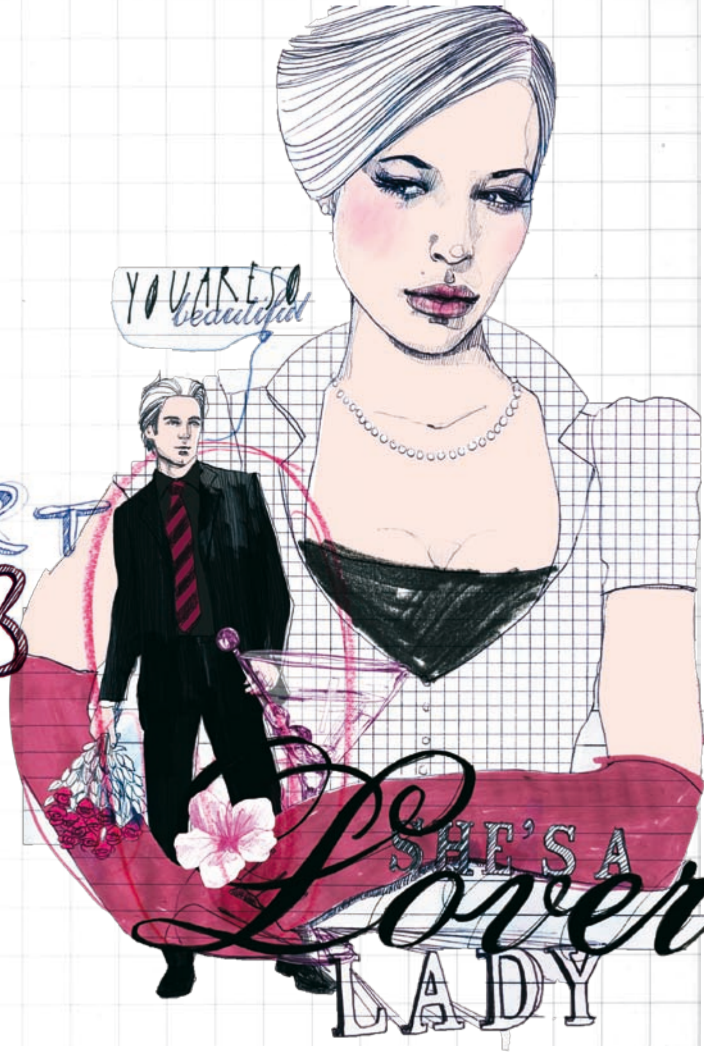
beate uhse

9 MONTH REPORT 2008



BEATE UHSE AT A GLANCE

EUR 000s		9 months 30.09.2007	**9 months 30.09.2008**	Change %
SALES PERFORMANCE				
Retail		60,735	54,105	-10.9
Mail Order		83,857	81,032	-3.4
Wholesale		45,249	41,098	-9.2
Entertainment		12,677	10,542	-16.8
Holding Services		-23	0	-
Total sales		202,495	**186,777**	-7.8
International share of sales	%	62.8	61.8	-1.6
RESULTS				
EBITDA		20,911	18,375	-12.1
EBIT		5,596	10,108	80.6
EBT		2,646	8,471	220.1
Net income of ongoing business divisions		774	8,240	964.6
OTHER EARNINGS INDICATORS				
Return on sales before tax	%	1.3	4.5	247.1
Return on sales after tax	%	0.4	4.4	1,054.2
Return on equity	%	1.2	8.2	605.1
Gross profit margin	%	56.3	58.8	4.4
FINANCIAL SITUATION				
Cash flow from operating activities		-518	7,080	1,466.8
Investments		10,272	5,273	-48.7
Depreciation		15,314	8,266	-46.0
Dividend paid		4,704	0	-100.0
BALANCE SHEET DATA				
Total assets		183,404	180,937	-1.3
Shareholders' equity		66,367	100,199	51.0
Equity ratio	%	36.2	55.4	53.0
Non-current assets		106,012	99,943	-5.7
Current assets		77,392	80,994	4.7
OTHER DATA				
Employees	total	1,425	1,339	-6.1
Personnel expenses		35,676	33,792	-5.3
Cost of sales		88,440	76,948	-13.0
Cost of distribution		96,246	93,087	-3.3
SHARES				
Number of shares	total	47,323,696	70,984,696	50.0
Closing price	EUR	3.03	0.93	-69.3
Annual high	EUR	5.80	2.03	-65.0
Annual low	EUR	2.98	0.93	-68.8
Earnings per share	EUR	0.02	0.11	450.0
Cash flow per share	EUR	0.33	0.23	-30.3

FOREWORD OF THE MANAGEMENT BOARD

DEAR SHAREHOLDERS OF BEATE UHSE AG,

The financial market crisis has shaken confidence in the capital markets and is now spilling over onto the real economy as well. This also affects Beate Uhse. The company's share price has not escaped the turmoil on global stock markets. Having said this, the current turbulence should not cloud our view of long-term prospects. We – the Management Board of Beate Uhse AG, the management and the entire team – are convinced of our company's future potential and its strategic concepts. We always have been and are still the pioneers in our sector. We are pointing the way forward, even within the social and economic transformation which the erotica sector is currently undergoing. With our restructuring programme, we are repositioning ourselves in a market with potential.

The consistent implementation of our multi-channel strategy represents one of the milestones in our restructuring programme, one which is already beginning to bear fruit in many areas:

The customer retention programme, which has now matured following extensive trials, is showing promising results. Online sales have gained further ground and now account for more than 35 percent of sales. Almost half of orders in the Netherlands are already placed via the internet. Since November, our nine existing country shops have been joined by an online shop in Spain.

In terms of the expansion of our stationary retail business, before the end of this year we will be testing a franchise system under the Christine le Duc brand in the Netherlands. In Slovenia, the sixth Beate Uhse has already commenced operations under the management of our Austrian franchisee.

We are pressing rapidly ahead with establishing Beate Uhse as the digital marketplace for erotica. Further contracts have been agreed with well-known cooperation partners from the European telecommunications sector to promote the digital sale of our extensive film library.

Since the beginning of the year, we have developed 56 new models of sex toy at our production site in Hungary and launched these onto the market under the Mae B. brand. Demand is high – sales have risen by almost 70 percent. The streamlining of our portfolio by disposing of our stake in FunFactory GmbH, a German sex toy manufacturer based in Bremen, should also be viewed in the light of this development.

We see the crisis as representing an opportunity for our company. After all, in erotica we have a product which is relatively crisis-proof compared with other consumer goods. When prospects of secure returns wear thin and confidence in capital investments evaporates, then consumers postpone their purchases of durable goods, such as cars, computers or property. Instead, in difficult economic times they are all the more minded to treat themselves to life's small pleasures – good food, good drink and good sex.

And this is where we stand to benefit! The fourth quarter, traditionally a strong period with the Christmas business, is still ahead. With our special offers and campaign prices tailored to every wallet, we can offer our customers a plethora of exciting gift ideas – and that across all distribution channels.

Yours faithfully,
The Management Board

Otto Christian Lindemann
CFO and Spokesman for the Management Board

Serge van der Hooft
COO

INTERIM MANAGEMENT REPORT

BUSINESS AND ECONOMIC FRAMEWORK

Macroeconomic developments

As a result of the further intensification in the financial market crisis, the global economy has witnessed a further slowdown in its development. The pace of economic growth in the euro area has also weakened significantly in the course of 2008. Economic growth has mainly been affected by the weak development in the global economy, the intensification in the financial market crisis and the ongoing high exchange rate between the euro and the dollar. For the third quarter of 2008, experts at the Gemeinschaftsprojekt, a joint project involving the ifo Institut, INSEE and ISAE economic research institutes, now only expect GDP to grow by 0.7 percent in real terms compared with the equivalent quarter in the previous year. According to the aforementioned project, private consumer spending is expected to show a slight year-on-year decline of -0.1 percent.

The German economy is particularly affected by the weakness of the international economy, as global demand for investment goods of the type which play a major role in the German export sector is set to show a particularly marked decline. Based on their joint forecast, the experts now only expect to see year-on-year GDP growth of 1.4 percent in the third quarter of 2008. Compared with the previous quarter, this merely represents a stagnation in GDP. Consumer spending also only stagnated in the third quarter of 2008 compared with the previous quarter, as the rate of inflation accelerated notably, while real-term incomes declined.

Erotica market

The weakness of consumer spending has also left its mark in the erotica sector. Both the direct business with end customers and the B2B business in the erotica market were affected by consumers' declining propensity to spend given the reduction in their incomes in real terms.

At the same time, the sector is still undergoing a period of transformation accompanied by various factors on both supply and demand sides. This presents traditional erotica providers with challenges, but also harbours opportunities. Increasing openness towards sex and erotica within society means that new target groups are arising. Self-confident women and couples keen to experiment are thus enabling product groups such as lingerie, toys and wellness articles to achieve significant sales growth. These customers accord great importance not only to the top quality and appearance of their favourite toy, but above all to a shopping experience in an appealing ambience. This market potential has also been discovered by providers alien to the sector, from small-scale internet shops through to large electronics companies, who are offering erotica products of varying quality, mainly on the internet. Business with films, magazines and cabins, by contrast, continues to decline. This is due on the one hand to content offerings downloadable free of charge on the internet and on the other to the further intensification in the decline in DVD film prices. On the supply side, this will lead many providers reliant only on the traditional business with cabins and DVDs to leave the market.

For Beate Uhse, this development offers the opportunity of offering customised concepts to access new customer groups, and thus additional market potential.

EARNINGS POSITION

Sales performance

The Beate Uhse Group generated sales of Euro 186.8 million in the first nine months of the 2008 financial year. As planned, sales therefore fell short of the previous year's figure of Euro 202.5 million. This was primarily due to store closures in the retail division, which were implemented on schedule within the framework of the restructuring programme, although the other profit centres also reported reduced sales. At Euro 65.4 million, the Group's sales in the third quarter of 2008 therefore also fell short of the previous year's figure (Q3 2007: Euro 73.9 million).

The most important company markets reported disparate developments in terms of sales in the first three quarters of 2008. While sales fell short of the previous year's figure in Germany and the Netherlands, the French market reported slight growth. Pleasing progress has also been seen in the company's market entry in East European countries.

SALES BY REGION

EUR million	9 months 30.09.2007	**9 months 30.09.2008**	Change %
Germany	75,256	71,339	-5.2
Netherlands	36,628	33,302	-9.1
Belgium	12,798	11,785	-7.9
France	32,605	32,733	0.4
United Kingdom	9,577	7,706	-19.5
Austria	13,983	8,200	-41.4
Switzerland	887	1,023	15.3
Scandinavia	9,402	9,799	4.2
Italy	2,584	1,500	-41.9
Other European countries	7,324	8,084	10.4
Other regions	1,450	1,305	-10.0
	202,495	**186,777**	-7.8

Earnings performance

The Beate Uhse Group boosted its earnings before taxes (EBT) to Euro 8.5 million in the first nine months of 2008, up from Euro 2.6 million in the previous year. This growth was nevertheless influenced by several extraordinary factors. Firstly, in the second quarter of 2008 Beate Uhse received the insurance payment in connection with the water damages, benefiting earnings to the tune of Euro 4.0 million. Moreover, any comparison of the two periods should also take account of the fact that the previous year's figure was negatively affected by initial expenses incurred on restructuring and realigning the Group.

The Beate Uhse Group reduced its costs of sales by 13.0 percent, and thus more markedly than sales, to Euro 76.9 million (previous year: Euro 88.4 million). This was principally due to the higher share of total sales attributable to the highermargin mail order business. At Euro 109.8 million, the gross profit as a proportion of sales was therefore only slightly lower than the previous year's figure of Euro 114.1 million. As a result, the gross margin was raised from 56.3 percent in the previous year to 58.8 percent. An analysis of the individual quarters also reveals the positive course of the cost-saving measures. While the gross margin still amounted to 58.0 percent in the first quarter, it was then increased to 59.0 percent in the second quarter and even to 59.5 percent in the third quarter.

Other operating income showed a marked increase of 19.1 percent to Euro 13.9 million (previous year: Euro 11.7 million). While the previous year's figure was affected to the tune of Euro 1.7 million by the sale of the building in Walsoorden, the increase in the period under report in 2008 was chiefly due to the receipt of the insurance payment of Euro 4.0 million. Following adjustment for these two extraordinary items, other operating income was at the same level as in the previous year. The Beate Uhse Group reduced its sales-related expenses by 3.3 percent to Euro 93.1 million (previous year: Euro 96.2 million). The cost savings were largely driven by store closures in the retail division. In the previous year, by contrast, sales-related expenses were affected by initial restructuring expenses, with a related reduction in goodwill and property, plant and equipment. General administration expenses fell markedly to Euro 20.0 million (previous year: Euro 24.1 million). This significant decline, especially in the third quarter, was mainly attributable to the restructuring expenses incurred in the equivalent period in the previous year. Adjusted for these factors, general administration expenses were at roughly the same level as in the previous year.

The operating earnings (EBIT) of the Beate Uhse Group for the first nine months showed a corresponding improvement of Euro 4.5 million to Euro 10.1 million (previous year: Euro 5.6 million). Significant debt repayments meant that the financial result of Euro -1.6 million was considerably better than the previous year's figure of Euro -3.0 million. Following the receipt in the third quarter of a tax refund of Euro 1.3 million for previous years, taxes on income fell sharply to Euro 0.2 million, as against Euro 1.9 million in the previous year. Consolidated net income therefore amounted to Euro 8.2 million, compared with Euro 0.8 million in the previous year. The third quarter contributed income of Euro 5.2 million (previous year: Euro -3.8 million). The Beate Uhse Group therefore generated earnings per share of Euro 0.11 (based on 70,703,247 shares), compared with Euro 0.02 (based on 47,042,247 shares) in the previous year.

Segment performance

Retail

EUR million	9 months 30.09.2007	9 months 30.09.2008	Change %
Sales	60.7	54.1	-10.9
EBITDA	6.0	4.4	-26.2
EBIT	-0.2	1.0	641.9
EBT	-1.4	-0.1	89.7
Investments	4.6	1.5	-66.5

At Euro 54.1 million, retail sales were, as expected, lower than the previous year's figure (Euro 60.7 million), as this division was significantly affected by the store closures undertaken in the context of the restructuring programme.

The implementation of the restructuring programme at the retail division is absolutely on schedule. In the third quarter, the Group pressed further ahead with its focus on premium erotica stores in top inner-city locations addressing the customer groups of women and couples and Fun Centers addressing a mainly male customer group. In August 2008, the premium store in Nuremberg represented the sixth store to be reopened with the new design scheme. In the Netherlands, the premium concept is being implemented under the Christine le Duc brand.
In the third quarter as well, the new premium stores in both Germany and the Netherlands performed considerably better than traditional stores with a more hardcore focus. One positive example of this is the premium store in Joachimstalerstrasse in Berlin, which posted a turn-around within just one month of its reopening with the new product range on 30 April 2008.

Unprofitable stores, meanwhile, are being consistently closed. Two stores were closed in Germany in the third quarter of 2008 and a further shop was transferred to the franchise business. All in all, 11 stores in Germany and 10 in the Netherlands and Belgium have been closed since the restructuring programme began. The streamlining of the German store network should be completed by June 2009.

BEATE UHSE SHOPS BY COUNTRY
OWN SHOPS

	9 months 30.09.2007	%	9 months 30.09.2008	%
Germany	74	44.9	60	40.8
Italy	5	3.0	6	4.1
Netherlands	64	38.8	58	39.4
Belgium	10	6.1	11	7,5
France	7	4.2	7	4.8
Switzerland	1	0.6	1	0.7
Norway	4	2.4	4	2.7
	165	100.0	**147**	100.0

LICENCE & FRANCHISE

	9 months 30.09.2007	%	**9 months 30.09.2008**	%
Germany	74	44.8	60	40.8
Austria	40	31.7	44	34.1
Switzerland	0	0.0	0	0.0
Norway	4	3.2	4	3.1
Hungary	2	1.6	1	0.8
Poland	17	13.5	12	9.3
Slovenia	5	4.0	6	4.6
Misc.	2	1.6	2	1.6
	126	100.0	**129**	100.0

The success of this strategy is also underlined by the sales performance of the product groups in the retail business. Revenues from wellness products, toys and lingerie showed further substantial growth in the third quarter and should compensate for the declining cabin and DVD business in the longer term. The high-quality private label products in particular had a noticeably positive impact. The Mae B. toy collection newly launched in April, which has been certified by the Technical Inspection Agency, was in particularly strong demand at the retail stores.

This division's earnings before taxes amounted to Euro -0.1 million, as against Euro -1.4 million in the previous year. The earnings performance was affected above all by the expenses incurred for store closures and conversions. One positive earnings item during the period under report was the release of provisions stated for the store closed in Cologne-Hohenzollernring, which has now been sublet. The investments of Euro 1.5 million made at the retail business were mainly channelled into store conversions (previous year: Euro 4.6 million).

Mail Order

EUR million	9 months 30.09.2007	**9 months 30.09.2008**	Change %
Sales	83.9	81.0	-3.4
EBITDA	8.1	10.9	33.9
EBIT	3.0	9.4	214.2
EBT	2.4	9.2	277.7
Investments	2.3	1.1	-52.7

At Euro 81.0 million, sales at the mail order division for the first nine months of 2008 were slightly lower than the previous year's figure (Euro 83.9 million).

To access new target groups, the mail order business is channelling all of its energies into transforming its market proposition from a sales-based approach to a customer-based approach. Deploying new tools to analyze customers' order behaviour enables advertising and mailing programmes to be tailored to individual target groups. Moreover, special advertising measures have been developed to increase order volumes from especially good customers and to reactivate dormant customers. The division has thus raised the number of mail shots in the autumn/winter season from six in the previous year to ten. At the same time, rather than two main catalogues, there are now three, each of which with around 160 pages and thus considerably more extensive and able to offer a broader spectrum of products. Each catalogue has a completely new product range and design scheme, reinforcing its novelty character. The payoff on the introduction of this new, more extensive catalogue has been very pleasing, with above-average response rates. These measures are intended to increase customer quality and quantity in the longer term, to retain these customers and to attract new target groups.

The product range has on the one hand been extended to include new product worlds, such as erotic textiles and living accessories, and thus to increase order rates per customer. On the other hand, the existing product range has been streamlined to focus on bestselling products with high turnover rates. Upon publication of the Christmas catalogue, the catalogues in the individual markets will be converted to the respective country brands of Beate Uhse, Adam & Eve, Christine le Duc and Pabo. Customers should enjoy the same brand experience and should also be addressed with a uniform product range across all distribution channels. As well as enhancing brand focus, this measure is principally intended to create synergies with other divisions.

One special focus, also in the third quarter, involved expanding the online business. The share of online orders was raised to a pleasing 35.3 percent. The share of online orders is especially high in the Netherlands, at 48.1 percent, and in Germany, at 42.2 percent. The Group is also beginning its entry into new markets with an online shop initially, as recently the case under the Adam & Eve brand in Spain in November.

Earnings at the mail order division showed a marked improvement from Euro 2.4 million to Euro 9.2 million, although the receipt of the insurance payment of Euro 4.0 million accounted for a considerable portion of this growth.

The investments of Euro 1.1 million mainly involved software and restructuring expenses.

Wholesale

EUR million	9 months 30.09.2007	**9 months 30.09.2008**	Change %
Sales	45.2	41.1	-9.2
EBITDA	5.8	4.1	-28.5
EBIT	2.9	1.5	-49.5
EBT	1.8	0.5	-73.0
Investments	2.7	2.2	-19.2

The wholesale profit centre generated sales of Euro 45.2 million in the first nine months of 2008, and thus around Euro 4.1 million less than in the previous year. These figures on the one hand indirectly reflect subdued levels of consumer confidence around the world. On the other hand, they are due to the lower number of small sex shops, many of which have been obliged to stop trading due to declining sales.

Rising sales in the sex toy product group, which reported growth of 3.5 percent, reflect the change in customer structures in the wholesale business as well. Not only that, the wholesale division succeeded in countering the trend in the overall sector by increasing its DVD turnover by around 10 percent. This represents the payoff on the expansion of international sales activities for Daring!, the company's proprietary film label, which has established itself well in the market with its high-quality contents. Daring! productions have also been singled out by the experts, who awarded the company the title "Best Label of 2008" at this year's Venus erotica fair in Berlin.

Developments in the wholesale business therefore also underscore Beate Uhse's strategy of focusing on high-quality products and private labels. More than 30 new products were launched under the successful ToyJoy private label during the period under report. The new sub-label, "Sea of Love", was sold out immediately upon launch, which must count as the greatest success to date in ToyJoy's brief history. Between January and September, a total of 56 new toys were launched onto the market by the company's proprietary production facility in Hungary, being sold under the Mae B., Daring or Vibratissimo "made by bu production" labels. The Hungarian plant in Börcs has also successfully implemented a certified quality management system compliant with ISO 9000 and is thus entitled to produce medical products. The first sex toys to be certified by the Technical Inspection Agency, which have been sold exclusively at Beate Uhse under the Mae B. private label since April 2008, are already a huge success.

Beate Uhse Licensing B.V., a licensing business only founded in April 2008, already succeeded in signing cooperation agreements with well-known telecommunications companies in the third quarter. The customers acquired include Deutsche Telekom, KPN in the Benelux countries and Canal+ in the Scandinavian market. The Beate Uhse Group has thus laid an important foundation for marketing its films as videos-on-demand and taken a major step towards establishing itself as a competent and respectable digital contents partner.

Moreover, Beate Uhse has also signed contracts with Spice Studios, Cinemaplay Entertainment and Club Jenna and will thus be exclusively responsible for selling their high-quality film titles in its stores, by mail order and on its online platforms.

The wholesale division's earnings before taxes amounted to Euro 0.5 million in the first nine months of 2008, compared with Euro 1.8 million in the previous year. This decline was chiefly attributable to the downturn in sales. The division invested a total of Euro 2.2 million, primarily in productions, in the period under report.

Entertainment

EUR million	9 months 30.09.2007	**9 months 30.09.2008**	Change %
Sales	12.7	10,5	-16.8
EBITDA	2.2	2.1	-5.7
EBIT	2.0	1.9	-6.9
EBT	2.1	2.0	-2.8
Investments	0.2	0.2	-4.1

At Euro 10.5 million, the entertainment division's sales in the first three quarters of 2008 represented a decline on the previous year's figure of Euro 12.7 million.

Notwithstanding increased competition from free portals, the online business managed to boost its sales by a pleasing 5 percent. Here too, the strategy of differentiation via the quality of the Group's proprietary platforms impacted positively. The internationalisation of products is progressing on schedule. The Amateurcams platform has been successfully launched in the Netherlands, France and the UK. Among other developments, the remainder of the year will also see the continued expansion of the Privateporno platform into further countries. Furthermore, the third quarter also witnessed the completion of an affiliate programme for website operators, allowing them to draw on Beate Uhse's well-known entertainment offerings.

The telephony division, by contrast, reported negative developments, continuing to be disadvantaged by the year-on-year increase in end customer prices introduced by mobile phone network operators, as well as by the curtailing of advertising possibilities. This development has also not left competitors in the audiotex market unaffected. In the medium to longer term, this will open up growth prospects due to advertising space becoming free as a result of competitors leaving this field. With its strong brand, wealth of expertise in this business and extensive network of contacts to the media world, Beate Uhse is superbly positioned in this respect.

At Euro 2.0 million, entertainment earnings were at the same level as in the previous year (Euro 2.1 million). The investments of Euro 0.2 million (previous year: Euro 0.2 million) mainly related to preparations for the international expansion of the platforms. The entertainment division expects the internationalisation to provide positive momentum to its future sales and earnings performance.

At BEATE-UHSE.TV, work began on designing and producing new formats aimed at providing the programme with an even broader footing. It is focusing in this respect on German topics to enable it to differentiate itself from foreign competitors in future as well. Due to restructuring on the Premiere platform, since July 2008 BEATE-UHSE.TV has been broadcast in the "Premiere Family" package, rather than in the "Premiere Topical" package as previously.

NET ASSET AND FINANCIAL POSITION

The total assets of the Beate Uhse Group amounted to Euro 180.9 million at the reporting date on 30 September 2008, compared with Euro 183.4 million at 31 December 2007.

Assets

On the asset side of the balance sheet, non-current assets dropped by 5.7 percent to Euro 99.9 million (2007: Euro 106.0 million). Within this item, intangible assets rose by 4.3 percent to Euro 11.0 million due to investments in software, rights and licences (2007: Euro 10.6 million). Property, plant and equipment showed a significant decline of 11.5 percent to Euro 29.0 million as a result of store closures (2007: Euro 32.8 million). Due to the sale of the stake held in FunFactory as of 1 October 2008, shares in associated companies reduced to Euro 1.7 million. Given the planned sale, these shares had been reclassified as financial assets available for sale.

Current assets, by contrast, grew by 4.7 percent to Euro 81.0 million (2007: Euro 77.4 million). The increase in stocks in the mail order business led inventories to rise by 6.4 percent to Euro 37.0 million (2007: Euro 34.8 million). Other current financial assets and other assets also rose due to an increase in accruals to Euro 5.6 million as a result of advance rental payments (2007: Euro 3.9 million), while consistent cash management enabled cash and cash equivalents to be reduced to Euro 7.0 million (2007: Euro 7.4 million).

Shareholders' equity and liabilities

On the liabilities side of the balance sheet, the capital increase, repayment of existing credit lines and conclusion of a new syndicated loan agreement led to substantial changes in individual items.

As a result of the capital increase, the share capital rose by 50.0 percent to Euro 71.0 million (2007: Euro 47.3 million). Unappropriated profit also rose significantly from Euro 18.2 million to Euro 26.3 million. Shareholders' equity therefore grew by 51.0 percent to Euro 100.2 million, compared with Euro 66.4 million at the reporting date in the previous year. This has led to a substantially improved equity ratio of 55.38 percent, up from 36.2 percent as of 31 December 2007.

Non-current debt increased significantly from Euro 15.3 million to Euro 42.7 million. This was due to the taking up of a new syndicated loan facility, as a result of which interest-bearing loans rose to Euro 34.8 million (2007: Euro 6.8 million). Compared with the reporting date for the 2nd quarter (30 June 2008), however, the Group has nevertheless repaid loan liabilities of Euro 5.9 million with the insurance payment and tax refunds received.

Current debt, by contrast, fell sharply from Euro 101.7 million to Euro 38.1 million as a result of the repayment of existing credit lines. This reduction involved the items loans and short-term portion of long-term loans. Accounts payable also declined substantially from Euro 20.4 million to Euro 14.6 million as a result of seasonal fluctuations in merchandise invoicing in the mail order business. Income tax liabilities dropped from Euro 2.6 million to Euro 1.6 million.

Cash flow and investments

The cash flow from operating activities improved substantially to Euro 7.1 million in the first nine months of 2008, compared with Euro -0.5 million in the previous year. In addition to the pleasing earnings performance, this was chiefly due to a year-on-year decline in the volume of accounts receivable. The cash flow was negatively affected, by contrast, by the increase in other assets resulting from higher inventory holdings.

The cash flow from investing activities fell to Euro -3.4 million, as against Euro 17.2 million in the previous year. The previous year's figure was characterised by the sale of the building in Walsoorden and of a further property. In the first nine months of the current financial year, by contrast, the Beate Uhse Group invested a total of Euro 6.3 million, chiefly in store conversion measures in the retail division, as well as in software, rights and licences.

The cash flow from financing activities dropped substantially from Euro -0.7 million in the previous year to Euro -4.2 million. The funds received from the capital increase and the insurance payment were used to repay a significant portion of bank liabilities. Unlike in the previous year, the company did not pay any dividend.

The Beate Uhse Group therefore had liquid funds of Euro 7.0 million at the end of the third quarter (previous year: Euro 22.5 million).

INVESTMENTS BY REGION

EUR million	9 months 30.09.2007	**9 months 30.09.2008**	Change %
Germany	3,583	1,416	-60.5
Netherlands	4,519	2,448	-45.8
Belgium	357	206	-42.5
France	244	92	-62.3
United Kingdom	60	56	-7.5
Austria	45	3	-93.7
Other European countries	1,463	1,054	-28.0
	10,272	**5,273**	-48.7

EMPLOYEES

The Beate Uhse Group had a total workforce of 1,339 employees as of 30 September 2008 (previous year: 1,425 employees). Among other factors, this reduction was due to store closures in the retail division, optimised logistical and administrative processes in the mail order business and the internal restructuring of the holding company. Beate Uhse accords high priority to ensuring that these measures are implemented in a socially responsible manner. In the retail division, for example, all employees have been offered relocation to another store or alternative employment.

EMPLOYEES AT THE BEATE UHSE GROUP

By Region	9 months 30.09.2007	**9 months 30.09.2008**	Change %
Germany	693	634	-8.5
Netherlands	525	490	-6.6
Belgium	31	28	-11.0
France	59	70	18.1
United Kingdom	6	6	0.0
Austria	18	12	-33.3
Scandinavia	43	50	16.3
Other European countries	50	49	-2.0
	1,425	**1,339**	-6.1

By Profit Centre	9 months 30.09.2007	**9 months 30.09.2008**	Change %
Retail	818	759	-7.2
Mail Order	274	247	-10.0
Wholesale	224	219	-2.2
Entertainment	74	82	10.8
Holding Services	35	32	-8.6
	1,425	**1,339**	-6.1

As part of the restructuring programme, Beate Uhse has also terminated most of its company agreements, some of which dated from the seventies and eighties, in order to adapt these to current standards. The Management Board is involved in detailed negotiations on this with the Works Council. The Management Board is holding regular information meetings to inform employees in person as to the progress of the talks.

SHARE

Performance and liquidity

International capital markets were dominated by the financial crisis in the first nine months of 2008. The degree of nervousness and downward trend on the stock markets has intensified significantly since September 2008, when the first banks encountered severe difficulties. The DAX dropped by around 27 percent in the first nine months, while the SDAX, the German small-cap index, even lost 35 percent of its value.

Beate Uhse's share followed this trend. Following an opening price of Euro 1.85 and an annual high of Euro 2.03 in January 2008, the share concluded the third quarter on 30 September 2008 at its annual low of Euro 0.93. This corresponds to a market capitalisation of Euro 66.02 million. A daily average of 42,069 Beate Uhse shares were traded on XETRA.

Investor Relations

The company maintained its active contacts with investors and analysts in the past months as well. The CFO, Otto Christian Lindemann, presented the business performance to date and future strategy for the Beate Uhse Group at the SCC_Small Cap Conference in August and at the German Equity Forum (Deutsches Eigenkapitalforum) at the beginning of November. He also outlined the restructuring programme and action plan at individual meetings held with investors, analysts and journalists at both events.

SHARE PRICE PERFORMANCE

		9 months 30.09.2007	**9 months 30.09.2008**	Change %
Opening price	EUR	4.07	1.85	-54.5
Closing price	EUR	3.03	0.93	-69.3
High	EUR	5.80	2.03	-65.0
Low	EUR	2.98	0.93	-68.8
Performance	%	-25.6	-49.7	-

Source: Xetra

KEY SHARE DATA

		9 months 30.09.2007	**9 months 30.09.2008**	Change %
Earnings per share	EUR	0.02	0.11	473.56
P/E ratio		139	6	-95.68
Cash flow per share		6.8	3.0	-55.9
Quote / sales		0.7	0.4	-42.9
Quote / EBITDA		5.4	2.7	-50.0
Quote / book value		2.1	0.6	-71.4
Book value per share	EUR	1.1	1.2	10,1
Share capital	no. of shares	47,323,696	70,984,696	50.0
Total market capitalisation	EUR million	143.4	66	-54.0
Market capitalisation of free float	EUR million	66.0	35	-47.1
Average trading volume / day	no. of shares	50,017	42,069	-15.9

Source: Xetra

RISK REPORT

No changes in the risk factors facing the Beate Uhse Group have arisen compared with the risks outlined in the risk report chapter of the 2007 Annual Report.

EVENTS AFTER THE REPORTING DATE

Beate Uhse AG sold its 25.12 percent stake in FunFactory GmbH to the company itself as of 1 October 2008. With this sale, Beate Uhse has continued the consistent streamlining of its portfolio within the framework of its strategic realignment.

Apart from this, no other events of significance requiring report here occurred between the end of the third quarter of 2008 and the compilation of this report.

OUTLOOK

Macroeconomic developments in the coming months will largely depend on the further course of the international financial crisis. Many industrialised economies threaten to drift into recession. A very weak macroeconomic trend can be observed in the USA, while economic output has also lost momentum in Western Europe. This situation should be mitigated somewhat by the decline in oil prices, which will raise private household incomes once again and thus boost companies' sales and earnings prospects. Not only that, companies in the euro area stand to benefit from the depreciation in the value of the euro against the US dollar. All in all, the Gemeinschaftsprojekt, a joint project involving the ifo-Institut, INSEE and ISAE research institutes, still expects the euro area to achieve marginal GDP growth of 0.4 percent in the fourth quarter of 2008 compared with the previous year, while the economy is forecast to shrink by -0.1 percent in the first quarter of 2009.

According to economic research institutes, the German economy is also on the brink of a recession. Germany is especially vulnerable to the weakness of the international economy, as it is demand for the type of investment goods which play a significant role in the German export sector which should see the most marked downturn. Moreover, companies are also confronted in the coming months with more restrictive lending policies on the part of the banks due to the intensification of the difficulties in the banking sector, a development which will curb investment activity. According to the Gemeinschaftsdiagnose project group, GDP is now only expected to grow by 0.5 percent in the fourth quarter of 2008 compared with the equivalent period in the previous year. GDP growth amounting to a mere 0.2 percent is forecast for 2009. The economy might receive assistance from private consumer spending. As inflation slowly retreats, real-term incomes can be expected to rise, albeit marginally, accompanied by collectively agreed pay increases in individual sectors. It nevertheless remains difficult to assess private household savings behaviour in the current situation. This, together with further developments on the labour market, will determine the development in private consumer spending in 2009. The Gemeinschaftsdiagnose project group currently expects consumer spending to show slight growth of 0.4 percent in 2009.

The Beate Uhse Group will be pressing consistently ahead with its restructuring process in the coming months. In particular, following the successful implementation of central marketing, the implementation of the multi-channel structure adopted by the company will be on the agenda. This will involve creating a uniform product range and a uniform market proposition across all distribution channels. The company has established a Distribution Board, which develops and decides on all marketing activities, for this purpose. Overall, there will be a far greater focus on the brand rather than on the specific distribution channel. The strong country brands of Beate Uhse, Pabo, Christine le Duc and Adam & Eve will therefore benefit from joint brand positioning. Customers should have the same brand experience and be addressed by a standardised product range across all distribution channels. As well as raising the brand focus, this move is mainly intended to create synergies with other divisions. A special gift shop with extra Christmas offers has been established to boost sales in the important Christmas season. These gifts will be available at all stores, in the catalogue and in the online shop.

What's more, with its private labels, the Beate Uhse Group will set new standards in the erotica market and specifically target new customer groups. The ToyJoy, Daring! and Mae B. private labels are examples of the successful implementation of this strategy.

Given that the strongest quarter of the year, with the Christmas business, is still ahead, the Management Board of Beate Uhse AG is upholding its forecast. In view of the reduced number stores, sales for the overall 2008 financial year are expected to decline by around three percent. There will be a substantial increase in advertising expenses incurred in connection with the marketing and customer retention programmes in the mail order division in the fourth quarter, leading to a corresponding increase in sales-related expenses. The company nevertheless confirms its expectation that EBT for 2008 will range between Euro 3 million and Euro 5 million.

BALANCE SHEET

ASSETS

EUR 000s	31.12.2007	30.09.2008
NON-CURRENT ASSETS		
Intangible assets	10,590	11,043
Goodwill	14,940	15,139
Property, plant & equipment	32,807	29,027
Financial assets available for sale	0	1,425
Other financial assets	8,494	6,832
Investments	26,223	26,231
Shares in associated companies	2,989	1,678
Income taxes	9,969	8,568
	106,012	**99,943**
CURRENT ASSETS		
Inventories	34,770	36,995
Accounts receivable	30,114	29,977
Other current financial assets and other assets	3,867	5,560
Income tax refund claims (current)	1,233	1,472
Liquid funds	7,408	6,990
	77,392	**80,994**
Total assets	183,404	**180,937**

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR 000s	31.12.2007	30.09.2008
SHAREHOLDERS' EQUITY		
Subscribed capital	47,324	70,985
Treasury stock at cost of acquisition	-3,463	-3,463
Capital reserves	745	2,648
Revenue reserves	3,295	3,295
Other reserves	133	133
Unappropriated net profit	18,235	26,345
Balancing item for currency conversion	-41	60
Minority interests	139	196
	66,367	**100,199**
NON-CURRENT DEBT		
Interest-bearing loans	6,822	34,831
Pensions and similar obligations	3,283	3,193
Other accruals	2,876	2,315
Other financial liabilities	529	524
Deferred tax liabilities	1,811	1,811
	15,321	**42,674**
CURRENT DEBT		
Accounts payable	20,423	14,642
Other financial liabilities	14,738	16,492
Pensions and similar obligations	247	247
Other accruals	4,437	3,494
Income tax liabilities	2,647	1,645
Loans	26,427	744
Short-term portion of long-term loans	32,797	800
	101,716	**38,064**
Total shareholders' equity and liabilities	183,404	**180,937**

CONSOLIDATED INCOME STATEMENT

	Q3/2007	**Q3/2008**	9 months	**9 months**	Change	Change
EUR 000s	1.7.-30.9.2007	**1.7.-30.9.2008**	30.09.2007	**30.09.2008**	EUR 000s	%
ONGOING BUSINESS DIVISIONS						
Sales	73,850	**65,393**	202,495	**186,777**	-15,718	-7.8
Cost of sales	-32,093	-26,473	-88,440	-76,948	11,492	-13.0
Gross profit on sales	41,757	**38,920**	114,055	**109,829**	-4,226	-3.7
Other operating income	3,253	3,445	11,690	13,920	2,230	19.1
Sales-related expenses	-34,847	-32,295	-96,246	-93,087	3,159	-3.3
General administration expenses	-11,926	-6,849	-24,104	-20,019	4,085	-16.9
Other operating expenses	-180	-13	-695	-740	-45	6.5
Share in earnings of associated companies	199	54	969	190	-779	-80.4
Other income from shareholdings	-49	0	-73	15	88	-120.5
Earnings before interest and taxes	-1,793	**3,262**	5,596	**10,108**	4,512	80.6
Financial income	419	-189	819	392	-427	-52.1
Financial expenses	-1,677	-665	-3,769	-2,029	1,740	-46.2
Earnings before taxes	-3,051	**2,408**	2,646	**8,471**	5,825	220.1
Taxes on income	-703	2,815	-1,872	-231	1,641	-87.7
Consolidated earnings	-3,754	**5,223**	774	**8,240**	7,466	964.6
ALLOCABLE TO:						
Shareholders in the holding company	-3,812	5,102	586	8,110	7,524	1,284.0
Minority shareholders	-58	-121	-188	-130	58	-30.9
EARNINGS PER SHARE (EPS)						
Basic (EUR)			47,042,247	70,703,247	23,661,000	50.3
Diluted (EUR)			47,042,247	70,703,247	23,661,000	50.3
Basic earnings per share			0.02	0.11	0.09	473.6
Diluted earnings per share			0.02	0.11	0.09	473.6

CASH FLOW STATEMENT

EUR 000s	9 months 30.09.2007	**9 months 30.09.2008**	Change EUR 000s	Change %
CASH FLOW FROM OPERATING ACTIVITIES				
Operating earnings (EBIT) at ongoing and discontinued business divisions	5,597	**10,108**	4,511	80.6
CORRECTIONS FOR:				
Non-cash expenses (IFRS 2)	81	48	-33	0.0
Depreciation of property, plant and equipment, amortisation of intangible assets	15,025	8,252	-6,773	-45.1
Losses / profits incurred on the disposal of property, plant and equipment and intangible assets	-1,179	56	1,235	0.0
Other non-cash income	-721	-185	536	-74.3
CHANGES IN:				
Accounts receivable	-4,402	417	4,819	-109.5
Other assets	1,164	-3,304	-4,468	-383.8
Accounts payable	-9,969	-6,458	3,511	-35.2
Other liabilities	-2,661	-231	2,430	-91.3
Interest received	818	392	-426	-52.1
Interest paid for loans and hedging instruments	-4,067	-2,280	1,787	-43.9
Income tax refunded / repaid	-204	266	470	-230.4
Cash flow from operating activities	-518	**7,080**	7,599	-1,467.0
CASH FLOW FROM INVESTMENT ACTIVITIES				
Cash received from the sale of property, plant and equipment, intangible assets and other fixed assets	26,020	4,398	-21,622	-83.1
Cash paid for investments in property, plant and equipment, intangible assets and other fixed assets	-10,272	-6,313	3,959	-38.5
Cash paid in connection with short-term financial management	-352	-1,431	-1,079	306.5
Cash received in connection with short-term financial management	1,814	6	-1,808	-99.7
Cash paid for acquisition of subsidiaries	0	-98	-98	-
Cash flow from investment activities	17,210	**-3,438**	-20,648	85.2
CASH FLOW FROM FINANCING ACTIVITIES				
Capital allocation (sales of treasury stock)	0	25,516	25,516	0.0
Dividends paid	-4,705	0	4,705	-100.0
Taking up of bank liabilities	10,759	28,009	17,250	160.3
Taking up of borrowers´note loans	10,000	0	-10,000	-100.0
Taking up of loans from third parties	-13,717	0	13,717	-100.0
Redemption of bank liabilities	-3,014	-57,686	-54,672	1,813.9
Cash flow from financing activities	-677	**-4,161**	-3,484	514.6
Net change in cash, cash equivalents and securities	16,015	**-520**	-16,535	-103.2
Changes due to movements in exchange rates	84	101	17	20.2
Cash, cash equivalents and securities at beginning of period	6,431	7,408	977	15.2
Cash, cash equivalents and securities at end of period	22,530	6,990	-15,540	-69.0
COMPOSITION OF CASH AND CASH EQUIVALENTS AT END OF PERIOD				
Cash holdings, credit balances at banks, cheques and securities	22,518	6,977	-15,541	-69.0
Short-term money investments	12	13	1	8.3
	22,530	**6,990**	-15,540	-69.0

GROUP EQUITY SCHEDULE 2008

EUR 000s	Equity allocable to the shareholders in the parent company									
	Share capital	Treasury stock	Capital reserve	Revenue reserves	Other reserves	Unappro-priated net profit	Balancing item for currency translation	Total	Minority interests	Total equity
Balance as of 1 January 2007	47,324	-3,463	664	3,295	305	36,782	15	84,922	-438	84,484
Foreign currency translation							-72	-72	-34	-106
Share-based compensation			81					81		81
Profits on hedging of cash flows					98			98		98
Tax effects relating to profits on hedging of cash flows					-37			-37		-37
Dividend distribution						-4,704		-4,704	0	-4,704
Income and expenses recognised in equity					61		-72	-11	-34	-45
Group amount						586		586	188	774
Balance as of 30 September 2007	47,324	-3,463	745	3,295	366	32,664	-57	80,874	-284	80,590
Balance as of 1 January 2008	47,324	-3,463	745	3,295	133	18,235	-41	66,228	139	66,367
Capital increase	23,661		1,903					25,564		25,564
Foreign currency translation							101	101	-73	28
Total income and expenses recognised in equity	23,661	1,903	1,903	0	0	0	101	25,665	-73	25,592
Group amount						8,110		8,110	130	8,240
Balance as of 30 September 2008	70,985	-3,463	2,648	3,295	133	26,345	60	100,003	196	100,199

SEGMENT REPORT 30 SEPTEMBER 2007

EUR 000s	Retail	Mail Order	Wholesale	Entertainment	Holding	Consolidation	Group Value
Sales	61,126	83,901	59,141	14,318	-23	-15,968	202,495
-of which with third parties	60,735	83,857	45,249	12,677	-23	0	202,495
-of which with other segments	391	44	13,892	1,641	0	-15,968	0
Amortisation of intangible assets	-1,305	-3,723	-1,810	-105	-246	0	-7,189
Depreciation of property, plant and equipment	-4,875	-1,423	-1,064	-77	-399	0	-7,838
Exceptional depreciation	0	0	0	0	0	0	0
Amortisation of financial assets	0	0	0	0	-288	0	-288
Financial result	-1,194	-567	-1,094	37	-132	0	-2,950
Income from shareholdings in associated companies	0	0	354	0	615	0	969
Income from other shareholdings	0	0	-73	0	0	0	-73
EBT	-1,373	2,433	1,784	2,084	-2,242	-40	2,646
Taxes on income	-256	11	-1,330	-805	508	0	-1,872
Net income	-1,629	2,444	454	1,279	-1,734	-40	774
excluding profit and loss transfer agreements							
Assets (incl. shareholdings)	47,472	39,164	55,870	16,224	202,932	-191,131	170,531
Shareholdings in associated companies	0	0	0	0	28,196	0	28,196
Investments in non-current assets	4,607	2,230	1,989	1,070	466	0	10,362
Liabilities	42,334	32,705	36,855	6,455	97,694	-89,723	126,320

SEGMENT REPORT 30 SEPTEMBER 2008

EUR 000s	Retail	Mail Order	Wholesale	Entertainment	Holding	Consolidation	Group Value
Sales	54,482	81,084	58,279	12,350	0	-19,418	186,777
-of which with third parties	54,105	81,032	41,098	10,542	0	0	186,777
-of which with other segments	377	52	17,181	1,808	0	-19,418	0
Amortisation of intangible assets	-248	-59	-1,434	-121	-323	0	-2,185
Depreciation of property, plant and equipment	-3,210	-1,425	-1,137	-77	-128	0	-5,977
Exceptional depreciation	0	0	-90	0	0	0	-90
Amortisation of financial assets	0	0	0	0	-15	0	-15
Financial result	-1,111	-237	-970	121	561	-1	-1,637
Income from shareholdings in associated companies	0	0	0	0	190	0	190
Income from other shareholdings	0	0	15	0	0	0	15
EBT	-141	9,190	482	2,026	-3,086	0	8,471
Taxes on income	-14	-580	-51	-474	888	0	-231
Net income	-155	8,610	431	1,552	-2,198	0	8,240
excluding profit and loss transfer agreements							
Assets (incl. shareholdings)	42,833	36,877	53,385	14,641	193,195	-171,712	169,219
Shareholdings in associated companies	0	0	0	0	1,678	0	1,678
Investments in non-current assets	1,542	1,084	2,180	204	265	0	5,275
Liabilities	37,704	25,710	36,037	4,523	43,843	-70,535	77,282

NOTES

ACCOUNTING AND VALUATION METHODS

Beate Uhse AG is the parent company pursuant to Section 290 of the German Commercial Code (HGB). As a result of the issuing of equity titles on the capital market, the company is required under Article 4 of Regulation No. 1606/2002 of the European Parliament and Council dated 19 July 2002 to compile its consolidated financial statements in accordance with IFRS. These interim consolidated financial statements as of 30 September 2008 have accordingly been compiled in line with currently valid IFRS accounting standards. It was not necessary to make any adjustments to the accounting and valuation methods. This interim report has been compiled in line with the requirements of IFRS international accounting standards and in accordance with German Accounting Standard (DRS) 16. The accounting and valuation policies are consistent with those applied in the most recent consolidated financial statements for the 2007 financial year. Individual items in the income statement, balance sheet and cash flow statement of the Beate Uhse Group have been summarised in the interests of clarity and in order to enhance their legibility.

The 9-month report 2008 has not been subject to any audit review by the auditor.

SCOPE OF CONSOLIDATION

Bestseller Filmdistribution Europa AB, Täby, Sweden, and its wholly-owned subsidiary, Bestseller Rättigher Scandinavia AB, were consolidated for the first time in the 9-month report 2008. The companies are wholly-owned subsidiaries of Beate Uhse Max AB and were acquired as of 4 January 2008. Furthermore, RT BVBA, Belgium, was also consolidated for the first time. This company is a wholly-owned group company (99.5 percent: Beate Uhse Retail Holding BV; 0.5 percent: Beate Uhse BV).

Bestseller Filmdistribution Europa AB generated sales of EUR 6k and operating earnings of EUR 5k in the first nine months of 2008. The company has assets of EUR 273k. Bestseller Rättigher Scandinavia AB generated sales of EUR 535k and operating earnings of EUR -247k in the first nine months of 2008. The company has assets of EUR 557k.

RT BVBA generated sales of EUR 977k and operating earnings of EUR -174k in the first nine months of 2008. The company has assets of EUR 350k.

SEGMENT REPORTING

The reporting structure applied in the most recent annual financial statements has been retained without amendment in this interim report.

EARNINGS PER SHARE

Earnings per share have been calculated by dividing the Group's net earnings (excluding minority interests) by the number of shares.

EARNINGS PER SHARE

		9 months 30.09.2007	**9 months 30.09.2008**
Net earnings for period	EUR million	774	8,240
Number of shares (basic)	No. of share	47,042,247	70,703,247
Number of shares (diluted)	No. of share	47,042,247	70,703,247
Earnings per share (basic)	EUR	0.02	0.11
Earnings per share (undiluted)	EUR	0.02	0.11

CHANGES IN THE MANAGEMENT AND SUPERVISORY BOARDS

As previously announced, Gerard P. Cok retired from the Management Board on 31 May 2008 and was elected to the Supervisory Board by the Annual General Meeting held on 16 June 2008. He has assumed the position previously held by Michael Papenfuss. Michael Petersen was elected to the Supervisory Board as an employee representative as of 1 July 2008. He replaces Carlo Floridi, who retired from his position in line with the relevant contractual terms.

RELATED PARTY TRANSACTIONS

Transactions were undertaken with the following related parties in the reporting period from 1 July 2008 to 30 September 2008:

Reuben Rotermund
Immo Almere BV
Summa Finance BV
Crop Registeracccountants
MVW Medien-Vertriebs GmbH
Gerard Cok
Consipio Holding BV

DISCLOSURES RELATING TO BEATE UHSE AG

Beate Uhse AG has no proprietary operating business activities. It acts as the holding company for the subsidiaries and shareholdings of the Group. As such, it performs the central group management functions of accounting, controlling, finance, human resources, legal and communications services. The earnings performance of Beate Uhse AG is primarily dependent on the profit and loss transfer agreements concluded with its subsidiaries and on further investment income, as well as on the expenses relating to its function as the holding company.

DISCLAIMER

This interim report includes statements concerning the future which are based on assumptions and estimates made by the management of Beate Uhse. In spite of the assumption that these forwardlooking statements are realistic, no guarantee can be given that these expectations will also prove to be accurate.

FINANCIAL CALENDAR

31 December 2008	End of financial year
31 March 2009	Publication of 2008 annual report

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The report for the 3nd quarter of 2008 is available online only in German and English.

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