beate uhse

Period highlights

- New financing structure for Beate Uhse Group
- Initial successes from K&H project
- New International Retail Manager on board

6 months report 2011

Contents

Financial summary

EUR 000s	6 months 30.6.2010	6 months 30.6.2011	Change %
Sales performance			
Retail	26,579	22,568	-15.1
Mail Order	44,431	31,907	-28.2
Wholesale	19,678	14,425	-26.7
Entertainment	5,356	4,755	-11.2
Total sales	**96,044**	**73,655**	**-23.3**
Share of international sales (%)	61.9	63.0	
Earnings position			
EBITDA	-1,406	1,252	-
EBIT	-6,146	-3,004	51.1
EBT	-7,091	-3,632	48.8
Net result for the year from continuing operations	-7,131	-3,337	53.2
Other earnings indicators (%)			
Return on sales before tax	-7.4	-4.9	-
Return on sales after tax	-7.4	-4.5	-
Return on equity	-21.2	-11.5	-
Gross profit margin	55.5	49.5	-10.8
Financial position			
Cash flow from operating activities	-2,015	7,502	-
Capital expenditure	3,273	1,771	-45.9
Depreciation, amortisation and impairment	-4,740	-4,256	-10.2
Assets and equity *			
Total assets	124,000	104,127	-16.0
Shareholders' equity	33,563	29,125	-13.2
Equity ratio (%)	27.1	28.0	-
Non-current assets	57,185	50,985	-10.8
Current assets	66,815	53,142	-20.5
Additional information			
Number of employees (FTE)	1,018	895	-12.1
Cost of sales	42,749	37,189	-13.0
Selling expenses	52,910	33,958	-35.8
The share (EUR)			
Number of shares	78,074,696	78,074,696	0.0
Share price at end of period	0.57	0.32	-43.9
Share price high	0.75	0.45	-40.0
Share price low	0.53	0.30	-43.4
Earnings per share	-0.09	-0.05	47.9
Cash flow per share**	-0.04	0.01	-

* 2010 as at 31.12.
** of gross cash flow

Overview of the year

1st quarter:

- In January 2011, Beate Uhse new medi@ GmbH began a co-operation with the Frankfurt-based music TV channel iMusic 1. Since the launch of its “Nightclips” programme, sexy music videos with chart hits, hip hop, rock and electro beats have been broadcast daily from 12.30 a.m. to 4.00 a.m. (Mondays to Thursdays until 6.00 a.m.). Nightclips combines music and erotica features in an extraordinary nightly programme. The broadcasts are complemented by the website www.nightclips.com.
- Since the beginning of February 2011, the worldwide wholesale activities of the Beate Uhse adult lifestyle corporation have been focused in Almere, Netherlands. The Wiesbaden-based branch ZBF GmbH acts exclusively as a distribution channel for the German wholesale market. This consolidation means a higher level of cost efficiency for the overall logistics activities of the Group. Customers will benefit directly in terms of service and delivery in future.
- The organisational separation of the online and offline areas of the Mail Order business was completed in the first quarter of 2011. Staff teams and management have defined work processes, responsibilities and interfaces between online and offline activities and have been incorporating them into day-to-day operations ever since.
- During the first quarter of 2011, the Management Board held further discussions with financing banks. Key aspects of the new financing were discussed and action taken.
- At the beginning of March 2011 and following intensive discussions, the Beate Uhse Management Board concluded a contract with K&H Business Partner GmbH for optimising the areas of purchasing, logistics and dispatch for the Almere and Walsoorden locations.
- During the international Spring trade fair, the Dutch Scala-Playhouse B.V. celebrated its 40th birthday together with 2,500 customers visiting from 32 countries. Together with the German distributor ZBF GmbH, ScalaPlayhouse presented its new showroom at the extensive Spring trade fair (14–17 March 2011). Own brands such as Playhouse, Toy Joy and Extase will have a permanent display area of 1,400 sqm, and business partners will be able to show their product range via the modern shop-in-shop design.
- On 31 March 2011, after a period of six years as Vice-Chairman of the Supervisory Board, Prof. Martin Weigel stepped down from the Board. His successor as Head of the Audit Committee is Gelmer Westra.

2nd quarter:

- In April 2011, Beate Uhse Group took great steps towards debt reduction by concluding new credit agreements for the German subgroup. Since September 2006 the drawdown of loans has been reduced by EUR 63.5 million, from EUR 91.7 million to EUR 28.2 million till 30 June 2011. The aim is to further reduce the loans to EUR 18.6 million by 2013.

  The Management Board’s objectives are to reduce Group debt sustainably in order to strengthen the independence of the Group for an efficient new orientation of operations as well as to lower interest and bank charges.
- On 28 April 2011 Beate Uhse AG released an ad hoc announcement publishing its preliminary sales and results forecast for the financial year 2010. Sales of EUR 197.7 million and an EBIT of EUR -56.5 million were forecast for this financial year, which was strongly affected by one-off effects. After adjusting for restructuring and one-off effects, an operating loss (EBIT) of EUR 18.5 million was anticipated.
- The K&H project, which aims to optimise the Group-wide supply chain, began to bear initial fruits during the second quarter of 2011. In this context inventories were significantly reduced, contract conditions improved with suppliers and providers of services, and the structures of existing supply chain processes were streamlined.
- In the second quarter of 2011, the offline area of the Mail Order unit revised the August 2011 catalogue and implemented first changes for the catalogue’s format in respect of layout, usability and product presentation of the catalogue brands.
- In the second quarter of 2011, the Mail Order division continued optimising its ordering processes. During the reporting period, affiliate banners were redesigned, price structures in affiliate marketing were changed and search engine marketing was further optimised to generate more hits on the Group’s websites, among other things.
- As of 1 June 2011, an International Retail Manager position will oversee coordination and management of retail activities across all countries of the Beate Uhse Group. The objective of the Retail team is to generate heightened interest among existing and new customers through targeted visual merchandising, optimising the product ranges and creating clear retail concepts.

Letter to shareholders

Dear readers, shareholders, and employees,

During the second quarter of 2011, my Board colleague Serge van der Hooft and I implemented a new financing structure for Beate Uhse Group. Our objective was to achieve a greater degree of independence from banks in order to ensure swift and efficient implementation of the Group's restructuring processes. At the same time, we aimed to minimise financing costs and interest charges. We were successful on both accounts.

In April 2011, we were able to sign new financing agreements with the Nord-Ostsee Sparkasse and the Schleswig-Holstein Investment Bank on behalf of the German subgroup. Both institutions have provided us with a credit volume of EUR 6.1 million each. We were able to repay EUR 6.6 million to the Deutsche Postbank AG, and in June 2011 we reduced the loan volume of the Dutch subgroup at ING Bank N.V. by EUR 5.5 million to EUR 16 million.

Since September 2006, we have reduced the overall credit volume of Beate Uhse Group by EUR 63.5 million to a level of EUR 28.2 million by 30 June 2011. Our next objective is to reduce the loans to EUR 18.6 million by 2013. For more information on this subject, please refer to pages 33 and 34 of our 2010 Annual Report.

As you know, the second and third quarters of the year are traditionally weaker ones for the adult lifestyle sector. The second quarter sales performance clearly highlighted this. Sales totalled EUR 73.7 million, or were EUR 22.4 million lower year-on-year. We were, however, able to increase profitability in the distribution channels at the same time. In the first six months of 2011, the operating loss stood at EUR 3.0 million. In the first half of 2010 it was EUR 6.1 million. A glance at the quarterly figures also shows that the Group is developing positively. The figures for the Retail, Mail Order and Entertainment units are all above the previous year's quarterly results. Only the Wholesale figures did not mirror this trend. However, this will improve as progress is made on the supply chain optimisation project.

In our last letter to shareholders, we informed you – dear readers – of the launch of our K&H project, aimed at optimising Group-wide inventories and goods flows. In the meantime we have made good progress, and adjustments to existing processes are well underway.

Over the first few weeks, our attention was directed towards the implementation of quickly realisable goals. In this context, we were able to greatly reduce inventories by changing ordering processes in the Wholesale division and identifying inventory redundancies between Wholesale and Mail Order operations. The Group-wide merchandise planning system was subjected to a thorough cash flow analysis. The reduction of inventories was supported by the transition of the Mail Order business to more online activities with products that can be offered flexibly and delivered quickly. Our project teams were also successful in improving purchasing conditions, for example through renegotiating procurement and service contracts and grouping purchasing volumes. The impact of these measures will be very apparent over the medium term in the consolidated income statement.

Moreover, during the initial weeks of the K&H project we defined strategic measures to notably increase the operative performance and efficiency of the Group. Currently, we are working on further improving delivery reliability and speed. To this end, we have improved the synchronisation between picking processes and product dispatch in the Almere and Walsoorden logistics centres, reduced manual operations and increased the pick-up frequency of the logistics companies, amongst other things. Our objective is to fully meet the expectations of customers in terms of delivery speed and service.

Further strategic measures include the development of a product portfolio strategy and the establishment of systematic outlet distribution possibilities.

Ladies and gentlemen, in the first quarter of 2011 we promised you we would strengthen our Group. As you can see, we have taken great steps in this area, and we are satisfied with the restructuring process to-date. At the same time, we remain focused on our objectives of providing clear structures for the Group and developing distinct profiles for the strong Group brands Beate Uhse, Pabo, Christine le Duc and Adam & Eve.

Yours,

Sören Müller

Sören Müller
(COO)

Serge van der Hooft
(Chairman of the Management Board, CEO)

Interim management report

Business performance and economic environment

In the first quarter of 2011, the eurozone economy experienced particularly strong growth of 0.8%. In the second quarter, the European economy shifted down a gear. The ifo Institute anticipates a significant slowing-down of growth (0.3%) in the second quarter. European domestic demand, in particular, will have contributed to this growth between April and June 2011. According to the ifo Institute, however, private consumer spending will rise slower than previously, especially in France where the car scrapping premium scheme will be expiring. For the second quarter of 2011, the ifo experts are predicting 0.1% growth in private consumption. The drop in crude oil prices has slightly eased inflationary pressure in the eurozone, and the ifo Institute anticipates inflation to stabilise at 2.7%. However, in addition to the oil price, prices for fresh foodstuffs continue to present a certain risk with respect to inflation predictions. Pleasing economic growth in Germany and some neighbouring countries can only partly compensate for the economic stagnation in the eurozone as a whole. The unemployment rate has remained largely unchanged over the past few months.

According to the ifo Institute, the German economy grew quickly in the first six months of 2011. Discounting seasonal influences, overall economic production grew by 1.9%. As a result of the strong economy, prices accelerated and in June 2011 consumer prices were on average 2.3% higher than the previous year's figures. This increase was fuelled by commodity prices, however core inflation increased gradually over recent months and is at 1.6%, as defined by the ifo Institute. After an exceptional start to production levels in 2011, the situation soon levelled off, according to second quarter business forecasts by the ifo Institute. Nonetheless, the ifo experts believe that the positive economic trend will continue on the basis of highly advantageous financing conditions, rising employment and a high level of demand from abroad.

With a 37% share of sales in the first six months of 2011, Germany remained the most important market for Beate Uhse Group. Adult lifestyle shops and their products are a more common feature in urban shopping districts than just a few years ago. Department stores and drugstores now include condoms, vibrators and stimulation products in their product range. Specialised stores such as the Beate Uhse shops can be found more and more frequently in pedestrian zones, shopping centres and industrial estates near to city centres. The rising number of online catalogue suppliers, as well as the increasing popularity of home parties for adult lifestyle products, is heightening consumer awareness of the sector. The demand for high-quality adult lifestyle products is on the rise, particularly among women and couples. Many manufacturers of adult lifestyle products are today increasingly turning towards innovative and higher quality products. Based on the positive economic data from Germany and other European countries where Beate Uhse has activities, we believe that the adult lifestyle market continues to offer interesting development potential.

Gross domestic product (percentage change)	Q 1/2010	Q 2/2010	Q 3/2010	Q 4/2010	Q 1/2011	Q 2/2011 (forecast)
Eurozone (17 countries)	0.4	1.0	0.4	0.3	0.8	0.3
Germany	0.5	2.1	0.8	0.4	1.5	0.4
Netherlands	0.3	1.1	0.1	0.7	0.9	0.3
Belgium	0.1	1.1	0.4	0.5	1.0	0.7
France	0.2	0.5	0.4	0.3	1.0	0.2

Source: The Economic Times. Rabo Bank. National Bank of Belgium

Performance of distribution channels

In the first six months of 2011, the **Retail** division generated sales of EUR 22.6 million (6m 2010: EUR 26.6 million). Retail management utilised the second quarter to push ahead with the restructuring of the branch network. Between April and June 2011, operations at five further stores which had fallen short of profitability criteria were discontinued. The Group has closed or sold off a total of 51 shops since the beginning of 2010. Over the medium to long term, the streamlining of the branch network will considerably strengthen the profitability of the Retail business and lead to clearly designed shops geared to the needs of the market.

Retail EUR million	**6 months 30.6.2010**	**6 months 30.6.2011**
Sales	26.6	22.6
EBITDA	0.3	0.3
EBIT	-1.3	-0.9
EBT	-1.9	-1.3

Own shops	**6 months 30.6.2010**	**%**	**6 months 30.6.2011**	**%**
Germany	54	39.7	43	41.3
Italy	7	5.1	7	6.7
Switzerland	1	0.7	1	1.0
Netherlands	55	40.4	38	36.5
Belgium	8	5.9	7	6.7
France	7	5.1	4	3.8
Norway	4	2.9	4	3.8
	136	**100.0**	**104**	**100.0**

Licence & Franchise	**6 months 30.6.2010**	**%**	**6 months 30.6.2011**	**%**
Germany	53	43.4	38	34.9
Austria	46	37.7	52	47.7
Netherlands	2	1.6	0	0.0
Norway	5	4.1	5	4.6
Hungary	3	2.5	0	0.0
Poland	6	4.9	6	5.5
Slovenia	6	4.9	7	6.4
Italy	1	0.8	1	0.9
	122	**100.0**	**109**	**100.0**

In the **Mail Order** division improving profitability is the number one priority. The frequency and volume of printed advertising was reduced significantly through the orientation towards online business. As a result, sales fell to EUR 31.9 million in the first six months of 2011 and were lower than the EUR 44.4 million generated in the previous year. However, in the same period, profitability of the division improved considerably. France remained the most successful country for the Mail Order business with a 32.5% share of sales, followed by Germany with 28.6% and the Netherlands with 19.1%. In the Pabo range the highest contributors to sales were lingerie, toys and recorded media.

The Mail Order division once again increased the share of e-Commerce sales. This amounted to 58.3% (6m 2010: 46%) as of 30 June 2011. The advertising efficiency of the Mail Order division has already been improved significantly through greater use of online advertising. Technical processes, e.g. the check-out process, were revised during the past quarter. The next step in the optimisation process will include an improvement of product presentation and the positioning of strong own brands, such as Besired, Toy Joy, taboom and Mae B, in our advertising materials.

Since the start of 2011, all online and offline advertising measures of the Pabo Mail Order business have focused on significantly increasing the number of hits on websites in all countries. The catalogue which was published at the start of August has had its layout and image design concept revised for this purpose. For the first time, strong brands such as Hustler, Y London and tfny are shown on dedicated catalogue pages. The further development of the new catalogue concept is in planning for 2012.

Mail Order EUR million	**6 months 30.6.2010**	**6 months 30.6.2011**
Sales	44.4	31.9
EBITDA	-0.9	3.8
EBIT	-1.9	2.6
EBT	-2.3	2.3

During the first six months of 2011, the **Entertainment** division recorded sales of EUR 4.8 million (6m 2010: EUR 5.4 million). Declining visitor numbers on the brand websites were the main cause of this development. To counteract decreasing sales, the Entertainment unit has initiated a project to increase converted visits to the websites. In addition, the “Mobile Business” project was initiated, targeting business generated via smartphones and tablet computers.

Entertainment EUR million	**6 months 30.6.2010**	**6 months 30.6.2011**
Sales	5.4	4.8
EBITDA	0.9	0.6
EBIT	0.7	0.5
EBT	0.8	0.6

Sales in the **Wholesale** unit fell in the first six months of 2011 by EUR 5.3 million to EUR 14.4 million (6m 2010: EUR 19.7 million). The ongoing difficult financial position of many wholesale customers led to restricted ordering, as was the case in the previous quarter. The drop in sales was heightened by the discontinuation of sales from print media and the Pleasure multimedia brand in wholesales.

The transfer of ZBF GmbH’s logistics activities in the first half of 2011 and the necessary software adjustments led to a decline in sales and generated costs for the integration during the transition phase. The conclusion of the software adjustment work signalled the successful integration of the German wholesaler ZBF GmbH. The flow of goods for the Group-wide wholesale business are now managed exclusively from the Almere site.

The Group’s Wholesale division is currently reviewing an extension of the product range for existing customers and with a view to attracting new customers from outside the adult lifestyle sector in the future. The distribution structure of the Wholesale unit will be expanded to include elements from outside the adult lifestyle sector with the aim of broadening the future customer base.

Wholesale EUR million	**6 months 30.6.2010**	**6 months 30.6.2011**
Sales	19.7	14.4
EBITDA	-0.3	-1.1
EBIT	-2.0	-2.7
EBT	-2.8	-3.2

Our staff

As of 30 June 2011, Beate Uhse Group employed 895 employees (full-time employees or FTEs). This amounts to a reduction of 12.1% (6m 2010: 1,018). The reduction of the workforce stems primarily from the closure of retail stores, the optimisation of work processes in the Mail Order unit and the centralisation of Wholesale activities.

FTEs by region	6 months* 30.6.2010	6 months 30.6.2011	Change %
Germany	433	363	-16.2
Netherlands	420	403	-4.1
Belgium	22	13	-41.8
France	54	41	-23.3
United Kingdom	9	6	-33.3
Austria	6	3	-50.0
Scandinavia	35	27	-22.9
Italy	13	16	23.1
Other European countries	26	23	-11.5
	1,018	**895**	**-12.1**

FTEs by distribution channel	6 months* 30.6.2010	6 months 30.6.2011	Change %
Retail	476	399	-16.2
Mail Order	234	212	-9.4
Wholesale	200	179	-10.5
Entertainment	63	65	3.2
Holding services	45	40	-11.1
	1,018	**895**	**-12.1**

* The switch to FTE reporting may result in discrepancies with previous reports.

Strategic orientation of Beate Uhse Group

The Beate Uhse AG Management Board is satisfied with how restructuring, launched at the end of 2010, has proceeded to-date. The objective of the new strategic orientation is to sustainably strengthen the position of the Group as the leading adult lifestyle company in Europe. The restructuring process has been grouped into three phases.

As mentioned in the "Letter to shareholders", the short-term goals for 2011 have largely been implemented. Group financing has been secured, the efficiency of distribution channels has been increased through the centralisation of the wholesale business at Almere, and the separation of online and offline activities in the Mail Order unit has been concluded. Additional key managerial positions, for example that of International Retail Manager, have been created and/or filled.

The optimisation of Group-wide inventories and goods flows remains a key focus of the strategic measures to strengthen the operating performance and efficiency of the distribution channels. This project will continue to feature prominently during the second, medium-term restructuring phase. From 2012 onwards the new orientation of Group brands and product presentation will be the focus of activities.

During the third and final phase of the restructuring concept, the Group aims to tap new markets and expand further. This growth is planned to be generated by the measures initiated in phases I and II and the planned diversification and extension of the product range from 2014.

Share price performance

The Beate Uhse share closed the first six months of financial year 2011 at a price of EUR 0.32. This corresponds to an overall Group market capitalisation of approximately EUR 25 million (6m 2010: EUR 44.5 million) and EUR 11.9 million on a free float basis (6m 2010: EUR 21.2 million). Since the beginning of 2011, the share price declined 30.4%. The share's highest closing price of EUR 0.45 was recorded in January 2011, and the share price low of EUR 0.30 was reported in March 2011. The number of shares remained unchanged from the first quarter of 2011 at 78,074,696 shares. During the first six months of 2011 the average daily trading volume amounted to 37,107 shares. The ratio of share price to cash flow with respect to a gross cash flow of EUR 0.8 million was 32.5. The book value per share was EUR 0.25.

Key share data		6 months 30.6.2010	6 months 30.6.2011
Opening share price	EUR	0.65	0.46
Closing share price (Xetra)	EUR	0.57	0.32
Share price high	EUR	0.75	0.45
Share price low	EUR	0.53	0.30
Performance		-12.3%	-30.4%
Number of shares (basic)		78,074,696	78,074,696
Earnings per share (basic)	EUR	-0.09	-0.05
Market capitalisation	EUR million	44.5	25.0
Market cap. free float	EUR million	21.2	11,9
Average sales/day	Stück	31,126	37,107

Risk report

In the first six months of 2011, there were no significant changes in terms of the risks as laid out in the management report and Group management report of the 2010 Annual Report.

Events after the balance sheet date

No noteworthy changes of circumstances have occurred after the balance sheet date.

Forecast

Overall economic environment

Although global demand is anticipated to dip slightly, the eurozone economy is expected to continue to report moderate growth rates. In its economic forecast for 2011, the ifo Institute is predicting a slight acceleration in the pace of expansion over the coming year. This trend is expected to be bolstered by domestic demand in particular. According to forecasts from the ifo Institute, private consumption in many key European countries will be strengthened by an improvement in the job markets. The ifo Institute is forecasting growth of 2.0% in gross domestic product across the eurozone for 2011. However, the ifo forecasts expect economic development to differ considerably from country to country within the eurozone.

The ifo Institute is forecasting GDP growth in Germany of 3.3% for the year 2011 as a whole. According to the Munich-based institute, employment rates in Germany will continue to rise. An average annual increase of 490,000 people is expected. For the current year, a rise of 2.4% in consumer prices is predicted.

The ongoing debt crisis in areas of the Eurozone and the United States are key risks for all forecasts regarding Europe and Germany. The way in which the crisis unfolds will have a major influence on the economic performance of the region as a whole.

Adult lifestyle sector

It is our view that the ongoing consolidation of the adult lifestyle market will proceed in 2011. Alongside the classical shops, which cater for hetero- and homosexual men, vendors will increasingly appear on the market catering for women and couples. Adult lifestyle products for women and couples will continue to become more widely available in shops. Specialist shops such as Beate Uhse city-centre shops, drugstores, shop-in-shops in department stores, and webshops will be the main vendors of these high-quality adult lifestyle products.

Strategic development of Beate Uhse Group

The Management Board of Beate Uhse has launched a complete reorganisation of the Group. The three-phase reorientation began in the second half of 2010 with changes to the Board. Short, medium and long-term measures have been defined as part of this process. Planned activities include changing the structure of distribution channels to ensure stabilisation of the business areas, expanding the Group and the establishing new product ranges.

Sales and earnings performance of Beate Uhse Group

The Group is satisfied with the development in the first six months of 2011. Restructuring measures and sales in the distribution channels remain largely on track. Consequently, the expectations of the Beate Uhse management remain unchanged for 2011. Company management anticipates sales of between EUR 140 million and EUR 144 million for the financial year 2011. Operating earnings before taxes will be considerably better year-on-year at EUR -4 million to EUR -6 million (2010: EBIT of EUR -19.5 million, not incl. one-off and restructuring effects).

Beate Uhse Group interim financial statements

Consolidated income statement & notes

EUR 000s	Q 2/2010 01.04.-30.06.2010	Q 2/2011 01.04.-30.06.2011	6 months 30.6.2010	6 months 30.6.2011	Change
Sales	40,776	33,796	96,044	73,655	**-22,389**
Cost of sales	-16,977	-17,744	-42,749	-37,189	5,560
Gross profit on sales	**23,799**	**16,052**	**53,295**	**36,466**	**-16,829**
Other operating income	3,713	2,506	7,313	7,027	-286
Selling expenses	-26,816	-15,450	-52,910	-33,958	18,952
General administrative expenses	-7,552	-5,837	-13,407	-11,873	1,534
Other operating expenses	-146	9	-437	-265	172
Share in earnings of associated companies	0	-200	0	-401	-401
Operating result (EBIT)	**-7,002**	**-2,920**	**-6,146**	**-3,004**	**3,142**
Finance income	284	140	409	508	99
Finance expense	-632	-570	-1,354	-1,136	218
Earnings before taxes (EBT)	**-7,350**	**-3,350**	**-7,091**	**-3,632**	**3,459**
Taxes on income	439	-476	-40	295	335
Consolidated earnings	**-6,911**	**-3,826**	**-7,131**	**-3,337**	**3,794**
Attributable to:					
Shareholders of the parent company	-6,857	-3,784	-7,034	-3,253	3,781
Non-controlling interests	54	42	97	84	-13
Earnings per share (EPS)					
Basic (EUR)			-0,09	-0,05	0,04
Diluted (EUR)			-0,09	-0,05	0,04

Sales performance

In the first six months of 2011, sales in the Beate Uhse Group fell by EUR 22.4 million to EUR 73.7 million (6m 2010: EUR 96 million). As noted in the Q1 2011 report, the decrease was a result of the restructuring programme, which aims to increase the profitability of Beate Uhse Group. Measures targeted at strengthening Group profitability were launched, including the closure of 51 stores, the grouping of wholesale activities at the Almere site and the reduction of print advertising for the Mail Order division as part of the new focus on e-Commerce activities.

Sales by distribution channel in EUR 000s	6 months 30.6.2010	6 months 30.6.2011	Change %
Retail	26,579	22,568	-15.1
Mail Order	44,431	31,907	-28.2
Wholesale	19,678	14,425	-26.7
Entertainment	5,356	4,755	-11.2
	96,044	**73,655**	**-23.3**

Sales by region in EUR 000s	6 months 30.6.2010	6 months 30.6.2011	Change %
Germany	36,573	27,223	-25.6
Netherlands	21,868	17,943	-18.0
Belgium	6,656	5,197	-21.9
France	15,511	11,485	-26.0
United Kingdom	2,354	1,520	-35.4
Austria	2,655	1,544	-41.8
Switzerland	525	319	-39.3
Scandinavia	4,970	4,729	-4.8
Italy	1,124	976	-13.1
Other European countries	3,489	1,160	-66.7
Other regions	320	1,557	386.4
	96,044	**73,655**	**-23.3**

Earnings performance

In the first six months of the reporting period, the cost of sales was greatly reduced, by EUR 5.6 million to EUR 37.2 million. Their proportion in relation to sales rose, however, to 50.5% (6m 2010: 44.5%) due to a higher material usage ratio. The cost of sales was also lowered through the sale of old stock, particularly in the Wholesale unit. The Mail Order unit successfully used special offers to sell items at reduced prices, minimising inventories and increasing website hits at the same time.

Other operating income amounted to EUR 7 million, which was slightly below previous year's figure of EUR 7.3 million. As a result of decreased sales in the Mail Order unit reminder fees collected and interest received on late payments were lower. The reduction of an impairment recognised for EUR 1.7 million had a favourable impact on other operating income.

The positive trend with selling expenses continued. During the first six months of 2011, selling expenses fell by EUR 19 million year-on-year to EUR 34 million. The ratio of expenses against sales improved to 46.1% (6m 2010: 55.1%). This was the result of reduced advertising costs in the Mail Order business through the focus on online activities as well as the reduction of losses on receivables. The decrease in selling expenses in the Retail business stemmed from branch closures with subsequent reductions in personnel and shop overheads.

General administrative expenses decreased by EUR 1.5 million to EUR 11.9 million (6m 2010: EUR 13.4 million). Personnel expenses at the Group headquarters were reduced significantly over the last six months. This was offset by an increase in Group consulting expenses as a result of the supply chain project for the optimisation of inventories and goods flows.

The recognition of the investment in tmc Content Group AG using the equity method led to a loss of EUR 0.4 million in the share in earnings of associated companies. Net interest adjusted for valuation effects from interest hedging transactions remained the same year-on-year. In the first half of 2011, the positive tax earnings resulted from the dissolution of deferred taxes and taxes on income and earnings.

The restructuring programme aimed at strengthening Group profitability is already yielding initial successes. Despite lower sales the EBITDA improved by EUR 2.7 million to EUR 1.3 million and was therefore better than in the first six months of 2010 (6m 2010: EUR -1.4 million). The operating result (EBIT) improved by EUR 3.1 million to EUR -3 million (6m 2010: EUR -6.1 million). Earnings before taxes (EBT) were EUR -3,6 million (6m 2010: EUR -7.1 million).

Quarterly comparison of the results clearly demonstrates that Beate Uhse Group is moving in the right direction. Only the Wholesale unit lags behind expectations somewhat due to the aforementioned reasons. Holding services reported higher consulting costs in the second quarter 2011.

EBIT quarterly EUR 000s	Q 1/2010	Q 2/2010	Q 3/2010	Q 4/2010	Q 1/2011	Q 2/2011
Retail	-133	-1,199	-2,452	-7,061	-442	-434
Mail Order	2,044	-3,943	-1,449	-6,352	2,369	189
Wholesale	-770	-1,238	-1,472	-17,697	-1,368	-1,294
Entertainment	401	313	443	-908	229	248
Holding Service	-686	-935	-950	-14,999	-872	-1,629
	856	**-7,002**	**-5,880**	**-47,017**	**-84**	**-2,920**

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income EUR 000s	6 months 30.6.2010	6 months 30.6.2011
Result for the period	**-7,131**	**-3,337**
Differences from currency translation	-69	801
Other net income after tax	**-69**	**801**
Comprehensive income after taxes	**-7,200**	**-2,536**
Attributable to:		
Shareholders of the parent company	-7,308	-2,707
Non-controlling interests	108	171

Consolidated balance sheet & notes

Assets EUR 000s	12 months 31.12.2010	6 months 30.6.2011	Change
Non-current assets			
Intangible assets	13,524	10,606	-2,918
Goodwill	9,329	9,329	0
Property, plant and equipment	19,043	17,374	-1,669
Other financial assets	5,151	3,939	-1,212
Equity investments	126	126	0
Shares in associated companies	8,800	8,399	-401
Deferred tax assets	1,212	1,212	0
	57,185	50,985	-6,200
Current assets			
Inventories	32,343	22,439	-9,904
Trade receivables	22,146	21,395	-751
Other current financial assets and other assets	6,627	5,123	-1,504
Income tax refund claims	1,102	94	-1,008
Cash and cash equivalents	4,597	4,091	-506
	66,815	53,142	-13,673
Total assets	**124,000**	**104,127**	**-19,873**

Notes on the net asset and financial position

The Beate Uhse AG balance sheet total fell by EUR 19,9 million to EUR 104.1 million (2010: EUR 124.0 million) as of the balance sheet date of 30 June 2011.

Assets

Non-current assets decreased by EUR 6.2 million to EUR 51 million (6m 2010: EUR 57.2 million). This change was primarily a result of ongoing writedowns and changes to the group of consolidated companies as a result of disposals. Both of these factors, as well as the closure of further retail stores, led to a decrease in intangible assets of EUR 2.9 million to EUR 10.6 million (2010: EUR 13.5 million) and in property, plant and equipment to EUR 17.4 million (2010: EUR 19.0 million) in the first six months of 2011. As in the previous quarter, other financial assets were reduced by EUR 1.2 million to EUR 3.9 million (2010: EUR 5.2 million) due to the repayment of a non-current loan extended to tmc Content Group AG by Beate Uhse AG.

Current assets, valued at EUR 53.1 million, were clearly below the amount in the financial year 2010 (EUR 66.8 million). Group inventories were reduced by EUR 9.9 million to EUR 22.4 million (2010: EUR 32.3 million) through the optimisation of inventory management as well as reductions in stocks through branch closures and changes to the group of consolidated companies. Trade receivables fell by EUR 0.8 million to EUR 21.4 million (2010: EUR 22.1 million) as the Mail Order division sold receivables from customers to a service company during the first half of 2011. Other current financial assets fell by EUR 1.5 million to EUR 5.1 million due to the repayment of a current loan receivable from the tmc Content Group AG. Claims for income tax refunds of Beate Uhse AG fell by EUR 1 million due to a repayment in the first six months of the year.

Equity and liabilities EUR 000s	**12 months 31.12.2010**	**6 months 30.6.2011**	**Change**
Shareholders' equity			
Subscribed capital	78,075	78,075	0
Treasury stock, at cost of acquisition	-3,463	-3,463	0
Capital reserve	-89	-89	0
Retained earnings	3,295	3,295	0
Unappropriated net profit	-45,560	-51,089	-5,529
Balancing item for currency translation	1,385	2,099	714
Non-controlling interests	-80	297	377
	33,563	29,125	-4,438
Non-current liabilities			
Interest-bearing loans	4,256	15,171	10,915
Pensions and similar obligations	3,685	3,688	3
Other provisions	1,618	1,463	-155
Other financial liabilities	2,306	1,799	-507
Deferred tax liabilities	353	173	-180
	12,218	22,294	10,076
Current liabilities			
Trade payables	21,992	18,002	-3,990
Other financial liabilities	13,553	14,495	942
Pensions and similar obligations	268	222	-46
Other provisions	3,487	2,330	-1,157
Income tax liabilities	3,979	4,596	617
Overdraft liabilities	34,069	8,241	-25,828
Current loans	871	4,822	3,951
	78,219	52,708	-25,511
Total equity and liabilities	**124,000**	**104,127**	**-19,873**

Equity and liabilities

Shareholder's equity fell by EUR 4.4 million to EUR 29.1 million against the full year 2010 (2010: EUR 33.6 million). During the reporting period, the balance sheet loss increased by EUR 5.5 million to EUR 51.4 million (2010: EUR 45.6 million) due to the negative result for the period and the downsizing of the consolidated group through the sale of subsidiaries such as Sandereijn B.V. as part of the Group debt reduction and restructuring programme. The equity ratio rose again slightly to 28% (2010: 27.1%).

The change regarding the interest-bearing loans, recently recognised mainly in the form of an overdraft liability, came about through successful refinancing measures. The non-current interest-bearing loan amounted to EUR 15.2 million as at 30 June 2011 (2010: EUR 4.3 million).

Conversely, current liabilities fell by EUR 25.5 million to EUR 52.7 million as of 30 June 2011 (2010: EUR 78.2 million). Trade payables decreased by EUR 4 million to EUR 18 million (2010: EUR 22 million) as a result of changes to the group of consolidated companies, the optimisation of inventory management and seasonal influences affecting the adult lifestyle business. Overdraft liabilities were reduced to EUR 8.2 million through the restructuring of loans according to their terms as well as an unscheduled repayment of EUR 25.8 million. The current portion of the long-term loans rose by EUR 4 million to EUR 4.8 million as a result of the new financing structure agreed in the first half of 2011.

The changes in the group of consolidated companies and the optimisation of goods management also had a considerable effect on the current operating capital, which fell by EUR 6.7 million to EUR 25.8 million.

In the first six months of 2011, net debt of Beate Uhse Group fell to 32.3% (2010: 43.8%).

Consolidated cash flow statement & notes

EUR 000s	6 months 30.6.2010	6 months 30.6.2011	Change
Cash flow from operating activities			
Earnings before taxes (EBT)	**-7,091**	**-3,632**	**3,459**
Adjustments:			
Depreciation and amortisation of property, plant and equipment and intangible assets	4,739	4,256	-483
Proceeds from disposal of property, plant and equipment and intangible assets	23	-103	-126
Other non-cash expenses	0	401	401
Change in:			
Trade receivables	6,745	252	-6,493
Other assets	2,278	8,326	6,048
Trade payables	-5,044	-2,986	2,058
Other liabilities	-4,658	-758	3,900
Finance income	-409	-508	-99
Finance expenses	1,354	1,136	-218
Income taxes paid/received	48	1,118	1,070
Cash flow from operating activities	**-2,015**	**7,502**	**9,517**
Cash flow from investing activities			
Cash received from the sale of property, plant and equipment, intangible assets and other non-current assets	525	2,026	1,501
Cash paid for investments in property, plant and equipment, intangible assets and other non-current assets	-3,333	-1,771	1,562
Cash paid in connection with short-term financial management	-1,890	-1,007	883
Cash received in connection with short-term financial management	664	3,317	2,653
Cash paid for acquisition of subsidiaries, less cash and cash equivalents acquired	0	837	837
Interest received	198	195	-3
Cash flow from investing activities	**-3,836**	**3,597**	**7,433**
Cash flow from financing activities			
Taking up of liabilities to banks	34,859	259	-34,600
Interest paid for credits/loans and hedging instruments	-1,093	-1,137	-44
Repayment of liabilities to banks	-29,206	-13,253	15,953
Taking up of loans from third parties	0	2,600	2,600
Repayment of loans from third parties	-6	-73	-67
Cash flow from financing activities	**4,554**	**-11,604**	**-16,158**
Net change in cash and cash equivalents and securities	**-1,297**	**-505**	**792**
Changes due to movements in exchange rates	-51	-1	50
Cash and cash equivalents and securities at beginning of period	7,262	4,597	-2,665
Cash and cash equivalents and securities at end of period	5,914	4,091	-1,823
Composition of cash and cash equivalents at end of period			
Cash on hand, cash at banks, cheques and securities	5,914	4,091	-1,823
	5,914	4,091	-1,823

Notes to the cash flow statement

In the first six months of 2011, cash flow from operating activities amounted to EUR 7.5 million. A considerably lower pre-tax loss than in the same period year-on-year contributed to this positive cash flow as well as particularly the reduction of inventories through the optimisation of warehouse management and the closure of branches and of the ZBF GmbH warehouse. The restructuring programme is thus beginning to bear fruit.

Cash flow from investing activities amounted to EUR 3.6 million (6m 2010: EUR –3.8 million) due to an unscheduled repayment of EUR 2.7 million on a loan which had been granted to the tmc Content Group AG and lower capital expenditure as part of the Group restructuring programme.

In the first six months of the year, cash flow from financing activities amounted to EUR -11.6 million (6m 2010: EUR 4.6 million). This was due to scheduled repayments of EUR 2.1 million as well as unscheduled repayments, which resulted from the new structuring of liabilities to banks in April of this year. Borrowings of EUR 2.6 million taken up at DOBU BV and EOS Group counteracted this.

In the first six months of 2011, Beate Uhse Group's cash and cash equivalents decreased to EUR 4.1 million (6m 2010: EUR 5.9 million).

Notes on capital expenditure

Group capital expenditure was reduced over the second quarter of 2011 as planned. As in the first quarter of 2011, investment continued to focus on retail activities, aimed at increasing the attractivity of stores in sustainably viable locations.

Capital expenditure EUR 000s	6 months 30.6.2010	6 months 30.6.2011	Change %
Retail	746	1,133	51,9
Mail Order	715	148	-79,3
Wholesale	1,755	422	-76,0
Entertainment	22	35	59,1
Holding Service	35	33	-5,7
	3,273	**1,771**	**-45,9**

Consolidated statement of changes in equity

EUR 000s	Equity attributable to shareholders of the parent company Subscribed capital	 Treasury stock	 Capital reserve	 Retained earnings
Balance as at 1. Januar 2010	**78,075**	**-3,463**	**-89**	**3,295**
Result for the period				
Other earnings				
Balance as at 30. Juni 2010	**78,075**	**-3,463**	**-89**	**3,295**
Balance as at 1. Januar 2011	**78,075**	**-3,463**	**-89**	**3,295**
Result for the period				
Changes in scope of consolidation				
Distributions to shareholders with non-controlling interests				
Capital increase through shareholders with non-controlling interests				
Other earnings				
Balance as at 30. Juni 2011	**78,075**	**-3,463**	**-89**	**3,295**

EUR 000s	Equity attributable to shareholders of the parent company				
	Unappropriated net profit	Balancing item for currency translation	Total	Minority interests	Total equity
Balance as at 1. Januar 2010	**22,209**	**362**	**100,389**	**456**	**100,845**
Result for the period	-7,228		-7,228	97	-7,131
Other earnings		-80	-80	11	-69
Balance as at 30. Juni 2010	**14,981**	**282**	**93,081**	**564**	**93,645**
Balance as at 1. Januar 2011	**-45,560**	**1,385**	**33,643**	**-80**	**33,563**
Result for the period	-3,421		-3,421	84	-3,337
Changes in scope of consolidation	-2,108		-2,108	66	-2,042
Distributions to shareholders with non-controlling interests				-40	-40
Capital increase through shareholders with non-controlling interests				180	180
Other earnings		714	714	87	801
Balance as at 30. Juni 2011	**-51,089**	**2,099**	**28,828**	**297**	**29,125**

Segment report

	Retail		Mail Order		Wholesale	
Segment data **EUR 000s**	**30.6.10**	**30.06.11**	**30.6.10**	**30.06.11**	**30.6.10**	**30.06.11**
Sales	27,991	22,968	43,447	31,927	30,269	21,229
- of which with third parties	**26,579**	**22,568**	**44,431**	**31,907**	**19,678**	**14,425**
- of which with Group companies	1,412	400	-984	20	10,591	6,804
Amortisation of intangible assets	-124	-121	-297	-690	-1,069	-918
Depreciation of property, plant and equipment	-1,476	-1,023	-694	-568	-671	-692
Net interest	-602	-423	-382	-230	-761	-490
Result from investments in associated companies	0	0	0	0	0	0
EBT *	**-1,934**	**-1,299**	**-2,281**	**2,328**	**-2,769**	**-3,152**
Taxes on income	-7	-7	-401	124	616	49
Net income for the year*	**-1,941**	**-1,306**	**-2,682**	**2,452**	**-2,153**	**-3,103**
Assets (including equity investments)	36,816	23,709	41,153	36,689	62,186	42,121
Shares in associated companies	0	0	0	0	0	0
Investments in non-current assets	746	1,133	715	148	1,755	422
Investments in financial assets	141	23	0	2,412	0	0
Liabilities	30,741	24,393	35,764	39,308	41,394	37,402

* excluding profit and loss transfer agreements

	Entertainment		Holding services		Consolidation		Total	
Segment data **EUR 000s**	**30.6.10**	**30.06.11**	**30.6.10**	**30.06.11**	**30.6.10**	**30.06.11**	**30.6.10**	**30.06.11**
Sales	6,332	5,573	1	1	-11,996	-8,043	96,044	73,655
- of which with third parties	**5,356**	**4,755**	**0**	**0**	**0**	**0**	**96,044**	**73,655**
- of which with Group companies	976	818	1	1	-11,996	-8,043	0	0
Amortisation of intangible assets	-84	-74	-182	-34	0	0	-1,756	-1,837
Depreciation of property, plant and equipment	-54	-47	-89	-89	0	0	-2,984	-2,419
Net interest	50	163	749	352	1	0	-945	-628
Result from investments in associated companies	0	0	0	-401	0	0	0	-401
EBT *	**764**	**640**	**-871**	**-2,149**	**0**	**0**	**-7,091**	**-3,632**
Taxes on income	-246	7	-2	122	0	0	-40	295
Net income for the year*	**518**	**647**	**-873**	**-2,027**	**0**	**0**	**-7,131**	**-3,337**
Assets (including equity investments)	12,477	10,702	217,107	165,826	-205,451	-184,625	164,288	94,422
Shares in associated companies	0	0	0	8,399	0	0	0	8,399
Investments in non-current assets	22	34	35	34	0	0	3,273	1,771
Investments in financial assets	0	948	27,898	1,758	-22,563	-5,104	5,476	37
Liabilities	1,561	1,484	57,465	40,949	-90,375	-73,303	76,550	70,233

* excluding profit and loss transfer agreements

Notes to the interim financial statements

Information about Beate Uhse AG

Beate Uhse AG does not have own operating business. It functions as a holding company for the subsidiaries and shareholdings within the Group. Central Group management functions including accounting, controlling, financing, HR, legal matters and communications are carried out by the holding company (AG). The development of earnings at Beate Uhse AG primarily stems from profit and loss transfer agreements concluded with subsidiaries as well as revenue from other shareholdings and expenses relating to the holding function.

Accounting and valuation methods

Beate Uhse AG is a parent company as defined in Section 290 of the German Commercial Code (HGB). As the company issues shares listed on the capital market, it is required under Article 4 of Regulation No. 1606/2002 of the European Parliament and European Council dated 19 July 2002 to prepare its consolidated financial statements in accordance with IFRS. These interim consolidated statements dated 30 June 2011 have therefore also been prepared in line with currently applicable IFRS accounting standards. It was not necessary to make any adjustments to the accounting and valuation methods. This interim report has been prepared in compliance with the international accounting requirements of IFRS and in accordance with the German accounting standard DRS 16. The accounting and valuation policies used are consistent with those applied in the most recent consolidated financial statements for the 2010 financial year. In the interest of clarity and to enhance readability, individual items in the income statement, balance sheet and cash flow statement of Beate Uhse Group have been grouped together.

This six-month report for 2011 has not been reviewed by the auditors.

Basis of consolidation

Since the financial statements for financial year 2010 the group of consolidated companies included in the Beate Uhse Group has changed as follows:

By contract dated 24 January 2011 Beate Uhse AG disposed of Sandereijn B.V. At the time of sale the Dutch retail chain had ten stores. Sandereijn B.V. does not comprise a material division within the Beate Uhse Group.

The Swedish wholesaler Beate Uhse Sweden A.B. was sold to Mr Michael Jutterström in a management buy-out under an agreement dated 3 February 2011/31 March 2011. Beate Uhse Sweden A.B. does not comprise a material division within the Beate Uhse Group.

By contract dated 24 January 2011 Beate Uhse AG sold its 80% stake in the company Kondomeriet A/S, Norway. The buyer is the Norwegian company Consipio B.V., Netherlands. The purchase price amounted to EUR 3.0 million. Under the agreement, Beate Uhse AG has the possibility to repurchase the shares between 1 July 2013 and 1 January 2017. Consipio B.V. holds a put option which entitles it to sell the shares to Beate Uhse AG in the same period. Kondomeriet A/S does not comprise a material division within the Beate Uhse Group.

Due to the agreed repurchase option, Kondomeriet A/S will not be deconsolidated and will continue to form part of the consolidated group of Beate Uhse Group.

Segment reporting

The reporting structure applied in the most recent set of 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 income (not including minority interests) by the number of shares.

Changes to directors and officers

There were no changes to directors or officers in the second quarter of 2011.

Related-party transactions

In the reporting period from 1 January 2011 to 30 June 2011 transactions were performed with the following related parties as well as affiliated and associated companies:

Immo Almere B.V.
Summa Finance B.V.
Consipio Holding B.V.
Mohist B.V.
Bocca B.V.
tmc Content Group AG
Devitrade Managementdiensten

Responsibility statement in accordance with Section 37y of the German Securities Trading Act (WpHG) in conjunction with Section 37w (2)(3) of the WpHG

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

Flensburg, 9 August 2011
The management board

Serge van der Hooft
(Chairman of the Management Board, CEO)

Additional information

Financial calendar

Happening	Date
Annual General Meeting	22 August 2011 (Flensburg)
9-month report 2011	11 November 2011
Equity Forum	21–23 November 2011 (Frankfurt)

Stock exchange data

Trading locations	All German stock exchanges
Segment	Prime Standard
ISIN	DE0007551400
Stock market code	USE

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Disclaimer

This interim report contains 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 forward-looking statements are realistic, no guarantee can be provided that these expectations will prove to be accurate.

The 2011 interim report can be found online on the Group website under www.beate-uhse.ag in both German and English.