beate uhse

BEATE UHSE AT A GLANCE

EUR million		2006	**2007**	Change %
SALES PERFORMANCE				
Retail		86.5	**82.7**	-4.4
Mail Order		113.8	**109.2**	-3.9
Wholesale		54.7	**59.8**	9.3
Entertainment		16.0	**16.3**	1.8
Holding Services		0.0	**0.0**	0.0
Total sales		270.9	**268.0**	-1.1
International share of sales	%	61.6%	**62.5%**	1.5
RESULTS				
EBITDA		24.4	**15.7**	-35.7
EBIT		14.8	**-4.4**	-129.8
EBT		12.0	**-7.9**	-165.8
Net income of ongoing business divisions		10.0	**-13.2**	-231.1
OTHER EARNINGS INDICATORS				
Return on sales before tax	%	4.4	**-2.9**	-166.6
Return on sales after tax	%	3.7	**-4.9**	-232.5
Return on equity	%	11.9	**-19.8**	-266.9
Gross profit margin	%	60.3	**56.4**	-6.4
FINANCIAL SITUATION				
Cash flow from operating activities		16.9	**13.4**	-20.6
Investments		39.5	**13.9**	-64.8
Depreciation		9.7	**20.1**	107.3
Dividend paid		6.6	**4.7**	-28.6
BALANCE SHEET DATA				
Total assets		222.9	**183.4**	-17.7
Shareholders‘ equity		84.5	**66.4**	-21.4
Equity ratio	%	37.9	**36.2**	-4.5
Non-current assets		142.3	**106.0**	-25.5
Current assets		80.6	**77.4**	-3.9
OTHER DATA				
Employees	total	1.458	**1.414**	-3.0
Personnel expenses		48.3	**50.3**	4.2
Cost of sales		107.6	**116.7**	8.5
Cost of distribution		142.4	**136.4**	-4.3
SHARES				
Number of shares		47,323,696	**47,323,696**	0.0
Closing price	EUR	4.04	**1.82**	-55.0
Annual high	EUR	6.95	**5.80**	-16.5
Annual low	EUR	4.00	**1.79**	-55.3
Earnings per share	EUR	0.21	**-0.29**	-238.1
Cash flow per share	EUR	0.43	**0.13**	-69.8

beate uhse
ANNUAL REPORT 2007

CONTENTS

SEX MAKES HISTORY

around 1900
brothels to be found almost everywhere

1904
vibrators used for the first time

1915
first American porn film

around 1930
USA overtakes France in porn film production

pin-up-Girls

1946
Beate Uhse launches her mail order business with "Schrift X"

1953
first Playboy

1961
1 million customers shop at Beate Uhse

1962
Beate Uhse opens the world's first sex shop

1975
approval of regulated pornography in Germany

1991
Beate Uhse establishes online business

1996
Beate Uhse Erotica Museum opens in Berlin

1999
Beate Uhse AG goes public

around 2000
cable and satel-lite broadcasters accept porn pro-grammes

2001
company founder Beate Uhse dies

2002
Beate Uhse gets a new logo

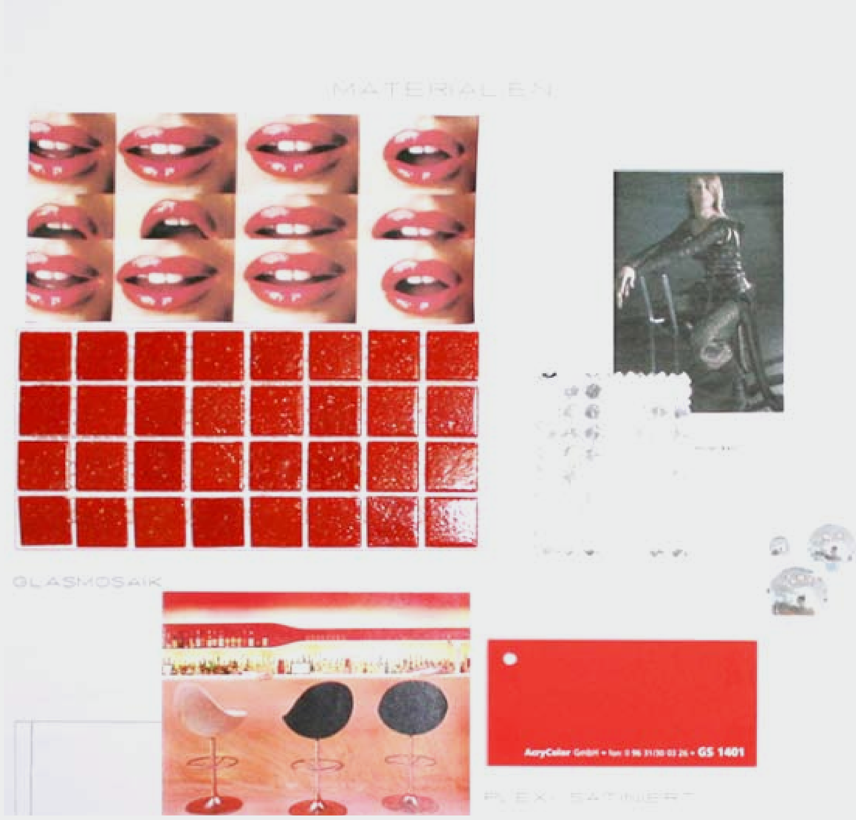
2007
grand opening of Beate Uhse's first premium erotica shop in Munich

2008
Beate Uhse launches the first officially tested sex toys exclusively onto the market

1900 1920 1940 1960 1980 2000 2010

THE PREMIUM SHOP DESIGN SCHEME

1 stylish, young, modern, CI colours red and dark red



The premium shop concept opens up a new dimension in erotic shopping. The shop has four departments tailored to meet different interests – wellness and fun products, lingerie and stockings, erotic literature and films, fetish, latex and leather. One absolute novelty - the changing rooms have been given a boudoir look with individually selectable lighting ambiences.

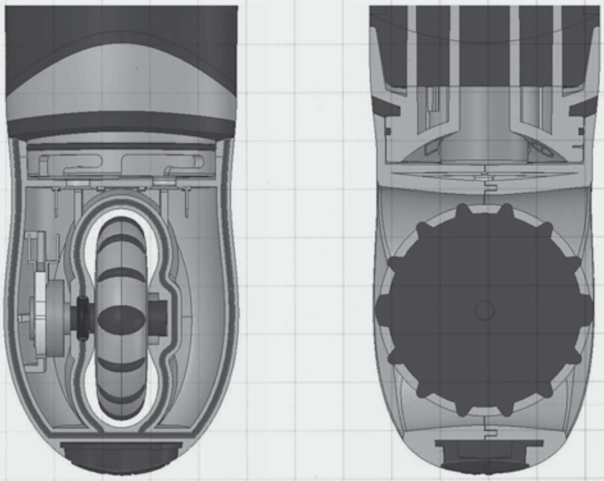
2 boudoir look, homely character, wallpaper, black-white look

THE NEW TOY GENERATION

Kind to the skin
and non-allergenic

The new collection of sex toys offered under the Mae B. brand – combining stylish design and high-quality materials. The silicon recipe has been developed specially for this line. The first toys with a seal of quality! A lot of thought has gone into their construction. The freestanding rotating wheel is ergonomically fitted and works without any complicated electronics. So it couldn't be easier to use.

steplessly
adjustable



Quality-tested
and waterproof

LETTER TO THE SHAREHOLDERS

Dear Ladies and Gentlemen,
Dear Shareholders of Beate Uhse AG,

Looking back in future, this year will be an important marker in the company's history. Never in the history of the company to date have such fundamental and far-reaching decisions been taken. Never has their implementation been of such inherent importance to the positioning and strengthening of our company in a market which is subject to equally sweeping change as the company itself.

The erotica market is undergoing a process of fundamental change. Whereas erotica used to be dealt with as a taboo subject and sex shops remained a no-go area for many people, today's society now accords to erotica precisely that level of acceptance for which the founder of our company, Beate Rotermund, campaigned so vehemently during her lifetime. This development has the positive effect that completely new customer groups have arisen with a high degree of affinity for erotica. This provides us with highly interesting target group potential, potential which we commissioned Matthias Horx, a well-known future trend researcher, to define on our behalf. Based on his assessment, these target groups encompass around 25 million people in Germany – young couples keen to experiment, modern and self-confident women, fitness-conscious singles and couples, as well as the rapidly growing 50 plus generation on the one hand and adolescents growing up to be our future customers on the other. These target groups are our customers of tomorrow. We will focus on meeting their desires and needs with trendy products and customised concepts available at all marketplaces – whether on the internet, via mail order or on location in shopping centres.

We will be more present than ever. By drawing on the expertise we have built up with our employees in many countries over many years, combined with modern marketing and sales techniques, we will enhance our competitiveness and maintain our market position.

We have made intensive use of the past year to analyse the market and revise our structures. Together with our managers, we have developed strategies and discussed these with competent advisors. This has all cost time and energy – even more time and energy will be required to implement this, probably the most comprehensive change process ever undergone by our company. We therefore owe our special thanks to our employees for their loyalty, their above-average dedication and their ongoing commitment in accompanying us along this way.

THESE ARE OUR CLEAR TARGETS:

We will realign our organisational structures and reduce our costs in order to serve the market and our customers quickly and efficiently with lean structures and pooled functions.

By expanding our e-commerce activities, we will position our mail order business as a digital marketplace for erotica goods and will introduce customised home shopping portals to attract and retain new customer groups.

chapter 1

otto christian Lindemann (49), Spokes-
man of the Management Board and CFO

"This is my eighth year on the Management Board of the company and I accord great priority to representing the Group and the Beate Uhse brand professionally to the financial community in my role as CFO and to the general public in my role as Spokesman of the Management Board. I look forward to continuing my dialogue with you, the shareholders, analysts, investors and financial journalists, in 2008, and to helping to shape the future of this company."

"I informed you at the 2007 Annual General Meeting of my intention of retiring from the Management Board after nine active years. I am pleased that a competent successor has now been found to assume the management of the Group's operating business. Serge van der Hooft is a real Beate Uhse insider who, notwithstanding his youth, has a wealth of experience in the erotica business. I would be glad if you were to place the same degree of trust in him which you have shown towards me in the past years."

Gerard Cok (59), COO

Serge van der Hooft (30), COO
since 1 January 2008

"I am fully aware of the great responsibility I have assumed towards you, our shareholders, in my new role on the Management Board of Beate Uhse AG. I assure you that you can depend on my absolute commitment towards bringing this company right back to the very top. I am convinced that we have the potential to post pleasing results – both in the near and more distant future. We will all benefit from the fruits of this."

We will streamline our store network and focus on two seminal concepts – premium erotica shops and fun centers.

By developing innovative products under our own private labels, we will set new quality standards in the market.

WHAT WE HAVE ALREADY ACHIEVED:

We have eliminated the consequences of the water damage suffered at our mail order centre and fully re-established our supply capacity.

With the opening of our flagship store in Munich, we have laid the foundation for the new generation of premium erotica stores and already converted two further shops in line with this model.

We have improved the cost and service situation at our German call centre by outsourcing customer service and mail processing activities.

We have successfully completed the capital increase and thus created the entrepreneurial scope and financial basis to implement our restructuring programme.

We would like to thank you, our shareholders, for the support you gave us for this capital-related measure by exercising your subscription rights. In view of the unsatisfactory performance of our share price, which will have affected your personal budgets, we are all the more appreciative of the trust you have placed in us. We share your dissatisfaction in this point. We are channelling all of our efforts into re-stabilising the company, and thus also its share price. We are absolutely convinced of the strength and vigour of Beate Uhse, as well as of the effectiveness of our strategies and plans, which also stand to be honoured by the capital market in the longer term.

We are especially pleased with the decision taken by the Supervisory Board to appoint Serge van der Hooft, a young manager from among our own ranks, to the Management Board. His practical experience, which will still be fresh in his mind, will enable him to offer valuable support to our Management Board team.

With our very best wishes.

Yours faithfully,

Lindemann

Otto Christian Lindemann

Gerard Ph. Cok

chapter 2

COMMITMENT

2.1 THE BEATE UHSE FOUNDATION IN FLENSBURG

The company has its roots in educating and enlightening people rather than as a profit-making enterprise. Beate Uhse, the company founder, made it her business to inform women in post-war Germany about birth control. By calculating women's infertile periods using the Knaus Ogino method, which she mailed out as "Schrift X", she laid the foundations for her mail order business. While her company prospered, allowing others to participate in her success was always a matter close to her heart. Since her death in 2001, the "Beate Uhse Foundation in Flensburg" has upheld her legacy, looking after people in situations of need, especially women, across the whole of Schleswig-Holstein – the state where she herself had found a home for her company after arriving as a war refugee with her son. The list of projects supported by the Foundation is impressive. In 2007 alone, it provided financial support to 27 organisations and individuals, including Konkret e.V., Pony Power e.V., the MS self-help group Breiholzer Hof, Sail Adventure e.V. and the Jewish community in Flensburg. Here we will mention two projects which illustrate the work of the Foundation and which can be taken as examples of the many good deeds it performs. Ms. Schulz from N. was enabled to complete her therapy at the Specialist Institute for Applied Psycho-Traumatology. She successfully mastered her severe crisis and is now firmly back in the working world. Ms. Yildiz from L., a single mother with two children, also found her way back into the world of work. During her childhood she had herself been the victim of psychological and physical violence and fled into drug addiction, which she overcame following successful therapy. The Foundation supported her in her journey back to normal life. By financing her driving lessons, the Foundation enabled Ms. Yildiz to take on a job as a driver for a care facility.

2.2 THE BEATE UHSE GROUP

The Beate Uhse Group is itself also involved with society on numerous levels, especially at the company's headquarters in Flensburg. The famous Flensburg fjord has on two occasions provided the backdrop for water sporting events held under the ensign of Beate Uhse. At the initiative of Philipp Rotermund, a grandson of the company founder, the Beate Uhse Memorial Prize was contested with 16 Star Boats for the third time already in June. In August, 21 employees channelled all their sporting spirit into representing "their company" in the 4th Dragon Boat Race. Meanwhile, our Dutch colleagues have literally been running to advertise the company, regularly participating in running events such as the Amsterdam Marathon sporting their red T-shirts with the slogan "fast and sexy". It goes without saying that the company has supported the commitment shown by its employees at all of these events. Not only that, Beate Uhse has itself also hosted some well-attended events which have become established as a popular meeting place for representatives from the worlds of business and the media. The focus of interest in January was the grand opening of the flagship store in Munich, while in December the well-known future trend researcher Matthias Horx presented the "Sexstyles 2010" erotic trends study to more than 100 guests. The locations were just as trendy as the study – business-like in the East Hotel in Hamburger and stylish in Munich's Nektar Lounge.

WE GET INVOLVED

16 star boats on the fjord

Absolute comm
Uhse Memorial

in Amsterdam –
fast ...

...and sexy

Dickey – our mascot

self-tailored costume

ready to go!

Chapter 2

An eye-catcher: Living Dolls

in the media spotlight – the flagship store in Munich

Gripping accessor

On display – the new toys

Talking about the future: Otto Christia
Lindemann with Matthias Horx

Professional designer Heinrich Brüggemann with his creations

SUPERVISORY BOARD REPORT

DEAR LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

Beate Uhse AG can look back on a highly eventful year. During the past financial year, we addressed the plans to reorganise the Group, the capital increase resolved in 2008 and the succession to COO Gerard Cok in the Management Board. Even though the 2007 financial year was not satisfactory in operating terms, we believe that the implementation of the consolidation and modernisation programme has laid the foundations to react with suitable measures to the change in market requirements and to provide the company with new structures to face this transformation.

3.1 SUPERVISORY DUTIES AND METHODS

During 2007, the Supervisory Board performed all duties required of it by law, the Corporate Governance Code and the Articles of Association. We accompanied the work of the Management Board in an advisory capacity and monitored the management of the company. The Management Board provided us with regular detailed information about the strategy, performance and significant business transactions of the Group, as well as about the resultant opportunities and risks. We were involved in all major decisions taken by the company.

In addition to its regular reports at meetings, the Management Board also informed us in monthly reports of the current performance of Beate Uhse AG. We were also provided with written reports notifying us promptly of major business transactions. To the extent required by law and the Articles of Association, the Supervisory Board voted on all reports and draft resolutions submitted by the Management Board. We voted on a total of eight draft resolutions during the period under report. Among others, these involved the sale of shares in erotic media, the sale of the buildings in Walsoorden and at Pferdewasser in Flensburg and the increase in the shareholding in Lebenslust GmbH.

As Chairman of the Supervisory Board, I personally took part in a regular exchange of ideas and information with the Management Board. The Management Board informed me of major events, especially in the run-up to and following meetings of the Supervisory Board, but also outside the framework of such meetings, and we discussed the current situation of the company.

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

The Board held a total of four meetings in the past financial year, namely on 26 March, 24 June, 24 September and 11 December. No member attended fewer than half of the meetings. Two meetings took place with the entire Board. On one occasion one member was absent and on another occasion two of the members were not able to attend..

The current sales and earnings performance of the Beate Uhse Group and the individual segments, as well as the future strategic alignment of the Group, formed part of the deliberations at all meetings of the Board. In particular, the Group's financing situation and budgeting, as well as its early risk identification, were discussed in detail at every meeting.

Our meeting on 26 March 2007 focused on the adoption of the 2006 consolidated and annual financial statements, which were unanimously approved by the members in the presence of the auditor. Apart from this, the agenda also included the search for investors and the invitation to the Annual General Meeting.

Preparations for the Annual General Meeting also formed the core of the meeting held on 26 June. Moreover, we also dealt with several personnel-related matters, including the organisation of the succession to Gerard Cok. Furthermore, on this occasion the Management Board also informed us of the current implications of the water damage suffered at the mail order business.

The topics deliberated at our meeting on 24 September included our future financing concept and ongoing talks with banks. We also discussed the establishment of a central marketing department, DVD pricing policies, the Daring project and name policies for the various store types.

The principal agenda item at the December meeting was the budget for the coming financial year. The Board discussed the planned capital increase and the impact of the restructuring programme on the 2008 budget in detail. Moreover, at this meeting the Supervisory Board appointed Serge van der Hooft to succeed Gerard Cok on the Management Board. Furthermore, the sale of Fun Factory was also discussed and then unanimously approved by the Supervisory Board. Over and above this, the final meeting of the year also adopted the Declaration of Conformity with the German Corporate Governance Code and established a Nomination Committee.

3.3 COMMITTEE WORK

The Supervisory Board of Beate Uhse AG has four committees – the Audit Committee, Personnel Committee, Investment and Budgeting Committee and the Nomination Committee established at the December meeting.

The Audit Committee met on two occasions in the past financial year in order to prepare the meeting of the Supervisory Board which approved the financial statements. The Personnel Committee held three meetings to address the succession to Gerard Cok. The Investment Committee met once in conjunction with a full Supervisory Board meeting to discuss the sale of the Walsoorden and Am Pferdewasser properties.

3.4 CORPORATE GOVERNANCE

Beate Uhse AG supports the objectives of the German Corporate Governance Code and is committed to high-quality corporate governance. There were no conflicts of interest on the part of Supervisory Board members. A list of all positions held by members of Beate Uhse's Supervisory Board can be found in the notes to the financial statements on Page 122.

The company has complied in full with the recommendations newly included in the German Corporate Governance Code, including the establishment of a nomination committee. Moreover, Beate Uhse AG has also met a further recommendation of the Code and, apart from two points, now complies with the Code in full.

3.5 AUDIT OF THE ANNUAL FINANCIAL STATEMENTS OF BEATE UHSE AG AND OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2007 FINANCIAL YEAR

The 2007 Annual General Meeting appointed Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Hamburg, as auditors for the 2007 financial year. In the run-up to the AGM we obtained a statement from the auditors outlining the extent of any business or personal relationships to the company. This statement provided no cause for objection. Ernst & Young provided the Audit Committee with regular reports as to the status of the audit. Upon the conclusion of the audit, the auditor granted unqualified audit opinions for the financial statements for the 2007 financial year.

All members of the Supervisory Board were provided with the annual and consolidated financial statements, as well as the audit report, in advance of the meeting held to approve the financial statements on 25 March 2008. The financial statements were discussed in detail at this meeting. The auditor outlined the audit focuses and was available to answer questions. We acknowledged and agreed with the results of the audit undertaken by Ernst & Young. Following our own detailed audit of the annual financial statements, the management report, the consolidated financial statements and the group management report, we endorse the findings of the auditor. The Supervisory Board approves the annual and consolidated financial statements compiled by the Management Board. The annual financial statements are thus adopted.

It is to be proposed to the Annual General Meeting on 16 June 2008 that the net loss reported by Beate Uhse AG for 2007, amounting to Euro 11,095,044.26 million, be carried forward.

3.6 PERSONNEL MATTERS

Gerard Cok, a member of the Management Board, announced at the 2007 Annual General Meeting that he would like to retire from active professional life and thus from his position on the Management Board. We therefore appointed Serge van der Hooft as the new member of the Management Board with effect from 1 January 2008. Gerard Cok will remain in office for a transitional period. We thank Gerard Cok for his longstanding commitment and dedication to the company. He played a key role in shaping and pressing ahead with the expansion of Beate Uhse.

3.7 THANKS TO THE EMPLOYEES AND MANAGEMENT

We should like to thank all employees of Beate Uhse AG and all group companies, as well as the Management Board, for their work in the past financial year. Notwithstanding the company's difficult situation at present and the numerous changes currently underway, they give of their best on a daily basis. Their great commitment and superb achievements will enable the upcoming restructuring measures to be implemented successfully and ensure that the current financial year turns out to be a better one.

Flensburg, 25 March 2007

Yours faithfully,

Ulrich Rotermund
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

Beate Uhse AG continued to work on its corporate governance in the past financial year. By implementing Point 7.1.2 (deadlines for the compilation of consolidated financial statements), the company fulfilled a further recommendation of the German Corporate Governance Code (DCGK) compared with the previous year. The company has also complied in full with the amendments and new recommendations made by the Code as of June 2007. The retrospective comparison of the Declaration of Conformity submitted in 2006 with the corporate governance measures actually implemented did not lead to the identification of any deviations. Beate Uhse AG therefore now complies with all but two of the recommendations. The Declaration of Conformity for 2007 was adopted by the Supervisory and Management Boards at the Supervisory Board meeting held on 11 December 2007.

The company's Articles of Association were amended by the Annual General Meeting in two points (deadlines for AGM invitation, electronic mailing of information to shareholders).

4.1 SHAREHOLDERS AND ANNUAL GENERAL MEETING

As in previous years, in the run-up to the 2007 AGM the company enabled its shareholders to view and download all information of relevance to the meeting at Beate Uhse's homepage. The three countermotions received with regard to three agenda items were also published without delay on the company's corporate homepage. The resolution adopted by the 2007 AGM means that the company is also entitled in future to forward all necessary information to its shareholders rapidly and conveniently via e-mail. At the Annual General Meeting held in Hamburg on 25 June 2007, the Spokesman of the Management Board, Otto Christian Lindemann, presented the past financial year and the company's strategy to around 500 shareholders, bank representatives, journalists and guests. The shareholders present represented 71.04 percent of the company's share capital. All of the eight agenda items put to the vote were approved with large majorities of more than 99 percent in each case. Following the AGM, the company made the presentation given by the Spokesman of the Management Board available to the general public in both written form and as a video clip on Beate Uhse's homepage. Moreover, the words of welcome given by the Chairman of the Supervisory Board, Ulrich Rotermund, were also published, as was the personal announcement made by the COO, Gerard Cok, with regard to his retirement. Due to efficiency considerations, the company forewent the suggestion made by the DCGK that the entire AGM be published on the internet.

4.2 COOPERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The cooperation of the Management Board and the Supervisory Board is reported in detail in the Supervisory Board Report. As in previous years, the meetings of the Board can be prepared jointly or separately by the respective shareholder and employee representatives on the Supervisory Board. Meetings of the Supervisory Board may also be held in the absence of the Management Board, a measure which was not necessary in the 2007 financial year. Beate Uhse thus complies with a suggestion made by the DCGK (Point 3.6).

4.3 MANAGEMENT BOARD

The compensation system in place for the Management Board is presented in detail in the group management report on Pages 45 to 46. The basic features of this compensation system remained unchanged in 2007. The company deviates from Point 4.2.3 of the Code in respect of Management Board compensation, given that Gerard Cok, a member of the Management Board, is for historic reasons paid a consulting fee rather than a salary. Details of this have also been included in the compensation report.

The Supervisory Board appointed Serge van der Hooft as a new member of the Management Board as of 1 January 2008. The succession for Gerard Cok, who will remain in office for a transitional period, has therefore been resolved.

There were no changes in the Code of Procedure of the Management Board in 2007. No conflicts of interest arose during the year under report. It remained the case in 2007 that no member of the Management Board held any positions in supervisory boards or comparable bodies.

4.4 SUPERVISORY BOARD

The 2007 AGM elected Gelmer Westra as a full member of the Supervisory Board (shareholder representative) for a term expiring with the AGM ratifying the actions of the Supervisory Board for the 2008 financial year. This by-election was made necessary by Nicolaas Bootsma retiring from his position on the Supervisory Board as of 25 June 2007. The Supervisory Board would then have had only five members, rather than the total of six members required by the Articles of Association.

The focus of the Board's work and the activities of the individual committees are described in detail in the Supervisory Board Report on Pages 12 and 13. Beate Uhse AG complies with all of the Code's suggestions with regard to the establishment of committees (chairman of audit committee, reference of specialist topics, preparations and decisions on behalf of the full supervisory board).

In line with the One-Third Participation Act and the Articles of Association, the Supervisory Board of Beate Uhse AG comprises two employee representatives and four shareholder representatives. Based on its own assessment, the Supervisory Board includes an adequate number of autonomous members. The Chairman of the Supervisory Board, Ulrich Rotermund, is at the same time a major shareholder in the company. Gelmer Westra is a partner of CROP registeraccountants and belastingadviseurs maatschap, a company which receives consulting orders from the Beate Uhse Group to provide tax advice to Beate Uhse's Dutch subsidiaries. Michael Papenfuß and Martin Weigel do not have any business or personal dealings with the Beate Uhse Group or its Management Board.

The compensation report for the Supervisory Board is presented in detail in the group management report on Page 46. No conflicts of interest arose among board members in the 2007 financial year.

The Supervisory Board reviews the efficiency of its activities once a year on the basis of a checklist. This checklist enables the Board to record and assess its activities and their efficiency and, if necessary, to derive any subsequent recommendations for action. The company 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.

4.5 TRANSPARENCY

Beate Uhse AG publishes all information and reports relevant to its business activities regularly and in good time. Two ad-hoc announcements were issued in the 2007 financial year, thus meeting the legal requirement that insider information be made available to the entire capital market without delay.

Beate Uhse AG published the following voting rights notifications pursuant to Sec. 26 of the German Securities Trading Act (WpHG) during the year under report:

Content	Date
Philipp & Reuben Rotermund GmbH & Co. KG exceeds 3 % of voting rights (16.03.2007)	19 March 2007
Beate Rotermund GmbH & Co. KG falls short of 3 % of voting rights (16.03.2007)	19 March 2007
Rotermund Handels- und Verw. Ges. mbH & Co. KG exceeds 5 % of voting rights (27.06.2007)	2 July 2007
Ulrich Rotermund Verw. Ges. mbH exceeds 5 % of voting rights (27.06.2007)	2 July 2007

The following directors' dealings were reported to Beate Uhse AG and published at www.beate-uhse.ag in 2007:

Name	Function	Date of Trade	Trade	No. of Shares	Value in EUR
Jan A. A. Boddaert	Other management	09.02.2007	Purchase	10,000	57,000.00
Jan A. A. Boddaert	Other management	09.02.2007	Sale	10,000	57,000.00
Rotermund Holding AG	Legal entity	07.02.2007	Sale	1,050,000	5,250,000.00
Ulrich Rotermund	Supervisory Board	01.05.2007	Sale	79,713	358,708.50

The financial calendar for 2007, including all company dates of relevance to the capital markets, was published in December 2006. All of Beate Uhse's publications, from annual and quarterly reports, through ad-hoc announcements and press releases to the company's homepage, are published in both German and English and are thus available to a wide public.

4.6 ACCOUNTING

The financial calendar for 2007, including all company dates of relevance to the capital markets, was published in December 2006. All of Beate Uhse's publications, from annual and quarterly reports, through ad-hoc announcements and press releases to the company's homepage, are published in both German and English and are thus available to a wide public.

4.7 AUDITING

In line with the proposal made by the Supervisory Board, the 2007 Annual General Meeting appointed Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Hamburg, as auditors for the 2007 financial year. The audit assignment was issued by the Supervisory Board following the AGM. The Supervisory Board had already informed itself in advance of the personal and business relationships of the auditor to the company. These provided no grounds for objection.

4.8 DECLARATION OF CONFORMITY PURSUANT TO SEC. 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Supervisory and Management Boards of Beate Uhse AG support the objectives of the German Corporate Governance Code (version dated June 2007) in respect of 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 Declaration of Conformity dated December 2006, the company has fulfilled further recommendations made by the Code. Those recommendations where Beate Uhse AG deviates from the Code have been outlined below.

Flensburg, 11 December 2007

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

I. The following points relate to further recommendations implemented by the company since submitting its Declaration of Conformity in December 2006 and the updates contained in the version of the Code dated June 2007 (compared with the version dated June 2006):

2.3.2 – Electronic mailing of AGM convention documents: The 2007 Annual General Meeting authorised Beate Uhse AG to convene the AGM and to mail the documents relating to the convening of such meeting to German and foreign financial service providers, shareholders and shareholders' associations by electronic means. Beate Uhse AG now therefore complies with this Point.

5.3.3 – Formation of a Nomination Committee: The Supervisory Board of Beate Uhse AG has complied with the recommendation newly included in the Code and has established a Nomination Committee which consists exclusively of shareholder representatives and which will propose suitable candidates to the Supervisory Board for its election proposals to the Annual General Meeting.

7.1.2 – Deadlines for the compilation of the consolidated financial statements: The 2006 annual financial statements of Beate Uhse AG were published on 30 March 2007, thus meeting the requirements of the DCGK (90 days following conclusion of period). The quarterly reports also met DCGK standards, which require these to be published within 45 days of the conclusion of the period.

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

The Chairman of the Supervisory Board informed the 2007 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.

7.1.4 – 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 company names, headquarters, percentage shareholding and type of consolidation for these shareholdings. Due to competitor surveillance considerations, the additional disclosures required by the DCGK (amount of equity, operating result in past financial year) have not been published.

THE SHARE

5.1 PERFORMANCE

The German share indices were characterised by a high degree of volatility in 2007. The capital market benefited in the first half of the year from the pleasing macroeconomic climate and optimistic economic forecasts, but the emergence of the US subprime crisis in the second half of the year led to significant corrections, particularly among small caps. While the DAX concluded 2007 up 22 percent, the SDAX index for smaller stocks reported a downturn of 7 percent. The considerably weaker performance of Beate Uhse's share was chiefly due to the company's operating performance. In particular, the share witnessed a substantial correction following the announcement of the consolidation programme and the resultant reduction in the forecast. Over the year as a whole, the share price fell by 55 percent. The closing price at the end of December 2007 amounted to Euro 1.82, as against Euro 4.06 in the previous year.

SHARE PRICE PERFORMANCE 2006 / 2007

		2006	**2007**	% change
Opening	EUR	6.02	4.05	-32.72
Closing	EUR	4.04	1.82	-54.95
High	EUR	6.95	5.80	-16.55
Low	EUR	4.00	1.79	-55.25
Average	EUR	5.60	3.71	-33.75
Performance	%	-32.90	-68.62	–

Source: Xetra, Deutsche Börse

5.2 EARNINGS PER SHARE

The Beate Uhse Group generated earnings per share (EPS) of Euro -0.29 in the year under report, compared with Euro 0.21 in 2006. Earnings per share are calculated pursuant to IAS 33 on the basis of 47,042,245 shares. No dilution effects arose due to the exercising of options during the year under report.

EARNINGS PER SHARE 2006 / 2007

		2006	**2007**
Net income for the period	EUR million	10,040	-13,161
Number of shares (diluted)		47,042,391	47,042,425
Number of shares (undiluted)		47,042,391	47,042,425
Earnings per share (diluted)	EUR	0.21	-0.29
Earnings per share (undiluted)	EUR	0.21	-0.29

KEY SHARE DATA 2006 / 2007

		2006	2007
Earnings per share		0.21	-0.29
P/E ratio		19	–
P/CF ratio		9.5	13.8
Quote / sales		0.7	0.3
Quote / EBITDA		7.8	5.5
Quote / book value		2.7	1.7
Book value per share		1.5	1.1
Share capital		47,323,696	47,323,696
Market capitalisation	EUR	191	86
Market capitalisation of free float	EUR	94	41
Average sales / day		21,823	53,267

Source: Xetra

5.3 DIVIDEND

In the past, Beate Uhse AG regularly enabled its shareholders to participate in the company's success in the form of a dividend. The company's distribution policy pursues the objective of distributing between 40 and 50 percent of earnings to shareholders. In view of the restructuring programme and the resultant annual net deficit, Beate Uhse will not be distributing any dividend this year, but will rather channel all of its efforts into implementing the upcoming measures. It is nevertheless planned to resume the customary distribution policy once again in the medium term.

DIVIDEND DISTRIBUTION 1999 / 2007

		1999	2000	2001	2002	2003	2004	2005	2006	2007*
Dividend per share	EUR	0.10	0.14	./.	0.10	0.10	./.	0.14	0.10	./.
Total dividend	million EUR	4.2	6.2	./.	4.7	4.6	./.	6.6	4.7	./.
Dividend payment	Date	5.8.00	26.6.01	./.	24.6.03	22.6.04	./.	20.6.06	26.6.07	./.

* proposal on appropriation of retained earnings

5.4 CORPORATE COMMUNICATIONS

Investor Relations was placed under the management of Corporate Communications as of 1 April 2007. This measure is intended to ensure clear and uniform communications for all target groups. During the past financial year, the company communicated closely with private shareholders, institutional investors, analysts, business journalists and the general public. All relevant reports and information were made available in good time. The Spokesman of the Management Board and CFO, Otto Christian Lindemann, personally presented the company's performance to institutional investors and analysts at the 2007 Consumer Day (Konsumtag) held by Close Brothers Seydler AG in Frankfurt on 25 April 2007. At the invitation of Deutsche Schutzvereinigung für Wertpapierbesitz, a German private investors' association, analysts attending the 5th

Bremen Share Forum on 12 July 2007 had the opportunity of talking directly with the CFO. Furthermore, Beate Uhse was represented both by Otto Christian Lindemann and by Assia Tschernookoff, Press Spokeswoman, as guest speakers at various events, such as those held at the Hamburg Indochina Club or the Stuttgart Marketing Club. Alongside their ongoing communication with the Investor Relations department, private investors were also able to obtain detailed information from the extensive Investor Relations section of Beate Uhse's homepage. This was relaunched to coincide with the publication of the 2006 Annual Report on 30 March 2007 and offers numerous new features. Whether they are potential or existing investors or media representatives, visitors to this site have rapid access to continuously updated information of relevance to their needs. One highlight of the company's communications was the Annual General Meeting, held at the traditional venue, the Neue Flora theatre in Hamburg, on 25 June 2007, at which the Management Board entered into dialogue with around 500 shareholders.

BASIC DATA

Emporiums	FSE, all German stock exchanges
Segment	Prime Standard
ISIN	DE0007551400
Company ticker	USE

5.5 SHAREHOLDER STRUCTURE

The company's shareholder structure was marked by continuity in 2007. The two major shareholders, Rotermund Holding AG and Consipio Holding BV, held 25.9 percent and 20.7 percent of the shares in Beate Uhse AG at the end of the year. Furthermore, Ulrich Rotermund VerwaltungsGesellschaft mbH held a 5.1 percent shareholding in the erotica company at 31 December 2007. The treasury stock of Beate Uhse AG amounted for 0.6 percent. The free float accounted for 47.7 percent of the company's shares.

At the beginning of 2007, Ulrich Rotermund, major shareholder and Chairman of the Supervisory Board, announced his intention of disposing of his shareholding in Beate Uhse AG. The aim is to find an investor willing not only to view the shareholding as a financial investment, but also to actively accompany the company in its future development and further growth. Several investors, including both strategic partners and financial investors, have expressed interest. The talks are currently still underway.

SEXSTYLES 2010

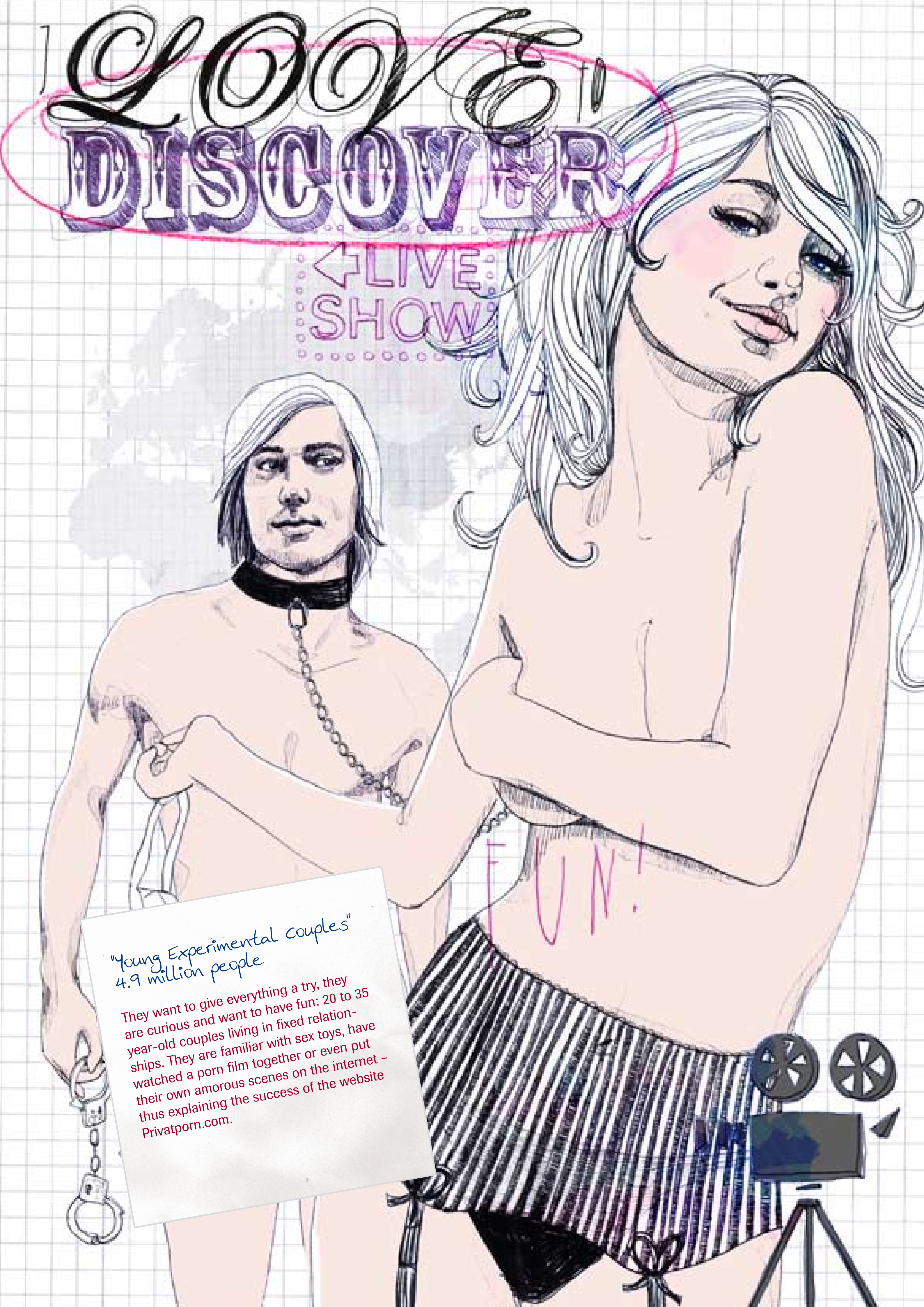
A trend analysis commissioned by Beate Uhse AG from Matthias Horx

SEVEN AVANT-GARDE LIFESTYLES

Sex is an important topic for people all round the world. What was still taboo in the 1940s and 1950s is now almost a game in today's hedonistic, adventure-loving society. The change in attitudes towards sex and erotica has also opened up new market opportunities and target groups for the erotica sector. Which lifestyles will be characteristic of tomorrow's world – that's what Beate Uhse has found out together with the famous sociological researcher Matthias Horx. In its "Sexstyles 2010" trend study, the Future Institute has analysed those trends which will show the way forward for erotic culture. The trailblazers are those people who have highly individualised lifestyles and life plans and who have consciously moved away from traditional roles. They are seen as pioneering those trends which will become tomorrow's mainstream. As avant-gardes and innovators, they provide the best indicators for new patterns of behaviour, needs and consumer habits. They are the "early adopters" of lifestyles which later change society. In his extensive investigation as to the role sex and erotica will play in all of this, Matthias Horx has identified seven new "sex styles", whose consumer potential in Germany alone is estimated at around 25 million people:

- **YOUNG EXPERIMENTAL COUPLES**
- **OVERLY INFORMED BEGINNERS**
- **HIGH PERFORMERS**
- **LOVER LADIES**
- **PLEASURE PARENTS**
- **SEX GOURMETS**
- **COOL CATS**

With its strong corporate brand, Beate Uhse will access these target groups with customised, individual offerings and products, thus boosting its leading position in a changing market.



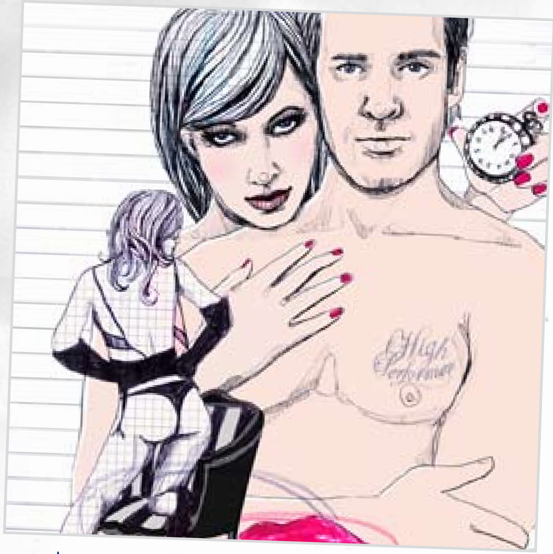
"Young Experimental couples"
4.9 million people

They want to give everything a try, they are curious and want to have fun: 20 to 35 year-old couples living in fixed relation-ships. They are familiar with sex toys, have watched a porn film together or even put their own amorous scenes on the internet – thus explaining the success of the website Privatporn.com.

They may boast that they know all there is to know about sex, but at their “first time” they are just as helpless as young people in the 1960s –today’s teenagers aged 14 to 20. They use chat rooms or agony aunts like Dr. Sommer in Bravo to ask whether they should send their girlfriend an SMS or write a letter.

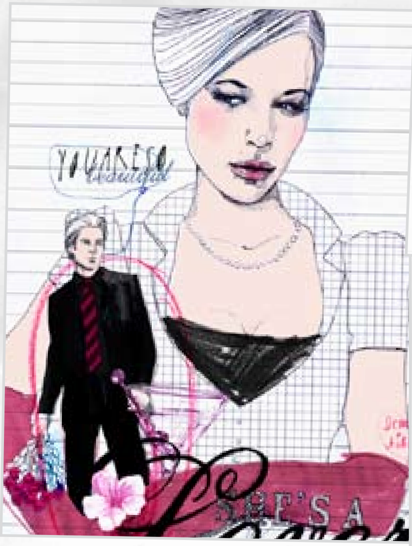
"Overly informed Beginners
3.4 million young people

You meet them at the gym – singles and couples aged between 30 and 50 who attach great importance to their appearance. For these high performers, sex and sex appeal represent important aspects of their leisure and consumer behaviour. Sex is their hobby, one which they aim to intensify and improve even further.



High Performers"
4.5 million people

The new type of woman over 40 is independent, ambitious and clever. In her love life, a lover lady expects extravagance, quality and style and is prepared to spend large amounts on erotic products and services meeting her standards of value and quality.



"Lover Ladies"
2.4 million women

"Pleasure Parents"
2.1 million men and women

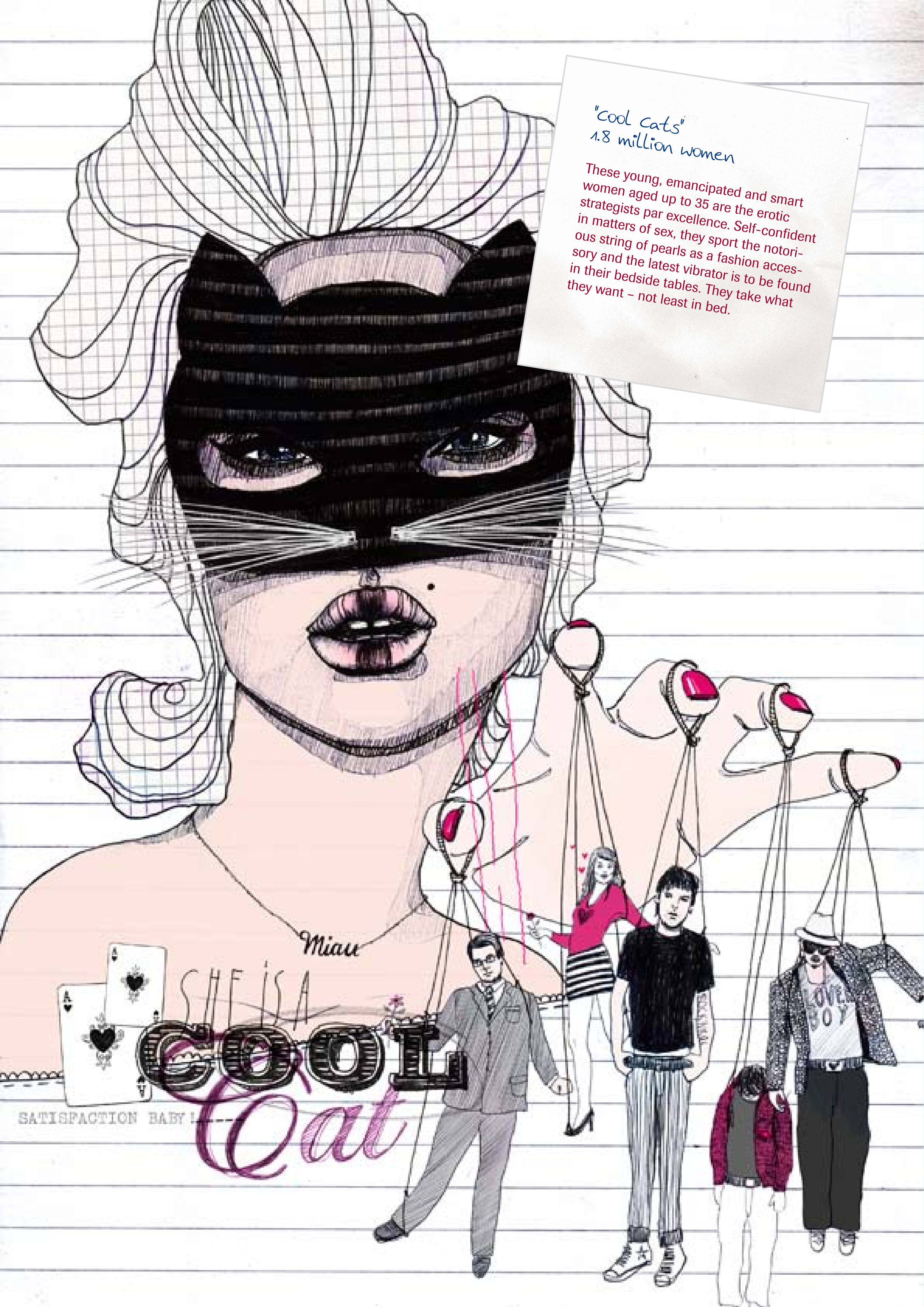
The lack of time and the balancing act between work and family commitments means that their love life has become a rare luxury – one which young parents aged 30 to 45 nevertheless have no intention of doing without. They plan their erotic escapes, spending them, for example, in hotels with childcare facilities. Their motto – good sex also makes for good parents!

"Sex Gourmets" — 6.2 million
people in the generation 50+

They have a wealth of experience – in sex as well as life – and they have no intention of doing without this as they get older: women and men aged over 50. As “sex connoisseurs”, they treat themselves to luxurious holidays in stylish hotels and enjoy a candle light dinner in an erotic ambience. This marks the beginning of the second, the “silver” sexual revolution.

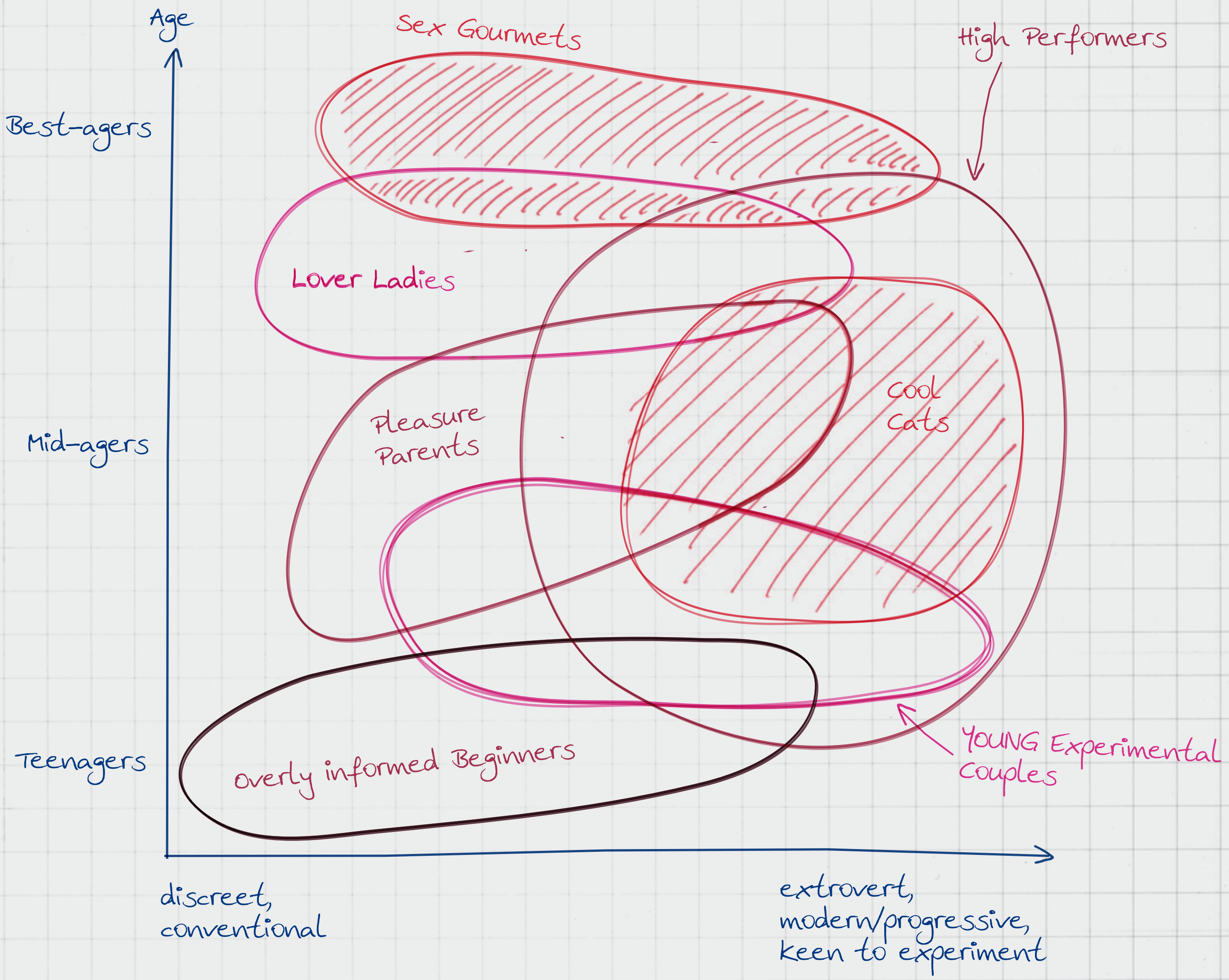
"cool cats"
1.8 million women

These young, emancipated and smart women aged up to 35 are the erotic strategists par excellence. Self-confident in matters of sex, they sport the notorious string of pearls as a fashion accessory and the latest vibrator is to be found in their bedside tables. They take what they want – not least in bed.



SEXSTYLES 2010

based on degree of consumer affinity for the erotica business



Source: Sexstyles 2010 – A trend analysis of the Future Institute commissioned by Beate Uhse AG

MANAGEMENT REPORT OF THE BEATE UHSE GROUP FOR 2007

6.1 BUSINESS BACKGROUND AND STRUCTURE

Economy, market and sector

According to the Kiel Institute for the World Economy (ifw), the global economy showed marked growth of 5.1 percent last year, thus growing at a pace similar to that seen in the previous year. This ongoing substantial upturn also failed to be affected by the more subdued economic climate at the end of the year resulting from the real estate crisis in the USA. Macroeconomic capacity utilisation rates in the euro area also witnessed a marked increase of 2.6 percent due to growth in gross domestic product (GDP). The Benelux countries, an important market for Beate Uhse, reported respectable GDP growth of 2.7 percent on average. The UK posted growth of 3.1 percent, while France lagged significantly behind at 1.9 percent. Remarkable rates of growth were reported by the East European economies. Poland and Russia achieved GDP growth of 6.5 percent and 7.3 percent respectively, while the Baltic states and several Balkan countries showed especially high rates of growth. In Bulgaria, for example, GDP grew by 6.3 percent, while Latvia even achieved growth of 10.5 percent.

Germany also reported a pleasing level of economic growth in 2007. Based on figures released by the Federal Statistics Office, German GDP was 2.5 percent higher than in the previous year, and that in spite of negative factors, such as the VAT increase at the beginning of the year and low consumer spending. The subdued level of consumer spending is due to the fact that take-home pay hardly rose at all, as well as to the simultaneous marked rise in food and energy prices. In November, inflation reached 3.1 percent and was thus higher than at any time since 1994.

In terms of the sector in which the company operates, it can be seen that the erotica market is in a process of transformation. Societal change, coupled with the ever wider distribution and use of new media, are altering the structure of supply and demand alike. Competition on the supply side is becoming increasingly intense; there are de facto no longer any barriers to market entry. New providers of sex toys and lingerie alien to the sector are penetrating the market on the one hand, while the DVD and film segment is hotly contested in the wake of increasing digitalisation on the other. Ever greater volumes of freely available content are coming on stream, exacerbating the competitive situation on the internet and for DVDs and the cabin business in the film segment.

On the demand side, the increasing acceptance of erotica within society means that the sector is facing new challenges. People are addressing sex with ever greater openness and are increasingly articulating their wishes and needs. Erotica and sex are becoming a consumer item. This provides the erotica sector with access to entirely new target groups. More specifically, women and couples, who previously did not form part of the target group of the erotica sector, are now among the customers of the future. It is now a question of accessing these groups with concepts and product offerings tailored to their needs – a challenge, but more than anything a decidedly major opportunity for the future.

chapter 6

Structures of the Beate Uhse Group

Beate Uhse Aktiengesellschaft is the parent company of the Beate Uhse Group and has been publicly listed since 1999. The Group includes 66 subsidiaries and shareholdings. Its most important locations alongside the company headquarters in Flensburg are in Almere and Walsoorden in the Netherlands. Beate Uhse AG acts as the holding company. Activities relating to the whole Group (accounting, controlling, finance, human resources, legal and communications) are centrally organised at the holding company. On an operating level, the Beate Uhse Group is represented in four segments in the erotica market. The mail order and retail businesses focus exclusively on the B2C business, while the wholesale and entertainment activities involve both B2C and B2B channels.

Beate Uhse currently has operations in 15 countries. Its main sales markets are still Germany (37.5 percent) and the Netherlands (17.9 percent), closely followed by France (16.6 percent). The German share of sales has fallen in the course of the Group's international expansion in favour of the share of sales reported by other European countries (EU 25). 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 company is the global market leader, with exports to more than 60 countries.

Via its various distribution channels, the Beate Uhse Group sells erotica products within the product groups of DVDs, lingerie, toys, wellness and personal care, preparations, condoms and books and magazines. All in all, Beate Uhse has more than 20,000 products on offer. The Group's entertainment division offers erotica contents via internet and telephony.

Employees

The Beate Uhse Group had a total of 1,414 employees as of 31 December 2007 and thus 44 fewer than at the previous year's reporting date (1,458). The reduction chiefly involved employees in the retail, mail order and holding services divisions. The decline by 28 in the number of retail employees is primarily due to store closures and to the reorganisation of administration and procurement departments in the Netherlands. With 828 employees, retail nevertheless remains the largest employer within the Beate Uhse Group. As a result of optimised logistics and administrative procedures, the mail order business also had 17 fewer employees at the end of the year under report than in the previous year. Employee totals in the wholesale and entertainment businesses benefited, by contrast, from the positive business performance of these two divisions. Within the wholesale division, two further employees were taken on at Scala BV in the Netherlands. The rise in the entertainment workforce by eight employees is due to the development of Daring! Employee totals at the holding services division were streamlined as a result of the internal restructuring programme.

EMPLOYEES AT THE BEATE UHSE GROUP

BY REGION	2006	2007	% change
Germany	716	695	-2.9
Netherlands	534	498	-6.7
Belgium	23	27	17.4
France	65	82	26.2
UK	8	7	-12.5
Austria	23	11	-52.2
Scandinavia	41	43	4.9
Italy	13	13	0.0
Other European Countries	35	38	8.6
	1,458	**1,414**	-3.0

BY SEGMENT	2006	2007	% change
Retail	856	828	-3.3
Mail Order	272	255	-6.3
Wholesale	217	219	0.9
Entertainment	69	77	11.6
Holding Services	44	35	-20.5
	1,458	**1,414**	-3.0

The personnel expenses of the Beate Uhse Group rose by 4.2 percent to EUR 50.3 million (2006: EUR 48.3 million) and thus amounted to 18.8 percent of sales (2006: 17.8 percent). Personnel expenses per employee amounted to EUR 35.6k during the period under report. Due to the provisions stated for compensation payments within the restructuring programme, this key figure was thus higher than the equivalent figure of EUR 33.1k for the previous year.

In 2007, the Group once again trained ten young people in five different occupations. Moreover, the entire sales team in Germany, including store managers and sales personnel, was trained in modern sales techniques.

chapter 6

Distribution channels

Strategic realignment of the retail business

The retail business of the Beate Uhse Group is active in eleven European countries operating under the brands of Beate Uhse, Christine le Duc, Adam & Eve and Kondomeriet. At the end of the year, the Group had 284 retail outlets, of which 159 were managed by the company and 125 by franchisees. As part of its reorganisation programme, the Group is subjecting the retail business to a thorough viability review and is restructuring its store network based on a location analysis. In future, the stores will be subdivided into two categories – premium shops and fun centers / specialist stores. The aim is to retain existing customer groups with store concepts focused to their needs while at the same time accessing new target groups. "Traditional" shops which cannot be classified into these categories, but which certainly occupy a worthwhile niche in the market with their fixed customer bases, will continue to be operated under other names (Dr. Müller or Erotic Discount Center).

The new premium shops target the customer groups of women and couples. With their stylish atmosphere and a product range focusing on lingerie and toys, these stores are intended to attract seminal customer groups to whom traditional sex shops do not appeal. A flagship store of this new generation was opened in Sendlinger Strasse in Munich in February 2007. Following a successful trial phase, the stores in Dortmund and Passau have now also been converted into premium shops. Those stores which are predestined for this premium concept on account of their inner-city locations are due to be converted to this concept on an ongoing basis.

The fun centers and specialist stores, by contrast, are targeted at a predominantly male clientele. These shops are mainly located in easily accessible business parks and at motorway intersections. Alongside lingerie and toys, their product range mainly focuses on DVDs and the cabin business.

The realignment towards premium shops and specialist stores in Germany is also to be implemented abroad in order to acquire new target groups. In line with the multilevel system, all stores in France have been converted to the adam & eve brand and have since benefited substantially from the high profile of this brand, which is well established in the mail order business. The focus in the Netherlands is on the Christine le Duc brand. All in all, a trend is discernible whereby the toy and lingerie product groups generate significant sales growth, while DVDs, previously a strong sales driver, are on the decline.

With its realignment, the Group has set new trends and standards in a new, changing market arising as a result of greater openness within society towards erotica. During the current restructuring programme up to 35 retail stores in Germany and the Netherlands are to be closed, sold or transferred to the franchising business. The streamlining of the store network was begun in the 4th quarter of 2007 already and continued on schedule in the 1st quarter of 2008.

BEATE UHSE SHOPS BY REGION

OWN SHOPS

	2006	%	2007	%
Germany	74	44.0	71	44.7
Italy	5	3.0	6	3.8
Switzerland	0	0.0	1	0.6
Netherlands	66	39.3	60	37.7
Belgium	11	6.5	10	6.3
France	8	4.8	7	4.4
Norway	4	2.4	4	2.5
	168	100.0	**159**	100.0

LICENCE & FRANCHISE

	2006	%	2007	%
Germany	57	34.6	57	45.6
Austria	42	25.5	42	33.6
Switzerland	38	23.0	0	0.0
Norway	5	3.0	4	3.2
Hungary	1	0.6	1	0.8
Poland	15	9.1	15	12.0
Slovenia	5	3.0	5	4.0
Italy	2	1.2	1	0.8
	165	100.0	**125**	100.0

Mail order business recovers as year progresses

The mail order business is the oldest division at Beate Uhse and also the Group's largest in terms of sales. Operating under the three brands of Beate Uhse, Pabo and Adam & Eve, this division publishes a main catalogue with more than 150 pages twice a year in five languages, as well as issuing additional seasonal offers.

The mail order business was severely affected in the past financial year by the after-effects of the water damage suffered at the new logistics centre at the Walsoorden location (Netherlands). Although the direct consequences could be remedied relatively quickly, the resultant loss of service due to late and incomplete deliveries to customers had longer-term implications. Great efforts were made to improve this situation. At Christmas, the most important period in the business, customers could count on their goods being delivered on time. Internet orders were handled in line with customary market standards, with immediate confirmations of availability and delivery dates communicated by e-mail, aimed at optimising the service level even further with the assistance of professional IT systems.

Even though the year as a whole was negative at the mail order business due to the water damage, demand was higher than expected in the fourth quarter, and during the Christmas season in particular, with both catalogue and internet orders ahead of expectations. The distribution of a Christmas catalogue with twice as many pages as in the previous year paid off, with sales growth of 50 percent. Particularly pleasing developments were seen in France (+6.9 percent) and in the Czech Republic, where work began in 2006 on developing the mail order business. In Germany, where sales had suffered a downturn during the year, demand also picked up significantly towards the end of 2007. The Austrian market posted a weaker performance than in the previous year.

Although a majority of orders were still received by post or fax (60.5 percent), there was a significant increase in the number of internet orders, which now make up almost a third of all orders. Telephone orders account for ten percent. The aim is to gradually expand home shopping via the internet in future, given that focused online shops enable the needs of individual target groups to be addressed very specifically. This also reduces costs compared with printed catalogues and corresponding advertising mail shots. Moreover, this order channel automatically facilitates a stock check, thus avoiding delays to deliveries and partial deliveries due to a lack of stock. Not only that, internet order handling requires less personnel input and is thus more cost-effective.

MAIL ORDER INFORMATION

Figures in millions	2006	2007
Main catalogues sent out	33.7	25.8
Orders	2.8	2.7
Packages dispatched	3.1	3.7

Wholesale relies on quality

With its constituent companies, Scala Agenturen B.V. and ZBF GmbH, Beate Uhse Wholesale is one of the world's leading wholesalers in the erotica market. The division supplies retailers in more than 60 countries with a range of around 20,000 products. The wholesale division is sharpening its focus on new target groups and high-quality products. Toys, lingerie and wellness products are already among its most important product groups. Under the Toyjoy label introduced in 2005, for example, the wholesale business now already sells a range of 400 sex toys.

The division's focus on high-quality sex toys will be promoted by the first toy line to be certified by the Technical Inspection Agency (TÜV), which will be launched exclusively at Beate Uhse in mid-March 2008 and is expected to appeal in particular to the increasingly important target group of women. In view of this, we have taken the conscious decision to use the Mae B. label specially developed for female customers when marketing this product line. In the mid-price segment, an erotica line is being developed with the name “69 Sex up your Life”. This line is mainly targeted at male customers.

The “Daring” label produces high-quality erotica films with the aim of setting new standards in the market in terms of quality. One series of films has already been published since October 2007. The films will be marketed via all distribution channels, from traditional DVDs to all new media platforms, such as the internet, web 2.0, video on demand, IPTV and mobile phones. The films produced by the new company, which has only formed part of the Beate Uhse Group since April 2007, have already been shown across the whole of Europe and in South Africa.

Entertainment on growth course

The entertainment division supplies erotica content to consumers via the internet or telephony (B2C business) and also provides commercial customers with services and erotica content for resale (B2B business). The market climate in the entertainment business is characterised by a wide variety of competition from German and foreign competitors. In view of this, the positive performance of the entertainment division is highly remarkable.

One highlight at the entertainment division in the past year was the internationalisation of the MovieOn streaming platform, which also includes movies in HD quality. This entertainment product was completely revised and adapted to make it suitable for international marketing. The offering is now available not only in German, but also in English, French, Dutch, Spanish and Italian.

The online division launched a new product in the form of IPTV at the end of 2007. This offers customers a free channel with soft films and reports. This is supplemented by a further channel with hardcore content, which can be used on a pay TV basis. Further soft and hardcore channels and a home shopping channel are currently in the preparation stage.

Our business with cooperation partners developed very positively. Our aim for the future is to further exploit the growth potential harboured by the B2B business and to press ahead with the international expansion of all entertainment products.

The Beate Uhse Group holds a 49 percent shareholding in BEATE-UHSE.TV, the only German TV broadcaster with a licence to broadcast soft erotica films. Programmes are transmitted in encrypted form via the "Premiere" subscription platform. By the end of the year, BEATE-UHSE.TV could be received in around 1.6 million households as part of the Premiere theme package or via individual subscriptions.

6.2 NET ASSET, FINANCIAL AND EARNINGS POSITION

Earnings position

Sales performance of the Group

The Beate Uhse Group generated sales of EUR 268.0 million in the 2007 financial year and thus virtually matched the previous year's figure of EUR 270.9 million. The start to the new financial year was marked by the implications of the water damage suffered at the mail order centre in Walsoorden, which led first-quarter sales to fall 10 percent short of the previous year's figure. Sales witnessed a marked recovery as the year progressed, exceeding the previous year's figures in each of the subsequent three quarters. In the fourth quarter in particular, sales showed a tangible improvement of 6.2 percent on the equivalent period in the previous year.

Sales by segment

The mail order division, with a 40.7 percent share of total sales the Group's largest segment, reported a slight decline in sales in the past financial year. All in all, this division generated sales of EUR 109.2 million, compared with EUR 113.8 million in the previous year. In spite of the consequences of the water damage and the resultant loss of confidence among customers, the mail order business successfully maintained its sales at roughly the same level as in the previous year. Targeted service campaigns enabled the division to regain the confidence of its customers and thus to generate positive sales growth once again in the fourth quarter.

The retail division reported a similar sales performance. Following sales of EUR 86.5 million in the previous year, the division generated sales of EUR 82.7 million in the past financial year. Sales were impaired by the decline in prices for DVDs and the negative trend in the cabin business. The three new premium shops in city centre locations and the fun centers in business parks have established themselves well. This development confirms that the focus on these two store concepts is the right strategy.

Sales at the wholesale segment showed substantial growth of 9.3 percent to reach EUR 59.8 million (previous year: EUR 54.7 million). This division profited in particular from increased demand for lingerie and toys, a trend which benefited private label collections such as the Toy Joy line. The further expansion of high-quality private labels has already been initiated with the development of the sex toy collection offered under the Mae B. brand and is to be stepped up further in future. In the longer term, this is intended to compensate for the DVD business, which is playing an increasingly subordinate role.

The entertainment division, with a 6.1 percent share of total sales the smallest segment at the Beate Uhse Group, also improved its sales by 1.8 percent to EUR 16.3 million in 2007. The positive performance of the MovieOn streaming platform, which was completely revised at the beginning of 2007 and which is now available in several languages for international marketing, provided positive momentum in this respect. Pleasing growth was also achieved in the cooperation business.

SALES BY PROFIT CENTRE 2006 / 2007

EUR million	2006	2007	% change
Retail	86.4	82.7	-4.4
Mail Order	113.8	109.2	-3.9
Wholesale	54.7	59.8	9.3
Entertainment	16.0	16.3	1.8
Holding Services	0.0	0.0	
	270.9	**268.0**	-1.1

Sales by region

The Beate Uhse Group further increased the international share of its sales in the year under report, with 62.5 percent of sales being generated in foreign countries (2006: 61,6 percent). The company therefore achieved a further reduction in its dependence on the German market. All in all, the individual country markets showed highly uneven developments. Sales in Beate Uhse's largest target market, Germany, fell by 3.5 percent, while the two important target countries of the Netherlands and France both reported pleasing levels of growth in their sales contributions (plus 1.9 percent and plus 10.9 percent respectively). Sales in the UK developed equally positively (plus 14.7 percent), while the Austrian market saw a reduction in its sales revenues.

SALES BY REGION 2006 / 2007

EUR million	2006	2007	% change
Germany	104.0	100.4	-3.5
Netherlands	47.0	47.9	1.9
Belgium	17.1	16.4	-4.1
France	40.2	44.6	10.9
UK	10.9	12.5	14.7
Austria	24.7	17.2	-30.4
Switzerland	1.7	1.3	-23.5
Scandinavia	12.3	11.8	-4.1
Italy	3.4	3.8	11.8
Other European Countries	9.0	10.7	18.9
Other Regions	0.8	1.4	75.0
	270.9	**268.0**	-1.1

Restructuring expenses

The earnings for the 2007 financial year are affected to a significant extent by one-off factors relating to the Group's restructuring programme. Overall, the expenses recorded for restructuring items in the past financial year amounted to EUR 13.2 million. Of this sum, EUR 0.5 million involves costs of sales, while sales-related expenses include restructuring expenses amounting to EUR 4.9 million. More specifically, these include goodwill amortisation, depreciation of property, plant and equipment and expenses for the statement of provisions for compensation payments and for pending rental losses in the retail segment. These expenses have been incurred in connection with the closure of retail stores, a process which has already been completed. Furthermore, one-off items amounting to EUR 7.0 million have been reported under general administration expenses. These relate in particular to the extraordinary amortisation of software and to advisory expenses incurred in connection with the restructuring programme. The restructuring expenses of EUR 0.8 million reported under other operating expenses involve the write-down of goodwill at the Hungarian production company.

Costs of sales

Costs of sales rose by 8.5 percent to EUR 116.7 million in the 2007 financial year, compared with EUR 107.6 million in 2006. This was due to increased sales input costs in connection with higher sales, amounting to EUR 4.6 million in the wholesale division and to EUR 0.8 million in the entertainment division. A further share of the increase involved an amount of EUR 3.3 million attributable to depreciation and other expenses allocable to costs of sales. These mainly resulted from the operation of the new mail order logistics centre. The one-off items incurred under costs of sales within the framework of the restructuring programme amounted to EUR 0.5 million.

Other operating income

Other operating income reduced sharply by 20.2 percent to EUR 16.1 million in the period under report (2006: EUR 20.2 million). This decline was chiefly due to a series of one-off factors in the previous year which make it more difficult to compare the two financial years. In addition to the sale of shares in tmc Content Group AG, previously erotic media ag, the extra income reported in 2006 also involved the sale of a 50 percent shareholding in the Polish company International Fun Center. In 2007, Beate Uhse received amounts of EUR 1.7 million from the sale of the fulfilment centre building in Walsoorden and of EUR 1.1 million from the insurance payment received for the damages at the logistics centre. However, the largest share of other operating income still related to interest on arrears and dunning charges from mail order customers. Moreover, income from exchange rate differences was EUR 0.8 million higher in 2007 than in the previous year.

Sales-related expenses

Sales-related expenses fell by 4.3 percent to EUR 136.4 million in 2007 (2006: EUR 142.4 million). Accordingly, sales-related expenses declined as a share of total sales by 1.7 percentage points to 50.9 percent (2006: 52.6 percent). Besides a lower level of advertising expenses in the mail order division, this decline was also due to a year-on-year reduction in the volume of write-downs on receivables. Sales-related expenses were negatively affected by the statement of provisions for compensation payments and pending rental losses for store closures, goodwill amortisation and depreciation on property, plant and equipment, amounting to EUR 4.9 million in total, within the framework of the restructuring programme.

General administration expenses

Administration expenses at Beate Uhse AG rose sharply by 30.0 percent to EUR 34.2 million (2006: EUR 26.3 million). Apart from write-downs on inadequate software in the mail order business, this increase was chiefly due to costs incurred within the framework of the restructuring programme. In particular, this item includes the advisory expenses incurred for the strategic realignment of the Group. Excluding these one-off items, general administration expenses would only have risen by EUR 1.2 million, mainly as a result of the development of Daring! and costs for Scala France.

Other operating expenses

Other operating expenses rose from EUR 1.0 million to EUR 2.2 million, primarily due to the amortisation of goodwill at bu production Kft.

Income from shareholdings

At EUR 0.9 million, income from shareholdings in 2007 was EUR 0.1 million lower than in the previous year (EUR 1.0 million) due to reduced income from the shareholdings held in tmc Content Group AG and Fun Factory GmbH.

Consolidated earnings

At EUR -4.4 million, the operating earnings (EBIT) reported by the Beate Uhse Group were within the range expected in the updated budget compiled in autumn 2007. Positive operating earnings (EBIT) of EUR 14.8 million were generated in the previous year. As announced, this development is attributable to the expenses incurred for the Group's restructuring programme, such as amortisation and depreciation upon the closure of unviable shops and write-downs on shareholdings. Earnings were also significantly affected by operating factors at the mail order business. Moreover, the higher level of earnings posted for the previous year had also been due in part to one-off factors contributing significantly towards other operating income.

Following the financial result of EUR -3.5 million, the Group generated earnings before taxes (EBT) of EUR -7.9 million, compared with a positive figure of EUR 12.0 million in the previous year. Excluding the one-off factors incurred in connection with the restructuring programme and the positive impact on earnings of the sale of the Walsoorden property, Beate Uhse would have reported positive EBT of EUR 3.6 million.

EBT 2006 / 2007

EUR million	2006	2007	% change
Retail	4.4	-4.0	-190.9
Mail Order	-2.2	-1.6	-27.3
Wholesale	2.8	0.8	-71.4
Entertainment	3.0	3.1	3.3
Holding Services	4.0	-6.2	-255.5
	12.0	**-7.9**	-165.8

EBIT 2006 / 2007

EUR million	2006	2007	% change
Retail	5.9	-2.4	-140.7
Mail Order	-1.8	-0.9	-50.0
Wholesale	4.0	2.3	-42.5
Entertainment	3.0	3.0	0
Holding Services	3.7	-6.5	-275.7
	14.8	**-4.4**	-129.7

EBITDA 2006 / 2007

EUR million	2006	2007	% change
Retail	11.8	6.0	-49.2
Mail Order	-1.1	5.0	-554.5
Wholesale	5.7	5.9	3.5
Entertainment	3.3	3.3	0
Holding Services	4.9	-4.5	-193.8
	24.4	**15.7**	-35.7

Taxes on income increased by EUR 3.3 million to EUR 5.3 million (2006: EUR 2.0 million). The reduction in tax rates in Germany and the Netherlands made it necessary to revalue deferred tax assets and liabilities, with a resultant tax impact of EUR 2.0 million. The utilisation of loss carryovers had an additional impact to the tune of EUR 2.0 million. The Group posted a net deficit of EUR 13.2 million, compared with the annual net surplus of EUR 10.0 million reported for the previous year.

Of the four segments of the Beate Uhse Group, the entertainment segment showed particularly positive developments, with 3.3 percent growth in pre-tax earnings to EUR 3.1 million. The decline in margins due to the VAT increase not being charged onto customers was compensated for by the optimisation of the cooperation partner business and cost-conscious management.

chapter 6

The retail, wholesale and holding services divisions performed less well in the 2007 financial year than in the previous year. The largest decline was reported by the retail segment, with a negative earnings contribution of EUR 4.0 million. Alongside a reduction in sales, this was chiefly attributable to costs incurred on store closures. Pre-tax earnings (EBT) at the mail order business amounted to EUR -1.6 million. This was due to the loss of sales following the water damage, amortisation undertaken on software and the restructuring expenses incurred. The earnings contribution generated by the wholesale division fell by EUR 2.0 million to EUR 0.8 million due to the development of Daring! and the amortisation of goodwill at bu production Kft in Hungary. The pre-tax earnings reported by the holding services division (EUR -6.2 million) are also to be seen in the light of the restructuring programme. Moreover, the holding services division also had to undertake write-downs on several shareholdings. Furthermore, the comparison with the previous year should also take account of the discontinuation of the put option in erotic media AG (now tmc Content Group AG) and the sale of the Polish shareholding International Fun Center.

KEY FIGURES

EUR million	2001	2002	2003	2004	2005	2006	2007
Sales	222.8	244.5	265.6	273.1	284.8	270.9	268.0
EBITDA	21.3	30.1	31.5	26.8	32.1	24.4	15.7
EBIT	10.6	20.3	21.5	17.9	22.7	14.8	-4.4
EBT	8.7	17.2	19.3	15.6	20.4	12.0	-7.9
Annual net income	2.2	9.5	9.9	8.7	14.4	10.0	**-13.2**
Cash flow	12.8	21.4	20.3	8.6	24.3	16.9	13.4

Financial position

Financial management and structure

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. The Group's liquidity requirements are covered by the operating business and by loans from various banks.

As of 31 December 2007, liabilities to banks and from borrowers' note loans were structured as follows:

EUR 000s	31.12.2006	31.12.2007
Liabilities to banks	71,477	45,930
of which overdraft facilities	40,754	26,084
of which bank loans	30,723	19,846
Borrowers' note loans	15,714	19,712
Total liabilities to banks and from borrowers' note loans	87,191	**65,642**

The Group's liquid funds amounted to EUR 7.4 million at the 2007 reporting date (previous year: EUR 6.4 million).

Largely as a result of the income of EUR 19.5 million generated by the sale of the fulfilment center building in Walsoorden, liabilities to banks fell from EUR 87.2 million as of 31 December 2006 to EUR 65.6 million as of 31 December 2007.

In order to maintain a high degree of flexibility, the investment loans granted on a long-term basis in the past charge interest at variable rates coupled to the Euribor rate.

This procedure was maintained with the refinancing completed on 29 February 2008 and the resultant transition of all bank liabilities at Beate Uhse AG to the two-year syndicated loan. Any drawdown of the syndicated loan will thus also be based in the short term on the respective Euribor rate. This means that the funds may at all times be redeemed free of charge at the rollover dates.

The Group deploys derivative financial instruments to hedge against any increases in interest rates. Including these derivatives, the share of loans with fixed interest rates increased by EUR 41.6 million to EUR 63.9 million as of the reporting date. This is equivalent to 97.3 percent of all loan liabilities.

Beate Uhse had working capital credit lines of EUR 33.5 million at the reporting date (previous year: EUR 49 million), of which EUR 25.5 million had been utilised (previous year: EUR 34 million).

Investments

Beate Uhse AG invested a total of EUR 13.9 million in 2007, compared with EUR 40.8 million in the previous year. The previous year's figure related to a significant extent to the construction of the new mail order centre in Walsoorden. The investments made in 2007 focused in particular on the retail sector, where the new store concept was implemented as part of the strategic realignment of the retail business, as well as on the wholesale division and its development of Daring!. Over and above this, investments also related to the new logistics software at the mail order business.

Financial position in 2007

The following figures have been adjusted to account for consolidation. This is the reason for any potential variances in the comparison of changes in balance sheet items as of 31 December 2006 and 31 December 2007 respectively.

The cash flow from operating activities showed a slight decline of EUR 3.5 million to EUR 13.4 million in the 2007 financial year (2006: EUR 16.9 million). Alongside the impact of operating earnings, which reduced to EUR -4.4 million following depreciation and amortisation of EUR 20.1 million on non-current assets, this cash flow figure was positive influenced to the tune of EUR 7.9 million by a decline in inventories. This was countered by a reduction in accounts payable by EUR 2.8 million in the 2007 financial year and by the payment of income taxes of EUR 3.3 million.

While the cash flow from investing activities for the 2006 financial year had been significantly affected by the investments made in the Walsoorden fulfilment centre, the equivalent figure for the 2007 financial year was positively influenced by the sale of the buildings acquired and built in 2006. This cash flow figure showed a net inflow of around EUR 14 million as of 31 December 2007. Alongside the revenues of EUR 19.5 million generated on the Walsoorden sale, this figure was further positively affected by an inflow of EUR 4.6 million from the sale of 2 million shares in tmc Content Group AG, thus more than compensating for the total investments of EUR 14.5 million.

The inflow of funds referred to above was used to repay liabilities to banks and borrowers' note loans, which decreased by EUR 21.5 million compared with the previous year. Together with the payment of the dividend for the 2006 financial year, this led to a negative cash flow of EUR 26.3 million from financing activities as of 31 December 2007.

Liquid funds increased from EUR 6.4 million as of 31 December 2006 to EUR 7.4 million as of 31.12.2007.

Asset position

The total assets of the Beate Uhse Group fell to EUR 183.4 million as of 31 December 2007, compared with EUR 222.9 million at the previous year's reporting date.

Non-current assets showed a marked reduction of EUR 36.3 million to EUR 106.0 million. This decline was chiefly due to the reduction in property, plant and equipment by EUR 22.2 million to EUR 32.8 million (2006: EUR 55.0 million). This item was primarily affected by the sale of the mail order building in Walsoorden, the sale of the Am Pferdewasser property in Flensburg and the depreciation of property, plant and equipment as a result of restructuring measures in the retail division. There was also a significant decline in intangible assets, which fell by EUR 2.1 million to EUR 10.6 million due to the extraordinary amortisation of mail order software. Goodwill also decreased to EUR 14.9 million due to the write-down of the goodwill of stores to be closed as part of the restructuring of the retail division (2006: EUR 15.7 million). Other non-current financial assets also decreased by EUR 3.5 million to EUR 8.5 million in 2007 as a result of the repayment of a loan by the borrower. The reclassification of the shares held in tmc Content from associated companies to shareholdings led to year-on-year changes in these items of EUR -29.0 million and EUR 25.2 million respectively. Furthermore, the shareholding held in tmc Content Group declined as a result of the sale of 2 million shares at a carrying amount of EUR 4.6 million. This sale served to streamline the investment portfolio within the framework of the restructuring programme. Purchase rights have been agreed with both buyers in respect of the remaining shareholding. The associated companies of Beate Uhse AG now still include BEATE-UHSE.TV and Fun Factory. Deferred tax claims fell by EUR 3.9 million to EUR 10.0 million, given that the reduction in tax rates in the context of the corporate tax reform led to a decline in the valuation of future tax savings on loss carryovers and that use was made of existing loss carryovers.

Current assets reported a slight decline of 3.9 percent to EUR 77.4 million in the period under report (2006: EUR 80.6 million). At EUR 6.6 million, the largest reduction was seen in inventories. A higher level of stocks had been required at both warehouses in the previous year to be able to meet customers' needs in the context of the removal of the two logistics centres. Moreover, the water damages suffered at the fulfilment centre in Walsoorden had led to a higher level of inventories at the end of the financial year. These stocks were reduced once again during the period under report. Inventories amounted to EUR 34.8 million as of 31 December 2007. Accounts receivable showed a marked increase of 9.1 percent to EUR 30.1 million. This was due in part to the initial consolidation of Scala France SARL and Lebenslust GmbH. At EUR 7.4 million, cash and cash equivalents were EUR 1.0 million higher at the reporting date than in the previous year (EUR 6.4 million).

The liabilities side of the balance sheet was mainly affected during the period under report by the reduction in non-current debt. Shareholders' equity fell by 21.4 percent to EUR 66.4 million (2006: EUR 84.5 million). The equity ratio therefore amounts to a robust 36.2 percent and is only slightly lower than the previous year's figure of 37.9 percent. The decline in equity was largely due to the annual net deficit of EUR 13.2 million and the dividend distribution of EUR 4.7 million.

Non-current debt fell substantially by EUR 33.8 million to EUR 15.3 million as of 31 December 2007 (2006: EUR 49.1 million). This sharp decline was attributable to the reclassification of EUR 32.8 million of long-term interest-charging loans to the short-term portion of long-term loans in view of the redemption of these bank liabilities in February 2008. The long-term interest-charging loans item thus dropped from EUR 40.8 million to EUR 6.8 million. At EUR 3.3 million, pensions and similar obligations remained at the previous year's level (2006: EUR 3.3 million). Other non-current provisions rose by EUR 0.7 million to EUR 2.9 million due to pending losses resulting from store closures within the framework of the restructuring process. Deferred tax liabilities dropped to EUR 1.8 million as a result of the change in tax rates in Germany and the Netherlands (2006: EUR 2.5 million).

Current debt rose sharply from EUR 89.3 million to EUR 101.7 million. As already outlined, the principal reason for this development was the reclassification of long-term loans to the short-term portion of long-term loans (EUR 32.8 million). Short-term loans, by contrast, fell by EUR 14.4 million to EUR 26.4 million due to the proceeds on the sale of the Walsoorden building (EUR 2006: EUR 40.8 million). Other provisions increased by EUR 2.5 million to EUR 4.4 million (2006: EUR 1.9 million). This was attributable to the restructuring measures, and in particular to the reorganisation of the retail business, and involved the statement of provisions for compensation payments and for pending losses on existing rental agreements due to the planned store closures. As a result of the taxes paid, income tax liabilities fell by EUR 3.8 million to EUR 2.6 million (2006: EUR 6.4 million).

6.3 EVENTS AFTER THE REPORTING DATE

The Supervisory Board appointed Serge van der Hooft as an additional member of the Management Board of Beate Uhse AG with effect from 1 January 2008. The succession to Gerard Cok, who announced his decision to retire from active professional life at the 2007 Annual General Meeting, has therefore been resolved. Gerard Cok will remain on the Management Board for a transitional period in order to hand over his responsibilities to Serge van der Hooft.

On 8 February 2008, the Management Board resolved with the approval of the Supervisory Board to execute a capital increase. Within the framework of the capital increase, the company's share capital was increased by EUR 23,661,000 from EUR 47,323,696 to EUR 70,984,696 by issuing 23,661,000 new bearer shares with a face value of EUR 1 each in return for cash contributions. Each shareholder was entitled to subscribe one new share at a subscription price of EUR 1.15 per new share for every two existing shares held (subscription ratio 2:1). The subscription offer for the new shares ran from 18 February until 3 March 2008. Overall, this transaction provided Beate Uhse with a total net inflow of funds amounting to EUR 24.9 million. These funds have been used to repay bank liabilities.

On 4/5 February 2008, the company signed a syndicated loan agreement for a credit line amounting to EUR 42.5 million with a consortium of banks managed by HSH Nordbank AG. An amount of EUR 34.1 million from the new loan funds and the proceeds from the capital increase was used to repay existing loans in February 2008.

6.4 COMPENSATION REPORT

Compensation of the Management Board

The Personnel Committee of the Supervisory Board 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 stock option plan which ran from 2002 to 2006 was not continued in 2007. No pension or other welfare commitments are provided for.

The criteria governing the level of Management Board compensation are based on the principal duties of the respective member of the Board, their personal performance, the mode of operation of the Board as a whole, and the economic situation, performance and future prospects of the company and the sector in which it operates.

In the event of the employment relationship being terminated at the instigation of the company, the Management Board contract with Otto Christian Lindemann provides for compensation and damages payments amounting to the level of compensation agreed for the remaining regular term of the contract, limited to a maximum of two annual salaries and a minimum of one annual salary.

In 2007, 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.

COMPENSATION OF THE MANAGEMENT BOARD

Management Board	Office	Fixed Compensation	Performance-Related	Total	Stock Options
Otto Christian Lindemann	CFO, Spokesman of the Management Board	240,000	0	240,000	0
Gerard Cok	COO	190,000	0	190,000	0
		430,000	0	430,000	0

Furthermore, Otto Christian Lindemann received fringe benefits in the form of a company car (value of payment in kind in 2007: 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 is based on the duties of the respective members of the Supervisory Board and consists of a fixed component and a variable component dependent on the dividend distributed for the past financial year.

In addition to the reimbursement of his or her expenses, each member of the Supervisory Board receives fixed annual compensation amounting to EUR 7,500k, 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 of the Supervisory Board receives 1.5 times and his Deputy 1.25 times the total compensation of an ordinary member. Furthermore, the members of the Audit Committee receive an annual fixed amount of EUR 7,500, with the committee chairman receiving EUR 11,250.

The VAT payable on the compensation is reimbursed by Beate Uhse AG.

The members of the Supervisory Board are covered by a D&O insurance policy concluded by the company which includes a suitable deductible for members of the Supervisory Board.

COMPENSATION OF THE SUPERVISORY BOARD 2007 (IN EURO)

Supervisory Board	Office	Bodies	Compensation	Performance-Related
Ulrich Rotermund	Chairman	Investment Committee, Personnel Committee	11,250	4,500
Michael Papenfuß	Deputy Chairman	Audit Committee Personnel Committee, Nomination Committee	16,875	3,750
Martin Weigel	Member	Audit Committee, Investment Committee, Nomination Committee	18,750	3,000
Nicolaas Bootsma	Member	Audit Committee, Investment Committee	7,500	3,000
Gelmer Westra	Member	Audit Committee, Investment Committee, Nomination Committee	7,500	0
Carlo Floridi	Member / Employee Representative	Investment Committee	7,500	3,000
Monika Wilk	Member / Employee Representative	Personnel Committee	7,500	3,000
Total			76,875	20,250

6.5 RISK REPORT

6.5.1 THE RISK MANAGEMENT SYSTEM

In the interests of identifying, assessing and, where necessary, countering risks of all kinds at as early a point as possible, Beate Uhse has used an integrated risk management system throughout the Group since 2000. This involves the use of detailed budget forecasts in combination with a monthly segment-based reporting system. Sales, earnings contributions, costs and earnings are depicted as monthly, cumulative and annual figures. The previous year's figures and the budget figures are reported as a basis for comparison. The absolute figures are also compared with key percentage figures depicting the gross margin, cost efficiency and earnings power.

An adjusted forecast is compiled four times a year in order to identify any changes in the market, business policies and negative trends, thus enabling potential budget variances to be detected at an early stage. On this basis, it is possible to identify any potential need for action. The monthly group reporting is supplemented by the calculation of quarterly key figures based on the consolidated balance sheet and income statement. Furthermore, the management of the profit centres is supported by numerous key operating figures and analyses. The mail order, retail, wholesale and entertainment divisions work with the key figures which best depict their respective business model. 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, probabilities of occurrence and processing priorities. The risk management system is reviewed at regular intervals in terms of its effectiveness and appropriateness by the group controlling department in liaison with the Management Board.

Various controlling systems are currently in place at some of the individual companies within the Beate Uhse Group, which means that comprehensive monthly reporting undertaken on a consolidated basis currently requires significant input and is therefore based in part on the respective situation. However, the Beate Uhse Group made a conscious decision to work with various controlling systems in order to provide local companies with better access to the respective data. In parallel to this, intensive efforts are underway to introduce a comprehensive central controlling software system for the Group.

6.5.2 INDIVIDUAL RISKS

The Stock Exchange Admissions Prospectus published on 15 February 2008 within the framework of the capital increase provided shareholders in Beate Uhse AG with extensive information on a series of potential risks associated with the Group's business activities. These risks basically still apply. In the following section, we have presented the key risks which, based on the current assessment of the Management Board, could affect the economic situation of the Beate Uhse Group. The risks presented here refer to the 2008/2009 forecast period.

Macroeconomic developments

Consumers' propensity to spend is generally lower in periods of weak or negative macroeconomic developments. In principle, the erotica sector may also be affected by such developments, thus also reducing sales and margins at Beate Uhse.

By optimising its product range, covering all price segments, expanding the range of private label articles, improving the placement of products across all distribution channels, expanding its group-wide marketing activities, further optimising its logistics activities and expanding its premium shop concept, the Beate Uhse Group will attempt to retain customers at Beate Uhse and to convince them of the merits of the company's products and services.

Changes in the competition

The change in society's attitude towards erotica has attracted competitors from other countries and sectors. Competition in the sector is characterised by aggressive pricing policies, especially in the field of DVD retail, thus leading to pressure on prices and margins at Beate Uhse. Based on the company's assessment, further competitors could enter the German or international markets for erotica products in future, given that market entry requires neither specific expertise nor substantial investment in the development of a mail order and sales structure. The probability of the competitive situation intensifying is classified as high in the risk management system.

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, ongoing competitor surveillance, pooling procurement activities and expanding group-wide category management etc.

Furthermore, the company has begun to realign the market presence of its stores. By expanding its premium shop concept, Beate Uhse aims to attract new customer groups, especially women and couples.

Merchandise flow

Beate Uhse procures virtually 100 percent of the products it sells directly from manufacturers and intermediaries. These products also include imports. The procurement of goods from foreign suppliers is subject to particular risks, such as delays in deliveries, exchange rate fluctuations, increased customs duties and taxes, changes in the export quotas set by the relevant procurement country, potential import restrictions, safety requirements and other regulatory requirements, as well as reputation risks.

To counter these risks, the Beate Uhse Group works with a large number of manufacturers around the world. The Group's procurement activities are centralised in its category management system, thus pooling the potential synergies harboured by the expertise of Beate Uhse's employees and the company's market power.

Logistics centres

The wholesale logistics centre in Almere and the mail order warehouse in Walsoorden are subject to the risk of total breakdown, e.g. due to fire or water damages, as actually happened at Walsoorden at the end of 2006. Great efforts were made to ensure that the fulfilment centre is now once again fully functional. It has been possible to reduce supply times and to improve customer satisfaction once again. However, the possibility of future breakdowns in technical equipment and IT systems resulting in supplies to mail order customers having to be cancelled cannot be excluded.

To protect itself against the economic consequences of such breakdowns, Beate Uhse has safety systems in place and also has insurance cover against damage to property and interruptions to business operations.

Restructuring programme

The restructuring programme already launched may not be successful. Furthermore, the possibility cannot be excluded that the costs forecast by Beate Uhse in connection with the intended closure of up to 35 retail outlets will be exceeded.

The Beate Uhse Group counters this risk with its own ongoing analysis of the overall process. Moreover, the implementation of the measures is also being monitored by external third parties.

Personnel

The erotica market is small and straightforward on the supply side. For companies operating in the erotica sector, the loss of employees with an in-depth knowledge of the sector and good contacts can therefore harbour risks. The company'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.

IT infrastructure

IT processes are playing an increasingly significant role in determining 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 potential loss of sales, the resultant loss of confidence means that 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.

Like many other internet content and e-commerce providers, Beate Uhse faces a major problem in the event of any misuse of its internet data. Programmers and developers at the entertainment division are working consistently on suitable software solutions to defend the company against such attacks.

Legal framework
The global erotica market is subject to significantly heterogeneous legislation, especially with regard to topics such as the protection of minors and the sale of pornographic products. There are significant variations in some cases in the legal frameworks in force in the various countries. Legal guidelines in Germany, the main sales market of the Beate Uhse Group, are especially strict and are subject to ongoing change, 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.

Beate Uhse may face the risk of injunctive relief or damages claims should it breach industrial property rights or the personal rights of third parties, even if such breach occurs unwittingly or within utilisation periods agreed in settlements. This could result in Beate Uhse being prohibited from continuing a given activity in its previous form or even being required to make damages payments.

Financial risks
Interest rate risks, foreign currency risks and other financial risks have been disclosed in the notes to the consolidated financial statements.

Liquidity
The loan agreements concluded by Beate Uhse AG require the company to comply with various obligations and conditions, e.g. financial covenants. Any breach of these requirements would allow the lenders to terminate the loan agreements and demand the immediate repayment of these loans.

The new financing agreements outlined under events after the reporting date on pages 44 and 45 also include financial covenants with which the company has to comply.

The investments required within the framework of the restructuring programme and for the intended geographical expansion into other countries could mean that the Group will be dependent on additional financial funds in the future. Should the funds thereby required not be made available to Beate Uhse at economically reasonable conditions, then this could delay the implementation of the respective measures.

By making various adjustments to its financial policies, the Group would be able to react appropriately to any short-term liquidity shortfalls and to continue its restructuring programme as planned.

Receivables default

The risk of receivables default is of particular relevance 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. Beate Uhse new media has developed an effective dunning process to minimise the volume of receivables default. Moreover, the providers cooperate closely with Beate Uhse new media in terms of data exchange.

Beate Uhse new media GmbH 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 GmbH works exclusively with large providers on the market in order to limit the risk of such default.

6.5.3 OVERALL RISK

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.

6.6 DISCLOSURE OF POSSIBLE TAKEOVER BARRIERS

Composition of share capital

The share capital of Beate Uhse AG amounted to EUR 47,323,696 at the reporting date on 31 December 2007 and was divided into 47,323,696 bearer shares of EUR 1.00 each. A capital increase was executed at the beginning of 2008, as a result of which the share capital increased to EUR 70,984,696. The share capital is now divided into 70,984,696 bearer shares of EUR 1.00 each.

Restrictions on assignment or voting rights

There are no restrictions on the assignment or voting rights of shares in Beate Uhse AG. All 47,323,696 shares existing as of 31 December 2007 and all 23,661,000 new shares resulting from the capital increase guarantee one vote each at the Annual General Meeting to their respective owners. The voting rights and dividend entitlement have been suspended in the case of 281,271 shares held as treasury stock.

Direct or indirect shareholdings in Beate Uhse AG

At the reporting date on 31 December 2007, Rotermund Holding AG held 25.9 percent and Consipio Holding BV 20.7 percent of the voting rights in Beate Uhse AG.

The shareholder structure has changed as a result of the capital increase. The company was aware of the following shareholder structure upon the compilation of the financial statements on 5 March 2008:

Consipio Holding BV, Walsoordenstraat 72, 45588 KD Walsoorden, Netherlands	20.7 percent
Rotermund Holding AG, Meierhofstr. 5, FL-9490 Vaduz, Liechtenstein	17.3 percent
DZ Bank AG, Deutsche Zentral-Genossenschaftsbank, Platz der Republik, 60265 Frankfurt am Main	33.3 percent

Special rights

There are no special rights granting powers of control to the bearers of shares.

Control of voting rights

No control of voting rights is in place to cover the event of employees participating in the capital of Beate Uhse AG.

Provisions 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.

Amendments to the Articles of Association

Amendments to the Articles of Association may be adopted in accordance with the provisions of Sec. 179 et seq. of the German Stock Corporation Act (AktG). For amendments to the Articles of Association, these provisions generally require the approval of at least three quarters of the share capital present upon the adoption of the resolution. The Annual General meeting has authorised the Supervisory Board to undertake amendments to the Articles of Association which only relate to the respective formulation (Sec. 10 (2) of the Articles of Association).

Powers of the Management Board to issue and buy back shares

The authorised capital of EUR 23,661,000.00 still in place as of 31 December 2007 now no longer exists as a result of the execution of the capital increase.

The share capital is conditionally increased by up to EUR 1,000,000.00 by the issue of up to 1 million new bearer shares with a nominal value of EUR 1.00 each (Conditional Capital 1). The conditional capital increase is only executed to the extent that the bearers of option rights issued within the framework of the Beate Uhse AG stock option plan established as a result of the authorisation granted by the Annual General Meeting on 17 June 2002 exercise their option rights and to the extent that such option rights are not satisfied by the granting of treasury stock.

Based on a resolution adopted by the Annual General Meeting on 20 June 2005, the share capital in the company is conditionally increased by up to EUR 22,661,848.00 by the issue of up to 22,661,848 new bearer shares with a nominal value of EUR 1.00 each (Conditional Capital 2). The conditional capital is only executed to the extent that bearers / creditors of convertible bonds or warrant bonds in the company or in direct or indirect majority shareholdings of the company as defined in Sec. 16 (1) and (4) of the German Stock Corporation Act (AktG) to be issued by 20 June 2010 exercise their conversion or option rights or to the extent that the bearers / creditors of convertible bonds in the company or in direct or indirect majority shareholdings of the company as defined by Sec. 16 (1) and (4) of the German Stock Corporation Act (AktG) to be issued by 20 June 2005 meet their conversion obligations to the extent that such conversion or option rights are not satisfied by the granting of treasury stock.

The Annual General Meeting of the company on 25 June 2007 authorised the company to acquire treasury stock up to a prorated amount allocable to such shares amounting to a total of 10 percent of the share capital existing upon the adoption of the resolution. This authorisation came into effect as of 26 June 2007 and expires on 25 December 2008.

Agreements concerning change of control

Some loan agreements include customary standard clauses covering the event of a takeover bid.

Compensation agreements

No agreements have been reached 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.

6.7 OUTLOOK

Macroeconomic situation

While the global economy posted strong growth once again in 2007, the US real estate crisis and the turbulence on the financial markets mean that the risks facing the economy in 2008 have increased significantly. The ifo Institut expects the euro area to generate a lower level of GDP growth than in the previous year. In view of increased inflation, consumer spending is only expected to see subdued growth, with weak growth also predicted for capital expenditure. The Centre for European Economic Research (ZEW) has forecast GDP growth of 2.2 percent for Europe. With GDP growth of 4.9 percent, Central and Eastern European countries are expected to maintain their positive development.

The ifo Institute has forecast a considerable slowdown in the rate of expansion in the German economy, with GDP growth of 1.8 percent expected. Unlike in previous years, however, economic growth is expected to be stimulated by rising employment totals and the resultant increase in purchasing power attributable to private consumer spending. The ifo Institut expects private consumer spending to rise by 1.5 percent.

Developments in the sector

In view of macroeconomic and socio-demographic developments, as well as the increasing acceptance of the sector within society, the future prospects for the erotica sector would seem to be fundamentally positive. The individualisation of lifestyles will continue apace. This will also be accompanied by a further rise in equality and sexual self-determination. The latter factor is increasingly becoming a fixed component of daily life due to the liberalisation of sexuality within society. New target groups previously not addressed by the erotica sector will arise. In particular, women and couples, as well as the 50 plus age group, have a more open approach towards erotica and sexuality and are increasingly being seen as target groups of decisive importance to the erotica market.

Provided that they have store concepts focusing on their respective target groups, retailers will be able to develop positively once again. However, this business is also witnessing a shift in distribution channels towards specialist mail order and e-commerce. Future trends in the erotica retail business are characterised by a decline in the traditional target group accompanied by rising demand from the new, broader target groups of women and couples. In the longer term, the increase in demand for modern sex toys and erotic lingerie will therefore compensate for the previously highly profitable DVD business, which is suffering from the availability of free content on the internet and a sharp fall in prices. The acceptance granted to erotica within society and the new, broader target groups are attracting new competitors alien to the sector who aim to profit from this market. Competition can therefore be expected to intensify. Access to customers, based not least on attractive brands and high-quality products, will be of critical importance in this respect.

FORECAST ECONOMIC GROWTH

%-change on previous year

Established Beate Uhse markets	2008	2009
Germany	2.1	2.2
Netherlands	2.6	2.5
Belgium	2.1	2.2
France	2.0	1.8
UK	2.2	2.5
Austria	2.7	2.4
Norway	3.1	2.2
EU 25	2.4	2.4

Various future Beate Uhse markets	2008	2009
Poland	5.6	5.2
Slovakia	7.0	7.2
Spain	3.0	2.3
Czech Republic	5.0	4.9

Source: Eurostat

Strategic alignment of the distribution channels

In the course of its restructuring programme and beyond, Beate Uhse will adapt its four distribution channels – retail, mail order, wholesale and entertainment – to these changes in the erotica sector and make them fit for the future.

In the retail business, we will be pressing ahead with the realignment of our store network and will in future be focusing on two store concepts addressing different customer groups in a targeted manner under different brands:

- Premium erotica shops in good inner-city locations
- Fun centers on motorways or at well-frequented specialist stores and business parks.

Shops not meeting these criteria will no longer be maintained. This will involve the closure of up to 35 loss-making retail outlets in Germany, the Netherlands and Belgium.

In the mail order business, we will be further optimising our processes. The launch of a new mail order handling software is expected to improve dispatch processes. Orders are to be dispatched rapidly and in a single complete delivery. The aim is to offer an improved service to customers, to satisfy their expectations and to reduce mail order expenses. The e-commerce share of the mail order business is to be expanded further in the longer term. By establishing specific internet shops, it should be possible to address target groups directly. The shift in focus from the mail order catalogue to the internet shop will decrease marketing expenses for advertising and catalogues, as well as reducing personnel expenses.

In the wholesale business, we will be increasing the share of high-quality private labels produced in cooperation with leading manufacturers throughout the world. With its internally developed sex toy collection offered under the "Mae B." label, which is the first such collection to be approved by the German Technical Inspection Agency (TÜV), and its "69 Sex up your Life" brand, which targets modern couples and the male customer group, Beate Uhse will set new standards in terms of quality and design in an important market for the future.

Developments in the entertainment segment well depend to a decisive extent on the efficient sale of content on all new media platforms (traditional internet, web 2.0, video on demand, IPTV, handheld, MMS etc.) aimed at countering the increasing decline in prices on the DVD market. We will be further stepping up the international marketing of all online offerings in 2008.

We have begun centrally pooling all of the procurement and category management activities of the various business divisions and putting a comprehensive marketing approach in place. This vertically integrated organisation is intended to standardise product ranges and price structures at the divisions and to base them on the multi-channel principle. This has the decisive advantage that it will enable supplier terms to be negotiated in future for the Beate Uhse Group as a whole. The flow of merchandise at the Group is also to be pooled such that the stocks of all trading business divisions can be centrally managed.

The Group will press ahead with its international expansion by accessing new markets with all of its distribution channels. The expansion will focus in this respect on Spain and the East European countries, which are believed to harbour particularly good potential for the future.

Future performance of the Group

With its capital increase and restructuring programme, the Group has taken very drastic and far-reaching measures. These will enable Beate Uhse to emerge as a strong company in a market marked by great turbulence. The market and target group potential is available. With its strategies and customised product and service offerings, Beate Uhse will adapt to meet the changing customer needs of the future. The rejuvenation and modernisation concept will take several years to complete, but will secure the company's success in the longer term. In spite of the difficult and loss-afflicted 2007 financial year, the Management Board expects to post positive earnings for the coming year already. Negotiations will be continued with the insurance company aimed at obtaining full compensation for the loss of sales and earnings resulting from the water damage. Depending on the outcome of these negotiations, the company expects to generate earnings before taxes in a range of EUR 3 million to EUR 5 million. The decline in sales by around three percent due to the reduction in shop totals as part of the restructuring programme is expected to be accompanied by increased profitability. In the coming years, the company expects to consistently maintain its upward growth curve. This growth will largely be driven by the mail order business and, within this division, by the seminal market of home shopping via the internet in particular, as well as by the Group's expansion into rapidly growing markets in Eastern and Western Europe. Operating earnings for 2009 are expected to show a further increase on 2008.

Flensburg, 5 March 2008

The Management Board

beate uhse
ANNUAL REPORT 2007

7.1 CONSOLIDATED BALANCE SHEET 2006 / 2007

ASSETS

EUR 000s	Notes	2006	2007
Non-current assets			
Intangible assets	1	12,729	10,590
Goodwill	1	15,709	14,940
Property, plant & equipment	2	55,031	32,807
Other financial assets	3	12,011	8,494
Investments	4	1,022	26,223
Shares in associated companies	5	31,943	2,989
Deferred tax essets		13,892	9,969
		142,337	**106,012**
Current assets			
Inventories	6	41,390	34,770
Accounts receivable		27,604	30,114
Other current financial assets	7	4,215	3,867
Income tax refund claims (current)		925	1,233
Liquid funds	8	6,432	7,408
		80,566	**77,392**
Total assets		222,903	**183,404**

SHAREHOLDER'S EQUITY AND LIABILITIES

EUR 000s	Notes	2006	**2007**
Shareholders's equity			
Subscribed capital	9	47,324	47,324
Treasury stock at cost of acquisition		-3,463	-3,463
Capital reserves	13	664	745
Revenue reserves		3,295	3,295
Other reserves	14	305	133
Retained earnings		36,782	18,235
Balancing item for currency translation		15	-41
Minority interests		-438	139
		84,484	**66,367**
Non-current debt			
Interest-bearing loans	20	40,819	6,822
Pensions and similar obligations	15	3,327	3,283
Other provisions	16	2,200	2,876
Other financial liabilities	17	261	529
Deferred tax liabilities	18	2,542	1,811
		49,149	**15,321**
Current debt			
Accounts payable		21,555	20,423
Other financial liabilities	18	12,734	14,738
Pensions and similar obligations	15	241	247
Other provisions	19	1,892	4,437
Income tax liabilities		6,397	2,647
Loans	20	40,833	26,427
Short-term portion of long-term loans	20	5,618	32,797
		89,270	**101,716**
Total shareholders' equity and liabilities		222,903	**183,404**

7.2 CONSOLIDATED INCOME STATEMENT 2006 / 2007

EUR 000s	Notes	2006	2007
Sales		270,934	**268,041**
Cost of sales		-107,607	-116,735
Gross profit on sales		163,327	**151,306**
Other operating income		20,160	16,088
Sales-related expenses		-142,412	-136,351
General administration expenses		-26,313	-34,211
Other operating expenses		-1,041	-2,156
Share in earnings of associated companies		981	927
Other income from shareholdings		57	-42
Earnings before interest and taxes (EBIT)		14,759	**-4,439**
Financial result	30	861	1,696
Financial expenses	30	-3,630	-5,152
Earnings before taxes (EBT)		11,990	**-7,895**
Taxes on income		-1,950	-5,266
Consolidated earnings		10,040	**-13,161**
Allocable to:			
Shareholders in the holding company		9,664	-13,843
Minority shareholders		376	682
Earnings per share (EPS)			
Undiluted (EUR)		0,21	-0,29
Diluted (EUR)		0,21	-0,29

7.3 CASH FLOW STATEMENT 2006 / 2007

EUR 000s	2006	2007
Cash flow from operating activities		
Operating earnings (EBIT)	14,758	-4,439
Corrections for:		
Non-cash expenses pursuant to IFRS 2	191	80
Depreciation of property, plant and equipment, amortization of intangible assets	9,674	20,106
Losses incurred on the disposal of property, plant and equipment and intangible assets	-5	-1,057
Other non-cash income	-3,818	-1,519
Changes in:		
Accounts receivable	2,415	-1,602
Other assets	-6,179	9,741
Accounts payable	4,406	-2,785
Other liabilities	5,910	2,278
Interest received	409	1,025
Dividend received from associated companies	428	116
Interest paid for loans and hedging instruments	-3,659	-5,216
Income taxes paid	-7,646	-3,320
	16,884	**13,408**
Cash flow from investment activities		
Cash received from the sale of property, plant and equipment, intangible assets and other non-current assets	525	26,263
Cash paid for investments in property, plant and equipment, intangible assets and other non-current assets	-39,602	-13,925
Cash paid in connection with short-term financial management	-1,982	-474
Cash received in connection with short-term financial management	224	1,877
Cash received from the acquisition of subsidiaries	0	239
	-40,835	**13,980**
Cash flow from financing activities		
Dividends paid	-6,586	-4,704
Taking up of bank liabilities	37,805	13,320
Taking up of borrowers´note loans	10,000	10,000
Taking up of loans from third parties	2,000	0
Redemption of bank liabilities	-5,569	-38,866
Redemption of borrowers‘ note loans	-11,928	-6,002
Redemption of loans from third parties	-2,000	0
	23,722	**-26,252**
Net change in cash, cash equivalents and securities	-229	**1,136**
Changes due to movements in exchange rates	-116	-160
Cash, cash equivalents and securities at beginning of period	6,777	6,432
Cash, cash equivalents and securities at end of period	6,432	7,408
Composition of cash and cash equivalents at end of period		
Cash holdings, credit balances at banks, cheques and securities	6,419	7,395
Short-term money investments	13	13
	6,432	**7,408**

7.4 GROUP EQUITY SCHEDULE 2007

	Equity allocable to the shareholders in the parent company				
	Share capital	Treasury stock	Capital reserve	Revenue reserves	Other reserves
Balance as of 1 January 2006	47,324	-3,464	474	3,295	2,746
Foreign currency translation					
Profits of cash flow hedges					515
Tax effects of cash flow hedges					-201
Total earnings recognized directly in equity					314
Group amount for 2006					
Total period earnings					314
Share-based remuneration			190		
Available-for-sale financial assets					-2,755
Sale of treasury stock		1			
Dividend distribution					
Balance as of 31 December 2006	47,324	-3,463	664	3,295	305
Balance as of 1 January 2007	**47,324**	**-3,463**	**664**	**3,295**	**305**
Foreign currency translation					
Addition due to consolidation					
Share-based remuneration					133
Profits of cash flow hedges					-501
Tax effects of cash flow hedge					196
Total earnings recognized directly in equity					-172
Group amount for 2007					
Total period earnings					-172
Share-based remuneration			81		
Dividend distribution					
Balance as of 31 December 2007	**47,324**	**-3,463**	**745**	**3,295**	**133**

Net profits	Balancing item for currency translation	Total	Minority interests	Total equity
33,704	180	84,259	-643	83,616
	-165	-165	-46	-211
		515		515
		-201		-201
	-165	149	-46	103
9,664		9,664	376	10,040
9,664	-165	9,813	330	10,143
		190		190
		-2,755		-2,755
		1		1
-6,586		-6,586	-125	-6,711
36,782	15	84,922	-438	84,484
36,782	**15**	**84,922**	**-438**	**84,484**
	-56	-56	13	-43
			-118	-118
		133		133
		-501		-501
		196		196
	-56	-228	-105	-333
-13,843		-13,843	682	-13,161
-13,843	-56	-14,071	577	-13,494
		81		81
-4,704		-4,704		-4,704
18,235	**-41**	**66,228**	**139**	**66,367**

NOTES TO THE 2007 CONSOLIDATED FINANCIAL STATEMENTS

PRELIMINARY REMARKS

The following notes refer to the consolidated financial statements of Beate Uhse Aktiengesellschaft, Gutenbergstrasse 12, 24941 Flensburg ('Beate Uhse AG').
The consolidated financial statements of Beate Uhse AG for the financial year ending on 31 December 2007 were compiled by the Management Board of Beate Uhse AG on 5 March 2008 and forwarded for review and approval by the Supervisory Board.

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 284 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 at technologically innovative internet sites. The best-known portals are www.beate-uhse.de, www.sex.de and www.pabo.nl.

ACCOUNTING AND VALUATION PRINCIPLES

Principles underlying the compilation of the financial statements

The compilation of the consolidated financial statements has 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 held for sale, which have been valued at fair value, as have shares in associated companies.
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 adopted by the EU.

IFRS and IFRIC interpretations not yet in 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.

Already endorsed by the EU:

- IFRS 8 'Operating Segments'

chapter 7.

Not yet endorsed by the EU:

- Amendment to IAS 1 ‚Presentation of Financial Statements‘
- Amendment to IAS 23 ‚Borrowing Costs‘
- Amendment to IAS 27 ‚Consolidated and Separate Financial Statements‘
- Amendment to IAS 32 ‚Financial Instruments: Presentation‘
- Amendment to IFRS 2 ‚Share-based Compensation‘
- Amendment to IFRS 3 ‚Business Combinations‘

IFRS 8 was published in November 2006 and requires first-time application in financial years beginning on or after 1 January 2009. IFRS 8 requires companies to disclose information about their business segments and replaces the obligation for companies to stipulate primary (business segments) and secondary (geographical segments) segment reporting formats. IFRS 8 follows the socalled management approach, which requires segment reporting to be based solely on the financial information used by the company's decision makers in their internal management of the company. Such disclosures are therefore based on the company's internal reporting and organisational structure. The Group has foregone any premature application of IFRS 8 and has continued to apply IAS 14 Segment Reporting. The new standard will affect the way in which financial information is published about the Group's business divisions, but will not have any impact on the recognition or measurement of assets and liabilities in the consolidated financial statements.
The revised version of IAS 1 was published in September 2007 and requires first-time application in financial years beginning on or after 1 January 2009. The new version of the standard involves major changes in the presentation and reporting of financial information in the financial statements. In particular, the changes include the introduction of a statement of comprehensive income, which includes both the earnings generated in a given period and profits and losses not yet recognised which were previously reported in equity, thus replacing the income statement in its existing form. Furthermore, as well as compiling balance sheets for the reporting date and the previous reporting date, companies will also be required to compile a balance sheet for the beginning of the comparative period in cases where retrospective application has been made of accounting policies, errors have been corrected or items have been reclassified within the financial statements. The new standard will affect the way in which the Group's financial information is published, but will not have any impact on the recognition or measurement of assets and liabilities in the consolidated financial statements.
The revised version of IAS 23 was published in March 2007 and requires first-time application in financial years beginning on or after 1 January 2009. This standard requires borrowing costs allocable to qualifying assets to be capitalised. Qualifying assets are all assets for which a substantial period of time is required to prepare such assets for their intended use or sale. The standard foresees prospective application of this new requirement. In line with the transitional regulations, the Group will make prospective application of this standard. Accordingly, with effect from 1 January 2009 borrowing costs incurred for qualifying assets will be capitalised. This does not involve any changes for borrowing costs previously incurred and recognised directly through profit or loss.
The revised version of IAS 27 was published in January 2008. The amendments introduced require first-time application in financial years beginning on or after 1 July 2009. The amendments primarily relate to the recognition of shares of a non-controlling nature (minority interests), which will in future participate in full in the losses of the Group, as well as in transactions lead-

ing to a loss of control at a subsidiary, the effects of which are to be recognised through profit or loss. The effects of any disposal of shares not resulting in a loss of control, by contrast, are to be recognised directly in equity. The transitional regulations, which basically require retrospective application of the amendments thereby introduced, require prospective application of the amendments referred to above. Since neither the transactions referred to above nor any negative amount of minority interests are expected in the financial year in which the revised standard is applied for the first time at the Group, the application of this standard is not expected to have any implications for the consolidated financial statements.

The amendment to IAS 32 and of IAS 1 was published in February 2008 and requires first-time application in financial years beginning on or after 1 January 2009. The amendment relates to the classification of puttable shareholder contributions as equity or as debt capital. The previous regulation forced companies in some cases to report shareholders' capital as a financial liability in view of the firm legal rights of termination enjoyed by share-holders. In future, these shareholder contributions will generally be classified as equity to the extent it has been agreed that such contributions will be compensated at fair value and that such contributions have the most subordinate claim over the net assets of the company. In future, this new regulation will result neither in any change in reporting procedures nor in any amendment in the valuation of shareholder contributions in the consolidated financial statements in future.

The amendment to IFRS 2 was published in January 2008 and requires first-time application in financial years beginning on or after 1 January 2009. On the one hand, the amendment clarifies that vesting conditions only involve service and performance conditions. On the other hand, it also extends the accounting regulations governing the premature termination of share-based compensation plans to include terminations by employees. The transitional regulations provide for the retrospective application of the new regulation.

The revised version of IFRS 3 was published in January 2008 and requires first-time application in financial years beginning on or after 1 July 2009. The main amendment involves the introduction of an option when measuring non-controlling interests between recognition of the prorated identifiable net assets (the purchased goodwill method) and the full goodwill method, which requires the recognition of the entire goodwill of the company acquired, including the share allocable to non-controlling interests. Furthermore, the amendment also requires the reassessment of existing shareholdings through profit or loss upon control being gained for the first time (gradual corporate acquisition), the mandatory recognition upon acquisition of any consideration linked to the occurrence of future events and the recognition of transaction expenses through profit or loss. The transitional regulations provide for the prospective application of the new regulations. Given that the Group expects to continue to apply the purchased goodwill method in any future business combinations, it will not be affected by the new regulations. Overall, the reassessment required for gradual corporate acquisitions and the mandatory recognition of conditional consideration upon acquisition will result in increased volumes of goodwill.

Beate Uhse AG will make first-time application of the aforementioned standards from such time as when the application of the respective standards becomes mandatory.

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

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 at the same 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 upon 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 recognised through profit or loss in the period of such acquisition. The shares held by minority share-holders 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 share-holders. Any losses allocable to minority shareholders in excess of such minority share-holding are subsequently offset directly against the shares of the parent company.

All inter-company balances, transactions, income, expenses, as well as profits and losses on inter-company transactions included in the carrying amounts of assets, have been eliminated in full.

PRINCIPAL DISCRETIONARY DECISIONS AND ESTIMATES

Discretionary decisions

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

Obligations in connection with operating lease agreements – Group as lessee

The Group has concluded leasing agreements for the rental of retail stores and other real estate. The Group has determined that all of the significant risks and rewards in connection with 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 amounts of assets and liabilities in the coming financial year, have been outlined below.

Impairment of goodwill

The Group reviews at least once per year whether the value of its 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 2007, the carrying amount of goodwill amounted to EUR 14,940k (2006: EUR 15,709k).

Impairment of shares in associated companies and shareholdings

The Group assesses on each balance sheet reporting date whether there are any indications that the value of shares in associated companies or of shareholdings valued at updated cost 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.
In the case of shareholdings valued at fair value, the fair values have to be calculated using valuation method as of the reporting date. These valuation methods are based on estimates of the future income from the shareholdings.
As of 31 December 2007, the carrying amount of the shares in associated companies amounted to EUR 2,989k (2006: EUR 31,943k) and the carrying amount of shareholdings amounted to EUR 26,223k (2006: EUR 1,022k).

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 recognised through profit or loss in the period in which they are incurred.

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In the case of intangible assets, it is first necessary to ascertain whether they have limited or indeterminate useful lives. Intangible assets with limited useful lives are subject to straight-line amortisation over the period of their economic useful lives and reviewed for any impairment in their values whenever there are any indications that the value of the respective assets might be impaired. The period and method of amortisation for intangible assets with limited useful lives 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 recognised through profit or loss 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 recognition. 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 initial recognition, goodwill is valued at cost 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 takeover onwards to each of the cash generating units or groups of cash generating units at the Group which are expected to benefit from the synergies generated by such combination. This applies irrespective of whether other assets or liabilities of the Group have already been allocated to these units or groups of units. Each unit or group of units to which the goodwill has been allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Such level may not be larger than any of the segments on which either the primary or secondary reporting format of the Group is based in accordance with the provisions of IAS 14 ‚Segment 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.

Property, plant and equipment

Property, plant and equipment is recognised 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 recognition criteria are met. The scheduled straight-line depreciation has been based on the estimated useful lives of the assets:

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

The 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 recognised in the income statement through profit or loss 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 recognised 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 measured at fair value upon initial recognition, including the transaction expenses directly allocable to the acquisition of the financial asset or financial liability.
Financial assets are classified as ‚financial assets measured at fair value through profit or loss', as ‚loans and receivables', as ‚investments held until final maturity' and as ‚financial assets held for sale'. The Group determines the classification of its financial assets upon initial recognition 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 measured at fair value through profit or loss' or ‚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 measured at updated cost using the effective interest method. Profits and losses are recognized 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 held for sale

Financial assets held for sale are those non-derivative financial assets which are classified as held for sale and which are not included in any other category. These also include shareholdings held by the Group in corporations and commercial partnerships. Following initial recognition, financial assets held for sale are measured at fair value, with any profits or losses being recognised as other reserves in 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 recognised in equity is recognised in the income statement through profit or loss.
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.

Derivative financial instruments

Derivative financial instruments are used at the Beate Uhse Group to manage current and future interest rate risks. Derivative financial instruments are recognised at fair value. Changes in the fair value are recognised directly through profit or loss in the event of there being no effective hedging relationship to an underlying transaction. Where an effective hedging relationship exists, changes in the fair value are recognised directly in equity. The Group had no hedging relationships as of 31 December 2007.

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 recognition, all financial liabilities are measured 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 asset and (a) has assigned all major risks and rewards relating to the ownership of the financial asset or (b) has neither assigned nor retained all major risks and rewards relating to the ownership of the financial asset, but has nevertheless 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.

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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 assigned and the exercise price of the option.

Financial liabilities

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

Business combinations

Based on a contract dated 27 December 2007, Scala Großhandels GmbH & Co KG, Wiesbaden, acquired further shares in Lebenslust GmbH, Cologne. The level of share-holding was increased from 45.7 percent to 78.9 percent. This company, which was previously accounted for as an associated company, was therefore included as a subsidiary for the first time in the consolidated financial statements as of 31 December 2007. The costs of acquisition of the additional 33.2 percent of the shares in Lebenslust amounted to EUR 9k.
The carrying amounts of the assets and liabilities at the time of acquisition were as follows:

EUR 000s	
Property, plant and equipment	30
Inventories	245
Receivables, other assets	309
Cash and cash equivalents	72
	656
Liabilities	1,218
Net balance of assets and liabilities taken over	-562

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 452k. The goodwill is attributable in particular to the company's innovative business ideas. Had the business combination taken place at the beginning of the year, consolidated earnings would have been EUR 171k lower. At the same time, the Group's sales would have increased by EUR 1,789k.

Based on a purchase agreement dated 23 May 2007, Beate Uhse Einzelhandels GmbH acquired 100 percent of the shares in Erotic Delite AG, an unlisted company based in Switzerland, which operates a retail business in Haag (St. Gallen canton), with effect from 02 July 2007. The total acquisition costs of this business combination amounted to EUR 143k.

The carrying amounts of the assets and liabilities at the time of acquisition were as follows:

EUR 000s	
Property, plant and equipment	155
Inventories	99
Receivables, other assets	31
Cash and cash equivalents	121
	406
Liabilities	499
Net balance of assets and liabilities taken over	-93

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 236k. The goodwill is attributable in particular to the location in Switzerland from which Erotic Delite operates its retail business. Since the business combination, Erotic Delite has contributed an amount of EUR -86k 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 61k lower. At the same time, the Group's sales would have increased by EUR 92k.

The acquisition of the unlisted company Scala France SAS, Champigny Sur Marne, France, was consolidated for the first time as of 1 January 2007. The total acquisition costs of this business combination amounted to EUR 101k.

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The carrying amounts of the assets and liabilities at the time of acquisition were as follows:

EUR 000s	
Property, plant and equipment	362
Inventories	907
Receivables, other assets	636
Cash and cash equivalents	72
	1,977
Liabilities	2,283
Net balance of assets and liabilities taken over	-306

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 407k. The goodwill is attributable in particular to the reduction in the number of existing competitors. Since the business combination, Scala France SAS has contributed an amount of EUR -569k to the earnings of the Group.
Based on a purchase agreement dated 2 April 2007, AVN Productions BV, Netherlands, acquired 100 percent of the shares in Daring Media Group, Spain, from Woodmann Distributie BV, Netherlands. The purchase price of EUR 30.5k was equivalent to the value of the net carrying amounts thereby acquired. Since the business combination, Daring Media Group has contributed an amount of EUR -423k to the earnings of the Group.

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 recognised 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 recognised. 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 recognised directly in equity at the associated company are also recognised by the Group directly in 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 recognised 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 recognised for all taxable temporary differences, with the following exceptions:

- Deferred tax liabilities resulting from the initial recognition of goodwill arising from a business combination may not be stated.
- Deferred tax liabilities resulting from the initial recognition 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 resulting from the initial recognition of goodwill arising from a business combination may not be stated.
- Deferred tax claims may not be stated for deductible temporary differences arising upon the initial recognition 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 recognised 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.

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Deferred tax claims which have not been stated are reviewed at each balance sheet reporting date and recognised 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 recognised directly in equity are recognised in 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 cost or at their net disposal value if lower. 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 recognised 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.

Treasury stock
Any treasury stock acquired by the Group is deducted from equity. The purchase and sale of treasury stock is recorded is not recognised through profit or loss.

Interest-bearing loans
Loans are initially recognised 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 recognition, interest-bearing loans are subsequently measured at updated cost 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 recognised as income or expenses in cases where the net balance of the cumulative, unrecognised 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 recognised 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 recognised in equity and the fair value of the plan assets available for the direct fulfilment of obligations.

Other provisions

Provisions are stated in cases where the Group has a current (legal or constructive) 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 provision recognised as a liability (e.g. in connection with an insurance agreement), then the refund is only recognised as a separate asset in cases where such refund is virtually certain to occur. The expenses relating to the statement of the provision are recognised in the income statement following deduction of the refund. In cases where the impact of the interest effect is material, the provisions are discounted at an interest rate before tax which reflects the specific risks surrounding the obligation. In cases where provisions are discounted, the increase in provisions 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 pre-mature 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

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of the employment relationship, with obligations and personnel expenses being recognised 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 recognised as a non-current liability.

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 recognised at fair value at the time at which the respective agreements are concluded and are subsequently reassessed at fair value. Derivative financial instruments are recognised 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 2007.
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 recognition of hedging relationships are accounted for as follows:

- The effective portion of the income or loss from a hedging instrument is recognised directly in equity, taking due account of deferred taxes, while the ineffective portion is recognised through profit or loss.
- The amounts recognised in equity are recognised 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 recognised or in which a planned sale or purchase is undertaken.

The income or losses incurred on changes in the fair value of interest swaps not meeting the criteria for recognition as hedging transactions are recognised directly through profit or loss.

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 met 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 counter-consideration 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 carrying amount 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.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Share-based compensation

Up to and including 2006, the employees of the Group (including management staff) received share-based compensation which was settled using equity instruments.
Expenses which arose as a result of transactions settled by equity instruments were valued at the fair value of the equity instruments granted at the time of such being granted. The fair value was 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 non-lapsable. The amount charged or credited to the income statement reflects the development of the cumulative expenses reported at the beginning and at the end of the reporting period.
No expenses are recorded for rights to compensation which do not become non-lapsable.
In accordance with the transitional regulations, application is made of IFRS 2 in the case of all commitments of equity instruments made later than 7 November 2002 and which had not yet become non-lapsable on 1 January 2005.
No account needed to be taken of any dilutive effects resulting from outstanding share options.

Pursuant to IAS 33.47, a dilutive effect only arises when the average stock market price of the ordinary shares is in excess of the exercise price of the options during the reporting period. The earnings per share figures stated for previous years have not been retrospectively adjusted in order to account for changes in the price of ordinary shares.

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 straight-line basis over the term of the leasing agreement.

Foreign currencies

The consolidated financial statements are compiled in euros, the functional currency and reporting currency of the Group. Each company within the Group determines its own functional currency. The items included in the financial statements of the respective company are valued using this functional currency. Foreign currency transactions are initially translated 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 translated to the functional currency at the exchange rate valid on the reporting date. All currency differences are recognised under period earnings. Non-monetary items valued in a foreign currency at historical cost are translated at the rate valid on the day of the business transaction. Non-monetary items valued in a foreign currency at fair value are translated 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 translated into euros using the exchange rate on the reporting date. Income and expenses are translated using the weighted average exchange rate for the financial year. The translation differences arising upon such translation are recognised as a separate component in equity. Upon the disposal of a foreign business operation, the cumulative amount recognised in equity for this foreign business operation is released through profit or loss.
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 recognised.
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 use value calculated using cash flow forecasts based on business plans for a period of three years 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 7.25 percent (2006: 6.4 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	2006	2007
Retail	8,707	7,884
Wholesale		
of which: CGU ZBF Zeitschrift Buch- und Film-Vertriebs GmbH/ Pleasure-Verlagsgesellschaft mbH, Germany	1,136	1,136
CGU BU production Kft., Hungary	785	0
CGU Scala Agenturen BV, Netherlands	3,170	3,576
CGU Beate Uhse Max's AB, Sweden	1,274	1,255
CGU Lebenslust	0	452
Entertainment	534	534
Miscellaneous	103	103
	15,709	**14,940**

To enable its ongoing value to be reviewed, 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 5,855k as of 31 December 2007 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 assumptions.

Basic assumptions underlying the calculation of the use value of cash generating units as of 31 December 2007 and 31 December 2006

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.

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Gross profit margins will increase as a result of the group-wide 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	2006	2007
Retail	261	2,451
of which: goodwill	268	1,336
plant and office equipment	-7	1,115
Wholesale (goodwill)	0	786
Miscellaneous	5	15
	266	**3,252**

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.
Write-ups of EUR 35k (previous year: EUR 47k) were recorded in the income statement under other operating income.
Impairment losses of EUR 2,216k (previous year: EUR 40k) were recorded in the income statement under sales-related expenses and of EUR 800k (previous year: EUR 0k) under other operating expenses.

NOTES TO THE CONSOLIDATED BALANCE SHEET

1 INTANGIBLE ASSETS AND GOODWILL

31 DECEMBER 2007

	Industrial property rights EUR 000s	Rights/ licences EUR 000s	Software EUR 000s	Prepayments made EUR 000s	Goodwill EUR 000s	Total EUR 000s
1 January 2007						
(including cumulative amortisation and impairments)	40	7,430	5,148	112	15,709	28,439
Additions - acquired externally	0	2,705	1,499	0	1,135	5,339
Disposals	0	-289	-1	-3	0	-293
Changes in scope of consolidation	0	0	1	0	236	237
Reclassifications	0	89	0	-89	0	0
Impairment losses	0	0	-3,700	0	-2,121	-5,821
Amortisation during financial year	0	-1,984	-347	0	0	-2,331
Effect of changes in exchange rates	0	-21	0	0	-19	-40
31 December 2007	**40**	**7,930**	**2,600**	**20**	**14,940**	**25,530**
1 January 2007						
Historic cost of acquisition / manufacture (gross carrying amount)	40	16,409	10,065	112	16,025	42,651
Cumulative amortisation and impairment losses	0	-8,979	-4,917	0	-316	-14,212
Carrying amount at 1 January 2007	**40**	**7,430**	**5,148**	**112**	**15,709**	**28,439**
31 December 2007						
Historic cost of acquisition / manufacture (gross carrying amount)	40	18,492	11,500	20	17,377	47,429
Cumulative amortisation and impairment losses	0	-10,562	-8,900	0	-2,437	-21,899
Carrying amount at 31 December 2007	**40**	**7,930**	**2,600**	**20**	**14,940**	**25,530**

Of the write-down expenses (impairment losses), EUR 3,700k are attributable to the mail order segment, EUR 1,336k to the retail segment and EUR 785k to the wholesale segment.

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

2 PROPERTY, PLANT AND EQUIPMENT

31 DECEMBER 2007

	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 2007 (including cumulative depreciation and impairments)	24,735	119	29,758	419	55,031
Additions - acquired externally	790	67	7,351	421	8,629
Disposals	-19,497	-13	-628	-176	-20,314
Changes in scope of consolidation	0	0	234	0	234
Reclassifications	0	0	249	-249	0
Write-ups	0	0	35	0	35
Impairment losses	0	0	-1,130	0	-1,130
Depreciation during financial year	-1,226	-49	-8,397	0	-9,672
Effect of changes in exchange rates	-8	0	2	0	-6
31 December 2007	**4,794**	**124**	**27,474**	**415**	**32,807**
1 January 2007					
Historic cost of acquisition / manufacture (gross carrying amount)	30,779	467	71,149	419	102,814
Cumulative depreciation and impairment losses	-6,044	-348	-41,391	0	-47,783
Carrying amount at 1 January 2007	**24,735**	**119**	**29,758**	**419**	**55,031**
31 December 2007					
Historic cost of acquisition / manufacture (gross carrying amount)	9,948	471	74,894	415	85,728
Cumulative depreciation and impairment losses	-5,154	-347	-47,420	0	-52,921
Carrying amount at 31 December 2007	**4,794**	**124**	**27,474**	**415**	**32,807**

Of the write-down expenses (impairment losses), EUR 1,115k are attributable to the retail segment and EUR 15k to the entertainment segment.

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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. Januar 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	0	-77	-17	109
Reclassifications	-359	73	429	-143	0
Write-ups	0	0	50	0	50
Impairment losses	0	0	-46	0	-46
Depreciation during financial year	-1,230	-49	-6,465	0	-7,744
Effect of changes in exchange rates	6	2	-7	0	1
31 December 2006	**24,735**	**119**	**29,758**	**419**	**55,031**
1 January 2006					
Historic cost of manufacture (gross carrying amount)	12,409	546	60,906	273	74,134
Cumulative depreciation and impairments	-5,315	-472	-41,510	0	-47,297
Carrying amount at 1 January 2006	**7,094**	**74**	**19,396**	**273**	**26,837**
31 December 2006					
Historic cost of acquisition / manufacture (gross carrying amount)	30,779	467	71,149	419	102,814
Cumulative depreciation and impairments	-6,044	-348	-41,391	0	-47,783
Carrying amount at 31 December 2006	**24,735**	**119**	**29,758**	**419**	**55,031**

3 OTHER NON-CURRENT FINANCIAL ASSETS

EUR 000s	2006	2007
Loans to shareholdings	0	4,615
Loans to associated companies	5,000	0
Deposits	1,489	1,162
Miscellaneous	5,522	2.717
	12,011	**8,494**

4 SHAREHOLDINGS

EUR 000s	2006	2007
Shareholdings in commercial partnerships	767	767
Shareholdings in corporations	255	25,456
	1,022	**26,223**

On 3/25 September 2007, the company concluded a purchase and purchase rights agreement with Bernhard Müller and Edouard Stöckli concerning the company's share-holding in tmc Content Group AG (previously: erotic media ag). This involved the company selling 2,000,000 shares in tmc Content Group AG to Bernhard Müller and Edouard Stöckli at a price of EUR 2.30 per share. In return for the transfer of 1,000,000 shares in tmc Content Group AG in each case, a total of EUR 2.0 million was paid as purchase price on each of 16 October 2007 and 19 December 2007. Further amounts of EUR 200,000 are due for payment on each of 31 August 2008, 31 August 2009 and 31 August 2010. Furthermore, the company granted the following purchase options to the two buyers with regard to the shares it holds in tmc Content Group AG: (I) a purchase option for 2,300,000 shares at EUR 2.36 per share within a period of 12 months from 23 October 2007, i.e. for a total of EUR 5,428,000, (II) a purchase option for 4,300,000 shares at EUR 2.39 per share within a period of 24 months from 23 October 2007, i.e. for a total of EUR 10,277,000 (plus any shares from the first option for which such option was not exercised at a price of EUR 2.39) and (III) a purchase option for 4,400,000 shares within a period of 36 months from 23 October 2007 at EUR 2.69 per share, i.e. for a total of EUR 11,836,000 (plus any shares from the first and/or second option for which such options were not exercised at a price of EUR 2.69 per share). Such purchase options must be executed in each case within 30 days following receipt of the notification of the intention to exercise them.

With the exception of 11 million shares held in the publicly listed company tmc Content Group AG, financial investments in equity instruments have been valued pursuant to IAS 39 at cost, since their fair value cannot be reliably determined.

The shares held in tmc Content Group AG have been measured as a financial instrument held for sale with a fair value of EUR 25,300k. The fair value was determined using a capitalised earnings valuation method at EUR 2.3 per share and is thus higher than the stock market price of the share as of 31 December 2007. The carrying amount of the shares at the time at which tmc Content Group AG ceased to be an associated company amounted to EUR 25,167k. Pursuant to IAS 39, this was taken as the cost of acquisition upon initial measurement. Due to a low transaction volume, the stock market price does not reflect the fair value of the share.

5 SHARES IN ASSOCIATED COMPANIES

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 carrying amounts developed as follows during the financial year:

EUR 000s	2006	2007
Fun Factory GmbH	1,304	1,496
Beate Uhse TV GmbH & Co. KG	1,309	1,493
tmc Content Group AG	29,330	0
	31,943	**2,989**

The cumulative total amount of unrecognised prorated losses incurred from associated companies amounted to EUR 0k at 31 December 2007 (previous year: EUR 112k).

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

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

BEATE UHSE TV GMBH & CO. KG

EUR 000s	2006	2007
ASSETS		
Non-current assets	2,885	2,913
Current assets	1,727	1,911
Total assets	4,612	**4,824**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	3,214	3,588
Current debt	1,398	1,236
Total shareholders' equity and liabilities	4,612	**4,824**
INCOME STATEMENT		
Sales	8,159	8,202
Annual earnings	360	**374**

Summarised annual financial statements of Fun Factory GmbH, Bremen:

FUN FACTORY GMBH, BREMEN

EUR 000s	2006	2007
ASSETS		
Non-current assets	626	860
Current assets	3,400	3,710
Total assets	4,026	**4,570**
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity	2,974	2,885
Current debt	1,052	1,685
Total shareholders' equity and liabilities	4,026	**4,570**
INCOME STATEMENT		
Sales	11,801	9,679
Annual earnings	1,249	**371**

6 INVENTORIES

EUR 000s	2006	2007
Merchandise	32,738	26,167
Raw materials and supplies	6,829	7,134
Goods in transit	1,572	1,280
Unfinished products	251	189
	41,390	**34,770**

Write-downs of EUR 1,204k to the lower net selling price had been recorded as of the balance sheet reporting date on 31 December 2007 (previous year: EUR 4,599k).

7 OTHER CURRENT FINANCIAL ASSETS AND OTHER ASSETS

EUR 000s	2006	2007
Accrued income	652	1,278
Suppliers with debit balances	642	670
Other receivables	455	794
VAT credits	2,388	1,102
Miscellaneous	78	23
	4,215	**3,867**

8 CASH AND CASH EQUIVALENTS

EUR 000s	2006	2007
Credit balances at banks	4,537	5,595
Cash in transit	1,356	1,424
Cash holdings	539	389
	6,432	**7,408**

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.

9 SHARE CAPITAL

The fully paid-in 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 share-holders' equity.

SHARES IN CIRCULATION

	Shares / Number
Number of ordinary shares	47,323,696
Treasury stock as of 1 January 2006	-281,404
Shares in circulation as of 1 January 2006	**47,042,292**
Sale of treasury stock in the 2006 financial year	89
Shares in circulation as of 31 December 2006	**47,042,381**
Sale of treasury stock in the 2007 financial year	44
Shares in circulation as of 31 December 2007	**47,042,425**

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.
As a result of the capital increase executed on 13 February 2008, the authorised capital no longer exists.

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 satisfied by granting treasury stock. As of 31 December 2007, 788,744 option rights of EUR 1.00 each were outstanding.

Conditional Capital 2

On the basis of a resolution adopted by the Annual General Meeting on 20 June 2005, the share capital is 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 warrant bonds of Beate Uhse AG or direct or indirect majority shareholdings of Beate Uhse AG pursuant to Sec. 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 Sec. 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 meet such conversion obligations, to the extent that such conversion and option rights are not satisfied 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.

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 at that time by an Annual General Meeting.
Further treasury stock was acquired in December 2001 and January 2002 for the purposes of total 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 was 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 Number	Share of share capital in percent	Cost of acquisition EUR 000s
Balance at 1 January 2006	281,404	0.596	3,464
Disposal	89		
Balance at 31 December 2006	281,315	0.595	3,463
Disposal	44		
Balance at 31 December 2007	**281,271**	**0,594**	**3,463**

The disposal did not generate any material income on disposal.

13 CAPITAL RESERVE

The capital reserve includes the carrying amount of the obligations to employees of the Beate Uhse Group in connection with share-based compensation.
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 at which they are granted. The option right may be exercised for the first time after a holding period (lockup period) of 2 years after it has been 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.

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OPTION RIGHTS

	2006		2007	
EUR	Options	WAEP[1]	**Options**	**GDAP[1]**
Outstanding at beginning of reporting period	708,086[2]	11.08	830,945	9.35
Granted during the reporting period	200,002	5.94	0	0
Lapsed during reporting period	-77,143	10.48	-42,201	6.62
Outstanding at end of reporting period	830,945	9.35	788,744	10.77
Exercisable at end of reporting period	460,709	11.19	619,156	10.47

[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 recognised 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 2007 amounted to 3.58 years (2006: 4.58 years).
The exercise prices for the options outstanding at the end of the reporting period range from EUR 5.94 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 amount relating to share-based compensation with settlement by equity instruments recognised as expenses amounted to EUR 81k during the 2007 financial year (previous year: EUR 191k).
No share-based compensation involving cash settlement has been granted.
The carrying amount of the share-based compensation reported in the capital reserve amounted to EUR 745k as of 31 December 2007 (previous year: EUR 664k).

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 held for sale are recorded in these reserves. These reserves also include that portion of the profit or loss on a cash flow hedge which is calculated as the effective cover.

Balancing item for currency translation

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

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 3,026k have been recorded in the consolidated income statement in connection with this defined contribution plan (previous year: EUR 3,138k).

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	2006	**2007**	2006	**2007**	2006	**2007**
Current length of service expenses	-16	-5	0	0	-16	-5
Interest expenses	-158	-168	-30	-31	-188	-199
Actuarial losses recognised	-164	-28	-156	0	-320	-28
Impact of plan compensation	0	0	0	0	0	0
	-338	**-201**	-186	**-31**	-524	**-232**
Actual income from plan assets	-10	37	6	7	-4	44

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		Gesamt	
EUR 000s	2006	**2007**	2006	**2007**	2006	**2007**
Present value of defined benefit obligation	3,967	3,491	720	617	4,687	4,108
Asset value of reinsurance	-462	-500	-269	-275	-731	-775
Asset shortfall	**3,505**	**2,991**	**451**	**342**	**3,956**	**3,333**
Actuarial losses / gains not recognised	-365	86	-23	111	-388	197
Debts reported in balance sheet in connection with defined benefit obligation	3,140	**3,077**	428	**453**	3,568	**3,530**

The amount is presented in the balance sheet as follows:

EUR 000s	2006	**2007**
Current debt	241	247
Non-current debt	3,327	3,283
	3,568	**3,530**

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

DEVELOPMENT OF DEFINED BENEFIT OBLIGATIONS

	Beate Uhse AG		ZBF GmbH		Gesamt	
EUR 000s	2006	**2007**	2006	**2007**	2006	**2007**
1 January	2,996	3,139	250	429	3,246	3,568
Current length of services expenses	16	5	0	0	16	5
Interest expenses	158	168	29	31	187	199
Actuarial losses	164	28	156	0	320	28
Benefits paid	-205	-226	0	0	-205	-226
Income from plan compensation	0	0	0	0	0	0
Income from plan assets	10	-37	-6	-7	4	-44
31 December	3,139	**3,077**	429	**453**	3,568	**3,530**

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

BASIC ASSUMPTIONS

EUR 000s	2006	2007
Interest rate	4.35 percent	5.4 percent
Expected return on plan assets	2.0 percent	2.0 percent
Development of salaries and entitlement	2.0 percent	2.0 percent
Development of social security contributions ceiling	2.0 percent	2.0 percent
Adjustment rate	2.0 percent	2.0 percent
Personnel turnover	approx. 5 percent for active employees	-
Retirement age:		
Men	63	63
Women	60 or 63	60 or 63
Special cases	at least 60	-
ZBF GmbH individual commitments	65	65
Invalidity or death	Heubeck tables 2005G	Heubeck tables 2005G

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

EUR 000s	2005	2006	2007
Present value of defined benefit obligation	4,801	4,687	4,108
Fair value of plan assets	734	731	775

16 OTHER PROVISIONS (NON-CURRENT)

EUR 000s	1 Jan 2007	Added	Utilised	Reclassified	31 Dec 2007
Dismantling obligations at retail stores	1,582	158	47	0	1,693
Pending losses on existing agreements	455	671	164	-45	917
Part-time early retirement	136	0	13	0	123
Anniversary accrual	27	116	0	0	143
	2,200	**945**	**224**	**-45**	**2,876**

17 OTHER FINANCIAL OBLIGATIONS (NON-CURRENT)

EUR 000s	2006	2007
Obligations in connection with call options	0	414
Miscellaneous	261	115
	261	**529**

The obligations in connection with call options relate to rights granted for the purchase of 11 million shares in tmc Content Group AG. We refer to the information disclosed under Note 4 'Shareholdings'.

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18 OTHER FINANCIAL OBLIGATIONS (CURRENT)

EUR 000s	2006	2007
Customer overpayments	2,507	3,592
VAT liabilities	990	2,199
Wages and salaries	2,340	2,094
Returned goods	1,285	970
Outstanding invoices	589	874
Social security contributions	795	802
Payroll and church tax	750	572
Compensation	105	357
Miscellaneous	3,373	3,278
	12,734	**14,738**

19 OTHER PROVISIONS (CURRENT)

EUR 000s	1 Jan 2007	Added	Utilised	Released	31 Dec 2007
Compensation	0	1,697	0	0	1,697
Litigation expenses	350	876	169	50	1,007
Damages payments	809	150	100	0	859
Film promotion duty	230	26	0	41	215
Indexing of rents	284	88	21	1	350
Part-time early retirement	137	0	45	0	92
Pending losses on existing rental agreements	82	217	82	0	217
	1,892	**3,054**	**417**	**92**	**4,437**

20 LOANS AND SECURITY

EUR 000s	2006	2007
Overdraft facilities	40,754	26,084
Bank loans	30,723	19,845
Borrowers' note loans	15,714	19,712
Other loans	79	405
	87,270	**66,046**

The loans were allocated to balance sheet items as follows:

Short-term loans	40,833	26,427
Short-term portion of long-term loans	5,618	32,797
of which: short-term portion of borrowers' note loans	1,428	19,712
Long-term interest-bearing loans	40,819	6,822
of which: long-term portion of borrowers' note loans	14,286	0
	87,270	**66,046**

The following disclosures concerning the terms of the individual credit facilities / loans relate to the terms originally agreed. As a result of the standstill agreement dated 29 October / 1 November 2007, all loans / credit facilities became due for payment on 29 February 2008 and were superseded by the follow-up financing facility of EUR 42.5 million on 29 February 2008. The standstill agreement excluded one operating lease agreement of Pabo B.V. at KBC Lease (Nederland) BV (as of 31 December 2007: EUR 7,415k; of which long-term: EUR 6,682k) and one amortisable loan of Christine le Duc B.V. at Rabobank (as of 31 December 2007: EUR 115k; of which long-term: EUR 79k) and three loans of Lebenslust GmbH amounting to EUR 321k (of which long-term: EUR 61k). The following disclosures provide details of the loans now redeemed and their original terms and conditions:

As of 31 December 2007, working capital credit lines amounting to EUR 33.5 million were available to Beate Uhse AG (previous year: EUR 49 million), of which EUR 25,544k had been utilised (previous year: EUR 34,223k).
The overdraft facilities mature at any time.

To provide long-term refinancing for the investments made in 2005 and 2006, which were financed on a short-term basis, a 7-year amortisable loan was taken up from IKB Deutsche Industriebank AG in April 2005. This loan of EUR 10 million with a term running until March 2012 was 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. Due to the scheduled repayments and an unscheduled repayment of EUR 191,800.00, the value of the loan amounted to EUR 6,104,496.30 at 31 December 2007. 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 with terms running until 30 March 2016 in each case 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 at IKB Deutsche Industriebank AG

EUR 4.5 million at Nord/LB Norddeutsche Landesbank Girozentrale

EUR 4 million at Flensburger Sparkasse.

The land and buildings were sold in June 2007 and subsequently leased back. From the proceeds of EUR 19.5 million on the sale, an amount totalling EUR 14,450k was used to repay the three amortisable loans listed above prematurely on 9 November 2007.

A loan of EUR 5 million payable upon final maturity and with a term running until 30 June 2009 was taken up at Deutsche Postbank AG on 9 November 2006. 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 10,000k had remaining terms of 1 to 5 years (previous year: EUR 4,286k) and EUR 9,712k a remaining term of more than 5 years (previous year: EUR 10,000k).

The amortisable borrowers' note loan placed on the financial markets in October 2003 with an original total of EUR 10 million and a term running until October 2010 was repaid in 2007.

The borrowers' note loan payable upon final maturity placed on the financial market in February 2006 had a term running until 17 February 2013 and served to redeem the borrowers' note loan of EUR 10.5 million placed in February 2003. Following an unscheduled repayment, this loan amounted to EUR 9,712,400.00 as of 31 December 2007.

Two new borrowers' note loans of EUR 5 million each payable upon final maturity and with terms running until April 2012 and June 2012 respectively were taken up February 2007 and May 2007. These replaced the working capital credit line of EUR 10 million from Commerzbank AG.

An operating lease agreement with advance financing was concluded between Pabo B.V. and Pabo Holding B.V. and KBC Lease (Nederland) B.V. on 11 May 2005 for the logistics system at the new fulfilment centre in Walsoorden. At the end of March 2007, the advance financing facility with a volume of EUR 7,994,675.00 converted in full to a leasing agreement with a term running until the end of March 2016.

In the course of the acquisition of Christine le Duc B.V. in 2003, two amortisable loans with an original volume of EUR 817k were taken up with Rabobank. One of these loans was repaid on schedule in October 2007. The second loan had a value of EUR 115k as of 31 December 2007 and will be repaid by the end of February 2011 with monthly instalments of EUR 3,025.35.

Following the acquisition by Scala Großhandels GmbH & Co. KG of further shares in Lebenslust GmbH, the level of shareholding increased from 45.7 percent to 78.9 percent. As a result of the full consolidation of this company for the first time as of 31 December 2007, three loans at Lebenslust GmbH have been reported. These consist of two long-term loans from other shareholders (EUR 61k) and a short-term loan of EUR 260k. The short-term loan will be replaced by an inter-company loan by the end of April 2008.

Financial covenants have been agreed in connection with working capital credit lines and long-term loans with Commerzbank AG, Bayerische Hypo- und Vereinsbank AG, Flensburger Sparkasse, HSH Nordbank AG, IKB Deutsche Industriebank AG, Nord/LB Norddeutsche Landesbank and HSBC Trinkaus & Burkhardt AG, as well as with the three investors of the borrowers' note loan of EUR 10 million payable upon final maturity placed in February 2006 and the two investors of the amortisable borrowers' note loan of EUR 10 million placed in November 2003.

The company's non-compliance with individual financial key figures as of December 2006 and June 2007 was followed by loan terminations from two lenders of an amortisable borrowers' note loan originally amounting to EUR 10 million placed in October 2003 and of the working capital credit lines provided by two financial institutions (EUR 15 million), of which one financial institution (EUR 10 million) and one lender (EUR 2.3 million) were redeemed in the first half of 2007.

To secure the liquidity of the Beate Uhse Group, a standstill agreement with a term finally running until the end of October 2007 was then concluded with the existing lenders at the beginning of August 2007. The standstill agreement was then reformulated on 29 October / 1 November 2007 and provided for the redemption of HSBC Trinkaus & Burkhardt AG (EUR 4 million) and of the second borrowers' note loan lender (EUR 3.4 million).

Subject to the provision of security and the fulfilment of various conditions, since then HSH Nordbank AG, Flensburger Sparkasse, Deutsche Postbank AG, IKB Deutsche Industriebank AG, Bayerische Hypo- und Vereinsbank AG, Nord/LB Norddeutsche Landesbank and three investors of a further borrowers' note loan of EUR 10 million from February 2006 provided Beate Uhse AG with a total credit volume of EUR 69.5 million with a term running until 29 February 2008.

The security thereby agreed consists of:

- Pledge of the company shares held in the group companies Beate Uhse new medi@ GmbH, Beate Uhse Einzelhandels GmbH, Versandhaus Beate Uhse GmbH, Scala Großhandel GmbH & Co. KG, Scala Beteiligungs GmbH and Beate Uhse B.V.

- Pledge of brand/trademark rights (brand worth EUR 59 million in 2007 according to Semion Brand) and undisclosed pledge of licence receivables. The revenues on licence receivables totalled around EUR 1,028k in 2007.

- Disclosed pledge of receivables and claims of Beate Uhse AG in connection with the purchase agreement and purchase right agreements dated 3 and 25 September 2007 with regard to the shares in tmc Content Group AG (previously: erotic media ag). The remaining purchase price receivable amounted to EUR 600k as of 31 December 2007. The exercising of the purchase rights for a total of 11,000,000 shares in tmc Content Group AG would result in a further receivable of EUR 27,541k.

- Disclosed pledge of insurance claims of Beate Uhse AG in connection with the water damages at Walsoorden, Netherlands, in November 2006.

- Undisclosed pledge of all current and future receivables of Beate Uhse AG in connection with loans and accounts receivable due from its group companies. These receivables amounted to EUR 41,189,829.46 as of 31 December 2007.

The signing of a syndicated loan agreement on 4/5 February 2008 with a bank consortium consisting of HSH Nordbank AG as leader of the consortium, Flensburger Sparkasse, Deutsche Postbank AG and IKB- Deutsche Industriebank AG, the reduced borrowing requirement of EUR 42.5 million due to planned asset sales and the capital increase in February 2008 was secured with a follow-up financing facility through till 28 February 2010. The syndicated loan covers the bank loans of Beate Uhse AG. The operating lease agreement and the amortisable loan at the subsidiaries Pabo B.V./Pabo Holding B.V. and Christine le Duc will continue to run in parallel, as will the loans at Lebenslust GmbH.

The syndicated loan facility was granted on the basis of the security provided until 29 February 2008 within the framework of the standstill agreement, additional security, the meeting of various conditions and key financial figures.

The security provided for the syndicated loan consists of:

- Joint and several liability (or pledge if legally unenforceable) of the companies Beate Uhse new medi@ GmbH, Beate Uhse Einzelhandels GmbH, Versandhaus Beate Uhse GmbH, Scala Großhandel GmbH & Co. KG, Scala Beteiligungs GmbH and Beate Uhse B.V., Pabo B.V, Pabo Versandhandel GmbH, Pabo S.A.S.U., Scala Agenturen B.V., ZBF Zeitschrift-Buch-und Film Vertriebs GmbH.

- Negative pledge of Beate Uhse AG and the aforementioned jointly liable companies in respect of the encumbrance of current and future assets.

- Pledge of brand / trademark rights (brand worth EUR 59 million in 2007 according to Semion Brand) and undisclosed pledge of licence claims. The revenues on licence receivables totalled around EUR 1,028k in 2007.

- Disclosed pledge of receivables and claims of Beate Uhse AG in connection with the purchase agreement and purchase right agreements dated 3 and 25 September 2007 with regard to the shares in tmc Content Group AG (previously: erotic media ag). The remaining purchase price receivable amounted to EUR 600k as of 31 December 2007. The exercising of the purchase rights for a total of 11,000,000 shares in tmc Content Group AG would result in a further receivable of EUR 27,541k.

- Disclosed pledge of insurance claims of Beate Uhse AG in connection with the water damages at Walsoorden, Netherlands, in November 2006.

- Undisclosed pledge of all current and future receivables of Beate Uhse AG in connection with loans and accounts receivable due from its group companies. These receivables amounted to EUR 41,189,829.46 as of 31 December 2007.

The financial covenants to be calculated on the basis of rolling group figures at the end of each quarter, and for the first time as of 30 June 2008, stipulate minimum / maximum limits for the EBITDA margin, debt/equity ratio, interest cover and equity ratio.

More specifically, the financial covenants are as follows:

EBITDA margin (EBITDA/sales)

EBITDA margin > 7.5 for the second quarter of the 2008 financial year
EBITDA margin > 8.0 for the third and fourth quarters of the 2008 financial year
EBITDA margin > 9.0 for the first and second quarters of the 2009 financial year
EBITDA margin >10.0 from the third quarter of the 2009 financial year

Debt/equity ratio
For the 2008 financial year (Debt / EBITDAR) <= 5.0
From the 2009 financial year (Debt / EBITDAR) <= 4.0

Interest cover ratio (EBITDA/net interest expenses)

For the second quarter of the 2008 financial year:	> 5,0
For the third and fourth quarters of the 2008 financial year:	> 7,0
From the 2009 financial year:	> 10,0

Economic equity ratio => from the 2008 financial year

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, overdraft facilities, borrowers' note loans, cash, short-term deposits and shares in publicly listed companies. 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 hedge 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 group-wide early risk identification system.

Interest rate risk

The risk of fluctuations in market interest rates to which the Group is exposed primarily results from short-term and long-term loan liabilities with floating interest rates.
The interest expenses of the Group are managed using debt capital with a combination of fixed and floating interest rates. To achieve this objective, the Group concludes interest swaps enabling it at fixed intervals to swap with the banks an amount equivalent to the difference between the fixed and the floating interest amounts calculated by reference to a nominal amount agreed in advance.
At 31 December 2007, the existing interest swaps covered 95.9 % of the volume of bank liabilities with floating interest rates (2006: 66.3 %).

Interest swaps

If the interest rate level had been 100 base points higher as of 31 December 2007, the positive market value would have totalled EUR 2,199.8k. This would have led to a profit of EUR 1,096.8k in the 2007 financial year, which would have been recognised through profit or loss.

If the interest rate level had been 100 base points lower as of 31 December 2007, the positive market would have totalled EUR 19.2k. This would have led to a loss of EUR 1,083.7k in the 2007 financial year, which would have been recognised through profit or loss.

Overview of interest rate risk

The following table shows the sensitivity of consolidated earnings before taxes to any potential change in interest rates which might reasonably be expected. The sensitivity results from the implications of such change for loans with floating interest rates – excluding interest swaps:

	Increase / reduction in base points	Impact on earnings before taxes EUR 000s
2007		
EUR	+ 100	(427)
EUR	- 100	427
2006		
EUR	+ 100	(642)
EUR	- 100	642

Foreign currency risk

The Group is exposed to foreign currency risks mainly relating to the procurement of merchandise using currencies other than the Group's currency. Foreign exchange forward and options transactions are concluded in some cases in order to eliminate the risks resulting from exchange rate movements. As of 31 December 2007, the Group did not have any hedging transactions relating to the currency risks associated with payment obligations.
The following table shows the sensitivity of consolidated earnings before taxes to any potential change in exchange rates which might reasonably be expected. The sensitivity results from the implications of such change for receivables and liabilities denominated in the relevant currencies.

	Change in exchange rate of foreign currency to 1 EUR	Impact on earnings before taxes	Impact on shareholders' equity
2007			
USD	+ 10%	(78)	(78)
	- 10%	95	67
GBP	+ 10%	21	15
	- 10%	(26)	(26)
SKK	+ 10%	(10)	(10)
	- 10%	12	8
CZK	+ 10%	(20)	(20)
	- 10%	24	17
2007 total	**+ 10%**	**(87)**	**(93)**
	- 10%	**105**	**66**
2006			
USD	+ 10%	(105)	(105)
	- 10%	128	79
GBP	+ 10%	15	9
	- 10%	(18)	(18)
SKK	+ 10%	(2)	(2)
	- 10%	3	2
CZK	+ 10%	(9)	(9)
	- 10%	11	7
2006 total	**+ 10%**	**(101)**	**(107)**
	- 10%	**124**	**70**

Credit and default risk

The Group's default risk primarily relates to 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 held for sale and certain derivative financial instruments, the Group is exposed to a maximum default risk amounting to the carrying amounts of the respective instruments 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. Loans granted in connection with the supply of merchandise represent an exception in this respect.
Beate Uhse Einzelhandels GmbH has thirteen licence partners to which it has granted instalment loans in connection with the supply of merchandise. These loans had a volume of EUR 289k as of 31 December 2007.

Beate Uhse Fun Center GmbH has granted a loan to a third party to take over the stocks at a discontinued shop. This loan had a value of EUR 202k as of 31 December 2007.

Scala Agenturen BV has assigned a warehouse and pledged receivables in order to secure a trade credit amounting to EUR 225k. The credit agreement provides for the repayment of the trade credit by February 2009.

Beate Uhse AG has received a bank guarantee of EUR 400k to cover the remaining purchase price claim of the same amount in connection with the sale of the "Am Pferdewasser, Flensburg" property. This amount is due for payment on 30 June 2008.

Moreover, Beate Uhse AG has taken up a guarantee from Flensburger Sparkasse for a loan of EUR 5 million at tmc Content Group AG. The loan has a term running until 30 June 2009.

Liquidity risk

MATURITIES OF ACCOUNTS RECEIVABLE

EUR 000s	0 days	30 days	60 days	90 days	> 90 days	Total
31.12.2006	7,190	6,118	3,130	4,053	46,385	66,876
Individual allowance						**-39,272**
31.12.2007	3,984	11,608	4,515	3,429	27,582	51,118
Individual allowance						**-21,004**

Write-down expenses (impairment losses) of EUR 12,906k have been recognised in the income statement for accounts receivable (previous year: EUR 16,120k).

Accounts payable are due for payment within one year.

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 available in good time.

Market risk

The option to purchase a total of 11 million shares in tmc Content Group AG granted in the 2007 financial year has basically resulted in a market risk. Beate Uhse AG has undertaken to sell the shares at a price of between EUR 2.36 and EUR 2.69 in the event of the purchase option being exercised. Reference is made to the disclosures made in Note 4 'Shareholdings' of these notes to the consolidated financial statements. Given that Beate Uhse AG holds the shares and is not permitted to sell them for the term of the purchase option, the market risk of the option granted is compensated for by increases in the value of the shares thereby held. The remaining market risk for the shares thereby held is equivalent to their carrying amount of EUR 25,300k.

22 FINANCIAL INSTRUMENTS

The table below provides a comparison of the carrying amounts and the fair values of the financial instruments of the Group recognised in the balance sheet.

FINANCIAL INSTRUMENTS

	Carrying amont 31.12.2007	Balance sheet value pursuant to IAS 39: Updated cost	Balance sheet value pursuant to IAS 39: Fair value in equity	Balance sheet value pursuant to IAS 39: Fair value through profit or loss	Fair value 31.12.2007
ASSETS					
Financial assets					
Other non-current financial assets	8,494	7,391	-	1,103	8,494
Shareholdings	26,223	923	25,300		26,223
Other current financial assets and other assets	3,867	3,867	-	-	3,867
SHAREHOLDERS' EQUITY AND LIABILITIES					
Financial liabilities					
Interest-bearing loans	6,822	6,822	-	-	6,457
Other non-current financial debt	529	115	-	414	529
Accounts payable	20,423	20,423	-	-	20,423
Other current financial debt	14,738	14,738			14,738
Short-term loans	26,427	26,427	-	-	26,427
Short-term portion of long-term loans	32,797	32,797	-	-	32,797

The fair value of the interest swap (EUR 1,103k) reported under other non-current assets is equivalent to its market value as of 31 December 2007.

A capitalised earnings valuation method was used to determine the fair value of the listed financial assets held for sale (11,000,000 shares in tmc Content Group AG), which have been reported under shareholdings at a value of EUR 25,300k. The reassessment of the shares as of 31 December 2007 resulted in a profit of EUR 137k which was recognised directly in equity under other reserves. The capitalised earnings value was calculated by discounting the annual net surpluses expected for the next three years plus a perpetuity figure equivalent to the annual net surplus for the third year. A growth discount of 0.25% was accounted for in the perpetuity figure. The discounting was based on an interest rate of 9.95%.

The options granted for the purchase of 11 million shares in tmc Content Group AG have been reported under other non-current financial debt. The valuation of these call options using a Black-Scholes option price model resulted in a fair value of EUR 414k.

The fair value of loans and other assets and liabilities was calculated by discounting the expected future cash flows using prevalent market interest rates.

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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 2007

Fixed interest rate EUR 000s	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Borrowers' note loans	19,712	0	0	0	0	0	19,712
Amortisable loans*	13,085	810	854	871	914	3,373	19,907
Overdraft facilities*	24,293	0	0	0	0	0	24,293
Payer swaps*	0	(42)	(516)	0	(184)	(361)	(1,103)

* As of 31 December 2007, the Group had eight interest swaps (payer swaps) amounting to EUR 41,609k with terms running until June 2009 (EUR 5 million), April 2010 (EUR 15 million), March/June 2012 (EUR 11.3 million) and March 2016 (EUR 10.3 million), covering the interest rates of an equivalent volume of amortisable loans and overdraft facilities.

FINANCIAL YEAR ENDING ON 31 DECEMBER 2007

Floating interest rate EUR 000s	Up to 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Cash and short-term deposits	(7,408)	0	0	0	0	0	(7,408)
Overdraft facilities	2,051	0	0	0	0	0	2,051
Amortisable loans	0	0	0	0	0	0	0

FINANCIAL YEAR ENDING ON 31 DECEMBER 2006

Fixed interest rate EUR 000s	Up to 1 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	0	10,000	15,714
Amortisable loans*	3,181	3,182	8,181	3,182	3,182	7,595	28,503
Overdraft facilities*	13,000	0	0	0	0	0	13,000
Payer s waps*	0	0	(5)	(303)	0	(664)	(972)

* As of 31 December 2006, the Group had interest swaps (payer swaps) amounting to EUR 43.5 million with terms running 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), 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	Up to 1 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)	0	0	0	0	0	(6,432)
Overdraft facilities	27,754	0	0	0	0	0	27,754
Amortisable loans	1,008	1,212	0	0	0	0	2,220

Financial instruments: recognition and measurement of financial guarantees

The Group had the following financial guarantees as of 31 December 2007:

EUR 000s			Fair value	
No.	Guarantor	Initial value	2006	**2007**
1	Commerzbank AG	80	80	80
2	Beate Uhse AG	5,000	5,000	5,000
3	Beate Uhse AG	9,218	6,711	5,741
			11,791	**10,821**

Re: No. 1
On the basis of a deed of suretyship dated 25 January 2007, Bayerische Hypo- und Vereinsbank 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 tmc Content Group AG due to reach final maturity on 30 June 2009.

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 of the wholly-owned subsidiary Scala Agenturen BV, Netherlands to Immo Almere BV, which are pledged to the bank. 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

Cash flow hedge transactions

As of 31 December 2007, the Group had eight payer swaps to cover loan obligations with floating interest rates against any increase in interest rates. The fair values of these swaps were structured as follows:

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INEFFECTIVE INTEREST SWAPS

EUR 000s Type of ineffective interest swap	Volume at 31.12.2007	Term	Market value (marking-to-market) at 31.12.2007
Payer swap	5,000	29.04.2005–29.04.2010	156.4 positive
Payer swap	5,000	29.04.2005–29.04.2010	145.8 positive
Payer swap	5,000	29.04.2005–30.04.2012	214.0 positive
Payer swap	7,013	31.01.2006-30.03.2016	254.1 positive
Payer swap	6,296	29.04.2005-30.03.2012	176.6 positive
Payer swap	3,300	09.02.2006-30.03.2016	106.9 positive
Payer swap	5,000	14.11.2006-30.06.2009	41.9 positive
Payer swap	5,000	21.05.2007-15.06.2012	7.2 positive
Total	**41,609**		**1,102.9 positiv**

Value growth of EUR 632.4k compared with 31 December 2006 was recognised through profit or loss in the 2007 financial year in connection with ineffective interest swaps. Of this sum, EUR 425.1k result from the reclassification of the market values of five payer swaps which had to be reported as ineffective swaps for the first time as of 31 December 2007 (previously effective swaps). Without this reclassification, the value growth would have amounted to EUR 45.6k.

23 OBLIGATIONS IN CONNECTION WITH 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 B.V., Netherlands, by Scala Agenturen B.V., Netherlands. The central warehouse of the Group's wholesale division 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 central mail order warehouse of the Group in Walsoordenstraat 72, Walsoorden, which was reported under non-current assets, was sold to Duinweg Investeringmij B.V., Netherlands, in June 2007 at a price of EUR 19,500k. Since then, the building has been let from Duinweg Investeringmij B.V. The rental agreement began on 15 June 2007 and runs up to and including 14 June 2032. Following the expiry of the rental period, there is the option of extending the letting agreement for a further 5 years. The initial rental price amounts to EUR 1,651k per annum. The rent is indexed on an annual basis, and for the first time on 15 July 2008.

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	2006	2007
Within one year	990	2,653
Between one and five years	3,960	10,610
More than five years	6,436	29,448
	11,386	**42,711**

24 OTHER FINANCIAL OBLIGATIONS

Other financial obligations (including non-terminable operating lease obligations) were structured as follows as of 31 December 2007:

OTHER FINANCIAL OBLIGATIONS

EUR 000s	2008	2009	2010	2011	2012 and later	Total	Previous year Total
Rental expenses for rooms / facilities	19,040	17,720	16,332	19,306	61,270	133,668	100,773
Guarantee expenses / interest expenses	679	381	332	279	581	2,252	10,529
Licence fees	153	153	153	153	13	625	778
Servicing / cleaning / maintenance	578	260	256	248	242	1,584	1,633
Advisory expenses	114	15	15	15	15	174	324
Miscellaneous	798	81	14	15	16	924	830
Total	**21,362**	**18,610**	**17,102**	**20,016**	**62,137**	**139,227**	**114,867**

As of the balance sheet reporting date, there were claims of EUR 7,163k in connection with non-terminable subletting agreements (previous year: EUR 4,347k).
During the reporting period, payments amounting to EUR 1,027k were recorded in connection with subletting agreements (previous year: EUR 709k).

25 CONTINGENT LIABILITIES

The Group has the following contingent liabilities:

CONTINGENT LIABILITIES

EUR 000s	2006	2007
Liabilities relating to guarantees and bill sureties	5,600	5,278
Liabilities relating to issue and assignment of bills of exchange	72	0
	5,672	**5,278**

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NOTES TO THE CONSOLIDATED INCOME STATEMENT

26 SALES

EUR 000s	2006	2007
Merchandise	215,901	217,385
Mail order charges	14,315	13,193
Added value telephone services	9,715	8,332
Video cabins	8,196	7,038
Cinema	5,939	5,663
Online sales	5,590	8,194
Address rental	1,958	1,819
Game machines	1,769	1,332
Licences	1,132	878
Miscellaneous	6,419	4,207
	270,934	**268,041**

27 COSTS OF SALES

EUR 000s	2006	2007
Goods and material employed	90,052	96,121
Personnel	9,372	9,349
Depreciation	821	2,148
Other taxes	1,035	938
Miscellaneous	6,327	8,179
	107,607	**116,735**

28 OTHER OPERATING INCOME

EUR 000s	2006	2007
Proceeds on dunning	8,910	8,632
Rental income	1,395	1,454
Income on sale of non-current assets	0	1,807
Income on sale of securities	3,040	0
Income on sale of shareholdings	3,304	0
Miscellaneous	3,511	4,195
	20,160	**16,088**

29 SALES-RELATED EXPENSES

EUR 000s	2006	2007
Personnel	29,960	31,360
Depreciation and amortisation	5,659	8,446
Miscellaneous	106,793	96,545
	142,412	**136,351**

30 NET INTEREST EXPENSES

EUR 000s	2006	2007
Other interest and similar income	861	1.696
Interest and similar expenses	-3,630	-5,152
	-2,769	**-3,456**

31 TAXES ON INCOME

The principal components of income tax expenses for the 2006 and 2007 financial years are structured as follows:

CONSOLIDATED INCOME STATEMENT

EUR 000s	2006	2007
Actual taxes on income		
Actual income tax expenses	4,692	1,258
Adjustments to actual income taxes incurred in previous years	112	458
	4,804	**1,716**
Deferred income taxes		
Deferred taxes on loss carryovers	-4,217	3,227
Arising and reversal of temporary differences	1,363	323
	-2,854	**3,550**
Income tax expenses reported in the consolidated income statemen	1,950	**5,266**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 000s	2006	2007
Deferred income taxes relating to items directly charged or credited to equity		
Net loss on the reassessment of cash flow hedges	201	0
Non-recognised profit on the disposal of financial assets held for sale	-53	0
Income tax expenses recognised in equity	148	**0**

Transition from the expected tax expenses to the tax expenses reported

Due to the introduction of the Corporate Tax Reform Act in Germany, the previous tax rate of 38 percent has now reduced to 28.95 percent. The tax rate applicable in Germany includes German trade tax based on the relevant trade tax multipliers and corporate income tax. The applicable tax rate of 25.5 percent in the Netherlands includes income tax.

The transition from the product of the period earnings stated in the financial statements and the tax rate applicable to the Group and the income tax expenses for the 2006 and 2007 financial years is structured as follows:

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TRANSITION OF TAX EXPENSES

EUR 000s	2006	2007
Earnings before taxes on income	11,990	-7,895
Expected tax expenses (38 percent)	**4,556**	0
Expected tax income (28.95 percent)	0	**2,286**
Unrecognised tax losses in current year	161	-4,656
Back-payments of tax for previous years	-188	-458
Tax impact of goodwill amortisation	102	-546
Impact of tax-exempt revenues	-1,347	0
Impact of company expenses not deductible for tax purposes	172	-22
Deviating tax rates in other countries	-537	166
Change in deferred taxes for temporary differences	-1,002	620
Impact of change in tax rate	0	-2,641
Miscellaneous items	33	-15
Total transition to group tax result	-2,606	**-7,552**
Income tax expenses reported in the consolidated income statement	1,950	**5,266**

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

DEFERRED INCOME TAXES

EUR 000s	Consolidated Balance Sheet		Consolidated Income Statement	
Deferred income tax liabilities	2006	2007	2006	2007
Write-down of loans to subsidiaries	2,118	1,614	0	504
Valuation of inventories	0	0	31	0
Fair-value valuation of interest swap	383	166	-234	21
Miscellaneous	41	31	22	10
Capitalised deferred tax liabilities	2,542	**1,811**	-181	**535**
Deferred income tax claims				
Tax loss carryovers	5,480	2,175	4,217	-3,305
Elimination of inter-company profits	1,454	1,332	-36	-122
Valuation of provisions / accrued income	129	880	-145	751
Goodwill from supplementary balance sheets	4,093	2,776	-665	-1,317
Valuation of pension obligations	387	302	88	-85
Catalogue expenses	2,160	2,132	-437	-28
Valuation of part-time early retirement obligations	2	2	-1	0
Miscellaneous	186	370	14	21
Capitalised deferred tax claims	13,891	**9,969**	3,035	**-4,085**
Deferred income tax income / expenses			2,854	**-3,550**

As of 31 December 2007, the Group had corporate income tax loss carryovers of EUR 31,527k and trade tax loss carryovers of EUR 25,824k relating to German group companies for which no deferred tax assets had been capitalised. The loss carryovers are available to be offset against future taxable income for an indefinite period. As of 31 December 2007, the Dutch group companies had tax loss carryovers of EUR 3,058k for which no deferred tax assets had been capitalised.

There were no deductible temporary differences in connection with shares in subsidiaries or associated companies for which no deferred taxes were stated either as of 31 December 2007 or as of 31 December 2006.

The distribution of dividends by Beate Uhse AG to its shareholders does not have and income tax consequences.

32 PERSONNEL EXPENSES

EUR 000s	2006	2007
Wages and salaries	38,207	40,728
Statutory social security expenses	6,887	6,641
Voluntary social security expenses	122	80
Miscellaneous	3,061	2,856
	48,277	**50,305**

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

EUR 000s	2006	2007
Costs of sales	9,372	9,349
Sales-related expenses	29,960	31,360
General administration expenses	8,902	9,563
Other operating expenses	42	33
	48,276	**50,305**

Number of employees by segment

	2006	2007
Retail	856	828
Mail Order	272	255
Wholesale	217	219
Entertainment	69	77
Services	44	35
	1,458	**1,414**

The associated companies had a total of 90 employees in the 2007 financial year (previous year: 75 employees).

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

Scheduled depreciation and amortisation

EUR 000s	2006	2007
Costs of sales	821	2,148
Sales-related expenses	5,253	6,162
General administration expenses	2,730	3,750
Other operating expenses	60	61
	8,864	**12,121**

Extraordinary depreciation and amortisation

EUR 000s	2006	2007
Sales-related expenses	368	2,284
General administration expenses	131	4,902
Other operating expenses	0	800
	498	**7,986**

The extraordinary depreciation and amortisation reported under general administration expenses largely relates to the amortisation of a software licence.

34 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	2006	2007
Basis for basic earnings per share (Allocable prorated period earnings of the shareholders in the parent company)	9,664	-13,843
Basis for diluted earnings per share	9,664	-13,843

Number of shares

Thousands	2006	2007
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.

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:

EUR 000s	2006	2007
Share of earnings allocable to the shareholders in the parent company	9,664	-13,843
Earnings for the calculation of basic earnings per share	9,664	-13,843
Basis for diluted earnings per share	9,664	-13,843

35 DIVIDEND

It is to be proposed to the Annual General Meeting that the net loss of Beate Uhse AG, amounting to EUR 11,095,044.26, be carried forward.

DIVIDEND

EUR 000s	2006	2007
Amounts recorded as distributions to shareholders in the financial year Dividend of 10 cents per share for the 2006 financial year (2005: 14 cents)	0	4.705
Proposed dividend of 0 cents per share for the 2007 financial year (2006: 10 cents)	4.705	0

36 OTHER DISCLOSURES

PUBLICATION PURSUANT TO SECTIONS 15A; 21 AND 41 OF THE GERMAN SECURITIES TRADING ACT (WPHG)

The company received the following notifications pursuant to Sec. 15a of the German Securities Trading Act (WpHG) during the 2007 financial year:

Date of Transaction	Notification
09.02.2007	Jan A. A. Boddaert, other management (purchase) 10,000 shares
07.02.2007	Rotermund Holding AG, legal entity (sale) 1,050,000 shares
09.02.2007	Jan A. A. Boddaert, other management (sale) 10,000 shares
01.05.2007	Ulrich Rotermund, Supervisory Board (sale) 79,713 shares

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 Sec. 21 of the German Securities Trading Act (WpHG) during the 2007 financial year:

Date of Transaction	Notification
19.03.2007	Philipp & Reuben Rotermund GmbH & Co. KG exceeds 3 % of voting rights
19.03.2007	Beate Rotermund GmbH & Co. KG falls short of 3 % of voting rights
02.07.2007	Rotermund Handels- und Verw. Ges. mbh & Co. KG exceeds 5 % of voting rights
02.07.2007	Ulrich Rotermund Verw. Ges. mbh exceeds 5 % of voting rights

The company forwarded these notifications to the Federal Financial Supervisory Authority and published them in the Börsenzeitung stock market publication.
The following disclosures are to be made in respect of further existing shareholdings of a level requiring report:
The following notifications were received by the company pursuant to Sec. 41 of the German Securities Trading Act (WpHG) in April 2002:
Consipio Holding B.V., 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 N.V.), 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 Sec. 22 (1) Sentence 1 No. 1 of the German Securities Trading Act (WpHG).

BUSINESS RELATIONSHIPS TO CLOSELY RELATED PERSONS (IAS 24)

Persons in key positions

Reference is made to the ‚Notes on 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 consolidation and are not outlined in the context of these notes.

Associated companies

A list of all associated companies, including details as to their legal domiciles and the shareholdings 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 2007 financial year amounted to EUR 230k (previous year: EUR 230k). There were no receivables or liabilities in respect of the rental agreement as of the balance sheet reporting dates for the 2007 financial year and the previous year, neither were there any contingent receivables or liabilities. There were other financial obligations amounting to EUR 545k 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 2007 financial year amounted to EUR 1,002k (previous year: EUR 990k). 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 2007 financial year and the previous year. There were other financial obligations amounting to EUR 10,515k in connection with the rental agreement as of the reporting date.

Summa Finance BV, Netherlands, is the lessor of 32 retail outlets used by Beate Uhse Retail Holding, BV, Netherlands, and until June 2007 was 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 1,558k in the 2007 financial year (previous year: EUR 1,528k). There were other financial obligations of EUR 15,391k 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 2007 financial year and the previous year.

Nicolaas Bootsma, who was a member of the Supervisory Board of Beate Uhse AG until 25 June 2007, and Gelmer Westra, who has been a member of the Supervisory Board of Beate Uhse AG since 25 June 2007, are partners in Crop registeraccountants, a tax advisory and auditing company in the Netherlands. Crop registeraccountants received fees totalling EUR 192k (previous year: EUR 214k) for the provision of tax advisory services to group companies in the 2007 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.

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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 sole shareholder of European Business Consult GmbH, Bereldance, Luxembourg, received manage board compensation totalling EUR 190k (previous year: EUR 191k) 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 20.7 percent shareholding in Beate Uhse AG. During the 2007 financial year, Consipio Holding BV paid a sum of EUR 725k to Beate Uhse BV (previous year: 575k) and an amount of EUR 120k to Pabo BV (previous year: EUR 65k) in return for the transfer of personnel.
In June 2007, Duijnweg Investeringsmij BV purchased the land in Walsoorden on which the fulfilment centre stands and the buildings for an amount of EUR 19,500k. At the time of acquisition, 45% of the shares in Duijnweg Investeringsmij BV were held by Summa Finance BV. Shortly after the acquisition of the fulfilment centre, the shares in Duijnweg Investeringsmij BV were sold to a company within the CB Richard Ellis real estate group. The business shares in Summa Finance BV are owned by members of the family of Gerard Cok, a member of the Management Board.

Participating companies
Beate Uhse AG holds a 26.83 percent shareholding in tmc Content Group AG (previously 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 tmc Content Group 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. The loan claim was sold along with the respective security on 11 February 2008 at a price of EUR 5,014k.
Furthermore, Beate Uhse AG has provided a guarantee for a loan of EUR 5,000k taken up by tmc Content Group AG at the Flensburger Sparkasse. The term of the loan in question runs until 30 June 2009.

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 company Beate Uhse TV GmbH & Co. KG have been allocated to the Holding 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.

NOTES ON THE COMPANY BOARDS

The Management Board of the company comprises the following individuals:

Otto Christian Lindemann	Businessman CFO, Spokesman of the Management Board
Gerard Philippus Cok	Businessman COO
Serge van der Hooft	Businessman COO since January 2008

Compensation of EUR 240k was paid to the Spokesman of the Management Board, Otto Christian Lindemann, during the 2007 financial year (previous year: EUR 265k). No provision for performance-related compensation has been stated for Otto Christian Lindemann for the 2007 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).

European Business Consult GmbH, Bereldance, Luxembourg, was paid fees of EUR 190k in the 2007 financial year for the services of Gerard Philippus Cok (previous year: EUR 191k).

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There are pension provisions amounting to EUR 1,145k for former board members of Beate Uhse AG (previous year: EUR 1,312k). The pension payments made to these board members amounted to EUR 94k in the 2007 financial year (previous year: EUR 94k).

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 Management Board of Schwäbische Bank AG Deputy Chairman of the Supervisory Board of Beate Uhse AG Member of the Audit Committee Member of the Personnel Committee of Beate Uhse AG Member of the Nomination 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 Member of the Nomination Committee
Nicolaas Bootsma	Blokker, Netherlands Auditor at Crop Registeraccounts and belastingadviseurs maatschap, Hoofddorp, Netherlands Member of the Audit Committee Member of the Investment Committee retired from his positions on 25 June 2007
Gelmer Westra	Egmond aan den Hoef, Netherlands Tax Advisor at CROP registeraccountants and belastingad-viseurs maatschap, Hoofddorp, Netherlands Member of the Investment Committee Member of the Audit Committee Member of the Nomination Committee since 25 June 2007

Monika Wilk	Flensburg Legal advisor at Beate Uhse Einzelhandels GmbH, Flensburg (employee representative) Member of Personnel Committee
Carlo Floridi	Cologne Store Manager at Beate Uhse Einzelhandels GmbH, Flensburg (employee representative) Member of Investment Committee

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

Ulrich Rotermund	President of the Administrative Board of tmc Content AG, Baar, Switzerland
Michael Papenfuß	Bankhaus Neelmeyer AG, Bremen (Deputy Chairman of Supervisory Board) HVB Leasing GmbH (most recently Chairman of Advisory Board) (until February 2007) HVB Investitionsbank GmbH (most recently Chairman of Advisory Board) (until February 2007) HypoVereinsbank BKK (Administrative Board) (until June 2007) HVB Bank Latvia AS (Member of Supervisory Board) (until April 2007)
Martin Weigel	BHC AG, Liepaja (Member of Supervisory Board) Athena IT-Group A/S, Haderslev (Member of Supervisory Board) Goldmind GmbH, Hamburg (Member of Advisory Board) ABG AG, Augsburg (Deputy Chairman of Supervisory Board) (since January 2008)

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-linked 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 97.1k in the 2007 financial year. The fixed component amounted to EUR 76.9k, while the variable component amounted to EUR 20.2k. The Chairman of the Supervisory Board received EUR 15.8k and the Deputy Chairman EUR 20.6k. All other members of the Supervisory Board received a combined total of EUR 60.8k.

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DECLARATION OF CONFORMITY PURSUANT TO SEC. 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The declaration required by Sec. 161 of the German Stock Corporation Act (AktG) was submitted by the Management and Supervisory Boards on 11 December 2007 and made permanently available to shareholders at the company's internet site from 20 December 2007 onwards.

AUDITOR'S FEES

The fees paid to the auditor of Beate Uhse AG for the 2007 financial year, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Rothenbaumchaussee 78, Hamburg, amounted to EUR 266k. Of this sum, EUR 154.5k related to the audit of the financial statements, EUR 110k to costs incurred in connection with a planned capital increase and EUR 1.5k for general advisory expenses.

EVENTS AFTER THE REPORTING DATE

The Supervisory Board appointed Serge van der Hooft as a further member of the Management Board with effect from 1 January 2008.

On 8 February 2008, the Management Board decided with the approval of the Supervisory Board to execute a capital increase. Within the framework of this capital increase, the share capital of Beate Uhse AG was increased by EUR 23,661,000 from EUR 47,323,696 to EUR 70,984,696 by issuing 23,661,000 new bearer shares with a nominal value of EUR 1.00 each in return for cash contributions. The subscription offer ran from 18 February to 3 March 2008. The capital increase was entered in the Commercial Register on 13 February 2008. This capital increase provided the company with total net proceeds of EUR 24.9 million. The funds were used to repay liabilities to banks and have thus laid the foundation for the implementation of the restructuring programme.

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 Sec. 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
- Mae B. GmbH, Flensburg

Flensburg, 5 March 2008

Otto Christian Lindemann   Gerard Philippus Cok   Serge van der Hooft

7.5 SEGMENT DATA BY BUSINESS UNIT 2006 / 2007

EUR 000s	Retail	Mail Order	Wholesale	Enter-tainment	Holding	Consolidation	Group Value
	2006						
Sales	86,821	113,754	79,181	17,887	0	-26,709	270,934
- of which with third parties	86,461	113,754	54,700	16,019	0	0	270,934
- of which with other segments	360	0	24,481	1,868	0	-26,709	0
Amortisation of intangible assets	-280	-74	-456	-177	-462	0	-1,449
Depreciation of property, plant and equipment	-4,976	-552	-1,072	-133	-680	0	-7,413
exceptional Depreciation	-331	0	-166	0	0	0	-497
Amortisation of financial assets	0	0	0	0	0	0	0
Financial result	-1,498	-464	-1,186	50	262	67	-2,769
Income from shareholdings in associated companies	0	0	210	0	771	0	981
Income from other shareholdings	52	0	-2	0	7	0	57
EBT	4,401	-2,216	2,831	3,000	3,974	0	11,990
Taxes on income	-1,252	729	-748	-867	188	0	-1,950
NET INCOME*	3,149	-1,487	2,083	2,133	4,162	0	10,040
Assets (incl. Shareholdings)	51,124	42,886	54,065	12,300	204,691	-188,923	176,143
Shareholdings in associated companies	0	0	0	0	31,943	0	31,943
Investments in non-current assets	6,768	6,771	6,109	344	18,976	0	38,968
Liabilities	43,501	39,261	34,750	4,123	95,618	-87,772	129,481

SEGMENT DATA BY GEOGRAPHIC REGIONS 2006 / 2007

EUR 000s	Germany	Netherlands	France	Other European Countries	Consolidation	Group Value
	2006					
Sales	111,350	96,522	36,850	52,921	-26,709	270,934
- of which with third parties	109,063	72,581	36,850	52,440	0	270,934
- of which with other segments	2,287	23,941	0	481	-26,709	0
Amortisation of intangible assets	-884	-402	0	-163	0	-1,449
Depreciation of property, plant and equipment	-3,988	-2,702	-129	-594	0	-7,413
exceptional Depreciation	-497	0	0	0	0	-497
Amortisation of financial assets	0	0	0	0	0	0
Financial result	-2,136	-449	-66	-185	67	-2,769
Income from shareholdings in associated companies	396	0	0	585	0	981
Income from other shareholdings	5	0	0	52	0	57
EBT	5,810	4,519	1,082	579	0	11,990
Taxes on income	101	738	-1,315	-1,474	0	-1,950
NET INCOME*	5,911	5,257	-233	-895	0	10,040
Assets (incl. Shareholdings)	163,567	170,813	3,623	27,063	-188,923	176,143
Shareholdings in associated companies	31,943	0	0	0	0	31,943
Investments in non-current assets	5,425	32,855	92	596	0	38,968
Liabilities	86,132	108,880	-4,189	26,432	-87,774	129,481

* excluding profit and loss transfer agreements

2007

Retail	Mail Order	Wholesale	Enter-tainment	Holding	Consolidation	Group Value
83,221	109,323	78,600	18,697	0	-21,800	**268,041**
82,695	109,263	59,771	16,312	0	0	**268,041**
526	60	18,829	2,385	0	-21,800	**0**
-1,616	-3,759	-2,103	-190	-365	0	**-8,033**
-6,753	-2,058	-1,426	-118	-447	0	**-10,802**
0	0	-119	0	0	0	**-119**
0	0	0	0	-1,152	0	**-1,152**
-1,663	-709	-1,480	95	302	-1	**-3,456**
0	0	306	0	621	0	**927**
0	0	-42	0	0	0	**-42**
-4,042	-1,568	772	3,124	-6,143	-38	**-7,895**
-404	-3,686	-524	-1,463	811	0	**-5,266**
-4,446	-5,254	248	1,661	-5,332	-38	**-13,161**
47,210	34,248	52,856	15,581	201,342	-182,024	**169,213**
0	0	0	0	2,989	0	**2,989**
5,955	2,978	4,053	370	613	0	**13,969**
44,784	32,818	35,080	4,869	75,509	-80,481	**112,579**

2007

Germany	Netherlands	France	Other European Countries	Consolidation	Group Value
107,338	99,297	42,214	40,992	-21,800	**268,041**
105,066	79,939	42,214	40,822	0	**268,041**
2,272	19,358	0	170	-21,800	**0**
-765	-5,906	-51	-1,311	0	**-8,033**
-4,803	-5,134	-272	-593	0	**-10,802**
-119	0	0	0	0	**-119**
-1,152	0	0	0	0	**-1,152**
-2,428	-842	-4	-181	-1	**-3,456**
927	0	0	0	0	**927**
-42	0	0	0	0	**-42**
-9,422	-1,355	2,013	907	-38	**-7,895**
-1,964	-1,488	-944	-870	0	**-5,266**
-11,386	-2,843	1,069	37	-38	**-13,161**
187,756	134,198	6,667	22,616	-182,024	**169,213**
2,989	0	0	0	0	**2,989**
4,908	7,255	566	1,240	0	**13,969**
98,158	72,724	356	21,822	-80,481	**112,579**

7.5 LIST OF GROUP SHAREHOLDINGS AS OF 31 DECEMBER 2007

NAME, REGISTERED OFFICE	Share %	Consolidation
BEATE UHSE AG		
Beate Uhse Grundstücksgesellschaft bR, Flensburg	100.00	V
Beate Uhse Grundstücksverwaltungsgesellschaft mbH, Flensburg	100.00	V
BU production Kft. (previously: Lavetra International Kft.), Börcs (H)	100.00	V
Ceproma central product management GmbH, Flensburg	100.00	V
Mae B. GmbH, Flensburg	100.00	V
Scala Beteiligungs GmbH, Wiesbaden	100.00	V
Versandhaus Beate Uhse GmbH, Flensburg	100.00	V
BEATE UHSE EINZELHANDELS GMBH SUBGROUP		
Beate Uhse Einzelhandels GmbH, Flensburg	100.00	V
Beate Uhse Fun Center GmbH, Flensburg	100.00	V
Beate Uhse Italia GmbH, Bozen (I)	96,54	V
Erotic Delite AG, Haag (CH)	100.00	V
BEATE UHSE NEW MEDIA GMBH SUBGROUP		
Arena Online-Service GmbH, Flensburg	100.00	-
Beate Uhse new medi@ GmbH, Flensburg	100.00	V
Beate Uhse New Media AS, Oslo (N)	100.00	V
COM VTX Multi Media BV, Rotterdam (NL)	100.00	V
D.N.I. Dutch Net Info BV, Rotterdam (NL)	100.00	V
EXITEC GmbH, Flensburg	100.00	V
M.O.S. Media Online Services BV, Hoorn (NL)	100.00	V
METAVOX Service & Communication GmbH & Co. Kommanditgesellschaft, Meerbusch	52.00	V
METAVOX Service & Communication GmbH, Meerbusch	52.00	-
BEATE UHSE BV SUBGROUP		
Beate Uhse BV, Walsoorden (NL)	100.00	V
B.U. BVBA, Knokke-Heist (B)	100.00	V
Erotic Centre BVBA, Bruges (B)	100.00	V
The Golden Meteor BV, Walsoorden (NL)	100.00	V
V.U.H. Video Holland BV, Walsoorden (NL)	100.00	V
BEATE UHSE RETAIL HOLDING BV SUBGROUP (VIA BEATE UHSE BV)		
Anvo BVBA, Bruges (B)	100.00	V
Beate Uhse France SAS, Lille (F)	100.00	V
Beate Uhse Ltd., Sutton (GB)	100.00	V
Beate Uhse Retail Holding BV, Walsoorden (NL)	100.00	V
Christine le Duc BV, Voldendam (NL)	100.00	V
Gezed BV, Amsterdam (NL)	100.00	V
Interieur & Elektra Service BV, Walsoorden (NL)	100.00	V
Retail Belgie BVBA, Bruges (B)	100.00	V
Sandereijn BV, Walsoorden (NL)	100.00	V

NAME, REGISTERED OFFICE	Share %	Consolidation
GEZED HOLDING BV SUBGROUP (VIA BEATE UHSE BV)		
Adult Video Netherlands Productions BV, Almere (NL)	100.00	V
Both Multimedia & Internet Exploitatie BV, Walsoorden (NL)	100.00	V
Daring Media Group SL, Barcelona (E)	100.00	V
Gezed Holding BV, Amsterdam (NL)	100.00	V
Intex Nederland BV, Amsterdam (NL)	100.00	V
Scala Agenturen BV, Almere (NL)	100.00	V
Scala Agenturen UK Ltd., Birmingham (GB)	100.00	V
Scala France SARL, Champigny sur Marne (F)	100.00	V
World Entertainment BV, Walsoorden (NL)	100.00	V
BEATE UHSE SCANDINAVIA AB SUBGROUP (VIA TEILKONZERN GEZED HOLDING BV SUBGROUP)		
Beate Uhse Max´s AB, Stockholm (S)	99.97	V
Beate Uhse Scandinavia AB, Stockholm (S)	99.97	V
TEILKONZERN PABO HOLDING BV SUBGROUP (VIA BEATE UHSE BV)		
Beate Uhse United Kingdom BV, Walsoorden (NL)	100.00	V
Calston Industries Inc., Toronto (CDN)	38.00	-
Pabo BV, Hulst (NL)	100.00	V
Pabo BVBA, Kieldrecht (B)	100.00	V
Pabo Holding BV, Hulst (NL)	100.00	V
Pabo Ltd., Birmingham (GB)	100.00	V
Pabo Services SARL, Villeneuve-d'Ascq (F)	100.00	V
Pabo SASU, Tourcoing (F)	100.00	V
Pabo Versandhandel GmbH, Innsbruck (A)	100.00	V
KONDOMERIET AS SUBGROUP		
Beate Uhse AS, Oslo (N)	80.00	V
KONDOMERIET AS, Kolbotn (N)	80.00	V
Max`s AS, Kolbotn (N)	80.00	-
SCALA GROSSHANDEL GMBH & CO. KG SUBGROUP		
Lebenslust GmbH, Cologne	78.91	V
Pleasure-Verlagsgesellschaft mbH, Wiesbaden	100.00	V
Scala Großhandel GmbH & Co. KG, Wiesbaden	100.00	V
ZBF Zeitschrift- Buch- und Film Vertriebs GmbH, Wiesbaden	100.00	V
ASSOCIATED COMPANIES		
Beate Uhse TV GmbH & Co. KG, Berlin	49.00	E
Beate Uhse Verwaltungs GmbH, Berlin	49.60	-
tmc content Group AG (previously: erotic media ag), Baar (CH)	26.83	E
FunFactory GmbH, Bremen	25.10	E
MJP Medien- Produktions- und Vertriebs GmbH & Co. KG, Eschenbur	60.00	-

V = fully consolidated
E = stated and valued pursuant to sections 311, 312 HGB
- = not included pursuant to sections 296 (2) and 311 (2) HGB

7.6 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 2007. The compilation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU and the provisions of German commercial law requiring supplementary application 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 assurance. 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 misstatements. 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 scope of consolidation, 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 comply with the requirements of IFRS as adopted by the EU, as well as with the provisions of German commercial law requiring supplementary application 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 consistent with the consolidated financial statements and provides an accurate overall impression of the situation of the group and adequately portrays the opportunities and risks involved in its future development.

Hamburg, 17 March 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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

RESPONSIBILITY STATEMENT

We hereby affirm that to the best of our knowledge the consolidated financial statements provide a true and fair picture of the net asset, financial and earnings position of the Group in accordance with the applicable accounting standards and that the business performance, including the business results and the situation of the Group, is depicted in the group management report in a way providing a true and fair picture of actual circumstances, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Otto Christian Lindemann

Gerard Cok

Serge van der Hooft

9.1 MULTI-YEAR SUMMARY - BEATE UHSE 1999–2007

EUR million		1999	2000	2001	2002
Sales		116.4	163.5	222.8	244.5
EARNINGS PERFORMANCE					
EBITDA		15.4	21.0	21.3	30.1
EBIT		10.1	13.9	10.6	20.3
EBT		10.2	13.0	8.7	17.2
Net income		5.1	9.6	2.2	9.5
FURTHER KEY EARNINGS FIGURES					
Return on sales after tax	%	4.4	5.9	1.0	3.9
FINANCIAL POSITION AND DIVIDEND					
Cash flow		-1.5	10.4	12.8	21.4
Cash on hand, cash at bank		14.3	8.2	14.8	13.9
Depreciation		5.3	7.1	10.7	9.9
Dividend distributed		0.9	4.2	6.2	0.0
COMPOSITION OF ASSETS AND EQUITY					
Total assets		145.8	132.0	169.4	169.1
Equity		105.6	63.9	60.3	64.6
Equity ratio	%	72.4	48.4	35.6	38.2
Non-current assets		–	–	–	–
Current assets		–	–	–	–
EXPENSES					
Personnel expenses		22.8	32.5	42.3	42.3
Cost of sales		–	–	–	–
Cost of distribution		–	–	–	–
OTHER INFORMATION					
Employees		722	905	1,173	1,251
Dividend per share	EUR	0.10	0.14	0.00	0.10
Cash flow per share	EUR	0.24	0.36	0.27	0.41
Share price on 31 Dec	EUR	19.00	14.00	11.98	11.35
Annual high	EUR	28.20	20.03	14.34	12.00
Annual low	EUR	12.52	11.00	8.10	8.65
Shares in circulation (31 Dec.)		41,989,768	46,962,988	46,729,692	47,018,072
Market capitalisation total		803.9	577.5	563.7	534.8

2003	2004 (IFRS)	2005 (IFRS)	2006 (IFRS)	**2007 (IFRS)**
265.6	273.1	284.8	270.9	**268.0**
31.5	26.8	32.1	24.4	**15.7**
21.5	17.9	22.7	14.8	**-4.4**
19.3	15.6	20.4	12.0	**-7.9**
9.9	8.7	14.4	10.0	**-13.2**
3.7	3.2	5.0	3.7	**-4.9**
20.3	8.6	24.3	16.9	**13.4**
8.3	9.2	6.8	6.4	**7.4**
10.1	9.1	9.5	9.7	**20.1**
4.7	4.7	0.0	6.6	**4.7**
181.2	187.2	189.7	222.9	**183.4**
67.8	67.8	83.6	84.5	**66.4**
37.4	36.2	44.1	37.9	**36.2**
-	105.7	111.6	142.3	**106.0**
-	81.6	78.0	80.6	**77.4**
47.3	50.6	50.1	48.3	**50.3**
-	110.9	109.1	107.6	**116.7**
-	130.4	142.6	142.4	**136.4**
1,344	1,477	1,523	1,458	**1,414**
0.10	0.00	0.14	0.10	**-**
0.43	0.34	0.49	0.43	**0.13**
13.25	10.48	6.10	4.04	**1.82**
13.43	13.02	10.37	6.95	**5.80**
8.90	10.05	5.80	4.00	**1.79**
46,492,614	47,042,201	47,042,292	47,042,381	**47,042,425**
623.0	495.0	288.7	191.2	**85.6**

important Dates:

14. May 2008
3-month report 2008

16. June 2008
Annual General Meeting Beate Uhse AG,
this time in Flensburg

14. August 2008
6-Monatsbericht

14. November 2008
3-month report 2008

31. December 2008
End of financial year

For questions

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