**FOTEX HOLDING SE**
**Report for the first half of 2010**

Fotex Group's reports on its operations in the first half of 2010 is prepared in accordance with IFRS requirements. The figures are consolidated but are unaudited.

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.

The consolidated entities and the consolidated shareholding ratios held in these entities are shown in a separate table. The voting ratios and the consolidated shareholding ratios may differ for some entities due to cross-ownership in certain subsidiaries.

On 26 September 2008 and 9 December 2008, the shareholders' meeting of Fotex Nyrt., Fotex Group's holding company, decided to transform the Company into a European public limited company. Further to a decision of the shareholders, effective from 31 December 2008, the Court of Registration cancelled Fotex Első Amerikai-Magyar Vagyonkezelő Nyilvánosan Működő Részvénytársaság (*Fotex First American-Hungarian Real Estate Management Public Limited Company*) from the companies register based on the transformation and then, according to a decision dated 9 January 2009, the Court registered FOTEX HOLDING SE Nyilvánosan Működő Európai Részvénytársaság (*FOTEX HOLDING SE Public European Limited Company*) with effect from 1 January 2009.

In connection with the transformation into a European public limited company, the dematerialized shares had to be replaced. The replacement took place on 25 February 2009. As a result of the replacement, the product list listed at the Budapest Stock Exchange (BSE) was changed. One dematerialized subscribed share of Fotex Nyrt. at HUF 100 face value is equivalent to one dematerialized subscribed share of Fotex Holding SE Nyrt. at EUR 0.42 face value. The rights related to the shares as set out in the company statutes have remained unchanged.

Following its transformation into a European public limited company, the Company's annual shareholders' meeting held on 28 April 2009 decided to move the Company's headquarters to Luxembourg. On 4 June 2009, the Company was registered in the Luxembourg companies register. The Company's new seat is at 75, Parc d' activités L-8308 Capellen, Luxembourg. The Metropolitan Court of Budapest, cancelled the Company from 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 half of 2010 are expressed in EUR.

***Real estate property***

The Group's assets principally comprise of real estates owned by the parent company and the subsidiaries and rented out predominantly to third parties. Most of the Group's revenues are realized from real estate utilization. This type of activity is highly sensitive to macroeconomic trends. Real estate market players still have no reason to be optimistic. Experts agree that no change for the better is forecast in 2010 and that the local real estate market will reach its lowest point this year. There is hope for some improvement next year but a perceivable upward movement can only be expected in two or three years time. The current setback that has affected each segment of the real estate market foretells the difficulties of the forthcoming years. As for commercial real estates, the biggest loser of the crisis is the retail sector and even the most optimistic forecasts predict at least another two hard years before an upturn can start. The effect of the adverse market conditions can be strongly felt also in the office and logistics sectors. Demand has plunged as the overall economic conditions worsened. Both real estate developers and owners find it challenging to keep their existing tenants. Attainable rental fees have significantly declined. As a result of the slowdown in the commercial market, a number of international trading chains hold back expansion and increasingly require that rental fees be linked to actual turnover. In the retail market, local trading companies tend to still hold back expansion and most of them does not envisage opening a new tenancy at all. The so called city shops offered by the Group suit the requirements of the local trading companies. The majority of our tenants are such traders. As a result of the increasingly adverse market circumstances, smaller companies that operate one or two shops already have serious financial difficulties and their liquidity position is likely to deteriorate even further. Their ability to pay their rents has also suffered. There is an increasing number of tenants that experience financial difficulties and find it increasingly hard to pay their rent and would like to give back their rented area or ask for reduced rental fees and overhead charges in order to keep their tenancy and sustain their operations. Many try to close down the most lost making shops even if such action conflicts with their contractual obligations. Finding new tenants is getting similarly difficult. As a consequence of the changes, contract renegotiation conditions have also become lee favourable and now the main objective is to keep all solvent tenants. In the logistics market, the already normally modest demand further declined at the level of the national economy as a result of the crisis while rental fees also dropped. A continuous increase in the supply of state-of-the-art logistic centres and newly built warehouses make it increasingly difficult for us to rent out our less up-to-date warehouses. At group level, the utilization of warehouses space is the worse and, although did not deteriorate further in the reporting period, but not significant improvement could be achieved and none is expected in the foreseeable future in view of the market trends. The utilization rate of industrial estates is 19.8 %, of which big-box real estates account for 18.5 % and the utilization of urban logistic centres is 31.7 %. In the office space market, the already high vacancy rate is expected to remain the biggest problem for the next two years to come. Rental fees have plummeted as a result of high vacancy rates and moderate demand. In view of the adverse market conditions, the Group pays extra attention to controlling and optimising its costs to attainable revenues. Nonetheless, the Group makes efforts to make the best of investment opportunities offered by the stagnating real estate market. The Group's Dutch subsidiary, Fotex Netherlands B.V., purchased four significant office buildings totalling an area of 20 386 $m^2$ (Zoetermeer, Gorinchem, Haarlem, Rotterdam) in the basis period and one major office building of 10 000 $m^2$ area in the reporting period. All these buildings will be fully rented out at good returns in the long run.

Adverse changes in the world's economy have made it particularly necessary to review the value of the Group's real estate properties on an annual basis. Our investment properties were revalued as part of the audited annual financial statements prepared at the end of 2009. The figures disclosed in the annual financial statements for 2009 are considered as relevant values with respect to the Group's real estate property which will be revalued by the Company in the audited financial statement for the current year.

| Category | Area $m^2$ | Fair value EUR |
|---|---|---|
| Shops | 145 670 | 165 757 256 |
| Offices | 26 831 | 40 692 869 |
| Warehouses | 97 723 | 13 552 392 |
| Other structures | 38 660 | 5 182 875 |
| Plots of land | 671 816 | 22 409 604 |
| **Investment properties, total** | **980 700** | **247 594 996** |
| Real estate in own use | 294 354 | 10 884 116 |
| **Grand total** | **1 275 054** | **258 479 112** |

Note: The table does not include the new office building with 10,000 $m^2$ purchased by our Dutch subsidiary at a purchasing price of EUR 18.600.000 + VAT in 2010.

***The Group's assets and liabilities***

Since 1 January 2009, the parent company, FOTEX HOLDING SE, has been carrying its books in EUR. Accordingly, the consolidated report for the first half of 2010 is also expressed in EUR.
The functional currency of the Group's subsidiaries, except for three foreign subsidiaries, is the Hungarian forint (HUF). As the currency of presentation is EUR, the balance sheet and profit and loss account figures of these subsidiaries had to be translated from HUF to EUR.

The following exchange rates were used for the translation from HUF to EUR:

- Profit and loss account items – **average rate of the National Bank of Hungary (MNB);**
- Asset and liabilities items (except equity) – **MNB rate at 30 June 2010**,
- Equity items **- MNB rate at 31 December 2008**, except the profit for the year.

For the purposes of comparability with basis figures, in order to set off the effect of changes in foreign exchange rates, the same rates were used to translate the figures of the basis period. The consolidated balance sheet prepared based on the adjusted figures of the basis period is presented in the following table:

Fotex Group's consolidated, unaudited balance sheet for the first half of 2010 as adjusted by setting off the effect of foreign exchange fluctuations:

*in EUR*

| BALANCE SHEET | Jan-June 2009 | | | Jan-June 2010 | | | Index |
|---|---|---|---|---|---|---|---|
| **A. FIXED ASSETS** | 103 839 416 | 0 | 103 839 416 | 132 694 985 | 0 | 132 694 985 | 127,79% |
| I. INTANGIBLE ASSETS | 3 692 895 | | 3 692 895 | 2 662 229 | | 2 662 229 | 72,09% |
| II. TANGIBLE ASSETS | 84 124 179 | | 84 124 179 | 114 061 153 | | 114 061 153 | 135,59% |
| III. INVESTMENTS | 5 931 750 | | 5 931 750 | 5 778 697 | | 5 778 697 | 97,42% |
| IV. LONG-TERM LIABILITIES | 294 062 | | 294 062 | 396 376 | | 396 376 | 134,79% |
| V. PREPAYMENTS AND ACCRUALS | 0 | | 0 | 0 | | 0 | |
| VI. GOODWILL | 9 796 530 | | 9 796 530 | 9 796 530 | | 9 796 530 | 100,00% |
| | | | | | | | |
| **B. CURRENT ASSETS** | 27 645 755 | 0 | 27 645 755 | 24 135 667 | 0 | 24 135 667 | 87,30% |
| I. LIQUID ASSETS | 15 198 367 | | 15 198 367 | 13 465 567 | | 13 465 567 | 88,60% |
| II. RECEIVABLES | 4 071 284 | | 4 071 284 | 3 395 233 | | 3 395 233 | 83,39% |
| III. INVENTORIES | 7 945 937 | | 7 945 937 | 7 070 160 | | 7 070 160 | 88,98% |
| IV. SECURITIES | 430 167 | | 430 167 | 204 707 | | 204 707 | 47,59% |
| **TOTAL ASSETS:** | 131 485 170 | 0 | 131 485 170 | 156 830 652 | 0 | 156 830 652 | 119,28% |
| | | | | | | | |
| **C. LONG-TERM LIABILITIES** | 18 080 984 | 2 002 845 | 20 083 829 | 41 621 957 | 0 | 41 621 957 | 207,24% |
| I. LONG-TERM BANK LOANS | 17 376 276 | | 17 376 276 | 38 920 733 | | 38 920 733 | 223,99% |
| II. OTHER LIABILITIES | 704 708 | 2 002 845 | 2 707 553 | 2 701 224 | | 2 701 224 | 99,77% |
| | | | | | | | |
| **D. CURRENT LIABILITIES** | 7 804 804 | -1 367 907 | 6 436 897 | 5 151 828 | 634 938 | 5 786 766 | 89,90% |
| I. SHORT-TERM BANK LOANS | 0 | | 0 | 0 | | 0 | |
| II. OTHER AMOUNTS PAYABLE | 7 804 804 | -1 367 907 | 6 436 897 | 5 151 828 | 634 938 | 5 786 766 | 89,90% |
| **TOTAL LIABILITES** | 25 885 788 | 634 938 | 26 520 726 | 46 773 785 | 634 938 | 47 408 723 | 178,76% |
| | | | | | | | |
| **ASSETS, NET** | 105 599 382 | -634 938 | 104 964 444 | 110 056 867 | -634 938 | 109 421 929 | 104,25% |
| | | | | | | | |
| **E. EQUITY** | 102 295 175 | -634 938 | 101 660 237 | 106 754 643 | -634 938 | 106 119 705 | 104,39% |
| I. ISSUED CAPITAL | 30 543 933 | | 30 543 933 | 30 543 933 | | 30 543 933 | 100,00% |
| II. TREASURY SHARES | -18 486 670 | -634 938 | -19 121 608 | -18 570 199 | -634 938 | -19 205 137 | 100,44% |
| III. CAPITAL RESERVE | 32 895 729 | | 32 895 729 | 32 895 729 | | 32 895 729 | 100,00% |
| IV. RETAINED EARNINGS | 59 360 348 | | 59 360 348 | 63 580 651 | | 63 580 651 | 107,11% |
| V. OTHER RESERVES (GOODWILL) | -2 018 164 | | -2 018 164 | -1 695 471 | | -1 695 471 | 84,01% |
| **NET INCOME** | 3 135 009 | | 3 135 009 | 3 221 903 | | 3 221 903 | 102,77% |
| **MINORITY INTEREST** | 169 197 | | 169 197 | 80 320 | | 80 320 | 47,47% |

*1.For reasons of comparability to the basis period, the effects of foreign exchange fluctuations have been set off. Figures of the basis period were translated from HUF to EUR at the exchange rates used for the translation of figures for the reporting period. The rates used for the translation were the following: MNB rate at 30 June 2010: 286.46 HUF/EUR, MNB rate at 31 December 2008: 264.78 HUF/EUR, average rate for the first half of 2010: 271.50 HUF/EUR.*

*2. For reasons of comparability to the basis period, deposits received from the tenants expected to be repayable over one year (2 002 845 EUR) have been reclassified from other amounts payable in the basis period to long-term other liabilities*

*3. Dividend preference shares with redemption option from senior officers EUR 634 938 (Jan-June 2009: EUR 634 938) reclassified from equity to current other liabilities*

The Group’s balance sheet total increased by 19.3 %  (EUR 25 345 482) compared to the basis period.

Fixed assets increased by EUR 28 855 569 (27.8 %) compared to the previous year which is a result of the combined effect of a 27.9 % decrease in intangible assets, a 35.6 % increase in tangible assets, a 2.6 % decrease in investments and a 34.8 % increase in long-term liabilities compared to the basis period.

The nearly 30 % decline in intangible assets compared to the basis period is mostly due to the impairment of FTC-rights (EUR 1 288 713) accounted for at the end of 2009.

The significant increase in tangible assets is due to the fact that the five real estates (Zoetermeer, Gorinchem, Rotterdam, Haarlem, Zwolle) purchased by the Group’s Dutch subsidiary, Fotex Netherlands B.V., for EUR 54,543,504 were taken on the books.

Long-term investments include, among others, OTP and MOL bonds purchased by a Group subsidiary, Downington Holding Sárl. The Group has 7 100 subordinated OTP bonds of EUR 1 000 face value each. The OTP bonds were acquired by the Group on 1 December 2008, 2 December 2008 and on 27 January 2009, respectively, at a value of EUR 3 509 853. The OTP bonds were issued at the value date of 16 September 2009 with an expiry date of 19 September 2016 at a rate 100 % of their face value. The bonds bear a 5.27 % interest. Interest is paid on the 19th of September each year.
The Group also has 1 000 MOL bonds of EUR 1 000 fact value each, which were acquired on 12 March 2009 at a value of EUR 524 380. The MOL bonds were issued with an expiry date of 5 October 2015 and bear a 3.88 % interest. Interest is paid on the 5th of October each year.
The decreases in investments compared to the previous year were due to the impairment of the Domus Store and Domus Viva loans recognized at the end of 2009.

The reason for the change in long-term liabilities is the deferred tax recognized at the end of 2009.

Current assets decreased overall by 12.7 % compared to the basis period as the combined result of the following decreases: 11.4 % in liquid assets, 11.0 % in inventories, 16.6 % in receivables and a  52.4 % decline in securities.

The decrease in liquid assets was predominantly due to the real estate acquisitions by our Dutch subsidiary, Fotex Netherlands B.V., in the basis year.

The 11 % decrease in **inventories** was caused typically by decreased inventory values at Hungaroton Records Kft. (17.2 %), Fotex Cosmetics Kft. (5.9 %) Balaton Bútor Kft. (14.0 %) and at Ajka Kristály Kft. (15.8 %). At Fotex Cosmetics Kft. and Hungaroton Records Kft., the decrease was due to reduced new inventory acquisitions compared to the basis period. At Hungaroton, scrapping slow moving inventories at the end of the basis year and impairment losses also contributed to the decrease. The 14.0 % decrease at Balaton Bútor Kft. was due to significant scrappings accounted for at the end of last year. The Kft. is trying to achieve an ideal inventory size: in order not to use liquid assets unnecessarily while remaining able to ensure continuous production, the Kft. aims to involve inventories stored as work in progress and semi-finished products into production. Owing to the diversity of its product palette, the company stores inventories as semi-finished rather than as finished products so that semi-finished products are further processed as required based on the orders received. The inventories of our manufacturing company with the largest inventory, Ajka Kristály Kft., dropped by 15.8 % as a result of impairment losses and scrappings recognized at the year-end.

The changes in **securities** is explained by movements in available-for-sale debt securities, mostly investment units, held by the Group members.

30.2 % of the Group’s **equity and liabilities** are represented by liabilities which increased by 78.8 % compared to the previous year.

Of liabilities, 87.8 % are long-term liabilities and 12.2 % are current liabilities.

The significant increase in long-term liabilities compared to the basis period is due to the fact that the Group's Dutch subsidiary, Fotex Netherlands B.V. took out three more mortgage loans (EUR 21 550 000) from FGH Bank N.V.

The details of loan are presented below:

| Loan | Took out on | Expires on | Facility | Interest | Value at 30 June 2010 |
|---|---|---|---|---|---|
| Mortgage loan I | 16/04/2009 | 01/05/2016 | EUR 18 400 000 | 1-month Euribor prevailing on the 2nd working day prior to the first day of the interest period + 2.7 %, rounding: +0.05 | EUR 17 898 023 |
| Mortgage loan II | 01/11/2009 | 01/11/2016 | EUR 3 800 000 | 3-month Euribor prevailing on the 2nd working day prior to the first day of the interest period + 2.26 %, rounding +0.05 | EUR 3 568 441 |
| Mortgage loan III | 18/12/2009 | 01/01/2015 | EUR 3 750 000 | 3-month Euribor prevailing on the 2nd working day prior to the first day of the interest period 2.20 %, rounding +0.05 | EUR 3 657 644 |
| Mortgage loan IV | 21/05/2010 | 01/05/2015 | EUR 14 000 000 | 4.32 %/year | EUR 13 796 625 |
| **Total** | | | **EUR 39 950 000** | | **EUR 38 920 733** |

The above loans are covered by mortgage on Fotex's Dutch real estates.

The book values of these real estates on 30 June 2010 were as follows:

| | |
|---|---|
| 2719 EP Zoetermeer, Einsteinlaan 20 | 10 505 299 EUR |
| Gorichem, Stadhuisplein 1a, 70 and 70a | 13 882 678 EUR |
| Haarlem, Schipholpoort 20 | 5 377 198 EUR |
| 3012 BL Rotterdam, Witte de Withstraat 25 | 5 960 015 EUR |
| 8017 JV Zwolle, Zuiderzeelaan 43-51 | 19 872 922 EUR |

The value of other long-term liabilities remained at the level of the basis period and includes deposits received from the tenants expected to be repayable over one year and deferred tax.

Our current liabilities have decreased by 10.1 % and include the Group's current liabilities, provisions and accruals.

The ratio of equity within the Group's equity and liabilities is 69.8 %.

FOTEX HOLDING SE's issued capital as registered by the Companies Court is: EUR 30 543 933.

Equity further dropped by 0.4 % compared to the basis period due to redeemed treasury shares. We have adjusted the accounting treatment of some of the dividend preference shares allotted to senior officers and employees in management positions as part of an incentive scheme, which were presented as movement in equity in the previous year and are now treated as liabilities to members of management that participate in the scheme. As a result of this adjustment, EUR 634 938 (first half of 2009: EUR 634 938) was reclassified from equity to liabilities.
Within equity, the change in retained earnings was due to the profit for 2009 reclassified to retained earnings, to the settlement of foreign exchange differences from transactions between the foreign

subsidiaries and Keringatlan Kft. and Ajka Kristály Kft. and to the settlement of foreign exchange differences from the translation of the balance sheet figures of the subsidiaries from HUF to EUR.
The EUR 322 693 (16.0 %) decrease in other reserves (goodwill) within equity compared to the basis period was due to the recognized annual depreciation.
Minority interest decreased by EUR 88 877 compared to the same period of last year owing to changing the portion distributable to minority shareholders from the Group's wealth.

***Profit and loss movements***

The table below shows the Group's profit and loss account for the first half of 2010 as adjusted with the effect of foreign exchange fluctuations:

*in EUR*

| Item | Jan-June 2009* | Jan-June 2010 | Basis index |
|---|---|---|---|
| Sales, net | 19 544 061 | 18 285 434 | 93,56% |
| Cost of sales | 4 645 468 | 4 083 848 | 87,91% |
| **Gross margin** | 14 898 593 | 14 201 587 | 95,32% |
| Margin rate | 76,23% | 77,67% | 101,88% |
| **Operating costs** | 10 802 634 | 10 316 805 | 95,50% |
| Payments to personnel | 3 739 558 | 3 330 418 | 89,06% |
| Material-type expenses | 4 131 072 | 3 751 524 | 90,81% |
| Amortization | 2 046 371 | 2 470 481 | 120,72% |
| Other expenses | 885 633 | 764 383 | 86,31% |
| | | | |
| **OPERATING PROFIT** | 4 095 959 | 3 884 782 | 94,84% |
| | | | |
| **Financial profit** | 120 479 | 119 503 | 99,19% |
| Interest received | 295 477 | 695 517 | 235,39% |
| Interest paid | 174 998 | 576 014 | 329,15% |
| | | | |
| **PRE-TAX PROFIT** | 4 216 437 | 4 004 285 | 94,97% |
| Tax liability | 904 806 | 785 593 | 86,82% |
| | | | |
| Profit before minority interest | 3 311 632 | 3 218 691 | 97,19% |
| Minority interest | -176 622 | 3 212 | 101,82% |
| **PROFIT AFTER TAX** | 3 135 009 | 3 221 903 | 102,77% |

**The effects of foreign exchange fluctuations have been set off for the sake of comparability between the current and the basis periods. The figures of the basis period were translated from HUF to EUR at the same rate used to translate the figures for the reporting period: MBN average rate for the first half of 2010: 271.50 HUF/EUR.*

The Group had EUR 3 221 903 profit after tax less minority interest for the first half of 2010.
The Group's gross margin decreased by 4,7 % (EUR 697 006) compared to the basis period. The drop in the gross margin compared to the basis period was due to a 12.1 % (EUR 561 620) decrease in selling costs and a 6.4 % (EUR 1 258 627 EUR) drop in net sales.
The volume of operating expenses used for the purposes of operations decreased by EUR 485 829 (4.5 %) compared to the basis period.
As a combined effect of the above, the Group's operating profit for the first half of 2010 was EUR 3 884 782 which resulted in an EUR 211 177 (5.2 %) decline in profits compared to the basis period.

The Group's financial profit is EUR 119 503 which reflects an EUR 976 (0.8 %) drop compared to the basis period as a result of 35.4 % (EUR 400 040) increase in interest received and an EUR 401 016 increase in interest paid. The increase in interest received was mainly due to interest income recognized on OTP and MOL bonds. The significant increase in interest paid compared to the basis period was due to interest expense recognized by the Group's Dutch subsidiary, Fotex Netherlands B.V., on its bank loans.

As a result of the above, our pre-tax profit was EUR 4 004 285, which reflects an EUR 212 152 decline compared to the basis period. Profit attributable to minority interest improved the Group's profit for the reporting period by EUR 3 212. The profits of the subsidiaries are distributed to minority shareholders on the basis of their shareholding ratios.

The Group's after-tax profit adjusted for minority interest is EUR 3 221 903.

***Sales revenues***

Fotex Group's net sales represent 93.6 % of that in the basis period. Export sales represent 152.1 % of that for a similar period of the previous year, domestic consolidated turnover represent 85.6 %.
In the reporting period, 72.3 % of the Group's sales revenues (73.6 % in the basis period) were from other core activities, mainly from real estate utilization; manufacturing accounted fir nearly 20.9 % of total revenues (18.0 % in the basis period); while retail and wholesale collectively represent 6.8 % (8.4 % in the basis period) of sales revenues.

At Group level, net sales revenues from manufacturing increased by 7.2 % compared to the basis period, retail sales decreased by 29.7 % compared to basis figures, wholesale decreased by 19.3 % and revenues from other core activities dropped by 9.2 %.

The total sales revenues of the Group's **manufacturing** companies at current prices exceed the basis by 7.2 %. Manufacturing export sales revenues increased by 64.4 % compared to the same period of last year while domestic sales fell back to 43.4 %. Two group members are engaged in manufacturing: Ajka Kristály Kft. and our furniture manufacturers, Balaton Bútor Kft.
Ajka Kristály Kft's net sales increased by 66.1 % compared to the basis period. Its export sales represent 196.8 % of that in the basis period, its domestic consolidated revenue represents 63.6 % of that in the basis period. The Kft's export sales represent 91.2 % of its realized revenues. Its sales revenues calculated in USD increased by 74.9 % in the reporting period along with a 32.1 % increase in product volumes and an average 32.5 % increase in the specific product unit prices expressed in foreign currencies and despite reduced sales revenues due to a weaker USD: in the reporting period, the average USD rate was 207.9 HUF/USD as opposed to 215.6 HUF/USD in the basis period. The Kft's domestic sales declined by 36.4 % at current prices compared to the basis period. Within domestic sales, glass sales decreased by 49.3 % but china sales increased by 13.3 %. The setback in domestic glass sales was he result of a 64.0 % fall in turnover at the Kft's site and a 37.9 % drop in sales at the Kft's brand shop as the shop that used to operate at the factory's premises was closed down in February.

The consolidated net sales revenues of the Group's furniture manufacturing division realized from production is only 46.4 % of the same in a similar period of last year. The decrease in net sales revenues was due to a 63.6 % decline in domestic sales and a 23.1 % drop in export sales. Domestic net sales decreased owing to centralised public procurement (65 %), resalers (72 %) and to unrealized projects related to other tenders (69 %). However, turnover of our shops increased by a total 4 % compared to the basis period. The decrease in export sales compared to the basis period was due to fewer orders placed by our Swedish partner and the termination of orders by our Dutch partner.

As part of the restructuring process retail revenues account for an increasingly smaller percentage of the Group's presented turnover. The percentage of this activity compared to the total revenues is merely 3.8 % (5.0 % in the basis period).

As a result of downgraded operations, the Group's **retail turnover** dropped to 70.3 % compared to the previous period. In the reporting period, the Group's retail activities were pursued in the brand shops of our manufacturing companies (Balaton Bútor Kft.: 3, Ajka Kristály Kft.: 4) as well as in 2 beauty salons operated by Fotex Cosmetics, 3 music and records shops and 1 book shop operated by Hungaroton Records Kft., and in 3 clothes shops of Primo Zrt. The percentage of retail activities within the Group is immaterial.

The Group’s closed down retail shops have been rented out. The related rental income is presented among revenues from other core activities.

The Group’s **turnover from wholesale** is marginal with only 3.0 % of the total turnover. Over the past years, consignment wholesale was phased out and now the Group sells only own manufactured products in wholesale. In the reporting period, this activity practically involved wholesaling branded men’s clothing ranges and records related to our music publishing operations. The turnover of both wholesale lines dropped. Clothes turnover decreased by a total of 21.5 % as a result of a 23.2 % decrease in domestic wholesale revenues and a 44.2 % decline in export turnover. The wholesale turnover of music records dropped by 17.7 %.

The predominant part of total sales revenues (72.3 %) is from **other core activities**, more specifically, revenues realized from real estate utilization. These activities include real estate utilization, real estate rentals, licences sold in relation to the music publishing activity and royalties, revenues from advertising, webshop sales as well as motion picture ticket sales and cinema buffet sales.
The Group’s sales revenues from real estate utilization decreased by 4.3 % in the reporting period as compared to the basis period.
The Group’s rental revenues are realized predominantly through Keringatlan Kft., a company founded specifically for real estate utilization. The Group’s Dutch subsidiary, Fotex Netherlands B.V., also realized significant sales revenues from renting out purchased office buildings, and Hungaroton Records Kft. itself has earned sales revenues from re-rentals (rented out space in MOM Park Shopping Centre). As a result of moving Fotex Holding SE Nyrt’s headquarters to Luxembourg, significant rented out areas were assigned for management to Keringatlan Kft.

The consolidated revenue of Keringatlan Kft., which managed to achieve the highest rental revenues, dropped by 14.5 % compared to the basis period – in view of the turnover of two large real estate utilization companies, Domus Zrt. and Kontúr Zrt. which merged into Keringatlan Kft. at the end of the third quarter of the basis year – of which revenues from real estate utilization show a 13.0 % decline. Sales revenues from real estate utilization earned by the Group’s Dutch subsidiary, which was founded in March of the basis year, approximates one tenth of the Group’s sales revenues from real estate utilization.

### *Margin*

As a result of preventing the effects of foreign exchange fluctuations, the Group’s gross margin dropped by EUR 697 000 (4.7 %) compared to the similar period of the basis year. This change in the gross margin was due to a 6.4 % drop in turnover and to a 1.9 % increase in margins. The volume of margin increased by EUR 561 620 as selling costs dropped and were reduced by EUR 1 258 627 due to reduced turnover.

Our retail margin increased by 23.1 %. The retail margin of the cosmetics business line increased by 51 %, while the margin of our clothing line dropped by 5.4 %. However, the margin of the music business line increased by 3.4 % on average.
The margin of our wholesale activity dropped by 1.4 % and its volume within our total margin is not material. This change is the combined result of a 28.6 % improvement in clothes wholesale margin and a 28.6 % reduction in the margin realized on music records wholesale.
The 18.0 % increase in the margin of manufacturing activity was due partly to a shift in the proportions of our different manufacturing activities which have different margins and partly to movements in the various margins of each activity. The actual margin of glass manufacturing increased by 7.6 %, which is a result of 66.1 % increase in sales revenues and a 78.7 % increase in margin volumes. The margin of furniture manufacturing improved by 51.3 % compared to the basis period. The related margin volume decreased by 29.8 % as the combined result of an increased margin and declining sales.
As a result of increased real estate utilization revenues and a shift in revenue proportions due to reducing trading activities to an immaterial level, the shifts in the proportion of other core activities within net sales revenues had a positive effect on the movements in margin levels in the reporting year.

***Costs***

The Group's operating costs have decreased by EUR 485 829 (4.5 %) compared to the basis period.

Within operating costs, **material-type expenses** are the most significant (36.4 %) and have dropped by EUR 379 548 (9.2 %) compared to the basis period.
Material-type expenses include the material costs of and the cost of services used by non-manufacturer Group members as well as other services used by the Group companies.
The material costs of non-manufacturers dropped by 3.9 %. Most of these costs are attributable to water, gas and energy costs (83.7 %) in an amount similar to the basis period.
Material-type services used by our non-manufacturer companies decreased by 15.8 % compared to the previous year. Communication costs, shipping costs, agency commissions, rental costs, education and training costs, brand use right costs and maintenance costs also decreased. At the same time, daily stipends, travel costs, specialist fees, security and asset protection costs increased.

At Group level, other services decreased by 6.1 %. Other services include bank costs, duties paid, charged by authorities and insurance premium. While duties paid and car insurance premium have decreased, other costs in this category have increased compared to the same period of the previous year.

Within operating costs, the second largest category is represented by **payments to personnel** (32.3 %) which reduced by 10.9 % compared to the basis year.
The Group companies typically achieved savings on payments to personnel. Ajka Kristály Kft. managed to achieve this most savings as a result of redundancies, but our furniture manufacturer company also achieved significant cost cuts.
The number of the Group's full-time employees decreased by 73 people over one year.

At Group level, **amortization costs** account for 23.9 % of operating costs which increased by 20.7 % compared to the basis period. The main reason for the increase was the depreciation charge recognized on the office buildings purchased by our Dutch subsidiary.

**Other expenses** accounted for 7.4 % of operating costs in the reporting period and decreased by 13.7 % compared to the basis period. This line of the profit and loss account contains other expenses, financial revenues and expenses (less interest received and interest paid) as well as extraordinary revenues and extraordinary expenses. Financial profit dropped by 13.0 %, other expenses decreased by 13.5 %.

The Group's **selling costs** decreased by 1.21 % compared to the basis period and is due to reduced sales volumes and changes in the sales mix. Selling costs include the material costs and material-type expenses of the manufacturing companies as well as the cost of goods sold, the cost of sold (consignment) services and the value of capitalized own output.

The material costs of our manufacturing companies dropped by 18.0 % compared to the basis period: at Ajka Kristály Kft., material costs increased by 4 % compared to the basis period, while the material costs of our furniture manufacturer company fell by 51.0 %.
The main part of the material costs of our manufacturing companies includes raw and auxiliary materials (47.4 %) as well as water, gas and energy costs (49.8 %). The cost of both raw and auxiliary materials and water, gas and energy costs decreased compared to the basis period (by-16.4 % and by -17.7 %, respectively).
The material-type expenses used by our manufacturing companies show a 7.9 % decrease compared to the basis period.

The main part of selling costs, cost of goods sold (COGS), decreased by 37.1 % compared to the previous year. Significant decreases can be observed at Balaton Bútor Kft. (-58.7 %) and at Fotex Cosmetics Kft. (-40.1 %) which are explained by lower sales.

### *Personal and structural changes*

### *Structural changes:*

Europrizma Kft's scope of activities has changed and, since 1 February 2010, has been providing administrative services to other enterprises instead of advertising agency services.

### *Personal changes:*

There were no changes in the Group's management in the reporting period.

### *Other matters*

According to the resolution of the shareholders meeting No. 23/2000, on 2 May 2001, Fotex Nyrt. converted all its shares with the involvement of Keler Rt.
At that date, 70,388,664 shares were replaced and 334,986 old shares were not converted by their holders. In accordance with prevailing legal regulations, the Company made the unconverted shares void. The new shares that replaced the void ones were sold by the Company in the most optimal way that best served the interest of the shareholders. The consideration received less incurred costs are forwarded to the holders of the void shares after the 30th day, 15 November 2001, following the sale of all the shares that replaced the void shares as compensation for the void shares. Of the void shares, consideration relating to 164,897 shares has been paid up to this date and the holder of 170,089 void shares has not come forward as yet.

Fotex Nyrt's ordinary shareholders' meeting held on 28 April 2004 decided to convert Fotex Nyrt's printed shares into dematerialised shares. The conversion to dematerialised shares took place on 11 November 2004. The conversion does not affect the rights related to the shares. The printed shares could be presented for conversion between 10 September 2004 and 10 November 2004.
On 11 November 2004, all printed shares were made void by Fotex Nyrt.
Consideration for 1,210 shares made void due to dematerialization has been paid up to this day, the holders of 140 void shares have not come forward as yet.

At Fotex Holding SE Nyrt's ordinary shareholders meeting held on 28 April 2009, the shareholders decided to move the Company's headquarters to Luxembourg. At this general meeting, the shareholders made a decision about the determination of the share of equity to be allotted to shareholders that voted against moving the registered seat to Luxembourg as well as about the way and timing of redemption. The share of equity to be allotted to shareholders that voted against moving the registered seat to Luxembourg was determined by the shareholders' meeting as 0.89 EUR/share based on the equity/issued capital ratio as at 31 December 2008. The meeting authorized the Board of Directors to redeem such shares. Settlement has since been done with the two shareholders that voted against moving the headquarters with 52,870 shares.

According to resolution No. 5/2010.04.26, at their ordinary annual meeting held on 26 April 2010, upon approving the financial statements for 2009, Fotex Holding SE's shareholders decided to distribute dividends to the holders of dividend preference shares equalling the face values of the shares.

On 26 October, Ajka Kristály Üvegipari Kft. signed a solvency agreement with its creditors. As a result of the agreement, the debtor wishes to pay off its debts that are included in the scope of the solvency agreement without late payment penalty and other charges from sales revenues to be collected up to 30 April 2012 from selling own manufactured inventories as at 1 September 2009. In the meantime, interim instalments would be paid by 15 January 2011 and by 15 January 2012. The debtor assumed an obligation to pay all its creditors up to HUF 200,000 by 14 November 2009, which was duly done. The sole owner of the company, the creditor, Fotex Holding, and two entities under direct majority control of the owner, Upington Ltd. and Downington Holding LLC., asserted that they did not demand settlement of the debts towards them until Ajka Kristály Kft. met its obligation towards its other creditors under the solvency

agreement. The creditors that attended the agreement negotiation meeting engaged Piroska Gazda, a statutory auditor who also attended the meeting as representative of one of the creditors, Meritum Kft., to check compliance with the terms of the agreement.
In the first half of 2010, Ajka Kristály Kft. managed to utilize its entire capacity, which had been reduced to market demand, with a positive lookout to the future of the market.

The securities with ISIN-code T0008806916, (so-called “certificates”), which were previously traded on the Vienna Stock Exchange, have been withdrawn from Stock Exchange’s trading for the request of Company as of June 30, 2010. Fotex ordinary share with ISIN-code HU0000096409 have been automatically credited on the accounts of the owners of the certificates kept at their custodian bank in 1:1 proportion. The credit has been taken place automatically 3 workdays after the withdrawal of the certificates. Our company has entrusted the Erste Group Bank AG with the technical transaction of the SWAP of securities.

This half-yearly report contains true figures and assertions and no fact that bears significance with respect to the presentation of the Company’s situation has been withheld.

Capellen, 24 August 2010

Gábor Várszegi
Chairman of the Board of Directors