



Beate Uhse 1999

ANNUAL REPORT

DEAR MADAM OR SIR,

Less than a year since the stock market flotation, the first erotic share in Europe is almost commonplace for shareholders, fund managers and analysts today. This was not the case for the Beate Uhse company itself. From the early days of the company back in the 1940s to the public quoted company today it has been an extremely successful, but also a very long journey. The stock exchange listing itself proved emphatically that the capital markets reward commercial success. Any reservations in banking circles about erotic shares were quickly dispelled. The shares were and are sexy. The enterprising vision, our solid strategy, consistently tapping into promising future markets such as the Internet, not forgetting the high profile of Beate Uhse, made the stock market flotation of the erotica group one of the most successful of the year.

Today Beate Uhse with a market capitalisation of around DM 1.5 billion is one of the most important companies in the MDAX and is in the top 100 of German public limited companies. Beate Uhse AG thereby succeeded in progressing directly from the SDAX straight through to the next level. The capital markets understood with the listing of Beate Uhse AG, what had long been the norm in the company: a new openness and a new matter of fact attitude towards erotica.

The company, Beate Uhse, has played its part in this. The company founder, Beate Rotermund, has always been open about the products and services offered by her company. The company has always sought dialogue with customers and society. Part of this strategy has been locating the shops in busy

prime locations and in the communication centres of town centres such as pedestrian precincts or shopping arcades. With this presence Beate Uhse has become a part of public life and at the same time the epitome of erotica.

Through the listing this openness attained a quite new dimension. A potential investment in erotic shares became a public topic for discussion. Even the financial community shed initial reservations very quickly. Commerzbank AG played its part in this by assisting in the listing as one of the most renowned banking houses in Germany. We should like to take the opportunity here to thank them once again for their belief in us. A financial report with spark and style, an over-sized erotic share, scantily clad girls, champagne at start of trading and little erotic giveaways presented with a smile, formed the framework for the slightly unusual flotation.

Numerous cameramen, over 100 journalists and as many analysts attended the launch events so that Beate Uhse shares have become a new popular share for the small investor. Market traders maintain that next to the initial public offering of Telekom the launch of Beate Uhse on the stock market aroused the greatest public interest.

A whole new sector of the population could be reached to invest in the shares. The quickly developing new share ownership culture in Germany received an extra boost. Thus, both capital markets and the company were able to profit from the hottest flotation of the year.

In order to go further down this road, the company sets great store on clarity and openness of information to investors and analysts to avoid misunderstandings. Quarterly reports, presentations to analysts, three press conferences in 1999 alone, numerous interviews and press briefings guarantee this. Of course, ad-hoc reports and press releases are in both German and English a standard for Beate Uhse. The company has an obligation to provide this by virtue of its strong international position.

International expansion, next to the expansion of the services offered on the Internet, is the most important future project of the Group. With the takeover of the erotica companies, Pabo and Sandereijn, an important step forward was already taken in 1999. Through the acquisitions Beate Uhse became the largest erotic mail order company in Europe and at the same time the undisputed market leader in Benelux. At the Annual General Meeting we will present the latest acquisitions to our shareholders in detail and obtain their consent. Today we are represented in twelve central and western European countries and are on the verge of launching into the US market. The appointment of the Dutchman Gerard Cok to the management board demonstrates this new confidence as a globally active company.

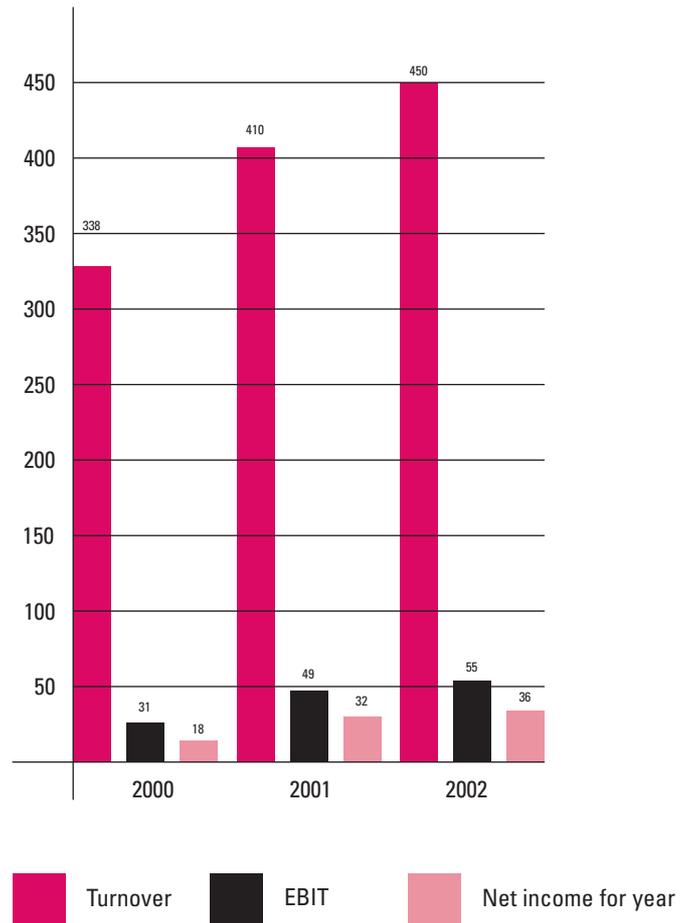
Now Beate Uhse is going to the Summer Olympics in Australia in good time for the start. In a joint venture with Sharon Austen Ltd., since May 11th 2000 listed in Sydneys ASX-Index, the Australian and New Zealand erotica market is to be conquered via the Internet. Beate Uhse provides the all-important know-how for the young company. Future prospects for the Australian start-up enterprise are based among other things on the newest data of the statistical office in Australia. According to their figures about 1.1 million Australians have internet-access. Tendency rising!

Erotica today has assumed a central role on the Internet. Erotica sites are some of the most visited pages on the World Wide Web. Erotic services are already achieving high turnover. Beate Uhse was one of the first companies to recognise this trend and exploit it. The Beate Uhse AG sites are some of the most often frequented sites on the Net. The candour of consumers for erotic services on the Internet will shape the market of the future.

The products and services offered by Beate Uhse AG fulfil almost all desires and are constantly being developed. The latest technology forms a direct part of our services. In the case of future projects such as Web-TV and Video-on-demand Beate Uhse AG will take a leading position.

Beate Uhse would now like to establish this matter of fact approach to erotic services further in the public domain. New, open-plan shops and high-quality erotica catalogues are just two examples of projects currently being considered by Beate Uhse within the concept of a new corporate image. In addition to this, in the first half of 2000 we are completely revamping our Internet image. The additional publicity and the effects of the flotation should be consistently followed-up. In this way we can acquire new customer groups, keep existing customers, not to mention increase the corporate value for the shareholders.

Beate Uhse Group Budgeting



Beate Rotermund
Chairwoman of the Supervisory Board

The erotica market offers internationally operating companies a wealth of growth potential. Erotica knows no borders. The consumer habits of various cultures are becoming more and more alike or stimulate each other; particularly under the influence of films, TV and the Internet.

THE WORLD OF EROTICA

At the same time, there is a clear recognisable trend towards harmonising the legal requirements in the individual countries. Certainly, it is only a matter of time until there are standard regulations throughout the EU.

The Internet especially ensures the globalisation of the erotica sector. The market-dominating companies of tomorrow will offer international services on the World Wide Web. DVD, the storage medium of the future is a prime example of the possibilities of international marketing. Using the new potential of this technology erotic DVDs can be produced which are supplied in several languages (synchronisation) and subtitles. In addition, the possibilities of the new technology were almost made for erotic content: direct links to Internet services, interactive user prompting or selection of different camera angles offer more possibilities than has been the case with videos up to now, for example. The new storage media together with the Internet can offer a genuine live experience: "Part of the action, instead of apart from it." Companies with international distribution channels which at the same time have "state of the art" technology, can benefit from these trends to the greatest extent.

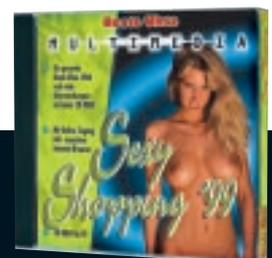
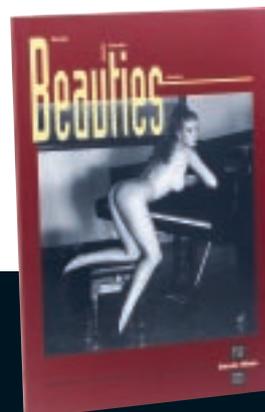
The Internet is the medium of the future for the erotica sector. No other subjects are clicked by consumers as often on the Web as erotica and sex services. Various trend indicators by market researchers also support the fact that most of the money made on the Web is based on erotica services. In contrast to many other services on the Internet erotic content is already earning money today. Already today according to estimations by market

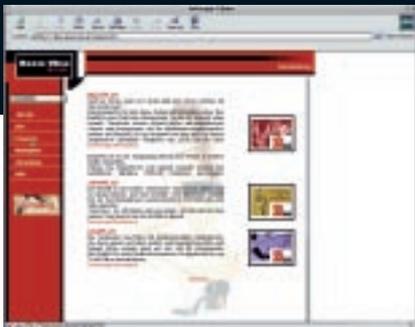
researchers from Datamonitor around 70% of turnover is made from Web pages for which there is a charge for erotic and sex services.

The new technological potential will lead to an exceptional increase in demand for content. Web-TV, Video-on-demand and Live-Cam-services are on the verge of penetrating the market. At the same time whole new target groups for erotic services can be tapped. New impetus will surely mean an increase, too, in the growing number of female users on the Internet. There is still clearly potential here lying dormant.

Initial figures based on experience in the USA indicate the international direction on the Internet. According to information from the market researchers the favourite Web sites with sex content in the US can achieve turnover of up to US dollar 100 million respectively. In Germany total turnover is only estimated at DM 30 million and thereby has enormous potential upwards.

Those who will profit from the Internet boom will be the service providers who can offer content at the same time as having competency in category management, in online shopping. What is important to the customer is convenience. They want to access the products and services offered online, consume online, order online and pay online. Companies such as Beate Uhse, having competence in all sectors whilst leading in the technological field, will be amongst the winners.





The Internet boom is at the same time an erotica boom. Hardly any other area on the Internet has notched up similar growth rates. The number of users of erotic services on the Internet increases by the day. Beate Uhse fulfils the erotic desires of the Internet visitor.

WITH ONE CLICK INTO THE WORLD OF EROTICA

In 140 different domains with over 140,000 pages Beate Uhse offers probably the most comprehensive services offered on the Internet. It opens up a range of marketing opportunities: e.g. via banners, content marketing and of course, online shopping. With 3.9 million hits per month the Beate Uhse Group sites are some of the most frequently visited on the Internet. Measured in terms of the length of time spent there they are even the undisputed Number 1. Due to a study of the marketing magazine Horizont (May/2000), Beate Uhse is recognised one of the most important personalities in the net.

Online:

- Chat and Community Systems
- Photo-Container
- Rendezvous
- Live-Cam-Services
- Online-Shopping
- Online-Live-Advice Line
- Lingerie-Shows

Audiotex 0190:

- One-to-one-Services
- Conferencing-Services
- Dating-Services
- Traditional Services



Beate Uhse AG always sets great store on the Internet on the latest technology in order to expand its leading position. With live advice for online-shopping we have set new standards in 1999.

The Beate Uhse Group is focussing its attention on expanding its international network on the Internet.

There is no other place where the markets can be tapped world-wide so quickly and efficiently as on the World Wide Web. An important step in 1999 was the participation in the Australian Internet start-up company Sharon Austen Limited. Here we were able to find competent partners for the Australian and New Zealand market and at the same time ensure the success from day one of the new market launch down under with the transfer of know-how from Germany.

Sharon Austen Limited has been listed at the ASX-Index off the Australian stock-exchange on May 11th 2000. By taking this step Sharon Austen will obtain funds for the swift expansion on the Internet and we will achieve extra value for our shareholders.

The internationally renowned competence over many years of the Beate Uhse Group on the Web opens the doors for further future-oriented joint ventures and participations on the Internet. Thus the Beate Uhse AG acquired the wellknown Norwegian Erotik magazines Lek and Cocktail in March 2000. Beside the print outputs the erotic contents are available also in the Internet. Particularly attractive markets are Benelux, Scandinavia and, of course, the USA. Besides joint ventures with local partners the comprehensive Internet operations are also used, of course, to increase the international presence of Beate Uhse.

Beate Uhse AG is also planning auspicious future projects in the area of Web TV, that is to say, Pay-TV. The company's own comprehensive film library will form the basis and the high value content. The fast pace of technological advances means that it is only a matter of time until Web-

TV and Video-on-demand makes its way over the Internet. Beate Uhse, through the development of its own content offered and its trailblazing technological advances is well prepared today for this market of the future.

Beate Uhse brings the world of erotica to the very heart of town centres. In the top shopping locations of almost all German cities you will find the most famous supplier in the erotic retail business. In Germany the Beate Uhse shops are a synonym for erotic shopping of a particular kind. In many other countries in Europe we are on the right road.

SEX SHOPS

Across Europe in almost 200 shops our customers can buy products which fulfill all erotic desires. By acquiring the Dutch-Belgian chain store, Sandereijn, the Beate Uhse Group took a major step towards gaining a strong presence throughout Europe in 1999. Today Beate Uhse has four complementary retail concepts.

1. Beate Uhse has the top locations in German cities covered with its own branches. This prime position branch network meanwhile covers 51 locations in Germany.
2. Beate Uhse also operates in smaller and medium-sized towns through franchise holders. At the same time the franchise label, Beate Uhse International, stands for the cross-border strategy of the Beate Uhse Group, i.e. in Austria, Switzerland, Spain and Italy. With five new shop openings in 1999 the franchise network today has 93 shops in five countries.
3. An innovation in the Beate Uhse Group is the Erotic Discount Center chain (E.D.C.). This branch concept of the new subsidiary, Sandereijn with 36 branches in the Netherlands and 8 in Belgium is targeted towards the price-conscious consumer.
4. A development of the BU branches is planned at country wide traffic junctions such as motorway service-stations.

With these four sales concepts the Beate Uhse Group has the best tools to be able to duplicate a solution which is right for the specialised requirements of the location and the target group in its continued international expansion. The combination of own branches and franchise as well as licensing concepts guarantees furthermore that investment in this business sector remains manageable. The retail business is of great importance to the positioning and public perception of the Beate Uhse brand.

Berlin as a location enjoys a very important position in the retail concept of the Beate Uhse Group. With the Museum of Erotica in Berlin and the adjoining shop, Beate Uhse has created a unique world of erotica and sexuality there. Over an area of 1,200 square metres 3,000 exhibits from around the world annually attract around 116,000 visitors. It is only to be expected that the adjoining shop is one of the most successful in the Group.

The erotic services provided by Beate Uhse are rounded off by numerous video booths and six own cinemas in the meantime which to some extent have direct access to the Group shops. Beate Uhse acquired additional turnover potential in 1999 through the takeover of the probably unique games and erotica world in Munich. This successful undertaking is to be expanded further.

The experience of the Beate Uhse Group in the retail sector in seven European countries meanwhile has shown that the international strategy is the only right way. Erotica and sex are not confined by borders. And the concepts of the Beate Uhse Group can just be duplicated and will be well received by European consumers. For this reason the Group must press ahead with the international commitment. Further acquisitions, the development of its own branch network as well as gaining new franchise partners throughout Europe are planned.



The Beate Uhse Group in 1999 has grown to become the largest erotic mail order company across Europe. Until then the convenience of shopping from home was possible in Germany, and through franchise partners in Austria, Switzerland, Portugal, Poland and Hungary. Through the takeover of the

THE INTERNET IS THE ORDERING ROUTE OF THE FUTURE

mail order company, Pabo, not only has turnover doubled in the mail order business but there has also been new activity in the Netherlands, Belgium, France and the UK. Besides the traditionally outstanding position in Germany, the Beate Uhse Group has created for itself, particularly in Benelux, now a quite outstanding market share of over 70%.

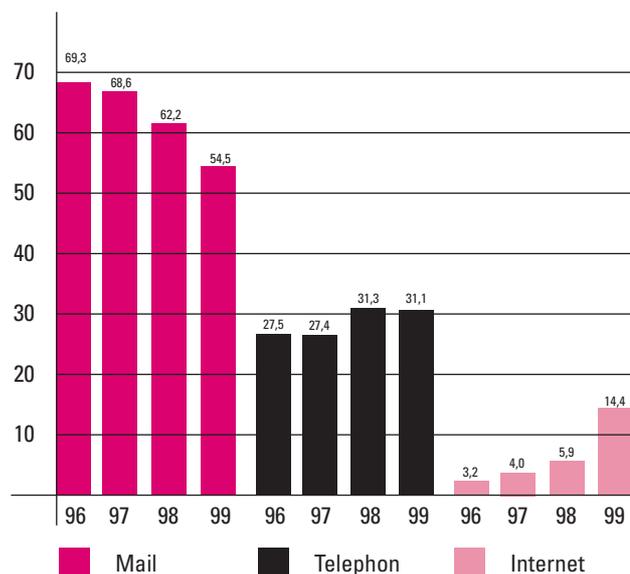
The mail order business is the nucleus of the Group. After a slight consolidation phase we have succeeded in achieving growth to the mail order business again. The outstanding acceptance of online shopping brings additional impulse to the sector. The Internet is the ordering route of the future and Beate Uhse is setting the standards in online shopping. The multimedia presentation of the products opens up new possibilities which the printed catalogue could not offer. Shopping is as pleasant as possible for the customer and provides a real experience. With the first world-wide live assisted cyber-shop under the name chat@shop we can offer the customer personal and competent advice on the Internet.



In 1999 Beate Uhse and Pabo received around 1.1 million orders. Excellent logistics guarantee that customers receive the products they ordered between 24 and 48 hours later. Of course the service offered is augmented by a free advisory service, a no quibble money back guarantee and the option of ordering round the clock. To give customers new impetus for shopping, they receive a new catalogue five times per year. Extra specialised catalogues as well as a specific mailing concept targeted towards specialised customers and demands completes the marketing strategy.

In the future, too, Beate Uhse intends expanding its international presence in the mail order business. To do justice to the outstanding significance of the German market in the future as well, customer services for all German-speaking countries will remain in Flensburg. In parallel to this, however, the synergy potential arising from the merger with Pabo will be increasingly realised. Catalogue production and category management will be combined in the Netherlands. The further international expansion of the mail order business will also be controlled in future from the Netherlands.

Moving of orders in %



The Internet is the ordering route of the future.



The Beate Uhse Group is at the peak of development in the internationalisation of the erotica wholesale trade. With the present acquisition of the Dutch wholesaler, Scala, Beate Uhse has clearly developed this area internationally. Both partners were already working together with the German wholesale subsidiary ZBF.

The whole variety of erotica

The wholesale subsidiary ZBF which was taken over in the first phase in mid 1998 is now on the road to recovery after the reorganisation measures in 1999. Following the takeover of the Amsterdam wholesaler and its 50% share in ZBF, Beate Uhse AG decided to introduce more extreme measures than originally planned. The success of the restructuring will become noticeable from mid 2000.

Already today the erotic wholesale business of the Beate Uhse Group shows impressive results:

- market leader in Germany and Benelux
- 2 wholesale locations in Wiesbaden and Amsterdam
- 11,000 products in a comprehensive range
- daily deliveries to the retail outlets
- exclusive contracts with high-quality suppliers

A very promising concept for the future is the development of an erotic Internet marketplace. The Beate Uhse Group sees great potential in this so-called business-to-business concept. The order routes for online orders already exist and the range offered is to be expanded quickly.

With its two own manufacturers of erotic goods the Beate Uhse Group can ensure the direct implementation of new trends and current developments. Influences from the Internet and the retail outlets are picked up directly and converted into new products. Our own range, especially in the high value sector, of videos and stimulation products will be expanded.

BOARD OF MANAGEMENT AND SUPERVISORY BOARD

Members of the Board of Management:

Hans-Dieter Thomsen (Chair), till 30.09.1999
Gerard Cok, since 01.10.1999
Bogdan Hofmann, till 31.10.1999
Ulrich Hülle
Otto Christian Lindemann, since 01.04.2000
Dirk Riedel, since 01.03.1999

Members of the Supervisory Board:

Beate Rotermund, Chair
Richard Orthmann, Vice-Chair, since 17.03.1999
Detlef Bindert
Heidi Rudy, since 16.06.1999
Monika Wilk, since 16.06.1999
Jens Jensen
Dörte Tischer, since 17.03.1999 till 27.04.1999
Gesa Münzmaier, since 17.03.1999 till 27.04.1999

Board authorizations:

Beate Rotermund: Orthmann & Partner AG
Steuerberatungsgesellschaft
(Chair)
Imperial Erotic TV New Media.com AG
(Chair since 12/1999)

Richard Orthmann: Rotermund Leasing AG
DIAG Deutsche Immobilien AG
(Chair since 4/1999)
ConAction AG
Futura Capitalis AG (Chair)

Detlef Bindert: Deutsch Bank Finance N.V.
(Curacao)
Deutsche Bank Financial Inc.
(Delaware)
Deutsche Bank Luxembourg S.A.
Deutsche Finance B.V.
(Netherlands)

Ulrich Hülle: Hein Bau AG
PGAM Advanced Technologies AG
(Chair since 7/1999)
Lenscare.de AG (Chair since 1/2000)
Michael Telecom AG
(Chair since 4/2000)
Sharon Austen Limited
(since 3/2000)

Dirk Riedel: Beate Uhse Scandinavia A.B.
(Chair since 4/2000)

In the business year 1999, the Supervisory Board of Beate Uhse AG properly undertook all tasks entrusted to it in accordance with the articles and constitution of Beate Uhse AG. The executive board of the company was monitored and advised in detail on operational and strategic measures.

SUPERVISORY BOARD REPORT

In a total of 10 meetings the Supervisory Board was informed by means of written and verbal reports about the situation and development of the company, the company policies, the status of and necessary measures to be taken for the flotation on the stock exchange and possible company acquisitions. In addition the Supervisory Board obtained monthly reports on the business situation.

The Supervisory Board has not formed any committees.

With regard to the company policy, particular attention was paid to questions relating to product and customer policy and necessary measures and reactions to market conditions.

In connection with the preparation and implementation of the flotation on the stock exchange, the Supervisory Board agreed to the proposed capital measures, the selection of the bank consortium and the publicity measures and acted in an advisory capacity during the valuation negotiations.

With regard to the acquisitions, the Supervisory Board approved without reserve the transactions to acquire Pertusa B.V. as the Dutch holding company for the group, Pabo B.V. as the market leader in the Benelux countries for erotic mail order, and Sanderijen B.V. as the leading erotic retail trade chain in Belgium and the Netherlands, and gathered information on the integration plan for the European mail order company. The Supervisory Board also approved the acquisition of GEZED B.V. in Amsterdam, which, through its subsidiary Scala B.V., Amsterdam, operates the largest European erotica wholesale business. In this context the

Supervisory Board approved the increase in stock capital against non-cash capital contributions under exclusion of subscriptions rights of the outside shareholders. The capital increase comprised 4,970,570 shares with half dividend entitlement for the year 2000, which were issued in consideration for the acquisition.

At the end of 1999 came the unification by acquisition of 20% of the company shares of Imperial Erotic TV New Media.com AG, a Swiss film licence trading company. This acquisition was also given a positive decision by the Supervisory Board following detailed consultation, although subject to approval by the Annual General Meeting.

As in the previous year the auditors responsible for signing the annual accounts took part in the relevant agenda items at the meeting of the Supervisory Board to discuss the balance sheet on 13th June 2000. The auditors reported on the essential results of their audit and were on hand to discuss any matters arising.

The audit of the annual accounts of Beate Uhse AG for the business year 1999 and the Group annual accounts, and the situation report and Group situation report compiled by Arthur Andersen Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH, showed that the accounting procedures, the annual accounts and the situation report were in accordance with the legal prescriptions and present a picture in accordance with the actual situation regarding the assets, financial position and revenues. The audit did not raise any criticisms. An unreserved audit opinion was awarded. Following a thorough inhouse audit of the annual accounts, the Group annual accounts and the situation report and Group situation report, we raise no objections.

As part of the audit, the audit company also had to assess whether the Board had established a monitoring system and whether this fulfilled the legal requirements for early recognition of risks which may threaten the existence of the Beate Uhse Group. The auditor found that the risks were sufficiently represented in the situation report and that the measures as required of the Board by § 91 S. 2 Companies Act were appropriate for the early recognition of any such developments which may threaten the continued existence of the company.

The Group closing accounts, the Group situation report compiled together with the situation report for Beate Uhse AG and the report by the auditors of the Group closing accounts have been provided to the Supervisory Board. The Supervisory Board has approved the annual accounts compiled by the Board in its meeting of today; the annual accounts of Beate Uhse AG have thus been verified.

We agree to the proposal by the Board for the use of the profits shown in the balance sheet for the business year.

In accordance with § 312 Companies Act, the Board has compiled a report on the relationships with connected companies for the period from 1st January to 27th May 1999, for which the auditor has awarded the following unqualified audit opinion:

"In accordance with our audit and assessment duly carried out, we confirm that

1. the facts presented in the report are correct,
2. in the case of the legal transactions shown in the report, the obligations of the Company were not unreasonably high,
3. the measures described in the report do not suggest an evaluation substantially different from that given by the Board."

The Supervisory Board has examined the Subordinate Status report and the Auditor's report. There are no objections.

Mr Bogdan Hofmann and Mr Gerard Cok have been appointed to the executive board of Beate Uhse AG with effect from 1st January 1999 and 1st October 1999 respectively. With effect from 30th September 1999, Mr Hans-Dieter Thomsen resigned from the executive board after more than 40 years with the company, for reasons of age. The Supervisory Board thanks Mr Thomsen for his successful work for the Beate Uhse Group over many years. Mr Bogdan Hofmann resigned from

the executive board with effect from 31.10.1999, and Mr Otto-Christian Lindemann was appointed to the executive board with effect from 1.4.2000.

The Supervisory Board extends its gratitude to the executive board, the works councils and all employees of the Beate Uhse AG Group, whose commitment has made 1999 a successful financial year against a turbulent background of flotation on the stock exchange and a number of new acquisitions.

Beate Rotermund
Chairman of the Supervisory Board

Flensburg, 13th June 2000

The performance of Beate Uhse shares has shown that the capital markets have recognised the outstanding opportunities for the leading erotica company especially on the Internet and through internationalisation.

EROTIC PERFORMANCE

On 27th May 1999 led by Commerzbank AG 8,790,000 shares were placed on the stock market. The issue price was 7.20 euro. The flotation aroused a lot of interest from the public, the media and also financial centres. This was demonstrated by the opening price of the share at 13.60 euro; again of almost 90 %. After initial sharp price fluctuations the price steadied finding a solid basis at 18 to 20 euro. At the end of the year the Beate Uhse share price was 19.14 euro. The shareholders were able to share our delight with a price rise of 166 % in 1999. At the same time Beate Uhse was one of the most successful new flotations of the year.

A contribution was also made to the stunning price trend by our existing shareholders who did not release any further shares into the free float. The changes in the shareholding structure which took place in 1999 alone served to consolidate the new partnerships in the Netherlands arising from our acquisitions of Sandereijn and Pabo and underpin this with respective participations.

As a fast growing and high yield company with over 40 years' tradition and competence we chose the official listing as the right market sector for the Beate Uhse Group. The inclusion in the SMAX and the corresponding SDAX index were the logical consequences. From the beginning, Beate Uhse recorded one of the highest figures in terms of market capitalisation and dealing volumes. The German Stock Market rewarded the high level of confidence of the capital market in the strategy and the future of the Beate Uhse Group with the inclusion of the company in the MDAX on

20th December 1999. The erotica group are now in the premier division as well as in the top 100 German shares.

As a member of the second most important German share index shares in Beate Uhse AG are even more attractive to international and institutional Investors. At the same time the Beate Uhse Group will also comply with the stricter requirements for transparency and speed in reporting from the SMAX. To provide our investors with the security and transparency they need for their decision-making. The following data from 1999 supports our open information policy:

- 20 press releases especially for those members of the public interested in finance and the economy.
- 4 press conferences
- 6 analyses of Beate Uhse AG
- scores of investor and analyst presentations at home and abroad by the management board
- DVFA-event, Frankfurt
- participation in the German MidCap Conference in Frankfurt

We are very grateful for the confidence placed in us. It encourages us and at the same time spurs us on. In 2000 we will also keep a close eye on the performance of the company and thereby the investments of our shareholders and inform them about our strategic decisions quickly and transparently.



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Combined management report and Group management report for the fiscal year 1999

The management report and the group management report Beate Uhse AG are combined in accordance with sec. 298 (3) HGB. Unless expressly stated otherwise, the explanations apply both to the group situation and to the situation of Beate Uhse AG.

Business development and situation

Market and overall economy

The relatively moderate development of the economy as a whole in 1999 also applies to the traditional part of the erotic business. Even though there is no targeted market research in this area, statements issued by the main competitors at the central Venus erotic fair in Berlin, at the end of each year confirmed this trend.

The development of new selling channels in the industry (e.g. e-commerce, Internet-eroticism) and the new carriers of the contents (e.g. DVD) was, in contrast, considerably more dynamic. The anonymity and convenience of purchasing via the new media make it even easier for consumers, and thus reduce the inhibitions which even today act as a check to the expansion of the erotic market.

According to the magazine Focus 39/1999 growth rates of more than 25% were achieved in the multimedia erotic market in the USA during 1998/9. Through the Internet and video-on-demand it is being made easy for today's customer of tomorrow to be able to consume whatever he wants discretely.

The e-commerce approach is therefore of huge importance for the erotic business.

In Germany alone, sales through these channels have, according to a study of Roland Berger & Partner from 1999, grown exponentially from DM 0.4 billion in 1998 to DM 2.9 billion in 1999, with estimated increases to DM 8.6 billion in 2000 and between DM 20 and 30 billion in the year 2001. Part of these sales will be generated by the erotic industry. According to an investigation of Forrester Research from 4/98 e-commerce business within Europe is expected to reach in the region of US\$ 8 billion for the year 1999, increasing to US\$ 64 billion by 2001.

While the traditional target group of erotic providers tends to be between 30 and 40, the new selling channels will add new customer groups. According to a Gfk study and an Online Panel of TNS, Emnid and other leading research institutes state that most internet users are aged between 20 and 39.

Worldwide the number of internet users increased by 35 million to 130 million during 1999. The mail order companies are the pioneers of e-commerce as they can use existing logistics.

The market research institute Datamonitor estimates that approx. 70% of total sales from pay-websites in Europe and the USA are generated with eroticism. 84 % of the estimated sales of approx. 1 billion dollars are, however, likely to be recorded in the USA. IFP Online, the operator of the German youth protection system X-Check estimates that sales from pay-websites in Germany will amount to approx. DM 30 million and that twice that amount will be generated through deliveries abroad. In Germany there are presumed to be some 4,500 to 5,000 websites with commercial erotic contents on the internet of which the Webcam pages are the most profitable.

The drop in prices for video products which started to emerge in 1998 has continued. New data carriers such as DVD and transmission techniques such as video-on-demand will help to respond to this trend and achieve better cost recovery in the production of the contents.

Sales development

The Beate Uhse Group is represented by all the customary sales channels on the German market and by retail outlets and mail order in neighboring European countries. Besides retail, mail order and wholesale trade, sales channels supported by multimedia technologies (e.g. telephone, internet-content, e-commerce) are gaining in importance.

In the market environment described above, the Beate Uhse Group was able to set itself apart in the year of its flotation.

Consolidated group sales increased in 1999 by DM 59.0 million from DM 168.6 million to DM 227.6 million. Although sales in the traditional retail and mail order areas increased by DM 20.5 million, acquisitions from 1998 contributed DM 12.2 million to consolidated these sales. Sales in the wholesale trade are still subject to start-up problems. Following DM 32.1 million in 1998, sales of DM 29.0 million (50%) were recorded in 1999. While the decrease in sales of magazines and newspapers is customary for the industry, the structural problems have not yet been remedied since the acquisition in 1998. However, since mid 1999 and 1.1.2000 respectively, two new competent general managers have been responsible for the company who are to return the company to an expansionary course during 2000. In the new media segment sales of DM 57.4 million were generated compared to DM 10.7 million in 1998 (consolidation period 1.10.-31.12.98).

Acquisitions

At the 1999 year end we took over the 50% participation held by our Dutch co-shareholder in the ZBF-Group so that the Beate Uhse Group now holds 100%.

Other acquisition projects in 1999/2000 included the Dutch holding company Pertusa b.v., which was renamed Beate Uhse b.v.. This subsidiary made two acquisitions (Pabo mail order, Sandereijn, retail outlets). This has not yet been included in Group sales, 1999 as the necessary resolutions have not yet been taken by the shareholders meeting.

Pabo b.v. operates erotic mail order companies in Holland, Belgium, France, England and Austria under the name Pabo.

The erotic retail trade comprises 36 shops in Holland and 8 in Belgium. The shops have different labels, which include Erotic-Discout.

Other participations, some of which are still subject to the approval of the shareholders' meeting, include Imperial Erotic TV New Media.com AG (20%), Helen Duval Visuals b.v. (66.6%) and Gezed Holding b.v. (100%). By transfer of know-how Beate Uhse AG acquired 29.4% in the Australian Sharon Austen Limited.

Procurement

The process of optimizing the procurement function initiated some years ago was continued in 1999. After the takeover of the German wholesaler ZBF GmbH, the procurement of some products has been concentrated at ZBF since the beginning of the year and the

company incorporated in the product policy of the company. The resulting greater purchasing transparency and power has, in dealings with large-scale foreign suppliers been a great help to the Beate Uhse Group.

The suppliers of the Beate Uhse Group satisfy today's quality standards and are certified accordingly. The prices for the main groups of merchandise remained stable throughout 1999.

Capital expenditures

In 1999 the Beate Uhse Group continued its investment volume (not including financial assets) of the past year, investing a total of DM 14.2 million in office and factory equipment. Capital expenditures mainly relate to:

Retail trade (shop fittings)	DM 4.2 million
New media (IT, office)	DM 4.8 million
Wholesale ZBF (warehouse)	DM 0.6 million
IT, buildings, vehicle fleet	DM 4.3 million

There is no indication of any unusual trends and the figures are in line with the experiences of past years.

Financing

The changes in the equity of the company set forth in the notes under A.1, which occurred as a result of capital increases before and in connection with the flotation, significantly increased the financing requirements of the company. Cash inflows to the company were as follows:

Capital increases before public offering	DM 70.6 million
Capital increase in connection with public offering	DM 117.9 million

However, on account of the above mentioned larger acquisitions of Pabo and Sandereijn and the repayment of liabilities to banks, most of the funds were employed again in 1999. Specifically:

Beate Uhse b.v. (formerly Pertusa b.v.)	NLG 135.8 million
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Beate Uhse b.v. is a pure holding company which manages the Dutch subsidiaries of the Beate Uhse Gruppe. Beate Uhse b.v. concluded the following contracts to acquire participations in 1999:

Pabo b.v.	DM 78.1 million
Sandereijn b.v.	DM 32.8 million

Prepayments on the purchase price were made for the acquisitions. The acquisitions now require the approval of the shareholders meeting of the Beate Uhse AG.

Additional funds were used to repay liabilities to banks.

At the 1999 year end liabilities to banks amounted to DM 39.7 million which represents a reduction of DM 11.6 million.

Risk management / Quality management

The Board of Management at Beate Uhse AG has taken account of the increased requirements for risk management prescribed by the Law on Control and Transparency in Business (KonTraG). With consideration of the lowest level of management, all management together with an external expert, defined sources of risk and examined them with regard to the possible effect they may have on the business development of the Beate Uhse Group.

The results of this investigation have been documented in detail and – where necessary – measures have been initiated to minimize risks and management kept regularly informed as to their progress. The risk management system that has since been installed is constantly updated and enhanced.

As a trading company, the company is responsible for the quality of its products. The purchasing department has been instructed to carry out strict quality controls and to ensure that the suppliers of the group observe the necessary quality standards. These quality assurance measures are seen as a supplement to the group risk management and guarantee the neutral assessment of quality standards.

Employees

The average number of employees in the Group increased from 1998 to 1999 by 10% from 706 to 779 employees; the increase is, however, mainly attributable to the new acquisitions from 1998 which have now been fully consolidated.

The training of young people within the Beate Uhse Group is exemplary and offered training in 7 professions in the past year including media design, information and telecommunications systems electronic engineer and IT clerk.

There is an employee advice center which gives specific advice to interested employees for questions relating to basic and advanced training.

Beate Uhse AG, Versandhaus GmbH, Deutschland GmbH and Blue Movie GmbH are covered by an internal tariff which corresponds to the retail trade tariff. The new companies acquired while going public are currently not covered by tariff agreements.

The work's council and management work together constructively. Opposing positions have so far been dealt with internally and professionally.

The corporate culture is traditionally good. The tasks and sphere of responsibility of each employee is stipulated in a job description. Qualified assessments are essential for pay rises and promotion. The management philosophy has been adjustment to requirements at regular intervals. Employee fluctuations are therefore low.

There is no employee salary-based profit participation. Instead employees, based on hierarchy, participated in the company in the public offering process or in some cases even before this.

Besides tariff-based benefits, the Beate Uhse Group gives its employees numerous incentives such as employee discounts, presents on special occasions, sport subsidies and thus also ensures a good working climate which helps to keep the fluctuation rate low.

Presentation of the situation

Net assets

As a result of various events during the year 1999 the assets side of the consolidated balance sheet of Beate Uhse AG has changed significantly.

The reduction in goodwill by DM 29.8 million as of the end of May 1999 related to the policy of offsetting goodwill against the capital reserve which commenced in 1998.

The changes in financial assets amounting to DM 123 million relate to the acquisition transaction of Beate Uhse b.v. in the Netherlands and Imperial AG in Switzerland.

Inventories increased compared to the prior year by DM 10.7 million as ZBF, Zeitschrift-Buch und Film Vertriebs GmbH, which was only consolidated on a pro rata basis in 1998, was fully consolidated in the fiscal year 1999 after the acquisition of 100% of the shares.

The balance sheet total almost doubled as a result of the above-mentioned measures.

Financial situation

On the financing side of the balance sheet, equity reflects both the capital increases before and during the IPO process, and the aforementioned offsetting of the capital reserves of DM 71.3 million against goodwill.

Of the accruals, the trade tax accrual for the years 1994 – 1998 decreased significantly due to maturity/utilization. A liability being negotiated with a large German telecommunications company led to a slight increase in other accruals.

Liabilities to banks were partially repaid from funds resulting from the flotation and the increase in supplier liabilities is attributable to the full consolidation of the ZBF Group.

Results of operations

Despite the costs of going public totaling DM 8.3 million, the results of operations of the Beate Uhse Group increased significantly.

The Beate Uhse Group increased sales during the reporting period by DM 59 million or + 35.6%. This development is also caused by the new consolidation (Münchner Läden, sales volume approx. DM 12 million) and the first full consolidation of current information/new media over 12 months (prior year 3 months).

The increase in other operating income from DM 6.9 million to DM 11.9 million consists of many individual items. The most important changes pertain to cost refunds in connection with acquisitions (DM 1.0 million), income from the reversal of valuation allowances (DM 1.1 million), sale of film licenses (DM 0.9 million), income from the sale of securities (DM 1.7 million), write-ups of fixed assets (DM 0.5 million) and income from the reduction in general bad debt allowances (DM 0.3 million).

Besides the cost of going public, the results were burdened by the acquisition costs for the acquisitions during 1999 as they cannot be included in the consolidated financial statements of Beate Uhse AG until the shareholders meeting has given its approval. They are made up of incidental acquisition costs of approx. DM 1.2 million and lost interest of approx. DM 2.8 million.

The annual result of the group increased by DM 5.9 million which is equivalent to 147 %. The return on sales increased accordingly by 2.4 % in 1998 to 4.3 % in 1999.

The change by types of cost within the Group break down as follows:

The increase in cost of materials was partially caused by the larger consolidation Group and by a reclassification of purchased services from other operating expenses to cost of materials (DM 13 million).

Although personnel expenses increased by DM 7.5 million, the ratio of personnel costs to sales dropped from 22.0% to 19.5%. The increase here was again mainly caused by the enlargement of the consolidation group.

Other operating expenses increased by more than DM 2.6 million. The quota, however, fell here too from 36.0% to 27.8%, not at least due to the above mentioned reclassification.

Other operating expenses totalling DM 63.7 million consist of the following main positions:

Rent and rent incidentals	DM 25.1 million
Advertising expenses	DM 9.0 million
Telephone, postage, freight out	DM 7.1 million
Legal and consulting costs	DM 4.2 million

Besides rent and other building costs, legal and consultancy costs increased significantly in connection with the acquisitions.

Finally, the Group result was also positively impacted by the improvement in the financial and investment result due to the capital increases, even though the interest result was significantly burdened by the participations in the Netherlands which have not yet been consolidated and which not yet have had a positive effect on the income statement.

The individual financial statements of Beate Uhse AG shows net income of DM 21 million (prior year DM 1.7 million). Due to the near holding function of Beate Uhse AG, the net income mainly consists of income from subsidiaries. Here also there was a considerable increase from 1998 to 1999 from approx. DM 1 million to DM 19.2 million.

Development in 2000 and outlook

In 1999 the Beate Uhse Group was significantly impacted by the flotation on the one hand and by the negotiations on extensive acquisitions on the other. In 2000 these steps need first to be digested and the acquisitions carefully integrated into the Group. This process has been underway since the beginning of the year, whilst further expansion continues in smaller steps. Thus in the first quarter of 2000 a minority interest was acquired in the Australian partner Sharon Austen Ltd. as well as smaller Norwegian company in the e-commerce and erotic publishing area and a smaller video production firm in Holland. The contracts concluded in mid-1999 subject to the approval of the shareholders meeting, in particular regarding the acquisition of Gezed Holding b.v., which as a major participation contains the Dutch wholesaler Scala b.v., were modified. Transfer of title with profit participation right is now to be effected from 1.7.2000 or after approval by the shareholders' meeting and registration with the commercial register. In return, Beate Uhse AG will issue 4,970,570 new shares with 50 % profit entitlement for 2000.

In the new media segment the discontinuation of the collection system of Deutsche Telekom AG/ T-Online AG (T-Online-Classic) closed an important source of income from January 1, 2000, without providing a functioning replacement system as originally planned. In the first months this resulted in significantly reduced sales in the online market segment which could not be offset by other payment systems such as credit card collection. Since the beginning of May there are new collection methods with member programs associated with the necessary adult check systems in place and sales stabilized. There are negotiations about a compensation for the lost sales with the Telekom/T-Online. As compensation for lost sales, this segment turned increasingly to e-commerce where not only traditional sales but also IT sales (sale of software licenses) increased significantly.

Assuming that the acquisition of participations that have yet to be approved by the shareholders' meeting can be consolidated on a pro rata basis from the second half of 2000, sales are expected to increase to approx. DM 350 million and a significant increase in profits is also anticipated.

Prices are not expected to increase notably on either with regard to purchases or sales. It is hoped that wage and income increases will not materially diverge from this trend. Moreover, the synergy effects associated with the acquisitions should start to show an effect in 2000.

Dependent company report

The company prepared a dependent company report in accordance with an obligation arising from its corporate structure for a period just under 5 months. The report was reviewed by the company's auditor and the Supervisory Board and bears the following final declaration of the Board of Management:

"The Board of Management declares in accordance with sec. 312 (2) AktG that under the circumstances apparent at the time at which transactions were made or measures taken, the company received an appropriate consideration and did not suffer any disadvantage with regard to any of the above-mentioned measures."

Flensburg, May 18, 2000

The Board of Management



Gerard Cok
Vorstand



Ulrich Hülle
Vorstand



Otto Christian Lindemann
Vorstand



Dirk Riedel
Vorstand

ASSETS

	1999 DM	1998 DM
FIXED ASSETS		
Intangible assets		
Concessions, industrial and similar rights and licenses for such rights and assets	5,902,228.00	2,794,341.23
Goodwill	52,399.00	29,776,217.12
Payments on account	290,500.54	0.00
	<u>6,245,127.54</u>	<u>32,570,558.35</u>
Tangible assets		
Land, land rights and buildings including buildings on third party land	7,577,696.10	5,406,447.19
Other equipment, factory and office equipment	24,200,414.00	25,054,167.35
Payments on account and assets under construction	470,639.38	247,437.93
	<u>32,248,749.48</u>	<u>30,708,052.47</u>
Financial assets		
Shares in affiliated enterprises	247,350.37	284,850.37
Participations	0.00	23,621.75
Reinsurance claims	1,046,543.36	837,547.20
Other loans	1,719,358.27	710,196.01
Payments on account	123,011,343.92	0.00
	<u>126,024,595.92</u>	<u>1,856,215.33</u>
	<u>164,518,472.94</u>	<u>65,134,826.15</u>
CURRENT ASSETS		
Inventories		
Raw materials and supplies	1,164,337.46	1,197,496.47
Work in process	929,094.30	327,797.10
Finished goods and merchandise	35,953,823.45	25,832,300.83
	<u>38,047,255.21</u>	<u>27,357,594.40</u>
Receivables and other assets		
Trade receivables	29,280,131.92	20,005,403.52
Receivables from affiliated enterprises	299,573.23	532,937.43
Receivables from enterprises in which participations are held	0.00	142,484.08
Other assets	16,047,795.26	14,823,262.31
	<u>45,627,500.41</u>	<u>35,504,087.34</u>
Securities Treasury shares		
Other shares	144,086.78	0.00
	55,700.91	0.00
	<u>199,787.69</u>	<u>0.00</u>
Cheques, cash-in-hand, central bank and postal giro balances, bank balances		
	27,686,345.04	6,616,393.96
	<u>111,560,888.35</u>	<u>69,478,075.70</u>
PREPAID EXPENSES		
	8,929,475.01	9,388,809.53
DEFERRED TAX ASSETS		
	123,208.00	294,374.00
	<u>285,132,044.30</u>	<u>144,296,085.38</u>

EQUITY AND LIABILITIES

	1999 DM	1998 DM
<u>EQUITY</u>		
Subscribed capital	82,144,860.00	48,000,000.00
Capital reserve	112,635,311.70	0.00
Reserve for treasury shares	144,086.78	0.00
Minority interests	24,000.00	1,888.16
Retained earnings	11,535,414.47	3,424,445.77
	<u>206,483,672.95</u>	<u>51,426,333.93</u>
<u>SPECIAL RESERVES WITH AN EQUITY PORTION</u>	<u>89,257.60</u>	<u>145,725.71</u>
<u>ACCRUALS</u>		
Accruals for pensions and similar obligations	5,829,609.00	5,402,160.50
Tax accruals	9,077,399.86	14,561,409.05
Other accruals	8,933,379.45	8,113,285.71
	<u>23,840,388.31</u>	<u>28,076,855.26</u>
<u>LIABILITIES</u>		
Liabilities to banks	39,739,453.54	51,356,889.35
Payments received on account of orders	0.00	920.12
Trade payables	8,208,944.10	5,976,728.13
Payable to affiliated enterprises	296,909.25	254,398.18
Other liabilities	6,473,418.55	7,054,487.90
- thereof from taxes: DM 1.394.459,76 (Prior year: DM 2.025.991,80)		
- thereof for social security: DM 1.145.316,66 (Prior year: DM 1.065.176,42)		
	<u>54,718,725.44</u>	<u>64,643,423.68</u>
<u>DEFERRED INCOME</u>	0.00	3,746.80
	<u>285,132,044.30</u>	<u>144,296,085.38</u>

ASSETS

	1999 DM	1998 DM
FIXED ASSETS		
Intangible assets		
Concessions, industrial and similar rights and licenses for such rights and assets	2,956,266.00	17,078.00
	<u>2,956,266.00</u>	<u>17,078.00</u>
Tangible assets		
Land, land rights and buildings including buildings on third party land	8,259.00	9,194.00
Other equipment, factory and office equipment	3,939,422.00	4,294,192.00
Payments on account and assets under construction	0.00	4,192.60
	<u>3,947,681.00</u>	<u>4,307,578.60</u>
Financial assets		
Shares in affiliated enterprises	69,388,928.60	68,384,878.60
Participations	0.00	550,000.00
Reinsurance claims	447,807.50	387,808.40
Payments on account for financial assets	123,011,343.92	0.00
	<u>192,848,080.02</u>	<u>69,322,687.00</u>
	<u>199,752,027.02</u>	<u>73,647,343.60</u>
CURRENT ASSETS		
Inventories		
Raw materials and supplies	29,049.00	25,000.00
Finished goods and merchandise	2,500.00	2,500.00
	<u>31,549.00</u>	<u>27,500.00</u>
Receivables and other assets		
Trade receivables	1,202,551.63	38,778.27
Receivables from affiliated enterprises	95,108,119.76	42,291,853.76
Receivables from enterprises in which participations are held	0.00	5,631,059.87
Other assets	9,669,044.78	3,873,432.57
	<u>105,979,716.17</u>	<u>51,835,124.47</u>
Securities		
Treasury shares	138,468.07	0.00
	<u>138,468.07</u>	<u>0.00</u>
Cash, bank balances	22,229,210.04	2,909,216.76
	<u>128,378,943.28</u>	<u>54,771,841.23</u>
PREPAID EXPENSES	83,873.63	116,853.23
DEFERRED TAXES	53,452.00	80,178.00
	<u>328,268,295.93</u>	<u>128,616,216.06</u>

EQUITY AND LIABILITIES

	1999 DM	1998 DM
<u>EQUITY</u>		
Subscribed capital	82,144,860.00	48,000,000.00
Capital reserve	184,007,183.82	29,700,000.00
Reserve for treasury shares	138,468.07	0.00
Retained earnings	20,931,978.93	1,662,440.26
	<u>287,222,490.82</u>	<u>79,362,440.26</u>
<u>ACCRUALS</u>		
Accruals for pensions and similar obligations	2,570,556.00	2,375,726.00
Tax accruals	5,948,814.18	8,851,495.39
Other accruals	3,202,481.00	2,179,294.00
	<u>11,721,851.18</u>	<u>13,406,515.39</u>
<u>LIABILITIES</u>		
Liabilities to banks	15,256,768.09	31,403,093.81
- thereof with a residual term of less than one year: DM 27,919.62 (Prior year: DM 16,138,236.41)		
Trade liabilities	736,844.06	665,087.02
- thereof with a residual term of less than one year: DM 736,844.06 (Prior year: DM 665,087.02)		
Payable to affiliated enterprises	9,888,943.62	2,825,616.24
- thereof with a residual term of less than one year: DM 9,898,357.60 (Prior year: DM 2,825,616.24)		
Other liabilities	3,441,398.16	953,463.34
- thereof with a residual term of less than one year: 3,356,274.66 (Prior year: DM 868,339.84)		
- thereof from taxes: DM 78,796.96 (Prior year: DM 685,567.30)		
- thereof for social security: DM 105,538.83 (Prior year: DM 100,712.p26)		
	<u>29,323,953.93</u>	<u>35,847,260.41</u>
	<u>328,268,295.93</u>	<u>128,616,216.06</u>

BEATE UHSE AKTIENGESELLSCHAFT, FLENSBURG CONSOLIDATED INCOME STATEMENT FOR THE FISCAL YEAR 1999

	1999 DM	1998 DM
Sales	227,606,263.07	168,589,091.80
Increase or decrease in finished goods inventories and work in progress	25,466.20	738,118.23
Own work capitalized	420,408.45	294,719.45
Other operating income	11,930,697.20	6,921,032.37
Cost of materials	-95,388,599.14	-57,541,065.06
Personnel expenses		
Wages and salaries	-36,897,636.55	-30,491,236.08
Social security and pension costs	-7,726,017.23	-6,649,037.86
– thereof for pensions: DM 277,250.88 (Prior year: DM 866,522.49)		
Depreciation on intangible fixed assets and tangible fixed assets	-10,336,126.87	-10,208,606.06
Other operating expenses	-63,207,698.98	-60,626,015.63
Income from profit transfer agreements	0.00	48,104.44
Other interest and similar income	3,316,947.21	340,628.71
– thereof from affiliated enterprises DM 266,193.55 (Prior year: DM 0.00)		
Interest and similar expenses	-3,018,321.12	-3,509,681.88
– thereof from affiliated enterprises DM 154.29 (Prior year: DM 0.00)		
<u>Result from ordinary activities</u>	<u>26,725,382.24</u>	<u>7,906,052.43</u>
Extraordinary income	1,600,000.00	0.00
Extraordinary expenses	-8,312,588.92	0.00
<u>Extraordinary result</u>	<u>-6,712,588.92</u>	<u>0.00</u>
Taxes on income	-7,971,864.32	-1,867,474.60
Other taxes	-2,118,634.28	-2,304,350.53
Income from loss absorption	0.00	290,128.68
<u>Net income for the Year</u>	<u>9,922,294.72</u>	<u>4,024,355.98</u>
Profit shares of other shareholders	-67,239.22	0.00
Retained earnings/loss carried forward	1,824,445.77	-599,910.21
Transfer to reserve for treasury shares	-144,086.78	0.00
<u>Retained earnings</u>	<u>11,535,414.49</u>	<u>3,424,445.77</u>

**BEATE UHSE AKTIENGESELLSCHAFT, FLENSBURG
INCOME STATEMENT FOR THE FISCAL YEAR 1999**

	1999 DM	1998 DM
Sales	9,177,675.71	376,720.63
Other Operating income	4,801,299.67	5,862,906.15
Personnel expenses		
Wages and salaries	-4,818,762.64	-1,972,814.76
Social security and other pension costs	-1,035,251.01	-717,839.52
– thereof for pensions: DM171,619.92 (Prior year: DM 441,178.23)		
Depreciation		
Depreciation on intangible fixed assets and tangible assets	-1,392,503.87	-604,807.22
Other operating expenses	-10,173,451.75	-4,217,124.72
Income from participations	22,517,097.03	66,151.86
– thereof from affiliated enterprises: DM 22,517,097.03 (Prior year: DM 66,151.86)		
Income from profit transfer agreements	9,499,397.92	4,349,476.44
Income from refunds from integrated group units		
Income taxes	6,140,955.00	3,197,990.40
Other interest and similar income	4,733,103.12	617,061.41
– thereof from affiliated enterprises: DM 1,754,366.09 (Prior year: DM 461,793.12)		
Expenses for loss absorption	0.00	-711,233.42
Interest and similar absorption	-2,260,763.42	-2,047,196.35
– thereof to affiliated enterprises: DM 267,126.69 (Prior year: DM 85,650.59)		
<u>Result from ordinary activities</u>	<u>37,188,795.76</u>	<u>4,199,290.90</u>
Extraordinary expenses	-8,312,588.92	0.00
<u>Extraordinary result</u>	<u>-8,312,588.92</u>	<u>0.00</u>
Taxes on income	-7,968,675.40	-2,510,512.79
Other taxes	100,475.30	-33,752.00
<u>Net income for the year</u>	<u>21,008,006.74</u>	<u>1,655,026.11</u>
Retained earnings brought forward	62,440.26	7,414.15
Additions to reserve for treasury shares	-138,468.07	0.00
<u>Retained earnings</u>	<u>20,931,978.93</u>	<u>1,662,440.26</u>

Cash flow statement = indirect method Beate Uhse-Group as of 31.12.1999		1999
1.	Result for the year before extraordinary items (including profit share of minority shareholders)	16,635
2.	+/- Depreciation/appreciation on fixed assets	9,876
3.	- Increase/decrease in accruals	-4,236
4.	+/- Other expenses/income of a non-cash nature	1,882
5.	- Profit/loss from the disposal of fixed assets	95
6.	- Increase/decrease in inventories, in trade receivables and in other assets that cannot be allocated to investing or financing activities	-22,065
7.	+ Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities	1,633
8.	- Outflows from extraordinary transactions	-6,713
9.	= Cash flow from operating activities	-2,894
10.	+ Inflows from disposals of property, plant and equipment	513
11.	+ Inflows from disposals of intangible assets	1
12.	- Outflows from investments in property, plant and equipment	-10,680
13.	- Outflows from investments in intangible assets	-4,729
14.	+ Inflows from investments in financial assets	431
15.	- Outflows for investments in financial assets	-124,599
16.	+ Inflows from the sale of consolidated and other companies	0
17.	- Outflows for the acquisition of consolidated and other companies	-11,970
18.	+ Inflows resulting from short-term financial asset investments	0
19.	- Outflows resulting from short-term financial asset investments	0
20.	= Cash flow from investing activities	-151,033
21.	Inflows from additions to equity (capital increase, sale of treasury shares, etc.)	188,481
22.	- Outflows to company owners and shareholders (dividends, purchase of treasury shares, repayment of subscribed capital, other distributions)	-1,667
23.	+ Inflows from bond issues and borrowing of (finance) loans	15,208
24.	- Outflows from the repayment of bonds and amounts borrowed	-26,789
25.	= Cash flow from financing activities	175,233
26.	Increase of cash and cash equivalents (amount from Ff. 9,18,23)	21,306
27.	+/- Changes in cash and cash equivalents due to changes in exchange rates, group companies and valuation	-36
28.	+ Cash and cash equivalents at the beginning of the period	6,616
29.	= Cash and cash equivalents at the end of the period	27,886

Regulations for the transition period: Companies presenting a cash flow statement according to this standard for the first time are not required to state prior year amounts.

Segment reporting Beate Uhse Group 1999

	DM Retail	DM Mail order	DM New media	Income Statement pro rata 50% DM Wholesale	DM Services	DM Total
Sales	117,676,215	35,589,960	57,861,880	31,396,899	16,842,680	259,367,634
- to third parties	106,599,828	32,926,604	57,389,905	29,040,006	1,649,920	227,606,263
- thereof with other segments	11,076,387	2,663,356	471,975	2,356,893	15,192,760	31,761,371
Segment result	14,696,984	3,043,699	11,191,394	-2,077,023	32,329,723	59,184,777
- Result of ordinary activities						
- therein included						
Depreciation	6,054,747	403,333	1,924,179	356,578	1,597,289	10,336,126
Interest income	128,428	129,231	61,841	7,882	4,745,432	5,072,814
Interest expenses	1,128,806	16,953	128,114	1,115,014	2,386,952	4,775,839
Taxes on income	4,886,556	750,228	550,099	533,993	2,026,579	8,747,455
Assets (incl. participations)	58,791,948	17,955,726	27,028,447	54,499,125	342,988,470	501,263,716
Investments in long-term assets	4,240,050	225,695	4,779,201	623,936	4,347,751	14,216,633
Liabilities	54,621,316	10,472,110	8,535,213	54,901,306	54,177,905	182,707,850

Reconciliation to Group

Sales

Total segment sales						227,606,263
Group sales						227,606,263

Income of the segments

- Result of ordinary activities						59,184,777
less income from participations						-32,459,395
Group income						26,725,382

Assets (incl. Participations)

Segment assets						501,263,716
less cross-segment assets						-216,131,672
Group assets						285,132,044

Liabilities

Segment liabilities						182,707,850
less cross-segment liabilities						-104,059,479
						78,648,371

	Total according to Segment report	Reconciliation	Total according to Report 1999
Interest income	5,072,814	-1,755,867	3,316,947
Interest expenses	4,775,839	-1,757,518	3,018,321
Investments in long-term assets	14,216,633	0	14,216,633
Depreciation	10,336,126	0	10,336,126
Taxes on income	8,747,455	-775,591	7,971,864

It was decided not to present comparative figures for the prior year.

BEATE UHSE AKTIENGESELLSCHAFT, FLENSBURG
NOTES TO THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 1999

General

The consolidated financial statements and the financial statements of Beate Uhse Aktiengesellschaft are referred to jointly in the explanations. If not otherwise indicated, the remarks in these notes apply equally to both sets of financial statements.

I. Group affiliations

1. Parent company

The parent company is Beate Uhse Aktiengesellschaft, Flensburg (Beate Uhse AG), filed at the commercial register of the court of Flensburg under the number 3737 since November 13, 1998.

The consolidated financial statements for Beate Uhse AG for 1999 include a number of expansions. As such, the consolidated financial statements as of December 31, 1999 can only be compared to those of the previous year to a limited extent. Changes in the consolidated group are shown below in I.2.1.

2. Summary of the companies included in the consolidation

The group of companies affiliated to Beate Uhse AG consists of the following companies.

The consolidated financial statements for Beate Uhse AG comprises the individual financial statements for Beate Uhse AG and the companies listed under numbers I.2.1.

2.1. Fully consolidated group companies

Name, location	Abbreviation	Share in %	consolidated for the first time in 1999 as of
Versandhaus Beate Uhse GmbH, Flensburg	Versandhaus GmbH	100.00	
Beate Uhse Deutschland GmbH, Flensburg	Deutschland GmbH	100.00	
FKA Reprotechnik GmbH, Flensburg	FKA GmbH	100.00	
Vital-Partner Handels GmbH, Flensburg	Vital-Partner GmbH	100.00	
Becker KG Inh. Walter Becker, Nachf. GmbH, Flensburg	Becker GmbH	100.00	
Blue Movie Bar + Filmstudio GmbH, Flensburg	Blue Movie GmbH	100.00	
W & A Agentur für Werbung und Anzeigenvermittlung GmbH, Flensburg	W & A GmbH	100.00	
Beate Uhse Grundstücksverwaltungs GmbH, Flensburg	Beate Uhse GmbH	100.00	
Beate Uhse Grundstücksgesellschaft bR, Flensburg	Beate Uhse GbR	100.00	
Blue Movie Filmtheater-Betriebs GmbH, München	Blue Movie Filmtheater GmbH	100.00	
„Las Vegas City“ Spiel- und Unterhaltungsautomaten Betriebs-GmbH, München	Las Vegas GmbH	100.00	
HENRY'S SEX Vertriebs GmbH, München	Henry's GmbH	100.00	

Name, location	Abbreviation	Share in %	consolidated for the first time in 1999 as of
AI Aktuelle Information GmbH, Agentur für Telekommunikation, Norderfriedrichskoog	AI GmbH	100.00	
AI Aktuelle Information GmbH TOP Holding & Co. KG, Norderfriedrichskoog	AI TOP Holding KG	100.00	
AI Aktuelle Information GmbH, Agentur für Telekommunikation & Co. KG, Norderfriedrichskoog	AI KG	100.00	
METAVOX Service & Kommunikation GmbH & Co. KG, Düsseldorf	METAVOX KG	52.00	
AAAAAA Aktuelle Information GmbH Agentur für Telekommunikation & Co. KG, Norderfriedrichskoog	AAAAAA KG	100.00	
ERO Online GmbH Agentur für Telekommunikation Online Internet Dienste & Co. KG, Norderfriedrichskoog	ERO Online KG	100.00	
AAAAAAAAAAAA ABO GmbH Online Dienste & Co. KG, Norderfriedrichskoog	ABO KG	100.00	
SEX.DE Sex Erotik Kontakte Online GmbH & Co. KG, Norderfriedrichskoog	SEX.DE KG	100.00	01.01.1999
COM Online GmbH Multimedia Service & Co. KG, Flensburg	COM Online KG	100.00	
Blitzeis.de GmbH Online Entertainment & Co. KG, Flensburg	Blitzeis.de KG	100.00	01.01.1999

The following companies were consolidated proportionately pursuant to sec. 310 HGB in 1998. By virtue of a share transfer contract with Gezed GmbH from December 13, 1999, Beate Uhse AG now holds 100% of the shares in these companies. For 1999 the operating statement is based on a pro rata consolidation of these companies for 12 months corresponding to the previous year.

Name, location	Abbreviation	Share in %	consolidated for the first time in 1999 as of
Gezed Deutschland GmbH, Flensburg	Gezed GmbH	100.00	31.12.1999
Scala Beteiligungs GmbH, Wiesbaden	Scala GmbH	100.00	31.12.1999
Scala Großhandel GmbH & Co. KG, Wiesbaden	Scala KG	100.00	31.12.1999
ZBF Zeitschrift-Buch- und Film Vertriebs GmbH, Wiesbaden	ZBF GmbH	100.00	31.12.1999
Pleasure-Verlagsgesellschaft mbH, Bebra	Pleasure GmbH	100.00	31.12.1999
Lavetra GmbH, Offenbach	Lavetra GmbH	100.00	31.12.1999

2.2. Companies not included in consolidation

The affiliated companies listed below were not included in the consolidation on grounds of immateriality as defined by sec. 296 (2) HGB:

Name, Sitz	Abbreviation	Anteil %
COM Online Verwaltungs GmbH, Flensburg	COM Online GmbH	100.00
METAVOX Service & Kommunikation GmbH, Düsseldorf	METAVOX GmbH	100.00
Arena Online-Spiele Entwicklungs GmbH, Flensburg	Arena Online GmbH	100.00
Blitzeis.de GmbH Online Entertainment, Flensburg	Blitzeis.de GmbH	100.00
Erotic World B.V. COM-VTX Rekencentrum, NL Rotterdam	Erotic World B.V.	100.00

3. Comparability of the financial statements and the consolidated financial statements with the previous year

a. Comparability of individual financial statements with the previous year

Beate Uhse AG was created by change in company form from Beate Uhse Holding GmbH, Flensburg as well as by restructuring measures and the accretion of Beate Uhse GmbH & Co. KG.

The operating statement for Beate Uhse AG can therefore only be compared to the previous year to a limited extent. As a consequence of the accretion of Beate Uhse GmbH & Co. KG to Beate Uhse AG on September 1, 1998 only income and expenses for the period from September 1, 1998 to December 31, 1998 have been included in the prior year.

b. Comparability of the consolidated financial statements with the previous year

The first-time consolidation of the sub Group, AI TOP Holding KG, comprised of:

AI TOP Holding KG
 AI KG
 METAVOX KG
 AAAAAA KG
 ERO Online KG
 ABO KG
 SEX.DE KG
 COM Online KG and
 Blitzeis.de KG

occurred on October 1, 1998. As a result the New Media segment in the operating statement for 1998 merely includes income and expenses for three months in contrast to the current financial year.

The operating statement for Deutschland GmbH can only to limited extent be compared to the previous year. As a consequence of the accretion of Blue Movie GmbH & Co. Piccadilly Kinos KG, Flensburg ('Blue Movie KG') to Deutschland GmbH on September 1, 1998, the previous year only includes income and expenses for the former Blue Movie KG for the period from September 1, to December 31, 1998.

The expansion of the consolidation Group to include SEX.DE KG, Blitzeis.de KG and the sub-group Gezed GmbH, materially affected the following balance sheet items :

	<u>KDM</u>
Fixed assets	1,335
Inventories	8,532
Receivables	3,649
Other assets	1,963
Cash and cash equivalents	1,236
Accruals	1,675
Liabilities to banks	12,241
Trade payables	1,156

II. General accounting, valuation and consolidation principles

a. Remarks concerning accounting and valuation methods

The individual financial statements for Beate Uhse AG and the individual financial statements of consolidated subsidiaries for fiscal year 1999 were all prepared in compliance with the statutory provisions of German Commercial Code (HGB) and Stock Corporation law (AktG).

The assets taken over pursuant to sec. 300 (2) HGB in the consolidated financial statements were all uniformly valued as defined by sec. 308 HGB using the methods used by the parent company in its financial statements.

Intangible assets and property, plant and equipment are accounted at acquisition and manufacturing cost as defined by sec. 255 HGB. Scheduled depreciation is charged using the straight line method based on the estimated useful lives of the assets as permitted by the tax authorities.

Low-value assets are fully expensed in the year of acquisition making use of the permissible accounting simplification rule.

Financial assets are stated at the lower of cost or market value. Where a sustained fall in value can be observed, corresponding write down of value take place.

Goodwill not offset with the Groups capital reserves is amortized over a useful life of 15 years.

The valuation of inventories is performed at the lower of acquisition/manufacturing cost or market value.

Trade payables are stated at face values. Specific valuation allowances have been created to take account of recognized individual risks. A general valuation allowance of 1% has been created on trade receivables. Receivables in other currencies are translated at the lower exchange rate valid on cut-off date or on the day of transaction.

Other assets are stated at face values unless depreciated to a lower market price.

Deferred tax assets have been created for temporary differences between taxable income as per the tax regulations and the result as per the commercial code for subsequent financial years as defined by sec. 274(2) HGB.

Pensions accruals are stated on the basis of the present values of claims from ongoing pension obligations arising from pension plans and calculated by a surveyor taking into account the provisions of sec. 6a EstG and the 1998 mortality tables from Dr. Klaus Heubeck for pension surveyors.

Other accruals have been created for contingent liabilities and potential losses from pending transactions. The valuation is performed on the basis of prudent commercial judgement.

Liabilities are reported at repayment value. Liabilities in foreign currencies are translated at the higher rate valid on cut-off date or the day of being incurred.

b. Principles of Consolidation

The consolidated financial statements were prepared for the balance sheet date of the parent company, Beate Uhse AG, December 31, 1999. The financial statements of consolidated subsidiaries were likewise prepared for the same balance sheet date as the consolidated financial statements.

1. Capital consolidation

Subsidiaries have been consolidated in the equity section using the book value method pursuant to sec. 301 (1) HGB. Thereby the carrying values of the consolidated companies are compared with the pro rata equity held in them as of the date of acquisition or, when shares are acquired at various times, at that time when the company becomes a subsidiary.

If a debit difference arises from first-time consolidation pursuant to sec. 301(1) HGB then it is allocated to the individual assets of the subsidiaries when their value is greater than that previously stated. Any remaining debit difference is reported as goodwill, a credit difference by contrast is deducted from goodwill. The remaining goodwill of DM DM 41,671,872.12 was offset against the capital reserves of Beate Uhse AG of DM 184,007,183.82 pursuant to the option of sec. 309 HGB.

Goodwill from the consolidation of equity remaining after being offset with capital reserves is written off over its useful life beginning in the financial year following first-time consolidation .

2. Consolidation of Intercompany Balances

All receivables and liabilities between the companies included in the consolidated financial statements are offset against each other.

3. Consolidation of Income and Expenses

All sales, expenses and income between consolidated companies are offset against each other.

4. Elimination of intercompany profits

Intercompany profits are eliminated from inventories when the delivery originates from a Group company.

5. Pro rata consolidation

The consolidation principles are applied to companies that are consolidated on a pro rata basis pursuant to sec. 310 HGB.

III. Explanations to the balance sheet and the income statement of the individual and consolidated financial statements

1. Fixed assets

We refer to the accompanying fixed asset schedule for movements in fixed assets.

The disclosures concerning the investments pursuant to sec. 285 (11) HGB are compiled in a separate list pursuant to sec. 287 HGB and filed at the court of Flensburg.

Payments on account within financial assets relate to a purchase instalment for Pertusa B.V., Amsterdam, Netherlands, Pabo B.V., Hulst, Netherlands, and Sandereijn B.V., Terneuzen, Netherlands. The purchase agreements are concluded on the postponed condition of the approval of the annual general meeting and entry in the commercial register.

The assets schedule reports the historical cost of those companies consolidated in the previous year in agreement with the individual financial statements. This change is a result of the application of new consolidation software.

2. Receivables and other assets

Receivables and other assets are due within one year. Receivables of KDM 121 have a residual term of more than one year.

3. Treasury Shares

In keeping with a resolution of the annual general meeting on March 17, 1999, Beate Uhse AG is entitled to purchase own shares up to a volume of 10% of capital stock for purposes other than trade in securities.

In the course of the IPO on May 27, 1999 own shares were purchased to sell to business partners and customers. The acquisition cost per share was € 7,20. This corresponds to DM 14.08 per share.

Purchase	:	No. of shares 20,000 =	DM 281,639.52	=	0.343 % of the subscribed capital
Sale	:	No. of shares 9,768 =	DM 137,552.74	=	0.168 % of the subscribed capital
Final balance	:	No. of shares 10,232 =	DM 144,086.78	=	0.175 % of the subscribed capital

The proceeds from sale of an average of DM 83.59 per share – DM 816,384.00 in total – are included in the Group income statement. Since the sale was performed in small units, no detailed list of the individual sales has been compiled. An accrual for own shares has been created as a counter-item for own shares.

In addition, 71,012 own shares were purchased via an option contract on October 5, 2000. The shares were passed on Futura Capitalis AG to be held on a trustee basis. The original purpose of the purchase of the shares was to pass them on to business partners. Since the business partner withdrew his intention to buy the shares, Beate Uhse AG retook from Futura Capitalis AG on November 17, 1999 and sold them on the open market on December 6, 1999.

The value per share was € 7,20. This corresponds to DM 14.08 per share.

Purchase	:	No. of shares 71,012	=	DM 999,989.28	=	1.217 % of the subscribed capital
Sales	:	No. of shares 71,012	=	DM 999,989.28	=	1.217 % of the subscribed capital
Final balance	:	No. of shares 0				

The income on the sale of DM 24,115 per share – a total of DM 1,712,481.64 was posted to other operating income in the income statement.

4. Deferred taxes

The deferred tax item relates to the capitalized tax relief for coming years reported as an accounting convenience. It was created on balance sheet date in 1998 to account for the different accounting treatment of pension accruals in the commercial balance sheet and in the balance sheet for tax purposes. Corresponding to additions for tax reasons, releases of KDM 26.7 (AG) and KDM 171 (Group) took place in the financial year.

5. Special item with an equity portion

The special item with an equity portion is a result of extraordinary depreciation pursuant to sec. 4 of the Fördergebietsgesetz (the developing area act), sec. 7g EstG and sec. 3 of the Zonenrandförderungsgesetz (border regions subvention act).

During the financial year an amount of KDM 56 was released.

6. Stockholders' Equity

Fully paid in capital equals € 42,000,000. It is split into 42,000,000 bearer shares of € 1 each.

In compliance with a resolution of the annual general meeting of March 17, 1999, capital stock in Beate Uhse AG of DM 48,000,000 was initially converted into € 24,542,010.297418 and then reduced to €19,200,000. The difference resulting from the reduction of the nominal value to € 2.00 of € 5,342,010.30 was added to capital reserves in compliance with the resolution. In addition, the face value of the shares was converted from €2.00 to €1.00 through the issue of 9,600,000 new bearer shares with a nominal amount of € 1.00 each. Thereafter, capital stock was increased by € 2,400,000 from € 19,200,000 to € 21,600,000 from company funds by converting capital reserves and by issue of bearer shares with a nominal value of € 1.00 each. By further resolution capital stock was increased from € 21,600,000 to € 33,230,000 by cash contribution of € 12,030,000 through the issue of bearer shares with a face value of € 1.00.

The surplus arising from the capital increase of € 24,060,000 in excess of the nominal value of the shares issued was added to capital reserves.

By resolution of the annual general meeting dated May 11, 1999 capital stock was increased for a cash contribution of € 8.370.000 to € 42.000.000 by issue of new bearer shares with a nominal value of € 1.00 each.

Within the framework of the initial public offering in May 1999, cash proceeds of € 60.264.000 were received for the issue of the 8,370,000 bearer shares, issued at a price of € 7.20, of which € 51,894,000 was added to capital reserves.

7. Authorized capital

By resolution of the general meetings dated March 17, 1999, April 1, 1999 and May 11, 1999, authorized capital of € 21,000,000 was granted for the issue of new shares for cash or contribution in kind.

8. Capital reserve

The capital reserves of Beate Uhse AG developed as follows in financial year 1999:

	1999 DM
As of Jan. 1, 1999	29,700,000.00
Transfer to the capital reserve pursuant to the resolution of the general meeting of March 17, 1999 (capital increase)	47,057,269.80
Transfer to the capital reserve pursuant to the resolution of the general meeting of April 1, 1999 (EURO conversion)	10,448,064.00

Withdrawal of capital reserves pursuant to the resolution of the general meeting of April 1, 1999 (Capital increase from company funds)	-4,693,992.00
Transfer to the capital reserve from the proceeds from the issue (Capital increase)	<u>101,495,842.02</u>
As of December 31, 1999	<u><u>184,007,183.82</u></u>

In the financial year, the Group's capital reserves developed as follows:

	1999 DM
Capital reserves of Beate Uhse AG before being offset	184,007,183.82
Goodwill offset against capital reserves pursuant to sec. 309 (1) HGB on December 31, 1998	-29,700,000.00
Goodwill offset against capital reserves pursuant to sec. 309 (1) HGB on December 31, 1999	<u>-41,671,872.12</u>
Status as of December 31, 1999	<u><u>112,635,311.70</u></u>

9. Accruals

The uniform welfare ruling of the Beate Uhse forms the basis of the pension accrual. The welfare scheme was closed to new entrants in December 1978. The net present values of claims for ongoing pension entitlements that form the basis for the pension accrual were calculated using actuarial principles using the new mortality tables from Dr. Heubeck.

The tax accruals mainly comprise of the income tax accruals for the 1999 financial year .

Other accruals are mainly made up of accruals for an exclusive contract with T-online, vacation and overtime claims of employees, interest expenses and the costs of preparing the financial statements and consultancy fees.

10. Liabilities

The liabilities to banks are due as follows:

	Group		Beate Uhse AG	
	1999	1998	1999	1998
Residual term less than 1 year	<u>14,511</u>	<u>29,007</u>	<u>28</u>	<u>16,053</u>
Residual term 1 to 5 years	10,000	7,085	0	85
Residual term less than 5 years	<u>15,229</u>	<u>15,265</u>	<u>15,229</u>	<u>15,265</u>
	<u><u>39,740</u></u>	<u><u>51,357</u></u>	<u><u>15,257</u></u>	<u><u>31,403</u></u>

The liabilities are secured as follows:

Liabilities to	KDM	Security
Commerzbank AG, Flensburg	15,228	Partial mortgage real estate Potsdam Waldstadt-Center
Flensburger Sparkasse	14,000	Absolute guaranty of Beate Uhse AG
BfG Bank AG, Wiesbaden	10,000	Absolute guaranty of Beate Uhse AG
		Letter of subordination Beate Uhse AG

All other liabilities are due within a year.

11. Other financial commitments/Contingent liabilities

There are contingent liabilities in accordance with sec. 251 HGB from sureties for rent guarantees of KDM 1,608 and from notes payable of KDM 300 due to affiliated enterprises and third parties of KDM 17.

The company also has assumed absolute guarantees for affiliated enterprises totaling KDM 35,600. There is also an absolute guaranty to secure a salary commitment to the general manager of an affiliated company of KDM 68.

Beate Uhse AG subscribed 800,000 bearer shares of CHF 10 each in Imperial Erotic TV New Media.com AG. In relation to this an obligation to pay an unpaid amount of CHF 6,400,000 for shares subscribed still exists.

There are also contingent liabilities from the insolvency insurance (PSV) for pension commitments for employees who left the company in 1981 in the course of a division of real property. The present value of this commitment amounts to KDM 369 as of the balance sheet date.

As of December 31, 1999 other financial commitments break down as follows:

<u>AG</u>	2000 KDM	2001 KDM	2002 KDM	2003 KDM	2004 and later KDM	Total KDM
Rental of premises	258	258	258	258	1,032	2,064
Rental of premises due to affiliated enterprises	469	0	0	0	0	469
Guarantee fees/interest expenses	496	153	153	153	1,562	2,517
Cleaning and maintenance agreements	132	0	0	0	0	132
other operating fees	90	0	0	0	0	90
	<u>1,445</u>	<u>411</u>	<u>411</u>	<u>411</u>	<u>2,594</u>	<u>5,272</u>
 <u>GROUP</u>						
	2000 KDM	2001 KDM	2002 KDM	2003 KDM	2004 and later KDM	Total KDM
Rental of premises	17,844	16,379	14,643	12,445	61,040	122,351
Leases for furniture	306	163	143	120	41	773
Guarantees, fees and interest expenses	516	153	153	153	1,562	2,537
Maintenance, cleaning	603	1	0	0	0	604
Purchase obligation	15,327	15,327	15,327	4,716	0	50,697
other consulting fees	194	11	9	0	0	214
Gema-fees	69	0	0	0	0	69
Security expenses	75	0	0	0	0	75
	<u>34,934</u>	<u>32,034</u>	<u>30,275</u>	<u>17,434</u>	<u>62,643</u>	<u>177,320</u>

There are no other contingent liabilities subject to disclosure.

12. Sales

Sales of the AG split up by segment as follows:

	Total 1999 DM	Total 1998 DM
Sales allocation operating expenses	8,258,360	0
Sales telephone services	<u>919,316</u>	<u>376,721</u>
	<u>9,177,676</u>	<u>376,721</u>

In 1998 cost allocations of KDM 5,457 were disclosed under "other operating income".

Group sales by segment are split as follows:

	Total 1999 DM	Total 1998 DM
Sales	135,268,926.79	129,100,174.22
Sales telephone services	28,625,899.56	3,225,232.53
Cinema and video cubicles	25,438,174.98	18,348,523.23
Compensation BTX/Internet/T-Online	26,422,528.52	9,692,729.44
Toys/accessories	4,800,098.87	140,688.19
Licenses	3,666,140.05	2,611,086.46
Entrance fees sex museum	1,039,367.75	1,078,145.79
Address rental	802,617.82	797,612.09
Sales services	749,835.19	616,449.84
Sales live shows	534,540.71	0.00
Sales freight	169,728.25	0.00
Sales Güfa	66,250.11	0.00
Sales advertisements	43,782.37	0.00
Rent business center Pecunia	0.00	2,568,894.60
Income rent incidentals business center Potsdam	-21,627.90	-37.35
	<u>227,606,263.07</u>	<u>168,179,499.04</u>

In relation to business operations, the sales split according to geographical market is as follows:

	1999 KDM	1998 KDM
Germany	210,801	159,238
Abroad	<u>16,805</u>	<u>9,213</u>
	227,606	168,451

13. Cost of materials

Cost of materials are shown as a total amount. They are not divided into cost of raw materials and supplies and cost of purchased services.

14. Other operating income

Other operating income mainly includes rental income, income from the sale of securities and film rights, reversals of specific valuation allowances and income from the billing to third parties of costs incurred. Of other operating income, KDM 6,109 relates to other periods and non-operating income.

15. Other operating expenses

Other operating expenses mainly consist of rent and rent incidentals, advertising expenses, legal and consultancy costs, postage and maintenance costs. Of other operating expenses, KDM 2,422 relates to other periods and non-operating expenses.

16. Investment income

Due to reorganization measures, investment income of Beate Uhse AG contains profit transfers of AI TOP Holding KG for two fiscal years.

17. Interest and similar expenses

Interest and similar expenses mainly result from interest payments for short and long term liabilities to banks as well as interest for subsequent tax payments.

18. Extraordinary income

Extraordinary income results from a subsidy to ZBF GmbH from former shareholders.

19. Extraordinary expenses

Extraordinary expenses mainly result from advertising and consultancy expenses in connection with the initial public offering of Beate Uhse AG.

20. Taxes on income

Taxes on income mainly relate to trade tax on income, corporation tax and the solidarity surcharge of the parent company. Income taxes relate exclusively to the results from ordinary activities.

IV. Other disclosures

1. Publication pursuant to sec. 25 WpHG (Securities Act)

The following shareholders of Beate Uhse AG reported the following voting rights to us in accordance with sec. 21 (1) and (1a) WpHG as of May 27, 1999, the day of the first admission to listing:

Ulrich Rotermund, Am Leuchtturm 10, 24960 Glücksburg	38,95 %
Philipp Rotermund, Am Leuchtturm 10, 24960 Glücksburg	9,585 %
Reuben Rotermund, Am Leuchtturm 10, 24960 Glücksburg	9,585 %
Jutta Hinrichsen-Rotermund, Am Leuchtturm 10, 24960 Glücksburg	8,00 %
Dirk Kessemeier, Badestraße 21, 20148 Hamburg	5,36 %

Kackou b.v. domiciled in Amsterdam, Netherlands, exceeded the 5 % threshold of voting rights in the listed Beate Uhse AG on May 27, 1999:

Kackou b.v., Stadhouderskade 34, 1071 ZD Amsterdam, NL	7,95625 %
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Pursuant to sec. 22 (1) Nr. 2 WpHG the voting rights are allocated to the controlling party Jon Engelsma. Thus on May 27, 1999 Jon Engelsma exceeded the 5% threshold of allocable voting rights:

Jon Engelsma, Stadhouderskade 34, 1071 ZD Amsterdam, Netherlands	7,95625 %
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The following shareholders informed us that the participations in Beate Uhse AG as of October 1, 1999 have changed in accordance with sec. 21 (1) WpHG. The shares are now held as follows:

Fienco N.V., Wilgendreef 28, 8300 Knokke, Belgium	15,8176 %
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Fienco N.V. domiciled in Knokke, Belgium, thus exceeded the 5 % and 10 % threshold of voting rights in Beate Uhse AG as of October 1, 1999.

Pursuant to sec. 22 (1) Nr. 2 WpHG the voting rights are allocated to the controlling party Gerard Ph. Cok. Mr. Gerard Ph. Cok thus exceeded the 5% and 10% threshold of allocable voting rights as of 27.05.1999:

Gerard Ph. Cok, Wilgendreef 28, 8300 Knokke, Belgium	15,8176 %
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Mr. Ulrich Rotermund, Am Leuchtturm 10, 24960 Glücksburg, reported to Beate Uhse AG a change in voting rights to a total of 11.92% as of October 1, 1999.

On October 1, 1999 the shareholder Ulrich Rotermund fell short of the 25% threshold of voting rights of Beate Uhse AG.

2. Company boards

The management of the company consisted of:

<u>Hans-Dieter Thomsen</u> , Businessman	Chairman of the Board of Management until 30.09.99
<u>Ulrich Hülle</u> Business graduate	
<u>Bogdan Hofmann</u> Businessman	since 01.01.99 until 31.10.99
<u>Dirk Riedel</u> Businessman	since 01.03.99
<u>Gerard Cok</u> Businessman	since 01.10.99
<u>Otto Christian Lindemann</u> Businessman	since 01.04.00

Total remuneration of members of the Board of Management in the fiscal year 1999 amounted to KDM 1,455. The pension reserve for management bodies amounts to KDM 1,404.

Supervisory remuneration for the fiscal year 1999 amounted to KDM 133.

The supervisory board consisted of the following members:

Beate Rotermund, businesswoman

Chairman of the supervisory board of Beate Uhse AG

Richard Orthmann tax advisor,

Deputy chairman of the supervisory board of Beate Uhse AG

since 17.03.99

Detlef Bindert:

Group Treasurer, Deutsche Bank AG , Frankfurt am Main

Jens Jensen

corporate attorney, Beate Uhse AG, Flensburg

Gesa Münzmaier

corporate attorney, Beate Uhse AG, Flensburg

from March 17 to April 27, 1999

Dörte Tischler

head of accounts, Beate Uhse AG, Flensburg

from March 17 to April 27, 1999

Heidi Rudy

chairwoman of the works' council, Beate Uhse AG, Flensburg

since 16.06.99

Monika Wilk

corporate attorney, Beate Uhse AG, Flensburg

since 16.06.99

The members of the Board of Management and Supervisory Board are members in the following Supervisory Boards:

Ulrich Hülle

Chairman of the Supervisory Board of Lencare.de AG, Kiel

since January 2000

Chairman of the Supervisory Board of PGAM Advanced Technologies AG,

Georgsmarienhütte

since July 2000

Chairman of the Supervisory Board of Hein Bau AG, Georgsmarienhütte

Chairman of the Supervisory Board of Michael Telecom AG, Bohmte

since April 2000

Supervisory board member of Sharon Austen Limited, Australia

since March 2000

Dirk Riedel

Chairman of the Supervisory Board of Beate Uhse Scandinavia A. B.

since April 2000

Beate Rotermund

Chairman of the Supervisory Board of Orthmann & Partner AG,

Steuerberatungsgesellschaft

President of the board Imperial Erotic TV

New Media.com AG Switzerland

since December 1999

Richard Orthmann

Chairman of the Supervisory Board of Futura Capitalis AG
 Chairman of the Supervisory Board of DIAG Deutsche Immobilien AG
 Supervisory board member of Rotermund Leasing AG
 Supervisory board member of ConAction AG

since April 1999

Detlef Bindert

Supervisory Board member of Deutsch Bank Finance N.V., Curacao,
 Supervisory Board member of Deutsche Bank Financial Inc., Delaware, USA
 Supervisory Board member of Deutsche Bank Luxembourg S.A., Luxemburg
 Supervisory Board member of Deutsche Finance B.V., Netherlands

3. Employee information

3.1. Parent company Beate Uhse AG

	1999	1998
Workers	3	5
Employees	54	49
	57	54

3.2. Group

	1999	1998
Workers	199	159
Employees	580	547
	779	706

The change compared to the prior year is mainly due to the first full consolidation of the wholesale segment in 1999.

4. Profit appropriation

As of December 31, 1999 Beate Uhse AG presents retained earnings of DM 20,931,978.93.

We propose distributing a cash dividend of € 0.10 per non par value share and to carry forward the remaining amount.

Flensburg, May 15, 2000

Gerard Cok
 Vorstand



Ulrich Hülle
 Vorstand



Otto Christian Lindemann
 Vorstand



Dirk Riedel
 Vorstand



	ACQUISITION COSTS					Dez. 31, 1999 DM
	Jan. 1, 1999 DM	Additions DM	Additions First-time consolidation DM	Disposals DM	Reclassifications DM	
INTANGIBLE ASSETS						
Concessions, industrials rights and similar rights and values and licenses for such rights and values	14,896,361.08	4,213,279.59	1,988,164.54	1,449.45	0.00	21,096,355.76
Goodwill	29,829,078.38	0.00	11,970,080.55	41,678,966.67	0.00	120,192.26
Payments on account	0.00	145,250.27	145,250.27	0.00	0.00	290,500.54
	<u>44,725,439.46</u>	<u>4,358,529.86</u>	<u>14,103,495.36</u>	<u>41,680,416.12</u>	<u>0.00</u>	<u>21,507,048.56</u>
TANGIBLE ASSETS						
Land, land rights and buildings including buildings on third party land	6,695,321.10	1,836,128.20	235,203.36	0.00	0.00	8,766,652.66
Other equipment, factory and office equipment	64,590,460.91	7,674,658.51	2,289,370.91	4,192,850.39	223,300.94	70,584,940.88
Payments on account and assets under construction	247,437.93	392,959.51	53,542.88	0.00	-223,300.94	470,639.38
	<u>71,533,219.94</u>	<u>9,903,746.22</u>	<u>2,578,117.15</u>	<u>4,192,850.39</u>	<u>0.00</u>	<u>79,822,232.92</u>
FINANCIAL ASSETS						
Shares in affiliated enterprises	284,850.37	0.00	0.00	37,500.00	0.00	247,350.37
Participations	23,621.75	0.00	0.00	23,621.75	0.00	0.00
Reinsurance	837,547.20	81,419.30	206,423.68	78,846.82	0.00	1,046,543.36
Other loans	710,196.01	1,300,000.00	0.00	290,837.74	0.00	1,719,358.27
Payments on account	0.00	123,011,343.92	0.00	0.00	0.00	123,011,343.92
	<u>1,856,215.33</u>	<u>124,392,763.22</u>	<u>206,423.68</u>	<u>430,806.31</u>	<u>0.00</u>	<u>126,024,595.92</u>
	<u>118,114,874.73</u>	<u>138,655,039.30</u>	<u>16,888,036.19</u>	<u>46,304,072.82</u>	<u>0.00</u>	<u>227,353,877.40</u>

ACCUMULATED DEPRECIATION					NET BOOK VALUES		
Jan. 1, 1999 DM	Additions DM	Additions First-time consolidation DM	Disposals DM	Write-ups DM	Dec. 31, 1999 DM	1999 DM	1998 DM
12,102,019.85	1,329,326.82	1,763,242.54	461.45	0.00	15,194,127.76	5,902,228.00	2,794,341.23
52,861.26	14,932.00	0.00	0.00	0.00	67,793.26	52,399.00	29,776,217.12
0.00	0.00	0.00	0.00	0.00	0.00	290,500.54	0.00
<u>12,154,881.11</u>	<u>1,344,258.82</u>	<u>1,763,242.54</u>	<u>461.45</u>	<u>0.00</u>	<u>15,261,921.02</u>	<u>6,245,127.54</u>	<u>32,570,558.35</u>
1,288,873.91	252,907.25	107,107.86	0.00	-459,932.46	1,188,956.56	7,577,696.10	5,406,447.19
39,536,293.56	8,738,960.80	1,694,386.41	3,585,113.89	0.00	46,384,526.88	24,200,414.00	25,054,167.35
0.00	0.00	0.00	0.00	0.00	0.00	470,639.38	247,437.93
<u>40,825,167.47</u>	<u>8,991,868.05</u>	<u>1,801,494.27</u>	<u>3,585,113.89</u>	<u>-459,932.46</u>	<u>47,573,483.44</u>	<u>32,248,749.48</u>	<u>30,708,052.47</u>
0.00	0.00	0.00	0.00	0.00	0.00	247,350.37	284,850.37
0.00	0.00	0.00	0.00	0.00	0.00	0.00	23,621.75
0.00	0.00	0.00	0.00	0.00	0.00	1,046,543.36	837,547.20
0.00	0.00	0.00	0.00	0.00	0.00	1,719,358.27	710,196.01
0.00	0.00	0.00	0.00	0.00	0.00	<u>123,011,343.92</u>	0.00
0.00	0.00	0.00	0.00	0.00	0.00	<u>126,024,595.92</u>	<u>1,856,215.33</u>
<u>52,980,048.58</u>	<u>10,336,126.87</u>	<u>3,564,736.81</u>	<u>3,585,575.34</u>	<u>-459,932.46</u>	<u>62,835,404.46</u>	<u>164,518,472.94</u>	<u>65,134,826.15</u>

FIXED ASSETS MOVEMENTS SCHEDULE

	ACQUISITION AN MANUFACTURING COST				Dec. 31, 1999 DM
	JAN. 1, 1999 DM	Additions DM	Disposals DM	Reclassifications DM	
<u>INTANGIBLE ASSETS</u>					
Concessions, industrial and similar rights and assets and licenses for such rights and assets	1,052,208.85	3,029,494.81	0.00	0.00	4,081,703.66
	1,052,208.85	3,029,494.81	0.00	0.00	4,081,703.66
<u>PROPERTY, PLANT AND EQUIPMENT</u>					
Land, land rights and buildings	9,350.00	0.00	0.00	0.00	9,350.00
Other equipment, factory and office equipment	6,082,498.86	1,233,163.46	685,316.75	4,192.60	6,634,538.17
Payments on account and assets under construction	4,192.60	0.00	0.00	-4,192.60	0.00
	6,096,041.46	1,233,163.46	685,316.75	0.00	6,643,888.17
<u>FINANCIAL ASSETS</u>					
Shares in affiliated companies	68,668,999.08	415,000.00	245,070.48	550,000.00	69,388,928.60
Participations	550,000.00	0.00	0.00	-550,000.00	0.00
Reinsurance claims	387,808.40	59,999.10	0.00	0.00	447,807.50
Long-term investments	0.00	123,011,343.92	0.00	0.00	123,011,343.92
	69,606,807.48	123,486,343.02	245,070.48	0.00	192,848,080.02

FOR THE FINANCIAL YEAR 1999

ACCUMULATED DEPRECIATION					NET BOOK VALUE	
Jan. 1, 1999 DM	Additions DM	Reclassifications DM	Disposals DM	Dec. 31, 1999 DM	Dec. 31, 1999 DM	Dec. 31, 1998 DM
1,035,130.85	90,306.81	0.00	0.00	1,125,437.66	2,956,266.00	17,078.00
1,035,130.85	90,306.81	0.00	0.00	1,125,437.66	2,956,266.00	17,078.00
156.00	935.00	0.00	0.00	1,091.00	8,259.00	9,194.00
1,788,306.86	1,301,262.06	0.00	394,452.75	2,695,116.17	3,939,422.00	4,294,192.00
0.00	0.00	0.00	0.00	0.00	0.00	4,192.60
1,788,462.86	1,302,197.06	0.00	394,452.75	2,696,207.17	3,947,681.00	4,307,578.60
284,120.48	0.00	-39,050.00	245,070.48	0.00	69,388,928.60	68,384,878.60
0.00	0.00	0.00	0.00	0.00	0.00	550,000.00
0.00	0.00	0.00	0.00	0.00	447,807.50	387,808.40
0.00	0.00	0.00	0.00	0.00	123,011,343.92	0.00
284,120.48	0.00	-39,050.00	245,070.48	0.00	192,848,080.02	69,322,687.00

PER 31.12. 1999

Name	Share %	Share capital / limited liability capital accounts KDM	Equity 31.12.1999 KDM	Net income / net loss 1999 KDM
Versandhaus GmbH	100.0	7,001	7,001	1,891
FKA Reprotechnik	100.0	100	612	276
Vital-Partner GmbH	100.0	50	-129	-9
Becker GmbH	100.0	50	612	413
Beate Uhse GmbH	100.0	50	95	-2
Beate Uhse GbR	99.5	0	0	406
AI GmbH	100.0	50	53	13
<u>CONSOLIDATED DEUTSCHLAND GMBH:</u>				
Deutschland GmbH	100.0	2,000	4,135	7,609
Blue Movie Filmtheater GmbH	100.0	50	25	396
Las Vegas GmbH	100.0	50	50	2,399
Henry's GmbH	100.0	50	46	-4
<u>CONSOLIDATED BLUE MOVIE GMBH</u>				
Blue Movie GmbH	100.0	50	533	458
W & A GmbH	100.0	50	516	355
<u>CONSOLIDATED AI TOP HOLDING KG:</u>				
AI TOP Holding KG	100.0	600	600	19,922
META VOX KG	52.0	50	50	140
Blitzeis KG	100.0	50	-273	-291
<u>CONSOLIDATED AI KG:</u>				
AI KG	100.0	500	500	11,063
AAAAAA KG	100.0	80	80	7,738
ERO Online KG	100.0	50	50	26
ABO KG	100.0	50	50	1,494
COM Online KG	100.0	100	3,775	1,849
SEX.DE KG	100.0	50	-68	-122
<u>CONSOLIDATED SCALA:</u>				
Scala KG	50.0	500	-385	-198
Scala GmbH	50.0	50	48	2
ZBF GmbH	50.0	250	-1,359	-1,500
Pleasure GmbH	50.0	25	778	700
Lavetra GmbH	50.0	70	181	69
<u>CONSOLIDATED GEZED:</u>				
Gezed GmbH	100.0	50	419	32
Scala GmbH	50.0	50	48	2
Scala KG	50.0	500	-385	-198
ZBF GmbH	50.0	250	-1,359	-1,500
Pleasure GmbH	50.0	25	778	700
Lavetra GmbH	50.0	70	181	69
		12,921	17,258	54,198

AUDITOR'S OPINION

"We have audited the financial statements including the bookkeeping of Beate Uhse Aktiengesellschaft and its consolidated financial statements and the report on the Company and the Group for the financial year from January 1, 1999 to December 31, 1999. The accounting and preparation of these documents according to German commercial law are the responsibility of the Company's legal representatives. Our responsibility is to express an opinion, based on our audit, on the financial statements, including the accounting, and the consolidated financial statements and on the management report on the situation of the Company and the Group.

We conducted our audit of the statutory and consolidated financial statements pursuant to sec. 317 HGB and in compliance with the generally accepted auditing principles set down by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit to obtain reasonable assurance that inaccuracies and violations are recognized which significantly affect the presentation of the assets, liabilities, financial position and results of operations of the Company and the Group, as conveyed by the financial statements, consolidated financial statements in compliance with generally accepted accounting principles and by the management report. The scope of the audit was planned taking into account our understanding of business operations, the Company's economic and legal environment, and any potential errors anticipated. In the course of the audit, the effectiveness of the system of internal controls have been assessed, and the disclosures made in the accounting, statutory and consolidated financial statements and in the report on the situation of the Company and of the Group verified, mainly on the basis of spot checks. The audit comprises the assessment of the financial statements of the companies included in the consolidated financial statements, the demarcation of the consolidation Group, the accounting and consolidation principles applied and estimates by the legal representatives as well as the appraisal of the overall presentation of the financial statements and the consolidated financial statements and the report on the situation of the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give any cause for qualification.

The financial statements of the Company and consolidated financial statements, in compliance with generally accepted accounting principles, present a true and fair view of the assets, liabilities, financial position and results of operations of the Company and the Group. In all material respects, the report on the situation of the Company and of the Group provides a true and fair view of the Company and the Group and accurately presents the risks arising from future developments."

ARTHUR ANDERSEN
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft mbH

Jöns
Wirtschaftsprüfer

Nendza
Wirtschaftsprüfer

Hamburg, May 31, 2000

You can obtain all company reports of Beate Uhse AG directly from the Internet. All reports in English and German can be downloaded from www.beate-uhse.de and www.use-shares.de. On request we will also be pleased to send you them by post.

In addition, you can register at the Internet address of our Investor Relations Support www.haubrok.de, for inclusion in the mailing list for ad-hoc reports and press releases. The latest news relating to your investment in Beate Uhse AG will be sent to you as it happens direct by e-mail.

Please do not hesitate to contact us if you have any questions.

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