The Photo Shooting Diary

New E-mail:
models@sexupyourlife.com
Call: +49 461 99660

2006 **beate uhse**

To do's for tomorrow:
Order other sizes for overnight delivery if there are any fitting problems!
Call Tina and arrange next booking!
Buy stirrups

BEATE UHSE AT A GLANCE

EUR million		2005	**2006**	Change %
SALES PERFORMANCE				
Retail		89.1	**86.5**	-2.9
Mail Order		125.0	**113.8**	-9.0
Wholesale		52.2	**54.7**	4.8
Entertainment		18.5	**16.0**	-13.6
Holding Services		-	**-**	-
Total sales		284.8	**270.9**	**-**4.9
International share of sales	%	58.7	**61.6**	5.0
RESULTS				
EBITDA		32.1	**24.4**	-24.0
EBIT		22.7	**14.8**	-34.9
EBT		20.4	**12.0**	-41.3
Net income of ongoing business divisions		14.4	**10.0**	-30.1
OTHER EARNINGS INDICATORS				
Return on sales before tax	%	7.2	**4.4**	-38.3
Return on sales after tax	%	5.0	**3.7**	-26.6
Return on equity	%	17.2	**11.9**	-30.8
Gross profit margin	%	61.7	**60.3**	-2.3
FINANCIAL SITUATION				
Gross cash flow		23.1	**20.0**	-13.4
Cash flow from operating activities		24.3	**16.9**	-30.6
Investments		11.9	**39.5**	231.7
Depreciation		9.5	**9.7**	1.3
Dividend paid		-	**6.6**	-
BALANCE SHEET DATA				
Total assets		189.7	**222.9**	17.5
Shareholders´ equity		83.6	**84.5**	1.0
Equity ratio	%	44.1	**37.9**	-14.0
Long-term assets		111.6	**142.3**	27.5
Short-term assets		78.0	**80.6**	3.2
OTHER DATA				
Employees	total	1,523	**1,458**	-4.3
Personnel expenses		50.1	**48.3**	-3.7
Cost of sales		109.1	**107.6**	-1.3
Cost of distribution		142.6	**142.4**	-0.1
SHARES				
Number of shares		47,323,696	**47,323,696**	-
Closing price	EUR	6.10	**4.04**	-33.8
Annual high	EUR	10.37	**6.95**	-33.0
Annual low	EUR	5.80	**4.00**	-31.0
Earnings per share	EUR	0.29	**0.21**	-27.6
Cash flow per share	EUR	0.49	**0.43**	-12.2

2006 beate uhse

INDEX

LETTER TO THE SHAREHOLDERS

DEAR LADIES AND GENTLEMEN,
DEAR SHAREHOLDERS,

Let's be honest – who would not be curious to peek behind the scenes at the Beate Uhse Group? To see how the largest erotica group in Europe tracks down the latest product trends? To be a fly on the wall when the purchasers of erotica products negotiate with producers concerning price and quality, or to see how the new Beate Uhse catalogue comes into being?

The 2006 Annual Report provides you for the first time with a glimpse into the world of erotica at Beate Uhse. You too can see the photo-shooting session for the hottest pictures of the season and peer over the shoulder of Jeff Cain, one of London's best-known erotica photographers, as he snaps Beate Uhse's 2007 lingerie collections.

Have fun!

1.1 RETROSPECTIVE – 60 YEARS OF BEATE UHSE

Beate Uhse will be celebrating the 60th anniversary of the company's establishment in 2007 – sufficient reason to cast a brief glance back over our achievements.

Schrift X was the foundation stone for the company Beate Uhse. In 1946, Beate Uhse, who founded the company and named it after herself, wrote a short brochure about women's fertile and infertile days. She intended this publication to protect women against unwanted pregnancies, which were still the norm in those days. The overwhelming reception granted to this information sheet gave her the idea of becoming more closely involved with the topic of contraception. Beate Uhse assembled the first contraceptive products which she could obtain in the lean post-war years and offered them to customers in a small leaflet. Demand was once again huge – a new market had been discovered. She single-mindedly extended her product range and had the small company – Beate Uhse – entered in the Commercial Register for the first time in 1947. The first mail order business for erotica products in Germany had been born. A further milestone in the history of the company came in 1962 with the opening of the world's first sex shop in Flensburg. Operating under the name of "Institute for Marital Hygiene", Beate Uhse sold self-help books concerning sex, contraceptives and galenicals. This was followed by the rapid expansion of Beate Uhse shops across Germany. The young company was single-minded in combating prejudices against it within society and successfully overcame several legal hurdles in its fight against narrow-mindedness. 1989 was one of the most important years in the company's history. The visionary businesswoman Beate Uhse sensed that the opening of the internal German border harboured interesting potential for growth. She was

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

proven right. Skilfully managed marketing campaigns enabled the Beate Uhse brand to become well-known and popular in no time among the residents of the former East Germany. A German-speaking market with high growth potential had opened on her doorstep – and Beate Uhse seized the opportunity. Eleven years later, the company was ready for the stock market and was listed in the Prime Standard of the Frankfurt Stock Exchange. As Europe's first erotica share, Beate Uhse was yet again the first mover. The capital from the IPO provided access to the international erotica market. By taking over three large international competitors, Beate Uhse advanced to become the largest erotica group in Europe.

Since its IPO, the Beate Uhse Group has continued to show strong growth.
This is best reflected in a few key figures:

- Sales have grown from EUR 86.2 million prior to the IPO to their current level of EUR 270 million.
- We have built up our international business from EUR 4.3 million to EUR 166.9 million.
- Since the IPO, pretax earnings have consistently ranged between EUR 8.7 million and EUR 20.4 million.
- Beate Uhse has generated profit in all financial years and all quarters.
- Its equity has grown from EUR 26.9 million to more than EUR 80 million – as well as by a further EUR 20 million following the IPO and the same amount again in the form of dividends distributed to our shareholders.
- The total workforce has risen from 706 to 1,458.

1.2 REVIEW OF 2006

In 2006, our store chain and mail order and entertainment businesses served end customers in 16 countries across Europe. The wholesale business acts as the logistical nerve centre for the Group, supplying business customers throughout the whole world and acting as the merchandising hub for the 333 Beate Uhse stores and the mail order business. The procurement activities for the entire Group are based at the wholesale business, enabling all profit centres to enjoy benefits of scale. The launch of the logistics centre in Almere/Netherlands in 2005 and the resultant optimisation of logistics processes at the overall Group have enabled us to lay important foundations for the future of the Group. This phase of organising the company's logistics structures was completed upon the opening of the fulfilment centre in Walsorden,

OTTO CHRISTIAN LINDEMANN
- **Chief Financial Officer and Spokesman of the Management Board**
- **Member of Management Board of Beate Uhse AG since 2000**

Netherlands. This ultramodern warehouse exclusively serves the needs of the mail order business, enabling up to 42,000 packages per day to be dispatched to customers.

Regrettably, the first year of operations at the new mail order centre did not run entirely smoothly. At the end of 2006, a major section of the warehouse suffered water damage as a result of a defective sprinkler. The technology was not fully functional for a period of several weeks – of all times during the Christmas season. The breakdown in the mail order business meant that we lost sales of more than EUR 15 million as it was not possible to send packages to customers at all, or at least not on time. This had an irreversible impact on the overall sales situation in 2006. Since January 2007, the warehouse technique has been fully operational once again.

Having established the underlying procurement and logistics structures for the Beate Uhse Group, we are now focusing on strengthening the Beate Uhse brand. We have been working for some time now on a multichannel approach for the Beate Uhse Group. Our customers do not distinguish between the retail or mail order distribution channels. They wish to purchase Beate Uhse products, regardless of whether they buy them in one of our shops, order them from the catalogue or find them via e-commerce on the internet. This means that we will be realigning ourselves. Product range planning will span all profit centres, with new products being launched and advertised in parallel across all distribution channels. The joint brand will form the focal point for all marketing activities. Beate Uhse is developing from a company based on its distribution channels into a brand-driven group. We laid important foundations for this development in 2006. In 2007, the implementation of this realignment will become increasingly apparent to consumers.

We were not satisfied with our sales and earnings performance in 2006. The water damage in the mail order business referred to above, high temperatures in the summer months and cautious consumer behaviour meant that we did not meet our sales and earnings expectations. Our sales of EUR 270.9 million and pretax earnings of EUR 12 million were 4.9 and 41.2 percent respectively lower than the equivalent figures for the previous year. We were particularly hard hit by the loss of sales in the mail order business – after all, this division had acted as the Group's growth driver in previous years. Given that the water damage has delayed the launch of full operations at the new warehouse, the mail order division will also not regain its usual level of strength in 2007.

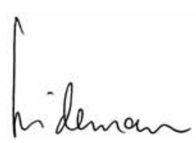
1.3 OUTLOOK

We see great potential for the further development of Beate Uhse's brand as a life-style brand. We will focus our strategy on this development and increasingly align our end customer distribution channels to the brand. Germany will be the first market where we will implement these measures starting in 2007. The opening of the first Beate Uhse store of a new generation in one of Munich's best-known shopping streets (Sendlinger Strasse) marked an important milestone along this path. This store allows the brand to unfold its entire potential. Bright, modern, sexy and with a clear product range structure, the store offers shopping worlds for women, men and couples. This store concept is intended to reach customers who have so far never set foot in a Beate Uhse store.

We also intend to open a new chapter on the capital market in the near future. The family of the company founder, Beate Rotermund, has decided to sell its shares in the company and thus to make way for an investor interested in actively accompanying the company into a new era and through its new growth phase.

We are pleased to be taking this course together with our team of employees, to whom we would like take this opportunity of extending our heartfelt thanks and appreciation for the work they have performed. This commitment forms our mutual foundation for a successful future.

Yours faithfully,



Otto Christian Lindemann

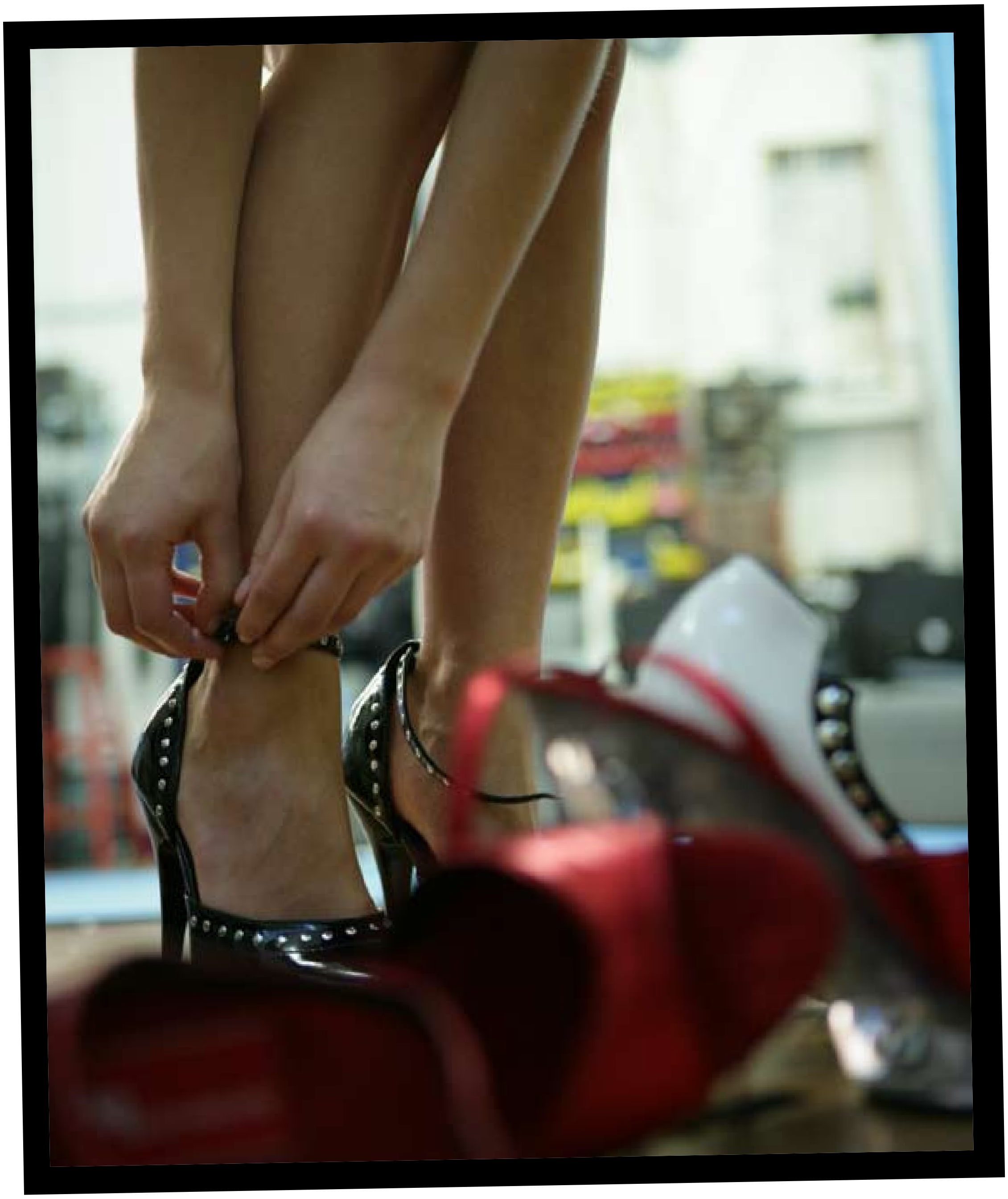
Gerard Ph. Cok

Notes for feedback call:
- Dion is great, especially when it comes to aura
- Pam is not yet relaxed enough, has to speed up her reactions to Jeff

The Photo Shooting Diary 2006

Smashing photo!!! – Titleshot?!
front page for May homepage?
Proposal to Jan from Entertainment...

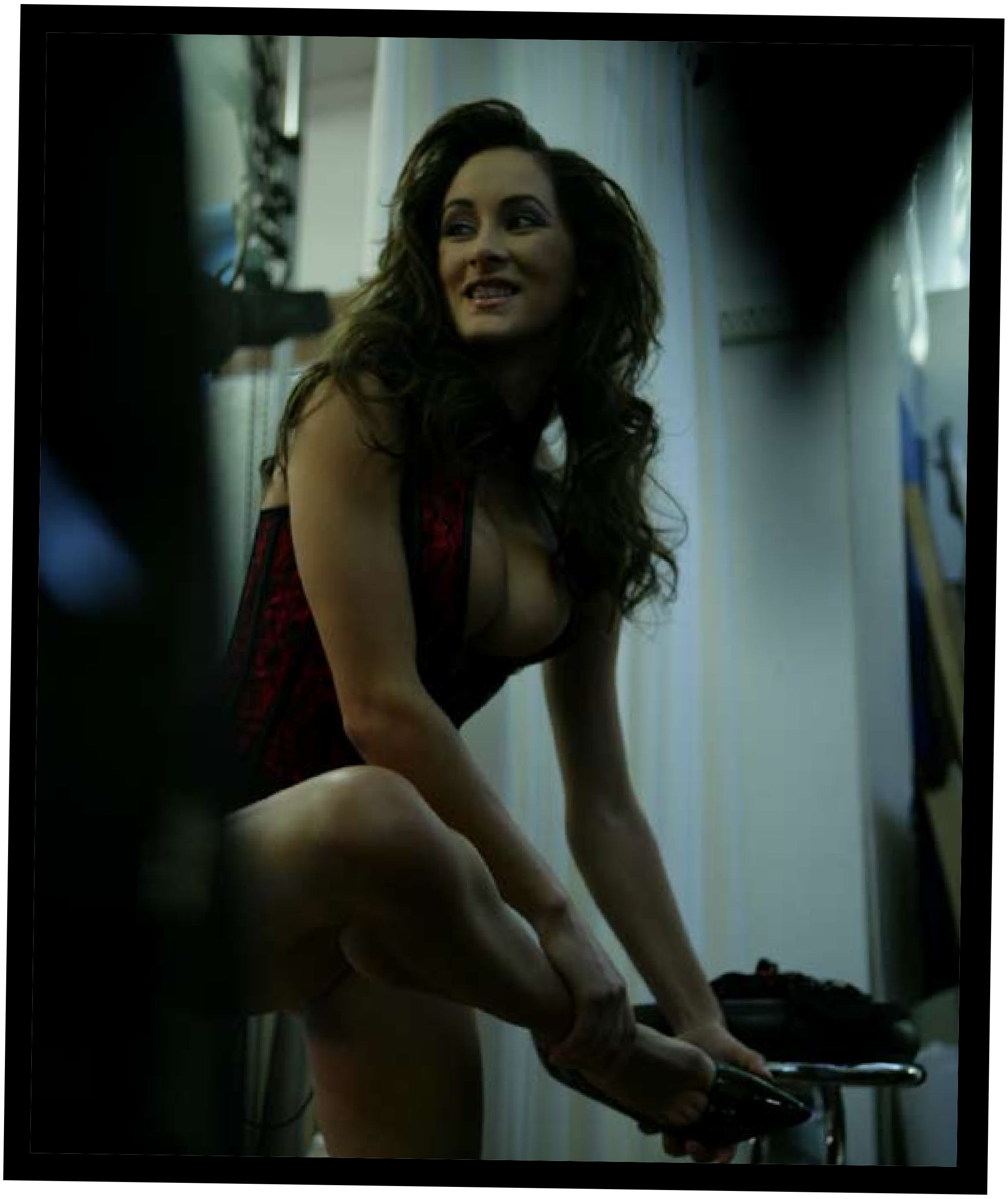
Offer studded clothes again in the summer?
Discuss with Sabine...



Arrange Madrid shooting:

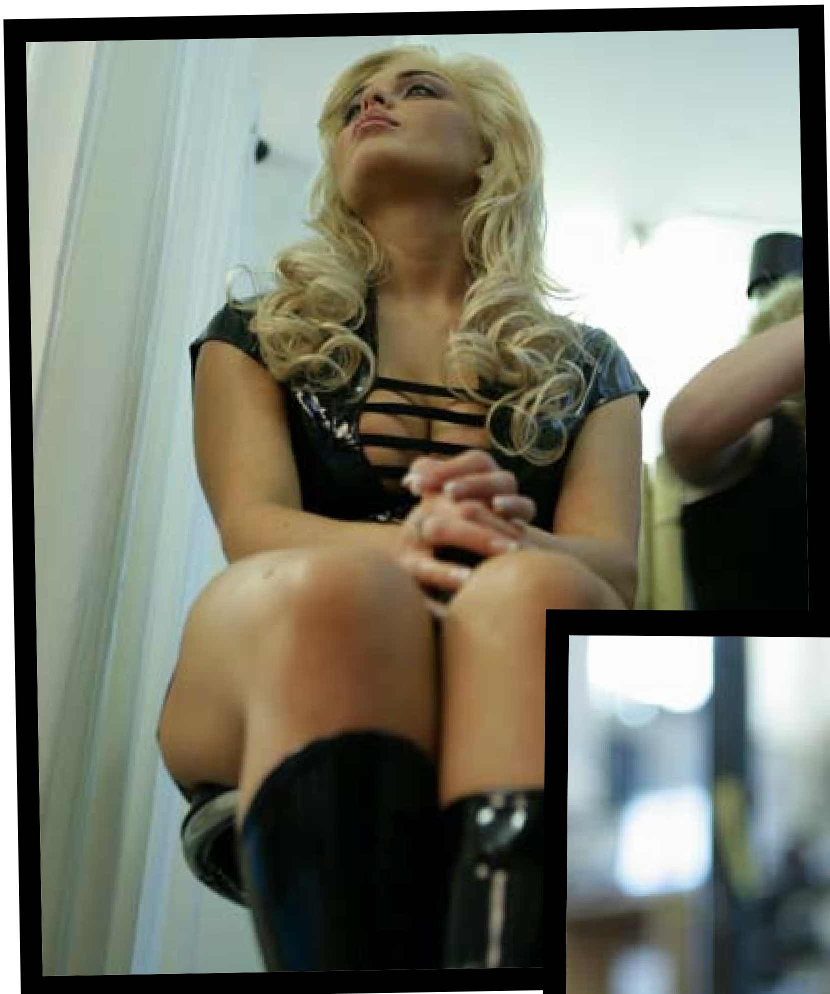
> Gloria & Kelly
> Second photographer? (Koller? Berger?)
> Book flights
> Have new location checked out by Anselm (0211-30126117)

Do red shoes suit me? ☺



Clarify with Jeff – Photograph accessories in the evenings when the models are tired?

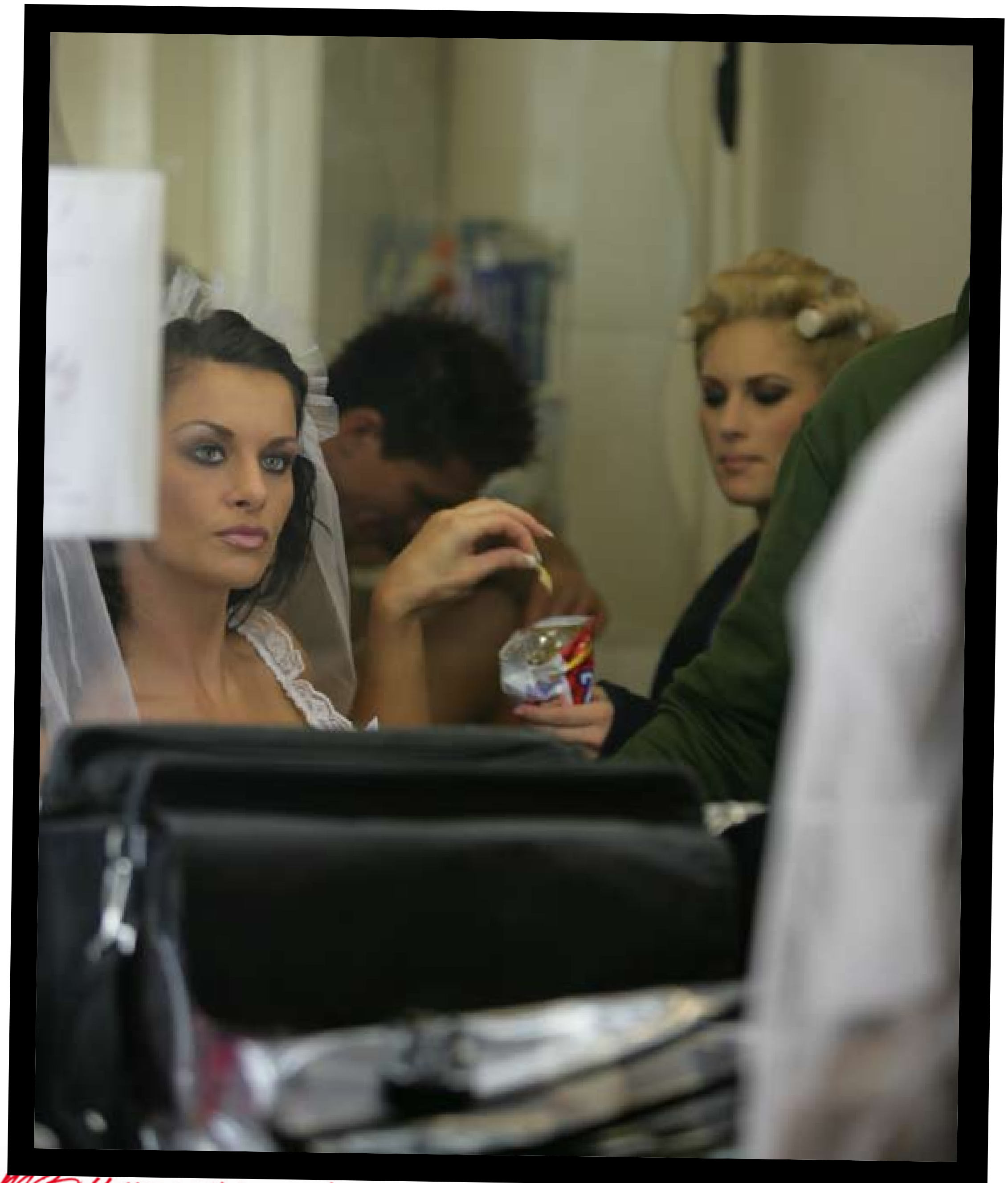
One-to-one chat with Mary.



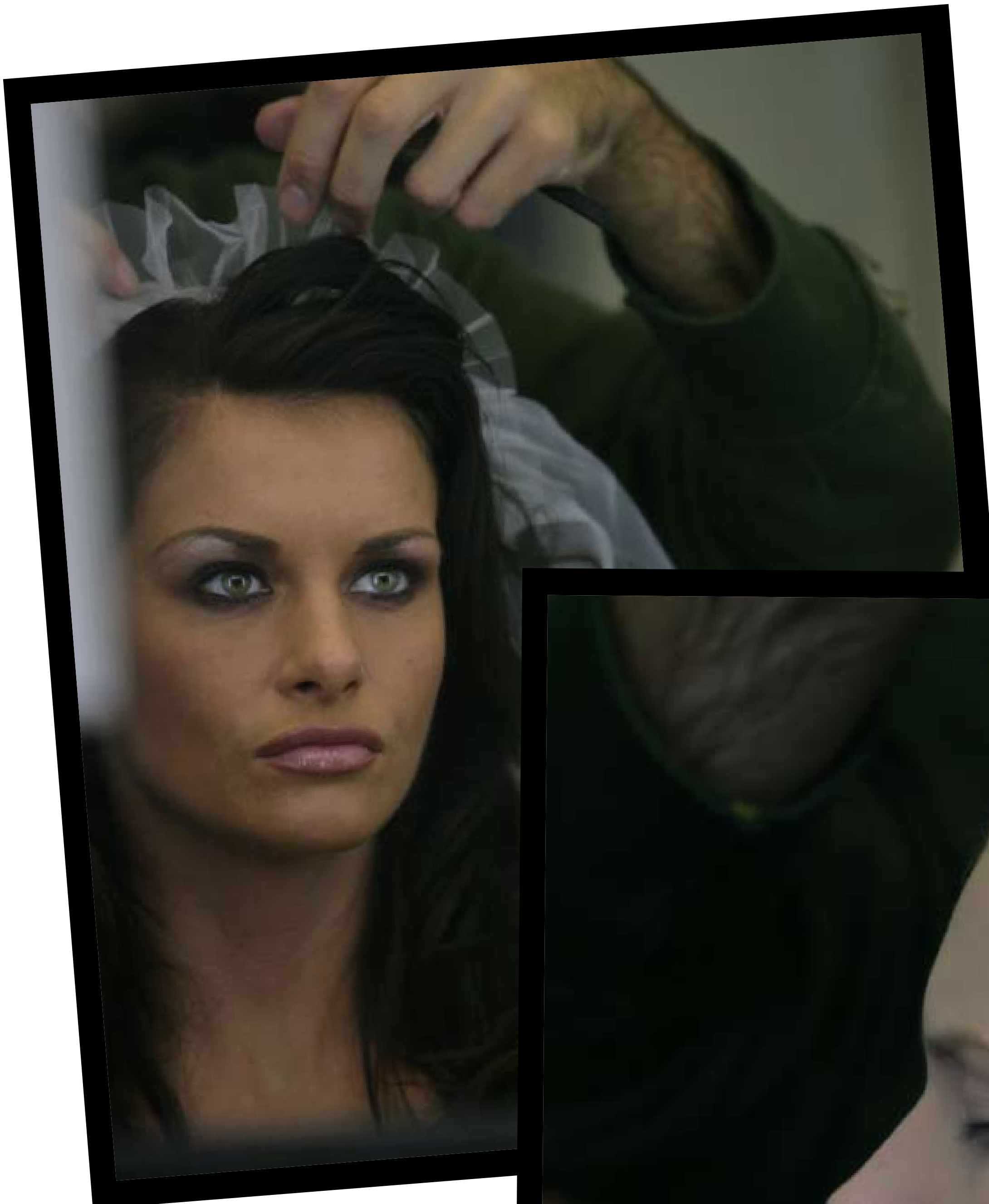
Get new lingerie
and high heels!!

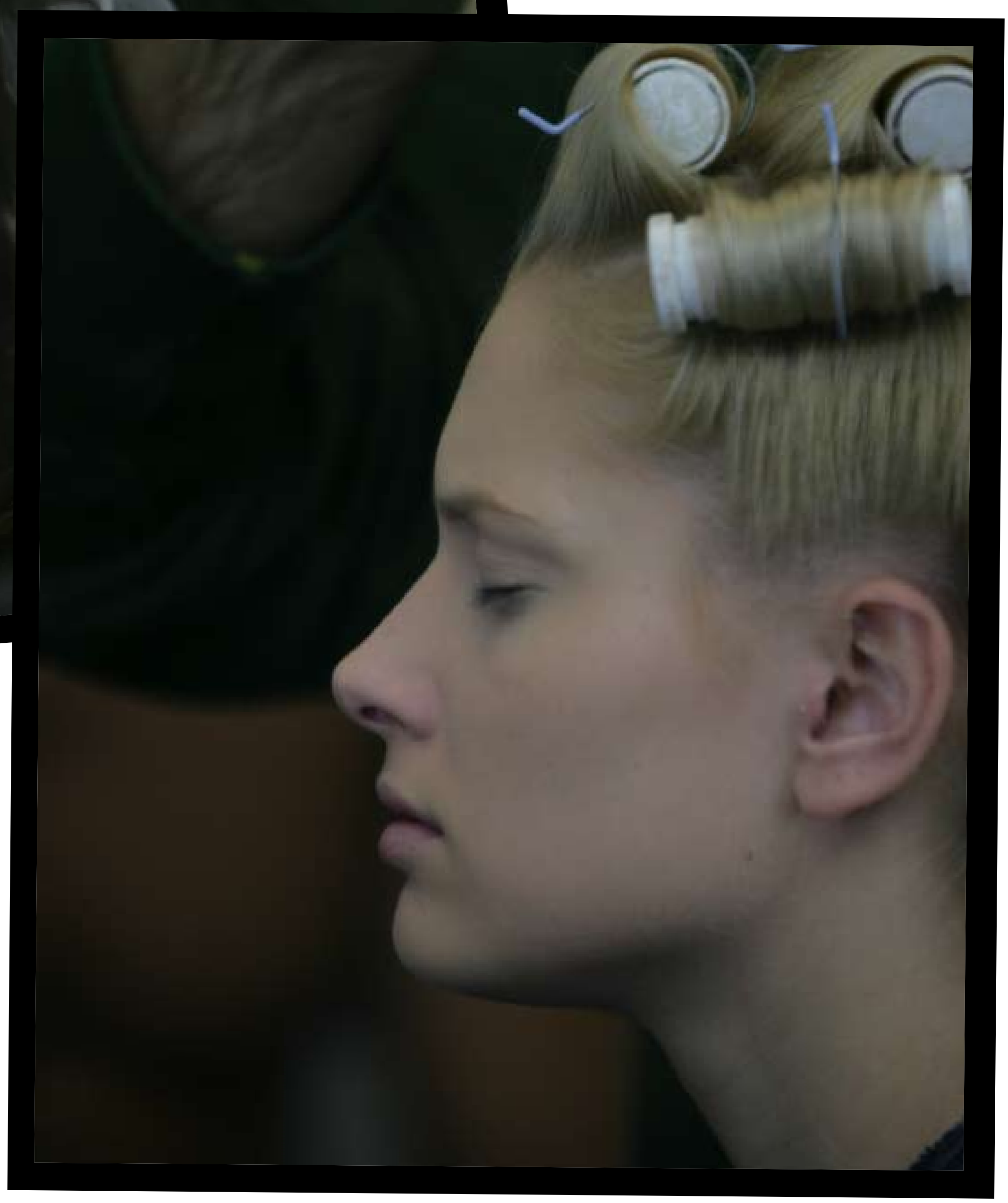
Call early tomorrow, before shooting:

- Petra - reorganise flights ← important
- Press department re: first interview



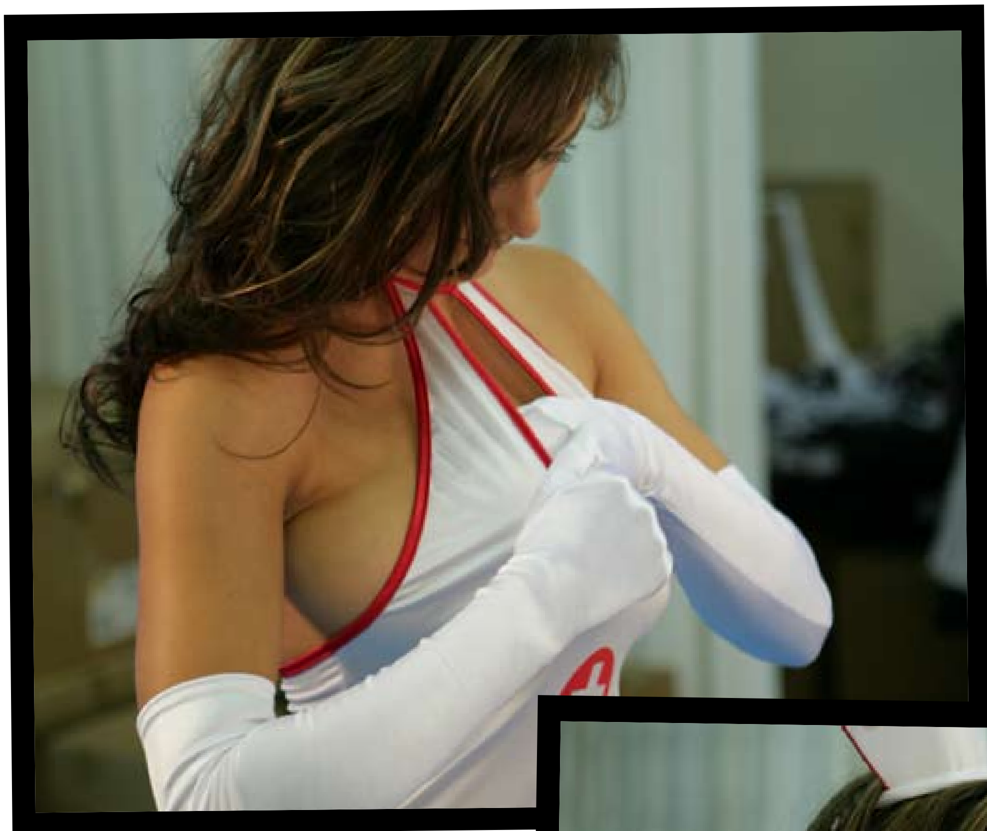
Must go to HAIRDRESSER
Madrid!!!
– Make appointment





Dion a tad smaller
for Vanity

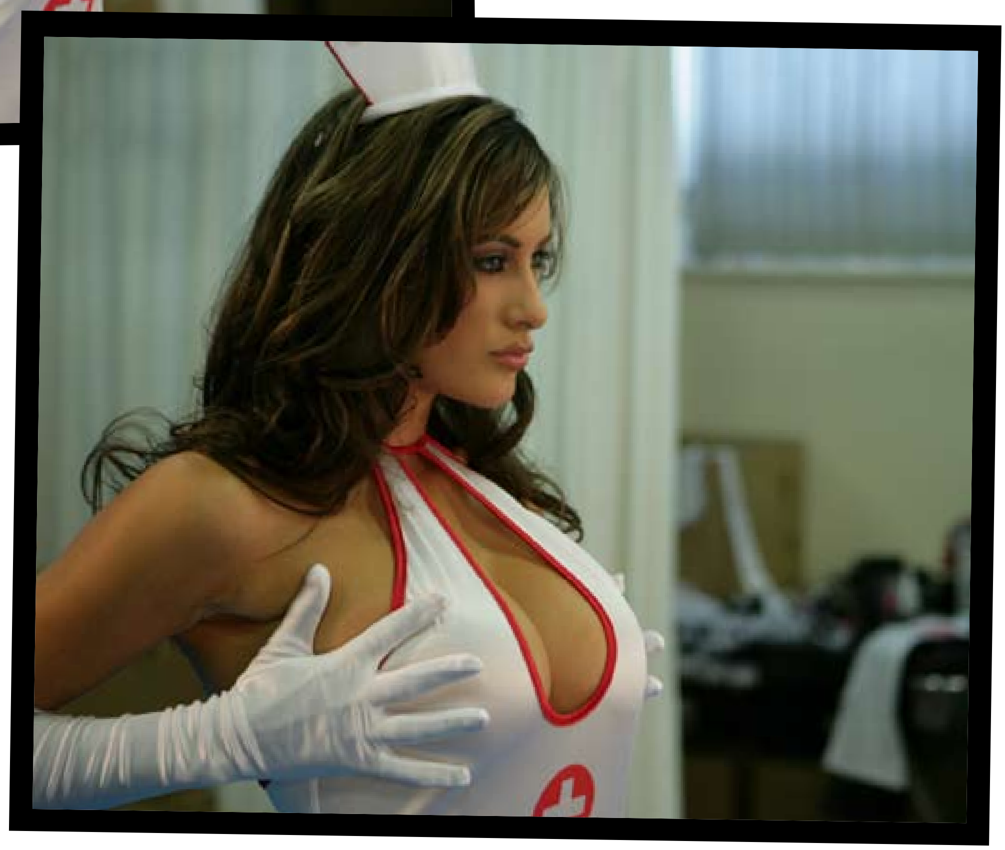
Sassamode
Push-ups suit Pam better

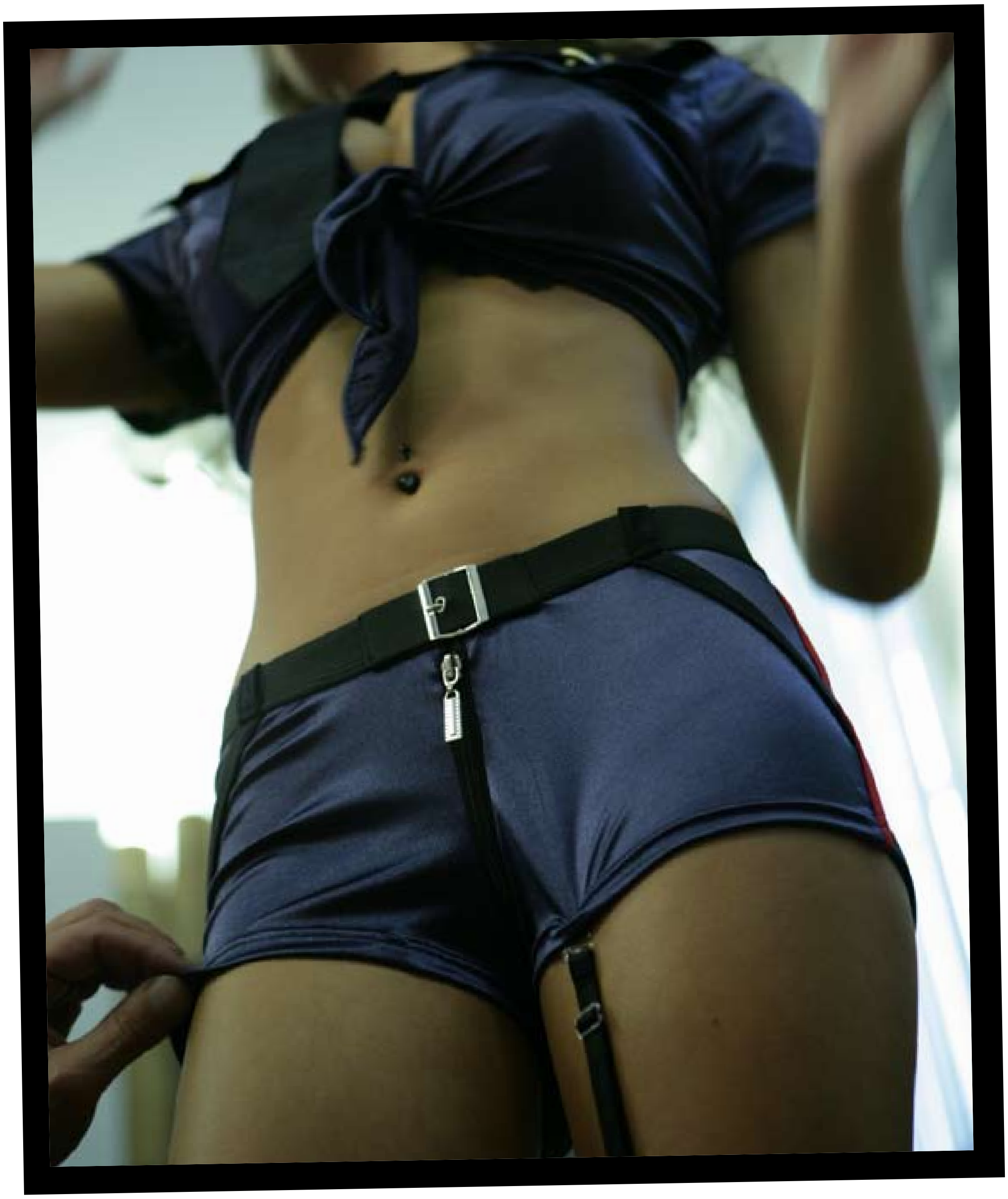


Be sure to book Pam
for the next shoot
for the fetish catalogue!!

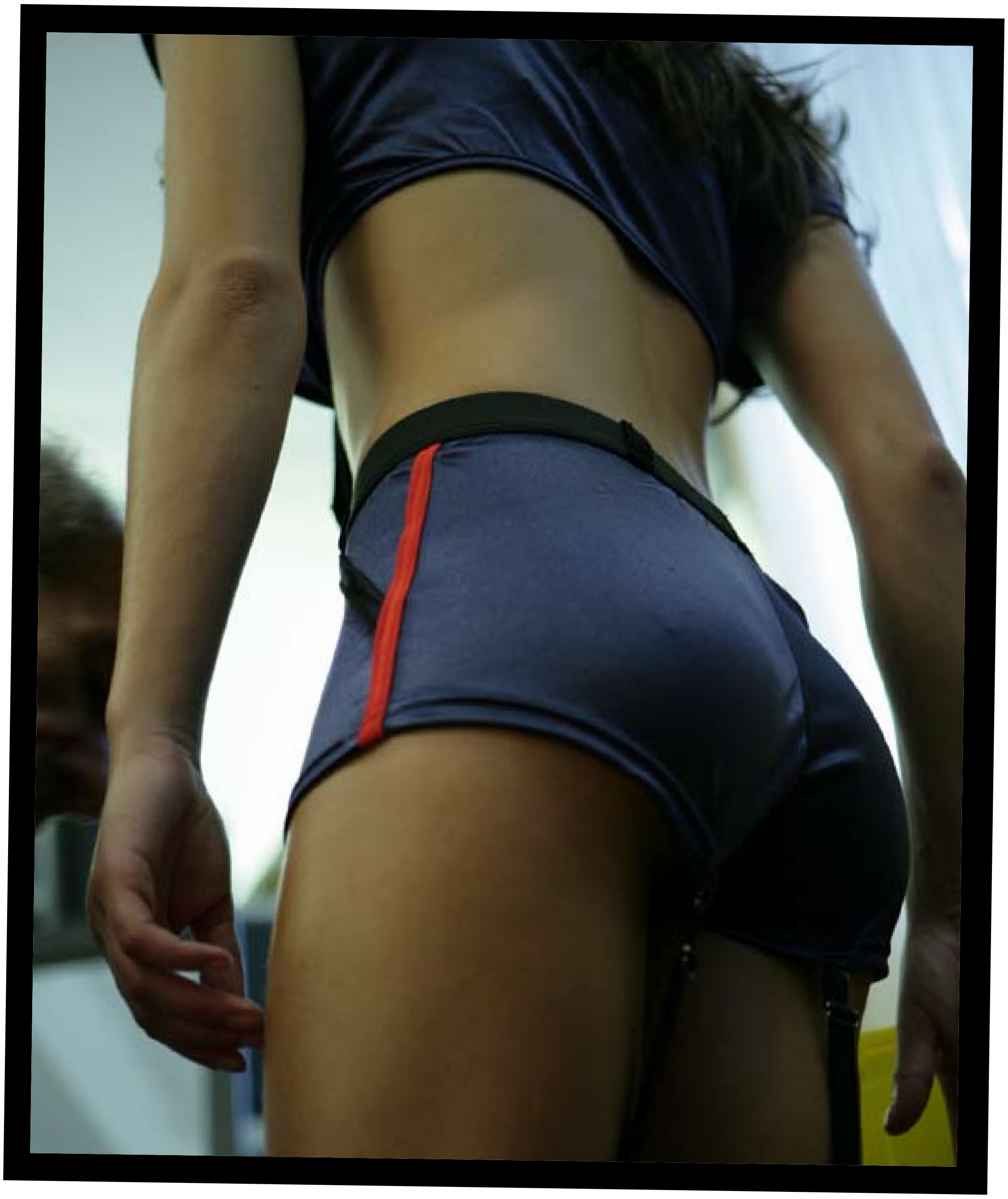
Pam dressed as a nun?
Title suggestion
"My habit makes me horny"

Hot!!!





Ask Mail Order whether
they want the uniform
shootings as well.



Don't forget: Clamps for pegging, latex spray, paper towels etc.

Ask Jeff whether there'll be ice cubes tomorrow.

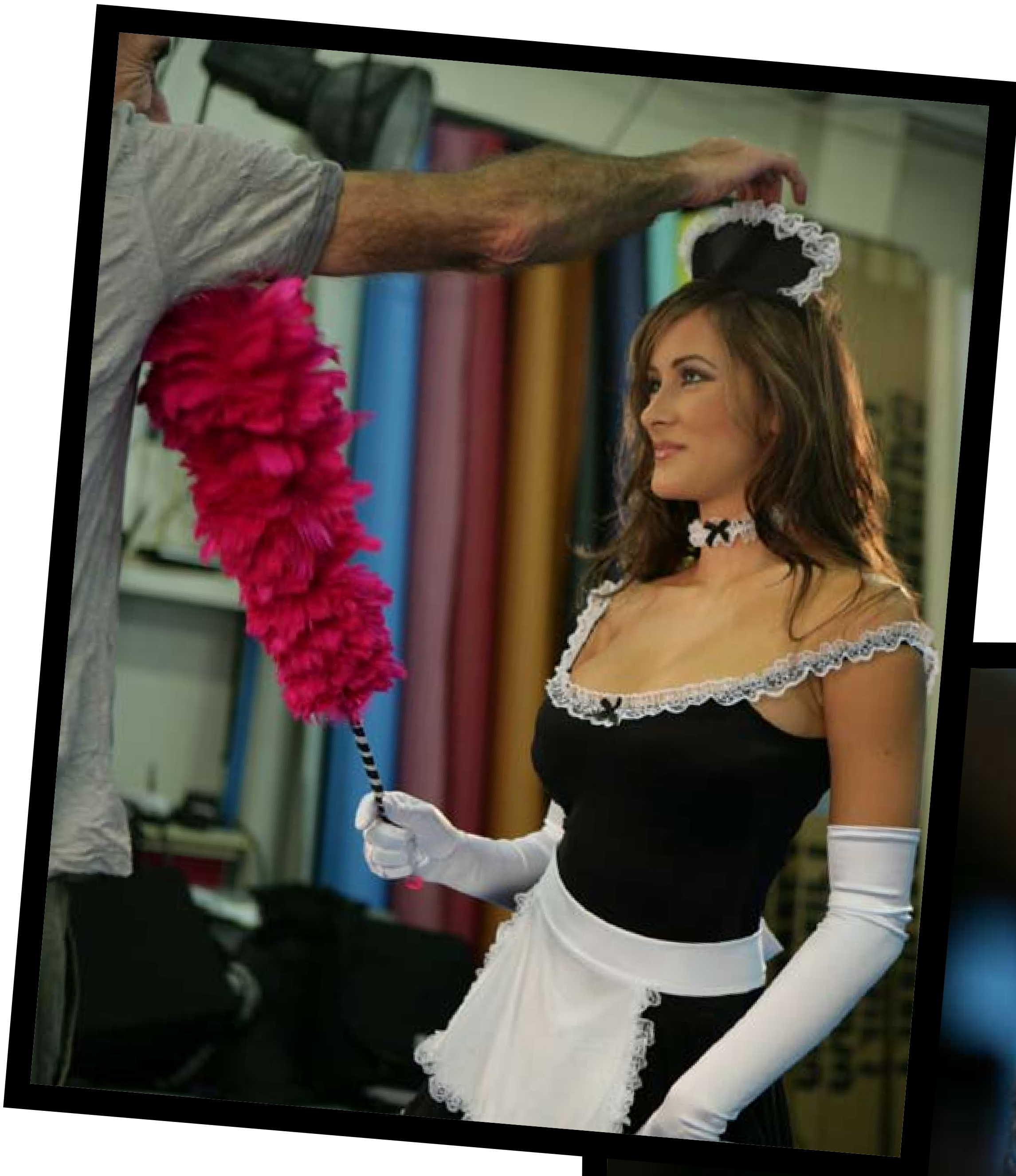
Another 4 close-ups of Dion. If time, 6 would be better.

CLOSE-UP

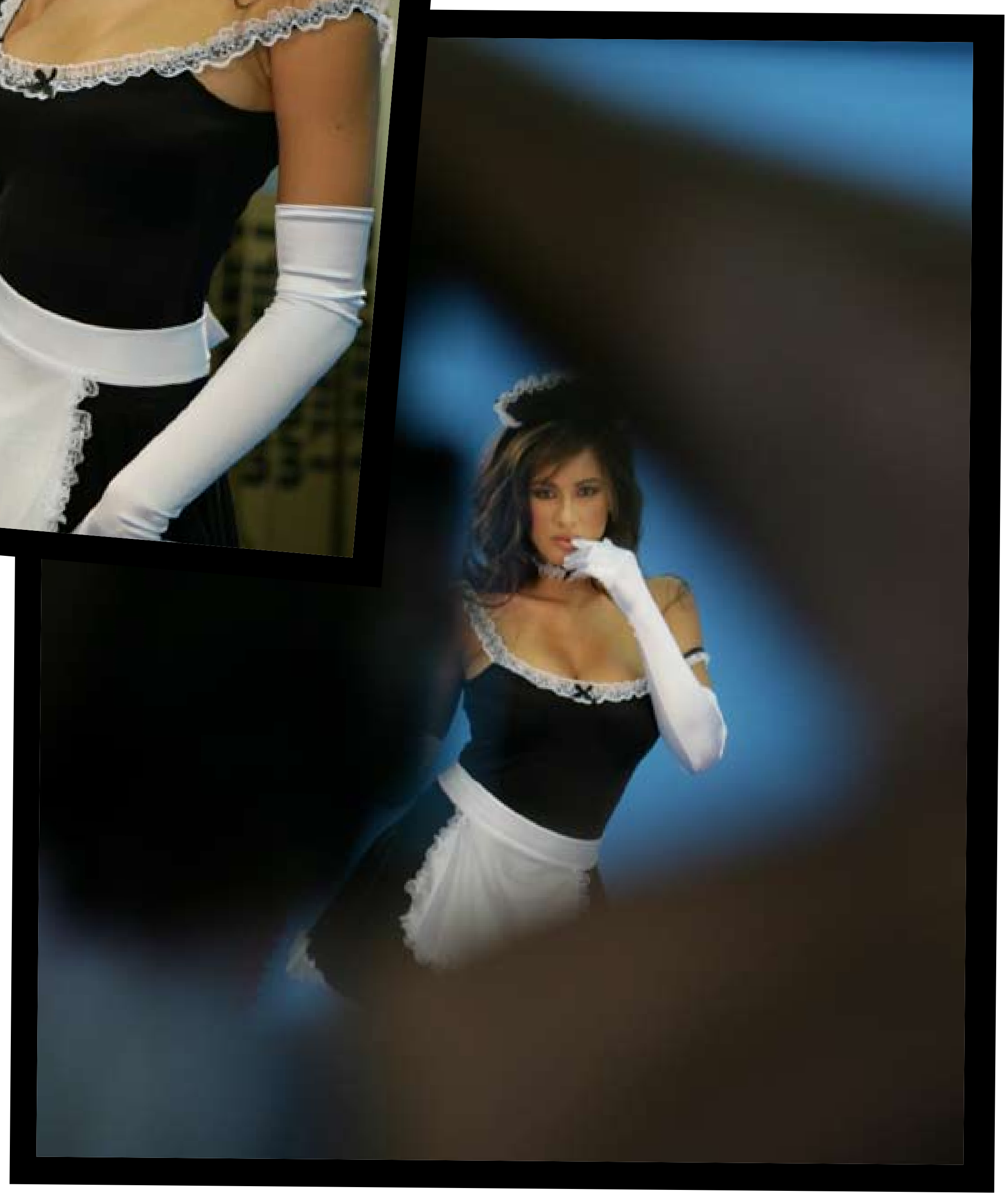
Never forget sticky tape! Buy 2 new rolls tomorrow

2.15

Parlour maid photos with Dion
tomorrow??? (get red or white
fronds!)

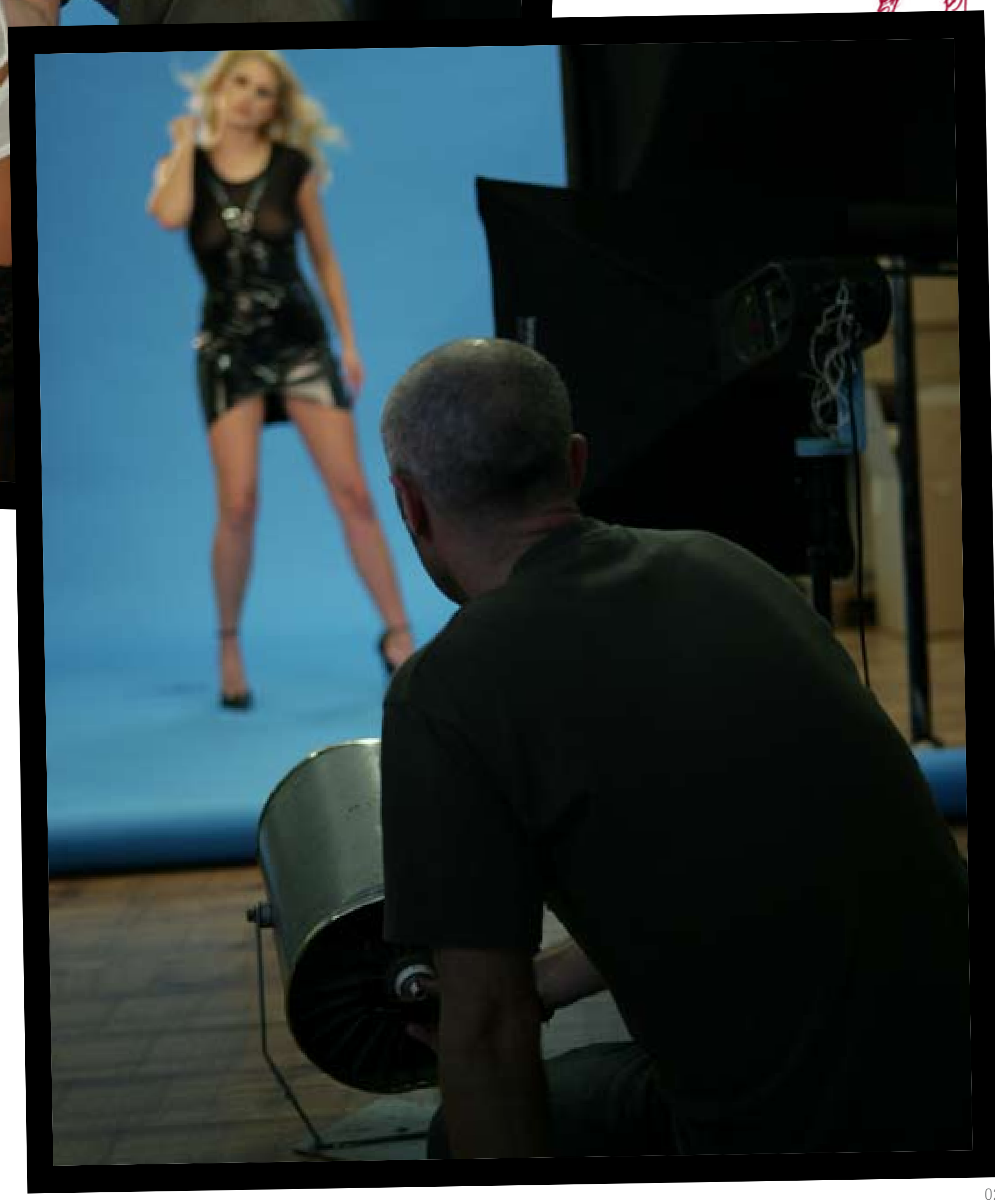


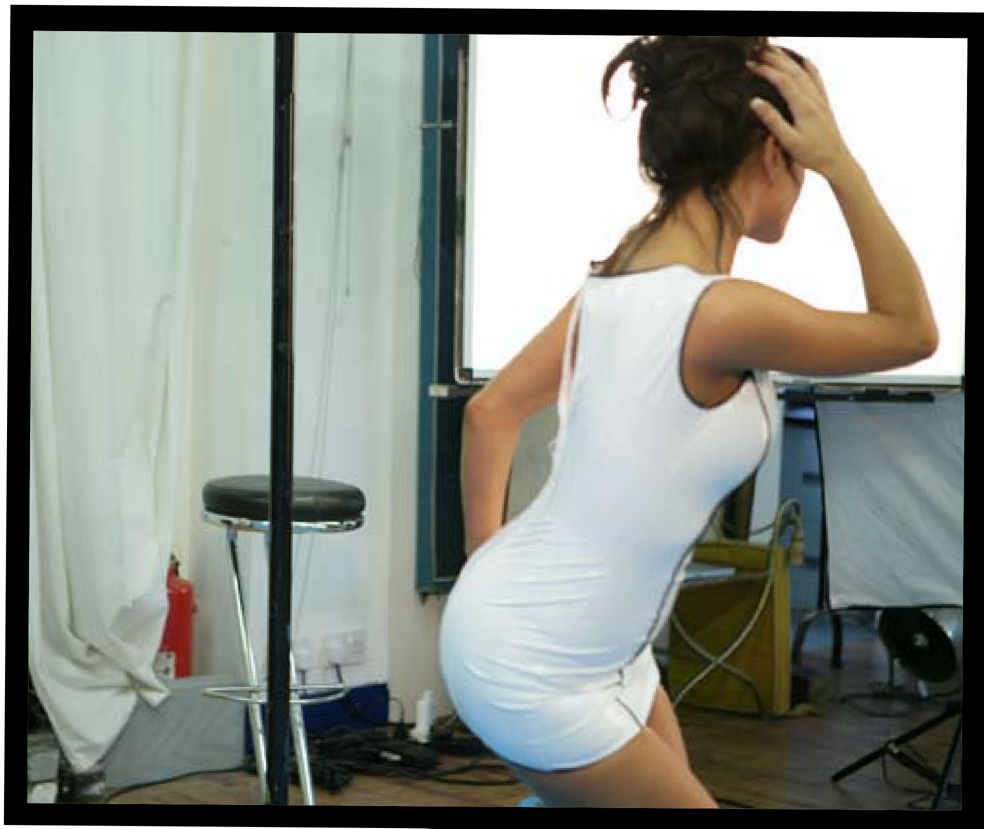
Store check for
Mr. Sommer at
Agent Provocateur
Piccadilly

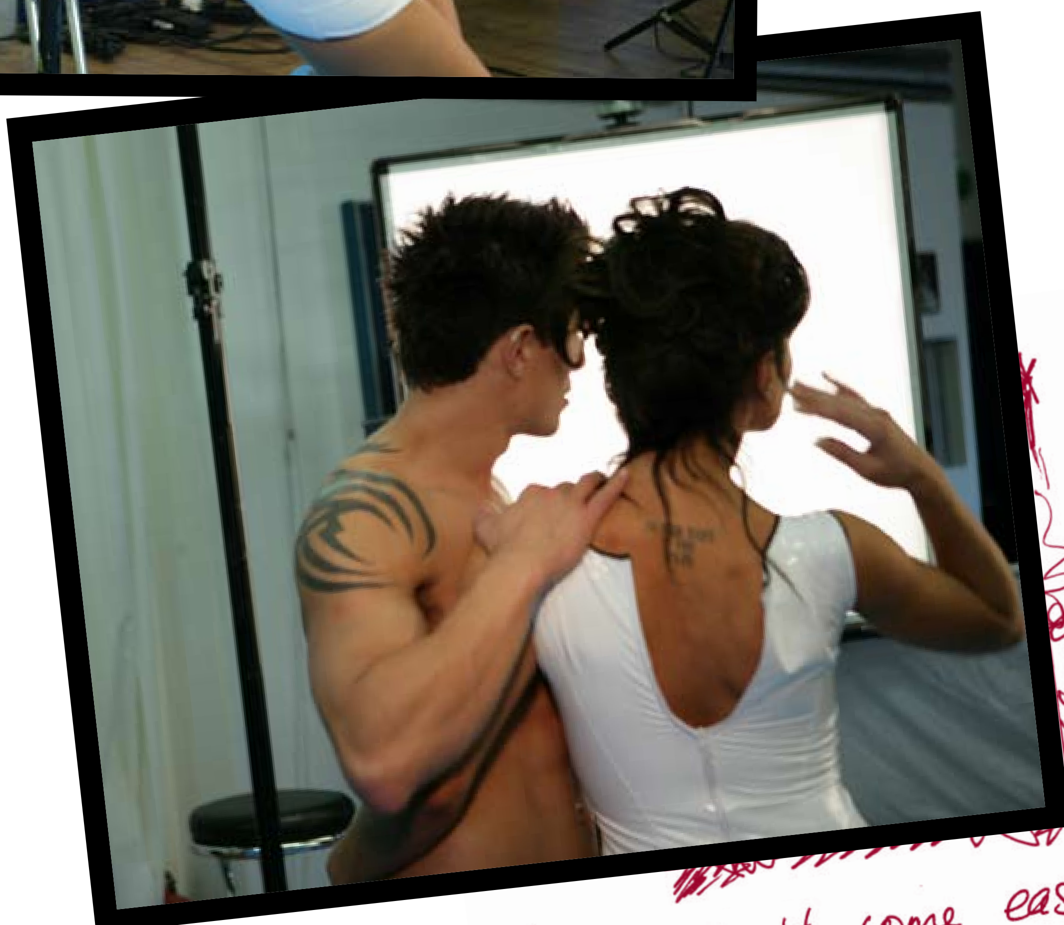


Info to assistant:
Steam iron lingerie
beforehand

Speak to Procurement:
Panties from Perleberg
fit perfectly.







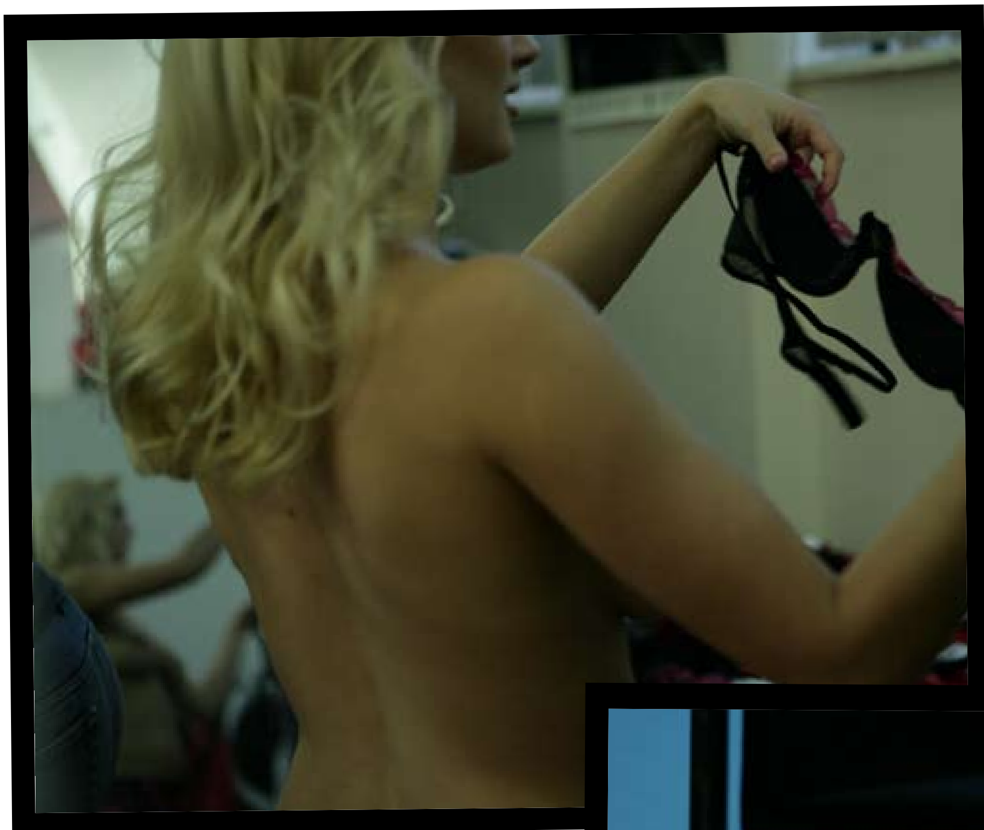
Don't forget!!!!!

Compile hairdo plan for day after tomorrow, what dress with what make-up, select image background.

Love don't come easy..

For tonight

- Book table at Henry's (for 12 at 8pm)
- Two taxis
- Sunbed for Pam & Dion beforehand (6-6.30pm)



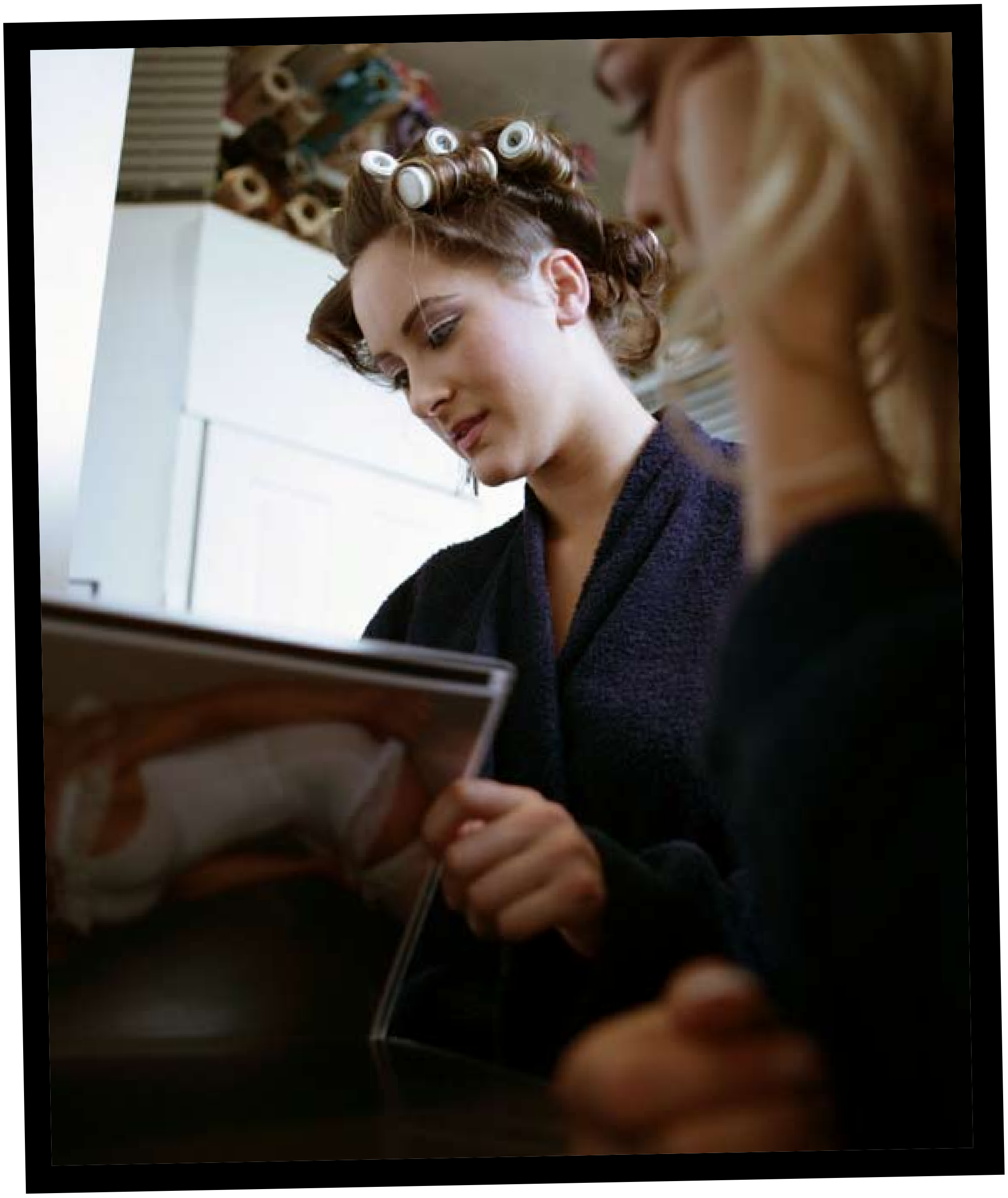
Tel: 0044-72-27653987
Salad x2
Margarita Pizza x1
Pasta x2
Yam Gung x1

Call back FW/Pedi
- what did she want

Build in kitchenette at next location
-important: ice crusher

Pam: 0180 / 524 0072
Dim: +49 / 461 - 16880

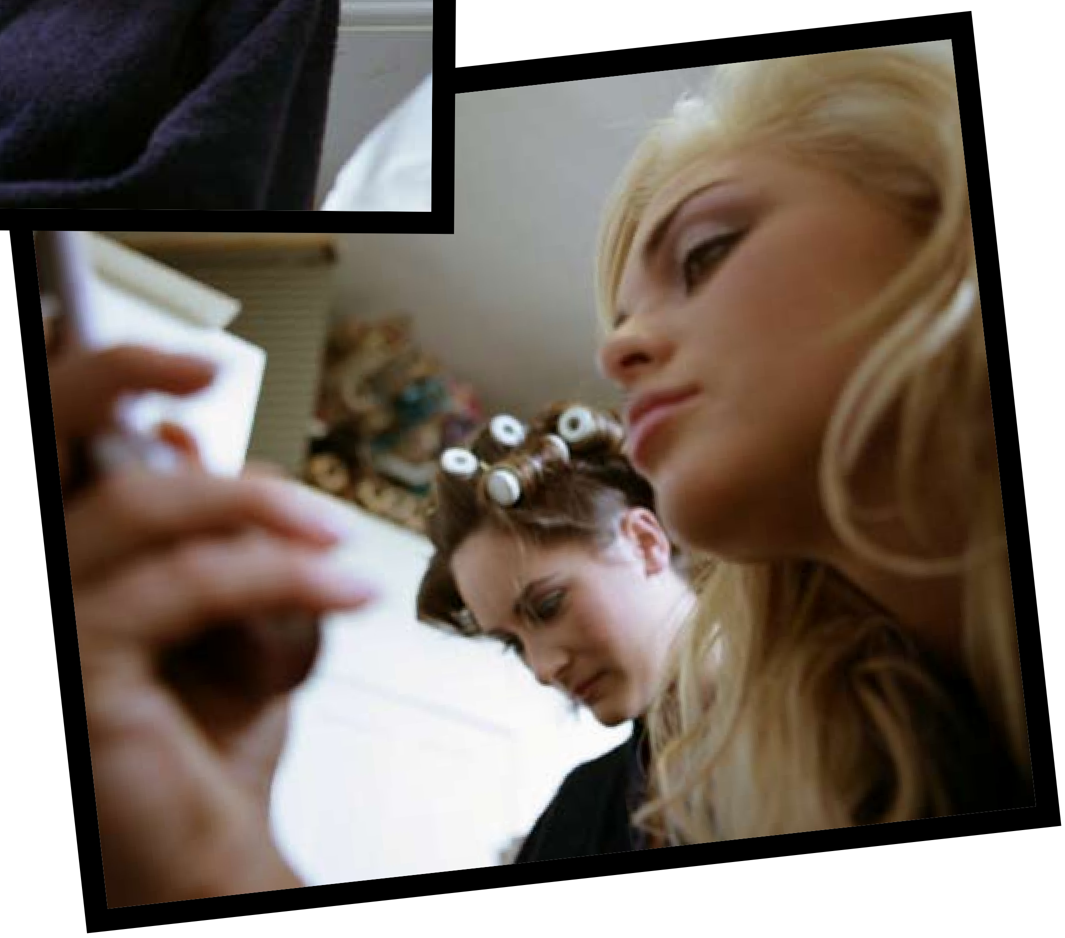
~~[illegible]~~ RB



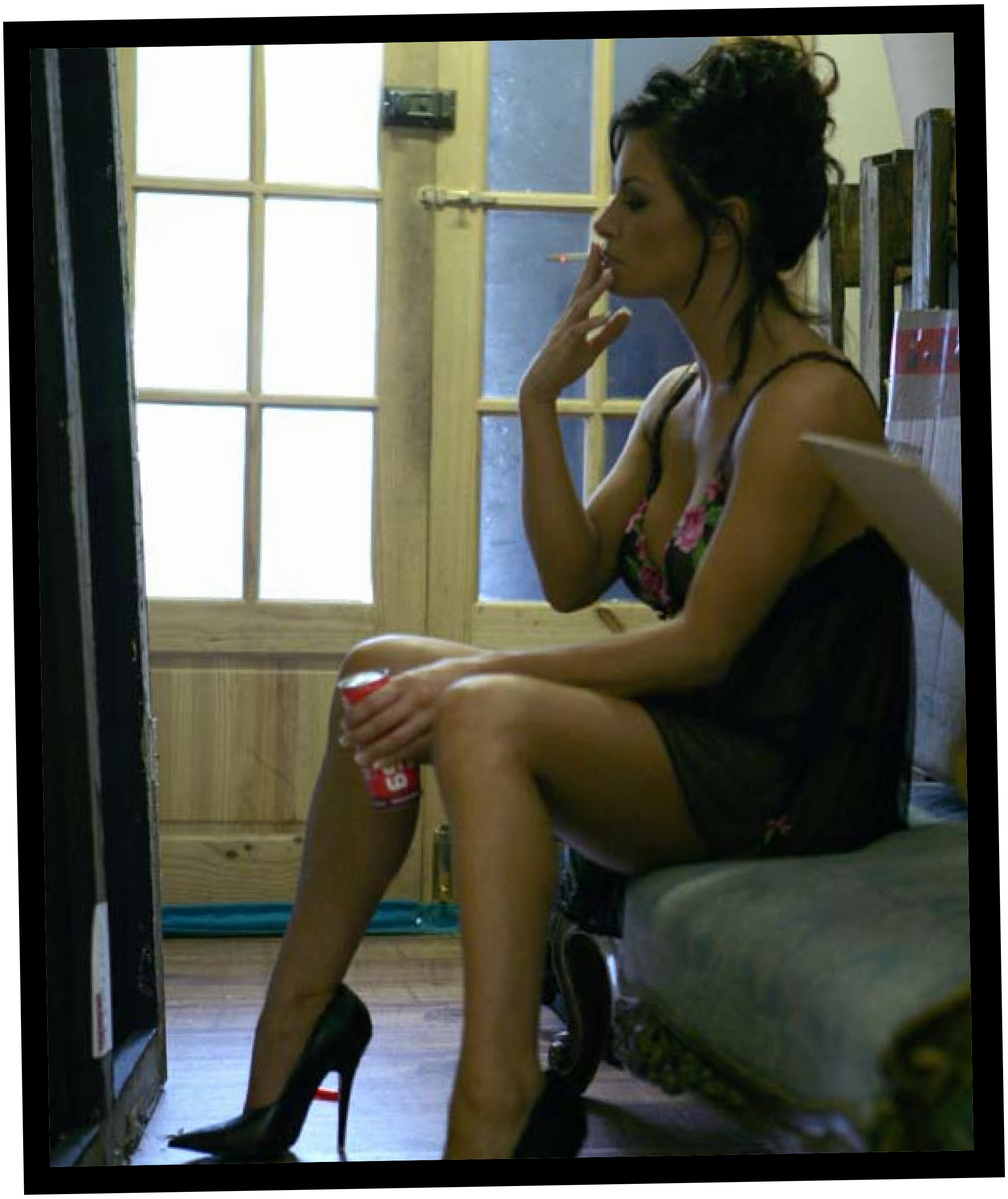
Call Bea:
· Has she checked my incoming mail?
· New mobile
· Agree to appointment with Finance Department

Lunch break at 12.30 today
Well on schedule
Kristin should order food at 12
Continue at 1 o'clock

Jeff wants Dion
again afterwards,
with push-ups
from 6.45



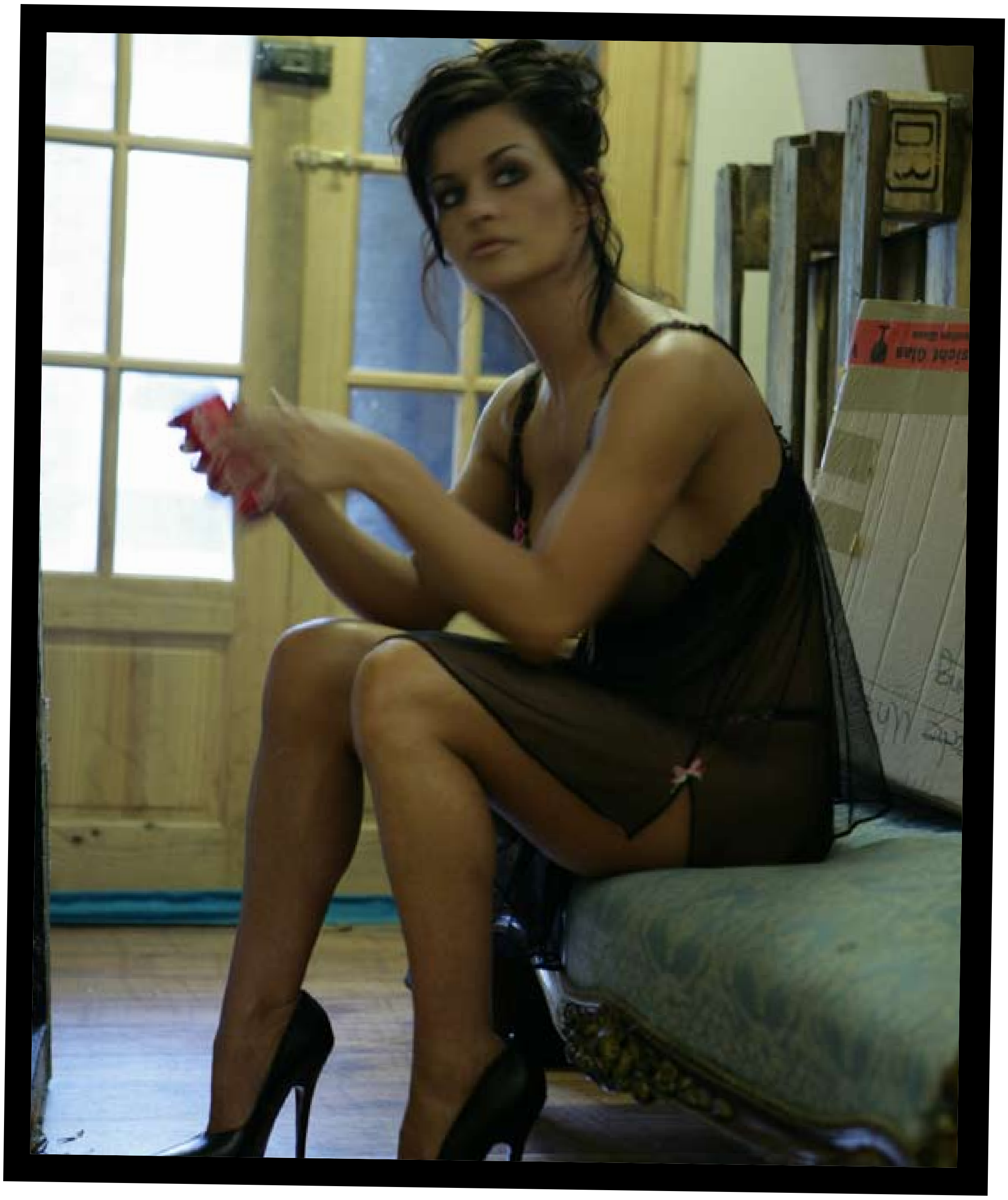
Evening:
- Dion, 1 Market Towers
Charing Cross tube
- Strawberry Moons,
15 Heddon Street
Leicester Square tube



Cool woman!

Not starting 'til 8:30
tomorrow

Bring collection of materials forward / how



Scenes of pictures with couples ♀ ♂
only in the afternoons!!!
They have to "warm up"
together first.

Sweet!!!

Have we got a foot model
for the new boot series
from Mail Order? ☺

early!!!
Stockings tomorrow, if everyone is up to it!
Tough subject... (stylist can come later)
(Models can do these shots without make-up)
Who's got the best legs???

CHRONICLE

2.1 THE 2006 FINANCIAL YEAR

JANUARY

The Federal Networks Agency for Electricity, Gas, Telecommunications, Post and Railways suspends added-value numbers with 0190 codes as of 1 January 2006. The established service telephone numbers are replaced by 0900 codes. Beate Uhse new media and other telephony providers thus lose their longstanding, well-known telephone numbers. The 0900 added-value numbers have to be newly communicated and positioned in the market. The target of Beate Uhse new media for 2006 is to compensate as far as possible for the loss of the 0190 telephone numbers.

FEBRUARY

The new Beate Uhse website www.beate-uhse.com goes online on 14 February. The new-look internet presence is friendly, fresh and has great sex appeal. This site pools information about all of the Group's B2C distribution channels for the first time.

Beate Uhse begins converting the Christine le Duc store chain to a new store concept. Eight of the 32 stores are due for conversion in 2006 to the new look and feel of this shop for couples and women.

MARCH

At the end of March, Beate Uhse launches an expansion campaign for its Fun Center store concept.

A further Fun Center opens close to the A7 motorway on the border to Denmark.

APRIL

Not an April Fools' Day joke! On 1 April 2006, Beate Uhse Retail presents its own beer brand. The Plopp Popp beer is one of the Group's first private label products.
A total of 48,000 bottles of Beate Uhse beer are sold at the company's stores in the first four weeks alone.

Beate Uhse opens its fifth Fun Center in April. This time the new location for the entertainment-based store concept is in Munich.

MAY

Essen is the location for the sixth Beate Uhse Fun Center opened at the end of May.

JUNE

Starting in June, Route 69 also passes through Weiterstadt. The opening of the seventh Fun Center store marks the end of the first wave of expansion.

erotic media ag reaches an agreement with Kabel Deutschland Vertrieb und Service GmbH concerning the broadcasting of two hardcore erotica channels. The new redXclub telemedia service is already launched in July 2006, with six up-to-date erotica films available every day.

2.2 COMPANY HISTORY

1946 Beate Uhse initiates the mailing of "Schrift X", an educational brochure on birth control using the Knaus-Ogino method. 1947 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 Frankfurt Stock Exchange. 2001 Beate

JULY

The mail order division presses ahead with its internationalisation. In July 2006, the mail order division sends 3.2 million unaddressed mailings with order coupons for a new catalogue to potential customers in the Czech Republic and Slovakia. Alongside the print catalogue, a modern online shop is also available to take orders.

The download shop www.pabomovie.com goes online once again following its relaunch. The cooperation launched in 2005 between Beate Uhse Mail Order and Beate Uhse new media has received a warm reception from customers and is therefore being expanded. Pabomovie provides customers with complete downloads of DVD films. Beate Uhse is thus reacting to the rise in demand for high-quality films for broadband internet connections.

AUGUST

Beate Uhse Retail suffers from hot summer temperatures in Europe. Especially in Germany, consumers seem to prefer to go for a swim in a lake rather than shopping in town.

SEPTEMBER

Beate Uhse sells its 50-percent shareholding in International Fun Center, Poland, and relies for its international expansion on strengthening its partners in the respective country markets.

OCTOBER

Beate Uhse opens its seventh large-scale specialist store in Europe, this time in Udine, Italy.

NOVEMBER

A defect in a sprinkler system at the new mail order fulfilment centre means that the move from the old to the new warehouse has to be suspended. Stocks and large parts of the technical equipment suffer water damage.

DECEMBER

The water damage suffered by the technology at the new fulfilment centre leads to difficulties with the delivery of Christmas orders. Huge efforts are made and increased manpower taken on to send out packages and restore the technology to limited functionality.

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. 2005 Beate Uhse builds an ultra-modern logistics centre near Amsterdam and supplies wholesale customers throughout the whole world from this new location. 2006 Beate Uhse’s mail order business also positions itself for the future. A new fulfilment centre with a surface area of more than 10,000 m² is built in the Dutch town of Walsoorden. Up to 42,000 packages per day can be sent from here to mail order customers.

THE BEATE UHSE FOUNDATION IN FLENSBURG

3.1 OBJECTIVES OF THE WORK OF THE FOUNDATION

The Beate Uhse Foundation in Flensburg aims to provide pragmatic assistance to people in need. The work of this charitable organisation is dedicated to the memory of the achievements of the businesswoman Beate Rotermund, founder of the Beate Uhse Group, who died in 2001.

The Foundation provides rapid, uncomplicated assistance to numerous projects, especially in the region of Schleswig-Holstein. In its work, the Foundation focuses on supporting children's charities and particularly on assisting organisations which offer help to women in situations of personal or financial distress.

A total of 24 projects were provided with financial support in 2006. Fortunately, the amount available to offer as assistance rose by around 10 percent compared with the previous year. The funds donated to the Beate Uhse Foundation are channelled 100% into assisting the people and projects supported by the Foundation.

3.2 SELECTED PROJECTS IN 2006

"Konkret" – Contact centre for women living with cancer, Flensburg
This organisation is a psychosocial advisory centre for women living with cancer. The donation from Beate Uhse is sufficient to cover part of the personnel expenses, thus securing the advisory activities of the contact centre for 2006.

"Adelby 1" – Integrative children's day-care centre, Flensburg
This children's day-care centre is dedicated to the integration of children living with disabilities. The facility is attended by a total of 86 children, of which 64 are children living with disabilities. Financial assistance was required to extend the range of facilities available in the open-air section of the centre. The Beate Uhse Foundation helped the centre to reach these objectives and also supported the construction of a water chute, a playhouse with a slide which can also be used by children in wheelchairs, and a special see-saw helping children to develop their sense of balance.

"Sailadventure e.V.", Kappeln
Sailadventure focuses on helping children and young people to develop social competence by providing them with the experience of sailing together. The club owns "Rugard", a cutter suitable for young people, and aims to establish cooperations with schools, educational organisations and youth welfare services in Northern German and Denmark. The Foundation has made a donation to this preventive project to help it cover its running expenses.

“Lebenshilfe”, Flensburg

This association supports people living with disabilities, promoting joint activities with the able-bodied. A one-week integrative circus project was undertaken in autumn 2006 with adults, families, children and young people, disabled and non-disabled alike under the title of “People’s Circus – it is normal to be different”. By making a donation, the Beate Uhse Foundation once again supported the integration of disabled people within society.

Martina M. from Flensburg

Martina is 35 years old and the single mother of two children. She has suffered from Severe Aplastic Anaemia (SAA) for 13 years now and also has skin cancer. The doctors treating her recommend chemotherapy and a bone marrow transplant. Sadly, given the additional complications the chances of Martina making a recovery are low. The hospice in Flensburg has therefore already begun to support the whole family. The family’s most burning desire is to have a holiday together to gather strength for the forthcoming therapy and to spend a few carefree days in each others company. The Beate Uhse Foundation is covering a large share of the costs, thus enabling the family to enjoy a holiday together once again.

3.3 CONTACT

If you would like to support the work undertaken by the Foundation in offering fast and unbureaucratic assistance to women and children living in difficult circumstances or in situations of distress:

Beate Uhse Stiftung zu Flensburg
Mergenthalerstraße 2
24941 Flensburg
Tel.: +49 (0) 461/8 40 66 15
Fax: +49 (0) 461/8 40 66 35
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THE SHARE

4.1 PERFORMANCE

The development of the share price in 2006 was unsatisfactory. The performance for the overall year amounted to -32.9 percent. The share closed the year at Euro 4.04, compared with Euro 6.10 at the end of 2005. The relevant comparative indices – SDAX, MDAX, GEX and DAX30 - performed considerably better, finishing 2006 in positive territory. The weaker development of Beate Uhse's share is presumably attributable to the fact that the operating performance of the Beate Uhse Group remained at the lower end of the expected range during the financial year. Moreover, the suspension of operations at the mail order centre due to water damage and the resultant deterioration in earnings at the end of the year generated additional pressure on the share on the capital market. The performance of the share is also certain not to have benefited from its departure from the SDAX index as a result of numerous large-scale IPOs, especially in traditional sectors, during 2006.

PERFORMANCE OF SHARE PRICE 2004 / 2005

		2005	2006	Change %
Opening	EUR	10.19	6.02	-40.92
Close	EUR	6.10	4.04	-33.77
High	EUR	10.37	6.95	-32.98
Low	EUR	5.80	4.00	-31.03
Average	EUR	7.41	5.60	24.43
Performance	%	-40.10	-32.90	-17.96

Source: Xetra / Dt. Börse

4.2 EARNINGS PER SHARE

Earnings per share (EPS) amounted to EUR 0.21 in 2006, compared with EUR 0.29 in the previous year. Beate Uhse AG calculates its earnings per share pursuant to IAS 33 on the basis of the average number of shares issued. In 2006, this amounted to 47,042,337 shares. In view of the share price in 2006, the stock option programmes did not give rise to any dilution effects, with the result that diluted earnings per share are equivalent to basic earnings per share.

EARNINGS PER SHARE 2004 / 2005

		2005	2006
Net income for the period	EUR million	13,596	10,440
Number of shares (diluted)		47,042,247	47,042,337
Number of shares (undiluted)		47,042,247	47,042,337
Earnings per share (diluted)	EUR	0.29	0.21
Earnings per share (undiluted)	EUR	0.29	0.21

KEY SHARE DATA 2005 / 2006

		2005	2006
Earnings per share		0.29	0.21
P/E ratio		21	19
Cash flow per share		12.4	9.5
Quote / sales		1.0	0.7
Quote / EBITDA		9.0	7.8
Quote / book value		4.6	2.7
Book value per share		1.3	1.5
Share capital		47,323,696	47,323,696
Market capitalisation	EUR	289	191
Market cap. of free float	EUR	78	94
Average sales / day		18,632	21,823

Source: Xetra

4.3 DIVIDEND

Throughout its history as a stock corporation, Beate Uhse has been consistently profitable in terms of its operations, reporting clear profits at all levels of its income statement. It is the policy of the company management to allow shareholders as well to participate in this profit within the framework of a consistent dividend policy. With the exception of the 2001 and 2004 financial years, in which the profits were carried forward, Beate Uhse AG has chosen a distribution policy which aims to distribute between 40 percent and 50 percent of profits to the company's shareholders.

The water damage suffered by the mail order business had an irreversible impact on the earnings of the Beate Uhse Group in 2006. The Supervisory Board and Management Board nevertheless intend to maintain the company´s dividend police and to propose a dividend of 10 cents per share (total dividend: EUR 4.7 million) to the Annual General Meeting. The remaining amount is to be carried forward. We will submit this proposal for approval by the Annual General Meeting in June 2007.

4.4 INVESTOR RELATIONS

Beate Uhse accords priority to ensuring that its share remains easily tradable. The company's longstanding cooperation with its designated sponsor, Close Brothers Seydler, was therefore maintained in 2006 as well. This company was awarded a leading position in the quality ranking undertaken by Deutsche Börse AG. Moreover, Beate Uhse's partnership with Independent Research ensures that its share forms the subject of regular analyses.

A considerable increase in daily trading volumes was achieved between 2004 (5,961 shares, Xetra) and 2005 (20,201 shares, Xetra). At 18,632 shares traded per day in 2006, however, trading volumes remained virtually unchanged. The marked reduction in trading volumes during the summer months was followed by a considerable upturn in volumes in the fourth quarter.

The key investor relations measures aimed at institutional investors included several road shows, especially in Frankfurt and London. Beate Uhse took part for the third time in the Deutsches Eigenkapitalforum in Frankfurt, holding its annual analysts' conference within the framework of this capital market event, the largest of its kind in Europe. The investor relations department supported the ongoing dialogue with private investors by making extensive information available on the internet. From the company's perspective, the highlight of its communications with private investors is the Annual General Meeting, which was attended by around 480 shareholders and guests in 2006.

BASIC DATA

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

Shareholder structure

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

Status: 31.12.2006

4.5 SHAREHOLDER STRUCTURE

There were major changes to the shareholder structure of Beate Uhse at the beginning of 2006, when some of the company's existing shareholders reorganised their shareholdings. From February 2006, this led to the emergence of a highly stable shareholder structure characterised by two major shareholders, Consipio BV and Rotermund Holding AG. These two companies currently hold around 20 percent and 29 percent of the shares respectively. The remaining total of around 50 percent is in free float. The most important countries from a shareholder perspective are Switzerland, the Netherlands, as well as Germany in the case of private investors.

At the beginning of 2007, Ulrich Rotermund, who is also the Chairman of the Supervisory Board, announced that he intended to sell his shares in Beate Uhse AG. The aim is to find a new investor for the company who is interested not only in making a financial investment but also in working together with the company to exploit new growth potential.

4.6 STOCK OPTION PROGRAMME

In 2006, the Beate Uhse Group issued 200,002 options within the framework of its stock option programme. Of this total, 100,002 options were issued to employees and a further 100,000 options to the Management Board and the management of subsidiaries within the Group. The options rights issued in 2006 may by exercised from 20 June 2008. The subscription price amounts to EUR 5.94.

DIVIDEND PAYMENT 1999 / 2006

		1999	2000	2001	2002
Dividend per share	EUR	0.10	0.14	-	0.10
Total dividend	EUR million	4.2	6.2	-	4.7
Dividend payment	Date	5.8.00	26.6.01	-	24.6.03

		2003	2004	2005	**2006***
Dividend per share	EUR	0.10	-	0.14	0.10
Total dividend	EUR million	4.6	-	6.6	4.7
Dividend payment	Date	22.6.04	-	20.6.06	26.6.07

*proposal on appropriation of retained earnings

CORPORATE GOVERNANCE REPORT 2006

In the past 2006 financial year, Beate Uhse AG complied with further recommendations and suggestions of the German Corporate Governance Code (DCGK) and met the requirements of Point 7.1.1 for the first time. Beate Uhse AG also complies with the majority of the new recommendations included in the new version of the DCGK dated 12 June 2006. There were and continue to be deviations in three points. The Statement of Compliance was approved by the Management and Supervisory Boards at their joint meeting on 13 December 2006.

A comparison of the Statement of Compliance dated 21 December 2005 with the corporate governance points actually implemented in the 2006 financial year reveals one deviation. This relates to the publication of the report for the 1st quarter of 2006, which due to the conversion to international accounting standards could not be released as planned within 45 days, but was nonetheless published within 60 days, thus meeting the stock exchange regulations for the Prime Standard.

The Codes of Procedure for the Management and Supervisory Boards remained unchanged in 2006. The company's Articles of Association were amended in one point (c.f. 5.7 Auditing) by resolution of the Annual General Meeting on 19 June 2006.

5.1 SHAREHOLDERS AND ANNUAL GENERAL MEETING

In 2006, Beate Uhse AG complied with the suggestion newly included in the Code that the Chairman of the Annual General Meeting should provide for the expedient running of the meeting and ensure that the AGM finishes at the latest after four to six hours. The company will make efforts to ensure that this is also the case at future AGMs. The Articles of Association concerning the chairmanship of the AGM were already amended in 2004 in order to ensure that the meeting is run even more stringently in the interests of shareholders and of the efficiency of the AGM.

Shareholders were able to view and download all information and documents relating to the 2006 Annual General Meeting on the internet. In the run-up to the AGM, the company received one countermotion for three items on the agenda. This was published without delay on the internet. The Annual General Meeting held on 19 June 2006 was attended by around 480 shareholders, bank representatives, journalists and guests. Around 63 percent of the company's share capital was represented. The seven items on the agenda which were put to the vote were each approved with more than 99 percent of the votes cast.

In view of the costs and benefits involved, Beate Uhse AG has limited itself to making the presentation by the Spokesman of the Management Board and the voting results available on the internet following the AGM. The company therefore does not comply with the suggestion in Point 2.3.4 that the AGM be broadcast on the internet in its entirety.

5.2 COOPERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The cooperation between the Management Board and Supervisory Board is reported in detail in the Supervisory Board Report.

The meetings of the Supervisory Board could be and still can be prepared both jointly and separately by the respective shareholder and employee representatives on the Board. Moreover, the Supervisory Board is entitled to meet in the absence of the Management Board. However, no use of this option was desired in 2006. Beate Uhse thus complies with the suggestion in Point 3.6 of the Code. The same applies to Point 3.7 and Point 3.10, given that the Management and Supervisory Boards comment in the Corporate Governance Report on all suggestions in the Code of relevance to the company

5.3 MANAGEMENT BOARD

The Management Board compensation system remained unchanged in the 2006 financial year. The basic features of this system and the individual value disclosures for each member of the Management Board have been presented in the Compensation Report of the Management Board and the Supervisory Board in the Group Management Report on Page 62/63, Point 7.6. Beate Uhse AG meets the new recommendations contained in Points 4.2.4 and 4.2.5 of the German Corporate Governance Code with the only exception that Gerard Cok, a member of the Management Board, for historic reasons receives a consulting fee, rather than being paid a management board salary. Corresponding disclosures concerning the level of such fee have been provided in the Compensation Report.

There were no changes in the Code of Procedure of the Management Board in 2006. No conflicts of interest arose during 2006. It remained the case that no member of the Management Board held any positions in supervisory boards or comparable bodies.

5.4 SUPERVISORY BOARD

The Annual General Meeting held on 19 June 2006 elected Michael Papenfuß and Martin Weigel as full members of the Supervisory Board for a term expiring upon the conclusion of the AGM ratifying the actions of the Supervisory Board for the 2008 financial year. The two gentlemen, both of which act as shareholder representatives, had already been members of the Supervisory Board since mid-2005, having been appointed as such by the Flensburg District Court. Other positions held by members of the Supervisory Board can be found on Page 127, Point 8.5.

All information concerning the focus of the work of the Supervisory Board and the work of the committees has been provided in the Supervisory Board Report on Page 46/47, Point 6.2 and 6.3. Beate Uhse AG complies with the suggestions set out in the Code with regard to the establishment of committees (chairman of audit committee, reference of specialist topics, preparation and decisions on behalf of the full 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, while four members represent the company's shareholders. 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. This company also executes consulting assignments for the Beate Uhse Group. Further details as to the commensurate nature of the payments made can be found in the notes from Page 123/124, Point 8.5 onwards. Michael Papenfuß and Martin Weigel do not have any business or personal dealings with the company or its Management Board.

All details concerning the compensation of the Supervisory Board can be found in the joint Compensation Report in the Group Management Report on Page 62/63, Point 7.6. Beate Uhse only complies to a limited extent with the suggestion set out in Point 5.4.7 of the Code that the performance-related compensation should also include components based on the long-term performance of the company. The variable compensation of members of the Supervisory Board is based on the level of dividend paid.

No conflicts of interest arose in the 2006 financial year.

The Supervisory Board reviews the effectiveness of its activities on an annual basis. For this purpose, the Board has developed a checklist, with the assistance of which its activities and their efficiency are recorded and analysed once a year in order to identify any potential recommendations for action.

5.5 TRANSPARENCY

Beate Uhse AG published one ad-hoc announcement in the past financial year, thus meeting the legal requirement that all shareholders be informed at the same time and without delay in the event of any insider information arising.

Beate Uhse AG published the following notifications in 2006 in respect of changes in the shares of voting rights pursuant to Sec. 25 of the German Securities Trading Act (WpHG):

NOTIFICATIONS PURSUANT TO SEC. 25 WPHG

Content	Date
Orthmann Trading AG exceeds 5 % of voting rights (26 January 2006)	2 February 2006
Art Media Productions GmbH falls short of 5 % of voting rights (23 January 2006)	2 February 2006
Orthmann AG falls short of 25 % of voting rights (26 January 2006)	2 February 2006
Rotermund Holding AG exceeds 5 % of voting rights (26 January 2006)	2 February 2006
Orthmann Trading AG falls short of 5 % of voting rights (24 May 2006)	29 May 2006

The following directors' dealings were reported during the 2006 financial year and published at www.beate-uhse.ag:

DIRECTORS DEALINGS

Name	Function	Date*	Trade	No. of shares	Value
H. J. Cok	Other management	1/20/2006	Purchase	10,000	50,000.00
Serge van der Hooft	Other management	1/20/2006	Purchase	10,000	50,000.00
J. A. A. Boddaert	Other management	1/20/2006	Purchase	10,000	50,000.00
Otto Chr. Lindemann	Management Board	1/20/2006	Purchase	300,000	1,500,000.00
Rotermund Holding AG	Legal entity	1/20/2006	Sale	750,000	3,750,000.00
Rotermund Holding AG	Legal entity	1/26/2006	Purchase	13,789,311	138,031,003.11
Orthmann AG	Legal entity	1/26/2006	Sale	18,936,931	189,558,679.30
Rotermund Holding AG	Legal entity	3/31/2006	Purchase	100,000	625,000
Rotermund Holding AG	Legal entity	7/10/2006	Sale	1,220,311	6,943,568.40
Rotermund Holding AG	Legal entity	9/8/2006	Purchase	1,378,490	12,165,973.32

*of trade

The financial calendar of Beate Uhse AG for the 2006 financial year was published in December 2005. All press releases, ad-hoc announcements, quarterly and annual reports, as well as the contents of the company website, were published in both German and English in 2006.

5.6 ACCOUNTING

Starting with the 2005 annual financial statements and the 1st quarter of 2006, the Beate Uhse Group has based its accounting on International Financial Reporting Standards (IFRS). This means that since this year the company has also complied in full with Point 7.1.1 of the Code. The conversion of accounting methods led to delays in the compilation of the financial statements for the 1st quarter of 2006, as a result of which it was not possible to publish them within 45 days. Beate Uhse therefore reported on the course of business in the first three months within 60 days of the end of the quarter and thus within the deadlines set out in the Prime Standard stock exchange regulations.

There were no structural changes in the stock option programme at Beate Uhse AG in 2006. The most important disclosures are summarised below:

STOCK OPTION PROGRAMME OF BEATE UHSE AG

Term of stock option plans:	5 years
Parties entitled to subdcribe:	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 %

5.7 AUDITING

The 2006 Annual General Meeting approved the proposal made by the Supervisory Board and elected Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Hamburg, as auditors for the 2006 financial year. The audit assignment was issued by the Supervisory Board. Before presenting its candidate for election, the Supervisory Board had obtained a declaration from the auditor in respect of its personal and business dealings with the company. This declaration provided no grounds for objection.

In accordance with the proposal made by the Supervisory and Management Boards and by way of adjustment to the requirements set out in Secs. 170 et seq. of the German Stock Corporation Act (AktG), the Annual General Meeting held on 19 June 2006 resolved to reformulate Sec. 16 (1) of the Articles of Association of Beate Uhse Aktiengesellschaft as follows:

§ 16 Annual Financial Statements and Annual General Meeting

(1) The Management Board shall present the annual financial statements and the management report to the Supervisory Board without delay following their compilation. The Management Board shall at the same time present to the Supervisory Board the proposal which it intends to make to the Annual General Meeting in respect of the appropriation of earnings.

5.8 COMPENSATION REPORT FOR THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Compensation Report for the Management and Supervisory Boards can be found in the Group Management Report on Page 62/63, Point 7.6.

5.9 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 objectives of the German Corporate Governance Code (version dated June 2006) with regard to the promotion of high-quality, 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 achieve sustainable growth in the value of the company.

Beate Uhse AG supports the recommendations made by the German Corporate Governance Code government commission. Since our previous Statement of Compliance in December 2005, the company has fulfilled further recommendations of the Code. Those recommendations where Beate Uhse AG deviates from the Code have been outlined below.

Flensburg, 13 December 2006

On behalf of the Supervisory Board
Ulrich Rotermund
(Chairman of the Supervisory Board)

On behalf of the Management Board
Otto Christian Lindemann
(Spokesman of the Management Board)

I. The following points relate to further recommendations fulfilled by the company since the submission of its Statement of Compliance in December 2005 and the updates contained in the version of the Code dated June 2006 (compared with the version dated June 2005):

4.2.4 – Disclosure of compensation components: Beate Uhse AG complies with this recommendation newly included in the Code and will report the total compensation of the individual members of the Management Board, divided into performance-related, non-performance-related and long-term incentive components, for the first time in the 2006 Annual Report. This information will be published in the current year, as well as in subsequent years, in the Compensation Report in the Annual Report.

4.2.5 – Compensation report: In line with the new recommendations, Beate Uhse AG will be publishing a compensation report with all of the information required by the Corporate Governance Code for the first time in the 2006 Annual Report. It is also planned to include this Compensation Report as part of the Corporate Governance Report in subsequent years.

7.1.1 – Accounting: The 2005 consolidated financial statements and the interim reports for 2006 were compiled for the first time in accordance with "International Financial Reporting Standards (IFRS)". Further reports published in future will also be based on IFRS.

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

4.2.3 – Compensation of the Management Board: Since 2003 the compensation of the Management Board at Beate Uhse has included non-performance-related and performance-related components in the case of Otto Christian Lindemann. Gerard Cok receives a consulting fee. Components of a long-term incentive nature are issued for the entire Management Board in the form of stock options subject to a waiting period of two years. The members of the Management Board at Beate Uhse AG do not receive any other payments, fringe benefits or benefits by third parties.

The Chairman of the Supervisory Board informed the 2006 Annual General Meeting in his presentation and in the 2006 Annual Report (Corporate Governance Report, Notes) on the basic features of the compensation system. In the interests of transparency, this is planned to be repeated in the coming years as well.

7.1.2 – Deadlines for the compilation of consolidated financial statements: The annual financial statements of Beate Uhse AG for the 2005 financial year were published on 19 April 2006 and thus did not meet the requirements of the DCGK (90 days following conclusion of period). The date of publication nevertheless complied with the deadline for the Prime Standard (120 days) and thus fulfilled stock exchange regulations. The report for the first quarter of 2006 was published on 31 May 2006 and thus also failed to be published within the respective DCGK deadline (45 days following conclusion of period). Its publication nevertheless met the deadlines set by Prime Standard stock exchange regulations.

Beate Uhse AG converted to international accounting standards in the 2006 financial year. The retrospective conversion for the 2004 and 2005 financial years undertaken in parallel in order to facilitate comparability required more time than planned. From the 2006 half-year report onwards, the deadlines recommended by the DCGK have been complied with in full. It is also planned to publish future reports of the Beate Uhse Group within the prescribed time limits.

7.1.4 – Publish list of third-party companies: Within the list of group shareholdings reported in its annual financial statements, Beate Uhse AG publishes a list of shareholdings which are of major significance to the company. The list includes the names, registered offices, level of shareholding and type of consolidation for these shareholdings. For reasons of competitor surveillance, the additional disclosures required by the DCGK (level of equity, earnings in past financial year) have not been published.
Further information and updates on corporate governance at the Beate Uhse Group can be found at:
www.beate-uhse.ag/ir/corporate_gov/corporategovernance.html

SUPERVISORY BOARD REPORT

DEAR LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

Beate Uhse AG has concluded a financial year which was characterised by forward-looking decisions and actions, for example in the field of logistics. We are on the way towards becoming a service and brand-driven modern erotica and lifestyle group, a process which we will maintain in the next two years. On an operational level, we did not quite reach the targets we had set ourselves. The ongoing sluggish performance of the economy in important country markets, such as Germany, and water damage at our mail order warehouse during the busiest period of the year (in the run-up to Christmas) took their toll on the sales and earnings performance of the Beate Uhse Group in 2006. We are therefore not entirely satisfied with what we have achieved – although the sales growth and returns in our trading business remain without equal.

The Supervisory Board monitored the forward-looking developments and decisions promoted by the Management Board for the Beate Uhse Group, accompanying the Board in an advisory and supervisory capacity. We see the measures involved in the structural modernisation of the Group as now being virtually complete. Given the exemplary work performed by the management and the entire workforce, we do not believe that these measures were the reason for our performance falling somewhat short of expectations.

6.1 SUPERVISORY DUTIES AND METHODS

During the year under report, the Supervisory Board performed the duties required of us by law, the Articles of Association and the Corporate Governance Code. We advised and supervised the Management Board on an ongoing basis in its running of the company. The Supervisory Board was involved in decisions of major significance.

Our supervision is based on regular reports from the Management Board and on monthly reports provided to all members of the Supervisory Board. Business transactions of notable significance to the company are also outlined in written reports in some cases and form the object of in-depth consideration and discussion at meetings. To the extent required by law and the Articles of Association, the Supervisory Board voted on the reports and draft resolutions provided by the Management Board. A total of four explicit draft resolutions were subject to this procedure during the year under report. In detail, these involved larger-scale real estate investments in the mail order and wholesale divisions, as well as the sale of the Polish shareholding. All four draft resolutions were approved following detailed scrutiny and deliberation.

In particular, the plans on the part of the Management Board for the strategic alignment of the Beate Uhse Group were the subject of regular discussion between the Management and Supervisory Boards. We see ourselves as sparring partners for the Management Board in this respect.
As Chairman of the Supervisory Board, I myself was regularly available as a direct contact partner for the Management Board. The Management Board informed me, in most cases by telephone but sometimes also in person, of important events outside the framework of meetings both in the run-up to and following meetings of the Supervisory Board. We then discussed the respective situation. The Supervisory Board was provided with written copies of the minutes of Management Board meetings.

6.2 FOCUS AND RANGE OF TOPICS ADDRESSED BY THE FULL SUPERVISORY BOARD

The Supervisory Board met on four occasions during the 2006 financial year. These meetings took place on 4 April, 18 June, 29 September and 13 December. No member of the Board was absent at more than half of the meetings. Two meetings were held with the entire Board. On one occasion one member was absent and on another three individuals were unable to attend.

The sales and earnings performance of the Group and of the individual profit centres represented a regular focus of discussion at the meetings of the full Supervisory Board. The Board paid particular attention on an ongoing basis to the company's financial situation and budgeting, as well as to its early warning risk identification system. These topics were addressed at each of the four meetings.

Major investment focuses and personnel planning were discussed at the meetings on 4 April, 18 June and 13 December. Personnel planning included the first and second management tiers. These discussions also involved examining possibilities as to how the second management tier could be boosted with additional marketing expertise. The agenda also involved considering long-term succession planning for the Management Board.

Corporate governance at Beate Uhse AG and its group companies formed a focus of deliberation on 13 December, with the Statement of Compliance for 2006 being submitted at this meeting.

Issues relating to the company's share and to the Annual General Meeting were one of the main points at the meetings on 4 April and 18 June. Final amendments were made at the April meeting to the agenda for the 2006 Annual General Meeting, with the final version then being approved for publication. The company's dividend distribution policy represented a further key focus of discussion.

The agenda for the meeting on 29 September included quality management and the consequences of the new German Consumer Information Act (VIG). The ways in which consistent quality management might be developed and implemented were discussed, with measures being adopted.

6.3 COMMITTEE WORK

The Supervisory Board of Beate Uhse AG has three committees – the Audit Committee, the Investment Committee and the Personnel Committee.

The Audit Committee met on one occasion during the year under report in order to prepare the meeting of the Supervisory Board which approved the financial statements. All personnel-related matters were discussed with the full Supervisory Board in 2006, as were issues relating to the Investment Committee.

6.4 CORPORATE GOVERNANCE

Beate Uhse AG is committed to good corporate governance. There were no conflicts of interest on the part of individual members of the Supervisory Board. 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 127, Point 8.5 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 42, Point 5.5. The compensation of the members is also reported on an individual basis in this section.
The new recommendations of the German Corporate Governance Code, which mainly relate to management board compensation, formed the subject of detailed discussion in the Supervisory Board. It was jointly agreed with the Management Board that the company should comply with all of the recommendations in the Code, insofar that they are relevant to Beate Uhse AG. It is worthy of mention that Beate Uhse already reported the compensation of members of the Management and Supervisory Boards on an individual basis in the past as well.

6.5 AUDIT OF THE ANNUAL FINANCIAL STATEMENTS OF BEATE UHSE AG AND OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2006 FINANCIAL YEAR

The separate financial statements of Beate Uhse for the 2006 financial year have been compiled in accordance with the provisions of the German Commercial Code (HGB). The 2006 consolidated financial statements have been compiled in accordance with IFRS accounting standards. The management and group management reports take due account of the provisions set out in German Accounting Standard 15 (DRS 15). Ernst & Young 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 includes 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 2006 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 26 March 2007. The financial statements were discussed in detail at this meeting. The auditor attended the meeting, outlined the principal audit findings 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 management report, the consolidated financial statements and the group management report 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 are thus adopted.

We endorse the proposal that the earnings of Beate Uhse AG, amounting to EUR 10.2 million, be used to distribute a dividend amounting to EUR 4.7 million in total, equivalent to 10 cents per share, with the remainder being carried forward. The proposed appropriation of earnings will be presented for approval by the Annual General Meeting on 25 June 2007.

6.6 DISCLOSURE OF TAKEOVER BARRIERS

The Management Board has included a list of potential takeover barriers in the group management report. We have reviewed these in detail and discussed them with the Management Board. We believe that such barriers have been depicted adequately and accurately.

6.7 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 Wirtschafts-prüfungsgesellschaft 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 2006.”

6.8 ON A PERSONAL NOTE

Ladies and gentlemen, I hope that you will allow me at this point to make a personal remark. My mother founded this company 60 years ago. As you may have seen in the press, I plan to step down as a major shareholder. By taking this step, I would like to open up new, possibly international, growth opportunities for the company. The potential inherent in Beate Uhse is far from having been exhausted. With its strong and positively perceived brand and brand awareness levels of 98 percent, Beate Uhse offers superb opportunities for growth. The world of erotica is ever more widely accepted within society. Changing patterns of conaccepted within society. Changing patterns of con-sumer behaviour and market conditions provide the Group with new prospects for growing outside its niche and of establishing its brand as a synonym for a new lifestyle and attitude towards life.

It is very important to me that the investor to be found for Beate Uhse AG should be interested not only in making a financial investment, but also in playing an active role in its future development and further expansion.

6.9 THANKS TO THE EMPLOYEES AND MANAGEMENT

We, the members of the Supervisory Board, should like to thank the employees of Beate Uhse AG and of all group companies, as well as the Management Board, for their work in the past financial year. The unsatisfactory sales situation in the 2006 financial year frustrates us all and distorts the true picture of your performance. Particularly in difficult times, employees are generally even more highly motivated and committed to their work. You have proven this theory by always giving of your best and thus supporting the Beate Uhse Group. We are convinced that your ongoing commitment will ensure that the current financial year is more successful.

Flensburg, 26 March 2007

Yours faithfully,

Ulrich Rotermund
Chairman of the Supervisory Board

MANAGEMENT REPORT OF THE BEATE UHSE GROUP FOR 2006

7.1 BUSINESS BACKGROUND AND STRUCTURE

Economy, Market & Sector

The global economy showed stable growth throughout 2006, although there was a slight loss of momentum towards the end of the year. Overall, growth is expected to have amounted to around 4 percent. The share of this growth attributable to Europe and to Germany as well turned out considerably higher than previously expected. Eastern Europe, which once again reported above-average growth of 6 percent, is increasingly developing into one of the most interesting markets of the future.

For the first time in several years, Germany succeeded in 2006 in escaping from its position at the bottom of the European league table in terms of its economic performance. With growth of 2.7 percent, the German economy matched the growth reported for the twelve euro countries and fell only slightly short of the figure for the EU as a whole. This level of growth has not yet been matched by private consumer expenditure, which showed disproportionately low growth of less than 1 percent in Germany in 2006. The euro area as a whole performed slightly better in this respect.

Stimulated by the improvement in the overall economic situation in Germany, the retail climate brightened somewhat, although estimates made by the Association of German Retail Companies (HDE) suggest that the normal level of growth probably only amounted to 0.75 percent.

Other European countries therefore remain slightly ahead of Germany in terms of their retail climates as well. Based on eurostat calculations, the retail index reached plus 1.4 in the euro area and plus 2.5 in the EU. This therefore confirmed the trend seen in previous years, with the largest economies and thus the most important countries for Beate Uhse in terms of sales reporting relatively moderate retail developments, although slightly better than in previous years. Considerably more positive trends were witnessed in smaller European countries in particular, in some of which Beate Uhse is newly represented or is planning its market entry.

Based on the assessment undertaken by Beate Uhse AG, the erotica sector has developed similarly to other consumer goods segments within this macroeconomic framework in terms of economic growth, consumer expenditure and retail sales. The sector nonetheless suffered, especially in Germany and Europe, from the very hot summer weather. This assessment is based on developments in individual national markets and on existing contacts, particularly in the wholesale business. The sector remained largely stable in terms of its structure both in Europe and on a global level in 2006. Based on the information publicly available, Beate Uhse assumes that it is the leading erotica company both in Europe and the world in terms of sales.

PRIVATE CONSUMPTION 2006

Established Beate Uhse markets	2006
Germany	0.0
Netherlands	2.0
Belgium	0.0
France	2.6
United Kingdom	2.0
Austria	1.7
Switzerland	1.9
Norway	3.6
Hungary	2.0

Various future Beate Uhse markets	2006
Poland	4.6
Slovakia	5.7
Spain	3.6
Czech Republic	3.9

Source: bfai

Structures of the Beate Uhse Group

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. The group companies have been listed in the notes to the consolidated financial statements. 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 finance 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 15 European countries. The Czech Republic and Slovakia represent new country markets in which Beate Uhse has operated since 2006.

Its main sales markets continue to be Germany (38.39 percent) and the Netherlands (17.3 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 (EU25). Within Europe, Beate Uhse is one of the market leaders 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.

With its various distribution channels, Beate Uhse sells erotica products relating to the product groups of DVDs, lingerie, 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 the 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, retail, wholesale and divisions each make use of the key figures which best portray their respective business models.

As an erotica company, Beate Uhse AG is subject to strict legislative restrictions. The most important such restrictions involve 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.

Employees

The Beate Uhse Group had 1,458 employees at the end of 2006. This represents a decline of 4.3 percent on the previous year. As a result of the business performance, all profit centres made slight reductions in their workforces. With 856 employees, the retail division remained the largest employer within the Group. As a result of the wholesale warehouse in Almere having attained full functionality, the retail division did not perform any warehousing activities in 2006. This led to a reduction of 26 jobs. The mail order division also had fewer employees, partly as a result of fixed employees being replaced by temporary employees based on the volume of orders received, as well as of the number of employees at the German call centre being adjusted to the lower level of orders and the closure of an office in Great Britain. There was a slight reduction in the workforce at the wholesale division compared with the previous year as a result of the completion of conversion and start-up procedures at the new central warehouse in 2006. The entertainment division carried out its activities with fewer employees. This was due to the cooperation partner business no longer being promoted on account of profitability considerations. Moreover, the entertainment division terminated some smaller-scale cooperations which were no longer lucrative. Employee structures were further streamlined by means of an internal reorganisation.

EMPLOYEES AT THE BEATE UHSE GROUP

BY REGION	2005	2006	% change
Germany	751	716	-4.7
Netherlands	541	534	-1.3
Belgium	31	23	-25.8
France	64	65	1.6
United Kingdom	22	8	-63.6
Austria	24	23	-4.2
Scandinavia	41	41	-
Italy	11	48	336.4
Other European Countries	38	0	-100.0
	1,523	**1,458**	-4.3

BY PROFIT CENTRE	2005	2006	% change
Retail	882	856	-2.9
Mail Order	288	272	-5.6
Wholesale	230	217	-5.7
Entertainment	79	69	-12.7
Holding Services	44	44	-
	1,523	**1,458**	-4.3

The personnel expenses of the Beate Uhse Group declined by EUR 1.8 million to EUR 48.3 million. The personnel expenses ratio, which depicts personnel expenses as a percentage of sales, remained virtually unchanged at 17.8 percent (2005: 17.4 percent). Personnel expenses per employee amounted to EUR 33.1k in 2006, compared with EUR 32.6k in the previous year.

The share option programme initially launched in 2002 represents an additional instrument for retaining and motivating employees. A total of 200,002 options were made available in 2006.

In 2006, Beate Uhse continued to train young people in four different occupations. The Group also offered work experience and trainee positions to students and career starters in 2006. A practice-based business administration course was offered in cooperation with Nord-Akademie Elmshorn. The high standards of training are also aimed at developing qualified group employees for greater responsibility in order to fill management positions with internal personnel.

Distribution Channels

Beate Uhse becomes the most important retail brand

Beate Uhse Retail further expanded the use of the Beate Uhse brand on an international basis in 2006, with stores being opened under this erotica brand in the Netherlands, Italy and Poland. In 2006, our customers were able to shop at 251 Beate Uhse stores (2005: 230 stores), 32 Christine le Duc stores, six Dr. Müller stores, three Mae. B stores and 41 shops with location-specific names. The store network comprised 333 stores in 11 countries. We further limited the diversification of brands in 2006 by converting additional stores to the Beate Uhse brand. Our aim is to pool our international retail activities under the main brands of Beate Uhse and Christine le Duc.

The conclusion of activities at Mae B. is also to be viewed from this perspective. We aim to focus 100 percent on the strengths of the Beate Uhse brand in the German market. The experience gained with Mae B., a store concept for women and couples, in terms of its product range, presentation of merchandise and customer proposition has been channelled into a new Beate Uhse concept. This concept has been developed for stores in premium locations in large cities, with the first store of this kind being opened in Sendlinger Strasse in Munich on 1 February 2007. The costs involved in the closure of the Mae B. stores are included virtually in full in the earnings figures for 2006.

Alongside this new concept, the Group will focus in future on the following four store concepts operating under the Beate Uhse brand:

1. Beate Uhse stores in 1A inner-city locations, airports and select shopping centres
2. Beate Uhse specialist stores in large-scale business and industrial parks on the outskirts
3. Beate Uhse Fun Centers at heavily used traffic intersections
4. Beate Uhse franchise stores.

BEATE UHSE SHOPS BY COUNTRY

OWN SHOPS

	2005	%	2006	%
Germany	71	43.0	74	44.0
Italy	5	3.0	5	3.0
Netherlands	65	39.4	66	39.3
Belgium	10	6.1	11	6.5
France	9	5.5	8	4.8
Norway	5	3.0	4	2.4
	165	100.0	**168**	**100.0**

LICENCE & FRANCHISE

	2005	%	2006	%
Germany	55	38.2	57	34.5
Austria	41	28.5	42	25.5
Switzerland	38	26.3	38	23.0
Norway	4	2.8	5	3.0
Hungary	1	0.7	1	0.6
Poland	-	-	15	9.1
Slovenia	5	3.5	5	3.0
Italy	-	-	2	1.2
	144	100.0	**165**	**100.0**

INVESTMENTS

	2005	%	2006	%
Poland	10	100.0	-	-
	10	100.0	**-**	**-**

The Fun Center concept and the Christine le Duc performed particularly well in 2006. The launch of the first Fun Center in 2005 was followed in the past year by four further stores based on this concept in Flensburg (March), Munich (April), Essen (May) and Weiterstadt (June). Given the smaller range of merchandise (max. 30 percent) and the higher share of entertainment (70 percent), the concept requires less personnel input than traditional stores and is thus able to reach breakeven more rapidly.

The Christine le Duc store chain was further established in the Dutch market. Eight stores had been modernised by the end of 2006. The new store has been designed along the lines of Beate Uhse's corporate identity. As well as the store design, the structure of the product range and the design scheme for Christine le Duc private label packaging have also been revised.

Beate Uhse Retail was represented by 38 stores in Switzerland in 2006. 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 intends to open stores in Switzerland under its own management. The aim is to align the shops more closely to Beate Uhse's image and product range.
Beate Uhse Retail also works together successfully with country franchise partners in Austria, Poland and Slovenia.

In the second half of 2006, the Beate Uhse Group sold a 50 percent shareholding in the International Fun Center, Poland, for EUR 3.5 million. The Polish activities carried out under the Beate Uhse brand will be expanded by a franchise partner.

Mail order loses momentum

2006 was not a good year for Beate Uhse Mail Order. Germany, Austria and the UK, the strongest markets in previous years in terms of sales, witnessed a marked decline in orders in 2006. This development was due to delivery times being too long, as yet inadequate customer retention programmes and, especially in Germany, an extremely long and warm summer by European standards, which created difficulties for the retail sector as a whole. The further development of the UK business was additionally disrupted by a ban on the sale of R18 material via mail order. The water damage suffered at the new fulfilment centre at the end of 2006 had a markedly negative impact on all countries. The technology broke down for a period of several weeks, making it impossible to input new merchandise into the system or to handle customer orders on time. This led to major backlogs in the mail order business, especially during the Christmas period, and to a loss of sales which could no longer be compensated for in 2006 and which will also not be made up in full in 2007. The 2006 balance sheet does not account for any receivables from insurance policies and third parties for the impairments resulting from the water damages. The functionality of the warehouse had been restored virtually in full by the beginning of 2007.

The functionality of the new warehouse represents the foundation for all future measures. It will lead to a notable improvement in mail order service standards. The mail order division will optimise its activities from 2007 onwards by improving its customer retention programmes, addressing customer groups in a targeted manner with special catalogues and mailing actions, changing the product range more rapidly and expanding its e-commerce activities.

MAIL ORDER INFORMATION

million	2005	2006
Main catalogues dispatched	31.4	33.7
Orders	3.0	2.8
Dispatched packages	3.5	3.1

The mail order business showed very pleasing developments in France in 2006, reporting double-digit order volume growth. In 2006, Beate Uhse advertised to customers in nine countries with catalogues, mailings and internet shops. Initial advertising measures were launched in the Czech Republic and Slovakia in July 2006, with the dispatch of packages beginning in October 2006. The mail order division expects to invest around EUR 1 million in further marketing activities by mid-2007.

ZBF and Scala – still global leaders

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 customers with a broad range of more than 20,000 products. Scala also acts as the central merchandise hub within the Group. Apart from a few exceptions, the Group's entire merchandise is procured and handled in the Netherlands. We aim to achieve the greatest possible benefits of scale in this way.

We succeeded in 2006 in remedying the technical difficulties at the wholesale logistics centre opened in 2005. Since then, Scala employees have been focusing on extending their customer contacts. With this in mind, the showroom was refitted for direct shopping in the past year to enable shoppers to take their goods with them immediately. In 2006, Scala employees established contacts with mass market retailers for the first time.

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 base of customers who appreciate the wholesaler's product focuses and their direct contact to the company in Wiesbaden.

Both wholesalers suffered in 2006 from ongoing pressure on prices for DVDs and magazines. These product groups, previously the strongest in terms of sales, have been under intense pressure for years now. Film producers bring out several hundred new publications every week. This flood of films has put prices very noticeably under pressure. Beate Uhse is countering this trend by expanding its private label products to differentiate itself from other offerings by means of the quality of its films.

Entertainment maintains its ground

The range of services offered by the new media division includes added value telephone services, mobile services, the design and development of VOD solutions, camera platforms, image galleries and download portals. The activities focus on providing erotica content to internal and external internet sites. Beate Uhse new media GmbH provides its customers with a full service (concept design, technical implementation, end customer payment) as an internal service provider and in cooperation with external partners.

2006 was a successful year for Beate Uhse new media GmbH. By increasing its margins while simultaneously reducing its costs, the new media company succeeded in considerably improving its position in the Group. This pleasing overall development was due to the online offerings provided by Beate Uhse new media. Customers honoured the relaunch of the www.beate-uhse.com internet site and the www.pabomovie.com video portal. In terms of payment by telephone, the online division and the added value telephone services (audiotex) had to absorb a reduction in reimbursements as a result of the conversion of 0190 to 0900 added value numbers. In particular, the change in invoicing procedures for the new 0900 number classes led to lower reimbursements for calls from mobile telephone networks. The performance of the added value telephone services stagnated in line with the overall market. The sales performance was largely equivalent to the development of advertising expenses. The telephony division is confronted with crowding-out competition. Beate Uhse is one of the established providers in this area.
erotic media ag and Beate Uhse TV GmbH & Co. KG represent two major associated companies of the Beate Uhse Group. erotic media ag specialises in trading licences for erotica films. As the main shareholder in Beate Uhse TV GmbH & Co. KG, erotic media ag operates the only soft erotica channel on the Premiere platform together with the Beate Uhse Group. The Blue Movie telemedia service (Blue Movie, Blue Movie Extra, Blue Movie Gay) can be received via cable, satellite and the Premiere platform. Since July 2006, erotic media ag has also operated the redXclub Movie and redXclub Spezial telemedia services receivable via Kabel Deutschland.

7.2 EARNINGS PERFORMANCE

Development of the Earnings Performance of the Group

Sales performance by product group

The Beate Uhse Group generated sales of EUR 270.9 million in 2006, equivalent to a decline of EUR 13.9 million, or 4.9 percent, compared with the 2005 financial year. This development was mainly due to the decline in merchandise sales, which fell by 2.3 percent at the Group. The mail order division suffered a significant downturn in sales in 2006 due to a breakdown at the fulfilment centre during the Christmas period as a result of water damages. This negative factor was exacerbated during the financial year on account of the relocation of the mail order warehouse to the new fulfilment centre, which resulted in the delivery rate falling short of the previous year. Merchandise sales at the retail division showed more pleasing developments, reporting a slight increase. The Dutch Christine le Duc store chain, the Kondomeriet stores in Norway and the Beate Uhse stores in Italy made particularly notable contributions to this development.

As expected, video cabin sales were lower in 2006 than in the previous year. Consumers are making increasing use of the internet as a medium for erotica films.

Sales with money game machines developed negatively in 2006 as a result of the Federal Government decreeing a ban on tokens for such machines. The restrictive treatment of non-cash payment methods led to a downturn in money game machine sales of almost 58 percent at the stores of the Beate Uhse Group. This year-on-year decline in sales was reinforced by a one-off tax effect which had led to a payment of EUR 1.4 million in 2005 as a result of a retrospective VAT exemption for these sales for the years 1996 to 2005.

The change in business policy aimed at expanding the highly profitable proprietary online services in the online division and at terminating less profitable cooperation business meant that sales from online activities reduced by around EUR 1.4 million in 2006. The downturn in sales in the telephony division was less marked than had been expected by the Beate Uhse Group at the end of 2005. The Federal Networks Agency had replaced the established 0190 numbers with 0900 numbers for all providers as of 1 January 2006. The resultant change in invoicing procedures for reimbursements and receivables default led to a decline in sales and margins at the entertainment division.

There was also a reduction in other sales in 2006. This item was considerably lower than in the previous year, partly due to mail order expenses declining in line with mail order sales.

Sales by segment

With a reduction in sales by EUR 11.2 million to EUR 113.8 million, the mail order business reported the sharpest downturn in sales across the Group. At EUR 86.5 million, sales in the retail division were also EUR 2.6 million down on the previous year. Following adjustment for the one-off impact of the VAT refund for money game machines (EUR 1.4 million), retail sales were only slightly down on the previous year. The entertainment division concluded the 2006 financial year with sales of EUR 16 million (minus EUR 2.5 million). The wholesale business of the Beate Uhse Group, by contrast, reported positive developments, with sales growth of EUR 2.5 million to EUR 54.7 million.
In terms of sales by country, Beate Uhse witnessed the greatest decline in Germany, where sales fell by EUR 13.6 million to EUR 104 million. France, by contrast, reported markedly positive developments, with a jump in sales by EUR 6.2 million to EUR 40.2 million. At EUR 167 million, the share of international sales was at the same level as in the previous year.

SALES BY PROFIT CENTRE 2005 / 2006

EUR million	2005	2006	% change
Retail	89.1	86.5	-2.9
Mail Order	125.0	113.8	-9.0
Wholesale	52.2	54.7	4.8
Entertainment	18.5	16.0	-13.6
	284.8	**270.9**	-4.9

SALES BY REGION 2005 / 2006

EUR million	2005	2006	% change
Germany	117.6	104.0	-11.6
Netherlands	47.7	47.0	-1.6
Belgium	17.9	17.1	-4.2
France	34.0	40.2	18.1
United Kingdom	12.4	10.9	-12.4
Austria	29.8	24.7	-17.1
Switzerland	1.5	1.7	12.8
Scandinavia	12.4	12.3	-1.3
Italy	0.9	3.4	280.3
Other European countries	9.8	9.0	-8.3
Other regions	0.7	0.8	5.6
	284.8	**270.9**	-4.9

Costs of sales

The Group reduced its costs of sales by EUR 1.5 million compared with the previous year to EUR 107.6 million in 2006. This development was due in particular to sales input costs. Costs of sales fell by 1.4 percentage points to 39.7 percent of sales. This was due to the reduction in the share of sales attributable to the higher-margin mail order business as a proportion of total sales and to a sharp rise in sales input costs at the wholesale business, given that prices for products such as DVDs are continuing to come under pressure. Moreover, the mail order division witnessed a year-on-year rise in costs of sales in 2006 as a result of additional expenses for third-party services in connection with the development of the new fulfilment centre.

Other operating income

At EUR 20.2 million, other operating income was EUR 5.6 million higher than in the previous year as a result of one-off effects during the year under report. Beate Uhse AG generated an accounting profit of EUR 2.8 million on the sale of 1 million shares in erotic media ag to Premiere AG in the third quarter of 2006. Furthermore, the Beate Uhse Group sold a 50-percent shareholding in the Polish company International Fun Center, generating income of EUR 3.2 million on the sale. Other operating income was reduced in 2006 by the lower level of proceeds on interest on arrears and dunning in the mail order business. These items developed in line with sales.

Sales-related expenses

Sales-related expenses rose by 2.5 percentage points to 52.6 percent of sales. This increase in the sales-related expenses ratio was closely related to the lower level of mail order sales. The mail order division maintained its direct marketing activities in full in 2006. The logistical breakdowns at the end of the year as a result of water damage led to a considerable loss of sales at the profit centre, which meant that sales-related expenses rose as a proportion of sales.

General administration expenses

Administration expenses at Beate Uhse AG showed a slight increase from EUR 25.8 million to EUR 26.3 million.

Other operating expenses

Other operating expenses reduced in the year under report by EUR 0.4 million to EUR 1 million. In 2005, Beate Uhse AG had sold the trademark rights to the loss-making magazines Lek and Cocktail at a loss. The other operating expenses reported for 2006 were not negatively affected by this one-off item.

Income from shareholdings

Income from shareholdings declined in 2006 by EUR 1.1 million to EUR 1 million. This was principally due to a one-off item at erotic media ag. This company had sold film licence rights in the first quarter of 2005, thus generating one-off income of EUR 1.5 million. It was not possible to compensate for this item in full.

Consolidated earnings down on previous year

At EUR 14.8 million, the operating earnings of Beate Uhse AG were EUR 7.9 million down on the previous year's figure. This development was attributable to the 4.9 percent decline in sales in conjunction with sales-related expenses of EUR 142.4 million, which were thus at virtually the same level as in the previous year, and the costs of sales, which could not be reduced to the same extent as sales. In particular, the downturn in sales at the otherwise high-margin mail order business led to a corresponding charge on earnings, given that costs remained constant on account of the long-term nature of advertising strategies at this division.

Operating earnings were boosted by the rise in other operating income (waiver by Premiere of its erotic media ag put option / sale of shareholding in International Fun Center, Poland). The share in earnings of associated companies was EUR 0.8 million lower than in the previous year.

At EUR -2.8 million, the financial result was virtually unchanged on the previous year. The Group therefore generated earnings before tax of EUR 12 million in 2006, equivalent to a reduction of EUR 8.4 million compared with the previous year.

The Supervisory Board and Management Board nevertheless intend to maintain the company´s dividend policy ans propose a dividend amounting to EUR 4.7 million, equivalent to 10 cents per share, for approval by the Annual General Meeting.

EBT 2005 / 2006

EUR million	2005	2006	% change
Retail	6.9	4.4	-36.3
Mail Order	12.9	-2.2	-
Wholesale	3.3	2.8	-13.6
Entertainment	0.4	3.0	738.0
Holding Services	-3.0	4.0	-
	20.4	**12.0**	-41.3

EBIT 2005 / 2006

EUR million	2005	2006	% change
Retail	8.0	5.9	-26.2
Mail Order	13.0	-1.8	-
Wholesale	4.2	4.0	-4.0
Entertainment	0.3	3.0	772.8
Holding Services	-2.9	3.6	-
	22.7	**14.8**	-34.9

EBITDA 2005 / 2006

EUR million	2005	2006	% change
Retail	13.8	11.8	-14.4
Mail Order	13.7	-1.1	-
Wholesale	5.9	5.7	-3.2
Entertainment	0.7	3.2	357.1
Holding Services	-2.0	4.8	-
	32.1	**24.4**	24.0

Taxes on income reduced considerably by EUR 4.1 million to EUR 2 million. This was principally due to the lower level of earnings contributions in the year under report and to tax-exempt proceeds on the sale of shares in erotic media ag (waiver by Premiere of its put option). The tax rate amounted to 16.26 percent in 2006 (2005: 29.6 percent). Net income therefore amounted to EUR 10 million, equivalent to a decline of EUR 3.5 million on the 2005 financial year.

In terms of the distribution channels, the entertainment division posted the best pre-tax earnings performance. Earnings at this profit centre rose by EUR 2.6 million to EUR 3 million. This was due to its increased focus on more profitable proprietary products. Moreover, its earnings had been burdened in 2005 by the loss incurred on the sale of the trademark rights to Lek and Cocktail in the course of the restructuring of the Scandinavian business, a factor no longer relevant in 2006.

The other three profit centres posted a lower level of earnings before tax than in the previous year. The sharpest decline related to the mail order business, which reported pre-tax earnings of EUR -2.2 million. The downturn in sales as a result of the water damage and the otherwise also poor performance during the year were most apparent in this respect. The retail business concluded the 2006 financial year with pre-tax earnings of EUR 4.4 million, thus falling EUR 2.5 million short of the previous year. The main reasons for this decline were the token ban and the high summer temperatures, which had a markedly negative impact on retail activities in 2006. Moreover, the earnings reported by this division for 2005 had been affected by the one-off impact of VAT refunds for the years 1996 to 2005, thus distorting the comparison with 2006. The wholesale division concluded the 2006 financial year with satisfactory earnings. At EUR 2.8 million, the earnings reported by this profit centre were virtually at the same level as in 2005. The restructuring of warehouse logistics at Almere was completed in 2006. The logistics centre is fully functional.

KEY FIGURES

EUR million	2001	2002	2003	2004	2005	2006
Sales	222.8	244.5	265.6	273.1	284.8	270.9
EBITDA	21.3	30.1	31.5	26.8	32.1	24.4
EBIT	10.6	20.3	21.5	17.9	22.7	14.8
EBT	8.7	17.2	19.3	15.6	20.4	12.0
Consolidated net income	2.2	9.5	9.9	8.7	14.4	**10.0**
Cash flow	12.8	21.4	20.3	8.6	24.3	16.9

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 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 2006, liabilities to banks and from borrowers' notes loans were structured as follows:

EUR 000s	31.12.2004	31.12.2005	31.12.2006
Liabilities to banks	50,605	39,240	71,477
of which overdraft facilities	38,003	26,753	40,754
of which bank loans	12,602	12,487	30,723
Borrowers' note loans	19,071	17,643	15,714
Total liabilities to banks and from borrowers' note loans	69,676	56,883	**87,191**

In the course of further optimising the Group cash pooling system, it was possible to achieve a further reduction in the liquidity reported in the balance sheet (cash holdings at stores, cash in transit etc.) in favour of a reduction in short-term liabilities to banks. At EUR 6.4 million, liquidity was EUR 0.4 million lower than in the previous year (EUR 6.8 million).

Mainly as a result of extensive investments (EUR 40 million), particularly in the development of the new mail order fulfilment centre (EUR 22.9 million), liabilities to banks, including repayments made, showed a net increase of EUR 30.3 million. More specifically, bank loans rose to EUR 18.2 million and overdraft facility obligations to EUR 14 million. As a result of repayments, borrowers' note loans reduced by EUR 1.9 million.

In order to maintain a high degree of flexibility, the investment loans granted on a long-term basis charge interest at variable rates coupled to the Euribor rate. It is therefore possible to redeem the loans at any of the rollover deadlines free of charge. The Group deploys derivative financial instruments to hedge against any increases in the interest rate for these loans and for its overdraft facilities. At 31 December 2006, Beate Uhse held eight payer swaps with a total volume of EUR 43.5 million, of which EUR 41.5 million had been utilised. The fair value of all swaps was positive at the end of 2006. Including these derivatives, the share of loans with fixed interest rates increased by EUR 41.5 million to EUR 63.2 million as of the reporting date. This is equivalent to 72.5 percent of all loan liabilities. The terms of the interest swaps run until June 2009 (EUR 5 million), April 2010 (EUR 10 million), March 2012 (EUR 7.8 million), April 2012 (EUR 5 million) and March 2016 (EUR 15.7 million).

Beate Uhse had working capital credit lines of EUR 49 million at the reporting date (previous year: EUR 50 million), of which EUR 34 million had been utilised (previous year: EUR 25 million). Financial covenants have been agreed in almost all cases between Beate Uhse and the lending banks.

Investments

In order to do justice to the requirements of a rising number of customers, the mail order subsidiary Pabo BV purchased a new logistics system (hardware and software) at the beginning of 2005, which was built into a building complex constructed for this purpose in 2006. The previous and new buildings were initially let and then bought at the beginning of 2006.
Beate Uhse secured the financing of the new packaging system, amounting to around EUR 8 million, via a leasing company at the beginning of 2005. The leasing company provides advance financing until the final handover of the fulfilment centre at the beginning of 2007. After this, the facility is converted into a financial lease with a term of nine years requiring statement in the balance sheet. At 31 December 2006, the utilisation of the advance financing, which is reported under overdraft facilities, amounted to EUR 6 million.

The Beate Uhse Group invested a total of EUR 40 million in 2006. In addition to the investments made in the mail order business and the expenditure made by the retail division for the redesign/opening of new stores, the investments made by the wholesale division included the purchase of previously leased logistics software (EUR 2.8 million).

Financial Position in 2006

The cash flow from operating activities declined by EUR 7.4 million to EUR 16.9 million as of 31 December 2006. Over and above the reduction in operating earnings by EUR 7.9 million to EUR 14.8 million, the reduction in the operating cash flow was mainly due to an increase in inventory stocks (EUR +4.6 million), as well as to income tax payments of EUR 7.6 million (2005: EUR 1.9 million).

The corrections for other non-cash income include an adjustment in income from shareholdings (EUR 1 million), as well as a sum of EUR 2.7 million resulting from the waiver of a put option by Premiere AG.

Investments in long-term assets amounted to EUR 40 million in 2006. These largely involved the development of the mail order fulfilment centre (EUR 22.9 million). Further investments related to the wholesale logistics centre in Almere (EUR 5.4 million) and to the development and redesign of stores in the retail division.

As a result of the dividend payment of EUR 6.6 million for the 2005 financial year and the rise in liabilities to banks as a result of the investments made, the cash flow from financing activities amounted to EUR 23.7 million at the end of 2006 (2005: EUR -12.9 million).

7.4 ASSET POSITION

The total assets of Beate Uhse AG rose to EUR 222.9 million, an increase of EUR 33.2 million compared with the previous year. On the asset side, the increase of EUR 30.7 million in long-term assets to EUR 142.3 million was greater than the increase in short-term assets, which rose by EUR 2.5 million to EUR 80.6 million.

The rise in long-term assets by 27.5 percent is mainly due to an increase in property, plant and equipment. As a result of the construction of the mail order fulfilment centre in Walsoorden, Netherlands, the values stated for land, buildings and plant and equipment were EUR 28.2 million higher than in 2005. Other long-term financial assets were reduced in 2006 due to the waiver by Premiere AG of its put option to the shares in erotic media ag. This item had increased by EUR 5 million in 2005 as a result of Beate Uhse AG granting a loan of the same amount to erotic media ag in order to finance the purchase of Blue Movie. These funds were financed at Beate Uhse by selling 1 million shares in erotic media ag to Premiere AG. The pay TV broadcaster received the option of returning the shares to Beate Uhse at the purchase price following the expiry of the term of the loan (rights of return from 1 July 2008 to 30 June 2009). In 2006, Premiere AG waived its rights to the put option, which led to a reduction of EUR 5 million in financial assets available for sale.

The companies associated with Beate Uhse AG include Beate Uhse TV GmbH & Co. KG, Berlin, erotic media ag, Baar (Switzerland), Lebenslust GmbH, Cologne and FunFactory GmbH, Bremen. The income from the shareholdings in these companies amounted to EUR 981k in 2006. As a result of the increase in the shareholding held in Lebenslust GmbH and of the payment of the remaining purchase price for Fun-Factory during 2006, the shares held in associated companies increased by EUR 116k. The payment of a dividend amounting to EUR 659k at erotic media ag led to a reduction in this figure. Overall, the values stated for shareholdings in companies associated with Beate Uhse AG rose by EUR 437k to EUR 31.9 million.

Deferred tax claims at Beate Uhse AG rose by EUR 3 million to EUR 13.9 million. This was attributable to additions to loss carryovers, notably at the mail order division and at Beate Uhse AG.

Short-term assets rose to EUR 80.6 million in the year under report, an increase of EUR 2.5 million compared with 2005. The largest change in this respect involved the rise in inventories by EUR 4.6 million to EUR 41.4 million in 2006. The relocations of both logistics centres (wholesale in 2005/2006, mail order in 2006) made it necessary to maintain a higher level of stocks at both warehouses in order to meet demand from customers. Water damages at the mail order fulfilment centre led to delays in the dispatching of packages at the end of 2006. As a result, inventory holdings rose by a further amount of around EUR 2.5 million at the end of the year. The mail order division raised its individual allowances for receivables default in 2006. This led to a reduction in short-term accounts receivable by EUR 2.4 million to EUR 27.6 million at the 2006 reporting date. There was also an increase in tax refund claims as of the end of 2006 as a result of a rise in VAT credits by EUR 1.9 million.

The most significant change on the liabilities side as of the 2006 reporting date involved the restructuring from short-term to long-term debt.
At EUR 84.5 million, shareholders' equity was slightly higher than in the previous year. The equity ratio amounted to 37.9 percent. Within shareholders' equity, the retained earnings and other reserves items showed opposing developments. At EUR 36.8 million, retained earnings were EUR 3.1 million higher in 2006 than in the previous year. This was due to the addition of the net income amounting to EUR 9.6 million and the deduction of the dividend payment of EUR 6.6 million for the 2005 financial year. Other reserves, by contrast, fell by EUR 2.4 million. The reason for this was the waiver by Premiere AG of its erotic media ag put option. This item had been transferred to other reserves without any impact on earnings in the 2005 annual financial statements. The waiver of the put option by Premiere AG enabled the amount to be released from other reserves by profit and loss in the 2006 financial statements.
Long-term debt increased in 2006 by EUR 20.6 million to EUR 49.1 million. At EUR 17 million, the lion's share of this increase related to the financing of the new mail order warehouse in Walsoorden. The term of one of the borrowers' note loans was amended. The borrowers' note loan of EUR 10.5 million reported under the short-term portion of long-term loans in December 2005 was replaced in February 2006 by a seven-year borrowers' note loan of EUR 10 million payable upon final maturity and was thus allocated to long-term debt. A restructuring of debt, which enabled short-term debt to be reduced by EUR 5 million in order to take advantage of more favourable conditions on the capital market, also led to an increase in long-term loans.

Short-term debt rose by EUR 11.8 million to EUR 89.3 million. This was chiefly due to the advance financing of mail order logistics technology amounting to EUR 6 million (previous year: EUR 1.6 million). Moreover, the lower level of sales resulted in an increased drawdown of credit lines.

7.5 EVENTS AFTER THE REPORTING DATE

There have been no events since the reporting date which have had any major impact on the earnings, financial and net asset position and which would require report in this section.

7.6 COMPENSATION REPORT

Compensation of the Management Board

A Personnel Committee within the Supervisory Board of Beate Uhse AG is responsible for Management Board contracts and for the Management Board Code of Procedure. This body advises the Supervisory Board on the structure of the compensation system and subjects this to regular review (every two years).

The compensation of members of the Management Board consists of non-performance-related and performance-related components. The non-performance-related component is fixed (monthly fixed salary), while the performance-related variable compensation is based on the company's economic performance (two percent of pre-tax earnings above the budget target). Components of a long-term incentive nature were covered from 2002 to 2006 by means of a stock option plan. The stock options, which are made available once a year, are subject to a waiting period of two years and may be exercised in the following five years, in each case following the publication of the annual or half-year reports. The stock option plan includes a stock price exercise hurdle, rather than any comparative parameters. The Supervisory Board of the company decides on the annual tranches and on the volume of the option rights to be granted to members of the company's Management Board.

No pension commitments or any other welfare commitments are provided for in the Management Board compensation system.

The criteria governing the appropriateness of Management Board compensation include the principal duties of the respective members of the Board, their personal performance, the mode of operation of the Board as a whole, the economic situation and the performance and future prospects of the company within its sector.

The salaries of the two members of the Beate Uhse Management Board are structured differently in view of the differences between their areas of responsibility.

In the past financial year, neither member of the Management Board received any payments or equivalent commitments from third parties in respect of their activities as members of the Management Board.

The fair value of the stock options at the date of issue amounted to EUR 0.77 per option right.

COMPENSATION OF THE MANAGEMENT BOARD IN 2006 (EURO)

Management Board	Position	Fixed Compensation	Performance-Related	Total	Stock Options (No.)
Otto Christian Lindemann	CFO, Spokesman of the Management Board	240,000	24,900	264,900	16,000
Gerard Cok	COO	190,500	-	190,500	16,000
Total		430,500	24,900	455,400	32,000

Otto Christian Lindemann received fringe benefits in the form of a company car (value of payment in kind: EUR 11k). No further components were agreed.

Compensation of the Supervisory Board

The compensation of the Supervisory Board is governed by Sec. 11 of the Articles of Association of Beate Uhse AG. The compensation system is based on the duties of Supervisory Board members and on the economic performance of the company (dividend-based compensation).

In addition to the reimbursement of his or her expenses, each member of the Supervisory Board receives fixed annual compensation amounting to EUR 7,500, which is payable following the expiry of the financial year. The members of the Supervisory Board receive additional dividend-based compensation amounting to EUR 1,000 for every cent by which the dividend exceeds 7 cents.

The Chairman receives 1.5 times and his Deputy 1.25 times the total compensation of an ordinary member. Supervisory Board members who sit on the Audit Committee receive an additional annual fixed amount of EUR 7,500, with the committee chairman receiving EUR 11,250.

The VAT payable on the compensation is refunded by the company.

Moreover, the members of the Supervisory Board are covered by a D&O insurance policy concluded by the company. A suitable deductible has been agreed for members of the Supervisory Board.

COMPENSATION OF THE SUPERVISORY BOARD IN 2006 (EURO)

Supervisory Board	Office	Bodies	Compensation	Performance-Related Compensation
Detlef Bindert	Member until 31 March 2005	none	none	1,750.00
Nicolaas Bootsma	Member	Audit Committee Investment Committee	15,000.00	7,000.00
Carlo Floridi	Member	Investment Committee	7,500.00	7,000.00
Richard Orthmann	Chairman until 19 April 2005	none	none	3,500.00
Michael Papenfuß	Deputy Chairman	Audit Committee Personnel Committee	16,875.00	4,375.00
Ulrich Rotermund	Chairman	Investment Committee Personnel Committee	11,250.00	10,062.50
Martin Weigel	Member	Chairman of Audit Committee Investment Committee	18,750.00	3,500.00
Monika Wilk	Member	Personnel Committee	7,500.00	7,000.00
Total			76,875.00	44,187.50

7.7 RISK REPORT 2006

The Risk Management System

The Beate Uhse Group operates in sixteen countries across Europe. Its diversified sales network makes it the most highly structured erotica company in the world. The growth-driven approach adopted by the Beate Uhse Group means that is exposed to entrepreneurial risks. In the interests of identifying, assessing and, when necessary, countering risks of all kinds at as early a point as possible, Beate Uhse uses a risk management system which has been integrated across the Group since 2000.

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. The managing directors of the profit centres are obliged to communicate directly and extensively in this respect. Risks are standardised on the basis of clearly defined gradations in terms of their respective limits, probability of occurrence and processing priority. 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 meets the requirements of the German 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 2007/2008 forecast period.

Macroeconomic developments

As a retail company, Beate Uhse is highly dependent on macroeconomic developments in its target countries. Germany is not only the legal domicile of the parent company of the erotica Group, but also its most important sales market. In the past three years, the German economy has mainly witnessed negative developments. This has led consumers to live more economically and thus resulted in highly cautious consumer behaviour. This subdued level of consumer confidence could possibly be reinforced by the increase in VAT from 16 to 19 percent due in 2007.

Beate Uhse will not raise its own prices on account of the change in the VAT rate. By optimising its product range, covering all price segments, expanding the range of private label articles and improving the placement of products across all distribution channels, the Group rather intends to increase customer retention levels and to convince consumers of the merits of the products and services offered by Beate Uhse.

Changes in the competition

The erotica market has witnessed substantial change for more than three years now as a result of a more open attitude towards erotica within society. Advertising draws on erotic attributes in order to attract attention, while the media allocate ever more space to topics relating to sex and erotica. This has led people to address erotic topics more openly and with greater self-confidence. At the same time, it has raised awareness of the erotica market on the part of customers and potential competitors from other sectors. This development harbours both opportunities and risks for Beate Uhse AG.

This change within society has attracted competitors from other countries and sectors. For Beate Uhse, this situation could possibly lead to pressure on margins, loss of market share and excess stock, e.g. in the lingerie product division. The risk management system classifies the probability of increased competition as high. At the same time, the increased interest shown by people in erotica provides the Beate Uhse Group with access to new customer groups and potential due to higher awareness levels. In order to distinguish itself from competitors, the Beate Uhse Group has initiated measures such as differentiating its product lines, strengthening the Beate Uhse brand and monitoring the competition on an ongoing basis.

The displacement of distribution channels away from retail, mail order and wholesale to the new media of internet and TV has continued. Traditional retail formats face the risk of losing customers to new media and other providers. Based on the current risk management assessment, it is highly probable that this trend will continue.

Beate Uhse launched its internet business activities more than ten years ago and is thus well placed to meet customer expectations in the new media and the modern form of retail (e-commerce). In order to fulfil customers' wishes even more closely, in 2006 the Beate Uhse Group pooled the entertainment and mail order divisions to form the home shopping division. The aim is to pool all marketing and e-commerce activities and to align these to customer requirements.

The shift towards new media as a retail platform also requires an adjustment in the online market. The spontaneous, intuitive purchases previously witnessed have developed into active, conscious purchasing decisions on the part of customers following a comparison of prices and services. The Beate Uhse Group can counter this change by restructuring its online systems and by tailoring its marketing and content even more closely to customers' needs. Customers with a high degree of awareness demand greater quality at lower prices on the internet. Increased investments are required, especially for the conversion of systems.

Changes in the competition in the online market are largely driven by technical enhancements. T DSL, ADSL and LAN products, for example, cannot be paid for using traditional diallers, so that new technologies have to be developed 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 target groups 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 secure means of payment in line with the latest technical requirements. These measures are being accompanied by the ongoing surveillance of activities in this area on the part of the competition.

External factors

There is the risk that cooperation partners in the field of audiotex will terminate their cooperation and port the 09005 service numbers provided by Beate Uhse new media at another provider. This would result in a loss of sales for the Beate Uhse Group. In terms of its audiotex activities, Beate Uhse new media is currently operating in a climate characterised by crowding-out competition. The risk therefore applies equally to all players in the market.

Structure of the Group and its shareholdings

The Beate Uhse Group holds shareholdings in international companies without enjoying the rights of a majority shareholder. Beate Uhse is not in a position to fully assess the development of these companies. Given the respective shareholder structures, it also only has limited possibilities of exerting influence. There is the risk that the value of the shareholdings reported at Beate Uhse may have to be written down in the event of any undesirable developments. To enable it to counter any such developments at the earliest possible opportunity, Beate Uhse requires the companies involved to undertake monthly reporting.

Direct marketing

The mail order business (direct marketing, e-commerce) represents a major division within the Group. The large volume of expenses incurred in advance at this business, which is characterised by a high degree of advertising intensity, and pre-order volumes of around 70 percent of catalogue merchandise in order to guarantee supply capacities, are cost factors which are incurred irrespective of the sales generated. Moreover, these items have to be settled well in advance of the collection of any resultant revenues. There is the risk that any inaccurate assessments in the product compilation in the main catalogues and at online shops could result in a loss of sales in spite of the high level of marketing expenses.

In order to minimise this potential risk to the greatest possible extent, 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 gauge the reception granted to the new products.

Advertising expenses (catalogues, leaflets, mailings etc) represent the largest cost item in the mail order business. Not only that, these expenses are incurred well in advance. In spite of various pre-tests, there is the risk that a given advertising material may not generate the budgeted level of sales. In particular, any main catalogues which are not well received by customers could result in a considerable downturn in sales in the mail order business.

This risk can be limited by using a suitable number of different advertising materials. In parallel to its existing advertising materials, Pabo Mail Order tests new advertising materials on an ongoing basis. Pabo has received promising feedback for changing the product range in the catalogues more often and for increasing the frequency of special interest catalogues and e-mails.

Procurement of merchandise

The Beate Uhse group purchases erotica products on the global markets for its B2B and B2C trading activities. In spite of checks undertaken within the Group, the company is exposed to risks resulting from the purchase of defective products, 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. There is the risk of product liability in the event of any defective products actually being sold by the Beate Uhse Group.

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 has a comprehensive general liability insurance policy to cover against any cases of product liability.

As a trader in erotica products, the Beate Uhse group is dependent on the supply capacity of its manufacturers. Particularly in its lingerie product division, the company is exposed to the risk of shortages in its merchandise as a result of the loss of suppliers.

To counter such risks, the Beate Uhse Group works together with a large number of manufacturers around the world. Procurement specialists at Beate Uhse Wholesale are in continuous contact with the main manufacturers and with potential new producers. In addition, each profit centre maintains its own contacts with the manufacturers of relevance to its areas of merchandise in order to identify trends promptly and to enable it to react immediately in the event of the loss of any manufacturer.

Logistics centres

The Beate Uhse Group has two ultramodern new logistics centres for its wholesale and mail order logistics requirements and is thus optimally equipped for the future. The wholesale logistics centre at Almere has been in operation since 2005 and serves as the merchandise hub for the Group. In addition to its own distribution channels of mail order and retail, it also serves external customers across the whole world. As at any other company, there is the risk of a total logistical breakdown as a result of fire, water damage, IT failure etc. In such cases, the automated supply of internal and external customers would no longer be possible. In the event of any such breakdown occurring, the Beate Uhse stores and franchise partners could be supplied for a limited transitional period by means of direct deliveries. This would involve increased personnel expenses. External customers lost on account of supply delays would have to be won back, which in turn would involve increased advertising

expenses. The Beate Uhse Group is insured against property damage and business interruption losses.
The mail order warehouse completed its move to a new fulfilment centre at the end of 2006. A new, high-performance IT system introduced in the course of modernising the entire warehouse logistics has been tested in Germany, Austria and the UK since the first half of 2006 in preparation for the launch of operations at the new warehouse. This was followed in the second half of the year by the use of the new software to handle the new country markets of the Czech Republic and Slovakia. Beyond the trial phase, there is the risk that order processes are not handled correctly as a result of programming errors. Beate Uhse Mail Order gained important experience during the trial phases, thus already enabling the IT system to be optimised. Advisors from the software developer are available to assist the mail order division directly and without delay. In the interests of safeguarding IT processes, the old software will remain available until the new programme has been completed.

The technical equipment at the new fulfilment centre suffered water damage in the fourth quarter of 2006. The technology was non-functional or only partially functional over a period of several weeks, meaning that the orders received could only be dispatched following major delays and with high personnel expenses. As a result, there is the risk of losing customers due to their being dissatisfied with the service provided by Beate Uhse Mail Order on account of the delayed deliveries.
As already mentioned, the Beate Uhse Group is insured against property damage and business interruption losses. In order to minimise the business implications of the water damage already suffered during the Christmas season to the greatest possible extent, as many orders as possible were manually prepared for shipment in December 2006.

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 harbour risks. Beate Uhse's success largely depends on its ability 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 terms of its international structure and size, the Beate Uhse Group is one of the most interesting employers in the erotica market. 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 a very major role in determining the companies' functional capabilities. For Beate Uhse, the logistical processes at its mail order and wholesale warehouses and the infrastructure for its online services are particularly important in

this respect. Any breakdown in IT-supported processes (problem reports, force majeure etc.), would mean that the smooth dispatching of merchandise or the provision of online content could no longer 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 duplicate technical solutions, but cannot be excluded entirely. Moreover, in the past years the Group has extended its insurance cover against property damage and business interruption losses.

The internet has become one of the most important information and communications platforms. The lack of regulation and legal loopholes means that the risk of the misuse of internet is high. As a content provider, Beate Uhse new media is 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 input of financial resources and sometimes only with partial success. It is often difficult to identify the originators of such attacks.
Like many other internet content and e-commerce providers, Beate Uhse faces 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 more than 70 companies worldwide. Their IT structures are not completely interlinked. The exchange of information and data can therefore be time-consuming and costly. There is the risk that it might not be possible to exploit potential synergy effects to an adequate extent, given that the IT systems have not been fully integrated.
In the interests of improving the exchange of data between the profits centres and the holding company, the Group has implemented MIS software which has optimised the exchange of extensive financial data.

Legal framework

Companies of all kinds face the risk of not having adequate insurance cover, especially with regard to liability and business interruption risks. Moreover, companies which are listed on the capital market are subject to strict new regulations. In order to minimise these risks, the insurance cover of the Beate Uhse Group is managed centrally. A comprehensive solution has been compiled which encompasses virtually all relevant risks at the affiliated companies in the Group.

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 changes, especially in the field of new media. Erotica providers face 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 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.

Financial risks

The interest rate risks, foreign currency risks and other financial risks required by IFRS are included in the notes of the consolidated financial statements.

Financial instruments

The principal financial instruments used by the Group include bank loans, overdraft facilities, borrowers' note loans and hire purchase agreements, as well as cash and cash equivalents and short-term deposits. Furthermore, the Group also makes use of derivative instruments. These include interest swaps, forward exchange transactions and foreign currency options. These derivative financial instruments are used for risk management purposes in order to cover the interest rate and foreign currency risks resulting from the business activities of the group and its financing sources. It was and remains the policy of the Group not to hold any financial instruments for trading purposes. The main risks faced by the Group as a result of its financial instruments involve interest rate-related cash flow risks, liquidity risks, foreign currency risks and default risks. The company management monitors these risks within the framework of the group-wide early warning risk identification system.

Liquidity

Beate Uhse AG has entered into financial covenant agreements with lending banks in order to secure it working capital lines. In 2006, EUR 68.7 million of the total loan amount of EUR 86 million was underlain by financial covenant agreements. In the event of one of the covenants being breached, e.g. for reasons relating to the operating business, then there is the risk that credit lines may be terminated.
Beate Uhse has been able to counter such risks by means of transparent and prompt communications with its lenders. The cooperation between Beate Uhse AG and its lenders is close and characterised by mutual trust.

The liabilities to banks (including borrowers' note loans) of the Beate Uhse Group amounted to EUR 86 million at the end of 2006. In spite of the liberalisation of society, there is the risk that the credit lines might not be extended as a result of a change in business policies on the part of the banks. 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 a long as period as possible.

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. The payment methods used for online services and products include direct debits and credit card payments. The latter represents a mail order without a signature and is thus unenforceable. Moreover, the exceeding of agreed default rates could lead to a termination of the clearing agreement.
Beate Uhse new media has developed an effective dunning procedure in order to minimise the volume of receivables default. Moreover, the providers cooperate closely with Beate Uhse new media in terms 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.

Beate Uhse new media provides B2C customers with erotica content and technical solutions for internet presences. End customers receive the Beate Uhse services via provider portals and telecommunications providers. There is the risk of a substantial loss of sales in the event of portal operators becoming insolvent.
For this reason, Beate Uhse new media works exclusively with large providers on the market in order to limit the risk of such default.

Rating

Neither the Beate Uhse Group nor the holding company or its individual subsidiaries have yet been rated by an external rating agency (e.g. Moody's or Standard & Poors).

OVERALL RISK

From the perspective of the company management, 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.

7.8 DISCLOSURE OF POSSIBLE TAKEOVER BARRIERS

Beate Uhse AG is the holding company within the Beate Uhse Group.

Composition of Subscribed Capital

The share capital amounts to EUR 47,323,696 and is paid up in full. It is divided into 47,323,696 bearer shares of EUR 1.00 each.

Restrictions on Assignment or Voting Entitlement

There are no restrictions on the assignment or voting rights of shares in Beate Uhse AG. All 47,323,696 individual shares in Beate Uhse AG guarantee their respective owners one vote at the Annual General Meeting. The voting rights and dividend entitlement have been suspended in the case of 281,315 shares held as treasury stock.

Shareholdings of the Beate Uhse Group

The shareholdings of the Beate Uhse Group are listed in the notes to the annual financial statements.

Special Rights

No special rights granting powers of control are applicable to the owners of shares.

Control of Voting Rights

According to its last notification in 2006 pursuant to the German Securities Trading Act, Rotermund Holding AG holds 29.6 percent of the voting rights in Beate Uhse AG. A further major shareholder is Consipio BV, whose share of voting rights according to the most recent available notification amounted to 20.8 percent. The company is not aware of the existence of any other voting right packages of more than five percent.

Stipulations of the Articles of Association concerning the Appointment and Replacement of Members of the Management Board

The Supervisory Board appoints the members of the Management Board and determines their number. It is entitled to appoint acting members of the Management Board. The Supervisory Board may appoint a member of the Management Board to be its Chairman or Spokesman.

Treasury Stock Buyback Authorisation

Pursuant to a resolution adopted by the Annual General Meeting on 19 June 2006, the company is authorised to acquire treasury stock up to ten percent of its share capital. This authorisation is valid until 19 December 2007.

Agreements concerning Change of Control

No such agreements are currently in place at Beate Uhse AG.

Compensation Agreements

There are currently no agreements in place with members of the Management Board and management staff concerning monetary compensation in the event of a change of control or a takeover of the company.

7.9 OUTLOOK

Opportunity Management

Changes within society, the company's market, developments at competitors and the composition of the company's own range of products and services provide the Beate Uhse Group with additional opportunities which have not yet been exploited as such. Beate Uhse aims to identify, analyse and develop strategies to tap these opportunities for business purposes, to minimise the related risks and thus to optimally exploit their potential in terms of its sales and earnings. One example of such area of opportunity is the considerable expansion of target groups within the erotica market to include couples and women. Beate Uhse addressed this issue at an early stage, developing suitable concepts and product ranges enabling it to exploit this potential. Not least on the basis of market trials in Scandinavia and Germany, Beate Uhse implemented a store concept for couples, women and men for the first time in 2007, enabling it on the one hand to address these target groups and on the other hand to provide a symbol of the company's long-term evolution into a lifestyle group.

Examples of other areas of opportunity currently subject to targeted development include:

- Market opportunities in Eastern Europe, particularly those resulting from the enlargement of the European Union
- Brand-driven customer propositions across all distribution channels (multi-channel approach), in order to further strengthen links to customers and to make optimal use of the brand potential
- Expansion of private label products in select product groups.

Consumer Climate: Thumbs Up

The company's most important sales markets are expected to show positive economic developments in 2007 and 2008. This represents the key assumption underlying the business performance of the Beate Uhse Group. We expect to see a continuation of the economic upturn in Western Europe. The accessing of new markets in Eastern Europe, which have reported even higher levels of growth, provides the second pillar for the positive development in terms of economic growth potential.

In Germany, still the most important sales market for the Beate Uhse Group, there are numerous indications that private consumer expenditure is set to improve in 2007 and 2008. This optimism is supported by the decline in unemployment and increasing job security.

The negative impact of the VAT increase in 2007, a factor which had caused some concern, failed to materialise. Consumers are showing increasing confidence that the economy will continue to develop positively. This pleasing tendency will also lead to an increase in spending on consumer goods once again. Beate Uhse has therefore based its forecasts on the assumption that consumer expenditure will remain stable in 2006 and 2007.

Future Development of the Erotica Market

The management of Beate Uhse expects the legal framework governing the erotica market to remain stable in the next two years. The opening up of society towards topics relating to erotica and sex will continue. New product segments will escape from their niches and experience broad public acceptance. This is particularly true of toys, which are increasingly accepted as part of "sex up your life", notably as a result of their presence on TV and the internet. At the same time, these trends are attracting additional competitors onto the market. Beate Uhse therefore expects to see stronger competition in certain peripheral market segments in the medium term. At the same time, Beate Uhse expects companies with the greatest competence and strongest brands – companies which are able to combine sex-related product offerings with lifestyle factors - to be among the beneficiaries of this development.

Future Sales and Earnings Performance

Following the difficult year in 2006, the Group expects to generate growth once again from 2007 onwards. In addition to a slight increase in sales, the optimisation of costs is expected to substantially strengthen the earnings power of the company once again in the coming years. The 2007 financial year will still be a period of conversion to the multi-channel strategy using the Beate Uhse brand. We expect to generate significantly higher sales and earnings in 2008 than in 2007.

The company's declared strategy of acting anti-cyclically in terms of its advertising expenses is expected to lead to somewhat lower expenditure in this area in 2007 and 2008 following the sharp increase in the past. The frequency of advertising will be at least as high as in the past. However, a greater overall share of advertising is to be placed in less expensive online media.

Future Financial and Net Asset Position

No changes have been planned for the financing strategy in the medium term. It will be possible in the coming years to finance the investments in full from the operating cash flow. Beate Uhse will invest around EUR 9 million in property, plant and equipment in 2007. The expansion of the store network will be one of the greatest beneficiaries of this investment. No further large-scale investment projects are currently planned. In line with the pleasing cash flow situation expected, it should be possible to gradually repay the company's debt obligations.

Subject to potential acquisitions as yet not foreseeable, we aim to achieve an equity ratio of around 50 percent in the next two to three years.

Future Alignment of the Group

In summary, the most important measures enabling us to achieve the targets outlined above include the expansion of activities in existing and new country markets in Eastern Europe, the further integrative structuring of all processes between the profit centres (multi-channel approach), the expansion of private label products and the strengthening of the Group's most important brands, especially Beate Uhse.

We see the more open approach shown by society towards erotica as providing clear momentum for further growth. Erotica topics are ever more present in public, for example in the form of uninhibited scenes in blockbuster films, in magazines, on TV and in adverts for well-known brand products. There is certainly no shortage of naked flesh. What was previously hidden away and concealed has now become the public property of an entire generation which is self-confident and body-conscious. Women and couples are increasingly discovering the world of erotica products for themselves. New concepts also make erotica accessible to men and women who do not feel attracted by sex shops. Beate Uhse is promoting this development with its new, modern store concepts, by expanding its private label product range and by positioning the Beate Uhse brand more broadly.

Networking the Distribution Channels

With the launch of operations at the wholesale warehouse in Almere and the mail order fulfilment centre in Walsoorden, we have laid a major foundation for our Group's new logistics structures. Both warehouses have greater capacity than is currently being used and will be fully functional in 2007. Based on this ability to supply our B2B and B2C customers rapidly and cost-effectively, we will shift the existing sales structures of the Beate Uhse Group towards a multi-channel approach in the next two years. Our customers make no distinction between the distribution channels where they purchase erotica products. They rather accord priority to the level of competence and quality offered by Beate Uhse. We are adapting our sales structure to fit this approach. As well as networking our distribution channels, the most important aspects of this restructuring involve pooling the Group's procurement activities, developing a centralised marketing structure and strengthening the Group's key brands - Beate Uhse, Christine le Duc und Adam&Eve.

The Beate Uhse Brands

Beate Uhse, the Group's best-known brand in Germany, will be strengthened and positioned more broadly. In future, the Beate Uhse Group will in sharpen its profile as a brand-driven company even further. We will maintain our international growth, especially in Eastern Europe, using the Beate Uhse brand. In countries where the Group has other strong brands (Christine le Duc / Netherlands; Adam&Eve / France; Kondomeriet / Norway), these will remain in use in future.

Our network of 333 stores represents one of the most important advertising media for the Group's brands. In order to strengthen the Beate Uhse brand, the highly-profitable Beate Uhse Classic, Beate Uhse Fun Center and Beate Uhse Specialist Store concepts will be expanded further. The store network is already present at the most important locations. The new Beate Uhse store concept will also be expanded in order to extend the positioning of the Beate Uhse brand to include young, self-confident and fun-loving target groups. The lifestyle-based shops will be located in large German cities. With a comprehensive presentation of merchandise, they provide a modern, upbeat shopping experience. In order to boost the brand outside the traditional erotica retail segment, the Beate Uhse Group is currently working on entering the mass market. Starting in the second half of 2007, Beate Uhse will be represented with a selection of products at drugstores.

Beate Uhse will do justice to customers' increasing quality-awareness by expanding its range of private label products. The Group's Hungarian subsidiary Lavetra Kft. will play a key role within the Group in this respect in future. Quality and innovation will be the hallmarks of the new Beate Uhse private label products.

Another quality feature of the Beate Uhse brand will be customer service, which is due to be improved even further, aiming to become faster, more competent and even friendlier. The new fulfilment centre will enable us to ensure a considerably more rapid delivery of merchandise at the mail order division from 2007, thus reducing customers' waiting times. Customer retention programmes, shorter advertising cycles and a faster turnover of product ranges will ensure that customer propositions are tailored precisely to the needs of the target groups. The network link with the entertainment customer database means that Beate Uhse Homeshopping has a large base of erotica-friendly customers at its disposal. In view of the fact that we expect to see a sharp increase in online orders, we will significantly expand the e-commerce division. Online marketing provides us with the possibility of reacting more flexibly and rapidly and of offering new product ranges for sale to our customers in shorter timeframes.

Summarising Statement concerning the Future Performance of the Group

The Management Board expects the Beate Uhse Group to benefit increasingly in the next two years from the restructuring measures undertaken in the past years and the potential harboured by new markets, as well as from the increased focus on the brand. Sales are expected to show significant growth once again, accompanied by disproportionate earnings growth. The balance sheet structures are expected to show further improvements.

Flensburg, 16 March 2007

The Management Board

8.1 CONSOLIDATED BALANCE SHEET 2005 / 2006

ASSETS

EUR 000s	Notes	2005	2006
Long-term assets			
Intangible assets	8.5.2.1	12,483	12,729
Goodwill	8.5.2.1	14,966	15,709
Property, plant & equipment	8.5.2.2	26,837	55,031
Other financial assets	8.5.2.3	13,915	12,011
Investments	8.5.2.4	1,079	1,022
Shares in associated companies	8.5.2.5	31.506	31,943
Income taxes	8.5.3.6	10,856	13,892
		111,642	**142,337**
Short-term assets			
Inventories	8.5.2.6	36,749	41,390
Accounts receivable		30.019	27,604
Other short-term financial assets and other assets	8.5.2.7	2,806	4,215
Income tax refund claims (short-term)		1,682	925
Liquid funds	8.5.2.8	6,777	6,432
		78,033	**80,566**
Total assets		189.675	**222.903**

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR 000s	Notes	2005	**2006**
Shareholders' equity			
Subscribed capital	8.5.2.9	47,324	47,324
Treasury stock at cost of acquisition	8.5.2.12	-3,464	-3,463
Capital reserves	8.5.2.13	474	664
Revenue reserves	8.5.2.14	3,295	3,295
Other reserves	8.5.2.14	2,746	305
Retained earnings		33,704	36,782
Balancing item for currency conversion	8.5.2.14	180	15
Minority interests		-643	-438
		83,616	**84,484**
Long-term debt			
Interest-bearing loans	8.5.2.20	15,712	40,819
Pensions and similar commitments	8.5.2.15	3,032	3,327
Other accruals	8.5.2.16	2,401	2,200
Other financial liabilities	8.5.2.17	5,189	261
Deferred tax liabilities		2,212	2,542
		28,546	**49,149**
Short-term debt			
Accounts payable		17,149	21,555
Other financial liabilities	8.5.2.18	9,899	11,744
Pensions and similar commitments	8.5.2.15	214	241
Other accruals	8.5.2.19	1,342	1,892
Income tax liabilities		5,223	6,397
Loans	8.5.2.20	26,847	40,833
Short-term portion of long-term loans	8.5.2.20	14,418	5,618
VAT liabilities		2,421	990
		77,513	**89,270**
Total shareholders' equity and liabilities		189,675	**222,903**

8.2 CONSOLIDATED INCOME STATEMENT 2005 / 2006

EUR 000s	Notes	2005	2006
Ongoing business divisions			
Sales	8.5.3.1	284,787	**270,934**
Cost of sales	8.5.3.2	-109,070	-107,607
Gross profit on sales		175,717	163,327
Other operating income	8.5.3.3	14,588	20,160
Sales-related expenses	8.5.3.4	-142,593	-142,412
General administration expenses		-25,802	-26,313
Other operating expenses		-1,402	-1,041
Share in earnings of associated companies		1,748	981
Other income from shareholdings		399	57
Earnings before interest and taxes		22,655	**14,759**
Financial result	8.5.3.5	-2,237	-2,769
Earnings before taxes		20,418	**11,990**
Taxes on income	8.5.3.6	-6,049	-1,950
Earnings of ongoing business divisions		14,369	**10,040**
Discontinued business divisions			
Earnings of discontinued business divisions		-773	-
Net income		13,596	**10,040**
Allocable to:			
Shareholders in the holding company		13,474	9,664
Minority shareholders		122	376
Earnings per share (EPS)			
Basic (EUR)	8.5.3.9	0.29	0.21
Diluted (EUR)	8.5.3.9	0.29	0.21
Basic earnings per share based on ongoing business divisions	8.5.3.9	0.30	0.21
Diluted earnings per share based on ongoing business divisions	8.5.3.9	0.30	0.21

8.3 CONSOLIDATED CASH FLOW STATEMENT 2005 / 2006

EUR 000s	2005	**2006**
Cash flow from operating activities		
Operating earnings (EBIT)	22,142	14,758
Corrections for:		
Expenses not affecting payments pursuant to IFRS 2	237	191
Depreciation of property, plant & equipment, amortisation of intangible assets	9,331	9,674
Losses incurred on the disposal of property, plant & equipment and intangible assets	985	-5
Other income not affecting payments	-1,928	-3,818
Changes in:		
Accounts receivable	-1,542	2,415
Other assets	1,036	-6,179
Accounts payable	-5,138	4,406
Other liabilities	3,597	5,910
Interest received	470	409
Dividend received from associated companies	-	428
Interest paid for loans and hedging instruments	-2,977	-3,659
Income taxes paid	-1,880	-7,646
	24,333	**16,884**
Cash flow from investment activities		
Cash received from the sale of property, plant & equipment, intangible assets and other long-term assets	2,650	525
Cash paid for investments in property, plant & equipment, intangible assets and other long-term assets	-11,926	-39,602
Cash paid in connection with short-term financial management	-5,412	-1,982
Cash received in connection with short-term financial management	1,523	224
	-13,165	**-40,835**
Cash flow from financing activities		
Capital allocation (sales of treasury stock)	1	1
Dividends paid	-100	-6,586
Taking up of bank liabilities	18,162	37,805
Taking up of borrowers´ note loans	-	10,000
Taking up of loans from third parties	-	2,000
Redemption of bank liabilities	-29,526	-5,569
Redemption of borrowers´ note loans	-1,429	-11,929
Redemption of loans from third parties	-	-2,000
	-12,892	**23,722**
Net change in cash, cash equivalents and securities	-1.724	**-229**
Changes due to movements in exchange rates	-680	-116
Cash, cash equivalents and securities at beginning of period	9,181	6,777
Cash, cash equivalents and securities at end of period	6,777	6,432
Composition of cash and cash equivalents at end of period		
Cash holdings, credit balances at banks, cheques and securities	6,764	6,419
Short-term money investments	13	13
	6,777	**6,432**

8.4 GROUP EQUITY SCHEDULE 2006

EUR 000s	Share Capital	Treasury Stock	Capital reserve	Revenue reserves	Other reserves	Net profit
	Equity allocable to the shareholders in the parent company					
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 flow					-14	
Tax effects relating to losses on hedging 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 compensation			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
Balance as of 1 January 2006	**47,324**	**-3,464**	**474**	**3,295**	**2,746**	**33,704**
Foreign currency conversion						
Profits on hedging of cash flows					515	
Tax effects relating to profits on hedging of cash flows					-201	
Total earnings recorded directly under equity					314	
Group amount for 2006						9,664
Total period earnings					314	9,664
Share-based compensation			190			
Available-for-sale financial assets					-2,755	
Sale of treasury stock		1				
Dividend distribution						-6,586
Balance as of 31 December 2006	**47,324**	**-3,463**	**664**	**3,295**	**305**	**36,782**

Balancing item for currency conversion	Total	Minority interests	Total equity
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
180	**84,259**	**-643**	**83,616**
-165	-165	-46	-211
	515		515
	-201		-201
-165	149	-46	103
	9,664	376	10,040
-165	9,813	330	10,143
	190		190
	-2,755		-2,755
	1		1
	-6,586	-125	-6,711
15	**84,922**	**-438**	**84,484**

NOTES TO THE 2006 CONSOLIDATED FINANCIAL STATEMENTS

8.5.1.1 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 2006 were approved for publication by resolution of the overall Management Board on 16 March 2007.

8.5.1.2 INFORMATION CONCERNING THE COMPANY

Beate Uhse Aktiengesellschaft, Flensburg, is entered in the 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 15 European countries. Moreover, the wholesale division exports to more than 60 countries distributed across virtually all economic regions of the world. The distribution channels comprise wholesale, mail order and retail, as well as internet, telephony and TV/telemedia services. Beate Uhse operates 333 shops in eleven countries. The mail order catalogue is dispatched in nine countries. The Beate Uhse Group possesses well-known domain names which provide customers with erotica content on technologically innovative internet sites. The best-known portals are www.beate-uhse.de, www.sex.de and www.pabo.nl.

8.5.1.3 ACCOUNTING AND VALUATION PRINCIPLES

Principles underlying the compilation of the financial statements

The compilation of the consolidated financial statements has basically been based on application of the cost of acquisition principle. This principle has not been applied in the case of derivative financial instruments and financial assets 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 compliance with IFRS

The consolidated financial statements of Beate Uhse AG have been compiled in compliance with International Financial Reporting Standards (IFRS) as applicable in the EU.

IFRS and IFRIC interpretations which have not yet come into force

Beate Uhse AG has not made any premature application of the following standards which have already been published but which have not yet come into force.

- Amendments relating to IAS 1 'Presentation of Financial Statements'.
- IFRS 7 'Financial Instruments: Disclosures'
- IFRS 8 'Operating Segments'

Moreover, further IFRIC interpretations have been adopted whose application does not have any significant implications for Beate Uhse AG.

Beate Uhse AG will make application of the aforementioned standards and interpretations for the first time from such time as when the application of the respective standards and interpretations becomes 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 as for 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 of the assets and liabilities thereby recorded 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 intercompany balances, transactions, income, expenses, as well as profits and losses on inter-company transactions included in the carrying amounts of assets, have been eliminated in full.

8.5.1.4 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 lease 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 leases have been retained by the lessor.

Uncertainties in estimates

The most important assumptions relating to the future and other major existing sources of uncertainty 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 carrying amount 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 2006, the carrying amount of goodwill amounted to EUR 15,709k (2005: EUR 14,966k).

Impairment of shares in associated companies

The Group assesses on each balance sheet reporting date whether there are any indications that the value of shares in associated companies might be 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 2006, the carrying amount of the shares in associated companies amounted to EUR 31,943k (2005: EUR 31,506k).

8.5.1.5 SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

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

Intangible assets

Intangible assets acquired individually are valued at cost upon initial recognition. 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 recognition, intangible assets are stated at cost, 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 straightline 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 are 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:

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 carrying amount of the asset in question and are recorded with an impact on earnings in the period in which the item is cancelled 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 its 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 carrying amount might 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 take-over 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 recoverable amount of the cash generating unit (group of cash generating units) to which the goodwill refers. Should the recoverable amount of the cash generating unit (group of cash generating units) be lower than its carrying amount, then an impairment loss is recorded.

Initial consolidation prior to 1 January 2004

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

Property, plant and equipment

Property, plant and equipment is stated at cost, 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 straightline 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 carrying amounts of property, plant and equipment are reviewed for any impairment in their value as soon as there is any indication that the carrying amount of an asset is in excess of its recoverable 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 selling proceeds and the carrying amount 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 carrying amount of the asset, provided that the criteria for such statement are met.

Financial investments, other financial assets and financial liabilities

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 by profit and loss', as 'loans and receivables', as 'investments 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 by profit and loss' and 'financial investments 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 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 as other reserves under equity. When such financial assets are cancelled from the books or in cases where their value 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 updated cost 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 meets the requirements set out in IAS 39.19 (“pass-through arrangement”).

- The Group has assigned its contractual rights to cash flows from the financial as-set 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 assigned 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 takes the form of a guarantee for the asset assigned, then the extent of the ongoing engagement is the lower of the original carrying amount of the asset and the maximum level of counter-consideration received which the Group may be obliged to repay. If such ongoing engagement takes the form of a written and/or acquired option (including 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 (including 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 as-signed 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 carrying amounts is recorded under period earnings.

Business combinations

On 31 March 2006, the Group acquired 100 percent of the shares in Arcus Souvenirs BV (Arcus), an unlisted company based in the Netherlands which operates retail stores in Amsterdam. The costs of acquisition in connection with the business combination amounted to EUR 1,057k in total.
The carrying amounts of the assets and liabilities at the time of acquisition were as follows:

EUR 000s	
Property, plant and equipment	12
Financial assets	10
Inventories	141
Receivables	18
Cash and cash equivalents	40
	221
Liabilities	79
Net balance of assets and liabilities taken over	142

The carrying amounts of the assets and liabilities were equivalent to their fair values at the time of the business combination. Moreover, no further assets were identified which met the criteria for recognition pursuant to IFRS. The business combination resulted in goodwill amounting to EUR 915k. The goodwill is attributable in particular to the favourable location of the retail stores operated by Arcus. Since the business combination, Arcus has contributed an amounted of EUR 174k to the earnings of the Group. Had the business combination taken place at the beginning of the year, the consolidated earnings would have been EUR 12k lower. At the same time, the Group's revenues would have increased by EUR 302k.

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. Losses in excess of the share held by the Group in associated companies are not recorded. The goodwill relating to an associated company is included in the carrying amount 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 refunds 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 carrying amount 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 historic values.
Receivables are cancelled from the books as soon as they are uncollectible.

Cash and cash equivalents

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

Treasury stock

Any treasury stock acquired by the Group 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 10 percent of the defined benefit obligation or 10 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 economic resources 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. 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 foreign currency and interest rate 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 fair value of interest swap contracts is calculated by reference to the market values of comparable instruments. The Group did not have any foreign exchange forward or option transactions as of 31 December 2006.

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 fair 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 actually 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.

Recognition of income

Income is recognised 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 recognised:

Sale of merchandise and products

Income is recognised when the major risks and rewards relating to the ownership of the merchandise and products thereby sold have passed to the buyer.

Sales revenues resulting from the sale of merchandise for which the right of return contractually agreed with the purchaser has not lapsed as of the balance sheet reporting date are recorded as having been recognised in cases where the expected level of returns can be reliably estimated. To the extent that the level of returns can be determined, an amount corresponding to the margin of expected returns is stated under other financial liabilities and deducted from sales.

Sales are valued at the fair value of the counterconsideration 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 recognised 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 recognised upon the Group acquiring a legal claim to payment.

Debt capital costs

The costs of debt capital are recognised 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 recognised 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 nonlapsable. 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 nonlapsable 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.

Leases

Leasing agreements are classified as financial leases 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 leases.

The Group has not classified any leasing agreements as financial leases.

Leasing payments for operating leases are recorded as expenses in the income statement on a straightline 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 in a foreign currency at historical cost 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 a corresponding impact on earnings.

The Group has opted 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.

Should the recoverable amount of the cash generating unit be lower than its carrying amount, then an impairment loss is recorded.

The cash generating units in the retail division generally correspond to the individual stores. In addition, the strategic business units of mail order and entertainment, as well as the countries in which the operating companies of the wholesale division are active, also constitute CGUs.

The recoverable amount 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 cash flow forecasts for the period after three years assume a stable level of cash flow; no account has been taken of growth rates). The discount rate used for the cash flow forecasts amounts to 6.4 percent (2004: 7.9 percent)

In the case of the cash generating units in the retail division (stores), the net selling price is determined in addition to the use value. The management estimates the net selling price of the stores on the basis of past experience – generally based on 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 carrying amount of the respective assets is stated plus discounted franchise income. A net selling 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.

Carrying amounts of the goodwill allocated to the respective cash generating units:

GOODWILL

EUR 000s	2005	**2006**
Retail	7,985	8,707
Wholesale:		
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	3,170	3,170
CGU Beate Uhse Max's AB, Sweden	1,253	1,274
Entertainment	534	534
Miscellaneous	103	103
	14,966	**15,709**

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 6,218k as of 31 December 2006 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 recoverable amounts of the store is based on the same basic assump-tions.

Basic assumptions underlying the calculation of the use value of cash generating units as of 31 December 2006 and 31 December 2005

The market environment and development potential are reviewed and evaluated by the management on an individual basis 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 / income from write-ups were recorded in the business segments:

IMPAIRMENT LOSSES

EUR 000s	2005	2006
Retail	376	261
of which: goodwill	48	268
plant and office equipment	328	-7
Miscellaneous	7	5
Total impairment losses	383	**266**

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

Write-ups of EUR 47k (previous year: 0) were recorded in the income statement under sales-related expenses and of EUR 2k (previous year: 0) under general administration expenses.

Write-downs (impairment losses) of EUR 40k (previous year: EUR 376k) were recorded in the income statement under sales-related expenses and of EUR 274k (previous year: EUR 7k) under general administration expenses.

8.5.2 NOTES TO THE CONSOLIDATED BALANCE SHEET

8.5.2.1 INTANGIBLE ASSETS AND GOODWILL

31 DECEMBER 2006

	Industrial property rights EUR 000s	Rights/ licences EUR 000s	Software EUR 000s	Prepayments made EUR 000s	Goodwill EUR 000s	Total EUR 000s
1 January 2006						
(including cumulative amortisation and impairments)	40	8,152	4,291	-	14,966	27,449
Additions - acquired externally	0	748	1,295	112	990	3,145
Disposals	-	-301	1	-	-	-300
Reclassifications	-	4	-4	-	-	-
Impairment losses	-	-	-	-	-268	-268
Amortisation during financial year	-	-1,180	-435	-	-	-1,615
Effect of change in exchange rates	-	7	-	-	21	28
31 December 2006	**40**	**7,430**	**5,148**	**112**	**15,709**	**28,439**
1 January 2006						
Historical cost of acquisition/manufacture						
(gross carrying amount)	40	17,128	8,790	-	15,014	40,972
Cumulative amortisation and impairments	-	-8,976	-4,499	-	-48	-13,523
Carrying amount at 1 January 2006	**40**	**8,152**	**4,291**	**-**	**14,966**	**27,499**
31 December 2006						
Historical cost of acquisition/manufacture						
(gross carrying amount)	40	16,409	10,065	112	16,025	42,651
Cumulative amortisation and impairments	-	-8,979	-4,917	-	-316	-14,212
Carrying amount at 31 December 2006	**40**	**7,430**	**5,148**	**112**	**15,709**	**28,439**

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 and impairments)	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 carrying amount)	36	15,610	6,932	16,834	39,412
Cumulative amortisation and impairments	-	-8,015	-3,916	-	-11,931
Carrying amount at 1 January 2005	**36**	**7,595**	**3,016**	**16,834**	**27,481**
31. Dezember 2005					
Historical cost of acquisition/manufacture					
(gross carrying amount)	40	17,128	8,790	15,014	40,972
Cumulative amortisation and impairments	-	-8,976	-4,499	-48	-13,523
Carrying amount at 31 December 2005	**40**	**8,152**	**4,291**	**14,966**	**27,449**

8.5.2.2 PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2006

	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 2006					
(including cumulative depreciation and impairments)	7,094	74	19,396	273	26,837
Additions	19,021	19	16,478	306	35,824
Disposals	203	–	-77	-17	109
Reclassifications	-359	73	429	-143	-
Write-ups	–	–	50	–	50
Impairment losses	–	–	-46	–	-46
Depreciation during financial year	-1,230	-49	-6,465	–	-7,744
Effect of changes in exchange rates	6	2	-7	–	1
31 December 2006	**24,735**	**119**	**29,758**	**419**	**55,031**
1 January 2006					
Historical cost of acquisition/manufacture	12,409	546	60,906	273	74,134
Cumulative depreciation and impairments	-5,315	-472	-41,510	–	-47,297
Carrying amount at 1 January 2006	**7,094**	**74**	**19,936**	**273**	**26,837**
31 December 2006					
Historical cost of acquisition/manufacture	30,779	467	71,149	419	102,814
Cumulative depreciation and impairments	-6,044	-348	-41,391	–	-47,783
Carrying amount at 31 December 2006	**24,735**	**119**	**29,758**	**419**	**55,031**

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 depreciation and impairments)	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 January 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
Carrying amount at 1 January 2005	**7,536**	**108**	**19,682**	**193**	**27,519**
31 December 2005					
Historical cost of acquisition	12,409	546	60,906	273	74,134
Cumulative depreciation and impairments	-5.315	-472	-41,510	-	-47,297
Carrying amount at 31 December 2005	**7,094**	**74**	**19,396**	**273**	**26,837**

8.5.2.3 OTHER LONG-TERM FINANCIAL ASSETS

EUR 000s	2005	**2006**
Financial assets available for sale	5,000	-
Loans to associated companies	5,000	5,000
Deposits	1,140	1,489
Miscellaneous	2,775	5,522
	13,915	**12,011**

Financial assets available for sale

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, Beate Uhse AG made the buyer the irrevocable offer of reacquiring the 1 million shares at a price of EUR 5.00 per share (put option). As a result of this obligation to repurchase the shares, the shares in erotic media ag continued to be reported as 'Financial assets available for sale' with a carrying amount of EUR 5,000k as of 31 December 2005. The resultant unrecognised profit of EUR 2,808k was reported under other reserves in the previous year.

On the basis of an agreement dated 22 September 2006, the buyer provided Beate Uhse AG with a waiver of the put option, which meant that the profit was recognised in the year under report and duly accounted for in the income statement.

Loans to associated companies

The loan granted to an associated company bears interests at customary market rates and is to be repaid at the latest on 30 June 2009.

8.5.2.4 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.

SHAREHOLDINGS

EUR 000s	2005	2006
Shareholdings in commercial partnerships	767	767
Shareholdings in corporations	312	255
	1,079	**1,022**

All shares held in the International Fun Center, Warsaw, Poland, were sold in the 2006 financial year. At the time of sale, the shares in the company had a carrying amount of EUR 184k. The income generated by the disposal of the shares amounted to EUR 3,304k.

8.5.2.5 SHARES IN ASSOCIATED COMPANIES

On the basis of an agreement dated 3 November 2006, Scala Großhandels GmbH & Co KG , Wiesbaden, acquired further shares in Lebenslust GmbH, Cologne. Its shareholding thus increased from 31.64 percent to 45.70 percent. Moreover, Scala Großhandels GmbH & Co KG received an offer concerning the further acquisition of a total of 33.21 percent of the shares in Lebenslust. This offer may be accepted between 1 January 2007 and 29 February 2008.

A list of all associated companies, including details as to their legal domiciles and the level of shareholding 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 52,000k at the balance sheet reporting date.

The cumulative total amount of unrecorded prorated losses incurred from associated companies amounted to EUR 112k at 31 December 2006 (previous year: EUR 39k).

The following tables provide summarised financial information concerning the principal associated companies: Summarised consolidated financial statements of erotic media ag, Switzerland:

EROTIC MEDIA AG (SWITZERLAND)

EUR 000s	2005	2006
Assets		
Long-term assets	41,599	42,450
Short-term assets	16,293	9,368
Total assets	57,892	**51,817**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholder's equity	29,534	20,702
Minority interests	1,259	1,362
Long-term debt	22,270	20,154
Short-term debt	4,829	9,599
Total shareholders' equity and liabilities	57,892	**51,817**
CONSOLIDATED INCOME STATEMENT		
Sales	15,131	22,404
Consolidated earnings	4,550	**1,908**

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

BEATE UHSE TV (BERLIN)

EUR 000s	2005	2006
Assets		
Long-term assets	2,909	2,885
Short-term assets	1,931	1,727
Total assets	4,840	**4,612**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholder's equity	2,855	3,214
Short-term debt	1,985	1,398
Total shareholders' equity and liabilities	4,840	**4,612**
CONSOLIDATED INCOME STATEMENT		
Sales	7,850	8,159
Annual earnings	141	**360**

8.5.2.6 INVENTORIES

EUR 000s	2005	2006
Merchandise	28,398	32,738
Raw materials and supplies	7,459	6,829
Goods in transit	663	1,572
Unfinished products	229	251
	36,749	**41,390**

Write-downs of EUR 4,599k to the lower net selling price had been recorded as of the balance sheet reporting date on 31 December 2006 (previous year: EUR 1,047k).

8.5.2.7 OTHER SHORT-TERM FINANCIAL ASSETS AND OTHER ASSETS

EUR 000s	2005	2006
Accrued income	1,074	652
Suppliers with debt balances	690	642
Other receivables	458	455
VAT credits	475	2,388
Miscellaneous	109	78
	2,806	**4,215**

8.5.2.8 CASH AND CASH EQUIVALENTS

EUR 000s	2005	2006
Credit balances at banks	5,722	4,537
Cash in transit	587	1,356
Cash holdings	455	526
Securities	13	13
	6,777	**6,432**

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 carrying amount.

For the purposes of the consolidated cash flow statement, cash and cash equivalents include the liquid funds outlined above. The consolidated cash flow statement includes the cumulative cash flows of ongoing and discontinued business divisions.

8.5.2.9 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 statement of changes in shareholders' equity.

SHARES IN CIRCULATION

	Shares/Number
Number of ordinary shares	47,323,696
Treasury stock as of 1 January 2005	-281,495
Shares in circulation as of 1 January 2005	47,042,201
Sales of treasury stock during the 2005 financial year	91
Shares in circulation as of 31 December 2005	47,042,292
Sales of treasury stock during the 2006 financial year	89
Shares in circulation as of 31 December 2006	**47,042,381**

8.5.2.10 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.

8.5.2.11 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 2006, 708,086 option rights of EUR 1.00 each were outstanding.

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.

8.5.2.12 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 19 December 2007 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 2005	281,495	0.596	3,465
Disposal	91		1
Balance at 31 December 2005	281,404	0.596	3,464
Disposal	89		1
Balance at 31 December 2006	**281,315**	**0.595**	**3,463**

The disposal did not generate any major income on disposal.

8.5.2.13 CAPITAL RESERVE

The capital reserve includes the carrying amount of the obligations relating to share-based compensation 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 holding period (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 lapse upon their holder leaving the company.

OPTION RIGHTS

EUR	2005 Options	2005 WAEP[1]	2006 Options	2006 WAEP[1]
Outstanding at beginning of reporting period	545,323[2]	11.20	350,577[2]	11.08
Granted during reporting period	192,879	8.382	200,002	5.94
Lapsed during reporting period	-30,116	11.18	-77,143	10.48
Outstanding at end of reporting period	708,086	10.44	830,945	9.35
Exercisable at end of reporting period	350,577	11.08	460,709	11.19

[1] Weighted average exercise price

[2] This figure includes options to the acquisition of 190,854 shares, which pursuant to IFRS 2 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 2006 amounts to 4.58 years (2005: 5.63 years).

The fair value of the options granted during the financial year amounted to EUR 0.7689 (2005: EUR 0.9918).

The exercise prices for the options outstanding at the end of the reporting period range from EUR 5.94 to EUR 11.44 (2005: EUR 8.382 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 2006 financial year and the previous year was based on the following parameters:

OPTION RIGHTS PARAMETERS

Exercise strategy		2005 Earliest possible exercising	2006 Earliest possible exercising
Issue date		25.6.2005	20.7.2006
Stock market price at issue date	(EUR)	7.60	5.55
Exervise price	(EUR)	8.32	5.94
Risk-free interest rate	(%)	2.87	3.92
Expected volatility	(%)	24.54	25.28
Term		7 year	7 year
Expected dividends	(EUR)	0.13 to 0.30	0.16 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 2003 and 5 December 2006.

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 compensation with settlement by equity instruments recorded under expenses amounted to EUR 191k during the 2006 financial year (previous year: EUR 237k).

No share-based compensation involving cash settlement has been granted.

The carrying amount of the obligations relating to share-based compensation amounted to EUR 664k as of 31 December 2006 (previous year: EUR 474k).

8.5.2.14 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 reserves. 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.

8.5.2.15 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 6,887k have been recorded in the consolidated income statement for this defined contribution plan (previous year: EUR 7,031k).

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:

PENSION PAYMENT EXPENSES

	Beate Uhse AG		ZBF GmbH		Total	
EUR 000s	2005	2006	2005	2006	2005	2006
Current length of service expenses	-14	-16	-	-	-14	-16
Interest expenses	-169	-158	-29	-30	-198	-188
Actuarial losses recorded	-6	-164	-4	-156	-10	-320
Impact of plan compensation	-	-	-	-	-	-
	-189	**-338**	-33	**-186**	-222	**-524**
Actual income from plan assets	41	-10	5	6	46	-4

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

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

DEFINED BENEFIT OBLIGATIONS

	Beate Uhse AG		ZBF GmbH			Total
EUR 000s	2005	**2006**	2005	**2006**	2005	**2006**
Present value of defined benefit obligation	4,059	3,967	742	720	4,801	4,687
Asset value of reinsurance	-472	-462	-262	-269	-734	-731
Asset shortfall	3,587	**3,505**	480	**451**	4,067	**3,956**
Actuarial losses not recorded	-591	-365	-230	-23	-821	-388
Debts relating to defined benefit obligation reported in balance sheet	2,996	**3,140**	250	**428**	3,246	**3,568**

The amount is depicted in the balance sheet as follows:

EUR 000s	2005	**2006**
Short-term debt	214	241
Long-term debt	3,032	3,327
	3,246	3,56

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

DEVELOPMENT OF DEFINED BENEFIT OBLIGATIONS

	Beate Uhse AG		ZBF GmbH			Total
EUR 000s	2005	**2006**	2005	**2006**	2005	**2006**
1 January	3,043	2,996	222	250	3,265	3,246
Current of length services expenses	14	16	-	-	14	16
Interest expenses	169	158	29	29	198	187
Actuarial expenses	6	164	5	156	10	320
Benefits paid	-195	-205	-	-	-195	-205
Income from plan compensation	-	-	-	-	-	-
Income from plan assets	-41	10	-5	-6	-46	4
31 December	2,996	**3,139**	250	**429**	3,246	**-3.568**

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

BASIC ASSUMPTIONS

EUR 000s	2005	**2006**
Interest rate	4.0 %	4.35 %
Expected return on plan assets	2.0 %	2.0 %
Development of salaries and entitlement	2.0 %	2.0 %
Development of contributions ceiling for social security	2.0 %	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	63
Women	62 or 60	60 or 63
Special cases	at least 60	at least 60
ZBF GmbH individual commitments	65	65
Invalidity or death	2005G Heubeck tables	2005G Heubeck tables

The amounts for the current and two preceding reporting periods are structured as follows:

EUR 000s	2004	2005	2006
Present value of defined benefit obligation	4,494	4,801	4,687
Fair value of plan assets	687	734	731

8.5.2.16 OTHER ACCRUALS (LONG-TERM)

EUR 000s	1 Jan. 2006	Added	Utilised	31 Dec. 2006
Dismantling obligations at retail stores	1,655	131	204	1,582
Pending losses on existing agreements	566	-	111	455
Part-time early retirement	153	17	34	136
Anniversary accrual	27	-	-	27
	2,401	**148**	**349**	**2,200**

8.5.2.17 OTHER FINANCIAL OBLIGATIONS (LONG-TERM)

EUR 000s	2005	2006
Obligations in connection with put options	5,000	-
Miscellaneous	189	261
	5,189	**261**

8.5.2.18 OTHER FINANCIAL OBLIGATIONS (SHORT-TERM)

EUR 000s	2005	2006
Wage and church tax	1,304	750
Returned goods	1,283	1,285
Wages and salaries	2,044	2,340
Outstanding invoices	596	589
Compensation	575	105
Customer overpayments	557	2,507
Social security contributions	551	795
Miscellaneous	2,989	3,373
	9,899	**11,744**

8.5.2.19 OTHER ACCRUALS (SHORT-TERM)

EUR 000s	1 Jan. 2006	Added	Utilised	Released	31 Dec. 2006
Litigation expenses	332	82	57	7	350
Damages payments	260	549	-	-	809
Film promotion duty	252	24	-	46	230
Indexing of rents	232	149	56	41	284
Part-time early retirement	169	5	37	-	137
Pending losses on existing rental agreements	97	-	15	-	82
	1,342	**809**	**165**	**94**	**1,892**

8.5.2.20 LOANS

EUR 000s	2005	2006
Overdraft facilities	26,753	40,754
Bank loans	12,487	30,723
Borrowers' note loans	17,643	15,714
Other loans	94	79
	56,977	**87,270**

of which:		
Short-term loans	26,847	40,833
Short-term portion of long-term loans	14,418	5,618
of which: short-term portion of borrowers' note loans	11,929	1,428
Long-term interest-bearing loans	15,712	40,819
of which: long-term portion of borrowers' note loans	5,714	14,286
	56,977	**87,270**

As of 31 December 2006, working capital credit lines amounting to EUR 49 million were available (previous year: EUR 50 million), of which EUR 34,223k had been utilised (previous year: EUR 24,993k).
The overdraft facilities mature at any time.

Note concerning bank loans:
In order to refinance the investments made in 2005 and 2006, which were financed on a shortterm basis, for the long term, a 7-year amortisable loan was taken up from IKB Deutsche Industriebank AG in 4/2005. This loan of EUR 10 million with a term running until 3/2012 is payable starting on 30 September 2005 with twenty six instalments of EUR 370,370.37 and a final instalment of EUR 370,370.38 due on 31 March 2012. The value of the loan amounted to EUR 7,777,777.78 at 31 December 2006. An interest swap with the same terms was concluded at the same time to secure the EURIBOR-linked interest rate against any interest rate rises.

The following 10-year amortisable loans were taken up in the first quarter of 2006 in order to finance the land and buildings purchased for the development of the new mail order fulfilment centre in Walsoorden, Netherlands:

EUR 8.5 million from IKB Deutsche Industriebank AG. This amortisable loan with a term running until 30 March 2016 is payable starting on 30 June 2006 with 40 instalments of EUR 212,500.00. The value of the loan amounted to EUR 7,862,500.00 at 31 December 2006.

EUR 4.5 million from Nord LB Norddeutsche Landesbank Girozentrale. This amortisable loan with a term running until 30 March 2016 is payable starting on 30 June 2006 with 40 instalments of EUR 112,500.00. The value of the loan amounted to EUR 4,162,500.00 at the balance sheet reporting date.

EUR 4 million from Flensburger Sparkasse. This amortisable loan with a term running until 30 March 2016 is payable starting on 30 June 2006 with 40 instalments of EUR 100,000.00. The value of the loan amounted to EUR 3,700,000.00 at 31 December 2006.

All three financing facilities are covered by congruent interest swaps (micro-hedges) in order to secure their EURIBOR-linked interest rates against any interest rate rises.

Furthermore, a loan of EUR 5 million payable upon final maturity was taken up at Deutsche Postbank AG on 9 November 2006. This loan has a term running until 30 June 2009. An interest swap for a congruent period was concluded to secure the EURIBOR-linked interest rate against any interest rate rises.

Of the borrowers' note loans, EUR 4,286k have remaining terms of 1 to 5 years (previous year: EUR 5,714k) and EUR 10,000k a remaining term of more than 5 years (previous year: EUR 0k).

The borrowers' note loan of EUR 10 million placed on the financial market in 10/2003 has a term running until 10/2010. The repayments are scheduled on a half-yearly basis starting on 30 April 2005 with thirteen instalments of EUR 714,285.00 and a final instalment of EUR 714,295.00 due on 30 October 2010. The value of the borrowers' note loan amounted to EUR 5,714,290.00 at 31 December 2006.

The borrowers' note loan payable upon final maturity placed on the financial market in 2/2006 has a term running until 17 February 2013 and serves to redeem the borrowers' note loan of EUR 10.5 million placed in 2/2003.

Security

No security has been provided for liabilities to banks and investors in the borrowers' note loans.

Financial covenants have been agreed in connection with working capital credit lines and long-term loans with Commerzbank AG, Bayerische Hypo- und Vereinsbank AG, IKB - Deutsche Industriebank AG, HSH Nordbank AG, Flensburger Sparkasse, Nord/LB Norddeutsche Landesbank and HSBC Trinkaus & Burkhardt KGaA.

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 redeemable borrowers' note loan and the loan from IKB – Deutsche Industriebank AG), interest cover of at least 7.0 and equity ratio of at least 30 percent.

The borrowers' note loan placed in 2/2006 and payable at final maturity is subject to an equity ratio of at least 20 percent and a maximum debt-equity ratio of 3.5.

8.5.2.21 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 business 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 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 involve interest-related cash flow risks, liquidity risks, foreign currency risks and default risks. The company management monitors the risks depicted below within the framework of the groupwide early risk identification system.

Cash flow risks resulting from changes in interest risks

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 overdraft facilities of EUR 40,754k, an amount of EUR 13,000k is secured against interest rate increases by means of interest swaps, as is an amount of EUR 28,503k of the bank loans of EUR 30,723k. The borrowers' note loans have fixed interest rates.

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 2006, the Group did not have any hedging transactions relating to exchange 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 with the Group which involves credit 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 carrying amounts of the respective instrument in the event of any default on the part of the counterparty.

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.

8.5.2.22 FINANCIAL INSTRUMENTS

The table below provides a comparison of the carrying amounts 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 their carrying amount represents an adequate approximation of the fair value.

FINANCIAL INSTRUMENTS

	Carrying amount		Fair value	
EUR 000s	2005	**2006**	2005	**2006**
Financial assets				
Financial assets available for sale	5,000	-	5,000	-
Loans and receivables	7,775	8,400	7,775	8,400
Other financial assets (long-term)	1,140	1,489	1,140	1,489
Interest swaps	20	972	20	972
Financial liabilities				
Interest bearing loans:				
Loans with floating interest rates	2,220	1,212	2,220	1,072
Loans with fixed interest rates	7,778	25,271	6,860	21,438
Fixed-interest borrowers' note loans	5,714	14,286	5,166	11,236
Other financial liabilities (long-term)	5,189	374	5,189	374
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 and liabilities was determined by discounting the expected future cash flows using prevalent market interest rates.
Write-down expenses on accounts receivable amounting to EUR 12,906k have been recorded in the consolidated income statement (previous year: EUR 16,120k).

Interest rate risk

The interest rate of financial instruments with 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 carrying amounts 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 2006

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 loans	1,428	1,429	1,429	1,428	-	10,000	15,714
Amortisable loans*	3,181	3,182	8,181	3,182	3,182	7,595	28,503
Overdraft facilities*	13,000	-	-	-	-	-	13,000
Payer swaps*	-	-	(5)	(303)	-	(664)	(972)

*As of 31 December 2006, the Group had interest swaps (payer swaps) amounting to EUR 43.5 million with terms running until 6/2009 (EUR 5 million), 4/2010 (EUR 10 million), 3/2012 (EUR 7.8 million), 4/2012 (EUR 5 million) and 3/2016 (EUR 15.7 million), covering the interest rates of a credit volume of (amortisable) loans and overdraft facilities totalling EUR 41.5 million.

FINANCIAL YEAR ENDING ON 31 DECEMBER 2006

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	(6,432)	-	-	-	-	-	(6,432)
Overdraft facilities	27,754	-	-	-	-	-	27,754
Amortisable loans	1,008	1,212	-	-	-	-	2,220

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 loans	11,929	1,428	1,429	1,429	1,428	-	17,643
Overdraft facilities*	1,481	1,481	1,482	1,482	1,481	1,852	9,259
Short-term loans*	15,000	-	-	-	-	-	15,000
Payer swaps*	55	-	-	-	(20)	50	30

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

FINANCIAL YEAR ENDING ON 31 DECEMBER 2005

Floating interest rate EUR 000s	Within 1 year	1-2 year	2-3 year	3-4 year	4-5 year	More than 5 year	Total
Cash and short-term deposits	(6,777)	-	-	-	-	-	(6,777)
Overdraft facilities	11,753	-	-	-	-	-	11,753
Short-term loans	1,008	1,008	1,212	-	-	-	3,228

Financial instruments: statement and valuation of financial guarantees

The Group had the following financial guarantees as of 31 December 2006:

No. EUR	**Guarantor 000s**	**Initial value**	2005	**Fair Value 2006**
1	Commerzbank	80	80	80
2	Beate Uhse AG	5,000	-	5,000
3	Beate Uhse AG	9,218	7,682	6,711
				7,762

Re: No. 1
On the basis of a deed of suretyship dated 14 January 2002, Commerzbank AG guaranteed a working capital loan with an indefinite term of DVV GmbH at Raiffeisenbank Dietramszell-Thanning eG on behalf of and at the expense of Beate Uhse AG.

Re: No. 2
On the basis of a deed of suretyship dated 29 December 2006, Beate Uhse AG provided a warranty to Flensburger Sparkasse. This guarantee serves to secure a loan at erotic media ag due to reach final maturity on 31 March 2007.

Re: No. 3
On the basis of a deed of suretyship dated 13 April 2004, Beate Uhse AG provided a warranty to Commerzbank (Niederlande) BV for the rental payments pledged to the bank of the wholly-owned subsidiary Scala Agenturen BV, Netherlands to Immo Almere BV. The underlying loan agreement has a term of 10 years. The fair value is calculated on the basis of the initial value (annual rent x term of loan), less the annual rental payments made thereafter.

Hedge transactions

Hedge transactions covering the cash flow

As of 31 December 2006, the Group had eight payer swaps to cover loan obligations with floating interest rates against any increase in interest rates.

The fair value of the swaps in place as of 31 December 2006 is structured as follows:

EFFECTIVE INTEREST SWAPS

EUR 000s	Type of effective interest swap	Volume at 31.12.2006	Term	Market value (marking-to-market) at 31.12.2006
	Payer swap	7,778	29.4.2005-30.3.2012	175.9 positive
	Payer swap	7,863	31.01.2006-30.03.2016	171.1 positive
	Payer swap	4,163	09.02.2006-30.03.2016	76.1 positive
	Payer swap	3,700	09.02.2006-30.03.2016	72.9 positive
	Payer swap	5,000	14.11.2006-30.06.2009	5.1 positive

A profit of EUR 501.1k incurred on the effective interest swaps was recorded directly under equity without any impact on earnings in the 2006 financial year.

INEFFECTIVE INTEREST SWAPS

EUR 000s	Type of ineffective interest swap	Volume at 31.12.2006	Term	Market value (marking-to-market) at 31.12.2006
	Payer swap	5,000	29.4.2005-29.4.2010	154.2 positive
	Payer swap	5,000	29.4.2005-29.4.2010	148.9 positive
	Payer swap	5,000	29.4.2005-30.4.2012	167.5 positive

8.5.2.23 OBLIGATIONS RELATING TO OPERATING LEASES

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. Based on the purchase agreement dated 30 December 2006, Scala Agenturen BV acquired the logistics system from Immo Almere BV at a price of EUR 2,797k. There are therefore no more rental obligations in connection with this agreement from 2007 onwards.

At the balance sheet reporting date, the Group had the following future minimum leasing payment obligations in connection with the aforementioned operating leases:

MINIMUM LEASING PAYMENT OBLIGATIONS

EUR 000s	2005	2006
Within one year	1,346	990
Between one and five years	5,384	3,960
More than five years	8,511	6,436
	15,241	11,386

8.5.2.24 OTHER FINANCIAL OBLIGATIONS

Other financial obligations (including non-terminable operating lease obligations) were structured as follows as of 31 December 2006:

OTHER FINANCIAL OBLIGATIONS

EUR 000S	2007	2008	2009	2010	2011 and later	Total	Previous year´s t.
Rental expenses for rooms/facilities	17,410	16,119	14,527	13,719	38,998	100,773	95,488
Guarantee expenses/interest expenses	2,471	2,142	1,743	1,359	2,814	10,529	2,480
Licence fees	153	153	153	153	166	778	1,072
Servicing/cleaning/maintenance	597	261	259	256	260	1,633	885
Advisory expenses	264	15	15	15	15	324	493
Miscellaneous	782	12	12	12	12	830	813
	21,677	18,702	16,709	15,514	42,265	114,867	101,231

As of the balance sheet reporting date, there were claims of EUR 4,347k in connection with non-terminable subletting agreements (previous year: EUR 2,772k).

During the reporting period, payments amounting to EUR 709k were recorded in connection with subletting agreements (previous year: EUR 710k).

8.5.2.25 CONTINGENT LIABILITIES

The Group has the following contingent liabilities:

CONTINGENT LIABILITIES

EUR 000s	2005	2006
Liabilities relating to guarantees and bill sureties	770	5,600
Liabilities relating to the issue and assignment of bills of exchange	153	72
	923	**5,672**

8.5.3 NOTES TO THE CONSOLIDATED INCOME STATEMENT

8.5.3.1 SALES

Ongoing business divisions

EUR 000s	2005	2006
Merchandise	221,197	215,901
Mail order charges	15,393	14,315
Added value telephone services	10,691	9,715
Video cabins	8,832	8,196
Cinema	5,843	5,939
Online sales	7,030	5,590
Address rental	2,302	1,958
Game machines	4,206	1,769
Licences	1,268	1,132
Miscellaneous	8,025	6,419
	284,787	**270,934**

Discontinued business divisions

Sales	2,856	-
	287,643	**270,934**

8.5.3.2 COSTS OF SALES

Ongoing business divisions

EUR 000s	2005	2006
Goods and material employed	90,722	90,052
Personnel	9,870	9,372
Depreciation	933	821
Other taxes	912	1,035
Miscellaneous	6,633	6,327
	109,070	**107,607**

Discontinued division

Goods and material employed	657	-
Personnel	514	-
Depreciation	17	-
Miscellaneous	487	-
	1,675	**-**
	110,745	**107,607**

8.5.3.3 OTHER OPERATING INCOME

Ongoing business divisons

EUR 000s	2005	2006
Proceeds on dunning	10,772	8,910
Rental income	1,558	1,395
Income on sale of securities	-	3,040
Income on sale of shareholdings	150	3,304
Miscellaneous	2,108	3,511
	14,588	**20,160**

Discontinued division

	2005	2006
Proceeds on interest on arrears and dunning	120	-
Miscellaneous	-	-
	120	**-**
	14,708	**20,160**

8.5.3.4 SALES-RELATED EXPENSES

Ongoing business divisions

EUR 000s	2005	2006
Personnel	30,455	29,960
Depreciation	5,973	5,659
Miscellaneous	106,165	106,793
	142,593	**142,412**
Discontinued business division	1,504	**-**
	144,097	**142,412**

8.5.3.5 NET INTEREST EXPENSES

Ongoing business divisions

EUR 000s	2005	2006
Other interest and similar income	470	861
Interest and similar expenses	-2,707	-3,630
	-2,237	**-2,769**
Discontinued business division	-260	**-**
	-2,497	**-2,769**

8.5.3.6 TAXES ON INCOME

The principal components of income tax expenses for the 2005 and 2006 financial years are structured as follows:

Consolidated income statement

EUR 000s	2005	2006
Actual taxes on income		
Actual income tax expenses	4,570	4,692
Adjustment to actual income taxes incurred in previous year	-	112
	4,570	**4,804**
Deferred income taxes		
Arising and reversal of temporary differences	999	-4,217
Deferred taxes on loss carryovers	480	1,363
	1,479	**-2,854**
Income tax expenses reported in the consolidated income statement	6,094	**1,950**

Group equity schedule

EUR 000s	2005	2006
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	201
Non-realised profit from the disposal of financial assets available for sale	53	-53
Income tax expenses recorded under equity	48	**148**

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 29.6 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 2006 financial years is structured as follows:

TRANSITION OF TAX EXPENSES

EUR 000s	2005	2006
Earnings before taxes on income at ongoing business divisions	20.418	11.990
Earnings before taxes on income at one discontinued business division	-773	-
Earnings before taxes on income	19.645	**11.990**
Expected tax expenses (38 percent)	7.465	**4.556**
Tax losses in the current year which have not been accounted for	52	161
Back-payments of tax as a result of tax audits	-	113
Back-payments of tax for previous years	-	-301
Tax impact of goodwill amortisation	-	102
Impact of tax-exempt revenues	-664	-1.347
Impact of company expenses not deductible for tax purposes	-	172
Deviating tax rates in other countries	-804	-537
Adjustment of temporary differences in previous years	-	-1.002
Miscellaneous items	-	33
Total transition to group tax result	-1.416	**-2.606**
Income tax expenses reported in the consolidated income statement	6.049	**1.950**

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

DEFERRED INCOME TAXES

EUR 000s	Consolidated balance sheet		Consolidated income statement	
Deferred income tax liabilities	2005	2006	2005	2006
Write-down of loans to subsidiaries	2,118	2,118	-	-
Market valuation of interest swap	-	383	-	-234
Valuation of inventories	31	-	51	31
Discounting of accrual for pending losses	-	-	23	-
Miscellaneous	63	41	-	22
Capitalised deferred tax liabilities	2,212	**2,542**	74	**-181**
Deferred income tax claims				
Tax loss carryovers	1,263	5,480	-999	4.217
Elimination of inter-company profits	1,490	1,454	-154	-36
Valuation of accruals/accrued income	274	129	-430	-145
Goodwill from supplementary balance sheets	4,758	4,093	-	-665
Valuation of pension obligations	299	387	-5	88
Catalogue expenses	2,597	2,160	-	-437
Valuation of part-time early retirement obligations	3	2	-27	-1
Miscellaneous	172	186	62	14
Capitalised deferred tax claims	10,856	**13,891**	-1,553	**3,035**
Deferred income tax income/expenses			-1,479	**2,854**

As of 31 December 2006, the Group had corporate income tax loss carryovers of EUR 8,703k and trade tax loss carryovers of EUR 14,526k relating to German group companies for which no deferred tax assets had been capitalised. Moreover, there are loss carryovers amounting to EUR 2,791k at foreign subsidiaries for which no deferred tax assets had been capitalised. No deferred tax claims have been 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 which 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 2006 or as of 31 December 2005.

The distribution of dividends by Beate Uhse AG to its shareholders has not had any consequences in respect of income tax.

8.5.3.7 PERSONNEL EXPENSES

EUR 000s	2005	2006
Wages and salaries	40,158	38,207
Statutory social security expenses	7,031	6,887
Voluntary social security expenses	109	122
Miscellaneous	2,811	3,061
	50,109	**48,277**

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

EUR 000s	2005	2006
Costs of sales	10,384	9,372
Sales-related expenses	30,455	29,960
General administration expenses	9,238	8,902
Other operating expenses	32	42
	50,109	**48,277**

Number of employees by segment

EUR 000s	2005	2006
Retail	882	856
Mail Order	288	272
Wholesale	230	217
Entertainment	79	69
Services	44	44
	1,523	**1,458**

The associated companies had a total of 75 employees in the 2006 financial year (previous year: 66 employees).

8.5.3.8 BREAKDOWN OF DEPRECIATION AND AMORTISATION INTO ITEMS RELATING TO THE COST OF SALES METHOD

Scheduled depreciation and amortisation

EUR 000s	2005	2006
Costs of sales	950	821
Sales-related expenses	5,357	5,253
General administration expenses	2,512	2,730
Other operating expenses	130	60
	8,949	**8.864**

Extraordinary depreciation and amortisation

EUR 000s	2005	2006
Sales-related expenses	-	368
General administration expenses	233	131
	233	**498**

8.5.3.9 EARNINGS PER SHARE

The calculation of basic 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	2005	2006
Basis for basic earnings per share (Allocable prorated period earnings of the shareholders in the parent company)	13,474	9,664
Basis for diluted earnings per share	13,474	9,664

Number of shares

Thousands	2005	2006
Weighted average number of ordinary shares for basic earnings per share (excluding treasury stock)	47,042	47,042
Weighted average number of ordinary shares for diluted earnings per share (excluding treasury stock)	47,042	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 ongoing and discontinued business divisions was based on the weighted average number of ordinary shares depicted in the above table for both diluted and basic earnings per share. The following tables depict the earnings used as numerators in the calculation:

From ongoing business divisions

EUR 000s	2005	2006
Share of earnings allocable to the shareholders in the parent company	13,474	9,664
Adjustment for the loss incurred on the disposal of discontinued business divisions	773	-
Earnings of ongoing business divisions for the calculation of basic earnings per share excluding discontinued business divisions	14,247	9,664
Basis for diluted earnings per share exclusively for the business division to be discontinued	14,247	9,664

8.5.3.10 DIVIDEND

It is to be proposed to the Annual General Meeting that a dividend amounting to EUR 4,704,609.70 be distributed from the net earnings of Beate Uhse AG to the shareholders and that the remaining amount of EUR 5,490,108.52 be carried forward.

DIVIDEND

EUR 000s	2005	2006
Amounts recorded as distributions to shareholders in the financial year	-	6,586
Dividend of 14 cents per share for the 2005 financial year (2004: 0 cents)		
Proposed dividend of 10 cents per share for the 2006 financial year (2005: 14 cents)	6,586	4,705

The proposed appropriation of net earnings is dependent on approval by shareholders at the Annual General Meeting.

8.5.4 OTHER DISCLOSURES

8.5.4.1 PUBLICATION PURSUANT TO SECTIONS 15A; 21 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 2006 financial year:

Date	Notification
2 February 2006	Orthmann Trading AG exceeds 5 percent of voting rights (26 January 2006)
2 February 2006	Art Media Productions GmbH falls short of 5 percent of voting rights (23 January 2006)
2 February 2006	Orthmann AG falls short of 25 percent of voting rights to 0 percent (26 January 2006)
2 February 2006	Rotermund Holding AG exceeds 25 percent of voting rights (26 January 2006)
29 May 2006	Orthmann Trading AG falls short of 5 percent of voting rights (24 May 2006)

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 2006 financial year:

Date	Notification
2 February 2006	Orthmann Trading AG exceeds 5 percent of voting rights (26 January 2006)
2 February 2006	Art Media Productions GmbH falls short of 5 percent of voting rights (23 January 2006)
2 February 2006	Orthmann AG falls short of 25 percent of voting rights (26 January 2006)
2 February 2006	Rotermund Holding AG exceeds 5 percent of voting rights (26 January 2006)
29 May 2006	Orthmann Trading AG falls short of 5 percent of voting rights (24 May 2006)

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).

8.5.4.2 BUSINESS RELATIONSHIPS TO CLOSELY RELATED PERSONS (IAS 24)

Persons in key positions

Reference is made to the 'Notes on the 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 con-solidation 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

As the son of Ulrich Rotermund, Chairman of the Supervisory Board of Beate Uhse AG, Reuben Rotermund is a close family relative whose business relationships with the Beate Uhse Group also require report. He is the owner of the real estate in Düsseldorf, Graf Adolf Strasse, in which Beate Uhse Einzelhandels GmbH, Flensburg, operates a retail outlet. Furthermore, Reuben Rotermund is the owner of the building at Gutenbergstr. 13, Flensburg, which is rented by Beate Uhse AG. The rental agreements were concluded at customary market conditions. The rent paid in the 2006 financial year amounted to EUR 230k (previous year: EUR 225k). There were no receivables or liabilities in respect of the rental agreement as of the balance sheet reporting dates for the 2006 financial year and the previous year, neither were there any contingent receivables or liabilities. There were other financial obligations amounting to EUR 338k in connection with the rental agreement as of the reporting date.

Immo Almere BV, Walsoorden, Netherlands, is wholly owned 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 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. The rental payments for the 2006 financial year amounted to EUR 990k (previous year: EUR 976k). There were no receivables or liabilities or contingent receivables or liabilities in respect of the rental agreement as of the balance sheet reporting dates for the 2006 financial year and the previous year. There were other financial obligations amounting to EUR 10,925k in connection with the rental agreement as of the reporting date.

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 2006 financial year amounted to EUR 780k (previous year: EUR 780k). On the basis of a purchase agreement dated 30 December 2006, Scala Agenturen BV acquired the logistics system from Immo Almere BV at a price of EUR 2,797k. There are therefore no future rental obligations in connection with this agreement from 2007 onwards.

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 1,528k in the 2006 financial year (previous year: EUR 1,922k). There were other financial obligations of EUR 17,908k 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 2006 financial year and the previous year.

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 214k (previous year: EUR 315k) for the provision of tax advisory services to group companies in the 2006 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 767k 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 manage board compensation totalling EUR 191k (previous year: EUR 193k) via European Business Consult. The compensation paid for these services is 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 compensation paid during the financial year under report.

Consipio Holding BV, Walsoorden, Netherlands, holds a 20.98 percent shareholding in Beate Uhse AG. Consipio Holding BV paid a sum of EUR 575k to Beate Uhse BV and an amount of EUR 65k to Pabo BV during the 2006 financial year in return for the secondment of personnel.

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 2.5 percent p.a.

On the basis of an agreement dated 15 November 2006, Beate Uhse AG offered erotic media ag the possibility of acquiring up to one million of the bearer shares held by Beate Uhse AG in erotic media ag, which have a face value of CHF 1.00, at a price of EUR 5.00 per bearer share. This offer may be accepted by erotic media ag in the period from 1 July 2008 to 30 June 2009.

Furthermore, Beate Uhse AG has provided a guarantee for a loan of EUR 5,000k taken up by erotic media ag at the Flensburger Sparkasse. The term of the loan in question runs until 30 June 2009.

8.5.4.3 NOTES ON SEGMENT REPORTING

The primary format for the segment 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 segment 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 Holding Services.

The Entertainment segment comprises online services, such as internet content, e-commerce and telephony, as well as TV/telemedia services. The activities of the Holding 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.

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

8.5.4.4 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

Compensation of EUR 265k was paid to the Spokesman of the Management Board, Otto Christian Lindemann, during the 2006 financial year (previous year: EUR 240k). No accruals for performance-related compensation have been stated for Otto Christian Lindemann for the 2006 financial year (previous year: EUR 30k). Mr. Lindemann received fringe benefits in the form of a company car (value of payment in kind: EUR 11k).

Gerard Philippus Cok was paid management board compensation of EUR 191k during the 2006 financial year in his capacity as the proprietor of European Business Consult, Bereldance, Luxembourg (previous year: EUR 193k).

During the 2006 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 5.94 (Otto Christian Lindemann 16,000 and Gerard Ph. Cok 16,000). The option rights may not be exercised prior to 20 July 2008. The fair value amounted to EUR 0.77 per option right at the date of issue.

There are pension accruals amounting to EUR 1,312k for former board members of Beate Uhse AG (previous year: EUR 1,395k). The pension payments made to these board members amounted to EUR 94k in the 2006 financial year.

The Supervisory Board comprised the following members:

Ulrich Rotermund	Meggen, Switzerland Private investor Chairman of the Supervisory Board Member of the Personnel and Investment Committees
Michael Papenfuss	Hamburg Member of the Divisional Executive Board of Bayerische Hypo- und Vereinsbank AG, Hamburg until 31 December 2006 Deputy Chairman of the Supervisory Board Member of the Audit Committee Member of the Personnel Committee
Martin Weigel	Hamburg Chairman of the Management Board of GLC Glücksburg Consulting AG, Hamburg Member of the Supervisory Board Chairman of the Audit Committee Member of the Investment Committee

Nicolaas Bootsma	Blokker, Netherlands Auditor at Crop Registeraccounts, Hoofddorp, Netherlands Member of the Audit Committee Member of the Investment Committee
Monika Wilk	Flensburg Legal advisor at Beate Uhse Einzelhandels GmbH, Flensburg (Employee representative) Member of the Personnel Committee
Carlo Floridi	Cologne Store manager at Beate Uhse Einzelhandels GmbH, Flensburg (Employee representative) Member of the Investment Committee

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

Ulrich Rotermund	President of the Administrative Board of erotic media ag, Baar, Switzerland
Michael Papenfuss	Deputy Chairman of the Supervisory Board of Bankhaus Neelmeyer AG, Bremen Member of the Supervisory Board of HVB Bank Latvia AS, Riga Member of the Supervisory Board of Westfalenbank AG, Bochum (until September 2006)
Martin Weigel	Member of the Supervisory Board of ARCO VARA AS, Tallinn (associated) Member of the Supervisory Board of Baltic Holding Company, Liepaja/Latvia Member of the Supervisory Board of c.a.r.u.s IT AG, Norderstedt (until 28 August 2006)

Members of the Supervisory Board receive fixed annual compensation of EUR 7.5k. In addition, as a variable component the members of the Supervisory Board receive dividend-related compensation 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 compensation 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 compensation of the Supervisory Board amounted to EUR 121.1k in the 2006 financial year. The fixed component amounted to EUR 76.9k. No variable component was paid. The Chairmen of the Supervisory Board received EUR 24.8k and the Deputy Chairmen EUR 21.3k. All other members of the Supervisory Board received a combined total of EUR 75k.

8.5.4.5 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 13 December 2006 and made permanently available to shareholders at the company's internet site from 14 December 2006 onwards.

8.5.4.6 AUDITOR´S FEES

The fees paid to the auditor of Beate Uhse AG for the 2006 financial year, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Rothen≤baumchaussee 78, Hamburg, amounted to EUR 178k and solely relate to the audit of the financial statements.

8.5.4.7 EVENTS AFTER THE REPORTING DATE

There have been no occurrences with a major impact on the net asset, financial and earnings position of the Group since the balance sheet reporting date.

8.5.4.8 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 of exemption:

- Beate Uhse Einzelhandels GmbH, Flensburg
- Versandhaus Beate Uhse GmbH, Flensburg
- Beate Uhse new medi@ GmbH, Flensburg.

Flensburg, 16 March 2007

Otto Christian Lindemann

Gerard Philippus Cok

8.5 SEGMENT DATA BY BUSINESS UNIT 2005 / 2006

EUR 000s	2005 Retail	Mail Order	Wholesale	Enter-tainment	Holding	Consoli-dation	Continued Business Divisions	Discontinued Business Divisions	Group Value
Sales	89,713	125,022	72,081	19,349	-	-21,378	284,787	2,856	287,643
- of which with third parties	89,068	124,986	52,184	18,549	-	-	284,787	2,856	287,643
- of which with other segments	645	36	19,897	800	-	-21,378	-	-	-
Amortisation of intangible assets	-184	-59	-715	-179	-465	-	-1,602	-	-1,602
Depreciation of property, plant and equipment	-5,219	-599	-999	-161	-352	-	-7,330	-17	-7,347
Amortisation of financial assets	-	-	-	-	-232	-	-232	-	-232
Financial result	-1,086	-118	-909	20	-103	-41	-2,237	-260	-2,497
Income from shareholdings in assoc. companies	-	-	193	-	1,555	-	1,748	-	1,748
Income from other shareholdings	-	-	396	-	3	-	399	-	399
EBT	6,909	12,890	3,276	358	-2,697	-318	20,418	-773	19,645
Taxes on income	-1,120	-2,306	-1,184	-459	-980	-	-6,049	-	-6,049
NET INCOME*	5,788	10,584	2,093	-102	-3,676	-318	14,369	-773	13,596
Assets (including shareholdings)	46,989	36,516	46,298	11,017	173,185	-168,374	145,631	-	145,631
Shareholdings in associated companies	-	-	-	-	31,506	-	31,506	-	31,506
Investment in long-term assets	5,847	3,224	2,097	351	448	-	11,967	-	11,967
Liabilities	40,661	28,262	6,810	5,008	88,570	-70,687	98,624	-	98,624

*(excluding profit and loss transfer agreement)

SEGMENT DATA BY GEOPGRAPHIC REGIONS 2005 / 2006

EUR 000s	2005 Germany	Netherlands	France	Other European Countries	Consolidation	Continued Business Divisions	Discontinued Business Divisions	Group Value
Sales	125,867	84,245	30,942	65,111	-21,378	284,787	2,856	287,643
- of which with third parties	123,237	65,997	30,942	64,611	-	284,787	2,856	287,643
- of which with other segments	2,630	18,248	-	500	-21,378	-	-	-
Amortisation of intangible assets	-1,060	-421	-	-121	-	-1,602	-	-1,602
Depreciation of property, plant and equipment	-3,869	-2,005	-219	-1,237	-	-7,330	-17	-7,347
Amortisation of financial assets	-	-232	-	-	-	-232	-	-232
Financial result	-1,729	-331	65	-201	-41	-2,237	-260	-2,497
Income from shareholdings in assoc. companies	1,748	-	-	-	-	1,748	-	1,748
Income from other shareholdings	399	-	-	-	-	399	-	399
EBT	7,376	9,959	3,251	150	-318	20,418	-773	19,645
Taxes on income	-2,459	-1,369	-1,332	-889	-	-6,049	-	-6,049
NET INCOME*	4,917	8,590	1,919	-739	-318	14,369	-773	13,596
Assets (including shareholdings)	169,424	112,831	3,583	28,167	-168,374	145,631	-	145,631
Shareholdings in associated companies	31,506	-	-	-	-	31,506	-	31,506
Investment in long-term assets	5,301	5,766	117	783	-	11,967	-	11,967
Liabilities	85,633	63,785	-4,502	24,395	-70,687	98,624	-	98,624

*(excluding profit and loss transfer agreement)

2006								
Retail	Mail Order	Wholesale	Enter-tainment	Holding	Consoli-dation	Continued Business Divisions	Discontinued Business Divisions	Group Value
86,821	113,754	79,181	17,887	–	-26,709	270,934	–	**270,934**
86,461	113,754	54,700	16,019	–	–	270,934	–	**270,934**
360	–	24,481	1,868	–	-26,709	–	–	**–**
-280	-74	-456	-177	-462	–	-1,449	–	**-1,449**
-4,976	-552	-1,072	-133	-680	–	-7,413	–	**-7,413**
–	–	–	–	–	–	–	–	**–**
-1,498	-464	-1,186	50	262	67	-2,769	–	**-2,769**
–	–	210	–	771	–	981	–	**981**
52	–	-2	–	7	–	57	–	**57**
4,401	-2,216	2,831	3,000	3,974	–	11,990	–	**11,990**
-1,252	729	-748	-867	188	–	-1,950	–	**-1,950**
3,149	-1,487	2,083	2,133	4,162	–	10,040	–	**10,040**
51,124	42,886	54,065	12,300	204,691	-188,923	176,143	–	**176,143**
–	–	–	–	31,943	–	31,943	–	**31,943**
6,768	6,771	6,109	344	18,976	–	38,968	–	**38,968**
43,501	39,261	34,750	4,123	95,618	-87,772	129,481	–	**129,481**

2006							
Germany	Netherlands	France	Other European Countries	Consolidation	Continued Business Divisions	Discontinued Business Divisions	Group Value
111,350	96,522	36,850	52,921	-26,709	270,934	–	**270,934**
109,063	72,581	36,850	52,440	–	270,934	–	**270,934**
2,287	23,941	–	481	-26,709	–	–	**–**
-884	-402	–	-163	–	-1,449	–	**-1,449**
-3,988	-2,702	-129	-594	–	-7,413	–	**-7,413**
–	–	–	–	–	–	–	**–**
-2,136	-449	-66	-185	67	-2,769	–	**-2,769**
396	–	–	585	–	981	–	**981**
5	–	–	52	–	57	–	**57**
5,810	4,519	1,082	579	–	11,990	–	**11,990**
101	738	-1,315	-1,474	–	-1,950	–	**-1,950**
5,911	5,257	-233	-895	–	10,040	–	**10,040**
163,567	170,813	3,623	27,063	-188,923	176,143	–	**176,143**
31,943	–	–	–	–	31,943	–	**31,943**
5,425	32,855	92	596	–	38,968	–	**38,968**
86,132	108,880	-4,189	26,432	-87,774	129,481	–	**129,481**

8.5 LIST OF GROUP SHAREHOLDINGS AS OF 31 DECEMBER 2006

NAME, REGISTERED OFFICE	Share %	Consolidation
BEATE UHSE AG		
Beate Uhse Grundstücksgesellschaft bR, Flensburg	100.0	V
Beate Uhse Grundstücksverwaltungsgesellschaft mbH, Flensburg	100.0	V
Ceproma central product management GmbH, Flensburg	100.0	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 EINZELHANDELS GMBH SUBGROUP		
Beate Uhse Einzelhandels GmbH, Flensburg	100.0	V
Beate Uhse Fun Center GmbH, Flensburg	100.0	V
Beate Uhse Italia GmbH, Bolzano, I	96.6	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
EXITEC GmbH, Flensburg	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		
Beate Uhse BV, Walsoorden, NL	100.0	V
B.U. BVBA, Knokke-Heist, B	100.0	V
Erotic Centre BVBA, Bruges, B	100.0	V
Pabo BVBA, Kieldrecht, B	100.0	V
Retail Belgie BVBA, Bruges, 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)		
Anvo BVBA, Brüssel, B	100.0	V
Arcus Souvenirs BV, Amsterdam, NL	100.0	V
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
Scala France SAS, Champigny sur Marne, F	100.0	-
Video Distributie Nederland Vdn BV, Wijchen, NL	100.0	V
World Entertainment BV, Walsoorden, NL	100.0	V
BEATE UHSE SCANDINAVIA AB SUBGROUP		
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
PABO HOLDING BV SUBGROUP (VIA BEATE UHSE BV)		
Beate Uhse United Kingdom BV, Walsoorden, NL	100.0	V
Calston Industries Inc., Toronto, CDN	38.0	-
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 Versandhandel GmbH, Innsbruck, A	100.0	V
KONDOMERIET AS SUBGROUP		
Beate Uhse AS, Oslo, N	80.0	V
KONDOMERIET AS, Kolbotn, N	80.0	V
Max´s AS, Kolbotn, N	80.0	-
SCALA GROßHANDEL GMBH & CO. KG SUBGROUP		
Lebenslust GmbH, Cologne	45.7	-
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
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 = stated and valued pursuant to Sections 311, 312 HGB | - = not included pursuant to Sections 296 (2) and 311 (2) HGB

8.6 AUDIT OPINION

We have audited the consolidated financial statements compiled by Beate Uhse Aktiengesellschaft, Flensburg, consisting of the consolidated balance sheet, the consolidated income statement, the statement of changes in group equity, the consolidated cash flow statement, group segment reporting and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2006. The compilation of the consolidated financial statements and the group management report in accordance with IFRS as applicable in the EU and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB) is the responsibility of the management board of the company. Our responsibility involves expressing an opinion on the consolidated financial statements and the group management report on the basis of our audit.
We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code (HGB), taking due account of the principles governing the proper auditing of financial statements promulgated by the German Institute of Auditors (IDW). These standards require the audit to be planned and executed in such a manner that any inaccuracies and infringements with a material impact on the depiction of the net asset, financial and earnings situation provided by the consolidated financial statements, taking due account of the applicable accounting standards, and by the group management report are identified with reasonable certainty. When determining the audit procedures, account was taken of our knowledge of the business activities and economic and legal environment of the group, as well as of expectations as to any possible errors. The effectiveness of the internal accounting controlling system and the evidence supporting the disclosures made in the consolidated financial statements and the group management report were examined within the framework of the audit, principally on the basis of trial samples. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the delineation of the reporting entity, the accounting and consolidation principles applied and the principal estimates made by the board of management, as well as an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably secure basis for our opinion.

Our audit did not give rise to any qualifications.

On the basis of the findings of our audit, it is our opinion that the consolidated financial statements are in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), and that they provide a true and fair view of the net asset, financial and earnings situation of the Group, taking due account of the aforementioned requirements. The group management report is in agreement with the consolidated financial statements and provides an accurate overall impression of the situation of the group and adequately presents the opportunities and risks relating to its future development.

Hamburg, 21 March 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jöns	Tuchen
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

9.1 FINANCIAL STATEMENTS OF BEATE UHSE AG 2005 / 2006

ASSETS

EUR 000s	2005	2006
Fixed assets		
Intangible assets	889	712
Property, plant and equipment	352	616
Financial assets	172,809	193,523
	174,050	**194,851**
Current assets		
Inventories	61	36
Receivables and other assets	45,801	41,090
Marketable securities	1,641	1,127
Cash on hand, bank balances	173	184
	47,676	**42,437**
Prepaid expenses	29	**31**
Deferred expenses due to tax relief expected in subsequent financial years	-	**2**
Balance sheet total	221,755	**237,321**

Shareholders´ equity and liabilities

EUR 000s	2005	2006
Shareholders´ equity		
Share capital	47,324	47,324
Capital reserve	87,522	87,522
Reserve for treasury stock	1,641	1,127
Retained earnings	14,652	10,194
	151,139	**146,167**
Accruals	3,589	**2,881**
Liabilities	67,027	**88,273**
Balance sheet total	221,755	**237,321**

INCOME STATEMENT OF BEATE UHSE AG

EUR 000s	2005	**2006**
Sales	1,624	**1,593**
Other operating income	2,057	3,556
Personnel expenses	-2,204	-2,308
Amortisation and depreciation of intangible assets and property, plant and equipment	-727	-622
Other operating expenses	-3,098	-2,984
Income from shareholdings	-3,348	2,307
Net interest expenses	-304	43
Result of ordinary activities	-6,000	**1,585**
Income taxes	-241	33
Other taxes	-2	-3
Net income for the year	-6,243	**1,615**
Profit brought forward	19,717	8,066
Withdrawals from reserve for treasury stock	1,178	514
Retained earnings	14,652	**10,195**

KEY INFORMATION ON THE BUSINESS PERFORMANCE OF BEATE UHSE AG

GENERAL INFORMATION

- 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.

BUSINESS PERFORMANCE IN 2006

- Beate Uhse AG collected EUR 4.8 million from its shareholdings and profit transfer agreements in 2006. This income was countered by the assumption of losses amounting to EUR 2.0 million.

- Income from shareholdings was reduced by an amount of EUR 0.5 million as a result of a decline in the share price of the treasury stock held at the balance sheet reporting date.

- Other operating income amounted to EUR 3.6 million. This mainly consisted of income of EUR 2.9 million from the sale of securities (recognition of income resulting from the sale of one million shares in erotic media ag to Premiere AG and the sale of shares in MobileActive Ltd., Australia, in the previous year) and of rental income (EUR 0.3 million).

- Long-term assets rose from EUR 174.1 million to EUR 194.9 million in 2006. This substantial increase was attributable to investments in the Group's new logistics structures. In this connection, Beate Uhse AG granted a loan of EUR 15.7 million to Beate Uhse BV, Walsoorden. The loan to Scala Agenturen BV, Almere, was topped up by EUR 2.2 million. There was a corresponding increase in financial assets at Beate Uhse AG.

- As a result of the taking up of loans in connection with these investments, liabilities at Beate Uhse AG rose by EUR 26.7 million to EUR 88.3 million

10.1 MULTI-YEAR SUMMARY – BEATE UHSE 1999 / 2006

EUR million		1999	2000	2001	2002	2003	2004 (IFRS)	2005 (IFRS)	**2006 (IFRS)**
Sales		116.4	163.5	222.8	244.5	265.6	273.1	284.8	**270.9**
EARNINGS PERFORMANCE									
EBITDA		15.4	21.0	21.3	30.1	31.5	26.8	32.1	**24.4**
EBIT		10.1	13.9	10.6	20.3	21.5	17.9	22.7	**14.8**
EBT		10.2	13.0	8.7	17.2	19.3	15.6	20.4	**12.0**
Net income*		5.1	9.6	2.2	9.5	9.9	8.7	14.4	**10.0**
FURTHER KEY EARNINGS FIGURES									
Return on sales after tax	%	4.4	5.9	1.0	3.9	3.7	3.2	5.0	**3.7**
FINANCIAL POSITION AND DIVIDEND									
Cash flow		-1.5	10.4	12.8	21.4	20.3	8.6	24.3	**16.9**
Cash on hand, cash at bank		14.3	8.2	14.8	13.9	8.3	9.2	6.8	**6.4**
Depreciation		5.3	7.1	10.7	9.9	10.1	9.1	9.5	**9.7**
Dividend distributed		0.9	4.2	6.2	0.0	4.7	4.7	0.0	**6.6**
COMPOSITION OF ASSETS AND EQUITY									
Total assets		145.8	132.0	169.4	169.1	181.2	187.2	189.7	**222.9**
Equity		105.6	63.9	60.3	64.6	67.8	67.8	83.6	**84.5**
Equity ratio	%	72.4	48.4	35.6	38.2	37.4	36.2	44.1	**37.9**
Long-term assets		–	–	–	–	–	105.7	111.6	**142.3**
Short-term assets		–	–	–	–	–	81.6	78.0	**80.6**
EXPENSES									
Personnel expenses		22.8	32.5	42.3	42.3	47.3	50.6	50.1	**48.3**
Cost of sales		–	–	–	–	–	110.9	109.1	**107.6**
Cost of distribution		–	–	–	–	–	130.4	142.6	**142.4**
OTHER INFORMATION									
Employees		722	905	1,173	1,251	1,344	1,477	1,523	**1,458**
Dividend per share	EUR	0.10	0.14	–	0.10	0.10	–	0.14	**0.00**
Cash flow per share**	EUR	0.32	0.23	0.26	0.46	0.46	0.35	0.49	**0.43**
Share price on 31 Dec.	EUR	19.00	14.00	11.98	11.35	13.25	10.48	6.10	**4.04**
Annual high	EUR	28.20	20.03	14.34	12.00	13.43	13.02	10.37	**6.95**
Annual low	EUR	12.52	11.00	8.10	8.65	8.90	10.05	5.80	**4.00**
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	**47,323,696**
Market capitalisation total		803.9	577.5	563.7	534.8	623.0	495.0	288.7	**191.2**

*From 2004: net income of ongoing business divisions

**From 2002: cash flow per share based on growth cash flow

10.2 FINANCIAL CALENDAR 2007

3-month report 2007	14 May 2007
Annual general meeting 2007	25 June 2007
6-month report 2007	14 August 2007
9-month report 2007	14 November 2007
End of financial year	31 December 2007

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The 2006 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

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