6-MONTH STATEMENT 2004 beate uhse

BEATE UHSE AT A GLANCE

€ million		6 months 30.06.2003	6 months 30.06.2004	Change %
Sales growth				
Retail		33.6	39.5	17.5
Mail Order		55.1	59.0	7.1
Wholesale		28.6	28.3	-0.9
Entertainment		11.2	8.8	-21.1
Holding Services		-	-	-
Total sales		**128.6**	**135.7**	**5.5**
Foreign share of sales	%	52.2	55,2	-
Earnings				
EBITDA		14.3	14.6	2.3
EBIT		9.6	9.8	2.0
EBT		8.5	8.6	1.3
Net income for the period		4.7	6.2	31.6
Other earnings indicators				
Return on sales before tax	%	6.6	6.3	-
Return on sales after tax	%	3.6	4.6	-
Return on equity	%	7.5	8.9	-
Gross margin	%	67.4	72.0	-
Financial position				
Gross cash flow		9.4	11.1	18.1
Cash flow from operating activities		8.7	-0.3	-
Investments		5.0	6.3	25.7
Depreciation		4.6	4.9	6.2
Dividend paid		4,7	4,7	-0,9
Balance sheet data		(at 31.12.2003)		
Total assets		181.2	176.8	-2.4
Equity		67.8	69.3	2.2
Equity ratio	%	37.4	39.2	-
Fixed assets		77.9	83.3	7.0
Current assets		96.2	87.3	-9.3
Other disclosures				
Employees	total	1,292	1,463	13.2
Personnel expenses		22.3	24.5	10.1
Cost of materials		46.6	47.0	0.7
Other operating expenses		49.8	58.6	17.7
Shares				
Number of shares		47,323,696	47,323,696	-
Closing share price	EUR	10.36	11.09	7.0
Highest share price	EUR	11.20	13.02	16.3
Lowest share price	EUR	9.30	10.50	12.9
Earnings per share	EUR	0.10	0.13	30.7
Cash flow per share	EUR	0.20	0.24	19.8

FOREWORD OF THE MANAGEMENT BOARD

Ladies and Gentlemen, Dear Shareholders,

As you will be aware, due to seasonal fluctuations the second quarter is traditionally one of the weaker periods in our financial year. The current year is no exception in this respect. Anyhow all profit centres contributed to the positive development of sales and earnings in the second quarter, and thus in the first half-year, enabling the Group to achieve further growth. We are particularly pleased with the development seen in earnings after tax. This key figure rose by 32.0 percent on the equivalent figure for the previous year. The wholesale and entertainment divisions, on the other hand, did not entirely fulfil our expectations. The relocation to our new central warehouse at Almere has been delayed by 8 months. This meant that our work processes in the second quarter were not sufficiently optimised to achieve a smooth functioning of logistical processes. This resulted not only in a decline in sales, but also in increased costs. The high degree of regulation in the internet business, coupled with the dialer technology problem, led to a decline in sales at the entertainment profit centre. Beate Uhse New Media made a virtue of necessity and increased the range of payment options available to its online customers. These options are now in the process of establishing themselves, but were not entirely able to offset the decline in sales resulting from the loss of confidence in dialer technology.

We nevertheless remain confident that the course we have set for the Beate Uhse Group is the right one. The wholesale division will serve as an international platform for the handling of goods for the overall Group on an internal and external basis. The optimisation of the supply of products to our own shops and to external providers, the bundling of purchasing power for the overall Group and the creation of strong links between international manufacturers and our Scala sales partner harbour enormous potential for the future. The wholesale division will assume one of the most important roles within the Group in future.

MAE B.

What a fantastic debut the young lady has had! Following on from the two shops in Hamburg, we opened a further shop-in-shop at the Karstadt department store on Hermannplatz in Berlin at the end of July 2004. The Berliners have taken to the new shop and its goods with a high degree of openness and confidence. Its customers include women and couples of all cultures and age ranges. We opened the fourth Mae B. shop – a shop-in-shop in a Karstadt department store in Frankfurt – at the beginning of August.

INVESTOR RELATIONS

We have been especially pleased with the positive response to our Investor Relations activities in recent months. Our decision to accord top priority to financial communications has proven to be correct. The CFO of Beate Uhse AG is personally involved in contacting investors and analysts. We have invested a great deal of time and energy over the past years in building up a transparent and clear public presentation of the company. We are now reaping the initial fruits of these efforts. In its Investor Relations study for 2004, for example, the finance magazine “Capital” certified that Beate Uhse AG provided high-quality and transparent financial communications. Within the 50 companies listed in the SDAX index, Beate Uhse has advanced from 16th to 5th position. The results of the 2004 Corporate Governance Survey carried out by ergo Kommunikation, Cologne, were also particularly pleasing for Beate Uhse AG. Awarding Beate Uhse AG the 24th position among all companies listed in the DAX, MDAX, SDAX and TexDAX indices, the study confirmed that the company had excellent and transparent corporate governance. Within the SDAX, Beate Uhse AG was awarded 3rd position for its corporate governance communications. The assessment included an evaluation of the Statement of Compliance and of the presentation of issues relating to the German Corporate Governance Code in the company’s annual report and on its homepage. With these achievements in mind, we will continue to be open and fair in our future communications with you.

Yours faithfully,

Otto Christian Lindemann	**Gerard Cok**
Spokesman for the Management Board, CFO	**COO**

ECONOMY AND MARKET

The current development seem to be paradoxical. Market researchers are once more forecasting a significant decline in German consumers' propensity to consume. At the same time, sustainable improvements have been seen in the economic climate and the Bundesbank has revised its growth forecasts for the overall German economy upwards from 1.6 percent to 1.8 percent.

The Company for Consumer Research (GfK) considers there to be a significant discrepancy between the economic expectations of companies and those of consumers. The level of consumption in Germany is also not expected to show any significant improvement in the second half of the year. This situation resulted in retail sales declining by 1.2 percent in real terms in the first half of the year. According to the Federal Statistics Office, the mail order segment suffered a particularly marked decline in sales of 6.1 percent in real terms.

Within the European Union, the retail sector in the Eurozone is not able to match the growth rates reported in the new member states. On the basis of figures released by Eurostat, Eurozone retail sales were extremely subdued in the first five months of the year, with considerable declines witnessed in February and May in particular. Significant growth was reported for the EU as a whole, thanks to pleasing developments in the new member states, whose retail sales showed double-digit growth in some cases.

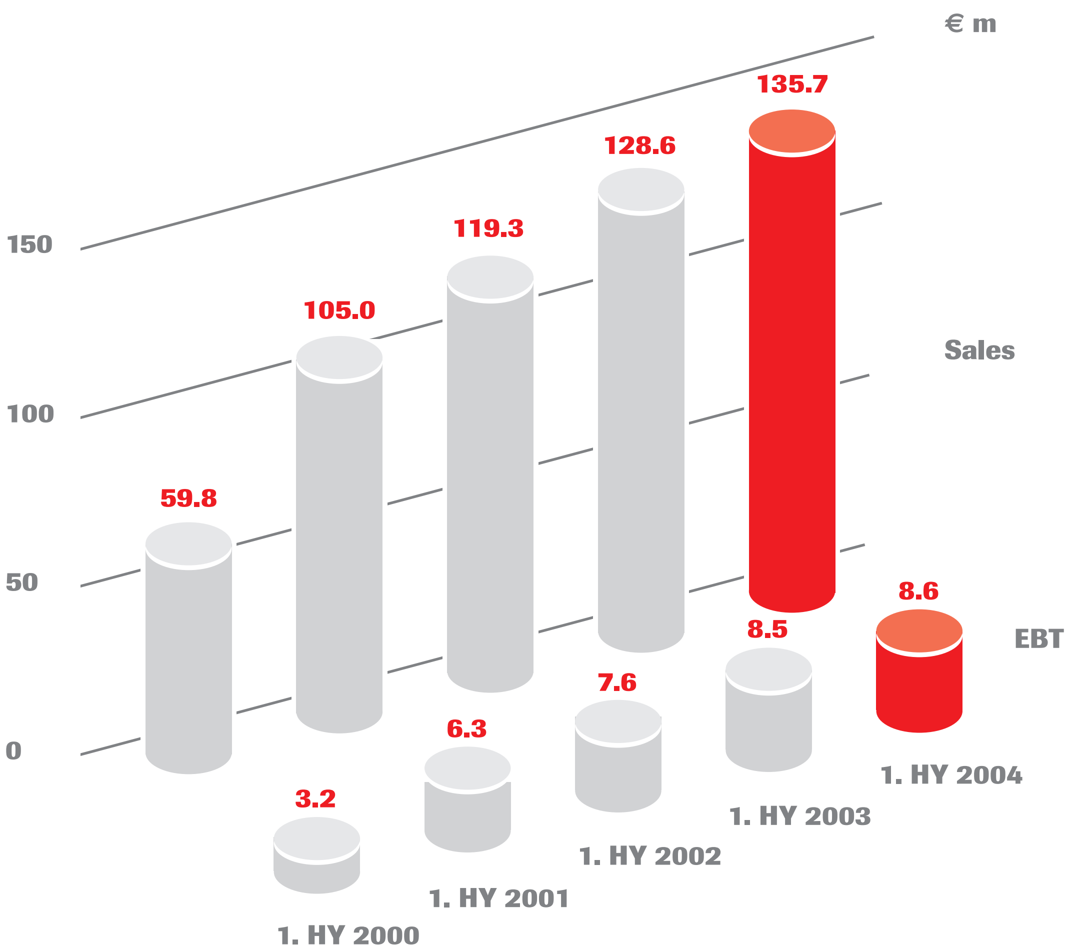
For the erotica segment, this means that no further impulses can be expected to come from the general consumer climate. Accordingly, the best case involves a continuation of the stable development seen in Germany. With regard to other European countries, some are faring somewhat better (Poland, France), while others are encountering difficulties similar to those in Germany (Benelux, Italy).

DEVELOPMENT OF SALES

Sales at Beate Uhse increased by € 7.1m (plus 5.5 percent) in the first six months of the financial year. Overall, the company generated 47.0 percent of its forecast level of annual sales in the first six months, and is thus in line with its internal targets following adjustment for seasonal considerations. This assumption is particularly valid in view of the fact that the sales figures for June were able to regain the pleasing level seen in the first quarter, following two weaker months in April and May. Due to the relocation of the logistics centre and the development of the German online market, the second quarter of 2004 was slightly poorer than the equivalent period in the previous year. However, the relocation is a one-off event and the company has already introduced measures to address the problems in the entertainment division.

SALES BY PROFIT CENTRE

The retail division was able to maintain its growth rate. Its sales rose by 17.5 percent in the first half of the year, thanks in part to acquisitions (Christine le Duc B.V., Kondomeriet AS) and to newly opened stores. The Group's most important sales driver, the mail order business, saw its sales increase by 7.1 percent over the first six months, or by approximately € 4.0m in absolute terms. The wholesale division maintained the level seen in the previous year. This division encountered temporary difficulties with regard to the availability of goods on account of the relocation to the new logistics centre in Almere. These difficulties have now been largely overcome. As expected, the entertainment division saw a continuation of the developments reported in the first quarter. It will not be possible to make up the current sales shortfall of 21.0 percent by the end of the financial year. The focus is therefore on safeguarding the division's profitability.



SALES AND EBT DEVELOPMENT

SALES BY PROFIT CENTRE

€ million	6 months 30.06.2003	6 months 30.06.2004	Change %
Retail	33.6	39.6	17.5
Mail Order	55.1	59.0	7.1
Wholesale	28.6	28.3	-0.9
Entertainment	11.2	8.8	-21.1
Holding Services	-	-	-
	128.6	136.7	5.5

SALES BY REGION

The Beate Uhse Group was able to maintain its growth in spite of the unfavourable consumer climate in Europe, achieving growth rates in excess of 30.0 percent in France and the UK, currently its most dynamic markets. Thanks to the pleasing development of its mail order business, Austria was also able to build on the successes of the past and even to achieve a slight increase in its growth. Germany generated 44.8 percent of the Group's sales in the first six months. Development has shown that the decision to press ahead with the Group's international expansion was absolutely right, particularly in view of the poor development of the German economy.
As a result, the international share of overall sales rose to 55.2 percent.

SALES BY REGIONS

€ million	6 months 30.06.2003	6 months 30.06.2004	Change %
Germany	61.4	60.3	-1.8
Netherlands	22.0	25.0	13.7
Belgium	8.8	9.1	3.6
France	9.1	12.0	31.6
United Kingdom	6.6	8.7	31.9
Austria	4.2	6.2	46.8
Switzerland	1.1	1.0	-10.9
Scandinavia	6.0	6.2	4.1
Other European countries	5.7	4.4	-21.4
Other regions	3.6	2.7	-23.9
	128.6	135.7	5.5

DEVELOPMENT OF EARNINGS

Beate Uhse was able to increase its earnings. All key earning figures for the first six months of 2004 were above their equivalent figures for the previous year. The company's net income even increased by 32.0 percent on the previous year. In spite of the uneven development of sales, all profit centres were able to report positive earnings figures. By 30 June 2004, Beate Uhse had recorded 40.0 percent of the pre-tax earnings forecast for the overall financial year, with the stronger quarters still to come.

DEVELOPMENT OF OPERATING EARNINGS

In the first half of 2004, the Beate Uhse Group improved its gross margin across all profit centres. Measured as a percentage of sales, the gross margin rose by 4.6 percentage points from 67.4 percent to 72.0 percent. The cost of materials remained at the same level as in the previous year in spite of the growth reported in sales. This development is primarily attributable to enhanced purchasing structures and to benefits of scale resulting from the bundling of procurement activities. Further positive effects related to other operating income from exchange rate gains and interest on arrears in the mail order division.

There was a rise in personnel expenses, primarily on account of the acquisition of Christine Le Duc, the second largest Dutch store-chain. Apart from this, personnel expenses largely remained stable. Similarly, there was also no reason to interrupt the continuity of depreciation poli-

EBT

€ million	6 months 30.06.2003	6 months 30.06.2004	Change %
Retail	1.7	2.1	23.5
Mail Order	5.0	5.3	6.8
Wholesale	4.5	2.5	-44.9
Entertainment	1.5	0.9	-40.2
Holding Services	-4.2	-2.2	47.5
	8.5	8.6	1.3

EBIT

€ million	6 months 30.06.2003	6 months 30.06.2004	Change %
Retail	2.1	2.6	23.8
Mail Order	5.2	5.5	5.6
Wholesale	4.8	2.8	-41.8
Entertainment	1.5	0.9	-40.1
Holding Services	-4.0	-2.0	-50.2
	9.6	9.8	2.0

EBITDA

€ million	6 months 31.06.2003	6 months 31.06.2004	Change %
Retail	4.3	4.6	7.6
Mail Order	6.0	6.0	-0.1
Wholesale	5.7	4.3	-24.4
Entertainment	1.8	1.3	-28.0
Holding Services	-3.5	-1.6	54.4
	14.3	14.6	2.3

cies. The volume of expenses relating to depreciation was therefore similar to that in 2003. There was a slight rise in other operating expenses due to an increase in mail order advertising activities in the Group's most important European country markets. Overall, the Group reported earnings before interest and taxes (EBIT) of € 9.8m as of 30 June 2004, and an EBIT of € 2.6m for the second quarter of 2004. Earnings before tax amounted to € 8.6m for the first half year and to € 2.0m for the second quarter of 2004.

NET INCOME

The growth in pre-tax earnings in the first six months was slightly lower than that reported for the key EBIT and EBITDA operating earnings figures.
Earnings after tax showed particularly pleasing developments. The utilisation of loss carryovers at individual subsidiaries enabled the tax rate to be improved to 21.8 percent in the second quarter and to 28.2 percent for the first half of the year. As a result, earnings after tax rose by 32.0 percent to reach € 6.2m. Beate Uhse thus generated net income for the first six months equivalent to 65.1 percent of the net income for the overall 2003 financial year.

DEVELOPMENT OF ASSET AND FINANCIAL POSITION

The balance sheet of the Beate Uhse Group contracted by € 4.4m between 31 December 2003 and 30 June 2004. The difference to the balance sheet as of 31 March 2004 was even greater, with an absolute decline of € 10.1m in total assets. This development is primarily attributable to optimised current asset management.

ASSETS

There was an increase in fixed assets between 31 December 2003 and 30 June 2004. The most important factor in this increase, which resulted in fixed assets constituting 47.1 percent of total assets, was the rise in financial assets and in particular in the volume of shares held in affiliated companies.

The level of current assets was affected by Beate Uhse AG reducing its volume of treasury stock, as announced at the Annual General Meeting. At the same time, the cash management programme installed at the end of 2003 enabled the level of liquidity tied up in the company to be limited to € 6.1m. As a result, current assets fell from 53.1 percent to 49.4 percent of total assets.

EQUITY

The equity of the Beate Uhse Group rose by a net total of 2.2 percent or € 1.5m. This positive development was principally due to the increase in retained earnings resulting from the net income for the period of € 6.2m. This increase was largely offset by a reduction in equity resulting from dividend payments totalling € 4.7m. Within the equity, the reserve for treasury stock declined in favour of retained earnings as a result of the sale of treasury stock. The equity ratio improved by 1.8 percentage points to 41.0 percent.

DEBT CAPITAL

There was a 10.6 percent decline in the level of accruals reported in the balance sheet. This reduction primarily related to tax accruals. A slight reverse tendency was seen in the provisions for returned goods. Beate Uhse reduced its liabilities by 4.2 percent or € 4.1m. The increase in liabilities to banks was offset by a significant decline in trade payables and a lower level of other liabilities. In this respect, Beate Uhse has benefited from the favourable current level of interest rates and exploited all cash discount possibilities. Overall, debt capital constituted 60.8 percent of total assets as of 30 June 2004.

CASH FLOW AND INVESTMENTS

The Beate Uhse Group generated a gross cash flow of € 11.1m in the first six months of 2004 (net income for the period + depreciation +/- change in long-term accruals). This represents an increase of 19.6 percent compared with the first half of 2003. In the first half of 2004, the Group achieved a significant reduction in the volume of its trade payables, which fell by € 7.3m.
Other liabilities also fell by € 2.5m.
During the period under report, Beate Uhse invested a total of € 6.3m. The net outflow of funds for investment activities amounted to € 3.7m during the reporting period. The cash flow from financing activities was affected in particular by the payment of the dividend and the sale of treasury stock, as well as by various debt refinancing measures. Overall a net inflow of € 2.8m was recorded for financing activities.

INVESTMENTS BY PROFIT CENTRE

€ million	6 months 30.06.2003	6 months 30.06.2004
Retail	2.8	3.9
Mail Order	1.1	0.8
Wholesale	0.6	1.1
Entertainment	0.1	0.2
Holding Services	0.4	0.2
	5.0	6.3

EMPLOYEES

The number of company employees rose only slightly, with a total of 13 individuals more than the first quarter of 2004. Most of the new positions resulted from the opening of new shops in the retail division.
Mainly as a result of the acquisition of Christine le Duc and Kondomeriet, the number of Beate Uhse employees rose by a total of 171 compared with the figure for the equivalent period in the previous year.

EMPLOYEES BY REGION

total	6 months 30.06.2003	6 months 30.06.2004
Germany	713	745
Netherlands	344	494
Belgium	31	32
France	35	40
United Kingdom	18	24
Austria	7	13
Scandinavia	85	60
Other European countries	42	38
USA	17	17
	1,292	1,463

EMPLOYEES BY PROFIT CENTRE

total	6 months 30.06.2003	6 months 30.06.2004
Retail	656	842
Mail Order	284	274
Wholesale	220	223
Entertainment	87	83
Holding Services	45	41
	1,282	1,463

SHARE

The share of Beate Uhse AG is listed in the Prime Standard of the Frankfurt Stock Exchange. Beate Uhse is a member of the SDAX and Classic All Share indices, as well as of the CDAX Retail sector index.

PERFORMANCE AND LIQUIDITY

The Beate Uhse share concluded the second quarter of 2004 at € 11.09. The highest price in the first half of the year was € 13.02 and the lowest € 10.50. The average daily trading volume on the Frankfurt and Xetra exchanges amounted to 8,454 shares in the first half of the year.

DEVELOPMENT OF SHARE PRICE

		6 months 30.06.2003	6 months 30.06.2004
Opening	EUR	11.19	13.00
Closing	EUR	10.36	11.09
High	EUR	11.20	13.02
Low	EUR	9.30	10.50
Average	EUR	10.10	11.67
Development	%	-7.40	-15.10

Source: Xetra / FWB

As already outlined by the Management Board at the 2004 Annual General meeting, Beate Uhse AG undertook an off-floor sale of treasury stock (476,000 shares) for a total price of € 5.7m at the end of the first half of 2004. These shares had been acquired at the end of 2003 within the framework of the buyback programme. A total of 73,450 shares had already been sold prior to the 2004 Annual General Meeting via the stock exchange and at a price totalling € 870,520.00.

INDEX WEIGHTING

The market capitalisation of the Beate Uhse Group totalled € 521.03m on the reporting date on 30 June 2004, of which the free float amounted to € 181.11m. The company's weighting within the SDAX index fell from 2.90 percent at the end of the first quarter to 2.75 percent.

KEY FIGURES FOR THE BEATE UHSE SHARE 2002/2003

		6 months 30.06.2003	6 months 30.06.2004
Capital stock		47,323,696	47,323,696
SDAX weighting	%	3.88	2.75
Market capitalisation: total	EUR	487.1	521.0
Market capitalisation: free float	EUR	169.3	181.11
Ø Sales / Day		50,012	8,454
Ø Sales / Day	EUR	505,009	100,223

Source: Dt. Börse / Bloomberg

PROFIT CENTRES

RETAIL

The Beate Uhse retail division has pressed ahead with its international expansion. Shortly after the end of the second quarter, the Beate Uhse Group opened its third store in Poland – this time in the centre of Poznan. In the coming weeks, two further stores will be opened in Warsaw and in Katowice. The design and product range of the shops, which have floor surfaces of around 100 m^2, are equivalent to those of the Beate Uhse shops in Germany. The strategy of the international Beate Uhse retail division foresees the expansion of this retail concept across the whole of Poland in the next 3 to 5 years. A total of 3 to 5 shops is scheduled to be opened each year.

In June 2004, the international Beate Uhse retail division acquired an existing erotica shop in Amsterdam. This store is due to be converted to the Beate Uhse shop design at the beginning of 2005. With its superb location at the entrance to the world-famous red light district of Amsterdam, it will play a highly effective role in terms of publicity. The second quarter saw the opening of the first specialist store in Antwerp, Belgium. Five further shops based on this concept are scheduled to be opened in Belgium in the next two years. The specialist store concept is also expected to be launched before long in France.

The German Beate Uhse retail division maintained the positive developments seen in the first quarter. Its sales and earnings were once again slightly above budget. Particularly pleasing results were reported for the existing stores, which generated a slight increase in sales in spite of the ongoing weakness of the consumer climate in Germany. This pleasing development contrary to the general trend is the result of the ongoing analysis and optimisation of the store network and of individual locations. Beate Uhse is highly consistent in giving up locations not able to fulfil its profitability criteria. The first half of 2004, for example, saw the closure of three existing stores and of two franchise businesses. One of the Beate Uhse shops at Frankfurt airport had to be closed on account of airport renovation measures. One shop was opened at the highly-frequented airport in Stuttgart and two new franchise shops were opened in Recklinghausen and Krefeld.

Pleasing developments were also seen in the volume of sales via franchise partners in the first six months of 2004. These were due to the expansion of partner support services, the optimisation of product range structures and a review of discount schedules.

Following the successful launch of the “Mae B.” store chain, which is targeted at women and couples, in Hamburg in April 2004, the expansion of the concept across Germany was maintained in the second quarter, with new stores opened in Berlin (July 2004) and in Frankfurt (August 2004). A further “Mae B.” shop-in-shop is scheduled to be opened in 2004 in Cologne. The first outlet in Munich is due to be opened at the beginning of 2005.
The “Mae B.” concept has been evaluated highly positively by customers, business partners and investors and has received international acclaim. Following the Hamburg openings, Beate Uhse received enquiries and offers from around the world. These included many opportunities for further international expansion.

Particularly promising developments have been reported for the “Mae B.” shop-in-shops, with sales at these stores significantly above budget. To the extent that the data available for the period between April and June is representative, it would seem that toy-related products are the most popular product group. Lingerie follows hot on the heels of “girls best friends“, with wellness and erotic apparel as complementary products for the two main product groups. Beate Uhse AG has been pressing ahead with its promotion of the new “Mae B.” brand via its flagship store in Hamburg. VIP evenings and various customer retention projects have been held at the standalone store on the Bleichenbrücke.

BEATE UHSE SHOPS BY COUNTRIES

OWN SHOPS

	6 months 30.06.2003	%	6 months 30.06.2004	%
Germany	62	51.2	61	38.9
Netherlands	34	28.1	67	42.7
Belgium	9	7.4	10	6.4
France	8	6.6	9	5.7
Norway	7	5.8	8	5.1
United Kingdom	1	0.8	2	1.3
	121	100.0	157	100.0

LICENCE & FRANCHISE

	6 months 30.06.2003	%	6 months 30.06.2004	%
Germany	52	43.7	53	38.1
Austria	28	23.5	39	28.1
Switzerland	35	29.4	42	30.2
Norway	4	3.4	4	2.9
Italy	-	-	1	0.7
	119	100.0	139	100.0

INVESTMENTS

	6 months 30.06.2003	%	6 months 30.06.2004	%
Poland	2	25.0	3	37.5
Italy	6	75.0	5	62.0
	8	100.0	8	100.0

MAIL ORDER

Sales at the mail order division in the first half of 2004 were up on those for the equivalent period in the previous year. France continues to establish itself as one of the most important markets after Germany. Austria was also able to report thoroughly pleasing developments. Earnings before interest and tax (EBIT) were above the previous year’s figures by the end of the period.

Pabo Versand despatched almost 14 million catalogues to customers across the whole of Europe and in the USA in the first half of 2004. This represents an increase of around 10.0 percent on the previous year. A slight change was seen in the use of ordering methods (telephone, letter, e-mail). It was particularly pleasing to see that the share of orders received by internet increased by 2.7 percentage points, while there was an equivalent reduction in the number of enquiries made by letter.

WHOLESALE

The wholesale company Scala B.V. moved to the new central warehouse in Almere in May 2004. In future, Scala will be able to despatch erotica products to the whole world from this state-of-the-art logistics centre. The eight-month delay in the relocation has had a correspondingly negative effect on the wholesaler's sales and earnings figures for 2004. In future, the new logistics centre will be able to provide a far larger range of wholesale products and services. Sales and earnings can therefore be expected to increase in future. The warehouse's work processes are currently being subjected to further optimisation. This process is expected to be completed by the end of the year.
As well as supplying the Group's own shops on a just-in-time basis, the wholesale division expects there to be interesting opportunities for growth on account of optimised product logistics, by boosting its sales activities, expanding its development of in-house products and co-operating closely with various suppliers and manufacturers, who will present their products in the Scala showroom.

Sales showed a pleasing increase in June 2004, following the somewhat weaker months of April and May. As a result of a lower level of sales input, the earnings of the German wholesale division for the first half of 2004 were slightly above budget. At the same time, the cost of sales and interest expenses developed more positively than had been expected.

ENTERTAINMENT

The situation remains difficult for the entertainment market in Germany and thus also for Beate Uhse New Media GmbH. As well as the problems with dialer technology, the planned passing on by Deutsche Telekom of defaults on receivables incurred on 0190 numbers will also have a negative impact on the earnings of this profit centre. The volume of possible defaults on receivables for the first half of 2004 is only expected to be announced by Deutsche Telekom in November 2004, which is leading to budgeting difficulties at all content providers. The charging on of defaults on receivables by Deutsche Telekom can be expected to lead to a consolidation of the online market, from which Beate Uhse New Media could stand to benefit in the medium term.

In order to counter the difficulties resulting from dialer technologies, Beate Uhse New Media continues to promote its alternative payment options and subscription systems – with some success. Customers are increasingly using the payment options provided by Beate Uhse, such as credit card, direct debit or online payment. In parallel to these activities, Beate Uhse New Media has reinforced its club and subscription systems with innovative entertainment content in order to maximise the number of its long-term customer relationships.
The company is exploring new territory in the form of a prepaid card for online erotica. The card holders are guaranteed anonymous and secure use of high-quality erotica services. As well as the Beate Uhse shops, the sales partners offering the card for sale include numerous kiosks, petrol stations and the Lekkerland-Tobaccoland Group.

erotic media ag, which is listed on the stock exchange in Frankfurt, generated sales of € 4.9m and net income of € 813k in the first half of 2004. Beate Uhse AG has consolidated these results on a pro-rata basis in line with the company's ownership structure.

The BEATE-UHSE.TV broadcaster continues to show pleasing developments. The high value attached to the erotica channel on the Premiere platform is underlined by the constant increase in the number of standalone subscriptions, which rose by more than 20 percent on the equivalent period in the previous year. BEATE-UHSE.TV expects to see a further increase in the autumn. Changes were made to the management of Beate Uhse TV GmbH & Co. KG in the second quarter of 2004. In addition to the current director, Martin Gastinger, the management of the TV broadcaster has been strengthened by the addition of Andreas Fischer.
The promotion of the broadcaster on air and off air is to be boosted from the third quarter of 2004 by means of co-operations with the Munich publishing group GeraNova (TV, Sünde, TV Spass) and the TV schedule magazine "TV Today".

HOLDING SERVICE

The Holding Services division improved its earnings by € 2.2m in comparison with the same period in 2003. Expenses incurred for legal advisory services and other expenses relating to the possible acquisitions of Penthouse and condomi AG and to losses from the sale of treasury stock were more than offset by positive items resulting from net book profits on the sale of shares, including those held in the Australian Gallery Global Network, from exchange rate gains and from the pleasing development seen in operating expenses.

RISKS

The first half of 2004 has not produced any noteworthy changes to the risks presented in the management report and group management report relating to the 2003 annual financial statements.

OUTLOOK

Beate Uhse recorded more than 47.0 percent of the full-year sales target in the first half of 2004. In view of its current year-on-year increase of 5.5 percent, its target of increasing its sales for the overall year by 9.0 percent (€ 289.6m) is ambitious but achievable. The course of developments at the wholesale division will be decisive in this respect.
In terms of pre-tax earnings, the Group has achieved around 40.0 percent of its target for the overall year (€ 21.8m). Beate Uhse is also adhering to its forecast for the overall year in this respect. In line with the promising start to the third quarter, the Group expects to perform well in the second half of the year.

INVESTMENTS AND INDIVIDUAL PROJECTS IN 2004

Investments in the current financial year are being focused on the retail division (start-up phase of the Mae B. store chain, modernisation of existing store chain) and in approximately equal shares on the mail order and wholesale divisions. While the level of investment activity in the first quarter remained at approximately the same level as in the previous year, for the first half year as a whole the Group invested around € 1.3m more than in the equivalent period in 2003. These investments related to the retail and wholesale divisions in particular.

The most important projects in the coming months and quarters of 2004 include:

- **Multiplication of the new Mae B. shop concept in further large German cities following its launch in Hamburg**
- **Projects aimed at attracting new customers for the mail order business in selected growth markets, such as Germany, the UK and France**
- **Safeguarding as smooth a transition of processes as possible to the new central warehouse in Almere and gradual transfer of all goods deliveries to the new logistics centre**
- **New IT system for the mail order business.**

MARKET DEVELOPMENTS

Overall, Beate Uhse expects the level of demand in the erotica market to remain largely stable. The sector is currently in a phase of reorientation, as is demonstrated by events and new ownership structures at numerous renowned companies in the sector. Additional potential may become available to Beate Uhse in the course of the year in the form of suitable acquisitions and new investments. These have not been accounted for in the budget targets.

NOTES

ACCOUNTING AND VALUATION METHODS

This interim report has been compiled in line with the German GAAP (HGB) and in accordance with German Accounting Standard 6 (DRS 6).
The accounting and valuation regulations correspond to those applied in the consolidated financial statements for the 2003 financial year.
Individual items in the income statement, balance sheet and cash flow statement have been summarised in the interests of clarity and in order to enhance their legibility.

REPORTING ENTITY

There have been no changes to the reporting entity since the compilation of the consolidated financial statements for the 2003 financial year.

SEGMENTAL REPORTING

A detailed representation and explanation has been provided in the report on business developments. There have been no changes in the delineation of the segments or in the calculation of the segment results since 31 December 2003.

BALANCE SHEET (HGB)

Assets € 000s	31.12.2003	30.06.2004
Intangible assets	23,445	24,113
Property, plant & equipment	26,657	26,043
Financial assets	27,778	33,173
Total fixed assets	**77,880**	**83.329**
Inventories	42,020	41,249
Receivables	33,254	34,142
Marketable securities	12,560	5,792
Liquid assets	8,343	6,068
Total current assets	**96,177**	**87,296**
Prepaid expenses	5,288	4,445
Deferred taxes	1,905	1,763
Total assets	**181,250**	**176,833**

Liabilities € 000s	31.12.2003	30.06.2004
Subscribed capital	47,324	47,324
Reserve for treasury stock	10,279	3,465
Revenue reserves	3,295	3,295
Balancing item for currency conversion	710	779
Balancing item for minority interests	-619	-644
Retained earnings	6,795	15,052
Total equity	**67,784**	**69,271**
Accruals	**17,266**	**15,442**
Liabilities to banks	46,139	52,794
Borrowers' note loan	20,500	19,786
Trade payables	21,010	13,548
Other liabilities	8,549	5,987
Total liabilities	**96,198**	**92,115**
Deferred income	2	5
Total liabilities	**181,250**	**176,833**

INCOME STATEMENT (HGB)

€ 000s	Q 2/2003 1 April - 30 June	Q 2/2004 1 April - 30 June	6 months 30.06.2003	6 months 30.06.2004	Change € 000s	Change %
Sales	57,192	56,681	128,552	135,674	7,122	5.5
Other income	2,438	4,624	4,735	9,023	4,288	90.6
Total operating performance	59,630	61,305	133,287	144,697	11,410	8.6
Cost of materials	20,838	19,999	46,645	46,959	314	0.7
Personnel expenses	11,740	12,468	22,266	24,542	2,276	10.2
Depreciation	2,473	2,260	4,648	4,845	197	4.2
Other oeprating expenses	20,708	24,443	49,794	58,584	8,790	17.7
Income from participations	-445	498	-338	28	366	-108.3
Net interest expenses	-578	-616	-1,102	-1,184	-82	7.4
Earnings before tax (EBT)	2,848	2,017	8,494	8,611	117	1.4
Income taxes	1,426	166	3,178	1,920	-1,258	-39.6
Other taxes	328	274	644	505	-139	-21.6
Net income	1,094	1,577	4,672	6,186	1,514	32.4
Minority interests	262	22	490	13	-477	-97.3
Profit/loss carried forward	-4,702	-4,657	313	2,138	1,825	583.1
Change to reserve for treasury stock	-	6,060	-	6,813	6,813	
Distribution to minorities	-	-	-	-98	-98	
Retained earnings	-3,346	3,002	5,475	15,052	9,577	174.9

CASH FLOW (HGB)

€ 000s	Q 2/2003 1 April - 30 June	Q 2/2004 1 April - 30 June	6 months 30.06.2003	6 months 30.06.2004
Net income	1,094	1,577	4,672	6,186
Depreciation	2,472	2,260	4,647	4,845
(+/-) Increase/decrease in assets	2,246	8,489	1,067	915
(-/+) Increase/decrease in liabilities	-366	-10,639	-2,233	-9,966
Other adjustments	-541	-4,479	525	-2,282
Cash flow from operating activities	4,905	-2,792	8,678	-302
Cash flow from investment activities	-5,421	-1,944	-6,678	-3,653
Cash flow from financing activities	-5,047	3,430	-5,037	2,817
Change in cash & cash equivalents	-5,563	-1,306	-3,037	-1,138
(+/-) Change in cash & cash equivalents	-205	-1,063	-274	-1,137
Cash/cash equivalents: start of period	16,038	8,437	13,851	8,343
Cash/cash equivalents: end of period	10,540	6,068	10,540	6,068

SHAREHOLDERS EQUITY CHANGE ACCOUNT (HGB)

	Equity				
	Subscribed capital	Paid in contributions	Revenue reserves		Retained earnings
€ 000s			Reserves for treasury stock	Other revenue reserves	
Balance at 01.01.2003		47,324	3,425	7,920	5,015
Capital increase					
Net income for the period					4,672
Currency changes					
Earnings/losses minorities					490
Offsetting of goodwill				-2,539	
Withdrawal from/increase in revenue reserves					
Dividend					-4,702
Purchase of treasury stock					
Balance at 30.06.2003		47,324	3,425	5,381	5,475
Balance at 01.01.2004		47,324	10,279	3,295	6,795
Net income for the period					6,186
Distribution to minorities					-98
Currency changes					
Earnings/losses minorities					13
Offsetting goodwill					
Withdrawal from/increase in revenue reserves					
Dividend					-4,657
Purchase of treasury stock			-6,813		6,813
Balance at 30.06.2004		47,324	3,465	3,295	15,052

SEGMENT REPORT (HGB)

	30 June 2003					
€ 000s	Retail	Mail Order	Wholesale	Entertainment	Holding	Total
Sales	33,625	55,101	28,587	11,239	-	128,552
Operating result (EBIT)	2,094	5,161	4,832	1,517	-3,991	9,613
Depreciation	2,219	748	916	289	474	4,646
Assets	34,033	24,828	31,126	6,386	68,616	164,989
Investment in long-term assets	2,747	1,101	641	67	422	4,978
Trade payables	1,842	5,280	5,822	2,611	656	16,211
Accruals	4,792	4,819	2,271	779	2,738	15,399
Liabilities to banks	8	19	5,593	19	55,586	61,225
Other liabilities	2,477	4,043	1,125	464	1,727	9,836

Earned shareholders equity for the group	Adjustment for currency conversion	Minority capital Adjustment for minorities	Total equity
16,360	117	795	64,596
			0
			4,672
	79		79
		-672	-182
			-2,539
			0
			-4,702
			0
16,360	196	123	61,924
20,369	710	-619	67,784
			6,186
			-98
	69		69
		-25	-12
			0
			0
			-4,657
			0
20,369	779	-644	69,271

30 June 2004					
Retail	Mail Order	Wholesale	Entertainment	Holding	Total
39,489	59,007	28,344	8,834	-	135,674
2,601	5,489	2,795	899	-1,993	9,790
2,467	608	929	211	630	4,845
37,408	22,668	33,555	6,222	76,980	176,833
2,850	838	1,047	195	246	5,176
2,016	4,656	4,261	982	1,633	13,548
4,425	4,336	2,551	732	3,398	15,442
582	9	21	12	71,956	72,580
2,500	2,275	1,173	-161	199	5,986

EVENTS SUBSEQUENT TO THE REPORTING DATE

There have been no events requiring report under this heading subsequent to 30 June 2004.

EARNINGS PER SHARE

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

		6 months 30.06.2003	6 months 30.06.2004
Net income for the period	€ million	4,7	6,2
Number of shares (diluted)		47,005,176	46,880,291
Number of shares (undiluted)		47,018,072	46,549,385
Earnings per share (diluted)	EUR	0.10	0.13
Earnings per share (undiluted)	EUR	0.10	0.13

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 investments of the Group. As such, it performs central group management functions, including accounting, controlling, financing, human resources, legal and communications services.

The development of earnings at Beate Uhse AG primarily results from the profit and loss transfer agreements concluded with its subsidiaries and from further investment income, as well as from the expenses relating to its functions as a holding company. Beate Uhse AG had 41 employees as of 30 June 2004.

Flensburg, 9 August 2004 The Management Board

FINANCIAL CALENDAR 2004

Shareholders letter III/2004 (only available in german)	19 October 2004
Nine-month report 2004	10 November 2004
Roadshow London	11 November 2004
End of financial year	31 December 2004

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