



Report on the First Quarter of Fiscal Year 2001

- GROWTH TARGETS EXCEEDED
- SALES GREW BY 12%
- EBIT 28% HIGHER
- EARNINGS PER SHARE INCREASED BY 23%

LOEWE.



DEAR SHAREHOLDERS,

The Loewe Group has made a good start in the new fiscal year. With growth in sales in Q1/2001 of 12% to EUR 94.1 million, we achieved a disproportionate increase in net income of 28% to EUR 6.8 million. This is largely a result of a better product mix in Loewe televisions. It should also be noted, however, that in Q1/2000, manufacturing costs were higher and thus EBIT was lower as a result of the clearly lower capacity utilization at that time.

Earnings per share have increased by 23% to EUR 0.52.

In spite of this dynamic growth, we were not able to realize all sales potentials since there are industry-wide bottlenecks in the availability of picture tubes. This affected Loewe in the area of large-format picture tubes for television and multimedia sets. In the telecommunications sector, delays in the startup of a new premium product line resulted in a decline in sales.

The rates of increase in sales and earnings must also be seen against the background that the market for consumer electronics has developed only with great restraint. Thus our strategic emphasis on high-end segments with design oriented multimedia solutions is proving itself again. In addition, Loewe is showing a continuing strong development on the European export markets with growth of a total of 32%.

A special event in the first quarter was the Loewe presence at CeBit in Hannover. The Internet address recognition developed jointly with ZDF (zap2web), new models of the successful Aconda family, cordless DECT telephones that can be simultaneously used a television remote control, and the positioning of the multimedia television as the control center in the networked home gained the attention of both the public and the media.

The first product deliveries have begun in the newly opened foreign markets of India and Singapore. The telecommunications segment for the first time realized appreciable foreign sales in Europe.

The trade show highlight of the year 2001 for us will be the Internationale Funkausstellung (IFA = International Broadcast Exhibition) at the end of August 2001, which is held every other year in Berlin as the most important consumer electronics show in the world. It is the critical market barometer and is an outstanding media event. We will above all further strengthen our position in multimedia and in the upper market segment with an offensive of new products.

The managing board of Loewe AG is confident that we will easily reach the slightly raised growth goals – which were presented very recently – for sales (8% – 10%), EBIT (> 15%), and earnings per share (approx. 20%) in fiscal year 2001.

Kronach, May 2001



Dr. Rainer Hecker, Chairman of the Executive Board

THE LOEWE GROUP AT A GLANCE*

(in EUR million unless otherwise noted)	1st Quarter 2001	1st Quarter 2000	Change in %
Sales	94.1	84.2	+ 12
Germany	47.5	48.9	- 3
Foreign	46.6	35.3	+ 32
Earnings before interest and taxes (EBIT)**	6.8	5.3	+ 28
Net income after minority interests	3.7	3.0	+ 23
Earnings per share in EUR***	0.52	0.42	+ 23
Financial position			
Shareholders' equity	73.2	60.5	+ 21
Total assets	189.5	177.3	+ 7
Capital ratio in %	38.6	34.1	
Further key figures			
Net cash provided by operating activities	5.6	20.9	- 73
Capital expenditure	5.8	3.2	+ 81
Depreciation and amortization	4.9	4.0	+ 23
Development costs	2.7	2.5	+ 8
Number of employees	1,157	1,074	+ 8

*) The interim financial statements as of March 31, 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 of 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 years' numbers for the quarter were adjusted accordingly.

****) In relation to the number of shares of stock following the IPO of 7,075,000 shares.

SALES GROW BY 12% TO EUR 94 MILLION

Sales growth for Q1/2001 of 12% over Q1/2000 is above the growth target of 8–10% planned for the intermediate term. This was achieved despite bottle-necks in procuring large-format picture tubes for television sets and multimedia devices and delays in the startup of the new premium product line in the telecommunications segment. As a result, the available growth potentials could not be fully utilized.

The decrease in sales in Germany of 3% is attributable exclusively to lower telecommunications sales. It was possible to increase sales in the segment home media systems by 2%.

Foreign sales grew disproportionately by 32%. As a result, the foreign share of sales increased in Q1/2001 by 8% over Q1/2000 and reached almost 50%.

UNCHANGED DISPROPORTIONATE GROWTH IN EARNINGS

The increase in earnings before interest and taxes (EBIT) by 28% or EUR 1.5 million in Q1/2001 over Q1/2000 is the result of growth of sales and a better product mix. In addition, the EBIT was pulled down by higher manufacturing costs which resulted from a lower degree of utilization of production capacities as a result of the material supply bottlenecks at that time. The EBIT margin rose overall by 0.9 percentage points to 7.2%.

As a result of interest on the increased working capital being higher by EUR 0.2 million in Q1/2001 than in Q1/2000, Group net income for Q1/2001 after minority interests was 23% above that of Q1/2000.

Earnings per share (EPS) of EUR 0.52 in like manner is 23% above the EPS in Q1/2000.

BUSINESS DEVELOPMENT IN THE 1ST QUARTER 2001

The introduction of the MediaPlus chassis, which makes possible the integration of Internet, digital television (DVB), and Dolby digital into television sets, is causing the segments entertainment electronics and multimedia to merge. At Loewe, the television set increasingly is becoming a multimedia device. Television and multimedia devices are produced in the same production facilities and are marketed through the same distribution channels. For this reason, the two segments are combined into the segment home media systems.

1. SALES INCREASED ABOVE BUDGET

(in EUR million)	1st Quarter 2001	1st Quarter 2000	Change in %
Home media systems			
Televisions and multimedia	74.9	65.8	+ 14
Video recorders, DVD, Stereo systems, accessories	14.4	12.6	+ 14
Home media systems, total	89.3	78.4	+ 14
Telecommunications	4.8	5.8	- 17
Sales, total	94.1	84.2	+ 12

14% SALES INCREASE IN THE SEGMENT HOME MEDIA SYSTEMS

TELEVISION/MULTIMEDIA PRODUCT AREA

Despite the material supply bottlenecks for large-format picture tubes, sales increased by 14% in Q1/2001 over Q1/2000. The increase was concentrated in the month of March when a portion of the backlog could be reduced as a result of improved supply of picture tubes. The growth was primarily realized in the high-quality range. Despite insufficient material supply, it was possible to increase sales of large-format television and multimedia devices by 6%. However, the dynamically growing market demand for these home cinema systems exceeds the available supply. Sales of multimedia-capable televisions grew by more than 50% and sales of plasma televisions tripled.

VIDEO RECORDER, DVD, HI-FI PRODUCT AREAS

In Q1/2001, sales also increased by 14% over Q1/2000 in the product areas DVD player, video recorder, Hi-Fi, and accessories, with the declining video recorder sales being more than offset by growth in sales of DVD players. Hi-Fi and accessories grew disproportionately.

LOWER SALES IN THE TELECOMMUNICATIONS AREA AS A RESULT OF DELAYED PRODUCT STARTUPS

The startup of the new 5000 premium series planned for the 1st quarter was delayed as a result of problems with the supplier. Therefore sales in Q1/2001 were 17% below sales in Q1/2000.

FOREIGN PORTION OF SALES INCREASED TO 50%

In accordance with the strategic goal, foreign sales were also expanded in the first quarter. The 32% increase in sales is concentrated in the area of home media systems with EUR 10.2 million. At EUR 1.1 million, telecommunications for the first time realized significant foreign sales. Sales in Belgium, Italy, Spain, Switzerland, Great Britain, and France, which to date have been the countries with the highest sales, increased overall by 21%. There were increases in Australia and in eastern Europe. Initial sales were realized in the new markets of Hong Kong and Singapore.

2. DISPROPORTIONATE INCREASE IN EARNINGS

EBIT (in EUR million)	1st Quarter 2001	1st Quarter 2000	Change in %
Home media systems	6.8	5.5	+ 24
Telecommunications	-	- 0.2	~
EBIT, total	6.8	5.3	+ 28
EBIT margin in %	7.2	6.3	

At growth in sales of 12%, the disproportionate increase in EBIT of 28% in Q1/2001 over Q1/2000 results primarily from the better product mix. In addition, manufacturing costs and thus the EBIT in Q1/2000 were negatively affected by lower capacity utilization. Compared with Q1/2000, production volume increased by around 30%.

The increase in earnings was realized in both segments. In the area of home media systems, the concentration on large-format and multimedia televisions continues to be pursued. In the area of telecommunications, it was possible to break even as a result of the higher share of more sophisticated products under the Loewe brand despite the decrease in sales.

The concentration on high profit products and higher utilization of production capacities compared with the prior year with stable sales prices resulted in an increase in the gross profit on sales of 1.6 percentage points to 26.9%. Within manufacturing costs, it was possible to more than offset the increased material purchase costs in comparison with Q1/2000 of around 2% through increases in efficiency and volume effects. During this year, an easing of the purchase prices for electronic components has since been emerging.

Sales and marketing costs in Q1/2001 increased by EUR 2.2 million or 0.7% to 16.8% of sales over Q1/2000. The increase is primarily attributable to higher logistics and advertising costs. The costs of the sales organization, which increased proportionately to sales, reflect the development of export and marketing activities in both segments.

The increase in net interest expense of 0.2% to 0.4% of sales in Q1/2001 compared to Q1/2000, is mainly the result of the increased amount of capital tied up in working capital.

3. CAPITAL INVESTMENTS IN EXCESS OF THOSE OF THE PRIOR YEAR

(in EUR million)	Capital investments		Depreciation and amortization	
	1st Quarter 2001	1st Quarter 2000	1st Quarter 2001	1st Quarter 2000
Intangible assets	1.6	1.1	1.4	1.3
Property, plant, and equipment	4.2	2.1	3.5	2.7
Capital investments / depreciation and amortization, total	5.8	3.2	4.9	4.0

Capital investments of the 1st quarter of 2001 at EUR 5.8 million were more than 80% above investments of the comparable period of the prior year which due to the timing of invoices was characterized by an atypically low level. Capital investments pertained to development costs (EUR 1.2 million) and automatic component mounting systems (EUR 1.7 million) which will be used for expanding the production capacities. In addition they included tools for new products and other efficiency and capacity increasing investments.

Depreciation and amortization expenses for Q1/2001 at EUR 4.9 million were 23% above those of Q1/2000.

4. BUILDUP OF INVENTORIES NEGATIVELY EFFECTS WORKING CAPITAL

(in EUR million)	March 31, 2001	December 31, 2000	March 31, 2000
Non-current assets	59.8	59.0	53.1
Working capital	43.9	44.8	29.3
Equity capital	73.2	69.5	60.5
Minority interests	0.7	0.7	0.3
Net liabilities	29.8	33.6	21.6

The balance sheet structure as of March 31, 2001, is essentially unchanged in comparison with December 31, 2000. The earnings realized in the first quarter were used for a reduction of net liabilities.

Within working capital, trade receivables fell in accordance with the sales volumes realized in the respective preceding quarters.

In contrast, however, there was an increase in inventories by EUR 9.5 million in order to deal with material supply problems for large-format picture tubes.

In addition to the buildup of safety reserves, existing design parts for large-format devices in particular continued to be on hand. In order to avoid production standstills, a portion of the production of standard-format devices for April and May was completed in the first quarter. As a result, the finished goods inventories were increased as of the end of Q1/2001.

(in EUR million)	March 31, 2001	December 31, 2000	March 31, 2000
Raw materials and supplies, unfinished goods	20.2	17.6	13.5
Finished goods and products	33.7	26.8	16.5
Inventories	53.9	44.4	30.0

Compared with March 31, 2000, there was a still larger increase of EUR 23.9 million, because in the first quarter 2000, the material supply bottlenecks for electronic components which existed at that time resulted in drops in production and thus a strong decrease in inventories of finished goods and merchandise.

5. CASH FLOW FROM CURRENT OPERATIONS BELOW THE LEVEL OF THE PRIOR YEAR

(in EUR million)	1st Quarter 2001	1st Quarter 2000
Cash flow from		
Operating activities	5.6	20.9
Investing activities	- 5.7	- 3.2
Financing activities	- 5.9	- 0.7
Change in cash flow	- 6.0	17.0

Despite of the improved earnings situation, cash flow from current operations in Q1/2001 at EUR 5.6 million is EUR 15.3 million below that of Q1/2000. Along with tax payments which were EUR 2.2 million higher, the essential cause of this was a slight decrease in working capital by EUR 13.2 million. Of this, EUR 11.9 million pertains to inventories, which had dropped in the first quarter of 2000 by EUR 2.4 million as a result of the material bottlenecks mentioned above. In Q1/2001, in contrast, they were built up by EUR 9.5 million as a result of increased production of standard-format sets.

Cash outflow from investing activity of EUR 5.7 million, in Q1/2001 is EUR 2.5 million above that of Q1/2000 in which investments were low due to the timing of invoices.

Of the negative cash flow from financing activity of EUR 5.9 million, EUR 5.4 pertains to the repayment of an interest-bearing loan of Loewe Opta Unterstützungskasse e.V. In total, the funds on hand dropped in Q1/2001 by EUR 6 million to EUR 2.4 million in comparison to an increase in funds of EUR 17.0 in Q1/2000.

DEVELOPMENT ACTIVITIES WITH EMPHASIS ON MULTIMEDIA

In the first quarter of 2001, a significant focal point was the development of a new, trend-setting 100 Hz chassis platform for television and multimedia devices. This new chassis generation is planned to be placed in use in all 100 Hz devices beginning with the fourth quarter of 2001. The principle features of this chassis are greater ease of use as a result of more powerful operating interface and greater flexibility in production with fulfillment

of specific requests of the customer. Additional central themes were the expansion of the palette of multimedia products and entry into the networking of household electronic devices with a television set which has been developed into a communications central. Included in this is also cooperation with the Institut für Rundfunktechnik (Institute for Broadcast Technology) for generating a multimedia home platform which in the future is intended to guarantee customers – regardless of the manufacturer of the device, network operator, and content supplier – access to digital services of various suppliers on the basis of a uniform platform.

The cooperation with Sharp, which resulted in the launch of the first 15 inch LCD television in the new TFT LCD (thin flat tube – liquid crystal display) technology at the end of 2000, is now expanding to the development of large format television sets.

NEW PRODUCTS AND SERVICES

The outstanding event in the first quarter of 2001 was CeBIT, where Loewe presented new products in the home media systems and telecommunications sectors which are directed at increasing customer benefit. Access to the broadband cable network through a cable modem of the Loewe joint venture partner 3com offers higher transmission speeds for the Internet. A modem which distributes telephone and other signals over the electrical lines of the house makes possible greater independence. Zap2Web, a joint development by Loewe and ZDF, provides a simplification of operation. Background information can be accessed online during transmissions, and Internet addresses accompanying a program are automatically superimposed on the television image and are activated with the push of a button. Ease of use is increased by the cordless Alpha Tel 5000 which at the same time can be used for remote operation of all Loewe television sets.

At the end of February, an e-commerce concept was developed in the framework of a new Internet site of Loewe into which specialized trade is incorporated. At www.Loewe.de, interested customers can put together their individual products with respect to components, functions, and colors through a configuration function and can start a query through the corresponding trade partner or input an order.

In the framework of continuing internationalization, preparations were completed for the introduction of Loewe televisions in the India market. Initial sales are expected in the second quarter. Also in the telecommunications sector, the expansion of business in other European countries is progressing. The distribution partners in Belgium, Italy, Spain, Switzerland, and Slovenia have now added telephones and answering machines to their lines of products.

Again in the first quarter of 2001 there were outstanding test results for Loewe products:

The Cantus television was the winner of the test in the periodical HiFi Test 1/2001 in the 50 Hz class. In a field of six competing products, the Profil, a 100 Hz television set in 4 : 3 format, prevailed in the periodical Video 3/2001 due to its outstanding operating and audio concept.

The periodical Video 2/2001 tested television sets of the "top class with design qualities." Among the four participants, the Loewe Vitros, a large-format, multimedia-capable television in 16 : 9 format, took first place.

In a survey by the periodical Video 2/2001, readers were given the choice of several sets which had been tested and found to be particularly desirable. In all three categories for television sets, Loewe took either first or second place with the Calida, Aconda, and Arcada.

NEW JOBS

With an increase in sales volume of 12%, the average number of employees increased by 8% over Q1/2000 to 1,157 employees in Q1/2001. Of the increase by 83 persons, 49 persons pertain to production, 13 to development, 14 to sales and marketing, and 7 to other areas.

With an increase in production of around 30%, only 12% more employees were utilized in the direct production process than in the comparable period of the prior year. The disproportionate increase in personnel capacities in development, marketing and sales took place in view of the expansion of the palette of multimedia products and of export activities.

OUTLOOK

The first quarter of 2001 was successful for Loewe. The intermediate-term growth goals of increasing sales by 8% to 10%, EBIT by more than 15%, and earnings per share by around 20% were exceeded. However, not all sales potentials could be realized as a result of industry-wide bottlenecks in the availability of large-format picture tubes.

It is expected that the difficult supply situation will not normalize until during the course of the second half of 2001. Despite the moderate general economic conditions, we are confident that we will realize the intermediate-term growth goals in the fiscal year 2001.

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD JANUARY 1 THROUGH MARCH 31, 2001

(in EUR million)	January – March 2001		January – March 2000	
Sales	94.1	100.0 %	84.2	100.0 %
Manufacturing costs of goods and services sold	- 68.8	- 73.1 %	- 62.9	- 74.7 %
Gross margin	25.3	26.9 %	21.3	25.3 %
Selling expenses	- 15.8	- 16.8 %	- 13.6	- 16.1 %
Administrative expenses	- 2.8	- 3.0 %	- 2.5	- 3.0 %
Other operating income expenses	0.0	0.0 %	0.0	0.0 %
Income from participating interests	0.1	0.1 %	0.1	0.1 %
EBIT	6.8	7.2 %	5.3	6.3 %
Interest and similar expenses	- 0.4	- 0.4 %	- 0.2	- 0.2 %
Profit from ordinary activities/ Earnings before taxes (EBT)	6.4	6.8 %	5.1	6.1 %
Income taxes	- 2.6	- 2.8 %	- 2.0	- 2.4 %
Net income before minority interests	3.8	4.0 %	3.1	3.7 %
Minority interests	- 0.1	- 0.1 %	- 0.1	- 0.1 %
Net income after minority interests	3.7	3.9%	3.0	3.6%

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2001

(in EUR million)	March 31, 2001	December 31, 2000	March 31, 2000
ASSETS			
Fixed assets			
Intangible assets	9.2	9.0	8.2
Property, plant, and equipment	50.4	49.7	44.7
Investments	0.2	0.3	0.2
	59.8	59.0	53.1
Current assets			
Inventories	53.9	44.4	30.0
Trade accounts receivable	67.2	84.1	60.4
Other short-term receivables	5.3	6.3	5.3
Deferred tax assets	0.9	1.0	2.4
Cash and cash equivalents	2.4	10.3	26.1
	129.7	146.1	124.2
Total Assets	189.5	205.1	177.3
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Subscribed capital	7.1	7.1	7.1
Capital reserves	43.6	43.6	43.6
Retained earnings	2.5	2.5	0.0
Profit brought forward	16.3	16.3	6.8
Net income, current period	3.7	0.0	3.0
	73.2	69.5	60.5
Minority interests	0.7	0.7	0.3
Provisions			
Provisions for pensions and similar obligations	26.2	27.0	26.0
Tax provisions	0.5	4.6	6.4
Other provisions	43.2	43.0	35.1
	69.9	74.6	67.5
Liabilities			
Long-term debt	4.9	5.4	6.2
Trade accounts payable	34.5	39.8	25.4
Other short-term liabilities	6.3	15.1	17.4
	45.7	60.3	49.0
Total shareholders' equity and liabilities	189.5	205.1	177.3

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD FROM JANUARY 1 THROUGH MARCH 31, 2001

(in EUR million)	January – March 2001	January – March 2000
OPERATING ACTIVITIES		
Profit from ordinary activities	6.3	5.1
Depreciation and amortization of fixed assets	4.9	4.0
Reduction/increase in pension provisions	– 0.8	0.2
Income taxes paid	– 5.7	– 2.5
Net cash before change in net current assets	4.7	6.8
Increase/decrease in inventories	– 9.5	2.4
Decrease in trade accounts receivable and other assets	15.2	15.0
Increase/decrease in other reserves	0.2	– 2.7
Decrease in trade accounts payable and other liabilities	– 5.0	– 0.6
Net cash provided by operating activities	5.6	20.9
INVESTING ACTIVITIES		
Payments for purchases of intangible assets and property, plant, and equipment	– 5.8	– 3.2
Proceeds from disposals of investments	0.1	0.0
Net cash used by investing activities	– 5.7	– 3.2
FINANCING ACTIVITIES		
Principal payments on loans	– 5.9	– 0.7
Net cash used for financing activities	– 5.9	– 0.7
Cash-effective change in liquidity	– 6.0	17.0

Composition of cash and cash equivalents (in EUR million)	March 31 2001	December 31 2000	Change
Liquid funds	2.4	10.3	– 7.9
Short-term bank loans	0.0	– 1.9	1.9
Cash and cash equivalents	2.4	8.4	– 6.0

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