2005 beate uhse

BEATE UHSE AT A GLANCE

EUR million		2004	2005	Change %
SALES PERFORMANCE				
Retail		89.4	89.1	-0.3
Mail Order		111.7	125.0	11.8
Wholesale		54.4	52.2	-4.1
Entertainment		17.5	18.5	5.8
Holding Services		-	-	-
Total sales		**273.1**	**284.8**	**4.3**
International share of sales	%	55.9	58.7	5.1
RESULTS				
EBITDA		26.8	32.0	19.2
EBIT		17.9	22.7	26.6
EBT		15.6	20.4	30.6
Net income of ongoing business divisions		8.7	14.4	65.3
OTHER EARNINGS INDICATORS				
Return on sales before tax	%	5.7	7.2	25.3
Return on sales after tax	%	3.2	5.0	58.5
Return on equity	%	12.8	17.2	34.0
Gross profit margin	%	59.4	61.7	3.9
FINANCIAL SITUATION				
Gross Cash flow		16.6	23.1	39.2
Cash flow from operating activities		8.6	24.3	182.4
Investments		15.8	11.9	-24.7
Depreciation		9.1	9.6	5.4
Dividend paid		4.7	-	-100.0
BALANCE SHEET DATA				
Total assets		187.2	189.7	1.3
Shareholders' equity		67.8	83.6	23.3
Equity ratio	%	36.2	44.1	21.7
Long-term assets		105.7	111.6	5.7
Short-term assets		81.6	78.0	-4.3
OTHER DATA				
Employees	total	1,477	1,523	3.1
Personnel expenses		50.6	50.1	-1.0
Cost of sales		110.9	109.1	-1.6
Cost of distribution		130.4	142.6	9.3
SHARES				
Number of shares		47,323,696	47,323,696	-
Closing price	EUR	10.48	6.10	-41.8
Annual high	EUR	13.02	10.37	-20.4
Annual low	EUR	10.05	5.80	-42.3
Earnings per share	EUR	0.15	0.29	93.3
Cash flow per share	EUR	0.35	0.49	40.0

SHARHOLDER STRUCTURE

2005

0.6%	Outstanding shares Beate Uhse AG
45.7%	Orthmann AG
26.4%	Free Float
20.7%	Consipio Holding BV
6.5%	Art Media Production GmbH

2006 (31 March 2006)

0.6%	Outstanding shares Beate Uhse AG
29.5%	Rotermund Holding AG
38.4%	Free Float
20.8%	Consipio Holding BV
10.7%	Orthmann Trading AG

PROFILE

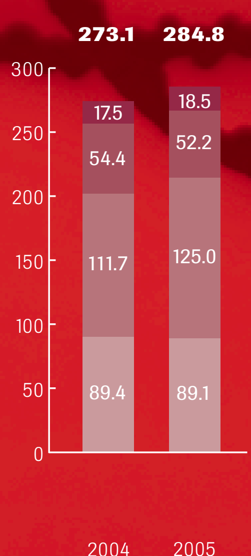
Beate Uhse AG is the leading erotica company in Europe and since 2003 has also been the world's largest erotica company in terms of sales.

When Beate Rotermund/Uhse founded the company in 1946, she had no money, but also had no lack of vision: women and men should lead their lives in a sexually enlightened way and should enjoy their sex lives. She made an impressive first step towards realising this vision with her first information brochure on contraception, including initial erotica products which could be bought by mail order. The idea grew into a revolution - the one-woman company has developed into an international group now active in 13 countries.

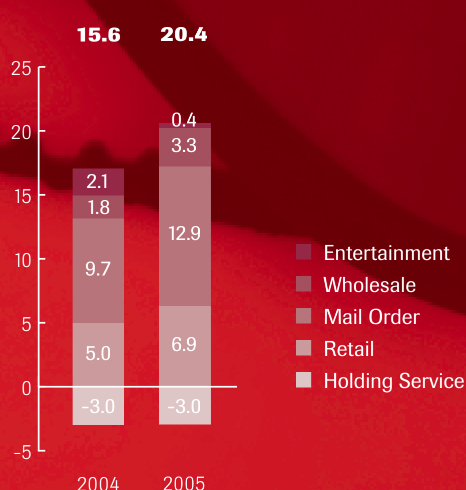
Beate Rotermund/Uhse started by creating its own market. Today, the company serves its customers via all distribution channels.

Retail: Stores with the right concept and the right product range for specialist target groups in a total of eleven countries. **Mail order:** 17.1 million catalogues sent in 2005. **Wholesale:** Retail partners in 60 countries around the world. **Entertainment:** Internet, telephony, mobile services, TV, video-on-demand and telemedia services as distribution channels for erotica content.

UMSATZ by Profit-Centre



EBT by Profit-Centre



OUR VISION

We aim to be the universal provider of sex and erotica products for the whole world.

INDEX

1.0 LETTER TO THE SHAREHOLDERS
1.1 The erotica market is changing
1.2 Fit for the future
1.3 The view ahead

2.0 CHRONICLE OF BEATE UHSE AG
2.1 The 2005 financial year
2.2 Company history

3.0 THE BEATE UHSE FOUNDATION
3.1 The children from Belarus
3.2 The work of the foundation

4.0 THE SHARE
4.1 Performance of the share price in 2005
4.2 Earnings per share
4.3 Dividend
4.4 Investor relations
4.5 Shareholder structure
4.6 Stock option programme

5.0 CORPORATE GOVERNANCE REPORT
5.1 Shareholders and Annual General Meeting
5.2 Cooperation of the Management Board and the Supervisory Board
5.3 The Management Board
5.4 The Supervisory Board
5.5 Transparency
5.6 Accounting
5.7 Auditing
5.8 Statement of compliance pursuant to Sec. 161 of German Stock Corporation Act

6.0 SUPERVISORY BOARD REPORT

6.1 Focus of the work of the Supervisory Board
6.2 Committee work
6.3 Audit of annual and consolidated financial statements for 2005
6.4 Corporate governance
6.5 Composition of the Supervisory Board
6.6 Note on the dependent company report
6.7 Thanks to the employees

7.0 GROUP MANAGEMENT REPORT

7.1 Business and economic framework
7.2 Earnings situation
7.3 Financial situation
7.4 Asset situation
7.5 Events subsequent to reporting date
7.6 Risk report
7.7 Outlook

8.0 CONSOLIDATED FINANCIAL STATEMENTS

8.1 Balance sheet
8.2 Income statement
8.3 Cash flow statement
8.4 Segment report
8.5 Group equity schedule
8.6 List of Group equity holdings
8.7 Notes
8.8 Audit opinion

9.0 SUMMARY OF THE ANNUAL FINANCIAL STATEMENTS OF BEATE UHSE AG

10.0 FURTHER INFORMATION

10.1 Multi-year overview 1999-2005
10.2 Financial calendar for 2006 & contact
10.3 Notification announcement and imprint
10.4 Product and image information

LETTER TO THE SHAREHOLDERS

DEAR LADIES AND GENTLEMEN,
DEAR SHAREHOLDERS,

Have you ever asked yourself what constitutes the appeal of the erotica market? At Beate Uhse, we channel a great deal of energy into investigating this matter. We approach the question of "appeal" from various angles. Is it the alluring promise of economic success – "Sex Sells"? The somewhat secretive, disreputable image of the redlight milieu? Or is it the mixing of business with highly personal emotions, sexual preferences and dreams? The answers to these questions provide the master key to our customers, to forthcoming trends, to changes in the market and also to our competitors.

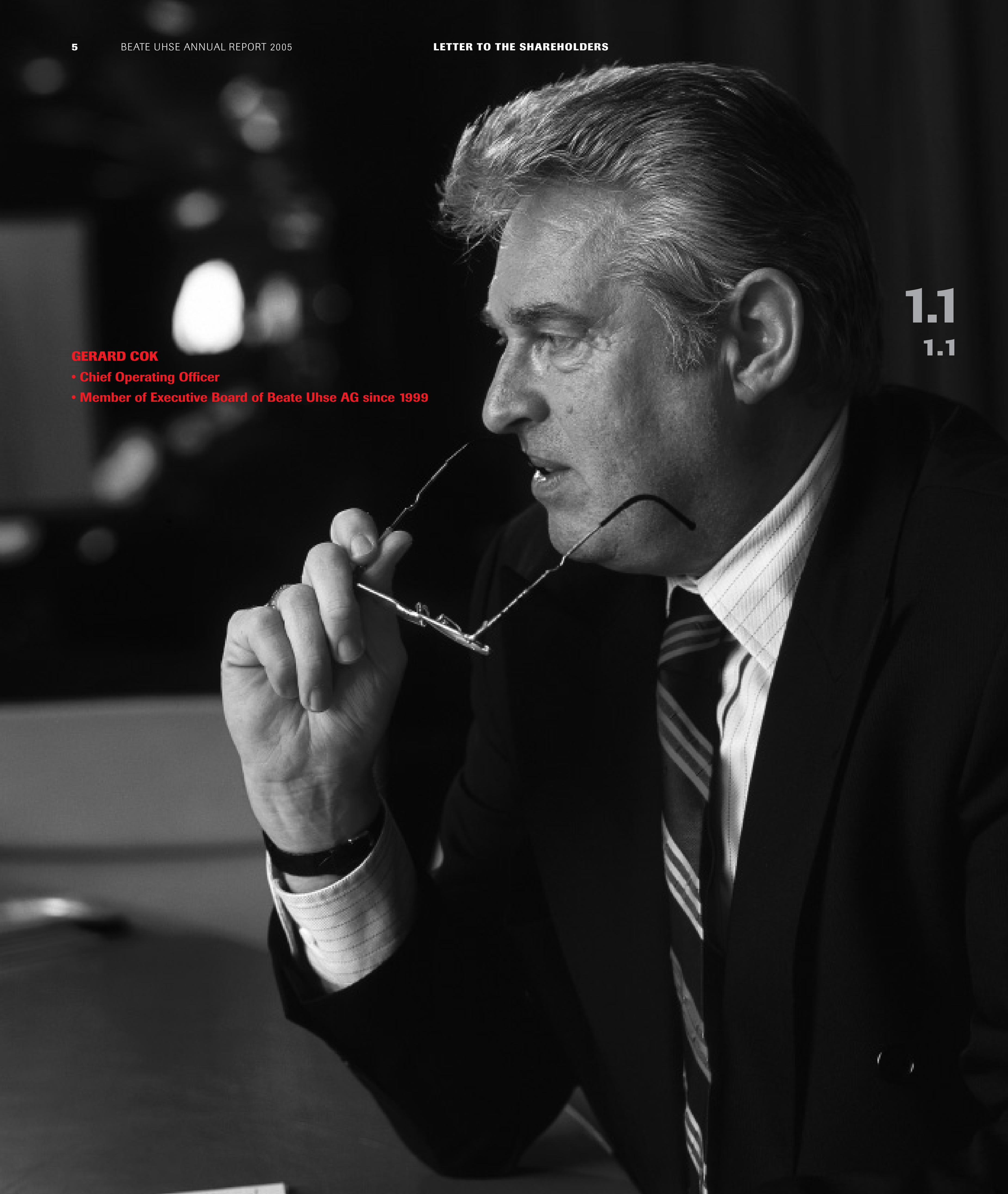
Beate Uhse is the leading erotica company in Europe – we aim to be aware at all times of what our customers are looking for, which trends have seduced their imagination. As the sector trend scout, we identify the hottest products of the future. We aim to learn about and steer the changes in the market before others are even aware of them. We direct all of our efforts to achieving these aims.

1.1 THE EROTICA MARKET IS CHANGING

Society has progressed

The erotica market has witnessed substantial change over the past years. While ten years ago the market was still dominated by video films and erotica publications, it is erotic toys, lingerie and DVDs which now have the edge. They are characteristic of the expansion of product ranges and target groups seen across the overall market. The exclusive focus on men is a thing of the past. The present and the future belong to a far larger target group – men, plus women and couples.

The changes in the erotica market have also been triggered by other sectors. Fashion, for example, plays an important role as a trendsetter within society. Transparent, light materials and closely fitting outfits now form part of the typical wardrobe. TV series such as "Sex and the City" or "Desperate Housewives" have turned the image of the self-confident, fashion-cons-cious woman with a considerable dose of sex appeal into a global ideal. Magazines such as "cosmopolitan", "Men´s Health" or "Playboy" present sex-related topics in a stylish and infor-mative manner. Not to mention outlandish, erotic websites on the internet. In short – our society has become more open. In the minds of the young and the young-at-heart, visiting a sex shop is no longer the reserve of those who are "maybe not getting any", but is rather something for all those who view sex as an integral component of their lives and wish to inject some verve and imagination into that area of their lives.



1.1
1.1

GERARD COK
- Chief Operating Officer
- Member of Executive Board of Beate Uhse AG since 1999

Women as a new target group

The question as to whether it was women who discovered the erotica market for themselves or whether it was the erotica market which began to focus on women as a highly interesting and interested target group is not unlike the age-old question as to the chicken and the egg. Either way, it is clear that women are now a very well-represented and important target group which is shaping and boosting the market and its widespread perception on an ongoing basis. Today's women deal openly with their sexuality. This has led to a change in expectations as to product ranges, as well as to the location and ambience of stores. Factors such as seduction and fantasy have come to the fore. New store concepts such as Mae B. are specialised in these requirements. They address women with sensitivity and style, providing them with a fun shopping experience and erotica products with which to spoil themselves or to seduce their partners.

The erotica market is becoming increasingly interesting for companies in other sectors

Women are playing a groundbreaking role for the erotica sector along the way towards a new image and thus to an expansion of the market. Unlike hardcore films, erotic lingerie and wellness products are socially acceptable. The sales success and degree of attention now generated by the erotica market is increasingly attracting competitors whose previous reaction to sexy underwear was anything but appealing. Classy department stores which present a small, select choice of vibrators and toys in their lingerie departments, drugstores which also have dildos and pheromone fragrances on display alongside their condom stocks. This has become normal in large international cities such as London and Amsterdam. A start has therefore been made.

This change presents us with a fantastic challenge. The erotica market is receiving greater attention across the entire retail sector – including both providers and customers. Our major advantages in this fight for market share are immediately apparent: 1. the strong Beate Uhse brand, which stands for competence and reliability in matters erotic and which is already positioned within the market, 2. our Group's longstanding market-know how, 3. the existing group structures which we can build on. We already act as cooperation partners for several blue chip companies in the fields of telecommunications, internet and traditional retail. We are one of the few erotica companies around the world to be publicly listed. This means that Beate Uhse is an internationally recognised business partner.

1.2 FIT FOR THE FUTURE

The changes in the erotica market are very exciting and important for our company. We already began in 2002 to prepare for this transformation, of which some players are only now even becoming aware. We already feel fit for the future, given that many measures are already bearing their first fruit. Here are some examples:

1.1

1.2

OTTO CHRISTIAN LINDEMANN

- Chief Financial Officer and Spokesman for the Management Board
- Member of Executive Board of Beate Uhse AG since 2000

The relaunch of the Beate Uhse brand in 2002 and the restructuring of the Group's brand architecture marked the beginning of a series of strategic adjustments. The Beate Uhse label is a synonym for sex and erotica. It forms the focus of our entrepreneurial actions in all distribution channels. In the interests of tailoring its proposition to specific target groups, Beate Uhse is supplemented by subsidiary brands, such as Pabo, Dr. Müller, Christine le Duc and Mae B. The launch of the Mae B. brand, for example, paved the way to accessing many women who would not have felt comfortable in a traditional sex shop.

To enable us to address our customers in a targeted manner with the right product range and in a suitable ambience, we began positioning various different shop concepts in the retail division. A great deal has happened since then. In addition to the new launch of four Mae B. shops for women and couples, work has been started on modernising the 32 Christine le Duc shops in the Netherlands, which are targeted at couples and men. Within the brand structure of the Beate Uhse stores, three completely new store concepts have been introduced in the form of specialist stores, stores at highly-frequented locations and fun-centers. These are mainly differentiated in terms of their locations, size and product ranges. One example: with ultramodern video cabins, cinema landscapes, a small product range and opening hours until 10 p.m., the Beate Uhse Fun-Centers are focused on entertainment. Their easy accessibility on heavily used trunk roads and motorways also provides customers with an appropriate degree of anonymity. By diversifying and expanding our store network, we have attained an enormous market presence across the whole of Europe. This in turn has had a positive impact on the other profit centres, as well as generating a corresponding publicity effect.

The profit centre with the most rapid level of growth is still the mail order division, which has reported very high sales growth for the fourth consecutive year – not least as a result of the realignment of the product range to meet women's requirements. In order to be fit for the future and to do justice to daily customer requirements with short delivery times, we started work on an extension to our mail order hall in 2005. The existing storage capacities will be supplemented by a further 13,000 square metres. This will enable us to dispatch 42.000 packages to our customers every day.

The restructuring of merchandising flows has been rounded off by the new central warehouse in the Netherlands. This acts as the centrepiece for the movement of goods across the Group – from their development and ordering in the Far East through to sales to retailers and end consumers via the various distribution channels.

We are also in the course of restructuring our entertainment division. Beate Uhse new media GmbH is increasingly acting as a cooperation partner for large media and provider portals and is positioning itself within this market as an expert partner for the marketing and design of erotica internet pages. The purchase of the Blue Movie telemedia service in November 2005 by erotic media ag, in which Beate Uhse holds a shareholding of around 30 percent, means that the TV sector has also gained in significance. We succeeded in increasing the number of Blue Movie customers from 170,000 to 252,000 by the end of the year. We believe that this represents a good start and intend to build on this foundation in 2006 not only in order to further expand the customer base, but also to exploit the contacts thereby made for other Beate Uhse profit centres as well.

A lot is happening at the Beate Uhse Group. We feel fit for the future - both conceptually and strategically, as well as in terms of smoothly functioning lean processes.

1.3 THE VIEW AHEAD

It remains to ask what the future holds for us. The erotica market will grow. It will become increasingly international and will be perceived more consciously. Further groups of customers within significantly larger target groups and new providers will discover the market for themselves, thus in turn providing a considerable boost to growth.

Beate Uhse already has unmistakable brands, occupies a leading position in all sales divisions in Europe and can build on a mature group structure. For these reasons alone we stand to benefit from the change in the market. While focusing on these strengths, we are aligning the activities of the profit centres even more clearly to the major brands within the Group. The product world of each brand will be offered to customers across all distribution channels in line with the respective target groups. This multichannel approach provides our customers with an even more distinctive shopping experience, increases customer retention levels for the brands and facilitates an increase in sales per customer.

Further possibilities under consideration include the opening of ultramodern Beate Uhse shops in the top shopping centres of large European cities and mail order catalogues exclusively offering lifestyle product groups, such as wellness products and lingerie. We also see the marketing of erotica films and images via mobile telephones, video on demand and IPTV (Internet Protocol Television) as harbouring growth potential.

There are many ideas and possibilities which we are discussing internally or with possible co-operation partners as well. We will implement those projects which will benefit the Beate Uhse brand and which guarantee growth.Moreover, our Group also has considerable, previously untapped brand potential. If we look around Europe, it can be seen that in those countries in which Beate Uhse is already active, it has succeeded in making an unmistakable mark, advancing in almost all cases to become the uncontested market leader. Spain, Slovenia, Hungary, Poland and the Baltic countries offer further interesting growth markets in which an established Group with a broad range of activities, such as Beate Uhse, can find its place.

"Sex up your Life" – it is up to all individuals to shape their lives in accordance with their own desires. We are pleased to support our customers in this process by offering a selection of more than 20,000 products enabling them to structure the erotic sides of their lives with even more imagination. We have presented our special favourites in the Focal Point section of this Annual Report. We wish you pleasant reading.

Yours faithfully,

Otto Christian Lindemann   Gerard P. Cok

Sexy Fingers

- Length: a good 7.5 cm
- For sensitive stroking
- Colour most frequently sold: lilac
- More than 6,000 sold in 2005

Our Favourites

They are the real secret of our success – the stars and starlets of our product range. The right product for every desire. Some of our star products don't just fulfil desires – they also arouse desires. Others just sell unbelievably well. Do you know any more exciting business? **SEX UP YOUR LIFE!**

Lingerie

- Everything from the finest lace through to latex
- 210,000 lingerie collections per year
- Sexy lingerie in all sizes (34–48)
- Largest selection of erotic lingerie for women and men

SPRAY and STAY

- Turnover per ml: EUR 0.99
- Simply spray on – and it's on its feet
- 25 percent female share of buyers (in selected stores)
- Fixed component in all Beate Uhse stores
- Number of items sold per year: 3,500
- Average age of male buyers (in selected stores): 56


SPRAY AND STAY

Cat-o'-Nine-Tails

- Material:
  artificial leather
- With more than 4,500 items sold,
  this is one of the most popular
  bondage products
- Cumulative length:
  almost 8 metres
- More than 80 percent female share of buyers
  (in selected stores)
- Perfect for some unusual fun
  and a few submissive hours together

Super Jelly Teasing Tickler

- Product novelty in 2005: jelly love rings
- Amazingly soft and stretchable
- Numerous varieties of colour, shape and knob
- Diameter: 2 cm
- Stretch factor of up to 400 percent
- Model most frequently sold: metallic pink

Engelbert Evil

- The “devil” among the love rings
- Available in noble gold or night black
- Intimate accessory for all men
- Maximises the erection, turning a man’s best friend into his best asset
- Unadulterated fun from Fun Factory

Hard to please Joy Ring

- Love ring with adjustable size
- Colour: pumping purple
- Highly discrete – fits into any pocket

Fun Factory Smartballs

- 14 colour combinations
- Colour most frequently sold: magenta/black
- One of the best-selling products in the toy division
- For stimulation, massages and training
- Best training for vaginal and pelvic floor muscles (www.rueckbildungsgymnastik.net)
- Diameter: 3.6 cm, length: approx. 10 cm

Girly Giggle Balls

- Smart balls with a knobbly surface
- Perfect selection of colours: tickly soft pink, hot pants pink, tickly lavender and tickly black
- 99 percent female share of buyers
- Around 3,600 sets sold in 2005

Velvet and Silken Fetters

- Perfect for the gentlest bondage imaginable
- Classy silk handcuffs in soft pink, black and wine red
- Two versions – with or without black fluffy ball for extra stroking and spoiling


ETHAN
KANE'S
DIE
VERLOCKUNG
beate uhse
DE LUXE
präsentiert
Produktion

DVD Collection

- Selection of more than 25,000 DVDs
- Product group with the highest sales in the retail division
- Films with a duration of 90 minutes up to 8 hours
- Most popular film in 2005: Beate Uhse exclusive “Gina Wild”, with more than 55,000 copies sold
- Hot off the press: the Beate Uhse “Football DVD” is to be released in seven languages on time for the football World Cup in 2006


LÜMMEL
TÜTEN
CE 0197

Lebenslust (joie-de-vivre) Condoms

- The first condom in a round outfit
- Meets the highest quality standards (biological contents)
- Does not smell of rubber
- Is easy to roll on and hardly noticeable
- Enchanting aromas in the versions of Heartrush (aphrodisiac aroma) and Lovemachine (for a stronger and longer lasting erection)

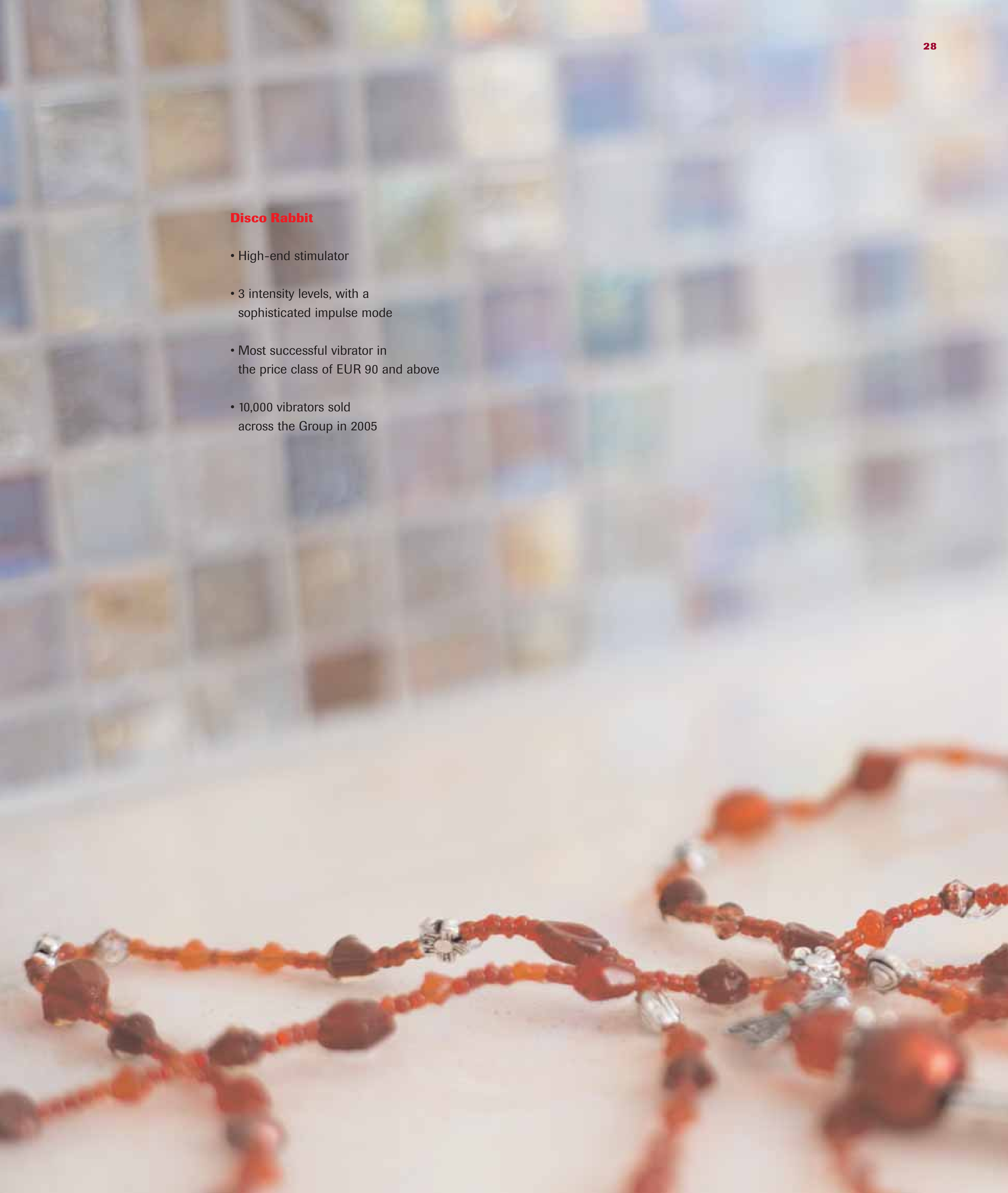

Café
– koffeinhaltiges Gleitgel –
lubricant gel containing

Café Latte

- Lubricants with the taste and smell of coffee
- Caffeinated, stimulating lubricant
- Dermatologically tested, water-soluble and fat-free
- One of 30 lubricant brands which Beate Uhse offers to its customers

Glass Worxx Crystal Pacifier

- Avant-garde stimulator
- Material:
  glass
- Length: 17.5 cm,
  diameter: 1.5 cm
- Toy Joy glass collection with
  8 colour and knob variations
  from EUR 25 to EUR 60



Disco Rabbit

- High-end stimulator
- 3 intensity levels, with a sophisticated impulse mode
- Most successful vibrator in the price class of EUR 90 and above
- 10,000 vibrators sold across the Group in 2005


NOR
ON
OFF
REV
MIN
SWING
MAX
MIN
VIB
MAX
ToyJoy

CHRONICLE OF BEATE UHSE AG

2.1 THE 2005 FINANCIAL YEAR

MARCH

The sale of the shareholding held in erotic media AG to Almira S.A. envisaged for March 2005 fails to materialise. Almira S.A. is not in a position to implement the financing agreed in the negotiations.

APRIL

Ulrich Rotermund, son of the company's founder Beate Rotermund, is elected as Chairman of the Supervisory Board of Beate Uhse AG on 6 April. He takes over the position from Richard Orthmann, who leaves the board after many years of membership.

Beate Uhse AG awards the female entrepreneur prize of the same name for the second time. This prize was established in 2003 in memory of the outstanding life and exemplary career of Beate Rotermund and is awarded to women with creative business ideas which are well thought-out, robust and original.

MAY

Beate Uhse new media GmbH develops a remarkable shop concept for the internet. At the web address http://www.pabomovie.com/, mail order customers are able to download films or view them directly using streaming and to pay by invoice. The film portal is granted a warm reception by customers and has been consistently expanded, with further films being made available and the introduction of additional online payment systems.

JUNE

The foundation stone is laid for the extension building for the Pabo BV mail order subsidiary in Walsoorden, Netherlands. To do justice to the ongoing growth in business volumes, the existing building is being extended by 13,000 square metres of warehouse space and 2,000 square metres of office space. Following its completion in July 2006, Pabo will be able to dispatch 35,000 packages to its customers per day, thus increasing its daily shipment capacity by 20,000 packages. The mail order division is investing around Euro 15 million in the extension.

The Annual General Meeting of Beate Uhse AG at the Neue Flora musical theatre in Hamburg is attended by around 600 shareholders.

The new Terminal 1 at Hamburg Airport becomes the sixth international airport in Germany to receive a Beate Uhse shop.

Beate Uhse turns the A2 motorway into Route 69 with the opening of two Beate Uhse Fun Centers. The shops opened within the Fun Center concept are located at heavily used motorway interchanges. The focus is on the shopping experience. Cinema landscapes, video cabins equipped with the latest digital technology and a select erotica product range are available to customers every day until 10 p.m.

Viewing and sending erotic films and pictures via a mobile phone – this dream, in most cases the reserve of men, is fulfilled in Summer 2005. Beate Uhse and Debitel launch the Beate Uhse mobile phone onto the market. It goes without saying that the protection of minors has also been accorded high priority with this new media product. The security systems have been developed by Debitel.

JULY

25th anniversary of MAX AB. The film sales company founded by Johann Engwall in 1980 is the Swedish market leader for hardcore DVDs. Since 2002, MAX AB has formed part of the Beate Uhse Group.

The entertainment division of the Beate Uhse Group takes over the marketing and design of the erotica channels of one of the largest media portals in Germany. This cooperation agreement further strengthens the position of the Beate Uhse Group as an expert B2B partner in the field of erotica content and entertainment.

AUGUST

The "hot" season begins in Pforzheim and Ulm at the end of July and the beginning of August. By opening two specialist stores, Beate Uhse Retail has successfully maintained the expansion of its large-scale store concept. Use has been made for the first time of a new, highly modern furnishing concept allowing shops

2.2 COMPANY HISTORY

1946 Beate Uhse initiates the mailing of "Schrift X", an educational brochure on birth control using the Knaus-Ogino method. 1948 Launch of the mail order business. The first eight-page catalogue is published. 1952 The newly established company has six employees and 200,000 customers. Publication of a 32-page catalogue "Is everything OK with our marriage?" with over 50 products. 1962 The world's first sex shop is opened in Flensburg. 1975 This is a moment the businesswoman Beate Uhse has long fought for – § 184 of the Penal Code comes into force, thus legalising regulated pornography. 1999 IPO: initial listing of the Beate Uhse share on the

of between 200 and 1,000 square metres to be equipped with a modular furnishing system. The Beate Uhse specialist store concept established in 2003 relies on easy accessibility, fair prices, a comprehensive product range and the strength of the Beate Uhse brand.

SEPTEMBER

Beate Uhse Retail presses ahead with its international expansion, opening its first shop in the Hungarian capital, Budapest. The retail division sees the awarding of a country licence as offering the best prospects of success for rapidly increasing awareness of the shop concept across the whole country. The licence agreement has been concluded for several years and provides for the opening of ten Beate Uhse outlets.

Beate Uhse repositions itself in the entertainment division by acquiring the “Blue Movie” telemedia service from Premiere Fernsehen GmbH & Co KG. The only telemedia service in the German-speaking world permitted to show hardcore films has been taken over by erotic media AG, in which the Beate Uhse Group holds a 33 percent shareholding.

OCTOBER

Beate Uhse welcomes numerous business partners and customers to its two stands at the Venus Fair in Berlin, Europe’s largest erotica fair. Interesting talks with sector representatives and business partners were held at the stand of the Scala BV wholesale subsidiary. Scintillating bodies and unadulterated party mood, by way of contrast, were to be had at Beate Uhse.TV.

NOVEMBER

The prime focus of the internet specialists at Beate Uhse new media GmbH in 2005 was the launch and re-launch of numerous websites, such as http:/shop.beate-uhse.com. The innovative and technically sophisticated sites and web applications provided by this division have once again underlined its leading position.

The international positioning of the Beate Uhse brand is expanded. The first shop in the Netherlands is renamed as a Beate Uhse store and modernised in line with the new design format. Further stores are to follow suit in 2006.

Beate Uhse new media GmbH launches a Beate Uhse Livecam Club in cooperation with one of the large provider portals in Germany. In return for a basic monthly charge, customers of this internationally renowned provider portal can enjoy erotic films, pictures and live shows.

DECEMBER

The sixth Beate Uhse store in the federal capital is opened under the motto of “Sex up your Life” at the beginning of December. Visitors to Berlin’s largest shopping centre, the Gropius Passage in Neukölln, can find a select erotica product range of lingerie, wellness products, toys and much more.

Beate Uhse shops in Germany are supplied from the Almere logistics centre starting in December 2005. This marks the passing of a further milestone in the centralisation of logistics and the pooling of the flow of merchandise within the Group.

Frankfurt stock exchange. 2001 Beate Rotermund dies on 21 July 2001. 2002 Relaunch of the Beate Uhse brand – reorganisation of the corporate design and of the brand architecture. Launch of the new slogan – “Sex up your Life”. 2004 Beate Uhse launches the new “Mae B.” brand, a store concept aimed at women and couples, in Germany.

THE BEATE UHSE FOUNDATION

The Beate Uhse Foundation in Flensburg provided valuable support to a total of 17 projects in 2005. These ranged from assistance in cases of social distress to supporting academic projects to cultural and international events. One example of a project is the support provided to a holiday for children from the Chernobyl region in Schleswig-Holstein in the summer of 2005.

3.1 THE CHILDREN FROM BELARUS

Beate Rotermund was slightly ahead of her generation in all sorts of areas. In 1937, she was one of the first women pilots in Germany. At the beginning of the 1960s she travelled to marketing seminars in the USA and opened the world's first sex shop in Flensburg in 1962. During all of these years, she never made a big fuss about her commitment to people in need. She helped where rapid uncomplicated assistance was required. She was also slightly ahead of the efforts of her own foundation, which was established following her death.

After all, the assistance provided to the children from Chernobyl by the Beate Uhse Foundation actually began long before the foundation had even been established. In 1994, Beate Rotermund undertook sightseeing flights over Flensburg and the surrounding area with several groups of children from the region around the notorious reactor. The flights in the small, wobbly propeller plane provided the Russian children with an unforgettable holiday experience. The children were not really aware of, and probably did not care about, the fame and achievements of the lady who enthusiastically explained what they could see on the ground far beneath them. This certainly suited Beate Rotermund, who could therefore dedicate herself completely to answering the questions posed by the excited children.

The company founder, then in advanced years, was deeply moved by the courage, openess and enthusiasm of the boys and girls. The joint excursion made a deep impression on her. She responded in her own individual way to the letters and notes of thanks which arrived following the summer – in person and by hand.

In 2005, four years following her death, the paths of the Beate Uhse Foundation in Flensburg and the contact persons back then crossed once again. The Tschernobyl-Hilfe e.V. association in Flensburg organised holiday camps in Schleswig-Holstein under the motto of "Fresh Wind for Children's Holidays". Even 20 years after the accident at the reactor, children are still affected by a strikingly high rate of health problems. As is so often the case, in spite of the great commitment shown by the district of Eggebek, the final few pennies were still missing. The Beate Uhse Foundation was keen to assist and to support the holiday camp for children from Chernobyl. There had been no further contact with Russia since the joint flights. It did not take long for the Board of the Foundation to approve the assistance. After all, it involved an initiative which the boss had already supported in person. The holiday camp was intended to give the children the opportunity of forgetting their protracted medical treatment, to gather new impressions far away from home, to make new friendships and also to get to know this part of its Germany and its people.

In July of 2005, 26 children aged nine to twelve came together with four helpers from Belarus for a recreational holiday in the Danish scout camp of Tydal on the edge of Eggebek. The boys and girls were able to enjoy the region between the North Sea and the Baltic Sea for three and a half weeks. The favourite activities included swimming and playing, games of football on the pitch and the evenings around the campfire together with other groups of children in the scout camp. In spite of the language barriers, the children had no difficulty in communicating, with one or two addresses being exchanged along the way. The highpoints for the whole group were the excursions to the seaside, to Denmark, to the Sommerland Syd recreation park and the shopping trip in Flensburg.

Each child received pocket money of Euro 50 from the Beate Uhse Foundation and was able to spend the money as he or she liked. Sweeties, ice cream and sweet drinks? Far from it! Coffee, tea, skin cream, shower gel and chocolate were the favourite purchases for the children from Belarus. All intended as small gifts for their loved ones back home.

The 24 days in Schleswig-Holstein provided the group from Belarus with an unforgettable experience. The break enabled them to recuperate, to make new friendships and to get to know a small corner of Schleswig-Holstein. However, one thing was missing – the sightseeing flight with the boss.

3.2 THE WORK OF THE FOUNDATION

The total of 17 projects supported by the Foundation in 2005 was granted almost Euro 34,000. The Foundation offers assistance where fast and unbureaucratic help is required. It focuses in particular on women and children in distressed situations as a result of special circumstances. The assistance is mainly provided to projects in Schleswig-Holstein, the federal state in which Beate Rotermund lived and worked since 1945. The Beate Uhse Foundation is an autonomous initiative. It was established following the death of Beate Rotermund in 2001 by her son, Ulrich Rotermund.

If you would like to support the work of the Beate Uhse Foundation or to find out more about the wide range of its activities, please contact:

Beate Uhse Stiftung zu Flensburg
Mergenthalerstraße 2
24941 Flensburg
Tel.: +49 (0)461 / 840 66 15
Fax: +49 (0)4 61 / 840 66 35
E-mail: Heinke.Bahnsen@Beate-Uhse-Stiftung.de
www.beate-uhse-stiftung.de
Flensburger Sparkasse
Account: 666 666
Sort code: 215 500 50

THE SHARE

4.1 PERFORMANCE OF THE SHARE PRICE IN 2005

The Beate Uhse share performed more weakly than the DAX, MDAX and SDAX indices during the year under report. With a decline of 40.1%, the performance of the share price was not satisfactory. The share began the year with a closing price of Euro 10.19 on the first trading day and already reached its annual high of Euro 10.27 in the same month. The cancellation of the planned sale of the shareholding held in erotic media ag by the potential buyer meant that Beate Uhse did not, as had been planned, receive one-off income of Euro 102 million from the sale, leading to disillusionment on the stock exchange. As a result, the share price fell to Euro 7.50. Thanks to a widespread information campaign, in the course of which the Management Board held one-to-one talks with a large number of capital market participants in order to explain the background, the share recovered once more to levels above Euro 9.00.

In the course of the year, however, the share fell once again, recording an all-time low of Euro 5.80 on 13 December 2005. At the end of the year, the share price rose in line with the pleasing operating performance of the Group to reach Euro 6.10.

An average of 20,201 Beate Uhse shares was traded per day. The average price amounted to Euro 7.41. In line with the performance of the share price, the market capitalisation of ordinary bearer shares dropped from Euro 479.9 million to Euro 288.7 million. The free float market capitalisation fell from Euro 144.7 million to Euro 78.2 million. Beate Uhse is listed in the SDAX and has a weighting of 0.75 percent in the index (as of the end of 2005). The corresponding valuation data (trading volumes and free float market capitalisation) place Beate Uhse in the lower third of the 50 SDAX shares. The Beate Uhse share is also listed in the GEX, Prime All Share and Classic All Share indices, as well as in the Prime Retail sector index.

PERFORMANCE OF SHARE PRICE 2004 / 2005

		2004	2005
Opening	EUR	13.02	10.19
Close	EUR	10.48	6.10
High	EUR	13.02	10.37
Low	EUR	10.05	5.80
Average	EUR	11.09	7.41
Performance	%	-19.50	-40.10

Source: Xetra / Dt. Börse

KEY SHARE DATA 2004 / 2005

		2004	2005
Earnings per share		0.15	0.29
P/E ratio		68	21
Cash flow per share		30.4	12.4
Quote / sales		1.8	1.0
Quote / EBITDA		18.3	9.0
Quote / book value		9.4	4.6
Book value per share		1.1	1.3
Share capital		47,323,696	47,323,696
SDAX weighting	%	2.2	0.8
Market capitalisation	EUR	495	289
Market cap. of free float	EUR	152	78
Average sales / day		5,961	18,632

Source: Xetra

4.2 EARNINGS PER SHARE

Earnings per share rose by 93.3 percent compared with the previous year. Undiluted earnings per ordinary share amounted to Euro 0.29. Pursuant to IFRS 33, the calculation was based on the average number of shares outstanding during the financial year. The undiluted and diluted earnings figures are identical for the Beate Uhse share, given that the share option programme did not give rise to any dilutive effects. Earnings per share basically correspond to the equivalent figure calculated in accordance with the German Commercial Code (HGB).

4.3 DIVIDEND

The Beate Uhse Group has pursued a consistent dividend policy since its stock market flotation. In general, shareholders should receive a profit distribution of 40 to 50 percent of the annual net income. There were exceptions to this rule in the 2001 and 2004 financial years, for which the profit of Beate Uhse AG was retained and invested in the operating business and thus in the growth of the Beate Uhse Group.

In line with the pleasing business performance, a distribution based on the aforementioned dividend policy is envisaged for the past financial year and will be proposed by the Management Board and the Supervisory Board for approval by the Annual General Meeting. Subject to the consent of the Annual General Meeting, the volume distributed should amount to Euro 6,6 million.

4.4 INVESTOR RELATIONS

The longstanding close cooperation between Beate Uhse AG and its designated sponsor, Closed Brothers Seydler AG, contributed to the considerable increase in share trading volumes in 2005. While average daily trading volumes amounted to 5,961 shares in 2004, 20,201 shares were traded per day in the year under report. Since July 2005, the price of the share has witnessed a certain stability at around Euro 6, with the market showing interest in buying the share at this level. This has been supported by various investor relations activities. Talks with investors, meetings with analysts, ongoing dialogue with private shareholders, events with shareholder protection associations, daily updated internet pages (www.beate-uhse.ag) and extensive quarterly reporting have formed the basis for this development.

Beate Uhse was covered by Independent Research and Berenberg Bank in 2005. The research publications published by Independent Research at the same time as the respective quarterly figures forecast positive developments for the operating business and the erotica market. The extensive reports can be found on the internet at http://www.beateuhse.ag/ir/stock/analysts_analysis.html

BASIC DATA

Emporiums		FSE, all German stock exchanges
IPO share price	EUR	7.20
Segment		Prime Standard
ISIN		DE0007551400
Company ticker		USE

Shareholder strucutre

Orthmann AG	%	45.7
Consipio Holding BV	%	20.7
Free float	%	26.4
Art Media Production GmbH	%	6.5
Own shares Beate Uhse AG	%	0.6

EARNINGS PER SHARE 2004 / 2005

		2004	2005
Net income for the period	EUR million	7,182	13,596
Number of shares (diluted)		46,785,770	47,042,247
Number of shares (undiluted)		46,785,770	47,042,247
Earnings per share (diluted)	EUR	0.15	0.29
Earnings per share (undiluted)	EUR	0.15	0.29

4.5 SHAREHOLDER STRUCTURE

The shareholder structure of Beate Uhse AG continued to be characterised by a high degree of continuity in 2005. The large-scale shareholdings held by Orthmann AG (45.7 percent) and Consipio Holding BV (20.7 percent) were almost unchanged as of 31 December 2005. Since October 2005, one new investor in the erotica share and in the circle of shareholders required to disclose their shareholdings is the Cologne-based company Art Media Production GmbH, which holds around 6.5 percent.

The free float of Beate Uhse AG rose to 26.4 percent in the course of the year. The company held 0.6 percent of the shares as treasury stock at the reporting date.

4.6 STOCK OPTION PROGRAMME

The employees of the Beate Uhse Group participate directly in the performance of the company via a stock option programme. In 2005, the management of the company granted 192,879 option rights entitling their bearers to acquire bearer shares in Beate Uhse AG at a nominal amount of Euro 1. The employees of the Group received 99,584 option rights. 93,295 option rights were granted to the members of the Management Board and to the managing directors of the companies within the Group. The option rights issued in 2005 may be exercised from 25 June 2007. The subscription price amounts to Euro 8.38.

DIVIDEND PAYMENT 1999 / 2005

		1999	2000	2001	2002	2003	2004	2005*
Dividend per share	EUR	0.10	0.14	-	0.10	0.10	-	0.14
Total dividend	EUR million	4.2	6.2	-	4.7	4.6	-	6.6
Dividend payment	Date	5.8.00	26.6.01	-	24.6.03	22.6.04	-	20.6.06

*proposal on appropriation of retained earnings

CORPORATE GOVERNANCE REPORT

High-quality corporate governance which is reviewed and enhanced on an ongoing basis forms part of the corporate philosophy of Beate Uhse AG. The company identifies with the aims of German and international initiatives in this field. Wherever possible, Beate Uhse complies with the standards of the international capital markets – this applies in particular to the German Corporate Governance Code. However, in its efforts to implement these standards, the company also takes account of its specific circumstances, such as its size and the appropriate commitment of resources.

During the 2005 financial year, Beate Uhse AG succeeded in complying with further requirements of the German Corporate Governance Code (Point 5.3). Moreover, the company took account of all recommendations newly included or amended in the German Corporate Governance Code (DCGK) in its version dated 2 June 2005 and will continue to comply with these in future. There were and continue to be deviations in three points. Point 7.1.1 of the German Corporate Governance Code occupies an exceptional position in this respect, given that Beate Uhse did not yet comply with the recommendation to apply international accounting standards in its consolidated financial statements in the past. However, the company already started the financial year as of 1 January 2005 with an opening balance sheet compiled in accordance with IFRS, is reporting the 2005 financial year using international accounting standards for the first time and will extend this approach to its reporting within the financial year starting with its first quarterly report in 2006.

A comparison of the Statement of Compliance dated 17 December 2004 with the corporate governance points actually implemented in the 2005 financial year reveals a negative variance (7.1.2 Deadlines for the Compilation of the Consolidated Financial Statements), which is outlined in greater detail in Point 5.6. Details have been provided below as to the most significant changes, events and facts concerning corporate governance in 2005.

5.1 SHAREHOLDERS AND ANNUAL GENERAL MEETING

The internet presence acts as the central information platform for shareholders for information concerning the company, its share and in particular the Annual General Meeting. Shareholders were once again able to view and download all documents and forms relating to the 2005 Annual General Meeting from the company's website. Two countermotions were received in the run-up to the Annual General Meeting. These were published without delay on the internet. For reasons of the costs and benefits involved, Beate Uhse has continued to refrain from transmitting the Annual General Meeting on the internet in its entirety and has limited such transmission to the presentation of the Spokesman for the Management Board, Otto Christian Lindemann, and to the voting results. The voluntary recommendation set out in Point 2.3.4 of the German Corporate Governance Code has therefore not been complied with in full.

The Annual General Meeting held on 20 June 2005 was attended by around 600 shareholders and numerous guests, bank and press representatives. Around 83.3 percent of the company's share capital was represented. The eight items on the agenda which were put to the vote were in each case approved by around 99 percent of the votes cast. These included amendments to the Articles of Association in connection with the law to strengthen corporate integrity and to modernise the right to challenge contracts (UMAG). These related in particular to the convening of the Annual General Meeting, changes in registration requirements and participation rights, amendments to the rules governing the chairmanship of the Annual General Meeting and thus to corresponding amendments to the Articles of Association. All of the resolutions thereby adopted were expressly subject to the UMAG Act being adopted in its new version. Upon the entry into force of the Act on 1 November 2005, the Management Board registered the amendments to the Articles of Association in the company's entry in the Commercial Register.

5.2 COOPERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

In addition to the total of 4 meetings of the Supervisory Board in 2005, the Chairmen of the Management Board and the Supervisory Board communicated very directly, exchanging information in telephone calls and personal meetings. All meetings of the Supervisory Board were attended by the Management Board. When necessary, the Supervisory Board withdrew to discuss issues in the absence of the Management Board. The meetings have been and continue to be prepared both jointly and separately by the respective shareholder and employee representatives of the Supervisory Board. Beate Uhse is in compliance with the recommendations contained in Point 3.6 of the German Corporate Governance Code. The same applies to the recommendation contained in Point 3.10. Beate Uhse examines and comments on all recommendations of the Code which are relevant to the company.

Nine transactions requiring the consent of the Supervisory Board were presented for approval in the 2005 financial year. Eight of these were approved. The Supervisory Board was at all times promptly informed by the Management Board, particularly in respect of any budget variances and of the risk situation of the company. During the financial year, the manager responsible for risk management reported directly to the Management Board, the Supervisory Board and the Audit Committee.

In its 2003 Annual Report, Beate Uhse first provided a separate report on the status and development of corporate governance. The company will also continue to provide such reports in the future. Statements of Compliance which are no longer up-to-date have been and will continue to be made available at the Beate Uhse internet site for a period of at least five years.

5.3 THE MANAGEMENT BOARD

The Management Board remuneration system remained unchanged in the 2005 financial year. The principal features of this system have been presented both on the internet site and on Page 129 of the notes to the consolidated financial statements.

There were no changes in the Code of Procedure of the Management Board in 2005. No conflicts of interest arose. No member of the Management Board held any positions in supervisory boards or comparable bodies.

5.4 THE SUPERVISORY BOARD

Richard Orthmann and Detlef Bindert retired from their positions on the Supervisory Board in the 2005 financial year. Ulrich Rotermund was elected as the new Chairman of the Supervisory Board. He is also responsible for the external representation of matters relating to the Supervisory Board. Michael Papenfuß and Martin Weigel were appointed as new members of the Supervisory Board. These two individuals have both been appointed by the Flensburg District Court to be members of the board and will stand for election by the shareholders at the 2006 Annual General Meeting. Michael Papenfuß was appointed as Deputy Chairman of the Supervisory Board.

In addition to the Audit Committee, the Supervisory Board established two further specialist committees during the financial year, namely the Investment Committee and the Personnel Committee. Corresponding issues are referred to these committees and decided as appropriate. In individual cases, the committees prepare the meetings of the Supervisory Board.

Based on its own assessment, the Supervisory Board includes an adequate number of autonomous members. Two of its six members are employee representatives. The Chairman, Ulrich Rotermund, at the same time holds a major indirect shareholding and is a former member of the management. Nicolaas Bootsma is a shareholder of Crop registeraccountants, a tax consultancy and auditing firm in the Netherlands which also executes assignments for the Beate Uhse Group. Further details as to the commensurate nature of the payments made can be found on Page 126 to129 of the notes to the consolidated financial statements. The other members, Michael Papenfuß and Martin Weigel, have no business or personal relationships with the company or its Management Board. Beate Uhse AG complies with all of the new recommendations contained in Points 5.4.3 and 5.4.4 of the German Corporate Governance Code and will continue to do so in future.

The remuneration of the Supervisory Board was restructured in 2005. In addition to the reimbursement of expenses, each member of the Supervisory Board receives a fixed annual remuneration of Euro 7,500 which is payable following the expiry of the respective financial year. The members of the Supervisory Board also receive variable remuneration in the form of a dividend-based payment amounting to Euro 1,000 for each cent by which the dividend exceeds 7 cents. The Chairman receives 1.5 times and his deputy 1.25 times the total remuneration of an ordinary member. Members of the Supervisory Board who are also members of the specialist committees receive additional fixed remuneration of Euro 7,500, with the Chairman of the respective committee receiving Euro 11,250. No such additional remuneration was paid yet for the Personnel and Investment Committees in 2005.

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD 2005*

EUR Name	Fixed Remuneration	Additional Remuneration due to Committee Membership and/or Chairmanship	Variable Remuneration
Ulrich Rotermund (Chairman)	10,781.28		-
Michael Papenfuß (Deputy)	4,687.50	3,750.00	-
Martin Weigel	3,750.00	3,750.00	-
Nicolaas Bootsma	7,500.00	7,500.00	-
Monika Wilk	7,500.00		-
Carlo Floridi	7,500.00		-
Detlef Bindert (until 31.3.2005)	1,875.00	2,812.50	-
Richard Orthmann (until 19.4.2005)	3,750.00	2,500.00	-

• (Note: the remuneration is calculated on a prorated basis in accordance with the length of membership of the respective bodies)

The Supervisory Board undertakes an annual review of the effectiveness of its activities on the basis of self-assessment. This was also the case in 2005. The Code of Procedure for the Supervisory Board was adjusted in 2005 to account for the relevant points set out in the new requirements of the German Corporate Governance Code in its version dated 2 June 2005.

5.5 TRANSPARENCY

The Management Board publishes insider information relating to the company without delay and in accordance with legal requirements. Two ad-hoc announcements were published and distributed via news systems during the year under report. All notifications received by the company in respect of the exceeding or falling short of the voting right thresholds of five, ten, 25, 50 and 75 percent were published promptly in a stock market publication and forwarded to the Federal Financial Supervisory Authority.

The following Directors' Dealings were reported in the 2005 financial year:

DIRECTORS DEALINGS

Name	Body	Date	Shares	Price (Euro)	Trade
Gerard P. Cok	Management Board	1. 2. 2005	150,000	1,501,500.00	Sale
Gerard P. Cok	Management Board	2. 2. 2005	25,300	251,325.70	Sale
Jürgen Schulz	Other Management	31. 5. 2005	450	3,483.00	Sale
Dörte Tischer	Other Management	28. 6. 2005	2,300	16,683.00	Sale

OWNERSHIP OF SHARES AND OPTIONS

Body	Shares	Options
Management Board	149.478	32.000
Supervisory Board	9.755.923	-

5.6 ACCOUNTING

It was not possible to publish the 2004 annual financial statements within the 90 day deadline as had been planned and announced in the 2004 Statement of Compliance. This was due to the cancellation on 11 March 2005 of the sale of the shareholding in erotic media ag. This circumstance necessitated a renewed audit of individual aspects of the 2004 annual financial statements, thus delaying their publication.

The Beate Uhse Group previously based its financial reporting on the accounting principles set out in the German Commercial Code (HGB) and on the recommendations of the German Accounting Standards Committee (DRSC). Starting with the 2005 annual financial statements and the report on the 1st quarter of 2006, the Beate Uhse Group will make application of international accounting standards. Beate Uhse will thus comply with Point 7.1.1 in future.

If necessary, the company will forward its consolidated financial statements to the Financial Reporting Enforcement Authority (DPR) and to the Federal Financial Supervisory Authority for further auditing.

5.7 AUDITING

The Supervisory Board obtained a declaration from the auditor in 2005 as well in respect of its personal and business relationships to the company prior to presenting its proposed candidate to the Annual General Meeting. This declaration did not give rise to any objections.

STOCK OPTION PROGRAMME OF BEATE UHSE AG

Term of stock option plan:	5 years
Parties entitled to subscribe:	Members of the Management Board, members of the management of affiliated companies, employees of Beate Uhse AG and of affiliated companies
Allocation:	For the Management Board by the Supervisory Board (annual tranche, volume); for the management and employees by the Management Board (annual tranche, volume)
Waiting period:	2 years from the date of issue
Exercise window:	In the 5 years following the expiry of the waiting period within a deadline of 4 weeks following publication of the half-year report and of the annual financial statements
Issue amount (performance target):	Closing price on the Frankfurt Stock Exchange plus a premium of 10 %

5.8 STATEMENT OF COMPLIANCE PURSUANT TO SEC. 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Supervisory Board and the Management Board of Beate Uhse AG support the aim of the German Corporate Governance Code (version dated 2 June 2005) with regard to the promotion of responsible, trustworthy corporate management based on the interests of the company's shareholders, employees and customers. The corporate policy of the Beate Uhse Group aims to increase the value of the company on an ongoing basis.

Beate Uhse AG supports the recommendations made by the German Corporate Governance Code government commission. Since our most recent Statement of Compliance dated 16 December 2004, the company has fulfilled further recommendations of the Code. It continues to deviate from the recommendations in some points. Details of these points and the related explanations have been listed below.

Flensburg, 21 December 2005

On behalf of the Supervisory Board Ulrich Rotermund (Chairman of the Supervisory Board)	On behalf of the Management Board Otto Christian Lindemann (Spokesman for the Management Board)

I. The following points relate to further recommendations fulfilled by the company since the submission of the Statement of Compliance dated 16 December 2004 and the updates contained in the version of the Code dated 2 June 2005 (compared with the version dated 21 May 2003):

3.10 – Corporate Governance Report: Beate Uhse AG will comply with the recommendation newly included in the Code that statements of compliance which are no longer up-to-date be made accessible on the internet site. All previous statements of compliance are already available at www.beate-uhse.ag.

5.3 – Establishment of Committees: In the past, the Supervisory Board of Beate Uhse AG had no further committees apart from the Audit Committee. With effect from 27 September 2005, the Supervisory Board established two further specialist committees, namely the Investment Committee and the Personnel Committee.
The Investment Committee inspects proposals submitted by the Management Board in respect of investment decisions until such are decided on by the Supervisory Board. The Personnel Committee prepares personnel-related matters and decisions on the Management Board level for decision by the Supervisory Board.

5.3.2 – Audit Committee: Beate Uhse AG has complied with and continues to comply with the recommendation newly included in the Code that the chairman of the audit committee should have specialist knowledge and experience in the application of accounting principles and internal controlling procedures. The members of the committee are Michael Papenfuß, Divisional Director of Bayerische Hypo- und Vereinsbank AG Hamburg, Nicolaas Bootsma, auditor at Crop registeraccounts and Martin Weigel, CEO of Glücksburger Management Consulting GmbH.

5.4.2 – Autonomy of the Supervisory Board: Beate Uhse AG has complied with and continues to comply with the recommendation newly included in the Code that the supervisory board should include the number of autonomous members which it considers to be adequate.

5.4.3 – Elections to the Supervisory Board: Beate Uhse AG complies with the three recommendations newly included in the Code: (1.) to hold elections to the supervisory board as individual elections, (2.) to restrict applications for the appointment of supervisory board members by court decision to a period ending at the following annual general meeting, and (3.) to inform shareholders of the candidates proposed for election to the chairmanship of the supervisory board.

5.4.4 – Switch from the Management Board to the Supervisory Board: Beate Uhse AG has complied with and continues to comply with the two recommendations newly included in the Code: (1.) that it should generally not be the case that a chairman or member of the management board switches to the chairmanship of the supervisory board or to the chairmanship of a supervisory board committee, and (2.) that any such intention should be substantiated in detail to the annual general meeting.

5.4.7 – Remuneration of the Supervisory Board: Beate Uhse AG will fulfil the recommendation newly included in the Code that the remuneration of members of the supervisory board be reported in the corporate governance report on an individual basis and broken down into its respective components in its 2005 annual financial statements. These disclosures were previously included in the notes to the consolidated financial statements.

6.6 – Acquisition or Sale, as well as Ownership of Shares in the Company: Beate Uhse AG will comply with the recommendation newly included in the Code that all disclosures relating to Point 6.6 of the updated version of the Code now be included in the corporate governance report. These disclosures were previously included in the notes to the consolidated financial statements.

7.1.3 – Stock Option Programmes: Beate Uhse AG will comply with the recommendation newly included in the Code that specific details of stock option programmes and similar share-based incentive systems at the company be included in the corporate governance report. Such disclosures were previously included in the consolidated financial statements.

5.8

II. The following points relate to recommendations contained in the Code which were not and have not yet been implemented:

4.2.3 – Components of Management Board Remuneration: The extension of the contract of one member of the Management Board in 2003 was taken as an opportunity in line with the Code to agree variable components in addition to fixed remuneration. The variable remuneration is linked to the financial success of the company and only comes into effect if the budgeted level of pre-tax earnings is exceeded. In this event, the additional remuneration shall amount to two percent of the excess sum. In addition, share options with a nominal value of Euro 1.00 were made available to the Management Board from the company's Stock Option Programme.
No further adjustments have been made. The development of a complex system of management board remuneration is not considered appropriate at present in view of the fact that the Management Board of Beate Uhse AG consists of only two members.

7.1.1 – Consolidated Financial Statements: Beate Uhse AG last published annual reports compiled in line with the German Commercial Code (HGB) in German and English up to September 2005. The 2005 annual financial statements will be compiled in accordance with IFRS international accounting standards for the first time. The first publication of an interim report in accordance with IFRS is scheduled to take place with the 3-month report for 2006.

7.1.2 – Deadlines for the Compilation of Consolidated Financial Statements:
The annual financial statements of Beate Uhse AG for the 2004 financial year were published on 22 April 2005 and thus did not comply with the requirements of the German Corporate Governance Code (90 days following the conclusion of the period). Beate Uhse AG is introducing standardised consolidation software across the Group upon its conversion to IFRS. This conversion will enable the 2005 annual financial statements to be published following the 90 day deadline but within the 120 day deadline required by the Prime Standard stock market segment.

Further information on corporate governance at the Beate Uhse Group can be found at:
http://www.beateuhse.ag/ir/corporate_gov/corporategovernance.html

SUPERVISORY BOARD REPORT

DEAR LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

The 2005 financial year was a success for the Beate Uhse Group. Almost exclusively as a result of internal growth, the Group achieved the best results in terms of both sales and earnings in the company's history. This is all the more pleasing for us given that the primary focus in 2005 was on the strategic realignment of the company with the aim of creating an even better basis for future profitable growth. We made a great deal of progress in 2005 along the way to becoming an optimally structured, globally active company. The central warehouse in Almere, Netherlands, was optimised in terms of its processes and now acts as a merchandising hub, efficiently and rapidly supplying our own shops and erotica providers around the world. The number of projects spanning various profit centres more than doubled, with far greater use being made of the manifold cross-selling opportunities. These joint activities, which also involved the international business, will further strengthen the Beate Uhse brand in future.

The Management Board thus succeeded in adopting an innovative and forward-looking course for the company in 2005. One further major step involved the acquisition in the fourth quarter of an indirect shareholding in the Blue Movie telemedia service provider, which is specialised in hardcore erotica. In our opinion, the entertainment division of the Beate Uhse Group has therefore succeeded not only in significantly expanding its product portfolio – its participation in the marketing of hardcore erotica on television will also provide new momentum.

The Supervisory Board closely followed and examined these developments in its advisory capacity. We also addressed in detail the other major topics in the year under report, such as the completion of individual restructuring measures, the optimisation of the new logistics centre in Almere, the company's international expansion and its general situation. We performed the duties required of us by law, the company's Articles of Association, our own Code of Procedure and the Corporate Governance Code. We advised the Management Board and satisfied ourselves on an ongoing basis that the company was properly managed. The most important sources of information in this respect were written monthly reports, regular telephone calls between the Management Board and the Supervisory Board and direct exchanges within the framework of our joint meetings. The Supervisory Board was provided with written minutes of Management Board meetings.

6.1 FOCUS OF THE WORK OF THE SUPERVISORY BOARD

The Supervisory Board met on four occasions during the year under report. These meetings took place on 6 April, 19 June, 27 September and 7 December 2005. All members of the Supervisory Board attended the first three meetings. Only at the December meeting was one member of the Supervisory Board not able to attend on account of other professional commitments. Where necessary, the meetings were partly held in the absence of the members of the Management Board.

The Supervisory Board focused regularly on the business strategy for the overall company, the entertainment division and the company's international expansion. We paid particular attention to the company's earnings performance and its liquidity planning. The Management Board provided us with regular budget-actual comparisons for the 2005 financial budget.

Major individual topics in the 2005 financial year included:
- The non-implementation of the sale of the shareholding in erotic media ag
- The completion of restructuring measures at Almere
- The further enhancement of corporate governance and the compilation of the Statement of Compliance (Page 40/41)
- The consequences of amendments to the legislative framework (e.g. protection of minors)
- The strategy for tapping Eastern European markets
- The alignment of the brand strategy within the Group

The main topics at the meeting held on 7 December were the 2006 budget and the more far-reaching outlook up to 2008. A total of nine transactions requiring approval were presented to the Supervisory Board in the past financial year. Of these, seven were approved. In one case, the Management Board was requested to present further options. Following further examination, the application was approved. The Supervisory Board did not identify any grounds for possible indemnification claims on the part of the company against members of the Management Board in 2005. The Supervisory Board primarily based its monitoring duties on written reports and on the inspection and examination of the company's accounts. The criteria governing transactions requiring approval are set out in the Code of Procedure for the Management Board. Specific individual cases may be examined as necessary by reference to suitable legal or auditing experts. Depending on the individual case in question, such cases may also be referred to the Committee responsible for this area.

6.2 COMMITTEE WORK

In addition to the existing Audit Committee, the Supervisory Board of Beate Uhse AG also established an Investment Committee and a Personnel Committee during the year under report.

The Audit Committee met on one occasion during the year under report. It focused on the enhancement of risk management and the conversion of the company's accounting to IFRS, as well as accompanying the audit of the annual financial statements and consolidated financial statements. It also determined the focal points of the audit and agreed the level of remuneration.

The Personnel Committee and the Investment Committee were both established within the framework of the meetings held on 27 September 2005. Following their establishment, both bodies discussed and reviewed topics of current relevance in the remaining weeks of the 2005 financial year.

6.3 AUDIT OF THE ANNUAL FINANCIAL STATEMENTS OF BEATE UHSE AG AND OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2005 FINANCIAL YEAR

The separate financial statements of Beate Uhse AG for the 2005 financial year have been compiled in accordance with the German Commercial Code (HGB). The 2005 consolidated financial statements have been compiled in accordance with IFRS accounting standards for the first time. The combined management and group management report takes account of the provisions set out in German Accounting Standard 15 (DRS 15). Ernst & Young AG Wirtschaftsprüfungsgesellschaft were appointed to audit the annual financial statements. We obtained a statement from the auditors outlining the extent to which they are involved in any further business or financial relationships with the Beate Uhse Group. This statement, which included information as to further auditing mandates at major subsidiaries, provided no cause for objection. Ernst & Young provided the Chairman of the Audit Committee with ongoing reports as to the status of the audit. Upon the conclusion of its audit of Beate Uhse AG and of the Group, Ernst & Young granted unqualified audit opinions to the respective financial statements for the 2005 financial year.

All members of the Supervisory Board were provided with the annual financial statements of Beate Uhse AG and the consolidated financial statements, as well as the audit report, in good time for the meeting held to approve the financial statements on 4 April 2006. The financial statements were discussed in detail at this meeting. The auditor attended the meeting, reported on the principal findings of the audit and was available to answer questions. We acknowledged and agreed with the results of the audit undertaken by Ernst & Young. Our own detailed audit of the annual financial statements, the consolidated financial statements and the management reports did not give rise to any objections. The Supervisory Board approved the annual and consolidated financial statements compiled by the Management Board. The annual financial statements of Beate Uhse AG and of the Group are thus adopted.

We endorse the proposal made by the Management Board that the earnings of Beate Uhse AG amounting to Euro 14.7 million be used to distribute a dividend in a total amount of Euro 6.6 million, or Euro 0.14 per share, with the remaining sum being retained at the company. The proposed appropriation of earnings will be presented for approval by the Annual General Meeting on 19 June 2006.

6.4 CORPORATE GOVERNANCE

Beate Uhse AG is committed to good corporate governance. The Supervisory Board has accordingly reviewed its activities on the basis of an annual self-assessment. There were no conflicts of interest on the part of individual members of the board with the exception of some of a temporary nature which were made suitably transparent. A list of all positions held by members of the Supervisory Board over and above their duties at Beate Uhse can be found on Page 129/130 of this Annual Report. Further information concerning corporate governance, directors' dealings and the autonomy of the members can be found in the Corporate Governance Report on Page 38 and 126 until 129. The remuneration of the members of the Board is also reported on an individual basis in this section.

6.5 COMPOSITION OF THE SUPERVISORY BOARD

Following many years of activity on the Supervisory Board, Richard Orthmann and Detlef Bindert retired from their positions for personal reasons in the 2005 financial year. Michael Papenfuß and Martin Weigel were appointed as new members of the Board. These individuals were both appointed as members of the Supervisory Board by resolution of the Flensburg District Court and will stand for election by the shareholders at the 2006 Annual General Meeting. Ulrich Rotermund was elected as the new Chairman of the Supervisory Board.

6.6 NOTE ON THE DEPENDENT COMPANY REPORT

The Management Board compiled a dependent company report for the year under report pursuant to Sec. 312 (3) of the German Stock Corporation Act (AktG). This report was audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft and was granted an unqualified audit opinion. The dependent company report was forwarded to the Supervisory Board, which subjected it and the legal transactions and measures outlined therein to an independent audit pursuant to Sec. 314 (2) of the German Stock Corporation Act (AktG). This audit did not give rise to any objections.

Beate Uhse AG, Flensburg, has compiled a report on its relationships with associated companies pursuant to Sec. 312 of the German Stock Corporation Act (AktG). This report concludes with the following declaration: “The Management Board hereby declares that in the legal transactions listed in the report in respect of affiliated companies, Beate Uhse AG, Flensburg, received commensurate compensation in line with the circumstances known upon such legal transactions being undertaken. No measures requiring report were undertaken during the financial year from 1 January to 31 December 2005.”

6.7 THANKS TO THE EMPLOYEES

We should like to extend our thanks to the company’s employees and to its Management Board for the work performed and commitment shown during the 2005 financial year. They enabled Beate Uhse to achieve the best sales and earnings in the company’s history in 2005.

Hamburg, 4 April 2006

Ulrich Rotermund
Chairman of the Supervisory Board

MANAGEMENT REPORT OF THE BEATE UHSE GROUP

7.1 BUSINESS BACKGROUND AND STRUCTURE

Beate Uhse Aktiengesellschaft has been publicly listed since 1999. It is the parent company (Commercial Register Entry No. 3737, Flensburg District Court) of the Beate Uhse Group. The Group comprises 69 companies. Its most important locations are at its place of foundation in Flensburg, as well as in Almere and Walsoorden in the Netherlands. The Group is organised in the form of a holding structure. Activities relating to the whole Group (legal department, group accounting and controlling, corporate communications etc.) are performed by the parent company. On an operating level, the Group is represented by four segments in the international erotica market. The retail and mail order activities of the Beate Uhse Group are undertaken exclusively via B2C channels, while its wholesale and entertainment (telephony, internet, mobile services, TV, telemedia service) activities involve both B2B and B2C channels.

Beate Uhse is currently represented in 13 European countries. There was no change in the number of country markets in 2005. Initial mail order activities in the USA were discontinued in 2005. In return, the Beate Uhse Group boosted its activities in Eastern Europe. Its main sales markets are Germany (41.3 percent) and the Netherlands (16.8 percent). The expansion of international activities in recent years has increasingly displaced the weight of the strongest market in terms of sales, Germany, to other European countries (EU 25). Within Europe, Beate Uhse is the market leader in the trading of erotica products via stores and mail order. In the wholesale division, the Group is the global market leader, with exports to more than 60 countries around the world. Since 2003, Beate Uhse has been the world's largest erotica company in terms of sales. We succeeded in further expanding this position in 2005.

Via its various distribution channels, Beate Uhse sells erotica products relating to the product groups of DVDs, lingerie and evening dress, toys, wellness and body care, preparations, condoms, books and magazines. The Group has more than 20,000 products on sale to its customers. In the entertainment division, the Beate Uhse Group acts as a service provider for internet portal and mobile phone network operators and serves B2B customers in setting up and maintaining erotica websites. In the fields of telephony, mobile services, TV, telemedia services and also on the internet, Beate Uhse provides end consumers with technically sophisticated erotica films, clips, chats and proprietary TV formats. The TV and telemedia activities are undertaken by erotic media ag, in which the Group holds a 31.7 percent shareholding.

The Beate Uhse Group is managed on the basis of detailed budget planning in conjunction with monthly, segment-based reporting. Sales, earnings contributions, costs and results are stated as monthly, cumulative and annual figures. The previous year's figures, budget figures and latest actual figures are provided as a basis for comparison. In addition to the figures stated in absolute terms, key figures are also provided depicting the company's gross margin, cost effectiveness and earnings power.

A rolling forecast is compiled every three months in order to identify possible changes in the market, changes in business policies or negative trends at an early stage. This serves to identify any possible budget variances at an early stage and forms the basis for identifying any actions required. The monthly group reporting is supplemented by quarterly key figures compiled on the basis of the consolidated balance sheet and income statement. Moreover, the management of the profit centres is further supported by numerous operating key figures and analyses. The mail order, entertainment, retail and wholesale divisions all make use of the key figures which best portray their respective business models. To further improve the exchange of management-relevant information within the Group, as well as further harmonising internal and external reporting structures, the Beate Uhse Group will be deploying a new group-wide management information system (MIS) in the form of Hyperion from 2006 onwards.

The consolidated financial statements of Beate Uhse AG have been compiled in accordance with International Financial Reporting Standards (IFRS) for the first time. The depiction of the income statement has been converted from the total cost method to the cost of sales method. To safeguard comparability with the previous year's financial statements, which were compiled on the basis of the German Commercial Code (HGB), additional information has been provided from Page 132/133 onwards in the notes to the consolidated financial statements.

As an erotica company, Beate Uhse AG is subject to strict legislative restrictions. The most important such restrictions are the protection of minors, environmental and consumer protection and the regulations governing the mailing of pornographic products. Such legislation has a major impact on the development of the Beate Uhse Group and of the erotica sector as a whole. Beate Uhse is a European company and as such complies with European directives, as well as with the relevant national legislation in its respective markets. The legislative amendments introduced in 2005 related in particular to environmental and consumer protection (e.g. Electronics Act, dialler programme requirements issued by the Federal Networks Agency).

7.1

Employees

The Beate Uhse Group had 1,523 employees at the end of 2005. This represents an increase of 3.1 percent on the previous year. Beate Uhse has employees in a total of 13 countries and 69 group companies. The retail division remains the largest employer within the Group. The increase of 46 employees in 2005 was almost exclusively attributable to new store openings, rather than to any external influences such as takeovers. There was also a slight increase in the number of employees in the mail order division in the past year in order to account for the rising number of orders. As a result of the conversion and start-up processes at the new central warehouse in Almere, the number of employees in the wholesale division was also marginally higher than in the previous year. There was a slight reduction in the number of employees in the entertainment division.

The personnel expenses of the Beate Uhse Group declined from EUR 50.6 million to EUR 50.1 million. The personnel expenses ratio, which depicts personnel expenses as a percentage of sales, remained virtually unchanged at 17.4 percent (2004: 18.2 percent). Personnel expenses per employee amounted to EUR 32.9k in 2005, compared with EUR 34.3k in the previous year.

The share option programme initially launched in 2002 represents an additional instrument for retaining and motivating employees. A total of 192,879 options were made available in 2005.

In 2005, Beate Uhse continued to train young people in four different vocations. The Group also offered work experience and trainee positions to students and career starters in 2005. A practice-based business administration course was offered in cooperation with Nord-Akademie Elmshorn. The high training standards are also aimed at developing qualified group employees for more responsibility in order to fill management positions with internal personnel.

EMPLOYEES AT THE BEATE UHSE GROUP

BY REGION	2004	2005
Germany	748	751
Netherlands	509	541
Belgium	34	31
France	44	64
United Kingdom	26	22
Austria	18	24
Scandinavia	42	41
Other European Countries	38	49
USA	18	0
	1,477	**1,523**

BY PROFIT CENTRE	2004	2005
Retail	852	882
Mail Order	283	288
Wholesale	218	230
Entertainment	82	79
Holding Services	42	44
	1,477	**1,523**

Distribution Channels

Beate Uhse shops in ever more EU countries

The international store network of the Beate Uhse retail division covers eleven countries. Our customers can shop in 230 Beate Uhse stores, 32 Christine le Duc, four Mae B., seven Dr. Müller stores and 46 shops with location-specific names. The overall store network comprises 319 stores. The diversification of brands enables us to address various customer groups in the respective regions and countries. The aim is to further pool the brand structure of the retail division and to strengthen the most important brands.

The Beate Uhse brand is the generalist, the principal brand in the retail portfolio. Its product range is tailored to the needs of men, women and couples. The target group places particular trust in the respectability and competence of the brand. There are four shop concepts operating under the Beate Uhse label:

Beate Uhse stores	in 1A inner city locations and select shopping centres
Beate Uhse specialist stores	at large-scale commercial and industrial parks on the outskirts
Beate Uhse Fun-Centers	at heavily used traffic intersections. The Fun-Center concept is targeted at male customers and has a large-scale entertainment product range (video cabins, cinema landscapes etc.)
Highly frequented locations	at seven international airports in Germany.

The retail division is represented by 38 shops in Switzerland. Since the beginning of the nineties, these stores have been managed by a franchise partner. Upon the expiry of the franchise agreement in April 2007, Beate Uhse will open stores under its own management in Switzerland. The aim is to align the shops more closely to the modern Beate Uhse image and product range. By selling greater volumes of the Group's own products, we expect to generate higher profit margins in the medium term and to achieve a stronger advertising presence for the Group brand in Switzerland.

Since 2005, Beate Uhse has been represented by five stores in Slovenia via its Austrian franchise partner. Similar to the situation in German-speaking countries, these stores are located in first-class situations and shopping centres. The product range is focused on toys, multimedia products, preparations and lingerie. In Hungary, where the Group is also represented by a franchise partner, Beate Uhse opened its first store in August 2005.

Since the second half of 2005, the German stores have been supplied in full from the new logistics centre in Almere. Supplies for all stores within the Group have thus been successfully centralised at the new central warehouse.

BEATE UHSE SHOPS BY COUNTRY

OWN SHOPS

	2004	%	2005	%
Germany	66	40.2	71	43.0
Italy	6	3.7	5	3.0
Netherlands	66	40.2	65	39.4
Belgium	10	6.1	10	6.1
France	9	5.5	9	5.5
Norway	7	4.3	5	3.0
United Kingdom	–	–	–	–
	164	100.0	**165**	**100.0**

LICENCE & FRANCHISE

	2004	%	2005	%
Germany	53	38.1	55	38.2
Austria	39	28.1	41	28.5
Switzerland	43	30.9	38	26.4
Norway	4	2.9	4	2.8
Hungary	–	–	1	0.7
Slovenia	–	–	5	3.5
Italy	–	–	–	–
	139	100.0	**144**	**100.0**

INVESTMENTS

	2004	%	2005	%
Poland	7	100.0	10	100.0
Italy	–	–	–	–
	7	100.0	**10**	**100.0**

(Note: the Italian shops were incorporated into the Group in 2004)

Fit for the future: doubling mail order capacities

The sales of the Beate Uhse mail order division were generated in seven European countries. Since 2003, this profit centre has reported high rates of sales growth. To do justice to high demand levels in future as well, the mail order division began work on an extension of its logistics and office space in 2005. The modern fulfilment centre will commence operations in the second half of 2006. The investment in an IT logistics system amounted to around EUR 3.2 million in 2005. The commencement of operations at the fulfilment centre will double the Group's mail order capacity. It will then be possible to dispatch up to 42,000 packages to customers every day.

MAIL ORDER INFORMATION

million	2004	2005
Catalogues	16.0	17.1
Orders	2.7	3.0
Dispatched packages	3.2	3.5

In preparation for the multi-channel marketing activities planned to begin in 2006, the principal websites of the Beate Uhse mail order division were technically optimised and made even more customer-friendly in 2005. Customers are addressed in line with the respective target groups at www.beate-uhse.com, www.christineleduc.nl and www.pabo.nl and can order products from the comprehensive product range or view erotic entertainments at these sites.

The mail order business in the USA, which was launched in 2002, was terminated in November 2005. Sales had not developed according to plan. Beate Uhse invested a total of EUR 6.4 million in the US project. A loss of EUR 773k was accounted for in 2005.

ZBF and Scala are the top erotica wholesalers in Germany and the world

What the Beate Uhse brand is for end consumers – the epitome of sex and erotica – that is what the Scala brand name is for retailers in the erotica sector. Scala Agenturen BV has been the world's dominant wholesaler of erotica products for many years now. The Beate Uhse Group's wholesaler delivers its erotica packages to more than 60 countries around the world and provides its customers with a very broad and deep range of more than 20,000 products.

Alongside its traditional wholesale functions, the profit centre has also since 2005 assumed the role of the central merchandise hub within the Group. The relocation of the supply centre for German Beate Uhse stores in the second half of 2005, the inclusion of Christine le Duc logistics processes and the expansion of the supply of goods to the Swedish wholesaler Beate Uhse Max's AB by Scala Agenturen BV have marked the completion of the integration of the new logistics centre in Almere. The procurement and entire goods handling for the Group's wholesale and retail divisions is now undertaken from the Netherlands.

ZBF GmbH conducts the wholesale activities in the German market. This well-established company has formed part of the Group since 2000. Its success is based on a fixed customer base which cherishes the wholesaler's product focuses and its direct contact to the company in Wiesbaden. Given its wide variety of distribution channels, including field sales, telephone sales, inhouse exhibitions and direct sales at the Wiesbaden location, as well as its product variety and sales volume, ZBF GmbH is the largest erotica wholesale company in Germany.

Active in all technical channels

We are represented in all technical facets of the entertainment business. Its range of new media services includes added value telephone services, mobile services, the design and development of video-on-demand (VOD) solutions, camera platforms, image galleries and download portals, as well the provision of all kinds of erotica content for internal and external internet sites. Beate Uhse new media GmbH provides its customers will a full service, ranging from the design stage through technical implementation up to end customer payment services. As an internal service provider and in cooperation with external partners (internet portal operators, mobile phone network operators etc.), Beate Uhse new media GmbH supports its customers on the market. Erotic television and telemedia services are operated via the associated companies erotic media ag and Beate Uhse TV GmbH & Co. KG. Initial VOD and IPTV projects have been launched.

The development of the entertainment division in 2005 was characterised by two factors. On the one hand there was the cancellation of the planned sale of the shareholding in erotic media ag. In March 2005, the sale of 12 million shares in erotic media ag worth EUR 102 million was called off by the potential buyer, Almira S.A. Moreover, sales expectations were dampened by the ongoing unfavourable market situation in the traditional sale of erotic content via the internet. On the other hand, there was the decision to retain the shareholding held in the film rights trader erotic media ag within the Group and to expand the TV and telemedia activities. This provided a clear signal for a new departure in the direction in which the entertainment division is to be developed. By purchasing the only full erotica provider in Germany and Austria, the Blue Movie telemedia service, the plans for expanding and positioning the division were put into action. Blue Movie has two channels which provide erotica films on demand 24 hours a day for six euros per film. All that is needed for reception is a Premiere-compatible digital receiver, which customers can purchase via Beate Uhse shops, as well as at many other sales outlets. No Premiere subscription is required. At the time of the takeover in September 2005, the telemedia service had 170,000 customers. By the end of 2005, it had already been possible to increase the number of registered customers via sales in the Beate Uhse store network to 252,000. Upon the compilation of this management report, Blue Movie had around 312,000 registered customers.

Beate Uhse TV GmbH & Co. KG broadcasts its daily erotica programme on the Premiere platform between 8 p.m. and 5.45 a.m. In early 2005, the broadcaster was provided with a new image based on the design scheme of the Beate Uhse Group. In addition to the new on-air design produced using the future-proof HDTV standards, the broadcast and repeat schedule were also revised, with a large number of new formats being launched. The broadcaster has succeeded in significantly increasing its market share. By the end of the year, Beate Uhse TV had access to 2.2 million households with digital cable and satellite facilities.

As in previous years, the income on the shareholdings held in and interest accruing to erotic media AG and Beate Uhse TV GmbH & Co. KG were allocated to the holding division of Beate Uhse.

7.2 EARNINGS PERFORMANCE

Economy, Market & Sector

The robust development of the export sector in Germany, which constituted the main pillar of otherwise very subdued economic growth, did not have any positive impact on levels of private consumption in the past year. Sporadic indications of an improvement in the consumer climate turned out to be unsustainable. Private consumer expenditure stagnated in real terms compared with the previous year. The largest demand component by far in the gross domestic product figures therefore once again failed to provide any growth momentum. The dominant themes in consumers' minds were the fear of losing their jobs and the impact of the problem-ridden social welfare systems on their personal situations. These themes were also reflected in the increase in the savings rate in private households. At 10.6 percent of disposable income, this was as high as it had been ten years ago.

This overall development meant that Germany was in line with the general trend in European countries, while simultaneously bringing up the rear in the relevant rankings. Similarly weak developments were seen in economic developments, consumer spending and retail sales in the most important markets for Beate Uhse – Germany, the Netherlands, Belgium, France and Austria. Significantly more positive developments were reported in some countries whose markets Beate Uhse has entered only recently, e.g. in Poland. The following table provides an overview of economic growth in the markets currently most important to Beate Uhse and in the most important countries which could play a major role within the framework of the company's future expansion.

Retail sales also showed a very similar picture across Europe in 2005. The largest economies, and thus in most cases the most important countries for Beate Uhse in terms of sales, reported relatively moderate retail sales growth, with a decline in sales in Germany. Significantly more positive trends were observed in smaller European countries in particular – in some of which Beate Uhse has recently launched activities or is planning its market entry.

GDP (GROSS DOMESTIC PRODUCT) GROWTH
% change on equivalent quarter in previous year

Eurozone EU25	3rd Quarter 2005
Belgium	1.1
Germany	1.4
France	1.8
Italy	0.1
Netherlands	1.3
Austria	1.4
Poland	3.7
Sweden	2.8
United Kingdom	1.7
Hungary	4.4
Switzerland (EFTA)	2.2
Norway (EFTA)	3.7

Source: Eurostat
EFTA: European Free Trade Association

Against this background in terms of economic growth, consumer expenditure and retail sales, Beate Uhse AG believes that the erotica sector has fared slightly better than other consumer goods segments. This assessment is based on developments in individual national markets and on the company's contacts, especially in the wholesale business. The structure of the sector remained largely stable both within Europe and on a global level in 2005. No far-reaching changes, such as the takeover of Penthouse in 2004, were to be observed. On the basis of the information publicly available, Beate Uhse believes that it is the leading erotica company in terms of sales both within Europe and worldwide.

RETAIL SALES IN 2005

Established Beate Uhse markets	2005
Germany	-1.8
Netherlands	-*
Belgium	0.8
France	2.1
United Kingdom	4.7
Austria	-*
Switzerland	-*
Norway	-*
EU	1.6

Various future Beate Uhse market	2005
Poland	4.3
Slovakia	4.6
Spain	-
Czech Republic	-*

Source: Eurostat; *data not available upon compilation of management report.

Development of the Earnings Performance of the Group

Sales performance by product group

In line with requirements of IFRS 5, Beate Uhse has subdivided its business divisions into ongoing and discontinued divisions. The income statement in the 2005 Annual Report only depicts the ongoing business divisions. In view of its winding up in the autumn of 2005, the company earnings of the American mail order company Dutch finest Fantasies Inc. have been stated as a separate total amount in the income statement.

The ongoing business divisions of the Beate Uhse Group generated sales of EUR 284.8 million in 2005, equivalent to an increase of EUR 11.7 million, or 4.3. percent, on the previous year. This increase was wholly based on organic growth.

The positive performance was mainly attributable to a higher turnover of merchandise, which rose to EUR 242 million, an increase of EUR 24.6 million (11.3 percent) compared with 2004. As a result of one-off tax effects, the turnover of money game machines rose by EUR 1.4 million to EUR 4.2 million, given that such turnover was retrospectively no longer subject to VAT for the period from 1996 to 2005. Online sales, excluding e-commerce sales, showed a decline, falling by EUR 940k (-11.8 percent) to EUR 7 million. This was due to continuing difficulties with the legal framework, such as the statutory price announcements for telephone hotlines, the ongoing negative impact of the tightening up of the protection of minors and further restrictions on dialler software. Sales of added value telephone services at the Group improved by EUR 1.3 million (13.8 percent) to EUR 10.7 million. Given the high level of crowding out competition in this market, Beate Uhse intensified its advertising activities and thus achieved above-average sales growth.

Sales by segment

The Group's growth in 2005 was driven by the mail order division, which reported growth of EUR 13.2 million (11.8 percent) and total sales of EUR 125 million. The increase was also due to the expansion of marketing activities in all mail order countries. In France and Austria in particular, the mail order business generated high double-digit percentage growth rates. In spite of the difficult market climate, the entertainment segment generated sales of EUR 18.5 million, equivalent to an increase of almost EUR 1 million (5.8 percent). The stronger performance of the added value telephone services more than compensated for the decline in sales in the online division. With a decline of EUR 0.3 million (-0.3 percent), the sales of EUR 89.1 million reported by the retail

SALES BY PROFIT CENTRE 2004 / 2005

EUR million	2004	2005	Abw. %
Retail	89.4	89.1	-0.3
Mail Order	111.7	125.0	11.9
Wholesale	54.4	52.2	-4.1
Entertainment	17.5	18.5	5.8
Holding Services	0.0	0.0	0.0
	273.1	**284.8**	**4.3**

division were slightly lower than in the previous year. Growth in this segment was slowed down in 2005 by the closure of unprofitable stores, given that the opening of new stores at more attractive and promising locations was not able to fully compensate for the loss in sales in the first year. The closure of three stores in Norway alone led to a decline in sales of

SALES BY REGION 2004 / 2005

EUR million	2004	2005	Abw. %
Germany	120.5	117.6	-2.4
Netherlands	51.8	47.7	-7.7
Belgium	17.4	17.9	2.5
France	25.3	34.0	34.6
United Kingdom	14.8	12.4	-15.9
Austria	18.1	29.8	64.8
Switzerland	1.8	1.5	-18.1
Scandinavia	13.1	12.4	-5.6
Italy	-	0.9	-
Other European countries	9.3	9.8	5.4
Other regions	1.0	0.7	-24.4
	273.1	**284.8**	**4.3**

EUR 0.6 million. The wholesale business was not able to match the level of sales reported in the previous year. Its annual sales of EUR 52.2 million were EUR 2.2 million (-4.1 percent) down on 2004. This decline was due in particular to the start-up difficulties following the relocation of logistics to the new logistics centre in Almere and to restructuring measures in the Scandinavian wholesale business (EUR -1.3 million), in the course of which unprofitable divisions were closed down. All activities in the region have since been controlled by the management of Scala Agenturen BV. ZBF GmbH also reported a decline in sales (EUR -1.3 million), which was attributable to the fall in prices for DVDs and print products. This trend was exacerbated by the general economic situation in Germany, which obliged shoppers to adopt highly reserved purchasing behaviour.

7.2

7.2

Costs of sales

At EUR 109.1 million, costs of sales were EUR 1.8 million lower than in the previous year. Their share of overall sales reduced from 40.6 percent to 38.3 percent. This development was partly due to a lower level of goods and material employed, which fell from EUR 93.1 million to EUR 90.7 million in spite of the increase of EUR 11.7 million in the Group sales. This positive development was facilitated by the significant pressing ahead with the pooling of procurement functions within the Group in 2004. The initial successes relating to these measures include new sources of suppliers, mainly in the Far East, larger purchase volumes and thus lower procurement prices. The sharp rise in sales at the high-margin mail order business also had a markedly positive impact on the overall margin of the Group.

Other operating income

At EUR 14.6 million, other operating income was marginally (EUR 0.8 million) lower than in the previous year. This was attributable to a series of one-off items which had increased the figure for 2004 – the sale of securities (General Media Inc. Bond for EUR 1.2 million and Gallery Global Network for EUR 0.2 million), exchange rate differences relating to a loan in Swiss francs (EUR 0.6 million) and the sale of shares in Multimedia Mobile Content AS by Beate Uhse Scandinavia AB, Sweden (EUR 0.7 million). The absence of these items in 2005 was largely compensated for by the increase in revenues from interest on arrears and reminders (EUR 1.8 million) in the mail order business.

Sales-related expenses

Sales-related expenses rose as a percentage of sales to 50.1 percent. The equivalent figure for 2004 was 47.8 percent. The absolute increase of EUR 12.2 million to EUR 142.6 million was primarily attributable to sales promotion measures undertaken by the mail order business (EUR 66.1 million) in order to gain market share in the seven mail order countries. Moreover, there was an increase in expenses relating to write-downs of receivables during the reporting period as a result of the significantly higher volume of mail order sales. It is apparent that the structural change in the income statement now witnessed for several years was maintained in 2005 as well. The increase in mail order sales has resulted in a proportionate decline in costs of sales, while the share of sales-related expenses has risen considerably.

General administration expenses

Administration expenses fell by EUR 3.2 million (11.1 percent) to EUR 25.8 million during the year under report. This change was principally due to various one-off items in 2004, which were no longer incurred in 2005. These included a high level of advisory expenses for intended acquisitions (General Media Inc. / Penthouse and Condomi AG) and advisory expenses relating to the optimisation of the new IT system at the central wholesale warehouse.

Other operating expenses

The increase of EUR 0.4 million in other operating expenses to EUR 1.4 million was due to a loss incurred on the sale of the rights to the Scandinavian brands Lek and Cocktail. Beate Uhse sold the rights to the magazine brands in 2005.

Income from shareholdings

Income from shareholdings amounted to EUR 2.1 million in 2005, which is equivalent to an increase of EUR 1.3 million and thus to considerable growth compared with the previous year. The significant rise in earnings at erotic media ag, which is consolidated in the Group at equity, made a particularly marked contribution in this respect.

Consolidated earnings rose by 30 percent

At EUR 20.4 million, earnings before tax were EUR 4.8 million (30.6 percent), and thus markedly, higher than in the previous year. This pleasing increase is attributable to the Group sales growth and to the improvement in its cost structure. The tax rate of our Group amounted to 30.8 percent in 2005, compared with 49.1 percent in 2004. The high level of tax expenses in 2004 mainly related to losses incurred in the USA and Scandinavia which could not be deducted for tax purposes, to back-payments of tax for previous years and to the results of external tax audits. Moreover, in 2005 the Beate Uhse Group benefited from a high level of earnings in the Netherlands, which are taxed in line with the Dutch tax rate of 31.5 percent.

At the level of the individual profit centres, the retail, mail order and wholesale divisions made a particularly notable contribution to the positive earnings performance. Pre-tax earnings at the mail order division rose by 32.3 percent to EUR 12.9 million. The marked rise in earnings at the mail order business was due to the sales growth at the profit centre in 2005, as well as to the positive development in its margins and costs. These in turn were due in part to the centralisation of procurement activities within the Group. Pre-tax earnings at the wholesale division improved by EUR 1.5 million to EUR 3.3 million. The reasons for this development mainly related to the reorganisation of the Scandinavian market. The Swedish company Max's AB, for example, which had reported a loss in 2004, concluded 2005 with positive results. The close cooperation with Scala Agenturen BV has thus paid off. Max´s Aps, Denmark, also incurred a loss in the previous year and was closed at the end of 2004 in the context of the reorganisation. Scala Agenturen BV also contributed to the positive earnings performance, given that there was a significant decrease in the charge on earnings resulting from advisory activities provided in connection with the conversion of the logistics centre. At EUR 6.9 million (37 percent), the retail division also generated notable earnings growth. It is pleasing to note in this respect that the growth was achieved in spite of closure-related expenses for various outlets. Earnings at the retail division were positively affected by improved margins and the lower level of taxation on money game machines. At EUR 0.4 million, pre-tax earnings at the entertainment division were considerably lower than in the previous year. The problems in the market outlined above resulted in follow-on costs, such as those incurred on the development of new payment collection methods and other programming tasks. Moreover, earnings were negatively affected by the loss incurred on the sale of the Lek and Cocktail trademarks in the course of the restructuring of the Scandinavian business. At EUR 3 million, pre-tax earnings at the holding service division were at the same level as in the previous year (-0.3 percent).

EBT 2004 / 2005

EUR million	2004	2005	Change %
Retail	5.0	6.9	37.0
Mail Order	9.7	12.9	32.3
Wholesale	1.8	3.3	82.3
Entertainment	2.1	0.4	-82.8
Holding Services	-3.0	-3.0	-0.6
	15.6	**20.4**	**30.6**

EBIT 2004 / 2005

EUR million	2004	2005	Change %
Retail	6.3	8.0	27.3
Mail Order	9.8	13.0	32.6
Wholesale	2.2	4.2	92.3
Entertainment	2.1	0.3	-83.8
Holding Services	-2.4	-2.9	17.2
	17.9	**22.7**	**26.6**

EBITDA 2004 / 2005

EUR million	2004	2005	Change %
Retail	11.6	13.8	18.5
Mail Order	10.5	13.7	29.8
Wholesale	3.9	5.9	52.5
Entertainment	2.5	0.7	-72.3
Holding Services	-1.7	-2.0	22.9
	26.8	**32.0**	**19.2**

EARNING FIGURES

EUR million	2001	2002	2003	2004	2005
Sales	222.8	244.5	265.6	273.1	284.8
EBITDA	21.3	30.1	31.5	26.8	32.0
EBIT	10.6	20.3	21.5	17.9	22.7
EBT	8.7	17.2	19.3	15.6	20.4
Consolidated net income	2.2	9.5	9.9	8.7	**14.4**
Cash flow	12.8	21.4	20.3	8.6	24.3

7.3 FINANCIAL POSITION

Principles and Objectives of Financial Management

As the holding company, Beate Uhse AG is responsible for safeguarding the supply and management of liquidity within the Group. Its aim is to make optimal use of liquid funds and to draw on the financial opportunities available on the money and capital markets in line with its requirements.

In general, Beate Uhse AG acts as the sole borrower for the Group on the money and capital markets. For this purpose, it maintains business relationships, in some cases longstanding, with various banks.

Capital Structure

As of 31 December 2005, liabilities to banks and relating to borrowers' note loans were structured as follows:

EUR 000s	31.12.2004	31.12.2005
Liabilities to banks	50,605	39,240
of which overdraft facilities	38,003	26,753
of which bank loans	12,602	12,487
Borrowers' note loans	19,071	17,643
Total liabilities to banks and from borrowers' note loans	69,676	**56,883**

Of the total liabilities to banks and from borrowers' note loans the following are:

EUR 000s	31.12.2004	%	31.12.2005	%
Loans with fixed terms, including borrowers' note loans	31,673	45.5	30,130	53.0
Loans with floating interest rates/overnight loans	38,003	54.5	26,753	47.0
Loans with fixed interest rate agreements	24,771	35.6	17,643	31.0
of which floating due to a receiver swap	8,571	-	-	-
Loans with floating interest rate agreements	44,905	64.4	39,240	69.0
of which secured by interest swaps	5,000	-	24,259	-

We succeeded in further optimising the liquidity of our Group in 2005 (reduction in short-term bank liabilities). The cash pooling established for this purpose provides further potential for optimising cash flows, which we intend to exploit in future. At EUR 6.8 million, the liquidity of the Group as of the 2005 balance sheet reporting date was lower than in the previous year (EUR 9 million). In order to finance the investments made in 2004 and 2005, which were financed with short-term financing, on a long-term basis, and thus to further improve the structure of the balance sheet, a 7-year amortisable loan of EUR 10 million was concluded in April 2005. Beate Uhse makes use of derivative financial instruments in order to cover risks resulting from changes in interest and exchange rates.

In view of the expected rise in interest rates, Beate Uhse AG concluded interest swaps (payer swaps) in April 2005. The share of loans with fixed interest rate agreements therefore rose by EUR 24.3 million to EUR 41.9 million as of the balance sheet reporting date. This is equivalent to 73.7% of total loan liabilities. The interest swaps have terms running until April 2010 (EUR 10 million), March 2012 (EUR 9.3 million) and April 2012 (EUR 5 million).

Beate Uhse had working capital credit lines amounting to EUR 50 million as of the balance sheet reporting date (previous year: EUR 45 million) of which EUR 25 million had been utilised (previous year: EUR 37.9 million). In 2005, one lender (EUR 5 million) was substituted for a new lender (EUR 10 million). Financial covenants have been agreed between Beate Uhse and the lending banks in almost all cases in order to secure the loans. Supplementary information concerning the financial position of the Beate Uhse Group can be found on Page110 until 116 of the notes to the consolidated financial statements.

The logistics centre in Almere (building and logistics systems) has been rented at customary market prices and terms. In line with their classification as operating leases, the building and its logistics systems have not been stated in the accounts.

Investments

To do justice to rising customer numbers, the Pabo BV mail order subsidiary acquired a new logistics system (hardware and software) at the beginning of 2005, which will be installed into a new set of buildings to be built for this purpose in 2006. Work has begun on the construction of the new building in 2005. The existing and new buildings are rented. Both buildings were purchased at the beginning of 2006. Further information can be found in the "Events Subsequent to the Balance Sheet Reporting Date" section of the 2005 Annual Report.

At the beginning of 2005, Beate Uhse secured the financing of around EUR 8 million required for the new packing system via a leasing company. The leasing company has made preliminary financing available up to the planned commencement of operations at the fulfilment centre in November 2006. This financing will then switch to financial leasing requiring statement with a term of nine years.

The Beate Uhse Group invested a total of EUR 11.9 million in 2005. In addition to the investments made in the mail order business, expenditure also rose at the retail division in connection with the international expansion of the store network and the development and implementation of new store concepts.

INVESTMENTS BY REGION

EUR million	2004	2004 (IFRS)	2005
Germany	4.6	10.8	5.4
Netherlands	4.8	4.2	5.7
Belgium	0.2	0.2	0.2
France	0.2	0.2	0.1
United Kingdom	0.2	0.1	0.2
Austria	0.1	0.1	0.1
Other European countries	0.1	0.2	0.2
Other regions	-	-	-
	10.2	**15.8**	**11.9**

INVESTMENTS BY PROFIT CENTRE

EUR million	2004	2004 (IFRS)	2005
Retail	5.4	11.6	5.7
Mail Order	1.5	1.5	3.2
Wholesale	2.5	1.9	2.0
Entertainment	0.2	0.4	0.4
Holding Services	0.4	0.4	0.6
	10.1	**15.8**	**11.9**

Financial Position in 2005

The cash flow reported in the annual report includes cash flows from ongoing and discontinued business divisions. The cash flow from operating activities showed a considerable increase of EUR 15.7 million to EUR 24.3 million in 2005. This increase was attributable to the earnings performance and to income tax payments, which were EUR 5.8 million lower than in 2004.

Total investments amounted to EUR 17.3 million in 2005. The increase in cash investments primarily related to a loan of EUR 5.0 million granted to erotic media ag.

The cash flow from financing activities showed a net repayment of liabilities to banks and of borrowers' note loans totalling EUR 12.8 million, which was attributable to the retention of earnings from 2004 and to the pleasing earnings performance in 2005.

Within the framework of the Group cash pooling scheme, credit balances at banks were used to repay overdraft facilities. This led cash and cash equivalents to decline by EUR 2.4 million to EUR 6.8 million.

7.4 ASSET POSITION

The total assets of Beate Uhse AG amounted to EUR 189.7 million as of the balance sheet reporting date, equivalent to an increase of EUR 2.5 million (1.3 percent) on the previous year. On the asset side, this slight increase was attributable to an increase of EUR 5.9 million (5.7 percent) in fixed assets to EUR 111.6 million. Other long-term financial assets were considerably higher in 2005 than in the previous year as a result of Beate Uhse AG having granted erotic media ag a loan amounting to EUR 5 million for the financing of the purchase of Blue Movie. This was reported under loans to associated companies. Beate Uhse financed these funds by selling 1 million shares in erotic media ag to the pay TV broadcaster Premiere. Premiere has the option of returning the shares to Beate Uhse at the purchase price following the expiry of the term of the loan. The purchaser's rights of return are valid from 1 July 2008 until 30 June 2009. As a result of the sales agreement, the economic ownership of the shares in erotic media ag basically passes to the purchaser. In view of the obligation to reaccept the shares at the conditions originally set, however, which means that the risk relating to any decline in value remains with the Beate Uhse Group, the shares in erotic media ag nevertheless continue to be reported at Beate Uhse AG, with a corresponding financial liability being capitalised in the amount of the sale price received as a result of the rights of return. The 1 million shares held in erotic media ag are no longer reported under shares in associated companies, however, but have rather been classified as "financial assets available for sale". In line with their classification as financial assets available for sale, the shares were valued at fair value as of the balance sheet reporting date, with the profit of EUR 2.8 million not impacting on earnings, but rather being recorded in a separate item under equity. Moreover, the further increase in fixed assets was attributable to intangible assets. Within this area, the value stated for software was increased by EUR 1.3 million as a result of the deployment of new IT programmes for optimising the group finance department and due to an advance payment made for the new mail order fulfilment centre. There was a slight reduction in fixed assets on account of the sale of rights to the Norwegian magazine brands Lek and Cocktail.

Current assets reduced by EUR 3.5 million (4.3 percent) to EUR 78 million. A large share of this decline was attributable to the reduction of EUR 1.6 million in tax refund claims. Cash and cash equivalents declined by EUR 2.4 million, given that credit balances at banks had been used as of the balance sheet reporting date for the repayment of overdraft facilities within the framework of the group-wide cash pooling scheme.

The liability side of the balance sheet was characterised by two contrary trends as of the reporting date. The marked increase of 23.3 percent in shareholders' equity resulting from the consolidated net earnings for 2005 was offset by a considerable reduction in financial debt. Beate Uhse repaid EUR 12.8 million of liabilities to banks in 2005. This was facilitated by the retention of earnings from 2004 and by the positive business performance in 2005. As of the balance sheet reporting date, the Group's loan liabilities amounted to EUR 56.9 million (including borrowers' note loans), compared with EUR 69.7 million in the previous year.

The equity ratio rose by 7.9 percentage points to reach 44.1 percent in 2005. This positive development was primarily due to the pleasing high level of net earnings, which increased from EUR 13.9 million to EUR 33.7 million as a result of the allocation of net income for 2005. Moreover, the valuation of financial assets available for sale at fair value resulted in an increase in EUR 2.8 million, with these profits being recorded in a separate item under equity.

Long-term debt reduced by EUR 5.9 million, with EUR 10.5 million being attributable to the reclassification of the borrowers' note loan as a short-term debt as a result of its remaining term. Only other financial liabilities showed an increase of EUR 4.9 million, given that the sale price of EUR 5 million received in connection with the disposal of shares in erotic media ag had been capitalised as other financial liabilities in view of the rights of return held by Premiere.

The Group reduced its short-term debt by EUR 7.5 million. The repayment of accounts payable is worthy of mention in this respect, especially those relating to the mail order division, where invoices for merchandise and catalogue expenses were settled with a change in maturities since 2004. The reduction of around EUR 3.5 million in other financial liabilities related to various companies in the mail order and retail divisions (e.g. vacation/overtime, compensation, personnel expenses, advisory services). In view of the retention of earnings from 2004 and the pleasing performance of the operating business, the Beate Uhse Group managed to reduce its short-term loans by EUR 11.2 million. The short-term portion of long-term loans rose by EUR 9.3 million as a result of the reclassification of a borrowers' note loan expiring in February 2006 from long-term to short-term debt.

7.5 EVENTS SUBSEQUENT TO THE BALANCE SHEET REPORTING DATE

In view of the lower financial rate compared with the rental price, Beate Uhse decided following the conclusion of the 2005 financial year to purchase the new mail order building and the existing building (both in Walsoorden) rather than renting them. The purchase prices for the new building, including a two hectare piece of land, amount to a total of EUR 17 million. The purchase was undertaken in January 2006 and was financed in full by three banks.

7.6 RISK REPORT

The Risk Management System

The Beate Uhse Group operates in 13 countries. Its diversified sales network makes it the most innovative and at the same time the most highly structured erotica company in the world. As one of the leading companies in the market, Beate Uhse exploits the numerous opportunities available for economic growth. The Group's growth-driven approach means that it is exposed to entrepreneurial risks. In the interests of identifying, assessing and, when necessary, countering risks of all kinds at an early stage, Beate Uhse uses a risk management system which has been integrated into company processes across the Group since 2000. The Beate Uhse Group only enters into potential risks in cases where the opportunities relating to the measure enable corresponding added value to be generated.

The early recognition and evaluation of opportunities and risks forms an integral component of budgeting, controlling and reporting processes at the Beate Uhse Group. These processes are safeguarded by group-wide guidelines. Risk and opportunity audits undertaken on a quarterly basis facilitate the systematic identification, analysis, evaluation, documentation, communication and control of all risks and opportunities at the Group. The directors of the profit centres are obliged to communicate directly and extensively in this respect. Risks are standardised by means of firmly defined gradations in terms of their respective values, probability of occurrence and processing priorities.
Risk management is coordinated centrally by the Group controlling department in close liaison with the Management Board and is reviewed in terms of its effectiveness and appropriateness.
The structure and implementation of the risk management system was audited by the auditors within the framework of the annual financial statements. The basic structure of the system is in compliance with the requirements of the Corporate Sector Supervision and Transparency Act (KonTraG). No risks which on an individual basis or as an entirety could endanger the ongoing existence of the Group or could impair its net asset, financial and earnings position on an ongoing basis have currently been identified for the present or the future.

Individual Risks

The risks or areas of risk outlined in this section could from a current perspective have a major impact on the economic position of the Beate Uhse Group. The potential risks set out below refer to the 2006/2007 forecast period.

Changes in the competition

The erotica market witnessed further changes in its basic structure in the past year. The influence of the highly widespread presence of erotic images, films, texts and reports on sex and erotica in the media means that society now has lower levels of inhibition concerning this topic than in the past. This development harbours both opportunities and risks for Beate Uhse AG.

Based on the promise that “sex sells”, a competitor previously alien to the sector has entered the market. This new situation could lead to pressure on margins, as well as a loss of sales and market share at Beate Uhse. The risk management system continues to consider the probability of competition from traditional retailers becoming even tougher in future as being very high.
At the same time, increasingly liberal attitudes within society provide the Beate Uhse Group with access to new customer groups. The Beate Uhse Group has taken numerous measures to distinguish itself from its competitors and thus to provide its customers with greater incentives to make purchases. These measures include differentiating product lines even more clearly, strengthening the Beate Uhse brand, the epitome of erotica, undertaking price comparisons and constantly monitoring the competition. Moreover, the increased expansion of the Beate Uhse store network in 2005 makes it more difficult for competitors to enter the market. Furthermore, Beate Uhse is reviewing the possibility of co-operating with department stores for shop-in-shop concepts, as well as with potential competitors.

The displacement of distribution channels from retail, mail order and wholesale to the new media of internet, pay TV and video-on-demand has continued. Traditional retail formats are confronted with the risk of losing in significance compared with the new media. The shift in demand is particularly marked in the print media, videos and DVD product groups. According to the risk management assessment, it is highly probable that this trend will continue.
Additional sales, or at least the possibility of compensating for further potential losses of sales, can be achieved by integrating multi-channel activities into the Group’s most important websites. The offering provided by the most well-known internet sites (e.g. www.beate-uhse.de, www.beate-uhse.com, www.pabo.nl, www.christineleduc.nl) will therefore

become more varied and entertaining. Moreover, in future the product centres will increasingly also advertise the activities and product worlds of the other distribution channels. The internet pages of the Beate Uhse Group will rely in future on e-commerce, a broad and technically sophisticated range of entertainment products (e.g. expansion of Pabo online shop to include a video-on-demand film database www.pabomovie.nl; www.pabomovie.be) and the advertising of customer highlights within the Group, e.g. special sales topics and events at Beate Uhse retail stores. The Group is very satisfied with the initial amendments made to its internet presence.

The increased investments in the new media business field nevertheless involve the risk of mistaken investment, given that this area is difficult to plan and involves legal risks which can only be assessed with difficulty. The greater integration of new media activities into the traditional distribution channels represents one example of a safeguard which has already been put in place. This networking is to be expanded across the Group.

Changes in the competition in the online market are largely driven by technical enhancements. Broadband-based products (TDSL, ADSL and LAN), for example, cannot be paid for using traditional diallers, so that new technologies have to be developed, brought to market and financed. However, this business risk is countered by the fact that the increasing circulation of broadband applications enables the potential range of products to be extended for the target group interested in erotica. Beate Uhse is working with its own programmers on the development of alternative payment collection systems to enable it to offer its customers uncomplicated and safe possibilities of payment in line with the latest technical requirements. These measures are being accompanied by ongoing surveillance of activities in this field on the part of the competition.

A further change in the online market relates to the purchasing behaviour on the part of consumers. As a result of the stricter requirements of the Federal Network Agency, intuitive purchases are no longer possible. This has resulted in purchasing processes where the involvement of various security systems means that 3 or 4 confirmations are required before any content connection is established. This development has become increasingly marked over the past two years. There is a high risk of further losses of sales, given that purchasers have to click their way through various security systems before actually acquiring products or content. However, many consumers are not willing to take this often confusing, complicated and time-consuming path.
Beate Uhse has upheld the strategy implemented in past years and has optimised and simplified its user management by means of its own internet pages. The quality of the product offerings has been consistently improved and prices reduced in order to keep customers on the sites in spite of the increased complication of dial-in systems.

External factors

The misuse of diallers (collection of unduly high invoice amounts by diallers as a result of automatic dial-in functions or confusing / no price information) has led to a considerable reduction in consumer confidence in this payment tool and has alerted consumer protection groups and politicians. For internet providers, this loss of confidence has resulted in a sharp downturn in sales, regardless of whether appropriate use was made of the dialler for collecting fees or not. In addition to the image damage, there is also the risk of a general ban being imposed on diallers as a payment instrument.
As a respectable provider, Beate Uhse provides its internet customers with alternative payment possibilities and is working consistently on the enhancement of its own safe payment methods. Moreover, Beate Uhse new media GmbH is working closely together with the Association for Voluntary Self-Regulation of Added Value Telephone Services (FST e.V.) in the fight against disrespectable providers and for their criminal prosecution.

Telephone numbers using a 0190 code were replaced by new 0900 numbers for all providers as of 1 January 2006. This means that high-quality numbers which were easily remembered and the effects of years of advertising have been lost. Moreover, the reimbursement conditions for internet and telephone providers such as Beate Uhse new media GmbH are considerably poorer for the new 0900 number classes, especially when called from mobile telephone networks, than they had been for 0190 numbers. Furthermore, the new 0900 numbers are not yet fully accessible from all telephone networks. This conversion involves a high risk of a downturn in sales, given that the switching off of the familiar numbers leads customers to turn to other providers or that the new numbers are not yet accessible.
In view of the fact that the conversion was only undertaken at the beginning of the year, no reliable data is yet available concerning the downturn rate. Beate Uhse addressed the forthcoming changes at a very early stage, securing new,

7.6

high-quality 0900 numbers and submitting applications for the embedding procedure (particularly well-established 0190 numbers are transferred to the new number classes). Given that this conversion to 0900 numbers affects the entire market, this change also provides Beate Uhse with opportunities for acquiring new customers for its own services, particularly since the company has considerably better advertising and marketing resources as a result of its market presence and size.

Direct marketing

The mail order business is the largest sales driver in the Beate Uhse Group. In 2005, the Group's mail order division invested EUR 49 million in advertising measures. Any inaccurate assessments in the compilation of products, the design of main catalogues or the selection of principal sales drivers or supplementary advertising material could result in a loss of sales and to image damage affecting the whole Group.
To minimise the potential risk to the greatest possible extent, the mail order business works with skeletal catalogues supplemented by country-specific product pages in all the geographical markets in which Beate Uhse operates. Prior to the final compilation of a new catalogue and the ordering of the merchandise, a trial version of the new catalogue, including its main elements, is sent to selected customers on the basis of social and demographic criteria. In this way, it is possible to ascertain the reception granted to the new products.

Loss of image for the Beate Uhse brand

As a result of its company history and the sector in which it operates, Beate Uhse is the object of great public interest. Moreover, as a publicly listed stock corporation, Beate Uhse AG is also subject to numerous laws and ordinances requiring to be fulfilled correctly and on time. The high level of public awareness and the strict requirements of listed companies harbour both risks and opportunities.
Alongside the large number of positive reports and editorial product recommendations, it is possible that the company will receive temporary negative media coverage. In the interests of protecting the brand and the company to the greatest possible extent, Beate Uhse makes all possible efforts to provide the general public with timely, comprehensive and honest information. In order to meet the requirements placed in listed stock corporations, Beate Uhse consults external advisors (lawyers, investor relations agencies) whenever necessary.

Procurement of merchandise

The Beate Uhse Group purchases erotica products on the global markets for its own B2B and B2C trading activities. In spite of strict controls within the Group, the company is exposed to risks resulting from the purchase of defective goods, the lack of the required CE certificates and legal uncertainties. In the event of any audit or admonition by the authorities, there is the risk that the image of the Group and its principal Beate Uhse brand could be damaged, as well as a high degree of financial risk, given that products or product lines could have to be completely removed from the product range. In the event of any defective products actually being sold by the Beate Uhse Group, then there is the risk of product liability.
In view of the various checks undertaken, the Group views the probability of such situation arising as low. Beate Uhse is in close contact with other providers in the erotica market in order to exploit their common market position so that considerable influence can be exerted on manufacturers around the whole world. In general, Beate Uhse accords priority to the CE certification of products offered by the Group. In addition, the Group's proprietary production site in Hungary enables certified product lines to be developed. To absorb the financial risk relating to any admonition by the authorities, the Beate Uhse Group is covered by a comprehensive general liability insurance policy.

As a trader in erotica products, the Beate Uhse Group is dependent on the supply capacity of its manufacturers. It is exposed to the risk of shortages in its merchandise as a result of the loss of suppliers.

To counter such risk, the Beate Uhse Group works together with a large number of manufacturers around the world. The contacts to manufacturers with which the Group already works, as well as to possible new manufacturers, are maintained by procurement specialists at the wholesale division. In addition, each profit centre maintains its own contacts with the manufacturers of relevance to its main areas of merchandise in order to identify trends at the earliest possible time and to enable it to react immediately in the event of the loss of any manufacturer.

Personnel

The erotica market is relatively closely knit on the supply side. For companies operating in this market, the loss of employees with an in-depth knowledge of the sector and good contacts can therefore involve risks. The success of the company is highly dependent on the ability of Beate Uhse to appoint qualified specialist and management personnel and to integrate them into and retain them at the company in the long term.

As the strongest provider in the erotica market in terms of its international structure and size, the Beate Uhse Group is one of the most interesting employers. In order to retain employees at the company and to enhance their identification with the company, Beate Uhse provides its employees with training and development measures, interesting remuneration and good opportunities for internal promotion.

IT infrastructure

IT processes play an ever greater role in determining the functional capabilities of companies. For Beate Uhse, the logistical processes in it mail order and wholesale warehouses and the infrastructure for its online services are particularly significant in this respect. In the event of there being any breakdown in IT-supported processes (problem reports, force majeure etc.), then the smooth dispatching of merchandise or the provision of online content cannot be guaranteed. Apart from the risk of lost sales, there is also the risk of losing customers in the long term.

In the case of the Beate Uhse Group, the risk of breakdowns is covered by various duplicate technical solutions, but cannot be excluded entirely. In particular, problems resulting from the installation of new IT systems have to be accounted for in the company's planning.

The increasing importance of the internet as an information and communications platform has also led to an increase in the risk of misuse as a result of the absence of regulation and due to legal loopholes. As a content provider, Beate Uhse new media GmbH has also repeatedly been the object of targeted attacks. Small-scale takeover or deface attacks can easily be dealt with using existing technical and security solutions. The increasingly frequent pre-planned large-scale attacks on several servers - so-called DDoS attacks - involve greater risk. Defence against such incidents is only possible with a high degree of financial commitment and sometimes only with partial success. The originators of such attacks can generally only be identified with great difficulty. Like many other content and e-commerce providers on the internet, Beate Uhse is confronted with a major problem in this respect. Programmers and developers at the entertainment division are working across the Group on software solutions to defend the company against such attacks.

The Beate Uhse Group consists of 69 companies worldwide. Their IT structures have not yet been fully interlinked, which means that the smooth exchange of information and data is more time-consuming and costly than necessary. There is the risk that it might not be possible to exploit potential synergy effects within the Group to an adequate extent on account of the deficient IT integration.

In the interests of improving the exchange of data between the profit centres and the holding company, the Group implemented an MIS software solution in 2005, which has optimised the exchange of comprehensive financial data. It is planned to introduce a Group-wide IT responsibility structure and to standardise the heterogeneous IT systems in the medium term.

Legal framework

The erotica market is subject to clear legislation governing aspects such as the protection of minors, the sale of pornographic products etc. There are in some cases significant variations in the legal frameworks in the various countries in this respect. The sale of pornographic products (e.g. DVDs) by mail order, for example, is prohibited in Germany and the UK, but permitted in other EU countries. In Germany, the main sales market of the Beate Uhse Group, the legal guidelines are particularly strict and are subject to ongoing change, especially in the field of new media. Erotica providers are faced with the risk that the legislation may be tightened up further, thus further restricting the market and leading to a loss of sales.

By working together with institutions such as the Association for Voluntary Self-Regulation, Beate Uhse is only able to

7.6

exercise indirect influence on the drafting of the legal framework governing the erotica market. At the same time, the Group may also stand to benefit from any tightening up of legislation, given that the company stands for respectability and competence in the erotica market.

Liquidity

Beate Uhse AG has entered into financial covenant agreements with lending banks within the framework of its working capital credit lines. In the event of one of the covenants being breached for reasons relating to the operating business, then there is the risk that credit lines may be terminated.
Beate Uhse AG considers the probability of this situation arising to be low, given that the company counters such risks by means of transparent and prompt communications with its lenders. The relationships between Beate Uhse AG and its lenders are close and characterised by mutual trust.

The liabilities to banks (including borrowers' note loans) of the Beate Uhse Group amounted to around EUR 57 million at the end of 2005. In spite of the liberalisation of society, there is the risk that the credit lines will not be extended as a result of changes in business policies on the part of the banks. In particular, the sector in which Beate Uhse operates is still cited by some banks as a standard criterion for exclusion. The process of consolidation in the banking sector could also render the search for lending banks increasingly difficult. Beate Uhse is countering this risk by gradually restructuring its liabilities from short-term loans to medium, long-term and borrowers' note loans and maintains very lively, good and open contacts to banks in general. The objective is to agree commitments of working capital credit lines with banks for as long a period as possible.

In order to cover the interest rates for the short-term loans which have been drawn down (daily business requirements), Beate Uhse AG concluded three interest swaps at the end of April 2005 (for a total of EUR 15 million with terms running until April 2010 and April 2012). In addition, a 7-year amortisable loan coupled to the Euribor was also covered by a congruent amortisable interest swap in April 2005. The volume of derivative interest rate contracts therefore amounted to EUR 24.3 million as of 31 December 2005. Upon the compilation of the annual financial statements, Beate Uhse AG expected to see a sustained rise in money market interest rates, which then also occurred. The Euribor, for example, rose by around 0.4 percent between April and December 2005.

The Beate Uhse companies compile their invoices predominantly in euros. There have to date not been any incoming payments in US dollars. The increase in procurement from Asian countries, however, requires the purchase of US dollars. Beate Uhse AG is therefore exposed to currency fluctuations and to the resultant risks.

Finally, Beate Uhse AG periodically concludes hedging agreements in the form of option or forward exchange transactions. These are intended to achieve an active management of currency risks within the Group.

Receivables default

Within the Group, the risk of receivables default is particularly relevant to the mail order and entertainment profit centres. Both divisions account for receivables default by making bad debt allowances at the level customary to the business. In order to avert receivables default, the mail order business makes use of early warning systems at various levels. New customers are continuously filtered for signs of negative payment behaviour, with corresponding credit limits being set in order to minimise the risk of default. Existing customers are also allocated credit limits and are subject to ongoing monitoring of their respective receivables (criteria: age and volume of receivable). In 2004, Deutsche Telekom terminated its assumption of receivables default relating to added value telephone services, which had been contractually agreed with its business partners up to then, thus also terminating the guarantee of payment of sums incurred on such premium telephone services. Since then, providers such as Beate Uhse

new media GmbH have borne the default risk in full. Receivables are collected via debt collection agencies.
In order to keep the volume of receivables default at the minimum possible level, Beate Uhse new media GmbH has developed alternative payment methods (direct debit, credit card payments) and has also introduced an effective dunning system for this area. Moreover, the providers cooperate closely with Beate Uhse new media GmbH in respect of data exchange. Initial experience has shown that the setting of sales limits per user is a particularly effective means of achieving a significant reduction in the default rate.

As a result of the ongoing problems with dialers, online services are increasingly being paid for by alternative methods, such as direct debit or credit card payments. Providers do not have the possibility of checking the accuracy of the data stated by customers (bank connection, name, etc.). The risk lies in the payment default rate, which amounts to around 13 percent in the case of direct debits following dunning procedures.
In order to minimise the default risk, Beate Uhse new media GmbH has linked this with an automatic call-back to the landline number of the potential customer. The future visitor to Beate Uhse internet pages is provided with a PIN number in this telephone call, which then has to be input prior to the first payment procedure. This security measure, which has been developed internally, enables Beate Uhse new media GmbH to provide an addressee for legal claims in cases of misuse.

Overall Risk

The overall risk situation has remained constant since the previous year. No risks have currently been identified which could endanger the ongoing existence of the Beate Uhse Group. However, the statements made in the outlook could be affected by the risks depicted in this section.

7.7 OUTLOOK

Consumer climate: mostly positive trends

Slightly improved macroeconomic data, a consumer climate which is stable to friendly, no additional legal restrictions on the erotica market – these are the principal assumptions of the Beate Uhse Group for its own business performance in its most important sales markets and thus for its forecasts for the 2006 and 2007 financial years.

The leading economic research institutes have forecast an economic upturn for Europe in 2006, with growth rates of 2 percent. Europe will thus fall short of the development of most countries around the world. Inflation is expected to amount to 1.9 percent in the Euro zone in 2006. The situation on the labour markets will improve only slightly.

ECONOMIC GROWTH FORECAST FOR 2006
% change on previous year

Established Beate Uhse markets	2005	2006
Germany	0.9	1.7
Netherlands	0.7	2.2
Belgium	1.4	1.9
France	1.6	2.0
United Kingdom	1.7	2.4
Austria	1.8	2.1
Switzerland	1.2	1.7
Norway	2.8	2.8
EU	1.6	2.2
Various future Beate Uhse markets	**2005**	**2006**
Poland	3.3	3.9
Slovakia	5.3	5.6
Spain	3.3	3.1
Czech Republic	4.6	4.4

Source: Ifo Institut, EEAG Report

Overall economic developments in Europe could be slowed down by factors which cannot be influenced, such as the development of global prices on the energy and crude oil markets or by political crises and conflicts in the Near, Middle and Far East.

7.6

In Germany, which remains the most important sales market for the Beate Uhse Group, there are many indications that private consumption levels in 2006 will improve on those seen in 2005. Consumer optimism is being fed by the trust placed in the new government and by one-off events, such as the forthcoming football World Cup. The situation on the labour market, the safeguarding of existing jobs and the creation of new jobs remain the key factors in the longer-tem development of consumer confidence. Only if progress can be made in these areas will private consumption achieve sustainable growth potential in Germany beyond 2006. For this reason, the sales forecasts made by the Association of German Retailers (HDE) for 2007 are considerably more conservative than those for the current 2006 financial year, for which growth of up to one percent is expected. The forecasts compiled by Beate Uhse have therefore assumed that private consumption will remain stable in 2006 and 2007.

Future Sales and Earnings Performance

Following the fundamental restructuring undertaken in the past two years, in which the Group increased its sales and earnings in spite of far-reaching measures, we are now focusing on achieving moderate growth. Sales growth of around five percent and an increase in pre-tax earnings of around four percent have been budgeted for 2006. The 2006 financial year will be affected by the conversion of the mail order business to the new fulfilment centre. Following the initial conversion stage, a further boost to growth is to be expected from 2007.

In summary, the principal measures for achieving these targets in 2006 and 2007 are: the expansion of the number of country markets in which the Group operates from its current total of 13 to at least 15, a more highly integrative structuring of all processes between the profit centres and the brands and the exploitation of market potential in future areas such as pay TV, video-on-demand and online partnerships with portal and mobile telephone network operators.

The displacements in the significance of the various target groups will continue: men and couples will remain largely stable in terms of sales. Growth will mainly be driven by women, especially in the mail order business and, to a more limited extent due to the delayed expansion, in the retail business as well.

The Group is relying on the strength of the brands

The 2006 and 2007 financial years will be characterised by the profit centres growing together. Now that Beate Uhse has laid the foundations for cost-effective procurement and fully automated merchandise handling by pooling procurement activities across the Group and extending the logistics centre in Almere, in the coming months the Group’s B2C distribution channels will be linked more closely to each other. The aim is to increase the long-term retention of customers for the brands and the underlying products. With this in mind, the principal end consumer brands of the Beate Uhse Group – Beate Uhse, Pabo, Christine le Duc, Mae B. and Dr. Müller – will be structured more clearly and provided with an even more robust public profile. Beate Uhse expects the customer retention measures to lead to a long-term increase in sales and to a considerable expansion in its brand presence.

Where will the growth come from?

Retail: growth by expansion of store network

Beate Uhse will further expand its international store network. Additional stores are being planned both in existing countries, as well as in countries involved in the eastward enlargement of the EU. A total of around EUR 5 million is to be invested in the company’s expansion each year. The retail division will contribute to the further internationalisation of the Beate Uhse, Christine le Duc and Mae B. brands and will reinforce these brands by means of marketing activities. The expansion of the brands and of the underlying store concepts is also of great significance to the overall Group from a marketing perspective. The ongoing brand presence in large European cities also has a beneficial effect on the mail order and online distribution channels.

In its international expansion, Beate Uhse Retail will in future continue to rely on the familiar shop concepts: classic stores, specialist stores, fun centers, highly-frequented locations. These have proven themselves in Germany, a challenging test market, and are now being exported.

Mail order: new logistics provide great potential

The mail order division will continue to be the fastest-growing segment within the Group. This assumption is based on the fulfilment centre to be completed in Walsoorden in the second half of 2006, the expansion of further activities in European countries and the optimisation of e-commerce customer propositions. Investments amounting to around EUR 17 million have been earmarked for the ongoing enhancement of mail order logistics in 2006. As a result of the one-off expenses relating to the commencement of operations at the new fulfilment centre, the Beate Uhse Group expects the mail order division to generate a lower level of earnings contributions in 2006.

In order to make full use of the new capacities at the earliest possible time, the mail order business will further expand its area of activity in Europe. New activities are planned in Spain, the Czech Republic, Slovakia and Switzerland in the coming two years. Once the new fulfilment centre is fully functional, the expansion will form the number one growth driver. From 2007, Switzerland will be served by the Group directly. This will be facilitated by the expiry of a longstanding country franchise agreement in April 2007. The Group management views the alpine region as harbouring interesting growth potential in view of its financial strength and given the fact that it is also a German-speaking market. Initial activities have been planned for the Czech Republic, following the highly positive results of the trials undertaken in 2005. As a neighbouring country to Austria, the marketing activities for this region could well be managed via the Austrian management structure. Similar to the situation in other EU enlargement countries, Beate Uhse expects to see a considerable surge in demand in this market. Spain harbours similar potential for the erotica mail order business. This large country has a large population and is characterised by an open approach towards sex and erotica products as a result of its prevalent lifestyle. Although it is a western country, the competitive situation does not seem to be well-developed or structured.

Within the framework of the enhanced customer retention measures being introduced by the Group, the mail order division will also optimise its advertising and customer programmes and will cooperate more closely with other profit centres. It is planned to introduce multi-channel marketing onto the Group's principal websites, to expand affiliate marketing measures and to achieve an even stronger focus on keyword marketing. The Group expects the targeted distribution of advertising material addressing various groups of customers with selected products to lead to increased sales and earnings.

Wholesale: consolidation of the business

Following the restructuring of the entire wholesale division into a Group-wide procurement and merchandise hub for subsidiaries and external third parties, the wholesale business is now in a position to fully exploit its logistical advantages. Contacts will be increasingly intensified to producers of all product groups in the Far East over the next two years. The Group's management expects the pooling of the Group's purchasing power at the wholesale division to result in a considerable improvement in margins, from which all profit centres within the Beate Uhse Group stand to benefit. Moreover, Beate Uhse Wholesale also provides its producers with the possibility of regularly presenting themselves to their own customers at the premises in Almere. The producer loyalty thereby generated frequently results in exclusive agreements being concluded with Beate Uhse Wholesale.

The wholesale activities will focus in 2006 on stabilising the business with the aim of raising sales back to the level seen in 2004. The launch of the logistics centre led to considerable technical problems and thus to a decline in sales in 2005. Now that the warehouse is fully functional and in view of the exclusive agreements concluded with producers, Beate Uhse Wholesale will channel its energies in the coming months into winning back customers and increasing its sales.

Entertainment: two main focuses

The entertainment division is the only segment in the Group expecting to see a decline in its sales in 2006. The market for online erotic entertainment will continue to be characterised by tough crowding-out competition. The Beate Uhse Group aims to maintain the earnings of the profit centre at a stable level in spite of the expected decline in sales. In the case of added value telephone services, the entire market will lose long-established telephone numbers as a result of the discontinuation of 0190 service numbers. The new 0900 telephone numbers have to be newly positioned with customers. Beate Uhse's principal aim for 2006 is to compensate for this discontinuation to the best possible extent. In view of the lower level of reimbursement from mobile phone channels, it is nevertheless to be expected that advertising expenses will have to be increased in order to maintain the level of sales. The increased consolidation of the audio-text market resulting from this situation could have a positive impact on Beate Uhse.

The omens for 2007 are already different, given that the focus on two main areas of work should be completed in 2006. On the one hand, the segment will focus on the implementation of e-commerce activities for internal and external customers. On the other hand, the division will continue to market erotic entertainment via the internet, added value telephone numbers and mobile services. New business fields, such as IPTV, are also expected to be accessed by 2007. This clear subdivision will enable the division to become more closely involved in the work of the Group's other distribution channels and to provide these with support tailored to their needs. Given that the Group management sees e-commerce as harbouring particularly interesting growth potential, it is important in this future market to make use of the most highly sophisticated solutions in terms of quality on the Group's own pages and to focus on their development.
The TV and telemedia activities of the associated companies Beate Uhse TV GmbH & Co. KG and erotic media ag are being expanded. Beate Uhse TV expects to achieve a further increase in sales by optimising its broadcasting processes and contents.
The acquisition of the Blue Movie telemedia service represents the most important investment in the future for erotic media ag. The company aims to acquire more than 500,000 customers by the end of 2006. Blue Movie Gay took up operations as part of the Blue Movie family on 1 March 2006. This is the only homosexual full erotica TV programme in Germany and can be downloaded using the same smartcard as for all other Blue Movie films. The broad range of very high quality films offered by the Blue Movie telemedia service forms the foundation for the success expected in 2006/2007. Alongside the Blue Movie activities, the division also intends to press ahead with the distribution of erotica films via video-on-demand and IPTV. Negotiations are currently underway with telecommunications companies for this purpose.

Flensburg, 31 March 2006

The Management Board

8.1 CONSOLIDATED BALANCE SHEET 2004 / 2005

ASSETS	Notes	2004 EUR 000s	2005 EUR 000s
LONG-TERM ASSETS			
Intangible assets	8.7.1.1	10,647	12,483
Goodwill	8.7.1.1	16,834	14,966
Property, plant & equipment	8.7.1.2	27,519	26,837
Other financial assets	8.7.1.3	4,884	13,915
Investments	8.7.1.4	1,101	1,079
Shares in associated companies	8.7.1.5	32,275	31,506
Income taxes	8.7.1.6	12,405	10,856
		105,665	**111,642**
CURRENT ASSETS			
Inventories	8.7.1.6	37,461	36,749
Accounts receivable		28,477	30,019
Other short-term financial assets and other assets	8.7.1.7	3,105	2,806
Income tax refund claims (short-term)	8.7.2.6	3,327	1,682
Liquid funds	8.7.1.8	9,181	6,777
		81,551	**78,033**
TOTAL ASSETS		187,216	**189,675**

8.1

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	2004 EUR 000s	2005 EUR 000s
SHAREHOLDERS' EQUITY			
Subscribed capital	8.7.1.9	47,324	47,324
Treasury stock at cost of acquisition	8.7.1.12	-3,465	-3,464
Capital reserves	8.7.1.13	237	474
Revenue reserves	8.7.1.14	3,295	3,295
Other reserves	8.7.1.14	-	2,746
Retained earnings		19,777	33,704
Balancing item for currency conversion	8.7.1.14	1,140	180
Minority interests		-509	-643
		67,799	**83,616**
LONG-TERM DEBT			
Interest-bearing loans	8.7.1.20	26,574	15,712
Pensions and similar commitments	8.7.1.15	3,059	3,032
Other accruals	8.7.1.16	2,232	2,401
Other financial liabilities	8.7.1.17	335	5,189
Deferred tax liabilities	8.7.2.6	2,233	2,212
		34,433	**28,546**
SHORT-TERM DEBT			
Accounts payable		22,287	17,149
Other financial liabilities	8.7.1.18	13,547	9,899
Pensions and similar commitments	8.7.1.15	206	214
Other accruals	8.7.1.19	646	1,342
Income tax liabilities	8.7.2.6	3,542	5,223
Loans	8.7.1.20	38,087	26,847
Short-term portion of long-term loans	8.7.1.20	5,099	14,418
Turnover tax liabilities		1,570	2,421
		84,984	**77,513**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		187,216	**189,675**

8.2 CONSOLIDATED INCOME STATEMENT 2004 / 2005

	Notes	2004 EUR 000s	2005 EUR 000s
ONGOING BUSINESS DIVISIONS			
SALES	8.7.2.1	**273,072**	**284,787**
Cost of sales	8.7.2.2	-110,895	-109,070
GROSS PROFIT ON SALES		**162,177**	**175,717**
Other operating income	8.7.2.3	15,347	14,588
Sales-related expenses	8.7.2.4	-130,433	-142,593
General administration expenses		-29,032	-25,802
Other operating expenses		-959	-1,402
Share in earnings of associated companies		466	1,748
Other income from shareholdings		334	399
EARNINGS BEFORE INTEREST AND TAXES		**17,900**	**22,655**
Financial result	8.7.2.5	-2,261	-2,237
EARNINGS BEFORE TAXES		**15,639**	**20,418**
Taxes on income	8.7.2.6	-6,944	-6,049
EARNINGS OF ONGOING BUSINESS DIVISIONS		**8,695**	**14,369**
DISCONTINUED BUSINESS DIVISIONS			
Earnings of discontinued business divisions	8.7.2.9	-1,513	-773
CONSOLIDATED EARNINGS			
CONSOLIDATED EARNINGS		**7,182**	**13,596**
ALLOCABLE TO:			
Shareholders in the holding company		7,079	13,474
Minority shareholders		103	122
EARNINGS PER SHARE (EPS)			
Undiluted (EUR)	8.7.2.10	0.15	0.29
Diluted (EUR)	8.7.2.10	0.15	0.29
Undiluted earnings per share based on ongoing business divisions	8.7.2.10	0.18	0.30
Diluted earnings per share based on ongoing business divisions	8.7.2.10	0.18	0.30

8.3 CONSOLIDATED CASH FLOW STATEMENT 2004 / 2005

	Notes	2004 EUR 000s	2005 EUR 000s
CASH FLOW FROM OPERATING ACTIVITIES			
OPERATING EARNINGS (EBIT)		**16,662**	**22,142**
CORRECTIONS FOR:			
Expenses not affecting payments pursuant to IFRS 2		176	237
Depreciation of property, plant & equipment, amortization of intangible assets		8,926	9,331
Losses incurred on the disposal of property, plant & equipment and intangible assets		70	985
Other income not affecting payments		-667	-1,928
CHANGES IN:			
Accounts receivable		-3,023	-1,542
Other assets		-3,470	1,036
Accounts payable		1,403	-5,139
Other liabilities		-1,208	3,598
Interest received		454	470
Interest paid for loans and hedging instruments		-3,067	-2,977
Income taxes paid		-7,641	-1,880
CASH FLOW FROM OPERATING ACTIVITIES		**8,615**	**24,333**
CASH FLOW FROM INVESTMENT ACTIVITIES			
Cash received from the sale of property, plant & equipment, intangible assets and other fixed assets		2,379	2,650
Cash paid for investments in property, plant & equipment, intangible assets and other fixed assets		-15,822	-11,926
Cash paid in connection with short-term financial management		-126	-5,412
Cash received in connection with short-term financial management		2,478	1,523
CASH FLOW FROM INVESTMENT ACTIVITIES		**-11,091**	**-13,165**
CASH FLOW FROM FINANCING ACTIVITIES			
Capital allocation (sales of treasury stock)		2,217	1
Dividends paid		-4,755	-100
Taking up of bank liabilities		21,635	18,162
Redemption of bank liabilities		-17,169	-29,526
Redemption of borrowers' note loans		-1,429	-1,429
CASH FLOW FROM FINANCING ACTIVITIES		**499**	**-12,892**
NET CHANGE IN CASH, CASH EQUIVALENTS AND SECURITIES		**-1,977**	**-1,724**
Changes due to movements in exchange rates		534	-680
Cash, cash equivalents and securities at beginning of period		10,624	9,181
Cash, cash equivalents and securities at end of period		9,181	6,777
COMPOSITION OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash holdings, credit balances at banks, cheques and securities		9,168	6,764
Short-term money investments		13	13
	8.7.1.8	**9,181**	**6,777**

8.4 SEGMENT DATA BY BUSINESS UNIT 2004 / 2005

EUR 000s	2004 Retail	Mail Order	Wholesale	Enter-tainment	Holding	Consoli-dation	Continued Business Divisions	Discontinued Business Division	Group Value
SALES	89,575	111,763	69,352	18,018	-	-15,636	273,072	4,769	277,841
- of which third parties	89,372	111,748	54,423	17,529	-	-	273,072	4,769	277,841
- of which with other segments	203	15	14,929	489	-	-15,636	-	-	-
Amortisation of intangible assets	-302	-63	-711	-179	-354	-	-1,609	-	-1,609
Depreciation of property, plant and equipment	-5,047	-654	-980	-191	-429	-	-7,301	-16	-7,317
Amortisation of financial assets	-	-	-	-	-149	-	-149	-	-149
Financial result	-1,235	-67	-379	-4	-144	-432	-2,261	-275	-2,536
Income from shareholdings in associated companies	-	-	120	-	346	-	466	-	466
Income from other shareholdings	-	-	317	-	17	-	334	-	334
EBT	5,044	9,745	1,797	2,078	-3,033	8	15,639	-1,513	14,126
Taxes on income	-1,588	-4,276	-4,841	-446	4,207	-	-6,944	-	-6,944
NET INCOME (excluding profit and loss transfer agreements)	3,456	5,469	-3,044	1,632	1,174	8	8,695	-1,513	7,182
Assets (incl. shareholdings)	49,892	35,904	44,823	11,407	165,902	-169,251	138,677	532	139,209
Shareholdings in associated companies	-	-	-	100	32,175	-	32,275	-	32,275
Investments in long-term assets	8,864	1,399	5,139	2,500	13,263	-6,015	25,150	-	25,150
Liabilities	40,246	29,438	25,375	6,331	79,192	-73,753	106,829	6,813	113,642

SEGMENT DATA BY GEOGRAPHIC REGIONS 2004 / 2005

EUR 000s	2004 Germany	Other European Countries	Consolidation	Continued Business Divisions	Discontinued Business Division	Group Value
SALES	128,205	160,503	-15,636	273,072	4,769	277,841
- of which third parties	125,958	147,114	-	273,072	4,769	277,841
- of which other segments	2,247	13,389	-15,636	-	-	-
Amortisation of intangible assets	-1,041	-568	-	-1,609	-	-1,609
Depreciation of property, plant and equipment	-3,874	-3,427	-	-7,301	-16	-7,317
Amortisation of financial assets	-	-149	-	-149	-	-149
Financial result	-1,606	-223	-432	-2,261	-275	-2,536
Income from shareholdings in associated companies	466	-	-	466	-	466
Income from other shareholdings	334	-	-	334	-	334
EBT	6,534	9,097	8	15,639	-1,513	14,126
Taxes on income	-1,881	-5,063	-	-6,944	-	-6,944
NET INCOME (excluding profit and loss transfer agreements)	4,655	4,032	8	8,695	-1,513	7,182
Assets (incl. shareholdings)	163,338	144,590	-169,251	138,677	532	139,209
Shareholdings in associated companies	32,275	-	-	32,275	-	32,275
Investments in long-term assets	22,820	8,345	-6,015	25,150	-	25,150
Liabilities	91,211	89,371	-73,753	106,829	6,813	113,642

8.4

2005

Retail	Mail Order	Wholesale	Enter-tainment	Holding	Consoli-dation	Continued Business Divisons	Discontinued Business Division	Group Value
89,713	125,022	72,081	19,349	–	-21,378	284,787	2,856	287,643
89,068	124,986	52,184	18,549	–	–	284,787	2,856	287,643
645	36	19,897	800	–	-21,378	–	–	–
-232	-59	-715	-179	-465	–	-1,650	–	-1,650
-5,546	-599	-999	-161	-359	–	-7,664	-17	-7,681
–	–	–	–	-232	–	-232	–	-232
-1,086	-118	-909	20	-103	-41	-2,237	-260	-2,497
–	–	193	–	1,555	–	1,748	–	1,748
–	–	396	–	3	–	399	–	399
6,909	12,890	3,276	358	-2,697	-318	20,418	-773	19,645
-1,120	-2,306	-1,184	-459	-980	–	-6,049	–	-6,049
5,788	10,584	2,093	-102	-3,676	-318	14,369	-773	13,596
46,989	36,516	46,298	11,017	173,185	-168,374	145,631	–	145,631
–	–	–	–	31,506	–	31,506	–	31,506
5,847	3,224	2,097	351	448	–	11,967	–	11,967
40,661	28,262	6,810	5,008	88,570	-70,687	98,624	–	98,624

2005

Germany	Other European Countries	Consolidation	Continued Business Divisions	Discontinued Business Division	Group Value
125,867	180,298	-21,378	284,787	2,856	287,643
123,237	161,550	–	284,787	2,856	287,643
2,630	18,748	-21,378	–	–	–
-1,108	-542	–	-1,650	–	-1,650
-4,203	-3,461	–	-7,664	-17	-7,681
–	-232	–	-232	–	-232
-1,729	-467	-41	-2,237	-260	-2,497
1,748	–	–	1,748	–	1,748
399	–	–	399	–	399
7,376	13,360	-318	20,418	-773	19,645
-2,459	-3,590	–	-6,049	–	-6,049
4,917	9,770	-318	14,369	-773	13,596
169,424	144,581	-168,374	145,631	–	145,631
31,506	–	–	31,506	–	31,506
5,301	6,666	–	11,967	–	11,967
85,633	83,678	-70,687	98,624	–	98,624

8.5 GROUP EQUITY SCHEDULE 2004 / 2005

	Equity allocable to the shareholders in the parent company					
EUR 000s	Share capital	Treasury stock	Capital reserve	Revenue reserves	Other reserves	Net profit
BALANCE AS OF 1 JANUARY 2004	**47,324**	**-10,279**	**61**	**3,295**		**17,355**
Foreign currency conversion						
Total earnings recorded directly under equity						
Group amount for 2004						**7,079**
Total period earnings						7,079
Share-based remuneration			176			
Sale of treasury stock		6,814				
Dividend distribution						-4,657
BALANCE AS OF 31 DECEMBER 2004	**47,324**	**-3,465**	**237**	**3,295**		**19,777**
BALANCE AS OF 1 JANUARY 2005	**47,324**	**-3,465**	**237**	**3,295**		**19,777**
Foreign currency conversion						
Unrealised profits on financial assets available for sale					2,808	
Tax effects relating to profits on shares available for sale					-53	
Losses on hedging of cash flows					-14	
Tax effects relating to losses on hedging of cash flows					5	
Total earnings recorded directly under equity					2,746	
Group amount for 2005						**13,474**
Total period earnings					2,746	13,474
Retirement of negative share of earnings attributable to minority interests						453
Share-based remuneration			237			
Sale of treasury stock		1				
Dividend distribution						
BALANCE AS OF 31 DECEMBER 2005	**47,324**	**-3,464**	**474**	**3,295**	**2,746**	**33,704**

8.5

Balancing item for currency conversion	Total	Minority interests	Total equity
710	**58,466**	**-619**	**57,847**
430	430	105	535
430	430	105	535
	7,079	**103**	**7,182**
430	7,509	208	7,717
	176		176
	6,814		6,814
	-4,657	-98	-4,755
1,140	**68,308**	**-509**	**67,799**
1,140	**68,308**	**-509**	**67,799**
-960	-960	-156	-1,116
	2,808		2,808
	-53		-53
	-14		-14
	5		5
-960	1,786	-156	1,630
	13,474	**122**	**13,596**
-960	15,260	-34	15,226
	453		453
	237		237
	1		1
	-	-100	-100
180	**84,259**	**-643**	**83,616**

8.6 LIST OF GROUP SHAREHOLDINGS AS OF 31 DECEMBER 2005

NAME, REGISTERED OFFICE	Share	Consolidatiom
Beate Uhse Einzelhandels GmbH, Flensburg	100.0	V
Beate Uhse Grundstücksgesellschaft bR, Flensburg	100.0	V
Beate Uhse Grundstücksverwaltungsgesellschaft mbH, Flensburg	100.0	V
Beate Uhse Fun Center GmbH, Flensburg	100.0	V
Beate Uhse Italia GmbH, Bozen, I	96.6	V
Ceproma central product management GmbH, Flensburg	100.0	V
EXITEC AG, Flensburg	100.0	V
KONDOMERIET AS, Kolbotn, N	80.0	V
Lavetra International Kft., Börcs, H	100.0	V
Mae B. GmbH, Flensburg	100.0	V
Scala Beteiligungs GmbH, Wiesbaden	100.0	V
Versandhaus Beate Uhse GmbH, Flensburg	100.0	V
BEATE UHSE NEW MEDIA GMBH SUBGROUP		
Arena Online-Service GmbH, Flensburg	100.0	-
Beate Uhse new media GmbH, Flensburg	100.0	V
Beate Uhse New Media AS, Oslo, N	100.0	V
COM VTX Multi Media BV, Rotterdam, NL	100.0	V
D.N.I. Dutch Net Info BV, Rotterdam, NL	100.0	V
M.O.S. Media Online Services BV, Hoorn, NL	100.0	V
METAVOX Service & Communication GmbH & Co. Kommanditgesellschaft, Meerbusch	52.0	V
METAVOX Service & Communication GmbH, Meerbusch	52.0	-
BEATE UHSE BV SUBGROUP		
Anvo BVBA, Brussels, B	100,0	V
Beate Uhse BV, Walsoorden, NL	100.0	V
B.U. BVBA, Knokke-Heist, B	100.0	V
Erotic Centre BVBA, Brüges, B	100.0	V
International Fun Center, Warsaw, PL	50.0	-
Intersex, Warsaw, PL	50.0	-
Pabo BVBA, Kieldrecht, B	100.0	V
Retail Belgie BVBA, Brüges, B	100.0	V
Sandereijn Belgie BVBA, Brussels, B	100.0	V
The Golden Meteor BV, Walsoorden, NL	100.0	V
V.U.H. Video Holland BV, Walsoorden, NL	100.0	V
BEATE UHSE RETAIL HOLDING BV SUBGROUP (VIA BEATE UHSE BV)		
Beate Uhse France SAS, Lille, F	100.0	V
Beate Uhse Ltd., Sutton, GB	100.0	V
Beate Uhse Retail Holding BV, Walsoorden, NL	100.0	V
Christine le Duc BV, Voldendam, NL	100.0	V
Gezed BV, Amsterdam, NL	100.0	V
Interieur & Elektra Service BV, Walsoorden, NL	100.0	V
Movie Rent Amsterdam BV, Walsoorden, NL	100,0	V
Sandereijn BV, Walsoorden, NL	100.0	V

NAME, REGISTERED OFFICE	Share %	Consolidation
GEZED HOLDING BV SUBGROUP (VIA BEATE UHSE BV)		
Adult Video Netherlands Productions BV, Amsterdam, NL	100.0	V
Both Multimedia & Internet Exploitatie BV, Walsoorden, NL	100.0	V
Gezed Holding BV, Amsterdam, NL	100.0	V
Intex Nederland BV, Amsterdam, NL	100.0	V
Scala Ltd., Birmingham, GB	100.0	V
Scala Agenturen BV, Amsterdam, NL	100.0	V
Video Distributie Nederland Vdn BV, Wijchen, NL	100.0	V
World Entertainment BV, Walsoorden, NL	100.0	V
PABO HOLDING BV SUBGROUP (VIA BEATE UHSE BV)		
Calston Industries Inc., Toronto, CDN	38.0	-
Dutch finest Fantasies Inc., Chatsworth, USA	73.0	V
Pabo BV, Hulst, NL	100.0	V
Pabo Holding BV, Hulst, NL	100.0	V
Pabo Ltd., Birmingham, GB	100.0	V
Pabo SASU, Tourcoing, F	100.0	V
Pabo USA BV, Goes, NL	73.0	V
Pabo Versandhandel GmbH, Innsbruck, A	100.0	V
SCALA GROßHANDEL GMBH & CO. KG SUBGROUP		
Lebenslust GmbH, Cologne	30.1	-
Pleasure-Verlagsgesellschaft mbH, Wiesbaden	100.0	V
Scala Großhandel GmbH & Co. KG, Wiesbaden	100.0	V
ZBF Zeitschrift- Buch- und Film Vertriebs GmbH, Wiesbaden	100.0	V
BEATE UHSE SCANDINAVIA AB SUBGROUP		
Beate Uhse AS, Oslo, N	82.0	V
Beate Uhse Max´s AB, Stockholm, S	82.0	V
Beate Uhse OY, Helsinki, FIN	82.0	V
Beate Uhse Scandinavia AB, Stockholm, S	82.0	V
Max`s Aps, Kopenhagen, DK	82.0	V
ASSOCIATED COMPANIES		
Beate Uhse TV GmbH & Co. KG, Berlin	49.0	E
Beate Uhse Verwaltungs GmbH, Berlin	49.6	-
erotic media ag, Baar, CH	31.7	E
FunFactory GmbH, Bremen	25.1	E
MJP Medien- Produktions- und Vertriebs GmbH & Co. KG, Eschenburg	50.0	-

V = fully consolidated | E = equity method | - = not consolidated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRELIMINARY REMARKS

The following notes refer to the consolidated financial statements of Beate Uhse Aktiengesellschaft, Gutenbergstrasse 12, 24941 Flensburg ('Beate Uhse AG'). The consolidated financial statements of Beate Uhse AG for the financial year ending on 31 December 2005 were approved for publication by resolution of the overall Management Board on 31 March 2006.

INFORMATION CONCERNING THE COMPANY

Beate Uhse Aktiengesellschaft, Flensburg, is entered in the German Commercial Register of the Flensburg District Court under No. 3737.
As the global market leader in the erotica and sex sector, the Beate Uhse Group has operations in 13 European countries. Moreover, the wholesale division exports to a further 60 countries distributed across virtually all economic regions of the world. The distribution channels comprise wholesale, mail order and retail, as well as the internet, telephony and TV / telemedia services. Beate Uhse operates 319 shops in eleven countries. The mail order catalogue is dispatched in seven countries. The Beate Uhse Group possesses well-known domain names which provide customers with erotica content on technologically innovative internet pages. The bestknown portals are www.beate-uhse.de, www.sex.de and www.pabo.nl.

ACCOUNTING AND VALUATION PRINCIPLES

Principles underlying the compilation of the financial statements

The compilation of the consolidated financial statements has in virtually all areas been based on the application of the cost of acquisition principle. Application has not been made of this principle in the case of derivative financial instruments and financial investments available for sale, which have been valued at fair value.
The consolidated financial statements have been compiled in euros. Unless otherwise stated, all figures have been rounded up or down to the nearest thousand (EUR 000s).
The cost of sales method has been selected for the consolidated income statement.

Statement on agreement with IFRS

The consolidated financial statements of Beate Uhse AG have been compiled in agreement with International Financial Reporting Standards (IFRS).

Initial application of IFRS

The initial application of IFRS in the consolidated financial statements as of 31 December 2005 has been based on IFRS 1. IFRS 1 requires retrospective application to be made of all standards valid as of the reporting date on 31 December 2005.
In respect of the retrospective application of IFRS, the following possibilities of alleviation set out in IFRS 1 have been exercised:

- In the case of company acquisitions prior to the date of initial application, the retrospective application of the provisions of IFRS 3 has been waived. Instead, the previous capital consolidation based on the requirements of German commercial law has been retained.

- When accounting for defined benefit pension plans pursuant to IAS 19, the retrospective calculation and extrapolation of actuarial profits and losses from the date of such commitment has been waived. Instead, all actuarial profits and losses up to the date of initial application have been recorded in the balance sheet.

- When calculating the costs of acquisition of assets for which there are disposal, restoration or similar obligations, the retrospective accounting for changes in accruals for disposal, restoration or similar obligations pursuant to IFRIC 1 has been waived. Instead, the corresponding accruals have been valued in accordance with the provisions of IAS 37 at the time of transition to IFRS, with best estimates being made for the corresponding costs of acquisition of the respective asset.

IFRS and IFRIC interpretations which have not yet come into force

Beate Uhse AG has made no premature application of the following standards and IFRIC interpretations which have already been published but which have not yet come into force.

- No account has been taken of the changes to IAS 19 'Payments to employees – actuarial profits and losses, group plans and disclosures' in these consolidated financial statements. Mandatory application is to be made of the revised standard for the first time in financial years beginning after 1 January 2006. The application of the revised version of IAS 19 is expected to result in additional disclosures in the consolidated financial statements. Such application is not expected to have any impact on the statement or valuation of payments to employees.

- No account has been taken of the additional disclosure obligations resulting from IFRS 7 'Financial instruments: disclosures in the notes' in these consolidated financial statements. Mandatory application is to be made of this standard for the first time in financial years beginning after 1 January 2007. The application of IFRS 7 is only expected to result in additional disclosures in the consolidated financial statements. Such application is not expected to have any impact on the statement or valuation of financial instruments.

- No account has been taken of the amendments to IAS 1 'Presentation of Financial Statements' in respect of disclosures concerning the capital, for which mandatory application is only required for financial years beginning after 1 January 2007. The application of the amendments to IAS 1 is only expected to result in additional disclosures in the consolidated financial statements.

Moreover, further standards and interpretations have been adopted whose application does not have any significant impact on Beate Uhse AG.
Beate Uhse AG will make application of the aforementioned standards and interpretations for the first time upon the application of such standards and interpretations becoming mandatory.

Consolidation principles

The consolidated financial statements include the financial statements of Beate Uhse AG and its subsidiaries as of 31 December for each financial year. The financial statements of the subsidiaries have been compiled using uniform accounting and valuation methods as of the same balance sheet reporting date applicable to the financial statements of the parent company.
Subsidiaries are fully consolidated from the time of acquisition, i.e. from the time at which the Group gains control. Their inclusion in the consolidated financial statements ends upon the parent company no longer exercising such control.
In the case of company acquisitions, the assets and liabilities of the respective subsidiaries are valued at fair value at the time of acquisition. Should the costs of acquisition in connection with the company acquisition exceed the fair values of the identifiable assets and liabilities thereby acquired, then the difference is reported as goodwill. Any negative difference between the costs of acquisition in connection with the company acquisition and the identifiable assets and liabilities thereby acquired (i.e. discount upon acquisition) is recorded with an impact on earnings in the period of such acquisition. The shares held by minority shareholders are reported in accordance with the portion of fair value proportionate to the level of shareholding held by such minority shareholders. Any losses allocable to minority shareholders in excess of such minority shareholding are subsequently offset directly against the shares of the parent company.
All inter-company balances, transactions, income, expenses, as well as profits and losses on inter-company transactions included in the book values of assets, have been eliminated in full.

PRINCIPAL DISCRETIONARY DECISIONS AND ESTIMATES

Discretionary decisions

In its application of the accounting and valuation methods, the company management made the following discretionary decisions with a significant impact on the amounts stated in the financial statements.

Obligations in connection with operating leasing agreements – Group as lessee

The Group has concluded leasing agreements for the renting of retail stores and other real estate. The Group has determined that all of the significant risks and rewards in connection with the ownership of this real estate rented within the framework of operating leasing agreements have been retained by the lessor.

Uncertainties in estimates

The most important assumptions relating to the future and other major existing sources of uncertainties concerning the estimates made as of the reporting date, as a result of which there is a considerable risk that significant adjustments will be required in the book values of assets and liabilities within the coming financial year, have been outlined below.

Impairment of goodwill

The Group reviews at least once per year whether the value of the goodwill is impaired. Among other aspects, this requires an estimation of the use value of the cash generating units to which the goodwill has been allocated. The estimation of the use value requires the Group to estimate the expected future cash flow from the cash generating unit and furthermore to select a suitable discount rate in order to determine the present value of these cash flows. As of 31 December 2005, the book value of goodwill amounted to EUR 14,966k (2004: EUR 16,834k).

Impairment of shares in associated companies

The Group assesses on each balance sheet reporting date whether there are any indications that the value of the shares in associated companies are impaired. Should there be any such indications, then Beate Uhse AG makes application of IAS 36 “Impairment of Assets”. When determining the current use value of the investment, this requires an estimation of the present value of the expected future cash flows to be generated by the shareholding, including the cash flows from the activities of the shareholding and the final sale of the investment, or of the present value of the estimated expected future cash flows resulting from the dividends of the investment and from its final sale. As of 31 December 2005, the book value of the shares in associated companies amounted to EUR 31,506k (2004: EUR 32,275k).

SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

The accounting and valuation methods used in the compilation of the consolidated financial statements are outlined below.

Intangible assets

Intangible assets acquired individually are valued at cost of acquisition or manufacture upon their initial statement. The costs of acquisition of an intangible asset acquired in the context of a business combination are equivalent to its fair value at the time of such acquisition.
Following their initial statement, intangible assets are stated at their cost of acquisition or manufacture less any cumulative amortisation and all cumulative impairment losses.
With the exception of capitalised development expenses, self-manufactured intangible assets are not capitalised. The related costs are recorded with an impact on earnings in the period in which they are incurred.

In the case of intangible assets, it is first necessary to ascertain whether they have limited or indeterminate useful lives. Intangible assets with limited useful lives are subject to straight-line amortisation over the period of their economic useful lives and reviewed for any impairment in their values whenever there are any indications that the value of the respective assets might be impaired. The period and method of amortisation for intangible assets with limited useful lives is reviewed as a minimum at the end of each financial year. Should there have been any change in the expected useful life or the expected period of amortisation of the asset, then a different period or method of amortisation is chosen. Such changes are treated as changes in estimations. The amortisation of intangible assets with limited useful lives is recorded in the income statement under the expenses category corresponding to the function of the intangible asset in question.

In the case of intangible assets with indeterminate useful lives, impairment tests are undertaken at least once per year for the individual asset or on the level of the cash generating unit. These intangible assets are not subject to scheduled amortisation. The useful life of an intangible asset with an indeterminate useful life is reviewed once per year to ascertain whether the assessment of indeterminacy continues to be justified. Should this not be the case, then the change in the assessment from that of an indeterminate useful life to that of a limited useful life is undertaken on a prospective basis.

Application has been made of the following useful lives for intangible assets:

INTANGIBLE ASSETS

	expected useful life
Industrial property rights	Indeterminate
Rights/licences	4 years*
Software	3 years

*or contractually agreed term

Film rights are subject to percentage amortisation in line with the number of broadcasts. The percentages used vary between 20 and 50 percent depending on the type of film and the number of broadcasts.
The industrial property rights grant unlimited rights and are therefore classified as assets with indeterminate useful lives.
Profits or losses resulting from the cancellation of intangible assets from the books are calculated as the difference between the net proceeds on disposal and the book value of the asset in question and are recorded with an impact on earnings in the period in which the item is can-celled from the books.

Goodwill

Goodwill resulting from a business combination is valued at cost of acquisition upon initial statement. This is measured as the amount by which the costs of acquisition in connection with the business combination exceed the share held by the Group in the fair value of the identifiable assets, liabilities and contingent liabilities thereby acquired. Following their initial statement, goodwill is valued at cost of acquisition less cumulative impairment losses. Goodwill is subject to an impairment test at least once per year or in the event of any facts or changes in circumstances indicating that the book value could be impaired.
For the purposes of testing whether the value is impaired, the goodwill acquired in the context of a business combination has to be allocated from the date of the takeover onwards to each of the cash generating units or groups of cash generating units at the Group which are expected to benefit from the synergies generated by such combination. This applies irrespective of whether other assets or liabilities of the Group have already been allocated to these units or groups of units. Each unit or group of units to which the goodwill has been allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Such level may not be larger than any of the segments on which either the primary or secondary reporting format of the Group is based in accordance with the provisions of IAS 14 'Segmental reporting'.
The value impairment is determined by calculating the achievable amount of the cash generating unit (group of cash generating units) to which the goodwill refers. Should the achievable amount of the cash generating unit (group of cash generating units) be lower than its book value, then an impairment loss is recorded.

Initial consolidation prior to 1 January 2004

Any offsetting of goodwill resulting from initial consolidation prior to 1 January 2004 against reserves pursuant to Section 309 (1) Sentence 3 of the German Commercial Code (HGB) has not been reversed upon the transition to IFRS.

Goodwill resulting from initial consolidation prior to 1 January 2004 has been offset as follows:

EUR 000s	
Offset against capital reserve	87,522
Offset against debit differences	4,012
Offset against retained earnings	624
Offset against revenue reserves	8,075
Goodwill offset as of 1 January 2004	**100,233**

Property, plant and equipment

Property, plant and equipment is stated at cost of acquisition or manufacture, with the exception of costs relating to ongoing maintenance, less cumulative scheduled depreciation and cumulative impairment losses. These costs include the costs incurred on the replacement of part of such asset at the time at which such costs are incurred, provided that the criteria for such statement are met. The scheduled straight-line depreciation has been based on the estimated useful lives of the assets.

Buildings	20-50 years
Technical equipment and machinery	5-10 years
Plant and office equipment	7-8 years

The book values of property, plant and equipment are reviewed for any impairment in their value as soon as there is any indication that the book value of an asset is in excess of its achievable amount.

Property, plant and equipment is cancelled from the books upon its retirement or in the event of no further economic benefit being expected from the further use or disposal of the asset. The profits or losses incurred on the cancellation of the asset from the books are determined as the difference between the net disposal proceeds and the book value and recorded in the income statement with an impact on earnings in the period in which the item is thus cancelled. The residual values of the assets, useful lives and methods of depreciation are reviewed at the end of each financial year and adjusted whenever necessary. Upon any large-scale servicing being performed, the expenses are recorded as replacement expenses in the book value of the asset, provided that the criteria for such statement are met.

Financial investments, other financial assets and financial liabilities

8.7

Financial assets and financial liabilities are valued at fair value upon initial statement, including the transaction expenses directly allocable to the acquisition of the financial asset or financial liability. Financial assets are classified as financial assets valued at fair value with an impact on earnings, as loans and receivables, as financial assets held until final maturity and as financial assets available for sale. The Group determines the classification of its financial assets upon initial statement and reviews this allocation at the end of each financial year, to the extent that this is permitted and appropriate.
No financial assets were allocated to the categories of 'financial assets valued at fair value with an impact on earnings' and 'financial assets held until final maturity' at the reporting date of the Beate Uhse Group.
Financial assets purchased and sold in line with customary market conditions are accounted for as of the date of the transaction, i.e. on the date on which the company entered into the obligation to purchase the asset. Purchases or sales in line with customary market conditions are purchases and sales of financial assets which require the delivery of the assets within a period determined by market requirements or conventions.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on any active market. These assets are valued at updated cost of acquisition using the effective interest method. Profits and losses are recorded under period earnings in cases where the loans and receivables are cancelled from the books or impaired in value, as well as within the framework of amortisation.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets which are classified as being available for sale and which are not included in any other category. Following their initial statement, financial assets available for sale are valued at fair value, with any profits or losses being recorded in a separate item under equity. When such financial assets are cancelled from the books or when the value of the financial assets is found to be impaired, then the cumulative profit or loss previously recorded under equity is recorded in the income statement with a corresponding impact on earnings.

The fair value of financial assets traded on organised markets is calculated by reference to the stock market buying rate on the balance sheet reporting date. The fair value of financial assets for which there is no active market is estimated using valuation methods. Such methods are based on transactions recently undertaken at customary market conditions or on the current market value of a different instrument which is basically the same instrument, or on the analysis of discounted cash flows and on option price models.

Equity instruments for which there is no active market

Financial investments in equity instruments for which no prices are listed on any active market and whose fair values cannot be reliably determined are valued at cost of acquisition.

Financial liabilities

Following initial statement, all financial liabilities are valued at cost of acquisition using the effective interest method.

Cancellation of financial assets and financial liabilities from the books

Financial assets

A financial asset (or part of a financial asset or part of a group of similar financial assets) is cancelled from the books upon one of the following three conditions being met:

- The contractual rights to cash flows from the financial asset have expired.

- The Group retains the contractual rights to receive cash flows from the financial asset, but nevertheless assumes a contractual obligation to pay such cash flows without any significant delay to a third party within the framework of an agreement which fulfils the requirements set out in IAS 39.19 ("pass-through arrangement").

- The Group has assigned its contractual rights to cash flows from the financial asset and (a) has assigned all major risks and rewards relating to the ownership of the financial asset or (b) has neither assigned nor retained all major risks and rewards relating to the ownership of the financial asset, but has nevertheless the rights of disposal over the asset.

In cases where the Group assigns its contractual rights to cash flows from an asset and has neither assigned nor retained all major risks and rewards relating to the ownership of the asset and has also retained the rights of disposal over the asset thereby assigned, then the Group continues to record the asset thereby assigned to the extent of its ongoing engagement.

If such ongoing engagement formally involves a guarantee for the asset assigned, then the extent of the ongoing engagement is the lower of the original book value of the asset and the maximum level of counter-consideration received which the Group may be obliged to repay. If such ongoing engagement formally involves a written and/or acquired option (only options settled in cash or by comparable means) to the asset assigned, then the extent of the ongoing engagement of the Group is the amount of the asset assigned which the company may repurchase. In the case of a written sales option (only options settled in cash or by comparable means) to an asset valued at fair value, however, the extent of the ongoing engagement of the Group is limited to the lower amount of the fair value of the asset assigned and the exercise price of the option.

Financial liabilities

A financial liability is cancelled from the books in cases where the obligation underlying such liability has been fulfilled, terminated or has lapsed.
Should an existing financial liability be exchanged for another financial liability from the same creditor governed by substantially different contractual conditions, or should the conditions governing an existing liability be substantially amended, then such exchange or amendment is treated as a cancellation of the original liability from the books and the statement of a new liability. The difference between the respective book values is recorded under period earnings.

Shares in associated companies

An associated company is a company in which the Group's participation enables it to exercise substantial influence on such company's financial and business decision-making processes and where the company is not controlled or subject to joint control.
Shares in associated companies are accounted for using the equity method. The equity method requires the shares in an associated company to be recorded in the balance sheet at cost of acquisition plus any changes in the share of the net assets of the associated company held by the Group arising following acquisition. Any losses in excess of the share held in associated companies by the Group are not recorded. The goodwill relating to an associated company is included in the book value of the shareholding and is not subject to scheduled amortisation. In its application of the equity method, the Group ascertains whether any additional impairment losses have to be accounted for in respect of the Group's net investment in the associated company. The income statement includes the Group's share in the performance of the associated company. Any changes recorded directly under equity at the associated company are also recorded by the Group directly under equity in line with its respective shareholding and included in the statement of changes in shareholders' equity if necessary.
The balance sheet reporting date and the accounting and valuation methods for comparable business transactions and events at the associated company correspond to those of the Group.

Taxes on income

Actual tax refund claims and tax liabilities

Actual tax refund claims and tax liabilities for the current period and for earlier periods are valued at the amount at which a refund is expected from or a payment is expected to be required to the tax authorities. The calculation of such amounts is based on the tax rates and tax legislation valid as of the balance sheet reporting date or due to be valid in the near future.

Deferred taxes

Deferred taxes are stated using the balance sheet liability method for all temporary differences as of the balance sheet reporting date between the value stated for an asset or a liability in the balance sheet and the value stated for tax purposes. Deferred tax liabilities are recorded for all taxable temporary differences, with the following exceptions:

- Deferred tax liabilities resulting from the initial statement of goodwill or of an asset or liability arising from a business transaction which does not constitute a business combination and which does not have any impact on period earnings calculated in line with commercial law or on taxable earnings at the time of such business transaction may not be stated.

- Deferred tax liabilities resulting from taxable temporary differences arising in connection with shareholdings in subsidiaries and associated companies may not be stated if the timing of the reversal of such temporary differences can be controlled and if the temporary differences are unlikely to be reversed in the foreseeable future.

Deferred tax claims are recorded for all deductible temporary differences, tax loss carryovers not yet used and unused tax credits to the extent that sufficient taxable income is likely to be available for the deductible temporary differences, tax loss carryovers not yet used and tax credits to be offset against, with the following exceptions:

- Deferred tax claims may not be stated for deductible temporary differences arising upon the initial statement of an asset or liability on the occasion of a business transaction which does not constitute a business combination and which has no impact either on the period earnings calculated in line with commercial law or on the taxable income at the time of such business transaction.

- Deferred tax claims resulting from taxable temporary differences in connection with shareholdings in subsidiaries or associated companies may only be recorded to the extent that such temporary differences are likely to be reversed in the foreseeable future and that sufficient taxable income will be available for the temporary differences to be offset against.

The book value of the deferred tax claims is reviewed at each balance sheet reporting date and reduced to the extent that it is no longer likely that sufficient taxable income will be available for the deferred tax claim to be offset against at least in part.
Deferred tax claims which have not been stated are reviewed at each balance sheet reporting date and stated to the extent that it has become likely that future taxable income will enable the respective deferred tax claim to be realised.
Deferred tax claims and liabilities are measured on the basis of the tax rates expected to be

valid in the period in which the asset is realised or the liability fulfilled. Claims and liabilities have thus been based on the tax rates (and tax regulations) valid or announced as of the balance sheet reporting date.
Income taxes on items recorded directly under equity are recorded under equity rather than in the income statement.
Deferred tax claims and deferred tax liabilities are offset against each other in cases where the Group has an enforceable claim for the imputation of actual tax refund claims against actual tax liabilities and that such refer to income taxes at the same taxable entity and are levied by the same tax authority.

Inventories

Inventories have been stated at the lower of their cost of acquisition or manufacture and their net disposal value. The net disposal value is equivalent to the sales proceeds achievable in the normal course of business less the estimated costs up to completion and the estimated sales-related expenses thereby incurred.

Accounts receivable

Accounts receivable, which generally have terms of 30 to 90 days, have been stated at the original invoice amount less any bad debt allowance for uncollectible receivables. Bad debt allowances are stated in cases where there are objective material indications that the Group will not be in a position to collect such receivables. In the mail order segment, a general bad debt allowance is stated on the basis of experience.
Receivables are cancelled from the books as soon as they are uncollectible.

Cash and cash equivalents

The cash, cheques and cash equivalents stated in the balance sheet include cash holdings, credit balances at banks and short-term deposits with original maturities of less than three months, as well as securities.

Treasury stock

In the event of the Group acquiring treasury stock, then this is deducted from equity. The purchase and sale of treasury stock is recorded without any impact on earnings.

Interest-bearing loans

Loans are initially stated at the fair value of the counter-consideration thereby received following the deduction of the transaction expenses relating to the taking up of the respective loan. Following initial statement, interest-bearing loans are subsequently valued at updated cost of acquisition using the effective interest method.

Pensions and similar obligations

Defined benefit plans

Beate Uhse AG and two of its subsidiaries have established a so-called defined benefit pension scheme for their employees. Pension payments are granted in the form of old-age, invalidity and widows' pensions. The pension schemes grant payments which are dependent on the term of service and the final salary. The pension scheme has been closed to new entrants since 15 December 1978.
Moreover, individual commitments have been made to former employees of ZBF Zeitschrift-Buch- und Film-Vertriebs GmbH, Wiesbaden (ZBF GmbH). Fixed amounts have been determined in the individual commitments.
The expenses relating to the payments made within the framework of these defined benefit schemes have been calculated separately for each scheme using the projected unit credit method.
Actuarial profits and losses are recorded as income or expenses in cases where the net balance of the cumulative, unrecorded actuarial profits and losses for each individual scheme at the end of the previous reporting period exceeds the higher of ten percent of the defined benefit obligation or ten percent of the fair value of the plan assets at this time. These profits or losses are realised over the expected average remaining working life of the employees included in the scheme. The amount to be recorded as an obligation in connection with a defined benefit scheme is the sum of the present value of the defined benefit obligation and the actuarial profits and losses recorded without any impact on earnings and the fair value of the plan assets available for the direct fulfilment of obligations.

Other accruals

Accruals are stated in cases where the Group has a current (legal or factual) obligation resulting from a past event, where the fulfilment of such obligation is likely to result in the outflow of resources of economic use and where the level of such obligation can be reliably estimated. Should the Group expect at least a partial refund for any accrual capitalised as a liability (e.g. in connection with an insurance agreement), then the refund is only recorded as a separate asset in cases where such refund is virtually certain to occur. The expenses relating to the statement of the accrual are reported in the income statement following deduction of the refund. In cases where the impact of the interest effect is material, the accruals are discounted at an interest rate before tax which reflects the specific risks surrounding the obligation. In cases where accruals are discounted, the increase in accruals resulting from the passage of time is recorded under interest expenses.

Obligations arising in connection with the termination of employment relationships

The companies included in the consolidated financial statements grant individual employees the possibility of concluding partial early retirement agreements governing their premature retirement from the respective company. The partial early retirement agreements are treated in the consolidated financial statements as obligations arising in connection with the termination of the employment relationship, with obligations and personnel expenses being reported at the level of the present value of the expected future additional payments at the time at which the employees accept the offer of partial early retirement or are expected to do so. The portion of such obligation with a maturity of more than one year is stated as a long-term obligation.

Derivative financial instruments and hedging transactions

The Group makes use of derivative financial instruments, such as foreign exchange forward and option transactions, as well as interest swaps, in order to cover itself against interest rate and foreign currency risks. These derivative financial instruments are initially stated at their fair values at the time at which the respective agreements are concluded and are subsequently revalued at their fair values. Derivative financial instruments are stated as assets when their fair values are positive and as liabilities when their fair values are negative.

The Group did not have any foreign exchange forward or option transactions as of 31 December 2005. The fair value of interest swap contracts is calculated by reference to the market values of comparable instruments.

At the beginning of any hedging relationship, the Group formally determines the hedging relationship which the Group intends to account for as a hedging transaction, as well as the risk management objectives and strategies in respect of the hedge, and documents these. Such documentation includes the identification of the hedging instrument, the underlying transaction or hedged transaction and the type of risk to be hedged, as well as a description of how the company will determine the effectiveness of the hedging instrument in compensating for risks resulting from changes in the current values or the cash flow of the underlying transaction thereby hedged. Such hedging relationships are assessed as being highly effective in terms of compensating for the risks resulting from changes in the fair value or cash flow. They are subject to ongoing monitoring in order to ascertain whether they were highly effective for the whole of the reporting period for which the hedging relationship was designated.

Interest swaps serving to secure cash flows and fulfilling the criteria governing the statement of hedging relationships are accounted for as follows:

- The effective portion of the income or loss from a hedging instrument is recorded directly under equity, taking due account of deferred taxes, while the ineffective portion is recorded with an impact on earnings.

- The amounts recorded under equity are stated in the income statement in the period in which the transaction thereby hedged affects period earnings, e.g. in which the financial income or expenses thereby covered are recorded or in which a planned sale or purchase is undertaken.

The income or losses incurred on changes in the fair value of interest swaps which do not fulfil the criteria for statement as hedging transactions are recorded with an immediate impact on earnings.
In accordance with the transitional regulation set out in IFRS 1.36A, comparative information has not been provided pursuant to IAS 32 and IAS 39. In respect of comparative information, application is made of the reporting and valuation regulations set out in commercial law for those financial instruments to which IAS 32 and IAS 39 are applicable. As of 31 December 2004, the Group had the following interest swaps serving to secure cash flows and fulfilling the strict criteria governing the statement of hedging transactions:

- One interest swap amounting to EUR 5,000k with a term running until 28 June 2005. At 31 December 2004, its time value (marking-to-market) of EUR 55k was negative.

- One receiver interest swap with a term running until 30 October 2010 valued at EUR 8,571k as of 31 December 2004. At 31 December 2004, its time value (marking-to-market) of EUR 40k was positive.

The accounting and valuation principles set out in commercial law did not require such derivatives to be recorded.
On 17 May 2004, Beate Uhse AG concluded a forward exchange transaction concerning the purchase of USD 2,000k with a term running until 5 January 2005 for the purposes of costing and paying for purchases of merchandise denominated in US dollars. The difference between the exchange rate thereby secured and the exchange rate as of 31 December 2004 resulted in a negative item of EUR 199k, which was accounted for within the framework of accruals for expected losses on pending transactions.

Statement of income

Income is recorded when the economic benefit involved is likely to accrue to the Group and where the level of income can be reliably determined. Moreover, the following accounting criteria have to be fulfilled before income can be stated:

Sale of merchandise and products

Income is recorded when the major risks and rewards relating to the ownership of the merchandise and products thereby sold have passed to the buyer.
Sales resulting from the sale of merchandise for which the rights of return contractually agreed with the purchaser have not expired as of the balance sheet reporting date are recorded as having been realised in cases where the expected returns can be reliably estimated. To the extent that the rate of return is determinable, a liability is recorded for the amount of returns expected and deducted from sales. Sales are valued at the fair value of the counter-considera-

tion received or to be received and represent the amounts receivable for the goods and services in the normal course of business. Discounts, value added tax and other taxes in connection with the sale are deducted.

Interest income

Income is recorded upon the interest arising (using the effective interest method, i.e. the forecast interest rate at which the estimated future cash flows are to be discounted to the net book value of the financial asset over the expected term of the financial instrument).

Dividends

Income is recorded upon the Group acquiring a legal claim to payment.

Debt capital costs

The costs of debt capital are recorded as expenses in the period in which they are incurred.

Share-based compensation

The employees of the Group (including management staff) receive share-based compensation which is settled using equity instruments.
Expenses arising as a result of transactions settled by equity instruments are valued at the fair value of the equity instruments granted at the time of such being granted. The fair value is determined by an external expert. Expenses relating to transactions settled by equity instruments are recorded with a simultaneous corresponding increase in equity for the duration of the lockup period. Cumulative expenses for transactions settled by equity instruments reflect at each reporting date up to the first possibility of exercise that part of the earning period and the number of equity instruments which on the basis of the Group's best estimate will finally become non-lapsable. The amount charged or credited to the income statement reflects the development of the cumulative expenses reported at the beginning and at the end of the reporting period.
No expenses are recorded for rights to remuneration which do not become non-lapsable.
In accordance with the transitional regulations, application is made of IFRS 2 in the case of all commitments of equity instruments made later than 7 November 2002 and which had not yet become non-lapsable on 1 January 2005.
No account needed to be taken of any dilutive effects resulting from outstanding share options. Pursuant to IAS 33.47, a dilutive effect only arises when the average stock market price of the ordinary shares is in excess of the exercise price of the options during the reporting period. The earnings per share figures stated for previous years have not been retrospectively adjusted in order to account for changes in the price of ordinary shares.

Leasing agreements

Leasing agreements are classified as financial leasing in cases where the leasing conditions mean that virtually all risks and rewards relating to ownership are assigned to the lessee.
All other leasing relationships are classified as operating leasing.
The Group has not classified any leasing agreements as financial leasing agreements.
Leasing payments for operating leasing agreements are recorded as expenses in the income statement on a straight-line basis over the term of the leasing agreement.

Foreign currencies

The consolidated financial statements are compiled in euros, the functional currency and reporting currency of the Group. Each company within the Group determines its own functional currency. The items included in the financial statements of the respective company are valued using this functional currency. Foreign currency transactions are initially converted between the functional currency and the foreign currency using the spot rate valid on the day of the transaction. Monetary assets and liabilities denominated in a foreign currency are converted to the functional currency at the exchange rate valid on the reporting date. All currency differences are recorded under period earnings. Non-monetary items valued at historical cost of acquisition or manufacture in a foreign currency are converted at the rate valid on the day of the business transaction. Non-monetary items valued in a foreign currency at fair value are converted using the exchange rate which was valid at the time of the calculation of such fair value.
At the balance sheet reporting date, the assets and liabilities of foreign subsidiaries and associated companies whose functional currency is not the euro are converted into euros using the exchange rate on the reporting date. Income and expenses are converted using the weighted average exchange rate for the financial year. The conversion differences arising upon such conversion are recorded as a separate component under equity. Upon the disposal of a foreign business operation, the cumulative amount recorded under equity for this foreign business operation is released with an impact on earnings.
The Group has decided to treat goodwill resulting from business combinations undertaken prior to the transition to IFRS as assets and liabilities denominated in euros.

Impairment of assets

The derivative goodwill and other assets of the Beate Uhse Group were allocated to cash generating units ("CGUs") for the purposes of reviewing their ongoing value.
In the event of the achievable value of the cash generating unit being lower than its book value, then an impairment loss is recorded.
In the retail division, the cash generating units generally correspond to the individual stores. In addition, the strategic business units of mail order and entertainment, and the countries in which the operating companies of the wholesale division are active also constitute CGUs.
The achievable value of the cash generating units is generally determined on the basis of a

calculation of a use value using cash flow forecasts based on business plans for a period of three years and which have been approved by the company management. The discount rate used for the cash flow forecasts amounts to 7.9 percent (2004: 8.6 percent). The cash flow forecasts for the period after three years assume a stable level of cash flow; no account has been taken of growth rates.
In the case of the cash generating units in the retail division (stores), the net disposal price is determined in addition to the use value. The management estimates the net disposal price of the stores on the basis of past experience and in general on the basis of one year's net sales. In deviation to this principle, in cases where the location / market situation only permit the sale of the store to a franchisee, then the net book value of the respective assets is stated plus discounted franchise income. A net disposal price of EUR 0 is stated in the case of stores whose location / market situation is not attractive for third parties and whose rental agreements are to be terminated within the budget period.

Book values of the goodwill allocated to the respective cash generating units:

GOODWILL

EUR 000s		2004	2005
Retail		7,874	7,985
Wholesale		6,411	6,344
of which:	CGU ZBF Zeitschrift Buch- und Film-Vertriebs GmbH/ Pleasure Verlagsgesellschaft mbH, Germany	1,136	1,136
	CGU Lavetra International Kft., Hungary	785	785
	CGU Scala Agenturen BV, Netherlands	3,307	3,170
	CGU Beate Uhse Max's AB, Sweden	1,183	1,253
Entertainment		2,542	534
Miscellaneous		7	103
Total goodwill		16,834	**14,966**

In order to review its ongoing value, goodwill acquired in the context of a business combination is allocated to the cash generating units expected to derive benefit from the synergies resulting from the combination.
The goodwill relating to the retail division was allocated to the stores generating future benefit from the improvement in their competitive position. The allocation key used corresponds to the sales of the existing stores.
The goodwill resulting from the acquisition of Christine le Duc BV, Netherlands, is worthy of mention in this respect. This goodwill amounted to EUR 6,477k as of 31 December 2005 and was allocated to the stores operating in the Netherlands on the basis of their respective shares of sales. The goodwill allocated to the individual store is not significant as a proportion of the goodwill of the Beate Uhse Group. The calculation of the achievable amounts of the store is based on the same basic assumptions.

Basic assumptions for calculating the use value of cash generating units as of 31 December 2005 and 31 December 2004

The market environment and development potential of the individual stores are reviewed and evaluated by the management when compiling the cash flow forecasts for the individual retail stores. The budget forecasts in the mail order, wholesale and entertainment divisions are compiled on the basis of growth opportunities in the respective country markets and customer groups.

There will be an increase in gross profit margins as a result of the groupwide pooling of procurement functions and the accessing of new procurement sources. Efficiency enhancements will contribute to a reduction in handling costs.

The following impairment losses were recorded in the business segments:

IMPAIRMENT LOSS

EUR 000s	2004	2005
Retail	0	376
of which: goodwill	0	48
property, plant and equipment	0	328
Miscellaneous	0	7
Total write-down requirement	0	**383**

The write-down requirements mainly related to individual stores in the retail division on account of the inadequate attractiveness of individual store locations and a resultant reduction in their use values. The impairment principally relates to store furnishings.

Of the write-down requirement recorded in the income statement, EUR 376k was recorded under sales-related expenses and EUR 7k under general administration expenses.

8.7

8.7.1 NOTES TO THE CONSOLIDATED BALANCE SHEET

8.7.1.1 INTANGIBLE ASSETS AND GOODWILL

31 DECEMBER 2005

	Industrial property rights EUR 000s	Rights/ licences EUR 000s	Software EUR 000s	Goodwill EUR 000s	Total EUR 000s
1 January 2005					
(including cumulative amortisation)	36	7,595	3,016	16,834	27,481
Additions - acquired externally -	4	1.882	1.863	-	3,749
Disposals	-	-307	-2	-1,885	-2,194
Impairment losses	-	-	-	-48	-48
Amortisation during financial year	-	-1,016	-586	-	-1,602
Effects of changes in exchange rates	-	-2	-	65	63
31 December 2005	**40**	**8,152**	**4,291**	**14,966**	**27,449**
1 January 2005					
Historical cost of acquisition/ manufacture (gross book value)	36	15,610	6,932	16,834	39,412
Cumulative amortisation and impairment losses	-	-8,015	-3,916	-	-11,931
Book value as of 1 January 2005	**36**	**7,595**	**3,016**	**16,834**	**27,481**
31 December 2005					
Historical cost of acquisition/ manufacture (gross book value)	40	17,128	8,790	15,014	40,972
Cumulative amortisation and impairment losses	-	-8,976	-4,499	-48	-13,523
Book value as of 31 December 2005	**40**	**8,152**	**4,291**	**14,966**	**27,449**

31 DECEMBER 2004

	Industrial property rights EUR 000s	Rights/ licences EUR 000s	Software EUR 000s	Goodwill EUR 000s	Total EUR 000s
1 January 2004					
(including cumulative amortisation)	1,032	7,717	2,341	15,315	26,405
Additions - acquired externally -	24	954	1,304	1,481	3,763
Disposals	-1,020	-92	-	-	-1,112
Reclassifications	-	-40	40	-	-
Impairment losses	-	-	-	-	-
Amortisation during financial year	-	-941	-669	-	-1,610
Effects of changes in exchange rates	-	-3	-	38	34
31 December 2004	**36**	**7,595**	**3,016**	**16,834**	**27,481**
1 January 2004					
Historical cost of acquisition manufacture (gross book value)	1,032	16,673	5,529	15,315	38,549
Cumulative amortisation and impairment losses	-	-8,956	-3,188	-	-12,144
Book value as of 1 January 2004	**1,032**	**7,717**	**2,341**	**15,315**	**26,405**
31 December 2004					
Historical cost of acquisition manufacture (gross book value)	36	15,610	6,932	16,834	39,412
Cumulative amortisation and impairment losses	-	-8,015	-3,916	-	-11,931
Book value as of 31 December 2004	**36**	**7,595**	**3,016**	**16,834**	**27,481**

The historical costs of acquisition and manufacture of goodwill as of 1 January 2004 correspond to the residual book values taken from the consolidated financial statements compiled in accordance with German commercial law as of 31 December 2003.

8.7

8.7.1.2 PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2005

	Land, leasehold rights and buildings EUR 000s	Technical equipment and machinery EUR 000s	Plant and office equipment EUR 000s	Prepayments made and assets under construction EUR 000s	Total EUR 000s
1 January 2005					
(including cumulative amortisation)	7,536	108	19,682	193	27,519
Additions	640	47	7,074	204	7,965
Disposals	-167	-4	-746	-14	-931
Reclassifications	-	-	110	-110	-
Impairment losses	-7	-	-328	-	-335
Depreciation during financial year	-866	-75	-6,406	-	-7,347
Effect of changes in exchange rates	-42	-2	10	-	-34
31 December 2005	**7,094**	**74**	**19,396**	**273**	**26,837**
1. Januar 2005					
Historical cost of acquisition/ manufacture	12,032	536	57,985	193	70,746
Cumulative depreciation and impairments	-4.496	-428	-38,303	-	-43,227
Book value as of 1 January 2005	**7,536**	**108**	**19,682**	**193**	**27,519**
31 Dezember 2005					
Historical cost of acquisition/ manufacture	12,409	546	60,906	273	74,134
Cumulative depreciation and impairments	-5,315	-472	-41,510	-	-47,297
Book value as of 31 December 2005	**7,094**	**74**	**19,396**	**273**	**26,837**

Capitalised own-services amounting to EUR 35k were capitalised as plant and office equipment during the 2005 financial year (previous year: EUR 71k).

31 DECEMBER 2004

	Land, leasehold rights and buildings EUR 000s	Technical equipment and machinery EUR 000s	Plant and office equipment EUR 000s	Prepayments made and assets under construction EUR 000s	Total EUR 000s
1 January 2005					
(including cumulative amortisation)	8,016	142	20,019	58	28,235
Additions	419	31	5,993	138	6,581
Acquisition of subsidiaries	–	–	201	–	201
Disposals	-3	–	-250	–	-253
Reclassifications	–	–	-65	-3	-68
Depreciation during financial year	-1,002	-76	-6,238	–	-7,316
Effect of changes in exchange rates	106	11	22	–	139
31 December 2004	**7,536**	**108**	**19,682**	**193**	**27,519**
1 January 2004					
Historical cost of acquisition/ manufacture	11,511	514	54,521	58	66,604
Cumulative depreciation and impairments	-3,495	-372	-34,502	–	-38,369
Book value as of 1 January 2004	**8,016**	**142**	**20,019**	**58**	**28,235**
31 December 2004					
Historical cost of acquisition/ manufacture	12,032	536	57,985	193	70,746
Cumulative depreciation and impairments	-4,496	-428	-38,303	–	-43,227
Book value as of 31 December 2004	**7,536**	**108**	**19,682**	**193**	**27,519**

8.7.1.3 OTHER LONG-TERM FINANCIAL ASSETS

EUR 000s	2004	2005
Financial assets available for sale	–	5,000
Loans to associated companies	–	5,000
Deposits	1,067	1,140
Miscellaneous	3,817	2,775
	4,884	**13,915**

The loan granted to an associated company bears interest at 5 percen and is to be repaid at the latest by 30 June 2009.

8.7.1.4 SHAREHOLDINGS

Pursuant to IAS 39, the following financial investments in non-listed equity instruments have been valued at cost of acquisition, given that their fair values cannot be reliably determined.

EUR 000s	2004	2005
Shareholdings in commercial partnerships	767	767
Shareholdings in corporations	334	312
	1,101	**1,079**

8.7.1.5 SHARES IN ASSOCIATED COMPANIES

A list of all associated companies, including details as to their legal domiciles and the shareholdings held, can be found in the list of group shareholdings.

The fair value of the shares held in the publicly listed associated company erotic media ag, Switzerland, which was derived from its stock market price, amounted to EUR 72,280k at the balance sheet reporting date.

The cumulative total amount of unrecorded prorated losses incurred from associated companies amounted to EUR 39k at 31 December 2005 (previous year: EUR 0k).

The following tables provide summarised financial information concerning the principal associated companies:

Summarised financial informations of erotic media ag, Switzerland:

EUR 000s	2004	2005
ASSETS		
Fixed assets	19,101	41,599
Current assets	9,681	16,293
Total assets	28,782	**57,892**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	25,162	29,534
Minority interests	1,177	1,259
Long-term debt	2,416	22,270
Short-term debt	27	4,829
Total shareholders' equity and liabilities	28,782	**57,892**
CONSOLIDATED INCOME STATEMENT		
Sales	8.777	15.131
Consolidated earnings	1,115	**4,550**

Summarised financial informations of Beate Uhse TV GmbH & Co. KG, Berlin:

EUR 000s	2004	2005
ASSETS		
Fixed assets	3,365	2,909
Current assets	1,524	1,931
Total assets	4,889	**4,840**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	2,714	2,855
Short-term debt	2,175	1,985
Total shareholders' equity and liabilities	4,889	**4,840**
INCOME STATEMENT		
Sales	7,476	7,850
Annual earnings	36	**141**

8.7.1.6 INVENTORIES

EUR 000s	2004	2005
Merchandise	27,426	28,398
Raw materials and supplies	8,934	7,459
Goods in transit	588	663
Unfinished products	289	229
Prepayments made for inventories	224	-
Total	37,461	**36,749**

Write-downs of EUR 1,047k to the lower net disposal price had been recorded as of the balance sheet reporting date on 31 December 2005 (previous year: EUR 1,229k).

8.7.1.7 OTHER SHORT-TERM FINANCIAL ASSETS AND OTHER ASSETS

EUR 000s	2004	2005
Accrued income	1,003	1,074
Suppliers with debt balances	120	690
Other receivables	1,761	458
Miscellaneous	221	584
Total	3,105	**2,806**

8.7.1.8 CASH AND CASH EQUIVALENTS

EUR 000s	2004	2005
Credit balances at banks	7,761	5,722
Cash in transit	936	587
Cash holdings	470	455
Securities	14	13
Total	9,181	**6,777**

The credit balances at banks pay interest at variable interest rates for credit balances with no notice period. The fair value of cash and cash equivalents corresponds to their book value.
For the purposes of the consolidated cash flow statement, cash and cash equivalents include the liquid funds outlined above, short-term deposits and securities. The consolidated cash flow statement includes the cash flows of ongoing and discontinued business divisions.

8.7.1.9 SHARE CAPITAL

The fully contributed share capital amounts to EUR 47,323,696. It is divided into 47,323,696 bearer shares of EUR 1.00 each.
The development of the Group's equity is depicted in the Group Equity Schedule.

SHARES IN CIRCULATION

	Shares/Number
Number of ordinary shares	47,323,696
Treasury stock as of 1 January 2004	-831,082
Shares in circulation as of 1 January 2004	46,492,614
Sale of treasury stock during the 2004 financial year	549,587
Shares in circulation as of 31 December 2004	47,042,021
Sales of treasury stock during the 2005 financial year	91
Shares in circulation as of 31 December 2005	47,042,292

8.7.1.10 AUTHORISED CAPITAL

The Management Board is authorised on the basis of the resolution adopted by the Annual General Meeting on 21 June 2004 to increase the share capital by up to a total of EUR 23,661,000 by 31 May 2009, subject to the consent of the Supervisory Board, by issuing new shares in return for cash or non-cash contributions on one or several occasions.

8.7.1.11 CONDITIONAL CAPITAL

Conditional capital 1

Conditional capital of EUR 1,000,000 was approved by resolution of the Annual General Meeting on 4 August 2000 and by amendment on 17 June 2002. The capital increase is only to be executed by issuing up to one million new bearer shares with a nominal amount of EUR 1.00 with profit entitlement from the beginning of the financial year in which they are issued and only in order to redeem subscription rights granted within the framework of the share option plan of Beate Uhse AG. The conditional capital increase is only to be executed to the extent that the owners of option rights issued within the framework of the Beate Uhse AG share option plan on the basis of the authorisation granted by the Annual General Meeting on 17 June 2002 exercise their options rights and that the option rights are not fulfilled by granting treasury stock. As of 31 December 2005, 766,741 option rights of EUR 1.00 each had been issued.

Conditional capital 2

On the basis of the resolution adopted by the Annual General Meeting on 20 June 2005, the share capital is to be conditionally increased by up to EUR 22,661,848 by the issuing of up to 22,661,848 new bearer shares with a nominal value of EUR 1.00 each. The conditional capital increase is only to be executed to the extent that the owners/creditors of convertible or option bonds of Beate Uhse AG or direct or indirect majority shareholdings of Beate Uhse AG pursuant to Section 16 (1) and (4) of the German Stock Corporation Act (AktG) to be issued by 20 June 2010 exercise their conversion and option rights or to the extent that the owners/creditors of convertible bonds of Beate Uhse AG or of direct or indirect majority shareholdings of Beate Uhse AG pursuant to Section 16 (1) and (4) of the German Stock Corporation Act (AktG) to be issued by 20 June 2010 who are obliged to convert such bonds actually fulfil such conversion obligations, to the extent that such conversion and option rights are not fulfilled by the granting of treasury stock The shares are entitled to participate in profits from the beginning of the financial year in which they are issued.

8.7.1.12 Treasury stock at cost of acquisition

In the course of the stock market flotation, treasury stock was already acquired on 27 May 1999 for the purpose of sale to business partners and customers on the basis of an authorisation adopted by the then Annual General Meeting.
Further treasury stock was acquired in December 2001 and January 2002 for the purposes of entire or partial acquisitions, mutual shareholdings or for other steps relating to the company's strategic development.
Pursuant to the resolution adopted by the Annual General Meeting on 20 June 2005, Beate Uhse AG is entitled until 21 December 2006 to acquire treasury stock up to an amount of 10 percent of the company's share capital.
The holdings of treasury stock showed the following development:

OWN SHARES

	Treasury stock	Share of share capital %	Cost of acquisition EUR 000s
Balance at 1 January 2004	**831,082**	**1,757**	**10,279**
Disposal	549,587	1,161	-6,814
Balance at 31 December 2004	**281,495**	**0,596**	**3,465**
Disposal	91		1
Balance at 31 December 2005	**281,404**	**0,596**	**3,464**

The disposal did not generate any major income on disposal.

8.7.1.13 CAPITAL RESERVE

The capital reserve includes the book value of the obligations relating to share-based remuneration to employees of the Beate Uhse Group.

On the basis of the authorisation granted by the Annual General Meeting on 17 June 2002, the members of the Management Board of Beate Uhse AG and members of the management of affiliated companies and the employees of Beate Uhse AG and affiliated companies are offered subscription rights. Each option right entitles its holder to acquire one share. The term of the option rights amounts to 7 years from the time of their being granted. The option right may be exercised for the first time after a lockup period of 2 years following its being granted. Following the expiry of the lockup period, the option right may be exercised within a period of 4 weeks following publication of the six-month report and of the annual report (exercise windows). Should option holders not exercise their subscription rights during any particular exercise window, then they may do so in the following exercise windows for a period not exceeding the expiry of the term of the option rights thereby granted. Any option rights not exercised shall expire upon their holder leaving the company.

	2004		2005	
EUR	Options	WAEP[1]	Options	WAEP[1]
Outstanding at beginning of reporting period	384,394[2]	11.09	545,323[2]	11.20
Granted during reporting period	189,468	11.44	192,879	8.38
Lapsed during reporting period	-28,539	11.18	-30,116	11.18
Outstanding at end of reporting period	545,323	11.20	708,086	10.44
Exercisable at end of reporting period	190,854	11.06	350,577	11.08

[1] Weighted average exercise price

[2] This figure includes options to the acquisition of 190,854 shares, which pursuant to IFRS have not been recorded given that the options were granted on or prior to 7 November 2002 and that the fair value of these options has not been determined and subsequently published.

The weighted average remaining contractual period for the share options outstanding as of 31 December 2005 amounts to 5.63 years (2004: 5.11 years).

The fair value of the options granted during the financial year amounted to EUR 0.9918 (2004: EUR 1.605).

The exercise prices for the options outstanding at the end of the reporting period range from EUR 8.382 to EUR 11.44 (2004: EUR 11.06 to EUR 11.44).

The fair value of the share options granted and to be settled by equity instruments is calculated by simulation at the time of such options being granted by means of a programme internally adapted to the agreed strategy (Monte Carlo analysis). A geometric Brownian process also based on the Black-Scholes model has been assumed for the underlying movements in the share price.

The calculation of the fair value of the options granted during the 2005 financial year and the previous year was based on the following parameters:

		2004	2005
Exercise strategy		**Earliest possible exercising**	**Earliest possible exercising**
Issue date		16.8.2004	25.6.2005
Stock market price at issue date	(EUR)	10.44	7.60
Exercise price	(EUR)	11.44	8.32
Risk-free interest rate	(%)	3.81	2.87
Expected volatility	(%)	25.80	24.54
Term		7 years	7 years
Expected dividends	(EUR)	0.10 to 0.30	0.13 to 0.30

The expected volatility was calculated on the basis of the performance of the Beate Uhse AG share in the period between 1 January 2002 and 31 December 2005.
The calculation of the fair value did not take account of any additional factors relating to the issuing of the options. The amount relating to share-based remuneration with settlement by equity instruments recorded under expenses amounted to EUR 237k during the financial year (previous year: EUR 176k). No share-based remuneration involving cash settlement has been granted. The book value of the obligations relating to share-based remuneration amounted to EUR 473k as of 31 December 2005 (previous year: EUR 237k).

8.7.1.14 TYPE AND PURPOSE OF OTHER RESERVES

Revenue reserves

Revenue reserves contain sums transferred from consolidated annual earnings in previous years.

Other reserves

Changes in the fair value of financial assets available for sale are recorded in these re-serves. These reserves also include that portion of the profit or loss on a hedging instrument for securing the cash flow which is calculated as the effective cover.

Balancing item for currency conversion

The balancing item for currency conversion serves to record differences arising from the conversion of the financial statements of foreign subsidiaries and associated companies.

8.7.1.15 PENSIONS AND OTHER PAYMENT PLANS FOLLOWING THE TERMINATION OF EMPLOYMENT RELATIONSHIPS

Defined contribution plans

The employees of the Beate Uhse Group in Germany belong to a state pension plan administered by the federal government. The Beate Uhse Group is required to contribute a certain percentage of its personnel expenses to the pension plan in order to cover the payments of

such pension. The only obligation of the Group in connection with this pension scheme is the payment of the contributions so determined.
Expenses of EUR 7,031k have been recorded in the consolidated income statement for this defined contribution plan (previous year: EUR 6,837k).

Defined benefit plans

The following tables depict the components of the expenses for pension payments depicted in the consolidated income statement and the amounts stated in the consolidated balance sheet for the respective plans.
Expenses for pension payments stated in the consolidated income statement:

	Beate Uhse AG		ZBF GmbH		Total	
EUR 000s	2004	2005	2004	2005	2004	2005
Current length of service expenses	-17	-14	–	–	-17	-14
Interest expenses	-194	-169	-25	-29	-219	-198
Actuarial losses recorded	–	-6	–	-4	–	-10
Impact of plan compensation	166	–	–	–	166	0
	-45	**-189**	-25	**-33**	70	**-222**
Actual income from plan assets	21	41	6	5	27	46

The expenses for pension payments are stated in the consolidated income statement in line with their allocation to the employees thereby entitled under costs of sales, sales-related expenses and administration expenses.

The amount of defined benefit obligations stated in the balance sheet is structured as follows:

	Beate Uhse AG		ZBF GmbH		Total	
EUR 000s	2004	2005	2004	2005	2004	2005
Present value of defined benefit obligation	3,847	4,059	647	742	4,494	4,801
Asset value of reinsurance	-431	-472	-256	-262	-687	-734
Asset shortfall	3,416	**-3,587**	391	**480**	3,807	**4,067**
Actuarial losses not recorded	-373	-591	-169	-230	-542	-821
Debts relating to defined benefit obligation reported in balance sheet	3,043	**2,996**	222	**250**	3,265	**3,246**

The amount is depicted in the balance sheet as follows:

EUR 000s	2004	2005
Short-term debt	206	214
Long-term debt	3,059	3,032
Total	3,265	**3,246**

Development of the amount of defined benefit obligations stated in the balance sheet:

EUR 000s	Beate Uhse AG 2004	Beate Uhse AG 2005	ZBF GmbH 2004	ZBF GmbH 2005	Total 2004	Total 2005
1 January	3,221	3,043	203	222	3,424	3,265
Current length of service expenses	17	14	-	-	17	14
Interest expenses	194	169	25	29	219	198
Actuarial expenses	-	6	-	4	-	10
Benefits paid	-202	-195	-	-	-202	-195
Income from plan compensation	-166	-	-	-	-166	-
Income from plan assets	-21	-41	-6	-5	-27	-46
31 December	3,043	**2,996**	222	**250**	3,265	**3,246**

The assumptions underlying the calculation of pension obligations are depicted below:

EUR 000s	2004	2005
Interest rate	4.5 %	4.0 %
Expected return on plan assets	2.0 %	2.0 %
Development of salaries and entitlement	3.0 %	2.0 %
Development of contributions ceiling for social security	3.0 %	2.0 %
Adjustment rate	2.0 %	2.0 %
Personnel turnover	approx. 5 % for active employees	approx. 5 % for active employees
Retirement age:		
Men	62 or 63	62 or 63
Women	62 or 60	62 or 60
Special cases	at least 60	at lest 60
ZBF GmbH individual commitments	65	65
Invalidity or death	1998 Heubeck tables	2005 Heubeck tables

8.7.1.16 OTHER ACCRUALS (LONG-TERM)

EUR 000s	1 Jan. 2005	Added	Utilised	31 Dec. 2005
Dismantling obligations at retail stores	1,671	104	120	1,655
Pending losses on existing agreements	336	313	83	566
Part-time early retirement	198	12	57	153
Anniversary accrual	27	-	-	27
Total	**2,232**	**429**	**260**	**2,401**

8.7.1.17 OTHER FINANCIAL OBLIGATIONS (LONG-TERM)

EUR 000s	2004	2005
Obligations in connection with put options	-	5,000
Miscellaneous	335	189
Total	335	**5,189**

Put options

On the basis of an agreement dated 29 September 2005, Beate Uhse AG sold 1 million shares in erotic media ag, Switzerland, with immediate effect at a price of EUR 5.00 per share. Within the framework of the share purchase and transfer agreement, the company provided the purchaser with the irrevocable offer of repurchasing the 1 million shares at a price of EUR 5.00 per share (put option). This put option may only be accepted in the period between 1 July 2008 and 30 June 2009.

As a result of the sale agreement, economic ownership is basically transferred to the purchaser, given that the repurchase has not been determined in advance and that the rights of utilisation and the opportunities of an increase in the value of the shares are transferred to the purchaser. Due to the obligation to reaccept the shares at the conditions originally set, the risk of a reduction in value nevertheless remains with Beate Uhse AG.

Given that the Group has assigned its contractual rights to cash flows from the shares in erotic media ag, but has neither assigned nor retained all major risks and rewards relating to the ownership of this asset, the shares in erotic media ag continue to be recorded and have been reported under “financial assets available for sale” with a book value of EUR 5,000k as of 31 December 2005. In view of the reacceptance obligation, a liability has been stated at the same amount as the reacceptance price of EUR 5,000k. The option obligation has been stated at a fair value of EUR zero k.

8.7.1.18 OTHER FINANCIAL OBLIGATIONS (SHORT-TERM)

EUR 000s	2004	2005
Returned goods	1,263	1,283
Wage and church tax	772	1,304
Vacation/overtime	1,552	1,000
Wages and salaries	1,626	1,044
Outstanding invoices	702	596
Compensation	891	575
Customer overpayments	737	557
Social security contributions	770	551
Miscellaneous	5,234	2,989
Total	13,547	**9,899**

8.7.1.19 OTHER ACCRUALS (SHORT-TERM)

EUR 000s	1 Jan. 2005	Added	Utilised	Released	31 Dec. 2005
Litigation expenses	-	332	-	-	332
Damages payments	5	260	3	2	260
Film promotion duty	221	31	-	-	252
Indexing of rents	103	172	17	26	232
Part-time early retirement	108	61	-	-	169
Pending losses on existing rental agreements	209	97	209	-	97
Total	**646**	**953**	**229**	**28**	**1,342**

8.7.1.20 LOANS

EUR 000s	2004	2005
Overdraft facilities	38,003	26,753
Bank loans	12,602	12,487
Borrowers' note loans	19,071	17,643
Other loans	84	94
	69,760	**56,977**
of which:		
Short-term loans	38,087	26,847
Short-term portion of long-term loans	5,099	14,418
of which: short term portion of borrowers' note loan	1,429	11,929
Long-term interest-bearing loans	26,574	15,712
of which long-term portion of borrowers' note loans	17,642	5,714

As of 31 December 2005, working capital credit lines amounting to EUR 50,000k were available to Beate Uhse AG (previous year: EUR 45,000k), of which EUR 25,007k had been utilised (EUR 37,908k). The overdraft facilities mature at any time.

The borrowers' note loan of EUR 10,500k, which has a final maturity and was placed on the financial market in 2/2003, has a term until February 2006 and is to be redeemed by a newly placed 7-year borrowers' note loan with a final maturity (EUR 10,000k; term: February 2013). The borrowers' note loan of EUR 10,000k placed on the financial market in October 2003 runs until 10/2010. This is to be repaid in half-yearly payments from 30 April 2005, with thirteen instalments of EUR 714,285.00 and a final instalment of EUR 714,295.00 on 30 October 2010. A 7-year amortisable loan was concluded with IKB Deutsche Industriebank AG in April 2005 in order to refinance the investments made in 2004 in 2005, which were paid for with short-term financing, on a long-term basis (EUR 10,000k term: March 2012; quarterly repayments from 30 September 2005; 26 instalments of EUR 370,370.37; final instalment of EUR 370,370,38 on 31 March 2012).

Security

The comprehensive land charge provided to Commerzbank AG, Flensburg, in the previous year as security to cover liabilities of EUR 2,895k was annulled in 6/2005 by reassignment to Beate Uhse Grundstücksgesellschaft bR (owner), Flensburg. No security has since been provided to cover liabilities to banks and investors in the borrow-ers' note loans. Financial covenants have been agreed with Commerzbank AG, Bayerische Hypo- und Vereinsbank AG, HSH Nordbank AG, Nord/LB Norddeutsche Landesbank, HSBC Trinkaus & Burkhardt KGaA and the investors in the amortisable borrowers' note loan (originally EUR 10,000k) in connection with the working capital credit lines, and with IKB Deutsche Indus-triebank AG in connection with the invest-ment loan. These require the following upper/lower limits to be complied with in respect of the key financial figures based on the consolidated financial statements: Dynamic debt-equity ratio: max. 3.0 (2.5 in the case of the borrowers' note loan and the IKB loan), interest cover of at least 7.0 and equity ratio of at least 30 percent. New key financial figures will be agreed in the course of the conversion of the consolidated financial statements as of 31 December 2005 to International Financial Reporting Standards (IFRS). Negotiations were still underway upon the compilation of these financial statements.

Breakdown of overdraft facilities, bank and borrowers' note loans by currency:

As of 31 December 2005

EUR 000s	Total	EURO	USD	NOK
Overdraft facilities	26,753	25,040	1,708	5
Borrowers' note loans	17,643	17,643	-	-
Bank loans	12,487	12,487	-	-
	56,883	**55,170**	**1,708**	**5**

As of 31 December 2004

EUR 000s	Total	EURO	USD	NOK	DKK
Overdraft facilities	38,003	36,734	1,238	30	1
Borrowers' note loans	19,071	19,071	-	-	-
Bank loans	12,602	12,602	-	-	-
	69,676	**68,407**	**1,238**	**30**	**1**

There were no exchange rate hedging transactions for these foreign currency liabilities as of 31 December 2004 and 31 December 2005.

8.7.1.21 OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

With the exception of derivative financial instruments, the principal financial instruments used by the Group comprise bank loans and overdraft facilities, borrowers' note loans and hire purchase agreements, as well as cash and short-term deposits. The principal objective of these financial instruments is that of financing the business activities of the Group. The Group has various additional financial assets and liabilities directly arising in the course of its busi-ness activities, such as accounts receivable and payable.

Furthermore, the Group also enters into derivative transactions. These include interest swaps, as well as foreign exchange forward and options transactions. These derivative financial instruments are intended to serve the risk management of interest rate and currency risks resulting from the business activities of the Group, as well as its sources of financing.
It was and remains the Group's business policy not to undertake any trading with financial instruments.
The Group's principal risks in connection with financial instruments relate to cash flow risks, liquidity risks, foreign currency risks and default risks. The company management monitors the risks depicted below within the framework of the group-wide early risk identification system.

Cash flow risks resulting from changes in interest rates

The risk of changes in interest rates to which the Group is exposed primarily relates to financial debt with floating interest rates.
Beate Uhse makes use of interest swaps in order to cover the risk of changes in interest rates in connection with its overdraft facilities, bank and borrowers' note loans.
Of the short-term liabilities to banks of EUR 26,753k, EUR 15,000k are secured against interest rate increases by means of interest swaps. Moreover, an interest swap has been traded in order to cover the amortisable loan from IKB (nominal value: EUR 10,000k; term: March 2012), which has a floating interest rate.

Liquidity risk

The Group's liquidity is safeguarded by means of cash pooling at Beate Uhse AG and by means of the central cash management performed by the finance department. All major subsidiaries are included in the cash pool. Central investment and credit management structures ensure that the financial funds (loans/leasing/rent) required to meet all payment obligations are provided in good time.

Foreign currency risk

The Group is exposed to foreign currency risks relating to the procurement of merchandise using US dollars. Foreign exchange forward and options transactions are concluded in order to eliminate risks resulting from changes in exchange rates. As of 31 December 2005, the Group did not have any hedging transactions relating to ex-change risks in connection with payment obligations.

Default risk

The default risk at the Group primarily results from accounts receivable. The creditworthiness of all customers wishing to conclude a transaction involving credit with the Group is checked. Moreover, the volumes of receivables are monitored on an ongoing basis.
In respect of the Group's other financial assets, which include cash and cash equivalents, financial assets available for sale and certain derivative financial instruments, the Group is exposed to a maximum default risk amounting to the book values of the respective instrument in

the event of any default on the part of the counterparty.
Loans and short-term loans are generally only granted within the Beate Uhse Group or to closely related persons. The Group does not have any major concentrations of default risk.

8.7.1.22 FINANCIAL INSTRUMENTS

The table below provides a comparison of the book values and the fair values of the long-term financial instruments of the Group reported in the balance sheet.
No comparison has been provided in the case of short-term financial instruments, including the short-term portion of long-term loans, given that the book value represents an adequate approximation of the fair value.

	Book value		Fair value	
EUR 000s	2004	**2005**	2004	**2005**
Financial assets				
Financial investments available for sale	-	5,000	-	5,000
Loans and receivables	3,305	7,775	3,305	7,775
Other financial assets (long-term)	1,579	1,140	1,579	1,140
Interest swaps	-	20	-	20
Financial liabilities				
Interest bearing loans:				
Loans with floating interest rates	3,228	2,220	3,228	2,220
Loans with fixed interest rates	5,703	7,778	5,481	6,860
Fixed interest borrowers’ note loan	17,643	5,714	16,336	5,166
Other financial liabilities (long-term)	335	5,189	335	5,189
Interest swap	-	50	-	50

The market value was drawn on to determine the fair value of the financial assets available for sale included in the above depiction. The fair value of the loans, borrowers’ note loan and other financial assets was determined by discounting the expected future cash flows using prevalent market interest rates.
Write-down expenses on accounts receivable amounting to EUR 16,120k have been recorded in the consolidated income statement (previous year: EUR 13,748k).

Interest rate risk

The interest rate of financial instruments classified as having floating interest rates is adjusted at intervals of under one year. The interest rate on financial instruments with fixed interest rates is set until the maturity of the respective financial instrument.
The following table groups the book values of the financial instruments at the Group which are subject to interest rate risks, broken down into their contractually agreed maturities.

Financial year ending on 31 December 2005

Fixed interest rate EUR 000s	Within one year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Borrowers' note loan	11,929	1,428	1,429	1,429	1,428	–	17,643
Amortisable loan*	1,481	1,481	1,482	1,482	1,481	1,852	9,259
Overdraft facilities*	15,000	–	–	–	–	–	15,000
Payer swaps*	–	–	–	–	-20	50	30

* As of 31 December 2005, the Group had interest swaps (payer swaps) amounting to EUR 24,259k with terms running until 4/2010 (EUR 10.0 million), 3/2012 (9.3) and 4/2012 (5.0).

Financial year ending on 31 December 2005

Floating interest rate EUR 000s	Within one year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Cash and short-term deposits	-6,777	–	–	–	–	–	-6,777
Overdraft facilities	11,753	–	–	–	–	–	11,753
Amortisable loan	1,008	1,008	1,212	–	–	–	3,228

Financial year ending on 31 December 2004

Fixed interest rate EUR 000s	Within one year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Borrowers' note loan	1,428	11,929	1,428	1,429	1,429	1,428	19,071
Loan payable upon final maturity	5	5,703	–	–	–	–	5,708
Overdraft facilities*	5,000	–	–	–	–	–	5,000
Payer swap**	55	–	–	–	–	–	55
Receiver swap*	-40	–	–	–	–	–	-40

* As of 31 December 2004, the Group had an amortisable receiver swap amounting to EUR 8,571k in respect of a borrowers' note loan with a term running until 30 October 2010. This swap was sold on 22.02.05.

** As of 31 December 2004, the Group had an interest swap (payer swap) amounting to EUR 5,000k with a term running until 28 June 2005 to hedge an overdraft facility.

Financial year ending on 31 December 2004

Floating interest rate EUR 000s	Within one year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Cash and short-term deposits	-9,181	–	–	–	–	–	-9,181
Overdraft facilities	33,004	–	–	–	–	–	33,004
Short-term loans	3,665	1,008	1,008	1,212	–	–	6,893

Hedging transactions

Hedging transactions covering the cash flow

As of 31 December 2005, the Group had payer swaps to cover loan obligations with floating interest rates against any increase in interest rates.
The fair value of the swap in place as of 31 December 2005 is structured as follows:

Effective interest swaps

EUR 000s	Type of effective interest swap	Volume at 31.12.2005	Term	Market value (marking-to-market) at 31.12.2005
	Payer swap	9,259	29.4.2005-30.3.2012	14.3 negative

A loss of EUR 14k incurred on an effective interest swap was recorded directly under equity in the 2005 financial year.

Ineffective interest swaps

EUR 000s	Type of ineffective interest swap	Volume at 31.12.2005	Term	Market value (marking to-market) at 31.12.2005
	Payer swap	5,000	29.4.2005-29.4.2010	10.9 positive
	Payer swap	5,000	29.4.2005-29.4.2010	8.9 positive
	Payer swap	5,000	29.4.2005-30.4.2012	35.7 negative

8.7.1.23 OBLIGATIONS RELATING TO OPERATING LEASING AGREEMENTS

The Group has concluded leasing agreements for various properties, technical equipment and plant and office equipment.
The following principal agreements were in force as of the balance sheet reporting date.
Starting on 1 July 2003, the building at Rondebeltweg 2 in 1329 Almere, Netherlands, was let from Immo Almere BV, Netherlands, by Scala Agenturen BV, Netherlands. The central warehouse of the Group is located in the building. The duration of the letting amounts to 15 years, with an annual net rent of EUR 950k per annum. Following the expiry of the rental period, there is the option of extending the letting agreement for a further 10 years. The rent is indexed on an annual basis, and for the first time on 1 July 2004.
The Fijutsu logistical system located in the premises at Rondebeltweg 2 in 1329 Almere, Netherlands is also let by Scala Agenturen BV, Netherlands, from Immo Almere BV, Netherlands. The letting agreement was concluded for a term of 10 years, starting on 1 July 2004. The monthly net rent amounts to EUR 33k. Following the expiry of the agreed letting period, Scala Agenturen BV, Netherlands, has the possibility of exercising a purchase option by paying a final amount of EUR 510k.

The other leasing agreements have an average term of between 3 and 5 years and do not include any extension options.
At the balance sheet reporting date, the Group had the following future minimum leasing payment obligations in connection with non-terminable operating leasing agreements:

EUR 000s	2004	2005
Within one year	1,346	1,346
Between one and five years	5,384	5,384
More than five years	9,857	8,511
	16,587	**15,241**

8.7.1.24 OTHER FINANCIAL OBLIGATIONS

Other financial obligations (including non-terminable operating leasing obligations) were structured as follows as of 31 December 2005:

EUR 000s	2006	2007	2008	2009	2010 and later	Total	Previous year Total
Rental expenses for rooms/facilities	17,412	16,338	14,710	13,336	33,692	95,488	79,134
Guarantee expenses/interest expenses	901	626	436	292	225	2,480	2,387
Licence fees	153	153	153	153	460	1,072	2,144
Servicing/cleaning/maintenance	411	135	116	114	109	885	789
Advisory expenses	258	190	15	15	15	493	694
Miscellaneous	773	10	10	10	10	813	802
	19,908	**17,452**	**15,440**	**13,920**	**34,511**	**101,231**	**85,950**

As of the balance sheet reporting date, there were claims of EUR 2,772k in connection with non-terminable subletting agreements (previous year: EUR 1,919k).
During the reporting period, payments amounting to EUR 710k were recorded in connection with subletting agreements (previous year: EUR 697k).

8.7.1.25 CONTINGENT LIABILITIES

EUR 000s	2004	2005
Liabilities relating to guarantees and bill sureties	1,040	3,698
Liabilities relating to the issue and assignment of bills of exchange	147	153
Total contingent liabilities	1,187	**3,851**

8.7

8.7.2 NOTES TO THE CONSOLIDATED INCOME STATEMENT

8.7.2.1 SALES

Ongoing business divisions

EUR 000s	2004	2005
Merchandise	211,568	221,197
Mail order charges	13,587	15,393
Added value telephone services	9,397	10,691
Video cabins	9,014	8,832
Online sales	7,970	7,030
Cinema	5,775	5,843
Game machines	2,781	4,206
Address rental	1,539	2,302
Licences	863	1,268
Miscellaneous	10,578	8,025
	273,072	**284,787**

Discontinued business divisions

Sales	4.769	2.856
	277.841	**287.643**

8.7.2.2 COSTS OF SALES

Ongoing business divisions

EUR 000s	2004	2005
Goods and material employed	93,085	90,722
Personnel	8,985	9,870
Depreciation	997	933
Other taxes	1,219	912
Miscellaneous	6,609	6,633
	110,895	**109,070**

Discontinued business division

Goods and material employed	1,087	657
Personnel	634	514
Depreciation	16	17
Miscellaneous	271	487
	2,008	**1,675**
	112,903	**110,745**

8.7.2.3 OTHER OPERATING INCOME

Ongoing business divisions

EUR 000s	2004	2005
Proceeds on interest on arrears and dunning	9,000	10,772
Rental income	1,624	1,558
Miscellaneous	4,723	2,258
	15,347	**14,588**

Discontinued divisions

Proceeds on interest on arrears and dunning	71	120
Miscellaneous	71	0
	142	**120**
Total	15,489	**14,708**

8.7.2.4 SALES-RELATED EXPENSES

Ongoing business divisions

EUR 000s	2004	2005
Personnel	30,023	30,455
Depreciation	5,008	5,973
Miscellaneous	95,402	106,165
	130,433	**142,593**
Discontinued business division	3,256	**1,504**
	133,689	**144,097**

8.7.2.5 NET INTEREST EXPENSES

Ongoing business divisions

EUR 000s	2004	2005
Other interest and similar income	454	470
Interest and similar expenses	-2,715	-2,707
	-2,261	**-2,237**
Discontinued business division	-275	**-260**
	-2,536	**-2,497**

8.7.2.6 TAXES ON INCOME

The principal components of income tax expenses for the 2005 and 2004 financial years are structured as follows:

Consolidated income statement

EUR 000s	2004	2005
Actual taxes on income		
Actual income tax expenses	7.189	4,570
Adjustment to actual income taxes incurred in previous year	798	-
	7,987	**4,570**
Deferred income taxes		
Arising and reversal of temporary differences	-5,730	480
Deferred taxes on loss carryovers	4,687	999
	-1,043	**1,479**
Income tax expenses reported in the consolidated income statement	6,944	**6,049**

Group equity schedule

EUR 000s	2004	2005
Deferred income taxes of relevance to items directly charged or credited to equity		
Net loss on the revaluation of hedging transaction to secure the cash flow	-	-5
Non-realised profit from the disposal of financial assets available for sale	-	53
Income tax expenses recorded unter equity	-	**48**

Transition from the expected tax expenses to the tax expenses reported

The applicable tax rate of 38 percent in Germany includes German trade tax based on the relevant trade tax assessment rates and taking due account of the deductibility of trade tax from its assessment basis, as well as corporate income tax. The applicable tax rate of 31.5 percent in the Netherlands includes income tax.

The transition from the product of the period earnings stated in the financial statements and the tax rate applicable to the Group and the income tax expenses for the 2005 and 2004 financial years is structured as follows:

EUR 000s	2004	2005
Earnings before taxes on income at ongoing business divisions	15,639	20,418
Earnings before taxes on income at one discontinued business division	-1.513	-773
Earnings before taxes on income	14,126	**19,645**
Expected tax expenses (38 %)	5,368	**7,465**
Taxes on loss carryovers not accounted for	1,159	52
Back-payment of tax in connection with a tax audit in the Netherlands	480	-
Back-payments of tax for previous years	318	-
Income from equity valuation	-177	-664
Deviating tax rates in other countries	-204	-804
Total transition to group tax result	1,576	**-1,416**
Income tax expenses reported in the consolidated income statement	6,944	**6,049**

Deferred income taxes were structured as follows on the balance sheet reporting date:

EUR 000s	Consolidated balance sheet		Consolidated income statement	
Deferred income tax liabilities	2004	**2005**	2004	**2005**
Write-up of shares in subsidiaries	-	-	7,441	-
Write-down of loans to subsidiaries	2,118	2,118	-2,118	-
Valuation of foreign currency loans	-	-	155	-
Valuation of inventories	82	31	20	51
Discounting of accrual for pending losses	23	-	-15	23
Miscellaneous	10	63	-10	0
Capitalised deferred tax liabilities	*2,233*	**2,212**	5,473	**74**
Deferred income tax claims				
Utilisation of tax loss carryovers	9,393	8,277	-4,911	-1,116
Elimination of intercompany profits	1,644	1,490	-249	-154
Valuation of accruals/accrued income	704	274	410	-430
Capitalisation of tax loss carryovers	224	341	224	117
Valuation of pension obligations	304	299	4	-5
Valuation of early part-time retirement obligations	30	3	10	-27
Miscellaneous	106	172	82	62
Capitalised deferred tax claims	12,405	**10,856**	-4,430	**-1,553**
Deferred income tax income/expenses			1,043	-1,479

As of 31 December 2005, the Group had corporate income tax loss carryovers of EUR 138k (previous year: EUR 3,049k) relating to various subsidiaries for which no deferred tax claims had been capitalised. No deferred tax claims are stated for these losses, given that they are not eligible to be offset against the taxable income of other group companies and that they arose at subsidiaries which have already incurred losses over a longer period and will not generate any taxable income in the foreseeable future. The loss carryovers are available to be

offset against future taxable income for an indefinite period.
There were no deductible temporary differences in connection with shares in subsidiaries or associated companies for which deferred taxes were stated either as of 31 December 2005 or as of 31 December 2004.
The distribution of dividends by Beate Uhse AG to its shareholders has not had any consequences in respect of income tax.

8.7.2.7 PERSONNEL EXPENSES

EUR 000s	2004	2005
Wages and salaries	41,395	40,158
Statutory social security expenses	6,837	7,031
Voluntary social security expenses	119	109
Miscellaneous	2,281	2,811
	50,632	**50,109**

Breakdown of personnel expenses into items relating to the costs of sales method

EUR 000s	2004	2005
Costs of sales	9,619	10,384
Sales-related expenses	30,023	30,455
General administration expenses	10,959	9,238
Other operating expenses	31	32
	50,632	**50,109**

Number of employees by segment

	2004	2005
Retail	852	882
Mail order	283	288
Wholesale	218	230
Entertainment	82	79
Services	42	44
	1,477	**1,523**

A total of 60 individuals were employed at associated companies during the 2005 financial year (previous year: 64).

8.7.2.8 BREAKDOWN OF DEPRECIATION AND AMORTISATION INTO ITEMS RELATING TO THE COSTS OF SALES METHOD

EUR 000s	2004	2005
Cost of sales	1,013	950
Sales-related expenses	5,008	5,973
General administration expenses	2,854	2,512
Other operating expenses	201	130
	9,076	**9,565**

8.7.2.9 DISCONTINUED BUSINESS DIVISION

The mail order business launched in the USA in 2002 was terminated in September 2005. In spite of a complete realignment of the marketing approach, sales had not developed on budget. The winding down of the American mail order company was completed at the end of November. The earnings of the American mail order business were as follows:

EUR 000s	2004	2005
Sales	4,769	2,856
Cost of sales	-2,008	1,675
Gross earnings on sales	2,761	**1,181**
Sales-related expenses and administration expenses	-4,281	-1,204
Other operating income less other operating expenses	282	-490
Net interest expenses	-275	-260
Loss allocable to the discontinued business division for the period	-1,513	-773

No tax expenses had to be accounted for in respect of the discontinued business division in the 2004 and 2005 financial years.
Earnings per share at the American mail order company were as follows:

EUR	2004	2005
Undiluted from discontinued business divisions	-0.03	-0.02
Diluted from discontinued business divisions	-0.03	-0.02

The net cash flows of the American mail order company were as follows:

EUR 000s≤	2004	2005
Ongoing business activities	-1,458	786
Investment activities	1	40
Financing activities	1,277	0

8.7.2.10 EARNINGS PER SHARE

The calculation of undiluted earnings per share involves dividing the earnings allocable to the owners of ordinary shares in the parent company by the weighted average number of ordinary shares in circulation during the year. The calculation of diluted earnings per share involves dividing the earnings allocable to the owners of ordinary shares in the parent company by the weighted average number of ordinary shares in circulation during the year plus the weighted average number of ordinary shares which would be issued as ordinary shares with a corresponding dilutive effect following the conversion of all potential ordinary shares.

The following table depicts the amounts underlying the calculation of undiluted and diluted earnings per share:

Earnings

EUR 000s	2004	2005
Basis for undiluted earnings per share (allocable prorated period earnings of the shareholders in the parent company)	7,079	13,474
Basis for diluted earnings per share	7,079	13,474

Number of shares

000s	2004	2005
Weighted average number of ordinary shares for undiluted earnings per share (excluding treasury stock)	46,786	47,042
Weighted average number of ordinary shares for diluted earnings per share (excluding treasury stock)	46,786	47,042

No dilutive effects arose as a result of the issuing of employee share options, given that the exercise price of the options exceeded the average stock market price of the ordinary shares during the period.
No transactions involving ordinary shares or potential ordinary shares have taken place during the period between the balance sheet reporting date and the compilation of the consolidated financial statements.
The calculation of earnings per share for discontinued business divisions was based on the weighted average number of ordinary shares depicted in the above table for both diluted and undiluted earnings per share. The following tables depict the earnings used as numerators in the calculation:

From ongoing business divisions

EUR 000s	2004	2005
Share of earnings allocable to the shareholders in the parent company	7,079	13,474
Adjustment for the loss incurred on the disposal of discontinued business divisions	1,513	773
Earnings of ongoing business divisions for the calculation of undiluted earnings per share excluding discontinued business divisions	8,592	14,247
Basis for diluted earnings per share exclusively for the business division to be continued	8,592	14,247

From discontinued business divisions

EUR 000s	2004	2005
Undiluted	-1,513	-773
Diluted	-1,513	-773

8.7.2.11 DIVIDEND

It is to be proposed to the Annual General Meeting that a dividend amounting to EUR 6,586,453.58 be distributed from the net earnings of Beate Uhse AG to the shareholders and that the remaining amount of EUR 8,066,014.53 be carried forward.

EUR 000s	2004	2005
Amounts recorded as distributions to the shareholders in the financial year Dividend of 0 cent per share for the 2004 financial year (2003: 10 cents per share)	4,675	-
Proposed dividend of 14 cents per share for the 2005 financial year (2004: 0 cents per share	-	6,586

The proposed dividend is dependent on approval by shareholders at the Annual General Meeting and has not been recorded as a liability in the annual financial statements.

OTHER DISCLOSURES

Publication pursuant to Sections 15a, 25 and 41 of the German Securities Trading Act (WpHG)

The company received the following notifications pursuant to Section 15a of the German Securities Trading Act (WpHG) during the 2005 financial year:

- Gerard Philippus Cok, a member of the Management Board, notified the company pursuant to Section 15a WpHG that he had sold 150,000 shares on 1 February 2005 at a price of EUR 10.01 per share.

- Furthermore, Gerard Philippus Cok, a member of the Management Board, notified the company pursuant to Section 15a WpHG that he had sold 25,300 shares on 2 February 2005 at a price of EUR 9.93 per share.

- Jürgen Schulz, the Group Controller, notified the company pursuant to Section 15a WpHG that he had sold 550 shares on 27 May 2005 at a price of EUR 7.83 per share.

- Dörte Tischer, the Director of Group Finance, notified the company pursuant to Section 15a WpHG that she had sold 2,300 shares on 28 June 2005 at a price of EUR 7.32 per share.

The company forwarded these notifications to the Federal Financial Supervisory Authority and published them in the Börsenzeitung stock market publication.
The company received the following notifications pursuant to Section 21 of the German Securities Trading Act (WpHG) during the 2005 financial year:

- Orthmann AG, Schulstrasse 6, CH-9323 Steinach, notified the company on 3 January 2005 pursuant to Section 21 WpHG that its share of the voting rights in Beate Uhse AG had exceeded the 50 percent threshold on 30 December 2004 and that it now held 53.48 percent of the voting rights, instead of its previous holding of 44.86 percent.

- On 6 April 2005, Orthmann AG, Schulstrasse 6, CH-9323 Steinach, notified the company pursuant to Section 21 WpHG, that its share of the voting rights in Beate Uhse AG had fallen short of the 50 percent threshold on 31 March 2005 and that it now held a 45.75 percent share of the voting rights.

- Orthmann Holding AG, Landstrasse 98 B, 9490 Vaduz, Liechtenstein, notified the company on 6 April 2005 pursuant to Section 21 WpHG that its share of the voting rights in Beate Uhse AG had exceeded the 5 percent threshold on 31 March 2005 and that it now held an 8.47 percent share of the voting rights.

- On 14 October 2005, Orthmann Holding AG, Landstrasse 98 B, 9490 Vaduz, Liechtenstein, notified Beate Uhse AG pursuant to Section 21 WpHG that its share of the voting rights in Beate Uhse AG had fallen short of the 5 percent threshold on 14 October 2005 and that it now held 4.01% of the voting rights, instead of its previous holding of 8.47 percent.

- AMP Art Media Productions GmbH, Annastrasse 68 a, 45130 Essen, notified Beate Uhse AG on 20 October 2005 pursuant to Section 21 WpHG that its share of the voting rights in Beate Uhse AG had crossed the 5 percent threshold on 23 August 2005 and that it now held a 6.529 percent share of the voting rights.

The company forwarded these notifications to the Federal Financial Supervisory Authority and published them in the Börsenzeitung stock market publication.
The following disclosures are to be made in respect of further existing shareholdings of a level requiring report:
The following notifications were received by the company pursuant to Section 41 of the German Securities Trading Act (WpHG) in April 2002:

- Consipio Holding BV, Walsoordensestraat 72, NL-45588 KD Walsoorden, notified the company that 20.98 percent of the voting rights in Beate Uhse AG were allocable to it as of 1 April 2002.

- Summa N.V. (previously: Fienco NV), Zegersdreef 96, B-29330 Brasschaat, notified the company that 20.98 percent of the voting rights in Beate Uhse AG were indirectly allocable to it as of 1 April 2002. These voting rights are allocable to this company pursuant to Section 22 (1) Sentence 1 No. 1 of the German Securities Trading Act (WpHG).

Business relationships to closely related persons (IAS 24)

Persons in key positions

Reference is made to the 'Notes on company boards' in respect of the persons in key positions.

Subsidiaries

A list of all subsidiaries included in the consolidated financial statements can be found in the list of group shareholdings.
Business transactions undertaken between the company and its subsidiaries, which constitute closely related persons, were eliminated within the framework of the consolidation and are not outlined in the context of these notes.

Associated companies

A list of all associated companies, including details as to their legal domiciles and the shareholding thereby held, can be found in the list of group shareholdings.

Companies with significant influence on the Group

Reference is made to the 'Disclosures pursuant to Sections 15a, 25 and 41 of the German Securities Trading Act (WpHG)' in respect of companies with significant influence on the Group.
The following business transactions require disclosure:

Persons in key positions at the Group

Ulrich Rotermund is the Chairman of the Supervisory Board of Beate Uhse AG and was the owner of the real estate in Düsseldorf, Graf Adolf Strasse, in which Beate Uhse Einzelhandels GmbH, Flensburg, operates a retail outlet. Furthermore, Ulrich Rotermund was the sole lim-ited partner in Beate und Ulrich Rotermund Grundstücksverwaltungs GmbH & Co KG, Flensburg, which is in turn the owner of the building at Gutenbergstr. 13, Flensburg, which is rented by Beate Uhse AG. The ownership of these two properties was transferred to Reuben Rotermund on 1 June 2005. As the son of Ulrich Rotermund, Reuben Rotermund is a close family relative whose business relationships with the Beate Uhse Group also require report. The rental agreements were concluded at usual market conditions. The rent paid in the 2005 financial year amounted to EUR 225k (previous year: EUR 216k). There were no receivables or liabilities in respect of the rental agreement as of the balance sheet reporting dates for the 2005 financial year and the previous year, neither were there any contingent receivables or liabilities. There were other financial obligations amounting to EUR 423k in connection with the rental agreement as of the reporting date.

DIAG Deutsche Immobilien AG, Norderfriedrichskoog, owns a 50 percent shareholding in Immo Almere BV, Walsoorden, Netherlands. A further 50 percent of the shares in Immo Almere are held by Summa Finance BV, Netherlands. Summa Finance BV is in turn wholly owned by Summa NV, Belgium. The owner of this company is the Cok family. A total of 79 percent of the shares in DIAG Deutsche Immobilien AG, Norderfriedrichskoog, was held by Orthmann AG, Steinach, Switzerland. The shares in Orthmann AG are in turn owned by Richard Orthmann, former Chairman of the Supervisory Board of Beate Uhse AG (49 per-cent) and Ulrich Rotermund, Chairman of the Supervisory Board of Beate Uhse AG. As of 9 May 2005, Orthmann AG sold its shares in DIAG Deutsche Immobilien AG to Rotermund Holding AG, Vaduz, Liechtenstein, whose sole shareholder is Ulrich Rotermund. As of 1 June 2005, Rotermund AG, Vaduz, Liechtenstein, whose sole shareholder is Reuben Rotermund, acquired these shares from Rotermund Holding AG. DIAG Deutsche Immobilien AG in turn sold its shareholding in Immo Almere to Summa Finance BV, Netherlands, as of 1 September 2005.

A rental agreement was concluded at usual market conditions between Immo Almere BV and Scala Agenturen BV, Amsterdam, in respect of a logistics centre in Almere, Netherlands, with effect from 1 July 2003. A further rental agreement in respect of the use of the technical facilities available at the warehouse came into force on 1 July 2004. The rental payments for the 2005 financial year amounted to EUR 1,756k (previous year: EUR 1,340k). There were no receivables or liabilities or contingent receivables in respect of the rental agreement as of the balance sheet reporting dates for the 2005 financial year and the previous year. There were other financial obligations amounting to EUR 18,505k in connection with the rental agreement as of the reporting date.

Summa Finance BV, Netherlands, is the lessor of 37 retail outlets used by Beate Uhse Retail Holding, BV, Netherlands, and the lessor of the administration building and warehouse of Pabo BV, Netherlands. All rental agreements were concluded at usual market conditions. The rental payments relating to these agreements amounted to EUR 1,922k in the 2005 financial year (previous year: EUR 1,843k). There were other financial obligations of EUR 29,020k relating to these rental agreements as of the reporting date. There were no receivables, liabilities or contingent receivables and liabilities as of the reporting date for the 2004 and 2005 financial years.

Nicolaas Bootsma, a member of the Supervisory Board of Beate Uhse AG, is director of Crop registeraccountants, a tax advisory and auditing company in the Netherlands. Crop registeraccountants received fees totalling EUR 315k (previous year: EUR 130k) for the provision of tax advisory services to group companies in the 2005 financial year. The fees paid for these services are appropriate and customary for the market. There were no liabilities as of the balance sheet reporting dates for the financial year and the previous year.

A film licensing agreement involving an annual licence fee of EUR 153k beginning in January 2002 and limited to a period of 10 years was agreed in a contract dated 17 January 2002 between MVW Medien- Vertriebs GmbH, Wiesbaden, Director Günter Schmitt, and ZBF Zeitschrift-Buch- und Film-Vertriebs GmbH, Wiesbaden, Director Günter Schmitt. This resulted in other financial obligations amounting to EUR 920k as of the reporting date. This licensing agreement was concluded at usual market conditions. There were no liabilities relating to the film licensing agreement as of the balance sheet reporting dates for the financial year and the previous year.

Gerard Cok, a member of the Management Board of Beate Uhse AG and proprietor of European Business Consult GmbH, Bereldance, Luxembourg, received fees totalling EUR 193k (previous year: EUR 185k) via European Business Consult for management consultancy services provided to group companies. The fees paid for these services are appropriate and customary for the market. There were no liabilities in this respect as of the balance sheet reporting date for the financial year and the previous year. This disclosure has also been made in the notes to the management board remuneration paid during the financial year under report.

Associated companies

Beate Uhse AG holds a 31.7 percent shareholding in erotic media ag, Baar, Switzerland. On the basis of an agreement dated 29 September 2005, Beate Uhse AG granted a loan of EUR 5,000k to erotic media ag. This was paid out on 13 October 2005. The loan has to be repaid by 30 June 2009 at the latest, including all interest accrued by this time. The loan may be repaid prematurely at any time. The interest rate amounts to 5% p.a. and thus corresponds to customary market rates.

Notes on segmental reporting

The primary format for the segmental reporting of the Beate Uhse Group is based on the business segments, given that the Group’s risks and return on equity are mainly influenced by differences in the business divisions. The business divisions are organised and managed independently of each other. Each segment therefore represents a strategic business division. The geographical segments represent the secondary segmental reporting format and are determined on the basis of the geographical location of the operating units (group subsidiaries). These basically correspond to the geographical locations of the respective customers.
The Beate Uhse Group is divided into the business segments of Retail, Mail Order, Wholesale, Entertainment and Services.
The Entertainment segment comprises online services, such as internet content, e-commerce and telephony, as well as TV/telemedia services and telephone services. The activities of the Services segment principally involve the provision of a group cash pool, the renting of buildings owned by the Group and the provision of head office administration departments.
The results of the associated companies erotic media ag, Switzerland, and Beate Uhse TV GmbH & Co. KG have been allocated to the Services segment.

8.7

The transfer prices between the business segments have been determined on the basis of customary market conditions between third parties. Segmental income, segmental expenses and segmental results include transfers between business segments. Such transfers have been eliminated within the framework of the consolidation.

Notes on the company boards

The Management Board of the company comprises the following individuals:

Otto Christian Lindemann
Businessman
Chief Financial Officer, Spokesman of the Management Board

Gerard Philippus Cok
Businessman
Chief Operating Officer

Remuneration of EUR 240k was paid to the Spokesman of the Management Board, Otto Christian Lindemann, during the 2005 financial year (previous year: EUR 249k). A liability of EUR 30k has been accounted for in respect of the performance-related remuneration of Otto Christian Lindemann for the 2005 financial year (previous year: EUR 0k).
Gerard Philippus Cok was paid consulting fees of EUR 193k during the 2005 financial year in his capacity as the proprietor of European Business Consult, Netherlands (previous year: EUR 185k).
During the 2005 financial year, the members of the Management Board were granted a total of 32,000 option rights to shares in the company with a nominal value of EUR 1.00 and an exercise price of EUR 8.382 (Otto Christian Lindemann 16,000 and Gerard Ph. Cok 16,000). The option rights may not be exercised prior to 25 June 2007.

The Supervisory Board comprised the following members:

Ulrich Rotermund
Meggen, Switzerland
Private investor
Deputy Chairman of the Supervisory Board of Beate Uhse AG until 18 April 2005
Chairman of the Supervisory Board of Beate Uhse AG from 19 April 2005
Member of the Personnel and Investment Committees of Beate Uhse AG from 27 September 2005

Michael Papenfuß
Hamburg
Member of the Divisional Executive Board of Bayerische Hypo and Vereinsbank AG, Hamburg
Deputy Chairman of the Supervisory Board of Beate Uhse AG from 5 July 2005
Member of the Audit Committee from 27 September 2005
Member of the Personnel Committee of Beate Uhse AG from 27 September 2005

Martin Weigel
Hamburg
Chairman of the Management Board of GLC Glücksburg Consulting AG, Hamburg
Member of the Supervisory Board of Beate Uhse AG vom 20 July 2005
Chairman of the Audit Committee from 27 September 2005
Member of the Investment Committee of Beate Uhse AG from 27 September 2005

Nicolaas Bootsma	Blokker, Netherlands Auditor at Crop Registeraccounts, Hoofddorp, Netherlands Member of the Audit Committee Member of the Investment Committee of Beate Uhse AG from 27 September 2005
Monika Wilk	Flensburg Legal advisor at Beate Uhse Einzelhandels GmbH, Flensburg (Employee representative) Member of the Personnel Committee of Beate Uhse AG from 27 September 2005
Carlo Floridi	Cologne Store manager at Beate Uhse Einzelhandels GmbH, Flensburg (Employee representative) Member of the Investment Committee of Beate Uhse AG from 27 September 2005
Richard Orthmann	Steinach, Switzerland Private investor Chairman of the Supervisory Board of Beate Uhse AG until 18 April 2005 Member of the Audit Committee
Detlef Bindert	Frankfurt am Main Group Treasurer, Deutsche Bank AG, Frankfurt am Main Member of the Beate Uhse Supervisory Board until 31 March 2005 Chairman of the Audit Committee

The members of the Supervisory Board are members of the following further supervisory boards:

Michael Papenfuß	Supervisory board member at Bankhaus Neelmeyer AG, Bremen Supervisory board member at HVB Bank Lativa AS, Riga Supervisory board member at Westfalenbank AG, Bochum
Martin Weigel	Supervisory board member at Arco Vara AS, Tallinn (assoc.) Supervisory board member at Baltic Holding Company, Liepaja/Latvia Supervisory board member at Carus IT AG, Norderstedt

The Annual General Meeting held on 20 June 2005 restructured the remuneration paid to members of the Supervisory Board. Members of the Supervisory Board receive fixed annual remuneration of EUR 7.5k. In addition, as a variable component the members of the Supervisory Board receive dividend-related remuneration amounting to EUR 1k for each cent by which the dividend exceeds 7 cents. The Chairman receives 1.5 times and his Deputy 1.25 times the total remuneration of a normal member. Those members of the Supervisory Board who are members of the Audit Committee receive an additional fixed annual amount of EUR 7.5k, with the Chairman receiving EUR 11.25k. The amendment to the Articles of Association is applicable for the first time to the financial year beginning on 1 January 2005.
The remuneration of the Supervisory Board amounted to EUR 67.7k in the 2005 financial year. The fixed component amounted to EUR 67.7k. No variable component was paid. The Chairmen of the Supervisory Board received EUR 14.7k and the Deputy Chairmen EUR 10.8k. All other members of the Supervisory Board received a combined total of EUR 42.2k.
Pension accruals of EUR 980k have been provided for former members of the boards of Beate Uhse AG (previous year: EUR 981k). Pension payments of EUR 93k were made to these board members during the 2005 financial year.

Statement of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG)

The statement required by Section 161 of the German Stock Corporation Act (AktG) was submitted by the Management and Supervisory Boards on 7 December 2005 and made permanently available to shareholders on the company's internet site from the 50th calendar week onwards.

Auditor's fees

The fee expenses recorded during the 2005 financial year for the auditor of Beate Uhse AG, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Rothenbaumchaussee 78, Hamburg, amount to EUR 234k.

Events subsequent to the balance sheet reporting date

Following the conclusion of the 2005 financial year, in view of the lower level of interest compared with the rental price, Beate Uhse decided to acquire the new mail order building and the existing building (both in Walsoorden) rather than continuing to rent them. The purchase prices for the new building, including a seven-hectare piece of land, and the existing building, including a two-hectare piece of land, amount to a total of EUR 17 million. The purchase took place in January 2006 and was financed in full by three banks.

Exemption of certain subsidiaries from auditing and disclosure requirements

The following fully consolidated affiliated German companies with the legal form of a corporation fulfilled the requirements set out in Section 264 (3) of the German Commercial Code (HGB) and have exercised the resultant right to exemption:

Beate Uhse Einzelhandels GmbH, Flensburg
Versandhaus Beate Uhse GmbH, Flensburg
Beate Uhse new media GmbH, Flensburg.

DISCLOSURES RELATING TO THE TRANSITION TO IFRS

The financial year ending on 31 December 2005 is the first year in which the company has compiled it consolidated financial statements in accordance with IFRS. The following disclosures are obligatory in the year of transition. The final set of annual financial statements compiled in accordance with the German Commercial Code (HGB) related to the financial year ending on 31 December 2004. The date of transition to IFRS is therefore 1 January 2004.

Reconciliation of shareholders' equity as of 1.1.2004

EUR 000s	Note	HGB	Impact of transition to IFRS	IFRS
Share capital		47,324	-	47,324
Reserve for treasury stock	1	10,279	-10,279	-
Treasury stock at cost of acquisition	1	-	-10,279	-10,279
Capital reserve	2	-	61	61
Other revenue reserves		3,295	-	3,295
Balancing item for currency conversion		710	-	710
Minority interests		-619	-	-619
Net earnings	3	6,795	10,560	17,355
Total shareholders' equity		**67,784**	**-9,937**	**57,847**

Notes:

Regarding 1:

Under the previous accounting principles, treasury stock was capitalised at cost of acquisition or at its lower fair value, with a reserve for treasury stock being capitalized as a liability of the equivalent amount. IFRS require treasury stock to be deducted from shareholders' equity at cost of acquisition.

Regarding 2:

Under the previous accounting principles, share options issued to employees were not accounted for in the balance sheet as pending transactions. IFRS requires the share options to be valued at the fair value of the equity instruments thereby granted at the time of their being allocated and to be recorded as expenses with a simultaneous equivalent increase in shareholders' equity for the duration of the lockup period.

Regarding 3:

The adjustments to net earnings are illustrated below:

EUR 000s	
Deferred tax claims/obligations	8,591
Transfer to the reserve for treasury stock	10,279
Recording of catalogue expenses with an immediate impact on earnings	-6,991
Miscellaneous	-1,319
	10,560

Under IFRS, IAS 12 requires deferred tax claims and deferred tax obligations to be stated for tax loss carryovers and for all temporary differences between the tax values of the assets and liabilities calculated for tax purposes and the book values in the IFRS balance sheet. Under the previous accounting requirements, the statement of deferred taxes was not required for loss carryovers. Moreover, under the previous accounting requirements the Beate Uhse Group did not state any deferred taxes on quasi-permanent differences between the tax values of assets and liabilities in the tax balance sheet and the book values in the balance sheet compiled in accordance with German commercial law.

Pursuant to the requirements of German commercial law, catalogue expenses were delineated with due periodicity in line with the income expected from the catalogues. IFRS requires advertising expenses, to which catalogue expenses are allocable, to be recorded with an immediate impact on expenses.

RECONCILIATION OF SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2004 (Date of the final set of annual financial statements compiled in line with the German Commercial Code – HGB)

EUR 000s	Note	HGB	Impact of transition to IFRS	IFRS
Share capital		47,324	-	47,324
Reserve for treasury stock		2,830	-2,830	-
Treasury stock at cost of acquisition		-	-3,465	-3,465
Capital reserve		-	237	237
Revenue reserves	1	3,052	243	3,295
Balancing item for currency conversion	2	938	202	1,140
Minority interests	3	-1,115	606	-509
Net earnings	4	19,734	43	19,777
		72,763	**-4,964**	**67,999**

Notes:

Reference is made to the reconciliation of shareholders' equity as of 1 January 2004 in respect of the reserve for treasury stock, treasury stock at cost of acquisition and the capital reserve.

Regarding 1:

Under the previous accounting requirements, it was permitted to offset any goodwill resulting from the initial consolidation of subsidiaries against revenue reserves. Given that such offsetting is not permitted by IFRS, the offsetting of a credit difference undertaken in 2004 was reversed.

Regarding 2:

IFRS requires the assets and liabilities of foreign associated companies whose functional currency is not the euro to be converted to euros at the rate on the reporting date. Income and expenses are converted at the weighted average rate of the financial year. The conversion differences arising upon such conversion are recorded as a separate component of shareholders' equity. German commercial law (HGB) did not require conversion differences relating to foreign associated companies to be recorded.

Regarding 3:

IFRS requires any losses allocable to minority shareholders in excess of the minority interests to be directly offset against the shares of the parent company. Under German commercial law (HGB), such losses continued to be allocated to minority shareholders.

Regarding 4:

The adjustments to net earnings are illustrated below:

EUR 000s	
Deferred tax claims/liabilities	8,725
Transfers to the reserve for treasury stock	2,830
Elimination of goodwill amortisation	1,434
Elimination of write-downs of treasury stock	634
Share-based remuneration	-237
Depreciation of capitalised dismantling obligations	-285
Recording of catalogue expenses with an immediate impact on earnings	-9,736
Miscellaneous	-3,322
	43

EUR 000s	2004
Consolidated earnings pursuant to HGB	9,722
Elimination of goodwill write-downs	1,434
Deferred tax claims/liabilities	134
Elimination of write-downs of treasury stock	634
Share-based remuneration	-237
Recording of catalogue expenses with an immediate impact on earnings	-2,745
Depreciation of dismantling obligations	-285
Miscellaneous	-1,475
Consolidated earnings pursuant to IFRS	7,182

Reconciliation with earnings for the 2004 financial year

Under German commercial law (HGB), goodwill was subject to straight-line amortisation over its estimated useful life, while the IFRS regulations now applicable do not require scheduled amortisation to be undertaken on goodwill.

EXPLANATION OF THE PRINCIPAL ADJUSTMENTS TO THE CASH FLOW STATEMENT AS OF 31 DECEMBER 2004:

In contrast to the requirements of German commercial law (HGB), the cash and cash equivalents stated in the consolidated cash flow compiled in accordance with IFRS also include securities.

IFRS requires payments of interest and taxes on income to be stated separately under the cash flow from operating activities.

There are no further major differences between the cash flow statement in accordance with IFRS and that required by the previous accounting principles.

Flensburg, 31 March 2006

Otto Christian Lindemann Gerard Philippus Cok

8.8 AUDIT OPINION

We have audited the consolidated financial statements prepared by the Beate Uhse Aktiengesellschaft, Flensburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement, segment reporting and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2005 to December 31, 2005. 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 are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of 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, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, April 7, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Nendza	Dührkop
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

8.7

8.8

9.0 FINANCIAL STATEMENTS OF BEATE UHSE AG 2004 / 2005

ASSETS	2004 EUR 000s	2005 EUR 000s
FIXED ASSETS		
Intangible assets	1,030	889
Property, plant and equipment	526	352
Financial assets	176,868	172,809
	178,424	**174,050**
CURRENT ASSETS		
Inventories	76	61
Receivables and other assets	49,790	45,801
Marketable securities	2,819	1,641
Cash on hand, bank balances	971	173
	53,656	**47,676**
PREPAID EXPENSES	84	**29**
DEFERRED EXPENSES DUE TO TAX RELIEF EXPECTED IN SUBSEQUENT FINANCIAL YEARS	4	**-**
BALANCE SHEET TOTAL	232,168	**221,755**

SHAREHOLDERS' EQUITY AND LIABILITIES	2004 EUR 000s	2005 EUR 000s
SHAREHOLDERS' EQUITY		
Share capital	47,324	47,324
Capital reserve	87,522	87,522
Reserve for treasury stock	2,819	1,641
Retained earnings	19,717	14,652
	157,382	**151,139**
ACCRUALS	3,406	**3,589**
LIABILITIES	71,377	**67,027**
ACCRUALS AND DEFERRED INCOME	3	**-**
BALANCE SHEET TOTAL	232,168	**221,755**

9.0

INCOME STATEMENT OF BEATE UHSE AG

	2004 EUR 000s	2005 EUR 000s
SALES	**1,577**	**1,624**
Other operating income	22,379	2,057
Personnel expenses	-2,211	-2,204
Amortisation and depreciation of intangible assets and property, plant and equipment	-693	-727
Other operating expenses	-6,633	-3,098
Income from shareholdings	-4,021	-3,348
Net interest expenses	-5	-304
RESULT OF ORDINARY ACTIVITIES	**10,393**	**-6,000**
Income taxes	-261	-241
Other taxes	-1	-2
NET INCOME FOR THE YEAR	**10,131**	**-6,243**
Profit brought forward	2,138	19,717
Withdrawals from reserve for treasury stock	7,448	1,178
Transfer to reserve for treasury stock	-	-
RETAINED EARNINGS	**19,717**	**14,652**

KEY INFORMATION ON THE COURSE OF BUSINESS AT BEATE UHSE AG IN 2005

GENERAL

- Beate Uhse AG acts as the holding company for the subsidiaries and shareholdings of the Group It is quoted as a publicly listed company (AG) on the Frankfurt Stock Exchange.

- The AG performs the central group functions of accounting, controlling, financing, human resources, legal and communications services.

COURSE OF BUSINESS

- Beate Uhse AG collected EUR 8.5 million from its shareholdings and profit transfer agreements in 2005.

- A write-down of EUR 8.9 million was undertaken on the value stated for the shareholding in Beate Uhse new media GmbH. This led to a reduction in the fixed assets (shares in affiliated companies) of Beate Uhse AG.

- The value stated for the shareholding in erotic media AG was reduced by EUR 2.3 million in 2005. This was attributable to the sale of 1 million shares. The shareholding currently comprises 13 million individual shares.

- Beate Uhse AG granted erotic media AG a loan of EUR 5 million in 2005 in connection with its purchase of the Blue Movie telemedia service.

- In 2005, Beate Uhse AG reported charges of EUR 1.2 million in 2005 in connection with write-downs of treasury stock due to a decline in the share price.

- Beate Uhse AG reduced its liabilities by EUR 9.8 million in 2005.

- The net earnings of Beate Uhse AG amount to EUR 14.7 million. The Supervisory Board is proposing the payment of a dividend of 14 cents per share for approval by the Annual General Meeting. The sum distributed amounts to EUR 6.6 million. EUR 8.1 million is to be carried forward.

10.1 MULTI-YEAR SUMMARY - BEATE UHSE CONSOLIDATED 1999 / 2005

EUR million		1999	2000	2001	2002	2003	2004 (IFRS)	2005 (IFRS)
Sales		116.4	163.5	222.8	244.5	265.6	273.1	284.8
EARNINGS PERFORMANCE								
EBITDA		15.4	21.0	21.3	30.1	31.5	26.8	32.0
EBIT		10.1	13.9	10.6	20.3	21.5	17.9	22.7
EBT		10.2	13.0	8.7	17.2	19.3	15.6	20.4
Net income		5.1	9.6	2.2	9.5	9.9	8.7	14.4
FURTHER KEY EARNINGS FIGURES								
Return on sales after tax	%	4.4	5.9	1.0	3.9	3.7	3.2	5.0
FINANCIAL POSITION AND DIVIDEND								
Cash flow		-1.5	10.4	12.8	21.4	20.3	8.6	24.3
Cash on hand, cash at bank		14.3	8.2	14.8	13.9	8.3	9.2	6.8
Depreciation		5.3	7.1	10.7	9.9	10.1	9.1	9.6
Dividend distributed		0.9	4.2	6,2	-	4.7	4.7	-
COMPOSITION OF ASSETS AND EQUITY								
Total assets		145.8	132.0	169.4	169.1	181.2	187.2	189.7
Equity		105.6	63.9	60.3	64.6	67.8	67.8	83.6
Equity ratio	%	72.4	48.4	35.6	38.2	37.4	36.2	44.1
Long-term assets		-	-	-	-	-	105.7	111.6
Short-term assets		-	-	-	-	-	81.6	78.0
EXPENSES								
Personnel expenses		22.8	32.5	42.3	42.3	47.3	50.6	50.1
Cost of sales		-	-	-	-	-	110.9	109.1
Cost of distribution		-	-	-	-	-	130.4	142.6
OTHER INFORMATION								
Employees		722	905	1,173	1,251	1,344	1,477	1,523
Dividend per share	EUR	0.10	0.14	-	0.10	0.10	-	0.14
Cash flow per share	EUR	0.32	0.23	0.26	0.46*	0.46	0.35	0.49
Share price on 31 Dec.	EUR	19.00	14.00	11.98	11.35	13.25	10.48	6.10
Annual high	EUR	28.20	20.03	14.34	12.00	13.43	13.02	10.37
Annual low	EUR	12.52	11.00	8.10	8.65	8.90	10.05	5.80
Shares in circulation (31 Dec.)		42,000,000	46,970,570	46,970,570	47,323,696	47,323,696	47,323,696	47,323,696
Market capitalisation total		803.9	577.5	563.7	534.8	623.0	495.0	288.7

*Started 2002: accounting of the cashflow by share on the base of gross cashflow

10.2 FINANCIAL CALENDAR 2006

3-month report 2006	15 May 2006
Annual general meeting 2006	19 June 2006
6-month report 2006	14 August 2006
9-month report 2006	13 November 2006
End of financial year	31 December 2006

CONTACT INVESTOR RELATIONS

Birte Hennig Phone +49 (0) 461-9966-307
Fax +49 (0) 461-9966-440
E-Mail ir@beate-uhse.de

CONTACT PRESS & PUBLIC RELATIONS

Assia Tschernookoff Phone +49 (0) 461-9966-125
Fax +49 (0) 461-9966-440
E-Mail pr@beate-uhse.de

ANNUAL AND INTERIM REPORTS

Fax +49 (0) 461-9966-440
E-Mail bbrodersen@beate-uhse.de

Internet www.beate-uhse.ag

The 2005 Annual Report is also available in German and may be obtained from the company.

10.3 NOTES ON STATEMENTS REFERRING TO THE FUTURE

This Annual Report contains certain forecasts and information regarding future developments which are based on the convictions of the management of Beate Uhse AG and on the assumptions and information currently available to Beate Uhse AG. Insofar as these texts include the terms ”assume“, ”believe“, ”assess“, ”expect“, ”intend“, ”can/could“, ”plan“, ”forecast“ and ”should“, for example, or comparable terms, these are deemed to be statements referring to the future and are consequently subject to a degree of uncertainty. Many factors may contribute to the actual results of the Beate Uhse Group differing considerably from the forecasts implied by such statements referring to the future. Such factors include:

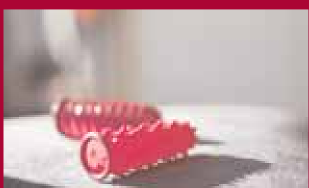
- changes in the general economic climate, in particular any possible economic recession or only a low level of growth in Europe
- changes in exchange and interest rates
- increasing competitive pressure with a negative impact on the development of prices
- bottlenecks in or interruptions to supply / procurement / logistics activities or employment disputes
- amendments to legislation, ordinances or government policies
- amendments to the business strategy
- other risks and uncertain factors.

In the event of any of these factors or any other imponderables arising, or of any of the assumptions underlying the statements proving to be inaccurate, the results could differ considerably from the statements made. Apart from its legal obligations, Beate Uhse AG does not intend to update these forecasts and information on an ongoing basis and assumes no obligation in this respect. The forward-looking statements and information are based on the circumstances prevailing upon the day of their publication.

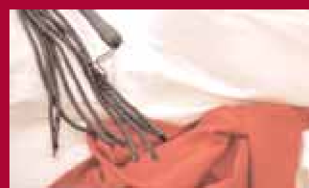
BEATE UHSE 2005 ANNUAL REPORT

Publisher	Beate Uhse AG, Gutenbergstraße 12, 24941 Flensburg, Germany, http://www.beate-uhse.ag
Editorial staff	Beate Uhse AG Haubrok Investor Relations GmbH
Audit	Ernst & Young AG, Wirtschaftsprüfungsgesellschaft
Design	visuphil® design studios
Typeset	Beate Uhse Einzelhandels GmbH
Photos	Tom Jape
Production	Heining & Müller GmbH

OUR FAVOURITES


Page 10/11


12/13


14/15


16/17


18/19


20/21


22/23


24/25


26/27


28/29

Page	Product name	Product group	Item number	Colour	EUR	Brand	Catalogue
Cover	Masken	Bondage	0805 121 / 131	pink, red, black	14.95	Mae B.	Mae B.
10/11	Latexfinger Purple 2er	Dildo	602 552	purple	9.95	Joy Divisions	Beate Uhse
12/13	Spray and Stay	Preparations	781.219.17	Erection Spray	19.99	Lebenslust	Pabo / BU
14/15	Neunschwänzige Katze	Bondage	606 104	Leather, black	19.95	Scala	Beate Uhse
16/17	Hard to please Joy Ring	Cock Ring	3006009131	Pumping Purple	4.95	Toy Joy	Toy Joy
16/17	Super Jelly Teasing Tickler	Cock Ring	3006009133	miscellaneous	2.50	Toy Joy	Toy Joy
16/17	Engelbert Evil	Cock Ring	602 878	Gold	14.95	Fun Factory	Beate Uhse (May 2006)
18/19	Girly Giggle Balls	Smart Balls	3006009113	Tickly soft Pink	11.95	Toy Joy	Toy Joy
18/19	Smart Balls	Smart Balls	660 062	Mae B. Colour	24.99	Fun Factory	Beate Uhse
18/19	Fessel-Seil	Bondage	0805 464 / 466	pink, red, black	19.95	Mae B.	Mae B.
20/21	Beate Uhse – Die Verlockung	DVD	107 04 17	120 min.	14.95	Beate Uhse	Beate Uhse
22/23	Lebenslust Lümmeltüten	Condoms	–	miscellaneous	–	Lebenslust	Beate Uhse (May 2006)
24/25	Café Latte	Gliding Creme	701 165	150 ml	12.75	Joydivision	Beate Uhse
26/27	Glass worxx crystal pacifier	Dildo	3006009149	Twisting Pink	19.99	Toy Joy	Toy Joy
28/29	Disco Rabbit	Vibrators	3006009025	Sonic Silver	49.95	Toy Joy	Toy Joy

69
SEX UP YOUR LIFE

Beate Uhse AG | Gutenbergstraße 12 | D-24941 Flensburg | www.beate-uhse.ag