



Report on the First Half of Fiscal Year 2001

- COOPERATION AGREEMENT WITH BOSE
- SALES GREW BY 9%
- EBIT GREW OVERPROPORTIONALLY BY 17%
- EARNINGS PER SHARE INCREASED BY 15%

LOEWE.



DEAR SHAREHOLDERS,

The Loewe Group experienced continued positive growth in the first half of 2001. The half-year results were indeed influenced, though not substantially harmed, by several factors, including the purchasing restraint that consumers customarily show in May and June of a year when the consumer electronics exhibition known as the Internationale Funkausstellung (IFA Exhibition) is held in Berlin. Other factors influencing half-year results were the well-known weakness of the German economy, accompanied by sluggish consumer spending, and the fact that Loewe's expectations of its telecommunications unit were not met.

On the strength of continued strong demand for large-format Loewe televisions and export gains in the first half of 2001 (25% sales increase), Loewe was able to post earnings significantly higher than those of its competitors. Sales rose 9%, to EUR 171 million, while earnings before interest and taxes (EBIT) advanced overproportionally at 17%, reaching the level of EUR 12.5 million. Earnings per share jumped 15%, to EUR 0.98, as the net interest result was slightly weighed down by the need to maintain higher reserve inventories.

On the whole, we are quite satisfied with the company's development. On the positive side, the company's medium-term targets of achieving average annual growth of 8%–10% in sales, more than 15% in earnings and 20% in earnings per share for the full year do not appear to be endangered. On the negative side, however, we are clearly unsatisfied with the performance of the Telecommunications division. As in the prior period, the inadequate profit contribution of this business is due to the fact that the model line 5000 was not shipped to market on time. Furthermore, this problem was compounded by quality problems which have since been resolved.

The cooperation agreement entered into with Bose, the U.S. sound and audio specialist, is the major strategic highlight of the first half of 2001. Loewe and Bose expect that their partnership will not only enable them to jointly develop and market new products for the booming home cinema market, but also to share their development and manufacturing expertise in the overriding interest of uniting the best possible picture with the best possible sound.

Loewe also took important steps to overhaul its internal organization in the first half of 2001. Among other things, the company launched its Loewe Excellence Program, based in a first step on the so-called Self-Assessment Study, intended to enhance the effectiveness of the company's organization and all its processes. As one of this program's goals, Loewe intends to measure itself against the best in the business and compete for the European Quality Prize in about three years. In the shorter term, the company plans to upgrade its end-to-end e-business solution, which will cover all aspects of the company's business, from its suppliers to its own production operations and on to its customers. With these steps, Loewe AG means to boost its performance and profitability even further.

A new Supervisory Board was elected at the company's Annual Shareholders' Meeting of June 26, 2001 in Berlin. We are pleased to welcome the new members Mr. Guido Alt, Dr. Sönke Mehrgardt and Dr. Mark Wössner to the board. Together with the reelected members Prof. Dr. Eberhard Scheffler, Prof. Dr. Rolf-Dieter Leister and Mr. Helmut Ricke, they will certainly contribute the outstanding expertise and management competence that we have come to expect. We also wish to thank the retiring members Dr. Lothar Späth, Mr. Karl Fössel and Mr. Bernd Habicht for their dedicated work in the service of Loewe AG.

The Loewe television model Aconda was awarded the EISA AWARD for European Video Design of the Year 2001-2002, one of the most prestigious prizes of the European trade press.

The most prominent event of the third quarter 2001 will undoubtedly be the IFA Exhibition to be held in Berlin from August 25 to September 2, 2001. Loewe will use the IFA Exhibition as a forum for presenting its new premium products and system solutions for the high-end market. Thanks to their special design and advanced chassis technology, these products can be tailored to suit individual customer wishes. Thus, Loewe is well prepared for this year's IFA, the dominant theme of which will be the convergence of products, networks and content in the home entertainment sector. Loewe televisions are conceived as the central control center for intelligent home cinema, multimedia and home-networking solutions.

As it progresses on the path of success, Loewe is indeed grateful for your continued support.

Kronach, August 2001



Dr. Rainer Hecker, Chairman of the Executive Board

THE LOEWE GROUP AT A GLANCE*

(in EUR million unless otherwise noted)	2nd Quarter 2001	2nd Quarter 2000	Change in %	1st Half 2001	1st Half 2000	Change in %
Sales	77.0	72.5	+ 6	171.1	156.7	+ 9
Germany	36.5	40.2	- 9	84.0	89.1	- 6
Foreign	40.5	32.3	+ 25	87.1	67.6	+ 29
Earnings before interest and taxes (EBIT)**	5.7	5.4	+ 6	12.5	10.7	+ 17
Net income after minority interests	3.2	3.0	+ 7	6.9	6.0	+ 15
Earnings per share in EUR***	0.46	0.43	+ 7	0.98	0.85	+ 15
Financial position						
Shareholders' equity	70.4	63.5	+ 11	70.4	63.5	+ 11
Total assets	184.8	174.9	+ 6	184.8	174.9	+ 6
Capital ratio in %	38.1	36.3	+ 5	38.1	36.3	+ 5
Further key figures						
Net cash provided by operating activities	2.6	5.0	- 48	8.2	25.9	- 68
Capital expenditure	4.0	7.6	- 47	9.8	10.8	- 9
Depreciation/amortization	4.8	4.1	+ 17	9.7	8.1	+ 20
Development costs	2.8	2.6	+ 8	5.5	5.1	+ 8
Number of employees	1,185	1,080	+ 10	1,171	1,077	+ 9

*) The interim financial statements as of June 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 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 were adjusted accordingly.

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

SALES GROW BY 9% TO EUR 171 MILLION, IN THE FIRST HALF

Under the effects of the continuing supply bottlenecks for large-format picture tubes, as well as the purchasing restraint that consumers in Germany customarily show in advance of the consumer electronics exhibition known as the Internationale Funkausstellung (IFA Exhibition) in late August, and in view of the fact that the second quarter of the prior year was unusually strong, sales grew at the relatively moderate rate of 6% in the second quarter of 2001. For the first half of fiscal year 2001, the company achieved sales growth of 9%, and this in spite of the worsening economic environment and sluggish consumer spending. Thus, the company was able to meet its medium-term annual sales growth target of 8% to 10% even under difficult operating conditions.

The 9% decline in sales in Germany experienced in the second quarter of 2001, or 6% for the first half, is mainly the result of lower sales in the Telecommunications division (-37% for the first half of 2001), caused in turn by the continued delays in new product launches and the failure to meet sales volume targets for cordless telephones. The decline in sales reported by the Home Media Systems division (-2% for the first half of 2001) reflects the impact of the supply bottlenecks for large-format picture tubes, as a result of which the company was not able to fully exploit the sales potential existing in the market.

Foreign sales continued to grow at a dynamic rate, rising by 25% in the second quarter of 2001 and 29% for the first half of the year. The surge in foreign sales was fueled not only by Loewe's traditional export markets, but also by newly tapped markets. Consequently, the share of total sales contributed by foreign sales increased by 8% compared to the corresponding prior-year period and are now above 50%.

FIRST-HALF EARNINGS GAIN OUTPACES SALES GROWTH

Mainly because the corresponding prior-year figure was unusually high, EBIT (earnings before interest and taxes) grew at a rate of only 6% in the second quarter of 2001, in tandem with the rate of sales growth. As explained in the interim report on the first quarter of 2001, the EBIT figure was weighed down in the first quarter because supply bottlenecks caused the company's manufacturing facilities to operate at lower capacity utilization rates. In the second quarter of 2000, by contrast, the company's capacity utilization was very high and its manufacturing operations were therefore highly profitable. Furthermore, the EUR 0.5 million loss incurred by the Telecommunications division reduced the EBIT figure for the second quarter of 2001.

In the first half of 2001, however, EBIT nonetheless advanced 17%, to EUR 12.5 million, considerably outpacing the sales growth rate of 9% for the same period. This positive development resulted from the higher export sales and the improved product mix. Thus, the medium-term goal of raising EBIT by more than 15% was achieved already in the first half of the year. Compared to the corresponding prior-year figure, the EBIT margin gained 0.6 percentage points to reach 7.3%.

The need to maintain additional working capital caused interest expenses to increase by EUR 0.3 million. For the first half of 2001, consolidated net income after minority interests came to EUR 6.9 million, 15% higher than the corresponding prior-year figure.

Earnings per share gained 15% to reach EUR 0.98. This level is only slightly below the company's medium-term target of generating average annual growth of approximately 20%.

After consideration of the 500,000 stock options granted in 1999, the diluted earnings per share are EUR 0.91. It is tentatively expected that a first tranche consisting of up to 100,000 options may be exercised in September 2001.

BUSINESS DEVELOPMENT IN THE FIRST HALF OF 2001

1. SALES

(in EUR million)	2nd Quarter 2001	2nd Quarter 2000	Change in %	1st Half 2001	1st Half 2000	Change in %
Home media systems						
Televisions and multimedia	62.0	57.2	+ 8	136.9	123.0	+ 11
Video recorders, DVD, Hi-Fi and accessories	11.2	11.0	+ 2	25.6	23.6	+ 8
Home media systems, total	73.2	68.2	+ 7	162.5	146.6	+ 11
thereof Germany	33.9	35.9	- 6	77.7	79.0	- 2
thereof foreign	39.3	32.3	+ 22	84.8	67.6	+ 25
Telecommunications	3.8	4.2	- 10	8.6	10.0	- 14
thereof Germany	2.6	4.2	- 38	6.3	10.0	- 37
thereof foreign	1.2	0.0	~	2.3	0.0	~
Sales, total	77.0	72.4	+ 6	171.1	156.6	+ 9
thereof Germany	36.5	40.1	- 9	84.0	89.0	- 6
thereof foreign	40.5	32.3	+ 25	87.1	67.6	+ 29

HOME MEDIA SYSTEMS REPORTS AN 11% SALES INCREASE

TELEVISION/MULTIMEDIA PRODUCT AREA

In value terms, the European market for television sets and multimedia units expanded by around 5% in the first half of 2001 compared to the corresponding prior-year figure¹. Sales growth was especially strong in Loewe's traditional markets of Great Britain, Spain and Italy. The sales growth was concentrated in large-format televisions, at the expense of slower growth in small-format screens. In Germany, on the other hand, the market volume was unchanged. In the segments in which Loewe is especially active, consumer prices remained quite stable.

Despite the continuing supply bottlenecks for large-format picture tubes, Loewe was able to outgrow the market, its sales posting an 8% gain in the second quarter of 2001 compared to the corresponding prior-year period. Sales growth was concentrated in the high-end segment. As expected, however, sales growth has been dampened by the temporary purchasing restraint that always precedes the IFA Exhibition, which is held every two years.

¹ Source: GfK, Sales of television sets, February to May 2001, in terms of value.

For the first half of 2001, sales grew 11% over the corresponding prior-year period. Despite of the supply bottlenecks, sales of large-format television sets and multimedia units considerably outpaced the overall sales growth rate. Nonetheless, it was impossible to fill all customer orders in this segment. Sales of multimedia-capable and plasma-display television sets doubled over the corresponding prior-year period.

These positive business developments also served to reinforce the company's strong market position. In the growing European market, Loewe was able to raise its market share by 0.6 percentage points, to 7.0%, over the corresponding prior-year period². In the flat domestic market, the company's market share also increased by 0.6 percentage points, to 13%, over the corresponding prior-year period³.

VIDEO RECORDER, DVD, HI-FI PRODUCT AREAS

In the product lines of DVD players, video recorders, hi-fi products and accessories, sales grew 2% in the second quarter and 8% in the first half. Sales of hi-fi products and accessories again increased overproportionally. Due to falling prices both for video recorders and for DVD players and the corresponding decline in profitability, the company chose not to pursue additional sales potential in this market.

CONTINUED DELAYS IN PRODUCT LAUNCHES RESULT IN LOWER SALES FOR THE TELECOMMUNICATIONS DIVISION

In value terms, the market for cordless telephones in Germany contracted slightly, due to falling final consumer prices, while the market for answering machines shrunk by 18%, compared to corresponding prior-year period. Due to the continued delays in new product launches, the company's share of the market for cordless DECT telephones declined from 7.1% in 2000 to 4.6%³, while its share of the market for answering machines remained unchanged at the high level of 44%³.

Because of the continued delays in new product launches and the steep price cuts introduced by competitors, the company's sales of cordless telephones declined by 10% in the second quarter and by 14% in the first half of 2001. And yet the sharp drop in domestic sales was partially offset by additional new sales in recently tapped European markets.

FOREIGN SALES ACCOUNT FOR MORE THAN 50% OF TOTAL SALES

In line with the company's strategic goals, Loewe continued to expand its foreign sales in the first half, posting a 29% gain over the corresponding prior-year period. Of this increase, EUR 17.2 million was contributed by Home Media Systems and EUR 2.3 million by Telecommunications.

Sales in the important markets of the Benelux countries, France, Great Britain, Italy, Switzerland and Spain increased by a total of 19%. Higher rates of increase were achieved in Eastern Europe and Australia. Furthermore, the company realized its first sales in the new markets of India and Singapore.

2 Source: GfK, Market share in European specialty retailers, February to May 2001, in terms of value.
3 Source: GfK, Market share in German specialty retailers, February to May 2001, in terms of value.

2. EARNINGS

EBIT (in EUR million)	2nd Quarter 2001	2nd Quarter 2000	Change in %	1st Half 2001	1st Half 2000	Change in %
Home media systems	6.2	5.8	+ 7	13.0	11.3	+ 15
Telecommunications	- 0.5	- 0.4	- 25	- 0.5	- 0.6	+ 17
EBIT, total	5.7	5.4	+ 6	12.5	10.7	+ 17
EBIT margin in %	7.4	7.5	- 1	7.3	6.7	+ 9

As expected, the earnings increase achieved in the second quarter of 2001 was rather moderate, corresponding to the rate of sales growth. As explained in the report on the first quarter of fiscal year 2001, the prior-year figure had been weighed down by supply bottlenecks for electronic components, leading to low rates of capacity utilization and unsatisfactory delivery performance. The production and delivery backlog from the preceding quarter was worked off in the second quarter of 2000. The unusually successful prior-year quarter is therefore the main reason for the rather moderate EBIT increase in the second quarter of 2001. In considering the entire first half of 2001, the various quarter effects cancel each other out. The 17% increase in EBIT for the first half was significantly higher than the 9% increase in sales for the same period, mainly as a result of the improved product mix and the dynamic growth of exports.

In the Home Media Systems division, the EBIT margin for the first half of 2001 was further improved by virtue of concentrating of the attractive segments of large-format and multimedia-capable television sets.

After breaking even on its EBIT in the first quarter of 2001, the Telecommunications division incurred a loss of approximately EUR 0.5 million in the second quarter. This development was the result of the continued delays in new product launches and the failure to meet sales volume targets. Furthermore, warranty expenses were higher because of quality problems, which have since been resolved.

On the Group level, the gross profit margin increased by 0.6 percentage points, to 27.9%, due above all to the concentration on profitable products, higher export sales and stable consumer prices in the first half of 2001. Within the item of manufacturing costs, material costs advanced by only around 1.5% from the corresponding prior-year period, this increase being more than offset by cost-cutting measures and volume effects.

Sales and marketing expenses rose by EUR 2.7 million in absolute terms but remained unchanged at 17.7% of sales. The absolute increase resulted from higher costs for logistics and advertising and from the expansion of export and marketing activities in both areas.

Administrative expenses, which increased by EUR 0.6 million in absolute terms, remained unchanged at 3.2% of sales.

The need to keep significantly higher inventories inflated the amount of capital tied up in working capital, causing net interest expenses to increase by EUR 0.3 million, or 0.3 percentage points, to 0.5% of sales.

3. CAPITAL INVESTMENTS

(in EUR millions)	Capital investments		Depreciation and amortization	
	1st Half 2001	1st Half 2000	1st Half 2001	1st Half 2000
Intangible assets	2.8	2.6	2.8	2.5
Property, plant and equipment	7.0	8.0	6.9	5.6
Financial assets	0.0	0.2	0.0	0.0
Total	9.8	10.8	9.7	8.1

At EUR 9.8 million, capital investments for the first half of 2001 were lower than the corresponding prior-year figure for reasons having to do with the timing of invoices. The stated capital investment consists mainly of capitalization-required development costs in the amount of EUR 2.4 million, capacity-raising investments in automatic placement machines in the amount of EUR 1.7 million, tools for new products and capital investments serving the purposes of cost-cutting and capacity enhancement.

At EUR 9.7 million, the depreciation and amortization charges for the first half of 2001 were 20% higher than the corresponding prior-year figure, because the new final assembly line and the other capacity enlargements effected in the prior year first began to depreciate in 2001.

4. FURTHER BUILD-UP OF INVENTORIES RAISES WORKING CAPITAL

(in EUR million)	June 30 2001	December 31 2000	June 30 2000
Non-current assets	59.1	59.0	56.6
Working capital	49.6	44.8	31.3
Equity capital	70.4	69.5	63.5
Minority interests	0.8	0.7	0.3
Net liabilities	37.5	33.6	24.1

Compared to the balance sheet for the period ended December 31, 2000, the structure of the balance sheet as of June 30, 2001 is basically unchanged. The EUR 4.8 million build-up of working capital, bringing the total to EUR 49.6 million, was accompanied by an EUR 3.9 million increase in net liabilities, bringing their total to EUR 37.5 million. At EUR 70.4 million, equity capital remained virtually unchanged, as the consolidated net income after minority interests of EUR 6.9 million for the first half of 2001 only slightly exceeded the EUR 6.0 million dividend for fiscal year 2000, which was paid out in June 2001.

Within the item of working capital, trade accounts receivable and other assets fell by EUR 26.7 million, and the items of other provisions, trade accounts payable and other liabilities by EUR 13.1 million, compared to the status as of December 31, 2000. These changes are to be seen as customary seasonal developments.

(in EUR million)	June 30 2001	December 31 2000	June 30 2000
Inventories	62.8	44.4	36.0
Trade accounts receivable and other assets	61.1	87.8	52.8
Other provisions	- 41.3	- 43.0	- 31.8
Trade accounts payable and other liabilities	- 33.0	- 44.4	- 25.7
Working capital	49.6	44.8	31.3

On the other hand, inventories increased by EUR 18.4 million over their level as of December 31, 2000.

(in EUR million)	June 30 2001	December 31 2000	June 30 2000
Raw materials and supplies, unfinished goods	20.9	17.6	15.1
Finished goods and products	41.9	26.8	20.9
Inventories	62.8	44.4	36.0

The EUR 3.3 million build-up in raw materials and supplies and unfinished goods, bringing the total to EUR 20.9 million, was deliberately intended as a means of ensuring high rates of capacity utilization. In view of the uncertain supplies of key components, especially large-format picture tubes, the company has found it necessary to maintain substantially higher reserve inventories, so that short-term changes in picture tube deliveries do not entail the consequence of lost production.

The EUR 15.1 million increase in finished goods and products over the status as of December 31, 2000, bringing the total to EUR 41.9 million, is to be seen in part as a consequence of normal seasonal developments. For the most part, these higher-than-planned inventory levels are found in the Home Media Systems division, where the production of normal-format television sets and multimedia units was accelerated with the aim of avoiding production losses in the second quarter of 2001 while also freeing up capacities for the production of television sets and multimedia units with large-format picture tubes in the second half of the year. The higher inventories to be found in the Telecommunications division are mainly the result of the weak domestic sales that characterized the second quarter of 2001.

In comparing the current inventories of finished goods and products to the corresponding figure as of June 30, 2000, which was only half the current level, it must be remembered that supply bottlenecks for electronic components and cordless telephones in the prior year resulted in a non-typical reduction of finished goods and products.

5. CASH FLOW FROM OPERATING ACTIVITIES WEIGHED DOWN BY HIGHER WORKING CAPITAL

(in EUR million)	1st Half 2001	1st Half 2000
Cash flow from		
Operating activities	8.2	25.9
Investing activities	- 9.8	- 10.8
Financing activities	- 5.8	- 2.0
Change in cash flow	- 7.4	13.1

In spite of the improved earnings situation, cash flow from operating activities, at EUR 8.2 million, was lower than the corresponding prior-year figure by EUR 17.7 million. Aside from the fact that tax payments increased by EUR 2.7 million, the main reason for this development lies in the fact that working capital increased by EUR 4.8 million in the first half of 2001, after having fallen by EUR 12.2 million in the corresponding period of the prior year.

Of the change in net current assets, which came to EUR 17.0 million, the amount of EUR 14.7 million relates to inventories, which increased as a result of strong sales and seasonal influences. Furthermore, inventories were stocked up in the first half for purposes of assuring adequate capacity utilization in production.

The cash outflow from investing activities amounted to EUR 9.8 million, lower than the corresponding previous-year figure by EUR 1.0 million for reasons having to do with the timing of invoices.

Financing activities produced a negative cash flow of EUR 5.8 million, mainly as a result of the EUR 6.0 million dividend paid out in June.

ANNUAL SHAREHOLDERS' MEETING OF JUNE 26, 2001

At the Annual Shareholders' Meeting of Loewe AG, held in Berlin on June 26, 2001, the shareholders adopted the following resolutions, among others:

The net profit after appropriations for fiscal year 2000 in the amount of EUR 6.2 million, as stated in the annual financial statements of the company, will be applied for the distribution of a dividend in the amount of EUR 6.0 million, leaving EUR 0.2 million to be carried forward to new account. The dividend of EUR 0.85 per share was paid on June 27, 2001.

Furthermore, the Supervisory Board was re-elected at the Annual Shareholders' Meeting. Following its first constitutive session, the board is composed as follows:

Prof. Dr. Eberhard Scheffler, Hamburg, Chairman
Public Accountant
Former member of the Executive Board of BATIG Gesellschaft für Beteiligungen mbH and former Vice Chairman of the Executive Board of BAT Cigarettenfabriken GmbH

Dr. Mark Wössner, Munich, Vice Chairman
Former Chairman of the Executive Board and Chairman of the Supervisory Board of Bertelsmann AG

Guido Alt, Stuttgart
Chairman of the Executive Board of Caatoosee AG

Prof. Dr. Rolf-Dieter Leister, Lucerne
Business Consultant

Dr. Sönke Mehrgardt, Munich
Member of the Executive Board of Infineon Technologies AG

Helmut Ricke, Krefeld
Former Chairman of the Executive Board of Deutsche Telekom AG

Furthermore, the shareholders present and represented at the Annual Shareholders' Meeting also approved the conclusion of a profit and loss transfer agreement between Loewe AG and Loewe Opta GmbH, effective January 1, 2001. The necessity for such an agreement resulted from changes made to the tax laws relative to integrated intercompany relations, so as to avoid disadvantages from the fact that certain expenses will no longer be deductible for tax purposes starting in 2001. Under the terms of this agreement, one member of the Loewe AG Executive Board, who has held 1% of the share capital of Loewe Opta GmbH since 1997, was granted an annual compensation payment of EUR 73,600 pursuant to Section 304 of the German Stock Corporations Act (AktG). The suitability of the annual compensation payment was verified by the independent auditor appointed in accordance with Section 293 b and c, AktG.

STRATEGIC PARTNERSHIP WITH BOSE

Bose Inc. (Framingham, Massachusetts, USA) and Loewe AG have agreed to enter into a strategic partnership with the goal of developing and marketing integrated home cinema solutions that perfectly unite cutting-edge technology with sophisticated design.

Worldwide, the name Bose stands for outstanding sound reproduction, uncompromising quality and innovation leadership in audio technology. Over the last few years, Loewe has developed into a solutions provider for home multimedia systems. In Europe, it holds a top position in the segment of high-end design televisions.

The first fruit of the cooperation between the two companies will be the use of Bose's home cinema system Lifestyle 50, as well as a single remote control device for controlling all Loewe television sets and multimedia units, video recorders and DVD players. The new product will be launched on the market in the third quarter of 2001.

In a second phase, Loewe plans to unveil a new home cinema product line at the IFA Exhibition in Berlin at the end of August 2001. The home cinema sound components incorporated into the new product line are characterized by typical Loewe design features and possess a one-of-a-kind satellite loud-speaker system developed and produced jointly by Bose and Loewe. The sound components of the new Loewe home cinema system will bear the label "Sound by Bose".

According to market research conducted by GfK in Europe and by Intellect in the United States, the market for home cinema systems is one of the fastest-growing segments of the consumer electronics market. This segment, which encompasses the new products to be introduced by Loewe, experienced a 62% growth rate in Germany in 2000⁴.

Bose and Loewe are united in their intention to take advantage of this promising market opportunity, which will generate profitable growth for both companies, by coming out with innovative new home entertainment products.

DEVELOPMENT ACTIVITIES FOCUSED ON MULTIMEDIA AND HOME CINEMA APPLICATIONS

In the first half of 2001, the company placed considerable priority on the development of a new, trendsetting 100-Hz chassis platform for television sets and multimedia units. This development project has proceeded on schedule, so that the new chassis generation will be available for use in all 100-Hz devices in the fourth quarter of 2001. The new chassis features important advantages such as the greater ease of operation provided by the more powerful user guide and greater flexibility in production, enabling the company to fulfill individual customer wishes for digital television or Internet reception from the TV set. The company's development program also focused on other key topics, such as expanding the range of multimedia products offered and moving into the world of networked household devices controlled by an advanced television set serving as a communications center. To this end, the company is in cooperation with the technical standards institution Institut für Rundfunktechnik, Munich, to develop a universal standard that will enable consumers in the future to access all kinds of digital services, regardless of the equipment manufacturer, network operator and content provider, on the basis of a single, uniform platform.

The company is setting a new development priority for its home cinema activities. In this segment, the company is working to develop comprehensive

⁴ Source GfK. Sales of home cinema systems, February 2000 to January 2001, in terms of value.

system solutions featuring large, brilliant pictures with perfect three-dimensional sound. As a result of its cooperation with Bose and the company's own developments in the area of sound, Loewe has significantly bolstered its audio competence.

In the area of television displays of more than 40 inches, the company has conducted fundamental development activities for back projection systems based on DLP (Digital Light Processing) technology. The first results of this work will be presented at this year's IFA Exhibition.

NEW MEDIA CAMPAIGNS AND PRODUCTS TO UPGRADE THE BRAND IMAGE

The company's plan to elevate the market positioning of its brand name to the higher end of the market was rigorously implemented under the new communication strategy. The preliminary results of this work can be seen in the design of print media and the media campaign launched in Germany in June of this year.

Loewe's excellent reputation for outstanding design was reaffirmed in 2001, as the company, in conjunction with the Hartmut S. Engel Design Studio, was awarded the distinction "Red dot: best of the best" by the North Rhine-Westphalia Design Center, for its new Vitros product line.

As the market leader in the home cinema segment, Loewe upgraded its already successful, multimedia-capable television family Aconda with the addition of the new product line Aconda 9581 select, representing the highest perfection in home cinema systems. Equipped with 81-cm real-flat picture tubes, Dolby Digital and subwoofers as standard features, these television sets provide amazingly clear pictures with brilliant sound.

The company introduced the new Loewe Digital TV Cantus 3972 in June. The set's built-in digital module decodes all free-to-air satellite programs, making it possible to receive already more than 500 TV and radio programs from a standard television set.

Loewe products again scored impressive test results in the first half of 2001. Especially noteworthy in this regard are the results of the first comparison tests for televisions equipped with the new TFT-LCD (Thin Flat Tube – Liquid Crystal Display) technology, which were conducted by the magazine Video 6/2001. In this test, the Loewe FL 38 immediately took first place.

Another important distinction consisted in the award for "European Video Design of the Year 2001 – 2002" extended to the Loewe Aconda 9581 ZWH by EISA, the European Imaging and Sound Association, an organization of forty leading European video and audio magazines.

A GfK study of dealer satisfaction among German electronics retailers conducted in June 2001 showed Loewe in first place compared to all other competing brands in the market. This impressive rating was based on factors such as corporate image, price and product policies and delivery service.

NEW JOBS

In tandem with the 9% increase in sales, the company's average number of employees also increased 9% over the corresponding prior-year figure, reaching the level of 1,171 employees. The increase of 94 staff positions was divided as follows: 56 in production, 15 in development, 16 in sales and marketing and 7 in other areas.

As production expanded by 25% (in value terms) in the first half of 2001, 12% more employees were involved in direct production than in the corresponding period of the prior year. The disproportionately high increase in personnel capacities for development, sales and marketing was consistent with the expansion of the multimedia product line and the export activities.

OUTLOOK

In spite of the difficult operating environment, Loewe performed quite successfully in the first half of 2001, meeting its medium-term growth targets for sales of 8% to 10% and for EBIT of more than 15%. As a result of higher interest expenses, however, the 15% increase in the earnings per share remained below the established target of 20%.

Looking to the second half of the year, the company expects that the IFA Exhibition to be held at the end of August will provide a strong boost to its business. At the exhibition, Loewe intends to underscore its reputation as the leading supplier of multimedia system solutions by introducing new products. The highly promising cooperation between Loewe and Bose, the U.S. audio specialist, will form the basis for new home cinema systems that unite perfect pictures with perfect sound.

Moreover, the Home Media Systems division expects the situation of tight supplies for large-format picture tubes to ease considerably in the third quarter. As a result, it should be possible to gradually scale back the artificially high working capital employed as a countermeasure.

The Telecommunications division, in consideration of the current state of the German market and continuing delays in the introduction of its new premium line, does not at present believe that it will meet its original goal of breaking even on earnings for 2001.

All in all, we are confident that the company will be able, in spite of the more difficult operating environment, to meet its medium-term growth targets also for the full year 2001.

CONSOLIDATED INCOME STATEMENT

FOR THE PERIOD JANUARY 1 THROUGH JUNE 30, 2001

(in EUR million)	April – June 2001		April – June 2000		January – June 2001		January – June 2000	
Sales	77.0	100.0 %	72.4	100.0 %	171.1	100.0 %	156.6	100.0 %
Manufacturing costs of goods and services sold	- 54.6	- 70.9 %	- 51.0	- 70.4 %	- 123.4	- 72.1 %	- 113.9	- 72.7 %
Gross margin	22.4	29.1 %	21.4	29.6 %	47.7	27.9 %	42.7	27.3 %
Selling expenses	- 14.4	- 18.7 %	- 13.9	- 19.2 %	- 30.2	- 17.7 %	- 27.5	- 17.7 %
Administrative expenses	- 2.7	- 3.5 %	- 2.4	- 3.3 %	- 5.5	- 3.2 %	- 4.9	- 3.1 %
Other operating income expenses	0.4	0.5 %	0.2	0.3 %	0.4	0.2 %	0.2	0.1 %
Income from participating interests	0.0	0.0 %	0.1	0.1 %	0.1	0.1 %	0.2	0.1 %
EBIT	5.7	7.4 %	5.4	7.5 %	12.5	7.3 %	10.7	6.7 %
Interest and similar expenses	- 0.4	- 0.5 %	- 0.3	- 0.4 %	- 0.8	- 0.5 %	- 0.5	- 0.2 %
Profit from ordinary activities/ Earnings before taxes (EBT)	5.3	6.9 %	5.1	7.1 %	11.7	6.8 %	10.2	6.5 %
Income taxes	- 2.1	- 2.7 %	- 2.1	- 2.9 %	- 4.7	- 2.7 %	- 4.1	- 2.6 %
Net income before minority interests	3.2	4.2 %	3.0	4.2 %	7.0	4.1 %	6.1	3.9 %
Minority interests	0.0	0.0 %	0.0	0.0 %	- 0.1	- 0.1 %	- 0.1	0.0 %
Net income after minority interests	3.2	4.2 %	3.0	4.2 %	6.9	4.0 %	6.0	3.9 %

CONSOLIDATED BALANCE SHEET

AS AT JUNE 30, 2001

(in EUR million)	June 30, 2001	December 31, 2000	June 30, 2000
ASSETS			
Fixed assets			
Intangible assets	9.1	9.0	8.4
Property, plant, and equipment	49.7	49.7	47.9
Investments	0.3	0.3	0.3
	59.1	59.0	56.6
Current assets			
Inventories	62.8	44.4	36.0
Trade accounts receivable	55.6	84.1	49.5
Other short-term receivables	5.6	6.3	7.5
Deferred tax assets	0.7	1.0	3.1
Cash and cash equivalents	1.0	10.3	22.2
	125.7	146.1	118.3
Total assets	184.8	205.1	174.9
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	10.3	4.3	6.8
Net income, current period	6.9	12.0	6.0
	70.4	69.5	63.5
Minority interests	0.8	0.7	0.3
Provisions			
Provisions for pensions and similar obligations	26.4	27.0	26.3
Tax provisions	0.5	4.6	8.7
Other provisions	41.3	43.0	31.8
	68.2	74.6	66.8
Liabilities			
Long-term debt	4.9	5.4	6.2
Trade accounts payable	25.2	39.8	21.7
Other short-term liabilities	15.3	15.1	16.4
	45.4	60.3	44.3
Total shareholders' equity and liabilities	184.8	205.1	174.9

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD FROM JANUARY 1 THROUGH JUNE 30, 2001

(in EUR million)	January – June 2001	January – June 2000
OPERATING ACTIVITIES		
Profit from ordinary activities	11.7	10.2
Depreciation and amortization of fixed assets	9.7	8.1
Reduction/increase in pension provisions	- 0.7	0.4
Income taxes paid	- 7.7	- 5.0
Net cash before change in net current assets	13.0	13.7
Increase in inventories	- 18.4	- 3.7
Decrease in trade accounts receivable and other assets	26.6	25.8
Decrease in other reserves	- 1.7	- 6.0
Decrease in trade accounts payable and other liabilities	- 11.3	- 3.9
Net cash provided by operating activities	8.2	25.9
INVESTING ACTIVITIES		
Payments for purchases of intangible assets and property, plant, and equipment	- 9.8	- 10.8
Net cash used by investing activities	- 9.8	- 10.8
FINANCING ACTIVITIES		
Principal payments on loans	- 5.9	- 2.0
New loans	6.1	0.0
Dividend payments	- 6.0	0.0
Net cash used for financing activities	- 5.8	- 2.0
Cash-effective change in liquidity	- 7.4	13.1

Composition of cash and cash equivalents (in EUR million)	June 31 2001	December 31 2000	Change
Liquid funds	1.0	10.3	- 9.3
Short-term bank loans	0.0	- 1.9	1.9
Cash and cash equivalents	1.0	8.4	- 7.4

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