009: 466,510 shares) at a cost of EUR 83,529 (31 December 2009: EUR 348,039). The Company has not purchased back any dividend preference shares from senior officers (31 December 2009: 450,000 shares totalling EUR 161,082) so it has not decreased the dividend preference shares incentive scheme liability compared to previous year.

Principal related parties

Gábor Várszegi, Chairman of the Board of Fotex, directly or indirectly controls a part of the voting shares of Blackburn International Inc. ("Blackburn"), a Panama company and Blackburn International Inc. ("Blackburn Luxembourg"), a Luxembourg company and Zurich Investments Inc. ("Zurich"), a British Virgin Islands company. Blackburn Luxembourg has a controlling interest in Fotex Ingatlan Kft. ("Fotex Ingatlan") and Plaza Park Kft. ("Plaza Park"). At 30 September 2010, Blackburn controls 16.9% of the Company's share capital (30 September 2009: 16.9%), Zurich controls 14.1% (30 September 2009: 14.1%), Fotex Ingatlan controls 17.6% (30 September 2009: 17.6%), and Plaza Park 1.6% (30 September 2009: 1.6%). These companies are considered to be related parties.

Related party rental transactions

In case of Plaza Park office lease agreements were modified in December, 2000, and were extended until 31 December 2006. Based on their options, Fotex Nyrt. and its subsidiaries renegotiated rental contracts and extended them until 31 December 2011. The rental fees are adjusted with the harmonized customer price index (EU27) reported by the European Union's Statistical Office (Eurostat). Rental agreements with Fotex Inगतlan Kft. were modified to an indefinite rent period.

Rental fees are increased annually by the average of the general CPI announced by the EU's Statistical Office. Rental and other related fees paid to Fotex Inगतlan for 2010 I-IX month were EUR 267,117 (2009 I-IX month: EUR 257,025) and to Plaza Park EUR 450,693 for 2010 I-IX month (2009 I-IX month: EUR 521,118). Based on the aircraft leasing contract concluded between Blackburn International Inc. and Fotex Holding SE the value of the fees for aircraft leasing and connected services invoiced by Blackburn International Inc. were EUR 95,060 in 2010 I-IX month (2009 I-IX month EUR 10,500 EUR)

Appointment and Replacement of Board Members

The members of the Board of Directors were appointed at the extraordinary general meeting of the Company held on 1 October 2009 for a period of 3 years until the 2012 Annual General Meeting of the Company. There was no personnel change in the members of Board of Directors and Audit Committee since the reporting of the last annual financial statement.

Significant events after the Reporting date

According to the decision of the parent company as an owner the Balaton Glashotel Kft – owned 100 % by Keringatlan Kft - merges into the Keringatlan Kft. The merge is in process, the planned date of Court of Registration of the merge is 30 November 2010.

There were not any other significant or otherwise relevant issues which occurred after the reporting date.

Other Disclosures

There are no agreements with shareholders which are known to the Company and may result in restrictions on the transfer of securities or voting rights within the meaning of the 2004/109/EC (transparency directive).

There are no restrictions on the transfer of securities in the articles of incorporation of the Company.

There are no securities granting special control right to their holders.

There are no significant agreements to which the Company is party and which would take effect, alter or terminate upon change of control following a public offering or takeover bid.

Since 1 October 2010 Keringatlan Kft. has outsourced its facility management activity to the group's member Székhely 2007 Kft.

Future prospects

The financial position of the Company is stable; it will continue seeking for favorable investment opportunities taking into account the market conditions given and the stable cash flow of the Group. In the forthcoming 3 months the management does not expect any principal risks and uncertainties, which would have significant impact on the financial statements.

29 November 2010, Capellen

Gábor Várszegi
Chairman of the Board