



Report on the First Nine Months of Fiscal Year 2001

- SALES GREW BY 8% IN SPITE OF MORE DIFFICULT ENVIRONMENT
- CONTINUED OVERPROPORTIONAL EBIT GROWTH
- TELECOMMUNICATIONS LOSS WIDENS

LOEWE.



DEAR SHAREHOLDERS,

The deteriorating economic environment has been further exacerbated by the events of 11 September. This has resulted in a significant cooling of consumer confidence. While we have not been immune to these general economic influences, Loewe nevertheless performed well in the period from January to September 2001. Even though not all the Group's financial goals were met, significant gains were achieved over the comparable prior-year figures, also in relation to our competitors, and this in spite of the difficult market environment. The enhanced performance is reflected in the gains in market share in Germany and Europe. More importantly, however, the continued overproportional increase in earnings before interest and taxes confirms that the Loewe Group is successfully on a course of profitable growth.

The disappointing revenue and earnings figures of the Telecommunications division are seen as tarnishing the positive image of the Loewe Group as a whole. Therefore, the Executive Board will submit a draft resolution to the

Supervisory Board of Loewe AG at its next meeting that will either ensure a positive EBIT contribution by the Telecommunications division in 2002 or entail a pull-out from the telephone equipment business.

As for trade shows, the highlight of the year 2001 was the IFA (Internationale Funkausstellung) Exhibition which is held every two years in Berlin. This, the world's most important consumer electronics show is a key market barometer. This year, it provided a significant boost to the successful start of the peak season. The centerpiece of Loewe's impressive line-up of innovative new products unveiled at the IFA was the new 'Systems' product program, which is a complete audio-video TV system incorporating television, DVD player and hi-fi stereo system, all of which perfectly harmonized in technology and design. The 'Certos' audio system used in the new 'Systems' product line was developed by Loewe and is being produced at its Kronach facility. The sound components were developed in cooperation with the U.S. audio specialist Bose. The satellite speaker system is being developed and produced jointly by Loewe and Bose.

Another innovation presented by Loewe at the IFA was the largest European television based on picture tube technology. The new Aconda 93102 has a screen diagonal of 102 cm; standard models come equipped with Dolby Digital Decoder and Internet access and can be optionally equipped with a receiver for satellite programs.

Loewe also presented the prototype of a back-projection television based on DLP (Digital Light Processing) technology. In addition to the multiple-award-winning Spheros plasma television which Loewe has offered since 1997, the back-projection TV is an ideal complement to home cinema configurations with large screen diagonals. The technology partners for this project are the companies Carl-Zeiss and Texas Instruments.

It cannot be denied, however, that world political and economic risks dampened consumer demand in the months of July to September 2001. The pronounced purchasing restraint of consumers in Germany was more than offset by higher sales in the high-consumption countries of Italy and Spain, in particular. As in the past, the Group's booming export business is the main driving factor behind the sales increases that have been achieved.

In the weeks remaining until the end of the year, Loewe will make every effort to meet its ambitious medium-term growth targets for 2001, which has already proven to be a difficult year. Based on the information available today, the Executive Board believes that the Home Media Systems division will be able to meet these targets. The Telecommunications division, on the other hand, will not meet its goals for 2001. Nonetheless, we will take steps to ensure that this division no longer weighs down the consolidated earnings of the Group in 2002 and beyond.

Kronach, November 2001



Dr. Rainer Hecker, Chairman of the Executive Board

THE LOEWE GROUP AT A GLANCE*

(in EUR million)	3rd Quarter 2001	3rd Quarter 2000	Change in %	Nine months 2001	Nine months 2000	Change in %
Sales	94.4	89.4	+ 6	265.5	246.0	+ 8
Germany	50.6	52.6	- 4	134.6	141.6	- 5
Foreign	43.8	36.8	+ 19	130.9	104.4	+ 25
Earnings before interest and taxes (EBIT)**	6.6	5.3	+ 25	19.1	16.0	+ 19
Net income after minority interests	3.6	3.1	+ 16	10.5	9.1	+ 15
Earnings per share in EUR***	0.50	0.44	+ 14	1.47	1.29	+ 14
Financial position						
Shareholders' equity	75.3	66.6	+ 13	75.3	66.6	+ 13
Total assets	202.9	189.6	+ 7	202.9	189.6	+ 7
Capital ratio in %	37.1	35.1		37.1	35.1	
Further key figures						
Cash flow provided by operating activities	1.4	1.6	- 13	9.6	27.5	- 65
Capital expenditure	8.7	5.6	+ 55	18.5	16.4	+ 13
Depreciation/amortization	5.2	4.1	+ 27	14.9	12.2	+ 22
Development costs	3.2	2.8	+ 14	8.7	7.9	+ 10
Number of employees (average)	1,228	1,144	+ 7	1,190	1,099	+ 8

*) The interim financial statements as of September 30, 2001 and the annual financial statements as of December 31, 2000 are in accordance with the IAS, and were compiled using the same accounting and valuation methods.

**) The interest portion from the allocation to pension reserves – as in the financial statements as of December 31, 2000 – is not reported as personnel expense but rather as interest expense. The prior year's numbers were adjusted accordingly.

***) In relation to the number of shares outstanding after the capital increase conducted in the 3rd quarter of 2001 (consisting of 74,400 exercised stock options), for a total of 7,149,400 shares (previous year: 7,075,000 shares).

SALES GROW BY 8% IN THE FIRST NINE MONTHS

Constrained by the supply bottlenecks for large-format picture tubes which lasted into August 2001 and the weakening market for standard products which became apparent already in the second quarter of the year, third quarter sales 2001 grew at the relatively moderate rate of 6% over the corresponding prior-year period. The significantly worsened consumption climate that set in especially after the events of September 11 began to show up at the end of the quarter, but did not result in significant declines in product deliveries to dealers and international distribution partners. Thus, in spite of the fact that the business environment has become more difficult since the second quarter of 2001, the company was able to achieve sales growth of 8% for the first nine months of 2001 compared to the first nine months of the prior year.

The 4% decline in sales in Germany experienced in the third quarter of 2001, or 5% for the first nine months, is mainly the result of the shortfall of sales targets in the Telecommunications division where sales in Germany declined 36% in the first nine months over the respective prior year period. The decline was caused by the pronounced weakness of the market in Germany and the price cuts effected by competitors, which Loewe matched only after a certain delay. In shrinking market segments beset by fierce price competition, such as mono television sets and video recorders, and in certain standard segments as well, the company chose to forgo possible sales volume increases in favor of improving profitability.

Foreign sales continued to grow at a dynamic rate, advancing 19% in the third quarter and 25% for the first nine months of 2001. In addition to Loewe's traditional export markets, strong sales in the Eastern European and U.S. markets boosted the company's export sales performance. Furthermore, the Telecommunications division managed to generate significantly higher sales in its newly tapped export markets. In Australia, however, sales remained below the prior-year level, which was unusually high because of the Olympic Games. In the third quarter of 2001, moreover, the company was not able to exploit existing sales potential because of supply bottlenecks for large-format picture tubes. Compared to the corresponding prior-year period, the percentage of total sales generated outside Germany rose by 7 percentage points, to 49%, in the first nine months of the year.

CONTINUED OVERPROPORTIONAL EARNINGS GROWTH

The 25% EBIT growth achieved by the Loewe Group in the third quarter was significantly higher than its 6% sales growth. In the Home Media Systems division, we focused even more on high-margin products and were consequently able to raise the EBIT in this division by 35%, far in excess of the 6% sales growth. This EBIT figure also contains non-recurring income from the release of no longer needed license provisions in the amount of EUR 0.8 million. Adjusted for this non-recurring effect, EBIT growth was 9% for the Group and 20% for the Home Media Systems division. The performance of the Telecommunications division, on the other hand, fell significantly short of our expectations, with an EBIT of EUR -0.7 million. The disappointing performance was mainly due to the necessity of lowering prices in Germany.

For the first nine months of 2001, EBIT growth was 19% (or 14% after adjustment for the non-recurring effect), significantly higher than the sales growth of 8%, with total EBIT rising to EUR 19.1 million. The main reasons behind this positive development were the dynamic growth of exports and the improved product mix in the Home Media Systems division, as well as the above-mentioned reversal of license provisions. Counteracting these positive effects, the Telecommunications division contributed a loss of EUR -1.2 million. Compared to the prior-year period, the EBIT margin rose by 0.7 percentage points, to 7.2%.

Due to the fact that interest expenses for the first nine months of 2001 increased by EUR 0.5 million over the corresponding prior-year figure because of the higher working capital needs of the company, the consolidated net income after minority interests was EUR 10.5 million, 15% higher than the prior-year period.

Earnings per share for the first nine months of 2001 rose 14%, to EUR 1.47. This figure already takes into account the increase in the number of shares outstanding triggered by the exercise of stock options under the employee stock option program, with shares outstanding rising by 74,400 to 7,149,400, although the proceeds from the capital increase were not recognized until the end of the reporting period.

Under the employee stock option program of 1999, which involved a total of 500,000 stock options, 425,600 options can still be exercised by 2004. Including these stock options, the fully diluted earnings per share came to EUR 1.39.

The Loewe Group did not meet all its medium-term growth targets in the third quarter of 2001, mainly because of lower-than-expected sales growth in the Home Media Systems and Telecommunications divisions. Nonetheless, the dominant Home Media Systems division managed to increase its EBIT far in excess of sales growth, in spite of the difficult operating environment.

In the first nine months of the year, the Loewe Group met its medium-term sales and EBIT goals. Only the growth in earnings per share, at 14%, fell short of the medium-term target range of 20%. The main reasons for this development were the Telecommunications losses and the higher interest expenses.

BUSINESS DEVELOPMENT IN THE FIRST NINE MONTHS OF 2001

1. SALES CONTINUED TO GROW IN THE THIRD QUARTER

(in EUR million)	3rd Quarter 2001	3rd Quarter 2000	Change in %	Nine months 2001	Nine months 2000	Change in %
Home media systems						
Televisions and multimedia	75.3	72.3	+ 4	212.2	195.3	+ 9
Video recorders, DVD, Hi-Fi and accessories	13.3	11.1	+ 20	38.9	34.7	+ 12
Home media systems, total	88.6	83.4	+ 6	251.1	230.0	+ 9
thereof Germany	46.8	46.7	0	124.5	125.7	- 1
thereof foreign	41.8	36.7	+ 14	126.6	104.3	+ 21
Telecommunications	5.8	6.0	- 3	14.4	16.0	- 10
thereof Germany	3.8	5.9	- 36	10.1	15.9	- 36
thereof foreign	2.0	0.1	~	4.3	0.1	~
Sales, total	94.4	89.4	+ 6	265.5	246.0	+ 8
thereof Germany	50.6	52.6	- 4	134.6	141.6	- 5
thereof foreign	43.8	36.8	+ 19	130.9	104.4	+ 25

HOME MEDIA SYSTEMS REPORTS 9% SALES INCREASE

TELEVISION/MULTIMEDIA PRODUCT AREA

In value terms, the European market for television sets and multimedia units expanded by only 2% in the period from February to July 2001 compared to the corresponding prior-year figure¹. After posting a significant 5% gain in the months from February to May 2001, the market contracted in the months of June and July. Whereas the company's sales generated in Germany declined by 5%, sales in Italy, Spain, France and Great Britain – markets which are crucial for the company's growth – performed overproportionally well. The market segments most important to Loewe, namely large-format televisions, 16:9 format televisions and 100-Hz televisions, continue to grow, and consumer prices have remained basically stable in the relevant segments.

Since mid-September, the supply situation for large-format picture tubes has returned to normal, as expected. Although the supply bottlenecks persisted until this time, Loewe nonetheless managed to increase its third-quarter sales by 4% over the corresponding prior-year figure. In the low-margin segments of monoaural TVs and some standard televisions, which are subject to intense price competition, we chose to forgo sales increases in favor of improving profitability.

Sales of these products advanced 9% in the first nine months of 2001 over the corresponding prior-year figure. In spite of the lingering supply problems, sales of large-format television and multimedia units, as well as plasma television sets, increased overproportionally. This positive development also served to reinforce the company's strong market position. In the growing European market, the company's market share expanded by 0.4 percentage points, to 6.8%, compared to the previous year². In the shrinking domestic market, the company's market share grew by 0.1 percent points, to 13.1%³.

VIDEO RECORDER, DVD PLAYER, HI-FI, AND ACCESSORIES PRODUCT AREAS

In these product areas, sales grew 20% in the third quarter and 12% in the first nine months. Although we chose not to pursue additional sales potential in the market for video recorders because of falling prices there, we succeeded in boosting the sales of DVD players, hi-fi products and accessories at an overproportional rate. About one third of the total 20% sales gain achieved in the third quarter consisted of deliveries of electronic components to the company's cooperation partners, Sharp and Bose.

TREND OF DECLINING SALES CONTINUES IN THE TELECOMMUNICATIONS DIVISION

The market demand for cordless DECT telephones has slowed considerably. After remaining largely stable until May 2001, the German market lost 14% of its volume (in value terms) in the months of June/July and 6% in the months from February to July, especially under the effect of lower prices³. The market for answering machines has shrunk by about 20% since the beginning of the year. Because Loewe failed to meet its sales volume targets, in part because of product launch delays, its share of the cordless DECT

¹ Source GfK: Market in the ten biggest countries of Western Europe

² Source GfK: Market share in the European specialty retailers, in value terms (ten biggest countries of Western Europe)

³ Source GfK: Market share in German specialty retailers, February to July 2001, in value terms

⁴ Source GfK: Market in Germany

telephone market dropped from 7% to 4.5%. Its share of the answering machine market remained constant at the high level of 45%.

Thanks to higher foreign sales, third quarter sales remained nearly constant at the level of the prior-year period. Sales in Germany, on the other hand, decreased 36% because of the price reductions taken in August to match competitors and the consequences of the quality problems affecting one particular model, which have since been corrected. The addition of a redesigned standard series, manufactured by a new supplier, helped to stabilize sales in this segment.

The sales volume goals set for this product area were not met in the first nine months of the year. In addition to the above-mentioned quality problems and the competition-induced price cuts in Germany, product launch delays were responsible for a 10% sales drop. The shortfall of domestic sales was not completely made up by the additional sales in newly tapped European markets.

FOREIGN SALES ACCOUNT FOR NEARLY 50% OF TOTAL SALES

In line with the company's strategic goals, Loewe continued to expand its foreign sales, posting a 25% gain in the first nine months of 2001 over the corresponding prior-year figure. Of this increase, EUR 22.3 million was contributed by Home Media Systems and EUR 4.2 million by Telecommunications.

The countries contributing the highest sales were the Benelux countries with EUR 32 million, Italy with EUR 23 million, Spain with EUR 16 million, Great Britain and Switzerland each with EUR 8 million. In all these countries together, total sales increased by 18%.

2. EARNINGS CONTINUE TO GROW AT AN OVERPROPORTIONAL RATE

(in EUR million)	3rd Quarter 2001	3rd Quarter 2000	Change in %	Nine months 2001	Nine months 2000	Change in %
Home media systems	7.3	5.4	+ 35	20.3	16.7	+ 22
Telecommunications	- 0.7	- 0.1	~	- 1.2	- 0.7	- 71
EBIT, total	6.6	5.3	+ 25	19.1	16.0	+ 19
EBIT margin in %	7.0	5.9	+ 19	7.2	6.5	+ 11

The company's earnings for the third quarter were 25% higher than in the corresponding prior-year period and considerably in excess of the 6% sales growth for the period. By itself, the Home Multimedia Systems division posted a 35% earnings gain, primarily on the strength of an improved product mix, dynamically growing exports and the reversal of no longer needed license provisions in the amount of EUR 0.8 million. Adjusted for this non-recurring effect, the EBIT figure for Home Media Systems showed a 20% increase. On the Group level, EBIT was adversely affected by the EUR 0.7 million loss of the Telecommunications division associated primarily with price cuts and the failure to meet sales volume targets in Germany because of quality problems affecting one particular model, which have since been corrected. Although the fast-growing foreign sales nearly made up for the drop in domestic sales, this development placed considerable strain on the company's earnings because the margins in the export business are necessarily thinner due to the intermediation of foreign distribution partners.

Loewe's earnings for the first nine months of the year were 19% higher than in the prior-year period (or 14%, after adjusting for the non-recurring effect). While earnings of the Telecommunications division plunged 71% to a loss of EUR -1.2 million, the EBIT contributed by the Home Media Systems division, at EUR 20.3 million, was 22% higher than the prior-year figure, thanks in large part to the company's clear focus on the lucrative segments of large-format and multimedia television sets. Adjusted for the reversal of licensing provisions, the EBIT figure grew by 17%.

On the Group level, Loewe increased its gross profit margin by 0.5 percentage points, to 27.2%, in the first nine months of the year. The profit margin increase was accomplished mainly by focusing on highly profitable products and expanding exports and was supported by stable sale prices in the company's core business of home media systems. Within the item of manufacturing costs, the higher prices for materials and supplies, which rose by around 1.5% from the corresponding prior-year period, were more than offset by cost-cutting measures and volume effects.

In absolute terms, the company's sales and marketing expenses increased by EUR 4.3 million; as a percentage of sales, they edged up 0.4 percentage points, to 17.6%. This increase was due mainly to higher advertising expenses and to the stepped-up level of export and marketing activities in both divisions.

Administrative expenses increased by EUR 0.3 million from the corresponding prior-year period. As a percentage of sales, they declined slightly to 3.1% of sales.

The net result of other operating income and expenses was EUR 1.4 million higher than the corresponding prior-year figure. This increase resulted essentially from the net balance of income from the release of no longer needed provisions after the deduction of the necessary risk provisions for value losses in the assets backing the employee benefit fund Loewe Opta Unterstützungskasse e.V.

3. CAPITAL INVESTMENTS MOVE HIGHER IN THE THIRD QUARTER

(in EUR million)	Capital investments		Depreciation and amortization	
	Nine months 2001	Nine months 2000	Nine months 2001	Nine months 2000
Intangible assets	4.4	4.1	4.3	3.8
Property, plant and equipment	14.1	12.1	10.6	8.4
Financial assets	0.0	0.2	0.0	0.0
Total	18.5	16.4	14.9	12.2

At EUR 18.5 million, capital investments for the first nine months of 2001 were 13% higher than the capital investments of the corresponding prior-year period. They consisted mainly of development costs subject to mandatory capitalization (EUR 3.6 million), automatic placement machines (EUR 2.1 million), tools for new products (EUR 2.0 million), marketing investments (EUR 2.7 million) and other investments aimed at lowering costs and enlarging capacities, especially in production. The marketing investments, which were concentrated in the third quarter of 2001, related to the trade show stand at the IFA Exhibition in Berlin, the costs of setting up the new Loewe Gallery in Berlin and the display systems for the showrooms of our customers. For the full year, total capital investments are tentatively expected to come out on the level of the previous year.

At EUR 14.9 million, depreciation and amortization for the first nine months of 2001 were 22% higher than the prior-year period due to the higher volume of investments in the previous year.

4. FURTHER BUILD-UP OF WORKING CAPITAL IN PREPARATION FOR THE PEAK SEASON

(in EUR million)	September 30, 2001	December 31, 2000	September 30, 2000
Fixed assets	62.6	59.0	58.2
Working capital	58.0	44.8	38.5
Equity capital	75.3	69.5	66.6
Minority interests	0.8	0.7	0.4
Net liabilities	44.5	33.6	29.7

The balance sheet structure as of September 30, 2001 shows a high level of working capital, the result of an increase in reserve inventories of around 15%, as well as the customary seasonal increase. The EUR 13.2 million increase in working capital was financed for the most part from the EUR 10.9 million increase in net liabilities.

Fixed assets climbed to EUR 62.6 million, as the capital investment volume was considerably greater than depreciation and amortization.

The increase in equity capital to EUR 75.3 million results from the net income generated in the first nine months of the year and the capital increase conducted in the third quarter. In September 2001, Loewe AG realized proceeds of EUR 1.3 million on the issuance of new shares under the company's stock option program. Of the EUR 1.3 million collected on the stock issue, EUR 1.2 million was allocated to the capital reserves. Shareholders' equity showed the following changes:

(in EUR million)	Subscribed reserves	Capital retained	Other brought earnings	Profit total forward	Total equity capital
Balance at Dec. 31, 2000	7.1	43.6	2.5	16.3	69.5
Dividend distribution				- 6.0	- 6.0
Capital increase	0.1	1.2			1.3
Net income for the first nine months				10.5	10.5
Balance at Sept. 30, 2001	7.2	44.8	2.5	20.8	75.3

In accordance with customary seasonal trends, the working capital constituents of trade accounts receivable and other assets declined by EUR 9.0 million, trade accounts payable and other liabilities by EUR 4.9 million, compared to December 31, 2000. The item of other provisions was practically unchanged, again in line with the seasonal trend.

(in EUR million)	September 30, 2001	December 31, 2000	September 30, 2000
Inventories	61.0	44.4	40.7
Trade accounts receivable and other assets	78.8	87.8	71.5
Other provisions	- 42.3	- 43.0	- 35.8
Trade accounts payable and other liabilities	- 39.5	- 44.4	- 37.9
Working capital	58.0	44.8	38.5

Inventories, on the other hand, were EUR 16.6 million higher than the year-end 2000 level. Although, in opposition to the seasonal trend, inventories have been reduced by EUR 1.8 million since June 30, 2001, they are still too high, but will be scaled down to a more or less normal level in the fourth quarter.

(in EUR million)	September 30, 2001	December 31, 2000	September 30, 2000
Raw materials and supplies, unfinished goods	16.2	17.6	14.6
Finished goods and products	44.8	26.8	26.1
Inventories	61.0	44.4	40.7

Once adequate deliveries of large-format picture tubes were assured during the course of the third quarter, the inventories of raw materials and supplies and unfinished goods were scaled down to the more normal level of EUR 16.2 million as of September 30, 2001, after having reached EUR 20.9 million as of June 30, 2001. Thus, the inventories are now EUR 1.4 million below the level of December 31, 2000.

The EUR 18.0 million increase in finished goods and products compared to December 31, 2000 is half due to customary seasonal effects and relates primarily to the Home Media Systems division, in which – as disclosed in the interim half-year report – the production of normal-format television sets and multimedia units was advanced to cover the demand for the fourth quarter. By this means, the company was able to avoid production shortfalls in the third quarter while also freeing up capacities for the production of television sets and multimedia devices with large-format picture tubes in the fourth quarter. The above-plan inventories in the Telecommunications division resulted from the failure to meet sales volume targets.

In contemplating the fact that inventories of finished goods and products were more than 70% higher than the corresponding level as of September 30, 2000, it must be remembered that the supply shortage of electronic components and cordless telephones occurring in the previous year caused finished goods inventories to be unusually low, which at the time significantly restricted the company's delivery capacity.

5. LOWER CASH FLOW COMPARED TO THE PRIOR-YEAR PERIOD

(in EUR million)	Nine months 2001	Nine months 2000
Cash flow from		
Operating activities	9.6	27.5
Investing activities	- 18.4	- 16.3
Financing activities	- 4.9	- 3.8
Change in cash flow	- 13.7	7.4

In spite of the improved earnings situation, cash flow from operating activities, at EUR 9.6 million, was lower than the corresponding prior-year figure by EUR 17.9 million. This circumstance is mainly the result of the EUR 3.7 million increase in tax payments and the EUR 18.3 million increase in working capital (net current assets), which declined by EUR 5.1 compared to the corresponding prior-year figure and increased by EUR 13.2 million in 2001. The main reason for this development lies in the fact that inventories increased by EUR 8.3 million while trade accounts payable and other liabilities decreased by EUR 13.3 million.

The increase in inventories is only partly due to the higher business volume. More importantly, it resulted from the additional inventories acquired to ensure adequate capacity utilization in production for the Home Media Systems divisions in the third quarter of 2001, and also from the excess inventories in the Telecommunications division.

The decrease in trade accounts payable and other liabilities is due to the fact that the inventory build-up phase is accompanied by higher accounts payable, just as the inventory build-down phase is accompanied by an overproportionally strong decrease in accounts payable.

The cash outflow from investing activities of EUR 18.4 million was EUR 2.1 million higher than the corresponding prior-year figure. This increase is mainly due to the timing of invoices, as the marketing investments were concentrated in the third quarter of the year. For the full year, investment spending will be on the level of the previous year.

The negative cash flow from financing activities of EUR 4.9 million is mainly the result of the EUR 6.0 million dividend pay-out in June and the EUR 1.3 million inflow from the capital increase in September.

DEVELOPMENT ACTIVITIES

The company's development activities in the third quarter were heavily focused on finishing the projects that would be presented to the public at the IFA Exhibition in Berlin. In the home cinema segment, priority emphasis was placed on developing a complete systems solution, including audio components, for the 'Systems' product family. Building on the new, trend-

setting MediaPlus chassis platform " Q 2500" , which enables all multimedia equipment options even in the entry-level models, the company developed a new product line under the name of 'Articos', which will initially be built in the 32-inch format.

In the audio segment, the company developed a high-quality system known as 'Certos', which has been enhanced with the 'Concertos' speaker system developed in cooperation with Bose. The development breakthrough here lies in the system linkage of all components under the control of a sophisticated user interface that makes it very easy and comfortable to operate the complete system.

On the display side, the company unveiled two very important developments at the IFA Exhibition, the first of which being a back-projection television set with a 50-inch screen diagonal based on DLP technology, the second of which being a 20-inch LCD television. Thus, the company now offers products with all known display technologies, including picture tubes, plasma, back-projection and LCD.

In the digital television segment, the company developed prototypes for the terrestrial digital standard and developed, in cooperation with IRT (Institut für Rundfunktechnik Munich), a software solution for the new API standard for the Multimedia Home Platform (MHP).

In the segment of Internet television, the company presented the third generation TVO 3, which offers a substantially broadened range of capabilities for displaying complex Internet pages.

The ongoing fundamental research projects which are meant to lay the groundwork for future technologies proceeded on schedule and the corresponding milestones were punctually submitted to the responsible project sponsors.

CONTINUED SUCCESS IN ELEVATING THE POSITIONING OF THE LOEWE BRAND NAME

The premium positioning of the Loewe brand was underscored by two important events in August 2001.

The opening of the new Loewe Gallery on Berlin's famous avenue Unter den Linden instantly set new standards for the presentation of Loewe products in retail outlets. Complementing the high-grade product displays in the gallery, the attached exhibition 'ambiente@home' illuminates the many ways that Loewe systems can be integrated into living environments.

At the IFA Exhibition, which also took place in August, Loewe's stand design was the perfect embodiment of its brand image, setting the stage for an extremely positive reception by trade show visitors. In strict accordance with the spirit of the company's advertising campaign and other communication activities, the Loewe brand experience formed the heart of the trade show presentation.

The Loewe brand is also the undivided focus of the company's international communication activities. Since September 2001, the advertising campaign launched in Germany in June has also been aired in the company's core European markets.

The highlight of the Loewe product program is indisputably the 'Systems' line, which integrates television, audio, DVD player and speakers within an extraordinary system that sets new standards in the realm of high-end consumer electronics. Fascinating design, innovative technology and high-grade materials like stainless steel and polished aluminum are bound to impress even the most demanding target group.

Both in design and technology, Loewe sets the standards for the industry. The new Aconda 93102 ZW is Europe's biggest television set, with a picture tube diameter of 102 cm (visible 97 cm).

The market introduction of the 'Aconda Living' product line in September 2001 was a valuable addition to the Aconda family of products. The new, brighter colors are a characteristic feature that successfully elevates the Loewe brand name also in the eyes of younger target groups.

Another new development presented by Loewe, in cooperation with the German television broadcaster ZDF, at the IFA Exhibition was the 'zap2text' feature. With this feature, the television viewer is informed whenever supplemental program information is available via videotext by means of a message appearing on the screen of a Loewe television set.

Furthermore, the company's pioneering role in the convergence of television and Internet was affirmed by the presentation of its new Internet platform at TV-Online.

To bolster sales in the United States, the company established its own sales company in that country. Starting in 2002, this company will market Loewe products in North America, taking over the sales, marketing and service functions from its former distribution partner.

CONTINUED PERSONNEL BUILD-UP

The average number of employees expanded by 8%, to 1,190, in the first nine months of 2001. The personnel build-up is necessary to bolster the company's competence and resources in the key areas of development, marketing and sales. And yet, considering that the value of production rose by 20% in the first nine months of the year, the number of direct production employees increased at the clearly underproportional rate of 10%, thanks to the success of cost-saving measures.

Of the 91 jobs added in the first nine months of 2001, 45 new employees were hired in production. This increase can be seen as a normal seasonal development, especially for the third quarter. Sixteen new employees were hired in the development department to upgrade the company's multimedia competence in preparation for its expansion in this product area. The 18 new jobs in marketing and sales are necessary to accommodate the demands of accelerating growth in foreign sales and the more intensive end customer

support to be provided by the Customer Care Center which is in the process of being instituted. In the belief that such customer support, which was formerly provided by outside companies, represents an important core activity for the future, the company has begun to establish its own resources for this purpose. We are currently training 16 employees in our Customer Care Center. They will go on to help the company realize its goal of providing the best customer service in the industry.

INVESTOR RELATIONS PRIZE AWARDED TO LOEWE

In an appraisal performed for the German business magazine Capital, capital market experts evaluated the Investor Relations work of stock corporations listed on German exchanges on the basis of the criteria of timeliness, credibility and quality of information. In the segment of S-Dax stocks, Loewe was awarded first place, after having won second place in the previous year.

OUTLOOK

In spite of the more difficult operating environment, the first nine months of 2001 were successful for Loewe on the whole. The Group met its medium-term sales growth target of 8% and was able to raise its EBIT by 19% (or 14% after adjusting for the non-recurring effect), in spite of the losses in the Telecommunications division. Because of the problems encountered with obtaining adequate supplies of large-format picture tubes, as well as the resulting jump in interest expenses, earnings per share grew by only 14% and fell short of the target level of 20%.

The IFA Exhibition held at the end of August produced positive results for Loewe. Aside from the sizable volume of orders received, which was about 20% higher than the volume received at the 1999 IFA, the company clearly conveyed, in every aspect of its presentation, the message to retail partners and customers that Loewe is rigorously committed to its strategy of becoming a high-end solutions company. The new home cinema system solutions developed in cooperation with Bose provided ample proof of this transformation.

We expect that these new products will begin to contribute significant sales already by the end of the fourth quarter 2001. The supply situation for large-format picture tubes having returned to normal, no further obstacles stand in the way of realizing the company's sales volume targets for the fourth quarter. Furthermore, we will continue to normalize the company's working capital by selectively reducing inventories.

The operating environment has become markedly more difficult in 2001. Nonetheless, it is our belief that the Home Media Systems division will meet its medium-term growth targets also for the full year.

The Telecommunications division failed to meet its targets in the first nine months of 2001 and will presumably generate a loss in the fourth quarter as well. Accordingly, we will take all necessary steps to ensure that this division no longer weighs down the consolidated earnings of the Loewe Group in the year 2002.

LOEWE GROUP CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD JANUARY 1 THROUGH SEPTEMBER 30, 2001

(in EUR million)	3rd Quarter 2001		3rd Quarter 2000		Nine months 2001		Nine months 2000	
Sales	94.4	100.0 %	89.4	100.0 %	265.5	100.0 %	246.0	100.0 %
Manufacturing costs of goods and services sold	- 69.9	- 74.0 %	- 66.3	- 74.2 %	- 193.3	- 72.8 %	- 180.2	- 73.3 %
Gross margin	24.5	26.0 %	23.1	25.8 %	72.2	27.2 %	65.8	26.7 %
Selling expenses	- 16.5	- 17.5 %	- 14.9	- 16.6 %	- 46.7	- 17.6 %	- 42.4	- 17.2 %
Administrative expenses	- 2.7	- 2.9 %	- 3.0	- 3.4 %	- 8.2	- 3.1 %	- 7.9	- 3.2 %
Other operating income/expense	1.2	1.3 %	0.0	0.0 %	1.6	0.6 %	0.2	0.1 %
Income from participating interests	0.1	0.1 %	0.1	0.1 %	0.2	0.1 %	0.3	0.1 %
EBIT	6.6	7.0 %	5.3	5.9 %	19.1	7.2 %	16.0	6.5 %
Net interest income	- 0.5	- 0.5 %	- 0.3	- 0.3 %	- 1.3	- 0.5 %	- 0.8	- 0.3 %
Profit from ordinary activities/Earnings before taxes (EBT)	6.1	6.5 %	5.0	5.6 %	17.8	6.7 %	15.2	6.2 %
Extraordinary result	0.0	0.0 %	0.0	0.0 %	0.0	0.0 %	0.0	0.0 %
Earnings before taxes (EBT)	6.1	6.5 %	5.0	5.6 %	17.8	6.7 %	15.2	6.2 %
Income taxes	- 2.4	- 2.5 %	- 2.0	- 2.2 %	- 7.1	- 2.7 %	- 6.1	- 2.5 %
Net income before minority interests	3.7	4.0 %	3.0	3.4 %	10.7	4.0 %	9.1	3.7 %
Minority interests	- 0.1	- 0.1 %	0.1	0.1 %	- 0.2	- 0.1 %	0.0	0.0 %
Net income after minority interests	3.6	3.9 %	3.1	3.5 %	10.5	3.9 %	9.1	3.7 %

LOEWE GROUP CONSOLIDATED BALANCE SHEET

AS AT SEPTEMBER 30, 2001

(in EUR million)	September 30, 2001	December 31, 2000	September 30, 2000
ASSETS			
Fixed assets			
Intangible assets	9.8	9.0	8.8
Property, plant and equipment	52.5	49.7	49.1
Investments	0.3	0.3	0.3
	62.6	59.0	58.2
Current assets			
Inventories	61.0	44.4	40.7
Trade accounts receivable	75.4	84.1	68.5
Other short-term receivables	3.3	6.3	3.1
Deferred tax assets	0.6	1.0	2.6
Cash and cash equivalents	0.0	10.3	16.5
	140.3	146.1	131.4
Total assets	202.9	205.1	189.6
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Subscribed capital	7.2	7.1	7.1
Capital reserves	44.8	43.6	43.6
Retained earnings	2.5	2.5	0.0
Profit brought forward	10.3	4.3	6.8
Net income, current period	10.5	12.0	9.1
	75.3	69.5	66.6
Minority interests			
	0.8	0.7	0.4
Provisions			
Provisions for pensions and similar obligations	26.7	27.0	26.9
Tax provisions	1.0	4.6	5.1
Other provisions	42.3	43.0	35.8
	70.0	74.6	67.8
Liabilities			
Long-term debt	4.9	5.4	5.7
Trade accounts payable	33.4	39.8	34.2
Other short-term liabilities	18.5	15.1	14.9
	56.8	60.3	54.8
Total shareholders' equity and liabilities	202.9	205.1	189.6

LOEWE GROUP CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD FROM JANUARY 1 THROUGH SEPTEMBER 30, 2001

(in EUR million)	Nine months 2001	Nine months 2000
OPERATING ACTIVITIES		
Profit from ordinary activities	17.9	15.2
Depreciation and amortization of fixed assets	14.9	12.2
Gains on the disposal of fixed assets	0.0	- 0.2
Reduction/increase in pension provisions	- 0.4	1.1
Income taxes paid	- 9.6	- 5.9
Cash flow before change in net current assets	22.8	22.4
Increase in inventories	- 16.6	- 8.3
Decrease in trade accounts receivable and other assets	9.1	7.0
Decrease in other reserves	- 0.7	- 1.9
Decrease/increase in trade accounts payable and other liabilities	- 5.0	8.3
Net cash provided by operating activities	9.6	27.5
INVESTING ACTIVITIES		
Payments for purchases of intangible assets and property, plant and equipment	- 18.5	- 16.4
Proceeds from the disposal of fixed assets	0.1	0.1
Net cash used by investing activities	- 18.4	- 16.3
FINANCING ACTIVITIES		
Principal payments on loans	- 0.2	- 3.8
Capital inflow from employee stock option program	1.3	0.0
Dividend payments	- 6.0	0.0
Net cash used for financing activities	- 4.9	- 3.8
Cash-effective change in liquidity	- 13.7	7.4

Composition of cash and cash equivalents (in EUR million)	September 30, 2001	December 31, 2000
Liquid funds	0.0	10.3
Short-term bank loans	- 5.3	- 1.9
Cash and cash equivalents	- 5.3	8.4

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Stock market trading with official listing and
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Indices: SDAX
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