ANNUAL REPORT 2004: **PROFILES. VALUES. STRENGTHS.**

LOEWE.

THE LOEWE GROUP IN NUMBERS (IAS)

CONTINUING DIVISION

EUR million

	2004	2003	2002	2001	2000	1999	1998
Sales	**267.8**	**283.2**	**366.8**	**372.6**	**339.7**	**284.3**	**251.8**
thereof flat-panel display sets	89.3	21.6	13.6	17.8	10.4	11.3	2.8
thereof picture tube display sets	138.7	218.9	353.2	354.8	329.3	273.0	249.0
thereof domestic	136.4	148.5	181.4	189.1	188.5	173.3	161.8
thereof foreign	131.4	134.7	185.4	183.5	151.2	111.0	90.0
Earnings before interest and taxes (EBIT)	**– 25.7**	**– 26.9**	**24.9**	**26.6**	**22.3**	**18.5**	**14.8**
Earnings per share (EUR)	**– 2.71**	**– 3.25**	**2.12**	**2.07**	**1.74**	**1.22**	**–**

CONTINUING AND DISCONTINUING DIVISIONS

EUR million

	2004	2003	2002	2001	2000	1999	1998
Sales	273.0	288.9	385.6	392.8	363.6	309.5	283.2
Earnings before interest and taxes (EBIT)	– 33.8	– 33.3	20.6	20.1	21.9	18.0	14.2
Net income/loss	– 29.4	– 29.7	10.9	10.4	12.0	5.3	1.7
Earnings per share (EUR)	– 3.74	– 4.14	1.52	1.45	1.70	1.16	0.88
Dividend per share (EUR)	0.00	0.00	0.85	0.85	0.85	0.00	0.00
Non-current assets	51.2	62.9	67.4	62.4	59.0	54.0	52.2
Current assets, net	21.9	41.9	50.7	52.1	44.8	43.5	41.3
Shareholders’ equity	19.4	44.7	80.5	75.2	69.5	57.5	15.3
Bank liabilities, net	34.1	29.2	11.1	4.8	– 1.7	– 1.2	30.0
Factoring	27.4	14.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	15.3	20.8	26.4	25.8	23.7	18.5	16.2
Depreciation and amortization	25.5	25.2	21.1	22.2	18.5	16.2	16.8
Free cash flow	– 8.8	– 15.0	– 1.3	– 1.8	7.8	10.4	– 1.9
Development costs	12.9	14.0	13.3	12.0	12.0	11.3	10.6
Interest expense, net	6.4	2.6	1.8	2.0	1.1	3.1	3.8
Number of employees	1,063	1,245	1,261	1,209	1,106	1,087	1,071

Discontinuing divisions

EUR million

	2004	2003	2002	2001	2000	1999	1998
Sales							
USA	5.2	5.7	9.4	0.0	0.0	0.0	0.0
Telecommunications	0.0	0.0	9.4	20.2	23.9	25.2	31.4
Earnings before interest and taxes (EBIT)							
USA	– 8.1	– 6.4	– 4.3	– 0.5	0.0	0.0	0.0
Telecommunications	0.0	0.0	0.0	– 6.0	– 0.4	– 0.5	– 0.6
Earnings per share (EUR)							
USA	– 1.03	– 0.89	– 0.60	– 0.07	0.00	0.00	–
Telecommunications	0.00	0.00	0.00	– 0.55	– 0.04	– 0.06	–

Our vision.

There’s one thing we’re sure of: The 21st century is the age of communication.

The overwhelming wealth of stimuli that comes along with such an experience requires that human needs be the focus of ventures in media, technology, and content.

Our mission.

We have a clear mission. Due to its agility, Loewe is in a position to open up an exclusive personal world of entertainment, information, and communication through intelligent and simple systems.

LOEWE 2004: PROFILES. VALUES. STRENGTHS.

Dear Shareholders,

Loewe is currently undergoing the most far-reaching structural change in its more than 80 years of history. In the past financial year, we were prevented from achieving all that we had planned. Primarily the shift in consumer behavior in the premium segment of the consumer electronics market due to the technological change from the picture tube television set to the flat-panel display TV and the sharper drop in prices have offset the restructuring progress on the cost side.

Against this backdrop, the sales of the continuing division declined from EUR 283.2 million in 2003 to EUR 267.8 million in 2004. The primary cause for the reduced sales in Germany and in the most important key markets in Europe is the market-related decline in traditional picture tube sets in the premium segment. Furthermore, the market for large-screen LCD sets – Loewe's traditional area of concentration – did not take off until the second half.

The reduced business and production volume as well as lower sales prices led to a negative EBIT of EUR 25.7 million compared to EUR −26.9 million in the previous year. Furthermore, the discontinuation of the USA division burdened earnings for the last time at EUR 8.1 million, resulting in a negative EBIT of EUR 33.8 million compared to EUR −33.3 million in 2003.

The restructuring measures initiated already in 2003 showed clearly positive results especially in the second half of 2004. Loewe was able to grow its market share by increasing value in the German retail trade for LCD sets to 8.4% in December. In addition to stringent cost management and further organizational streamlining, this was due to the current product offensive, sharpening the brand image and the expansion of marketing. As a result, we are again ranked number four in terms of value in the German market for LCD-TVs.

An important milestone on the way to a successful turnaround was the product offensive with the introduction of ten new flat-panel display sets in 2004. We now offer a wide range of flat-panel display sets based on LCD and plasma technology in 15" to 42" screen diagonals. This confirms our technology leadership and our claim to being a premium provider in the field of flat TVs as well. Furthermore, utility-based features (such as Digital RecordingPlus) and Premier, digital satellite and digital terrestrial reception can be integrated in all new televisions using Loewe MediaPlus technology.

Concurrent with the product offensive, on the marketing side we have also started to expand the distribution of the new flat-panel display sets in all important markets. Especially in our key European markets, this has enabled us to reverse the sales trend. Also, we are systematically pushing ahead with the qualification of our points of sale in Germany and Western Europe.

In addition to the product offensive and the marketing expansion, our activities were focused on the clear positioning of Loewe as a premium brand. In particular, the new Loewe product line structure has contributed to strengthening the Loewe brand. Loewe noticeably differentiates itself from the competition through the clearly defined product lines Reference, Art, Life and Classic. The second important factor in sharpening the brand image is the current advertising campaign in widely circulated magazines and daily newspapers. By concentrating on Loewe flat TVs, we increase the brand's attractiveness and in so doing foster the expansion of our brand's presence.

The market overall is also looking up, as consumers are once again paying greater attention to branded products in making purchasing decisions. In a representative survey, it was determined that 83% of customers primarily consider quality in making their decision to buy while only 17% based their decision on price. In the most recent survey in spring of 2004, the ratio was still 51% (price) to 49% (quality).

Dr. Rainer Hecker
Industrial Engineer
Chief Executive Officer

Dr. Burkhard Bamberger
MBA
Chief Financial Officer

Gerhard Schaas
Engineer
Chief Technology Officer

In 2005, we will systematically continue our restructuring both in cost reduction as well as the further product offensive.

The expanded partnership with Sharp is providing us additional support for the successfully initiated turnaround. Sharp has subscribed to 3 million Loewe shares in two capital increases and has raised its stake in Loewe to just under 29%. The successfully implemented capital increases have added more than EUR 20 million to Loewe's shareholders' equity. This increases the Group's equity ratio to roughly 20%.

In a jointly operated European development center, Loewe and Sharp will concentrate on high definition and digital television in particular and significantly lower their development costs through cost sharing. Starting in the second half of 2005, we intend to manufacture approximately 50,000 large-screen LCD-TVs for Sharp at our Kronach facility. This will increase the capacity utilization of our plant and reduce our fixed costs per set. In this way, we will stabilize the number of direct employees, increase our expertise and generate sustained increases in sales and earnings.

The greatest challenge continues to be the persistent drop in prices, which is greater than 20%. Pressure on earnings aside, we also see great opportunities in this decline in prices for flat-panel display TVs. It will lead to the reappearance of a premium segment in this growing market. Spending just 2,000 euros for a flat-panel television instead of the previous 4,000, the consumer will have an easier time paying somewhat more for an individual brand name set that is high in quality. Our typical brand strengths such as innovative technology, outstanding design and highest quality will then have an even greater impact. All of these are pluses for the Loewe brand, which we – together with our qualified retail partners – will use to expand our position.

The restructuring measures that we have successfully initiated, the impetus from the intensified cooperation with Sharp and the general "renaissance of brands" in consumer awareness lead us to anticipate a positive trend for the Loewe Group in the current financial year.

We hope that you will continue to accompany us on this path.

Sincerely yours,

Dr. Rainer Hecker
Chief Executive Officer of Loewe AG

Professor Dr. Eberhard Scheffler
Chairman of the Supervisory Board

Dear Shareholders,

In the financial year just ended, Loewe reported one of the worst results in our more than 80 years of corporate history. Not only persistently weak private consumption but especially the rapid shift of demand to flat-panel televisions in Europe and the market-related decline in picture tube sets in the premium segment strained business development in 2004. Moreover, the market for large screen flat-panel display TVs, which is of importance for Loewe, did not pick up until the second half of 2004.

Lower sales, considerable price reductions for premium segment picture tube sets and special expenses, including the successfully implemented restructuring and the discontinuation of the USA division, led to a negative EBIT of EUR 33.8 million in the financial year just ended.

In exercising the responsibilities incumbent upon it in accordance with statutory regulations and the Company's bylaws as well as the principles of the German Corporate Governance Code, the Supervisory Board continuously oversaw the management of the Company and the management of the Group by the Executive Board and advised it in basic policy issues. It was regularly informed concerning the economic position and development of Loewe and concerning significant departures of the course of business from plans, defined goals and objectives and discussed these reports with the Executive Board.

Significant subjects of discussion included the operating and strategic measures for crisis management at Loewe. Among other things, the discussions focused on necessary restructuring projects, the status of discussions on cooperation with possible strategic investors, suitable capital measures and Sharp's participating interest in Loewe. Another focus was the discontinuation of the USA division and the status of discussions with banks.

Outside of the meetings, the Chairman of the Supervisory Board was in regular contact with the Executive Board in order to discuss issues regarding business policy orientation, the implementation of strategy as well as significant single events such as organizational measures and management development.

The current position and the anticipated business development of the Loewe Group and its companies in the current fiscal year were discussed in all the meetings of the Supervisory Board.

The focus of the meeting of the Supervisory Board on February 12, 2004 was on the status of discussions on co-operation with Sharp in light of the difficulty in forecasting the change-over process from picture tube to flat-panel display televisions. Also discussed were the current banking situation and the successful start of factoring as well as a restructuring concept on a stand-alone basis.

In the meeting on March 23, 2004, the focus was on the individual and consolidated financial statements for the year ended December 31, 2003 with the associated management reports and the audit of those financial statements. The selected auditors attended the meeting and were available to the Supervisory Board to answer additional questions. Another object of discussion was the preparation for the Loewe annual Shareholders' Meeting. In addition, the Executive Board reported on the progress of discussions on cooperation with Sharp.

In its meeting of June 23, 2004, the Supervisory Board noted with approval the Executive Board's decision to close the U.S. subsidiary Loewe Opta Inc. The background for this was the continued failure of the U.S. business to meet its budget targets. Furthermore, the Executive Board informed the Supervisory Board that an agreement had been reached with Sharp wherein Sharp would take over 700,000 Loewe shares from a capital increase from authorized capital. To speed up processing, it was decided to make use of the possibility under the articles of incorporation to exclude the subscription right of the existing shareholders. The Supervisory Board concurred with this proposal by the Executive Board. After this cash capital increase was implemented, Sharp held a just under 9% interest in Loewe AG.

In the Supervisory Board meetings of July 20 and September 23, 2004, the Executive Board proposed operational and strategic measures for crisis management. In addition, the current status of the investor discussions and key figures for the 2005 budget were presented.

The Supervisory Board meeting on December 8, 2004 focused on the various investment concepts presented by different investors. After an intense discussion, the Executive Board and Supervisory Board considered the cooperation with Sharp as the most attractive solution. It encompasses the willingness of Sharp to take over as many as 2.3 million shares from an additional capital increase and thus become Loewe's largest shareholder with an almost 29% stake. Furthermore, the construction of a jointly operated development center and the planned production orders from Sharp were discussed at length and endorsed by the Supervisory Board.

The capital increase announced after the Supervisory Board meeting on December 8 was successfully implemented and recorded in the commercial register on February 1, 2005. A total of roughly 2.5 million shares were subscribed from the remaining authorized capital at EUR 6.50 per share.

The Executive Board prepared the annual financial statements of the Company for the year ended December 31, 2004 and the management report for fiscal year 2004 in accordance with the principles of the German Commercial Code and the German Stock Corporation Act. Pursuant to § 292a HGB (Handelsgesetzbuch – German Commercial Code), the consolidated financial statements of Loewe AG and its subsidiaries have been prepared based on the International Financial Reporting Standards (IFRS). Moreover, a consolidated management report was prepared. The auditor appointed by the Shareholders' Meeting on June 23, 2004 has reviewed these accounts. The auditor endorsed the annual financial statements and management report of the Company and its consolidated financial statements and consolidated management report with an unqualified auditors' report.

In a meeting on March 15, 2005, the audit committee of the Supervisory Board thoroughly reviewed the accounting documents of Loewe AG and its Group as of December 31, 2004. The order of events, essential findings and the results of the audit were discussed with the auditor in detail. According to the conclusive result of its own review, the audit committee approved the presented accounting documents.

The annual financial statements and management report of Loewe AG, its consolidated financial statements and consolidated management report as well as the reports of the auditor were presented to all Supervisory Board members in due time. The auditors present in the financial statements meeting on March 22, 2005 reported on important results and focuses of their review and answered additional questions from the Supervisory Board. The audit committee chairman gave information concerning the committee's activities and the results of its review. According to the conclusive result of its own review of the aforementioned documents, the Supervisory Board agreed with the findings arrived at by the auditors. The Supervisory Board has approved the management report and the annual financial statements prepared as of December 31, 2004, which can thus be considered adopted. Furthermore, the Supervisory Board approved the consolidated financial statements and the consolidated management report.

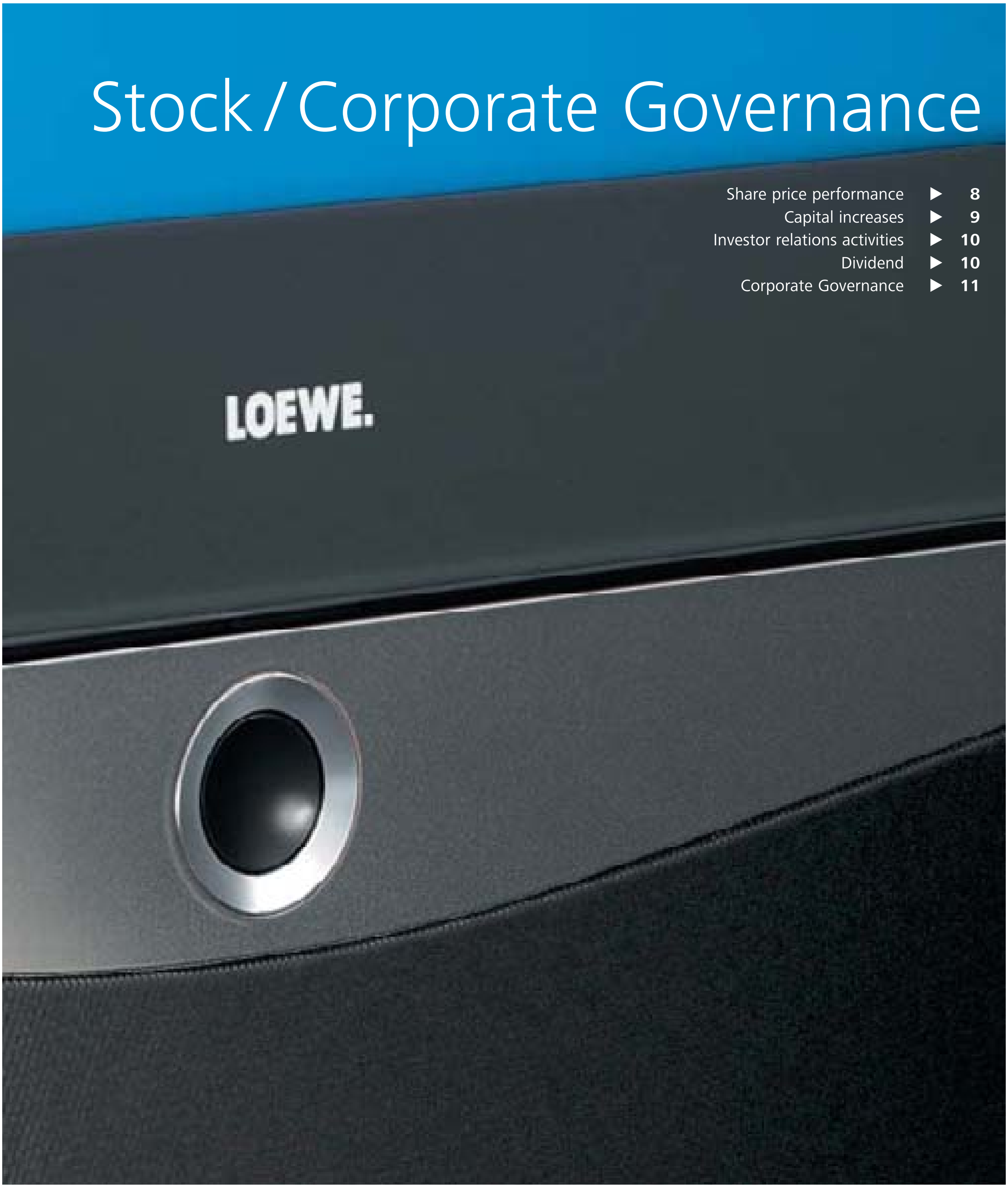
After many years of membership on the Loewe Supervisory Board, Professor Dr. Rolf-Dieter Leister resigned because of other obligations. The Supervisory Board thanks him for his valuable contributions. In the Shareholders' Meeting held on June 23, 2004, the shareholders elected the Munich attorney Dr. Michael Witzel as a new member of the Supervisory Board.

The Supervisory Board thanks the Executive Board and the entire workforce for their high level of commitment in the financial year just ended. The Supervisory Board is convinced that the successful introduction of restructuring measures, the impetus from the expanded partnership with Sharp and the dedication of all employees will quickly return Loewe to a position of strength.

Kronach, March 23, 2005

Professor Dr. Eberhard Scheffler
Chairman of the Supervisory Board

Stock / Corporate Governance



- Share price recovers at yearend
- Sharp investment leads analysts to recommend “buy”
- Capital increases improves Loewe financing
- Free float remains high

Price performance marked by high volatility in 2004

The Loewe share started 2004 at a price of EUR 6.70. Driven by speculations concerning a possible stakeholding by a strategic investor, the share price climbed to EUR 8.60 in heavy daily trading in late February. Following the financial statements press conference on March 26, the investment recommendation by analysts continued to be “sell.”

From then until the publication of the quarterly figures in May 2004, the share price hovered at about EUR 7. The announcement of the unsatisfactory first-quarter figures and additional sell recommendations by analysts prompted the price to slide to EUR 6.

At the Shareholders’ Meeting on June 23, we announced in ad hoc that Sharp Corporation of Osaka, Japan, the world market leader in LCD televisions, had taken a just under 10% stake in Loewe. We also announced the discontinuation of the USA division. A number of analysts then changed their sell recommendation to “hold.” With heavy trading of as many as 100,000 shares of Loewe stock per day, these reports briefly boosted the price to over EUR 6.50.

The high oil price and the general consumer restraint caused the DAX to slide to below 3,700 points in early August. Under these conditions, the Loewe share price softened to about EUR 5.30.

After the second quarter report was published, the pressure on Loewe stock persisted and the price fell to the historic low of EUR 4. This was primarily due to sales by private investors and persistently critical analyst reports. Renewed speculation about the possible entry of a strategic investor then boosted the Loewe share price to about EUR 6.30 in very heavy daily trading, until the figures for the first nine months were published.

Nine-month figures received positively

After the figures for the first nine months were received positively, most analysts changed their sell recommendation to “hold.” After five quarters, Loewe was once again able to report increasing sales and confirmed that an investor could be expected to take a stake in the company before the end of 2004. The following weeks were marked by lower daily trading volume and a largely steady price of EUR 6.

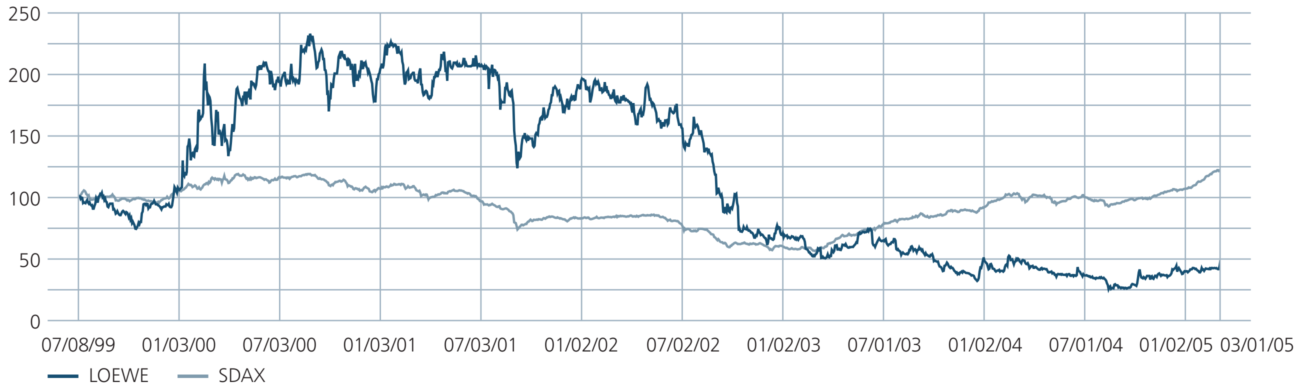
Rumors and speculation about the possible acquisition by Sharp of a majority interest in Loewe caused the price to climb under heavy daily trading volume to about EUR 7.30 by early December. On December 9, we reported the implementation of a capital increase of up to 2.8 million shares in an ad hoc announcement. Sharp Corporation agreed to acquire up to 2.3 million of any unsubscribed shares, thus increasing its stake in Loewe to 28.8%.

The higher stake in Loewe as well as the more intense partnership even in business operations prompted some analysts to see more potential in Loewe stock, issuing “buy” recommendations.

The price rebound continued in the new financial year and the price of the Loewe share climbed to over EUR 7.

Development of the Loewe share price against SDAX from January 2, 2004 to March 1, 2005 (Frankfurt)

Development of the Loewe share price against SDAX from July 8, 1999 (first listing) to March 1, 2005 (XETRA)



Successful placement of capital increases

In the Shareholders' Meeting in June 2004, we announced that Sharp Corporation, Osaka, held a just under 10% interest in Loewe AG through its wholly owned subsidiary Sharp International Finance (UK) Plc, London. The Executive Board and Supervisory Board adopted to increase the 7,176,600 shares in existing share capital by 700,000 shares to 7,876,600. The issue price reflected the average market price in the run-up to the transaction and amounted to EUR 6.14 per share, thus increasing the shareholders' equity of Loewe AG by EUR 4.3 million.

On December 9, 2004, we announced another capital increase. Utilizing the capital authorized by the Shareholders' Meeting, we implemented a capital increase of up to 2.8 million shares. The existing Loewe shareholders were entitled to subscribe to new shares at EUR 6.50 per share. The subscription period ran from December 15, 2004 to December 30, 2004. Sharp Corporation, Osaka, had agreed to acquire up to 2.3 million of any unsubscribed shares. After the antitrust authorities in Germany and Austria had approved the transaction and the financing agreements were extended to beyond 2005, Sharp subscribed to 2.3 million shares and the remaining existing shareholders subscribed to 230,783. The cash capital increase by 2.531 million shares to 10,407,383 shares raised the shareholders' equity by EUR 16.5 million. The capital increase was recorded in the commercial register on February 1, 2005.

Shareholder base still broad

The shareholder structure of Loewe AG continues to be marked by a high free float of approximately 46% of the share capital. Approximately 20,500 securities accounts in Germany were registered for the Shareholders' Meeting in June 2004.

Since early 2005, Sharp Corporation, Osaka, has held 28.8% of the shares; members of management and their families hold 18.3%. The British venture capital company 3i holds 6.9%. Beyond that, Loewe has not received any reports of shareholdings of 5% or more.

Continuity in investor relations activities

Prompt and transparent communications ensure trust

Our most important goal continues to be to maintain the existing high-quality coverage and accordingly the interest of investors in the Loewe stock. Moreover, our communications in the future will be timely and transparent as well, thus continuing to build up the relationship of trust with Loewe shareholders, institutional investors as well as analysts and banks.

Loewe AG will continue to make presentations in capital market conferences and attend events in 2005. At the time each quarterly report is published, the management of Loewe AG holds conference calls in English with question-and-answer sessions. Furthermore, we plan to hold road shows at the most important European stock exchanges as soon as the restructuring finds expression in a steady upward trend.

Loewe temporarily not listed on SDAX

On December 20, 2004, the Executive Board of Deutsche Börse decided to remove the Loewe stock, which had been admitted to the Prime Standard, from the SDAX due to the low market capitalization. Following a decision by the Deutsche Börse, the Loewe stock was re-listed on the SDAX from February 28, 2005.

The Loewe share is actively traded every trading day on all German stock exchanges and in XETRA computer trading. Trading volume of Loewe stock is highest by far on the Frankfurt Stock Exchange and in XETRA.

The designated sponsor is Credit Suisse First Boston, Frankfurt. Seydler AG Wertpapierhandelsbank has served as market maker for Loewe since mid-2003. The average daily trading volume in the year under review was approximately 28,000 shares.

No dividend for 2004

A resolution will be proposed to the Shareholders' Meeting on June 2, 2005 that no dividend be distributed for financial year 2004.

CORPORATE GOVERNANCE

- Commitment to the Corporate Governance Code
- Loewe ready for the new German Investor Protection Improvement Act

Loewe is an independent company with a clear strategy for the future. We have developed an outstanding brand image and we are considered a premium "made in Germany" brand. In the area of corporate governance as well, we follow the highest standards.

A sustained increase in company value and consideration for environmental concerns

In the 2001 annual report, we published principles concerning cooperation based on trust and responsibility between the Executive Board and the Supervisory Board. Loewe is committed to a responsible, fair and transparent corporate policy. Our objective is to achieve a sustained increase of the company value in the interest of the shareholders, customers and employees and with consideration of environmental concerns. The Loewe Corporate Governance Principles are an integral component of our corporate identity.

Our principles conform to the recommendations of the German Corporate Governance Code. The declaration of conformity pursuant to § 161 German Stock Corporation Act is issued annually and is continually accessible to the shareholders on the Loewe Web site. It reads as follows:

Changes to declaration of conformity by Executive Board and Supervisory Board

"The Executive Board and Supervisory Board of Loewe AG decided on December 8, 2004 to adapt their declaration of conformity pursuant to § 161 German Stock Corporation Act dated December 10, 2002 to the amendments of the German Corporate Governance Code (Code Version of May 21, 2003) and therefore declare: The recommendations of the Government Commission of the German Corporate Governance Code (Code Version of May 21, 2003) as published in the electronic Federal Gazette on July 4, 2003 have been and will be followed with the exception of the recommendation in Sub-section 4.2.4, Sentence 2. For the protection of privacy, individualized figures concerning the compensation of the members of the Executive Board have not been and will not be published."

Furthermore, we are convinced that the sum total of the Executive Board compensation, broken down into a fixed and a variable component, offers adequate transparency for a three-person executive board. The principles of remuneration policy and structure were presented and discussed at the last Shareholders' Meeting.

The age limit for members of the Supervisory Board is 70 years, as determined within the framework of the Corporate Governance directive. The current Chairman of the Supervisory Board will turn 70 in 2005. For this reason, the Executive and Supervisory Boards have decided to exceptionally extend the term of office until the end of the current period, i.e. until the Shareholders' Meeting in 2006, as a change in chairman would not be beneficial to the current company situation.

In addition to implementing the Corporate Governance Code, it is also necessary to ensure compliance with regulations under corporate law as well as regulations relevant to the stock markets and capital markets. In this connection, the prevention of insider trading is of special significance.

In accordance with § 15b German Securities Trading Act, Loewe maintains a list of persons who have access to insider information of our company. Executives and their family members have been informed of their obligation to report transactions with financial instruments of our company. Furthermore, the relevant persons are regularly alerted to insider trading concerns, director dealings as well as ad hoc notifications.

We proactively inform new employees about the possibility of coming into contact with insider information and the necessary course of conduct and we regularly address the topic of "insider trading" on the Company's Intranet pages.

Management Report

- **Sharp decline in demand for high-end picture tube sets**
- **Market for large-screen LCD sets gets underway in 2004**
- **Loewe sales down slightly, earnings at previous year's level**
- **Restructuring implemented according to plan**

GLOBAL ECONOMY RECOVERS, CONTINUED WEAKNESS IN GERMANY

The global economic situation improved fundamentally in 2004. At nearly 5%, the global economy grew at a brisk rate not seen for more than 20 years. Because not only energy prices but prices for raw materials as well (steel in particular) increased significantly throughout the year, the global economy cooled noticeably after midyear 2004.

Euro exchange rate and price of oil remain risk factors

In the euro zone, the economy softened in the second half of 2004. Reduced exports coupled with below-average domestic demand triggered this economic trough. At yearend, the euro climbed to an historical high of more than US$ 1.36. In addition to the high oil price, this price level for the euro continues to be a further risk factor for the economic recovery in the euro zone. Capital expenditure is up and the investment difficulties of recent years appear to be subsiding. After three years of decline, this area experienced a noticeable increase of roughly 1.5%.

The countries of the currency union can expect moderate real growth of the gross domestic product (GDP) of 1.8% as a whole in 2004. At 2.1%, the inflation rate is only slightly higher than the just under 2% level defined as a target by the European Central Bank. Furthermore, the unemployment rate persisted at the very high level of nearly 9%.

In 2004, the German economy may have ended its three-year stagnation phase. Compared to the previous year, the GDP increased by 1.7% in real terms. Growth is primarily due to the export boom, which burgeoned by 8.2%. Domestic demand also failed to meet expectations in 2004 and the persistent restraint in private consumption is having a negative impact on economic growth. At 3.9%, the government deficit was 3.7% higher than the federal government expected. Nationwide, the average annual unemployment rate persisted at 10.5% throughout Germany.

THE EUROPEAN MARKET FOR TELEVISIONS IS GROWING

Market for TV sets grows by 13 %

At EUR 24.3 billion, the European consumer electronics market in 2004 was at a slightly higher level than in the previous year (up by 0.1 billion euros). In terms of value, the market for televisions climbed by 13 % to EUR 12.9 billion. The decline in video recorders was roughly compensated by the strong demand for DVD players. The sales volume of stereo and audio continued on its downward trend.

Consumer electronics market in Europe

in EUR billion	2004	2003	± in %*
Televisions	12.9	11.4	13
TV recorders	0.3	0.5	– 47
DVD players	3.7	3.3	13
Video recorders	0.7	1.2	– 43
Stereo systems	4.5	5.2	– 14
Subtotal	**22.1**	**21.6**	**2**
Audio, video games, etc.	2.2	2.6	– 15
Total	**24.3**	**24.2**	**0**

* The percentage amounts are based on unrounded market figures.
(Source: GfK, European market, market coverage just under 80 %, each period December of the previous year to November of the following year; previous year adjusted to 2004 survey basis)

The market trend in televisions is of critical significance for Loewe because television represents 85 % of Loewe's sales volume.

The volume of the television market in Europe increased by 14 %. Despite the rapid price erosion in all product segments, growth in terms of value was at an attractive level of 13 %. Compared to 2003, the average price per TV unit declined only negligibly to EUR 522 due to considerable growth of expensive, large-screen flat-panel display units in 2004.

Spheros R 37 Masterpiece
- 94-cm screen diagonal
- One-piece glass front
- Highest-quality workmanship
- Sculptured design

Television market in Europe by technology

	TV Market in Europe (in EUR billion)			Loewe Market Share (in %)		
	2004	2003	± in %*	2004	2003	±
Picture tubes	8.1	9.3	– 13	5.9	6.1	– 0.2
LCD	2.4	0.6	264	1.8	1.2	0.6
Plasma	1.9	1.0	95	0.7	1.3	– 0.6
Projection (front and rear)	0.5	0.5	5	0.5	–	0.5
Total	**12.9**	**11.4**	**13**	**4.0**	**5.0**	**– 1.0**

* The percentage amounts are based on the unrounded market figures.

(Source: GfK, European market, market coverage just under 80%, each period December of the previous year to November of the following year; previous year adjusted to 2004 survey basis)

22.1 million picture tube sets were sold in Europe in 2004, 6% more than in the previous year. This significant volume growth is due in part to the very aggressive pricing policy of the suppliers. On average, a picture tube unit priced at EUR 366 was 18% less expensive in 2004 than in 2003. Despite the growing significance of flat-panel display sets, the sales volume of picture tube sets accounts for just under 90% of the total market. As a consequence of the sharp drop in prices for picture tube sets, the value of this submarket declined by 13% to EUR 8.1 billion. On an annual average, it now represents only 63% of the total market for televisions in Europe. By yearend, this figure had already fallen to under 50% in important European countries like France and Italy.

LCD televisions continue to have the highest growth rate among the flat-panel display sets. 1.9 million LCD sets were sold in 2004, almost four times more than in the previous year. The sales of small-screen LCD sets (smaller than 22”) tripled in 2004. Nonetheless, their momentum for growth is slowing down because an increasing number of large-screen LCD sets was introduced to the market in the second half of 2004. Accordingly, the sales volume of LCD sets larger than 22” increased by almost ten times to approximately 0.5 million units. This strong trend to more expensive, large-screen sets kept the average price per LCD television, at just under EUR 1,300, almost constant in relation to 2003 despite the general price decline. In contrast, large LCD sets with a screen diagonal greater than 26” became 37% less expensive. In 2004, their average price was EUR 2,800. The prices for small-screen sets under 22” also declined by 24% to just under EUR 800.

The strong erosion of sales prices also persisted for plasma sets. The average unit price declined by 29% in 2004 to approximately EUR 3,900. At a sales volume of 0.5 million units, this technology clearly dominates the 42” screen diagonal segment.

Loewe’s market share in the total TV market dropped from 5.0% to 4.0% in the year under review. The main cause for this is Loewe’s still unsatisfactory market position in the flat-panel display segment, plasma sets in particular. The significance of plasma compared to traditional picture tube sets increased significantly in 2004.

Within the picture tube segment, Loewe's market share declined slightly to 5.9%. An analysis of the price segments makes it clear that Loewe consolidated its positioning in the premium segment. In the retail price segment of EUR 1,000 to 2,000, we were able to increase our market share by 4.4 percentage points to 17.5%. In the segment above EUR 2,000, it was increased by 3.0 percentage points to 19.7%. Nonetheless, consumers' propensity to purchase high-end picture tube sets is declining significantly. On the other hand, demand is increasing for economical picture tube sets. For economical picture tube sets under EUR 1,000, the market share was largely unchanged at 2.4%.

Television market (picture tubes) in Europe by price categories

	TV Market in Europe (in EUR million)			Loewe Market Share (in %)		
	2004	**2003**	**± in %***	**2004**	**2003**	**±**
under EUR 1,000	6,595.9	6,624.3	0	2.4	2.1	0.3
EUR 1,000 – 2,000	1,225.6	2,041.3	– 40	17.5	13.1	4.4
over EUR 2,000	243.3	613,3	– 60	19.7	16.7	3.0
Total	**8,064.8**	**9,279.0**	**– 13**	**5.9**	**6.1**	**– 0.2**

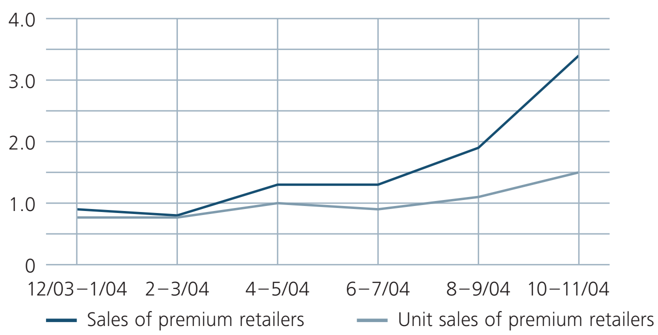
* The percentage amounts are based on the unrounded market figures.

(Source: GfK, European market, market coverage just under 80%, each period December of the previous year to November of the following year; market data by value based on retail prices; previous year adjusted to 2004 survey basis)

In LCD televisions, Loewe was able to significantly expand its low market share. On an annual average for 2004, the Loewe market share is 1.8% after 1.2% in the previous year. In recent months, however, since the introduction of Loewe large-screen LCD sets, there has been a clearly noticeable trend in the direction of increasing market shares:

Loewe market share significantly expanded due to introduction of LCD sets

Development of Loewe market share – LCD TVs in Europe (in %)



The average price premium for Loewe LCD televisions was largely unchanged compared to 2003. Compared to the market average for LCD televisions at EUR 2,300, approximately 1.8 times more was realized for Loewe products. In addition to the price premium for the Loewe brand, the focus on large-screen sets is reflected in this.

While the plasma market almost doubled to EUR 1.9 billion in 2004, Loewe's growth in this segment was significantly lower. The market share was reduced from 1.3% to 0.7% because Loewe offered the Spheros 42 almost exclusively in 2004, this set being in the highest pricing category. Because of the set's extensive features and value, its price is clearly higher than the average market

Concept L 42 intended to capture plasma market share

price of about EUR 4,000. The Concept L 42 plasma television launched in December 2004 covers the entry level price segment for Loewe and is positioned slightly higher than the average price for 42” sets. Because of the December market launch, this did not impact the market shares for 2004.

Generally, large-screen LCD and plasma products are still comparatively expensive compared to picture tube sets. Even low-price offers exceed the average price for a television set many times over. Due to their higher price, the especially well-equipped and high-end Loewe premium products were only able to appeal to a comparatively small target group. As the market for flat-panel display sets matures, the manufacturing costs will drop and the opportunities for the premium sellers to differentiate themselves will increase. Loewe should profit from this and be able to continue the expansion of its market share for flat-panel displays.

The United Kingdom, Germany, France, Italy, Spain and the Benelux countries represent almost 92 % of the European television market. With the exception of Germany, the television market in these countries has grown by double digits. Again the worst development in the European comparison affects Germany with only 5 % growth. With a less than 29 % share, Germany also was in last place among the large European countries in demand for new flat-panel display technologies. In Italy and Switzerland, on average approximately 40 % of the money spent for televisions went for flat-panel display sets.

Total television market in Europe by country

	TV Market in Europe (in EUR million)			Share of new display technologies (in %)		
	2004	2003	± in %*	2004	2003	± %pts
United Kingdom	3,205.1	2,813.4	14	31.3	20.0	11.3
Germany	2,513.7	2,397.3	5	28.6	14.9	13.8
France	2,080.4	1,861.5	12	34.0	23.3	10.6
Italy	1,594.4	1,265.4	26	37.4	21.8	15.7
Spain	1,312.2	1,130.9	16	31.0	14.9	16.1
Benelux countries	1,132.1	1,032.5	10	30.0	16.9	13.2
Switzerland	418.5	366.0	14	42.8	26.1	16.7
Rest of Europe	603.5	540.6	12	25.7	13.6	12.2
Total Europe	**12,859.9**	**11,407.6**	**13**	**31.9**	**18.8**	**13.2**

* The percentage amounts are based on the unrounded market figures.
(Source: GfK, European market, market coverage just under 80 %, each period December of the previous year to November of the following year; previous year adjusted to 2004 survey basis)

In Germany and France, the price per television set is approximately EUR 520 and reflects the European average. At EUR 900, the leader is Switzerland where the demand for high-end sets has traditionally been high. The share of the new flat-panel display sets is also highest in Switzerland at 43 %. On the other hand, the average price paid per television set is only about EUR 430 in Italy and Spain. In addition to the less pronounced trend to large screens in these countries, strong price competition is the reason for the low average price.

Loewe market share lower in Europe

Loewe’s market share by value in the European television market* declined from 4.1 % in 2003 to 3.2 % in 2004. All major countries contributed to this in a similar manner. In Germany, Loewe’s market share sank disproportionately from 9.9 % to 8.7 %. Stabilizing factors here were the still low significance of the new flat-panel display products and Loewe’s good positioning among competent retailers.

* In contrast to the market shares shown above, the following values refer not only to the retail trade but also to all distribution channels.

Loewe share of the television market in Europe by country

in %	2004	2003	± in %*
United Kingdom	0.4	0.8	– 49
Germany	8.7	9.9	– 12
France	0.9	1.4	– 38
Italy	1.8	2.5	– 28
Spain	4.1	4.9	– 17
Benelux countries	4.6	5.9	– 22
Switzerland	5.2	6.2	– 16
Rest of Europe	2.1	2.4	– 14
Total Europe	**3.2**	**4.1**	**– 21**

* The percentage amounts are based on the unrounded market figures.
(Source: GfK. European market, market coverage just under 80 %, each period December of the previous year to November of the following year; previous year adjusted to 2004 survey basis)

Outside of Europe, Australia and the Russian Federation are of particular significance for Loewe. Loewe's market share is still relatively low in these markets. In these countries, the development of the overall market is less critical for Loewe's success than the systematic implementation of Loewe's premium positioning in the market.

IMPLEMENTATION OF THE LOEWE RESTRUCTURING PROGRAM ACCORDING TO PLAN

Loewe has made important progress in restructuring and has successfully initiated the turnaround. In addition to strict cost management and further organizational streamlining, the focus of the "Taurus" restructuring program started already in 2003 will be on continuing the current product offensive, sharpening the brand image and the expansion of marketing. Loewe's primary task is to grow dynamically in the currently developing premium market with medium and large-screen flat-panel display TVs.

Xelos SL 37 HD
94-cm screen diagonal
HD-LCD technology
Xelos rack
Manual rotation

Presentation of a global innovation, the Spheros 37 HD

Product offensive with flat-panel sets

In the financial year just ended, Loewe gradually introduced ten new flat-panel display sets and thus made a broad and attractive product array available to the newly developed market for medium and large-screen LCD sets. As a global innovation, Loewe introduced Spheros 37 HD, the first LCD set with an integrated hard disk recorder in April 2004. Furthermore, the Xelos SL 37 HD, another large-screen LCD television, was presented to retailers earlier than planned. Just in time for the holiday shopping season, our new flagship product, the Spheros R 37 Masterpiece LCD stand-mounted unit was successfully launched on the market. By the start of 2005, it had already received high marks in tests. The Loewe MediaPlus HD technology makes it possible to integrate or connect utility-based features such as Digital RecordingPlus or Digital Photoviewer as well as Premier, DVB-S and DVB-T reception in all new Loewe television sets.

In the area of traditional picture tube sets, Loewe has scaled back the product line and will in the future concentrate on the entry level price category of the premium segment. The number of models will be further reduced to be able to produce higher numbers of units per product family and thus improve the cost structure.

The "Time-to-Market" project management initiative made it possible to complete all product development projects on schedule (even early in some cases) and scale them up for production. In the broadly based product offensive, ten new flat-panel display televisions with screen sizes from 26" to 42" were newly developed in 2004.

The development work on the L 2600 television chassis was completed on schedule. A digital receiver was integrated in the chassis as a significant innovation. Completely digital signal processing from the receiver module to the display on the LCD screen has thus been implemented for the first time. It was possible to reduce the dimensions of the electronics components so much that an additional signal box could be eliminated. This also made it possible to reduce the product costs. The Xelos A 26 television was the first product to be equipped with this innovative chassis. Additional sets will follow. The L 2600 chassis offers a new intuitive user interface with advanced animated graphic elements and underscores the innovative character of Loewe products.

Spheros 37 HD, platinum
94-cm screen diagonal
Cube 1
Certos DVD player
Concertos speaker system

To cover the increasing demand for large-screen LCD units, the automatic placement capacity was adapted to the technological change in the direction of LCD products. The chassis production lines and final assembly were equipped and optimized for LCD products. Another adjustment of production capacity will be necessary in 2005 for the expanded product range of Loewe sets and the production of Sharp sets.

Production capacity adapted for LCD sets

Sharpening the brand image

Another focus of the "Taurus" restructuring program is to sharpen the Loewe image as a premium brand. Using the brand values "minimalist expression of form," "meaningful progress" and "individual experience" as a basis, we have significantly enhanced our overall market presentation. The new product nomenclature broken down into the segments Reference, Art, Life and Classic makes it possible to assign each Loewe television to a distinct group. Each of these segments embodies a target group-specific statement of values that the end customer can identify with. The new product nomenclature thus makes it possible to focus the products better to the requirements of the Loewe target groups.

The second key factor for sharpening the brand image is the current advertising campaign. By concentrating on flat screen TV, Loewe intends to press forward with the expansion of brand awareness and thus increase the attractiveness of the Loewe brand. Furthermore, Loewe offers active sales support through close and trusting teamwork with its retail partners. Through the high-quality, brand-oriented product presentation for the new Loewe LCD and plasma TVs, we further expand our presence at the point of sale. Loewe also supports its qualified retail partners with individual retail marketing campaigns.

Strengthening of marketing

On the marketing side, we started to expand the distribution of new medium and large-screen Loewe flat-panel display sets in all important markets in 2004. The response to the new products was entirely positive and made a fast, widespread market launch possible. In the key foreign markets in Western Europe in particular, the new flat-panel display products were able to achieve a considerable market significance.

Our objective is to further increase the weighted distribution quota in Europe from 28% to 35%. In Germany, this is being accomplished by a significant quality improvement with a simultaneous numerical reduction of points of sale. Together with qualified retailers, the presentation of the Loewe products and the quality of consulting and services will be further developed with the objective of gaining greater loyalty of these retailers for Loewe. By 2007, at least 500 retail dealers in Germany should attain the status "Loewe Galerie" or "Loewe PartnerPlus." Today they total approximately 200.

An additional quantitative expansion of distribution is planned in European countries outside of Germany. By the end of 2005, we should acquire approximately 350 new customers. This should lead to a distinct improvement of the Loewe presence in France and Italy in particular.

Greater distribution planned for Europe

Systematic cost savings

A cost-cutting program amounting to EUR 12 million was adopted for 2004 and it was exceeded. An essential key component was the workforce reduction. This reduction was accomplished through dismissals as well as socially compatible measures such as outsourcing, early retirement and natural turnover. All employees – including the Loewe management team – made an additional contribution to cost reduction and profit performance in 2004 through a company-wide deferment of wages and salaries. This was arranged with the works council and the IG Metall labor union in a supplemental collective agreement. If business development proves to be positive, a compensation payment will be made in the following years. In addition, critical savings were achieved in selling expenses and in other material costs.

Cost-cutting program successfully adopted

Spheros 32 HD
80-cm screen diagonal
Digital PhotoViewer
Antireflex filter disc
Tabletop solution

It will be necessary to continue the systematic savings policy in 2005 as well and it will result in significant savings. In addition to the reduction in the number of employees, the collective restructuring agreement concluded for the years 2005 and 2006 is having a positive impact. It provides for a roughly 10% deferment of wages and salaries.

Closer cooperation with Sharp

In 2004, we significantly intensified our cooperation with Sharp which has existed for many years. Both companies have decided to establish a European development center in Kronach that will be operated jointly by Loewe and Sharp. The goal is to further develop a completely digital electronics platform for LCD-TVs and peripherals based on Sharp's LCD panel technology and Loewe's expertise in electronics. Altogether, more than 30 persons from the Loewe development department are employed in the new development center. For Loewe, this results in a significant lowering of development costs. At the same time, it will make it possible to keep the staffing levels in the development department at least at the current level.

Furthermore, an agreement was made at yearend 2004 to commence production of medium and large-screen LCD televisions bearing the Sharp trademark in Kronach in the second half of 2005. For 2005, our target is to produce approximately 50,000 LCD televisions at a production volume of roughly EUR 50 million. Under these conditions, the planned reduction of approximately 50 employees in production can be avoided.

Sharp has underscored the closer cooperation in operations by taking a just under 29% interest in Loewe. Sharp subscribed to 3 million shares in two stages and invested EUR 20 million in Loewe. The second stage of 2.3 million shares (EUR 15 million) will not take effect until early 2005. The improved equity base and the positive signaling effect of the closer cooperation with Sharp are of help in continuing the restructuring on a solid financial basis.

KEY ECONOMIC PERFORMANCE INDICATORS OF LOEWE CONTINUE TO BE UNSATISFACTORY

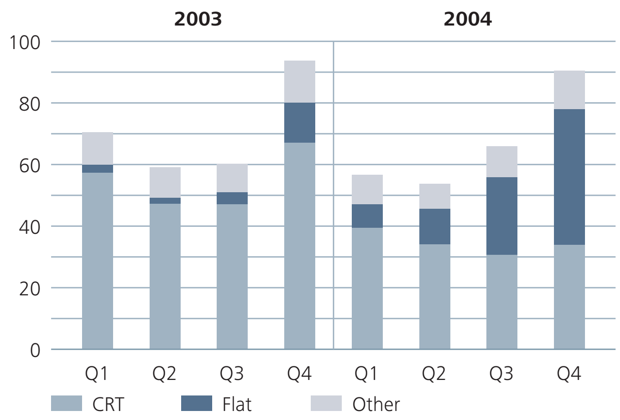
Due to the dynamic market development, it was not possible to meet the financial targets in 2004 as well. The major causes for this are the technological change already mentioned and special factors such as the closure of the U.S. operation, which strained EBIT for the last time in 2004 at EUR 8.1 million. For better comparability, the following information focuses on the continuing division. All information relating to the U.S. business is summarized in the section "Discontinuing division."

Key figures

in EUR million	2004	2003	± in %
Sales	267.8	283.2	– 5
EBIT	– 25.7	– 26.9	
Interest expense, net	– 6.4	– 2.6	
Net loss for the period	– 21.4	– 23.3	
Capital expenditure	15.3	20.7	– 26
Employees (annual average)	1,054	1,230	– 14

The decline in sales revenue slowed down in 2004. Decreased unit sales, reduced sales prices and an unfavorable product mix were reflected in the 5% decline in sales revenue to EUR 267.8 million.

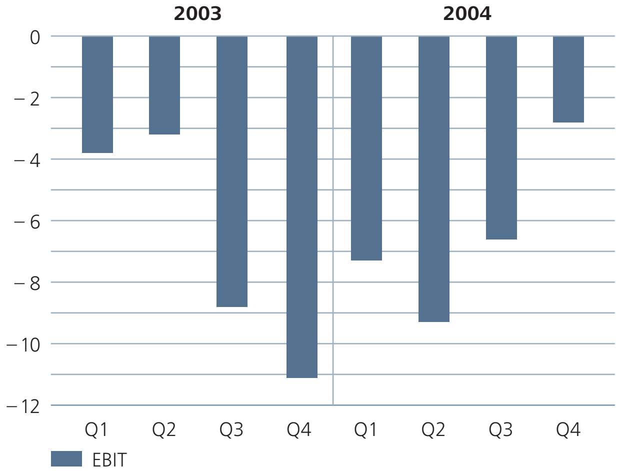
Sales revenue by quarters (EUR million)



After the decline in sales slowed down in the first and second quarters of 2004, third quarter sales were 10% above the previous year's figure due to the positive impact of the market launch of large-screen LCD sets. The fourth quarter of 2004 was marked by a holiday shopping season which went according to plan and a more than 50% increased share of sales of flat-panel display sets. Sales were almost at the level of the previous year's figure.

At EUR –25.7 million, the EBIT of the continuing division in 2004 was at a level similar to the previous year (EUR –26.9 million). This is primarily due to the diminished business and production volume as well as lower sales prices. In addition, the shift of demand to standard sets in the picture tube segment strained revenues.

EBIT by quarters (EUR million)



Positive earnings trend in the second half of the year

The cost-cutting and restructuring measures introduced in the second quarter of 2003 made it possible to achieve considerable cost relief in 2004. The impact of this was stronger in the second half. Furthermore, the stabilization of sales in the second half also made improved earnings possible on the market side. Correspondingly, a positive earnings trend has been noticeable in the last two quarters. The EBIT for 2004 includes EUR 9 million in special factors. These primarily concern EUR 6 million in extraordinary write-offs and value adjustments on non-current assets and inventories, picture tube sets in particular, and EUR 3 million in restructuring costs (consulting costs and severance packages).

On average, Loewe employed 1,054 persons in 2004. The average number of employees is below the comparable figure for 2003 by 176 persons. In order to implement the restructuring measures, turnover, outsourcing and increased part-time retirement measures were also used to reduce the workforce in a socially compatible manner. The already defined measures for further personnel adjustment will take hold in the first half of 2005 so that only a moderate reduction of the workforce should take place in 2005.

Stabilization of sales revenue

After a 23% decline in sales in the previous year, it was possible to limit the decline to 5% in 2004. The generally positive market environment and the successful positioning in the newly developed large-screen LCD segment have contributed to this.

Televisions continue to be the core of Loewe’s business activities. As in the previous years, they represent roughly 85% of total sales. DVD players, video recorders, stereo components and accessories round out the Loewe product line.

Sales structure by product area

in EUR million	2004	2003	± in %
Televisions	228.0	240.5	– 5
DVD players	6.0	4.1	46
Video recorders	1.9	3.4	– 44
Stereo systems	3.2	4.2	– 24
Accessories and other revenues	28.7	31.0	– 7
Total sales	**267.8**	**283.2**	**– 5**

- **Xelos A 42, platinum**
- 106-cm screen diagonal
- Xelos A 42 rack, platinum
- Auro 8116 DT DVD preceiver, platinum
- Tremo speaker system, platinum

The overall decline in sales revenue affects the product areas video recorders (to be phased out in 2005) and stereo disproportionately severely. Stereo systems are usually purchased in connection with a Loewe television as a component of high-end system solutions. Due to the disproportionate decline in sales of expensive picture tube sets, sales of such peripherals were also sharply down.

Sales structure, televisions

in EUR million	2004	2003
Picture tubes	138.7	218.9
LCD	75.7	10.8
Plasma	10.7	9.2
Rear projection	2.9	1.6
Total sales, televisions	**228.0**	**240.5**

Despite the further increase in sales volume in 2004, the market significance of picture tube sets in terms of value dropped by 13%. This trend has impacted Loewe in a particularly severe manner because the 45% market decline for premium sets above EUR 1,000 was especially pronounced. Overall, the decline in sales of Loewe picture tube sets has accelerated and was almost 40% in 2004 after just under 30% in 2003. Accordingly, the share of picture tube sets in the total sales of TV sets declined from 90% in 2003 to roughly 60% in 2004.

New LCD and plasma sets to boost sales in 2005

Sales of the new display technologies increased considerably in 2004. The market launch of large-screen LCD sets and the strong growth in this segment triggered a more than seven-fold increase in sales of LCD televisions from EUR 10.8 million to EUR 75.7 million. Sales of plasma sets grew less dynamically from EUR 9.2 million to EUR 10.7 million. Until November 2004, as in the previous years, our plasma line consisted of only one very high-end set, which appeals to only a small, affluent target group. The Concept L 42 plasma TV launched in December 2004 covers the entry level price segment for Loewe and is positioned slightly higher than the average price for 42" sets. In addition, another new plasma set from the Xelos product family was introduced to the market in early 2005, which should bring about a significant expansion of sales of plasma sets.

Sales of projection units relate to the Articos 55 which was introduced in late 2003. A screen diagonal of 1.40 meters makes it the largest television ever built by Loewe. This product was developed for the U.S. market in particular. After the closure of the U.S. business in 2004, rear projection technology will only be of comparatively slight significance for Loewe because screen diagonals larger than 50" represent only a small market segment in Loewe's core markets.

Loewe's consolidated sales fell to EUR 267.8 million in 2004. The increased sales in Spain, the Benelux countries, France and Austria were not sufficient to compensate the declines in Germany, UK and Switzerland.

Sales declines in Germany

Sales structure by region

in EUR million	2004	2003	± in %
Germany	136.4	148.5	– 8
(Percentage share of total sales)	50.9 %	51.4 %	
Benelux countries*	30.7	29.7	3
Italy**	17.8	17.8	0
Spain	27.9	25.6	9
United Kingdom	8.1	10.1	– 20
France***	9.2	7.7	19
Switzerland	4.7	6.2	– 24
Austria****	6.9	4.4	57
Other European countries	12.5	16.7	– 25
Europe (incl. Germany)	**254.2**	**266.7**	**– 5**
Australia	5.9	8.3	– 29
Russian Federation	5.6	6.1	– 8
Other non-European countries	2.1	2.1	0
Countries outside Europe	**13.6**	**16.5**	**– 18**
Total sales	**267.8**	**283.2**	**– 5**

* Sales through Loewe Opta Benelux N.V./S.A.
** Sales through Loewe Italiana S.r.l. since April 2003
*** Sales through Loewe France S.A. since 2002
**** Sales through Loewe Austria GmbH since 2004

In Germany, Loewe's most important market, Loewe's sales revenue declined by 8 % to EUR 136.4 million despite a 5 % growth in the value of the market. In the rapidly growing market for flat-panel display sets, Loewe has still not achieved an adequate market significance.

Outside of Germany, external distribution companies perform the sales, marketing and service of Loewe sets except in the Benelux countries, Italy, France and Austria. In the latter countries, Loewe-owned subsidiaries perform this function.

At EUR 30.7 million, the sales revenue of Loewe Opta Benelux for 2004 was slightly above the previous year's figure. Against the backdrop of the growing total market, Loewe's market share dropped from 5.9 % to 4.6 %. The share of flat-panel display products in the total television market in Belgium is 30% and roughly reflects the European average. In 2004, Loewe generated 42% of the sales of flat-panel display televisions in the Benelux countries. To cut costs, the Company's workforce was reduced from an average of 40 persons in 2003 to 32 persons in 2004. As in the previous years, the Company made a positive contribution to earnings.

Since April 1, 2003, Loewe's business in Italy has been conducted via Loewe Italiana S.r.l. This company's sales of EUR 17.8 million are in line with the previous year's figure. Loewe was thus hardly able to participate in the stormy market growth in Italy. Accordingly, our market share declined from 2.5% to 1.8% in 2004. Flat-panel displays already account for 37% of the Italian market for televisions. Loewe's share of sales of flat-panel display sets is correspondingly high. On an annual average, it surpassed 50% in 2004. The number of employees in 2004 was only seven because headquarters in Kronach performed most of the logistics and administrative functions. Due to a bad debt loss and the low business volume, the company generated a loss of EUR 1.3 million in 2004.

Demand for flat-panel display products in France

The revenues of the sales company in France rose by just under 20% to EUR 9.2 million in 2004. The pleasing growth in sales revenue was generated by the newly introduced Loewe flat-panel display sets that were received favorably in the French market. The market for flat-panel display products is already well developed in France and represents 34% of the total television market. Despite the fact that some large-screen flat-panel display sets from Loewe did not become available in France until the second half, the share of sales of these sets rose to approximately two-thirds compared to the average figure of approximately one-third for Loewe. As in the previous year, the company developed profitably and still employed 17 persons in 2004 after 20 in 2003.

Since early 2004, business in Austria is handled by a fully owned subsidiary. Sales revenue increased in 2004 from EUR 4.4 million to EUR 6.9 million. It should be noted that a significant cause of the higher sales revenue is higher average prices, which were made possible by eliminating a marketing stage. In the previous year, the reduction of the distributor's inventory had a negative impact on sales revenue. In 2004, the company employed 6 persons on an annual average. Loewe performs all essential administrative and logistics functions from Kronach. The company completed its first year in business with a break-even result.

Spheros 42 HD/DR+
106-cm screen diagonal
Good Design Award
red dot award
iF award
Integrated hard disk recorder
Digital TV satellite (optional)

Stable trend in Spain

In the remaining countries, external distribution partners market Loewe products. In Spain, it was possible to break even again in 2004 after the decline in sales of the previous year. The 9% growth in 2004 led to total sales revenue of EUR 27.9 million. The Spanish market grew by 16% in 2004. Due to the rapid decline in demand for high-end picture tube sets, Loewe's market share declined from 4.9% to 4.1%.

In the UK and Switzerland as well, the market for televisions clearly showed double-digit growth. In both countries, it was nonetheless impossible to stop Loewe's decline in sales and consequently a further decline in market share. The measures initiated in the meantime are expected to bring a significant improvement in 2005.

Decline in manufacturing costs not in line with drop in sales revenues

Price erosion impacts margins

Despite the decline in sales revenues, the manufacturing costs remained nearly constant in 2004. This resulted in a worsening of the cost of manufacturing quotient from 80.9% in the previous year to 85.4% in 2004. The primary causes for this development are lower sales prices of the Loewe products, a worsening of the product mix due to the higher proportion of standard sets and cost disadvantages resulting from unutilized production capacity. Furthermore, negative non-recurring factors amounting to approximately EUR 4 million had an impact. The low procurement prices were only enough to compensate partly for this. Overall, the gross coverage was reduced from EUR 54.2 million in 2003 to EUR 39.1 million in 2004.

Selling and administrative expenses reduced

The cost-cutting program started in 2003 made significant savings possible in the year under review. Selling expenses were reduced by 15%, administrative expenses by 17%. In addition to the workforce reduction and measures to reduce the cost of materials, lower advertising and warranty costs brought relief in sales and marketing.

Other operating income improved

The balance of operating income and expenses and the income from affiliated companies was EUR 1.5 million in 2004 compared to a balance of interest expenses and income of EUR 3.1 million in 2003.

At EUR 18.5 million, the other operating income was clearly above the previous year. The release of provisions no longer needed accounted for EUR 5.1 million (2003: EUR 4.2 million). The greatest share relates to provisions for anticipated losses (EUR 2.8 million) and disputed license fees (EUR 0.7 million), with respect to which an agreement was arrived at in 2004.

The other operating expenses rose less sharply and reached EUR 17.2 million. They include severance packages and restructuring costs of EUR 2.5 million as well as expenses for the establishment of provisions for anticipated losses.

RC 1
red dot award
iF award
Intelligent
Metal shell

Spheros 37 HD, high gloss basalt
94-cm screen diagonal
Design: Phoenix Design
red dot award: best of the best
High-quality materials

Strong increase in interest expenses

Interest expenses increased from EUR 2.6 million to EUR 6.4 million because the higher capital needs were primarily financed by borrowing and factoring. Moreover, the terms of financing worsened for Loewe in the year under review due to the low shareholders' equity and the loss situation.

Financing terms worsened

Reduced capital expenditure

Capital expenditure and depreciation/amortization

in EUR million	2004		2003	
	Investments	Depreciation/ amortization	Investments	Depreciation/ amortization
Intangible assets	7.5	9.5	8.4	9.3
Property, plant and equipment	7.2	15.8	12.2	15.8
Financial assets	0.6		0.1	
Total	15.3	25.3	20.7	25.1

Compared to the previous year, capital expenditure was down by EUR 5.4 million to EUR 15.3 million because only absolutely necessary measures were implemented under the restructuring program. More was invested in tooling for new products.

Capital expenditure reduced by 25 %

Compared to 2003, depreciation/amortization increased again because in addition to extraordinary write-offs on product-related assets for picture tube sets (EUR 1.9 million), increased amortization was taken on capitalized development services.

Balance sheet ratios worsened

Total assets were reduced primarily due to the increased factoring volume and the reduction of capital expenditure to a level clearly lower than depreciation. The financing situation was shifted further in the direction of outside capital because the high loss reduced the equity of the Loewe Group including minority interests to EUR 20.4 million.

Key figures, consolidated balance sheet

in EUR million	2004	2003	± in %
Non-current assets*	51.2	62.6	– 18
Inventories*	36.4	43.1	– 16
Trade accounts receivable*	51.8	69.1	– 25
Other current assets*	33.1	20.7	60
Assets of the discontinuing division	0.0	5.0	
Total assets	**172.5**	**200.5**	**– 14**
Shareholders' equity incl. minority assets	20.4	45.9	– 56
Provisions*	86.9	83.4	4
Liabilities*	64.2	70.0	– 8
Provisions and liabilities of the discontinuing division	1.0	1.2	
Total liabilities	**172.5**	**200.5**	**– 14**

* Continuing division only

Non-current assets lower

Non-current assets

in EUR million	2004	2003	± in %
Intangible assets	6.1	9.4	– 35
Property, plant and equipment	44.3	53.0	– 16
Financial assets	0.8	0.2	300
Total non-current assets	**51.2**	**62.6**	**– 18**
as a percentage of total assets	29.7 %	31.2 %	

The intangible assets primarily relate to development costs for new products to be reported in accordance with the International Accounting Standards (IAS 38). They were reduced due to extraordinary write-offs on picture tube sets. Property, plant, and equipment almost exclusively include land and buildings, the production facilities, and other machinery and office equipment in Kronach. The 16% decline is primarily attributable to the reduced capital expenditure but also extraordinary write-offs on tools.

Inventories of finished goods in particular significantly reduced

In the second half of 2004, Loewe's business volume was roughly at the previous year's level. The reduction of excess inventories and special write-downs (EUR 2.6 million) reduced the inventories by 16% to EUR 36.4 million. The inventories of finished goods were adjusted to the reduced anticipated sales of picture tube sets. Inventories of flat-panel display sets were held to a minimum level in order to limit the negative impact of the continued high price erosion.

Inventory levels on target

Finished goods by product group

in EUR million	2004	2003	± in %
CRT televisions	6.0	12.5	– 52
Flat-panel televisions	5.1	2.6	96
DVD players	0.3	0.9	– 67
Video recorders	0.1	0.6	– 83
Stereo systems	1.3	2.9	– 55
Accessories and other inventories	7.1	7.8	– 9
Total inventories of finished goods and merchandise	**19.9**	**27.3**	**– 27**

The inventories are concentrated in Germany because only Loewe Opta Benelux maintains its own warehouse. The average inventory range for finished goods is generally around one month. This represents our target value.

Tremo speaker system

iF award

Design: Phoenix Design

Individual placement options

Receivables lower due to factoring

Increase in factoring

Trade accounts receivable

in EUR million	**2004**	**2003**	**± in %**
Trade accounts receivable before Factoring	79.2	83.1	– 5
Factoring	– 27.4	– 14.0	96
Total trade accounts receivable*	**51.8**	**69.1**	**– 25**
as a percentage of total assets	30.0 %	34.5 %	
* thereof:			
Loewe Opta GmbH	36.9	53.1	– 31
Loewe Opta Benelux N.V./S.A.	4.4	3.9	13
Loewe France S.A.	2.9	2.4	21
Loewe Italiana S.r.l.	5.1	9.7	– 47
Loewe Austria GmbH	2.5	0.0	

Xelos A 32 HD, anthracite
- 80-cm screen diagonal
- HD-LCD technology
- Digital PhotoViewer
- Integrated electronics

Year on year, the trade receivables declined by 25% to EUR 51.8 million. It should be noted that factoring at yearend 2004 reduced the debtor portfolio by EUR 27.4 million. In the previous year, the factoring volume was EUR 14.0 million on December 31. Adjusted for the effect of factoring, the payment period of 80 days based on the average sales of the last three months was at the comparable level of the previous year.

Higher deferred tax assets

Primarily due to the losses incurred in 2004, the deferred tax assets increased by EUR 9.7 million to EUR 24.9 million.

Losses put pressure on shareholders' equity

The shareholders' equity including minority interests as of December 31, 2004 represents roughly 11.8% of total assets. Taking into account the capital increase of EUR 16.5 million recorded on February 1, 2005, the equity ratio is increased to about 20% from that time.

Capital increase in early 2005

Higher provisions

Provisions

in EUR million	2004	2003	± in %
Pension provisions	36.2	27.1	34
Tax provisions	7.3	9.0	– 19
Other provisions	43.4	47.3	– 8
Total provisions	**86.9**	**83.4**	**4**
as a percentage of total assets	50.4%	41.6%	

The increase in pension provisions by EUR 9.1 million results from the assumption of the obligations of Loewe Unterstützungskasse e.V. In return, all assets of this association were transferred to Loewe. The originally planned broad diversification of the cover capital of the support fund was not realized. Because the funds were almost exclusively extended to the Loewe Group in the form of short-term loans, the integration into the Group was done for efficiency and liability considerations. The merger of the Loewe pension company with Loewe Opta GmbH implemented in the third quarter was done for the same reasons.

Changes in pension provisions

The other need for provisions was reduced primarily due to the lower domestic sales. The fact that our retail partners did not meet all of their sales targets also resulted in fewer bonus payouts by Loewe.

Liabilities decrease while bank loans increase

Liabilities

in EUR million	2004	2003	± in %
Long-term bank loans	10.5	10.0	5
Short-term bank loans	25.5	21.3	20
Short-term portions of long-term bank loans	0.2	0.9	– 78
Loan from Loewe Opta Unterstützungskasse	0.0	8.9	– 100
Subtotal	**36.2**	**41.1**	**– 12**
Trade accounts payable	21.7	21.4	1
Additional short-term liabilities	6.3	7.5	– 16
Total liabilities	**64.2**	**70.0**	**– 8**
as a percentage of total assets	37.2 %	34.9 %	

Financing agreements extended beyond 2005

Due to the persistent operating loss, the financing volume rose in 2004. At yearend, the seasonally adjusted borrowing requirements reached a peak due to the significant rise in trade receivables in the fourth quarter. Specifically to cover such financing peaks, an additional agreement was concluded with a factoring company in 2003, which enables Loewe to have additional financing volume of up to EUR 30 million. As of December 31, 2004, this factoring volume was EUR 25.2 million compared to EUR 11.0 million in 2003.

The banks have extended the financing agreements originally scheduled to run until late February 2005 to February 28, 2006. The conditions and securitization remained nearly unchanged from the previous year. In addition to the long-term loans amounting to EUR 10.7 million, the current account lines and discount lines with four banks totaled EUR 33.9 million. Furthermore, lines of credit totaling EUR 4.4 million were granted to foreign companies in the Group. As of December 31, 2004, the short-term bank loans had risen year-on-year by EUR 4.2 million to EUR 25.5 million.

Concertos speakers
iF award
Design: Phoenix Design

Improved free cash flow

In 2004, the negative free cash flow of the continuing division was reduced to EUR 5.3 million. The primary causes were releases of funds in net current assets and the lower capital expenditure.

Significant key figures of the consolidated cash flow statement

in EUR million	2004	2003
Net cash before changes in net current assets*	– 8.4	– 5.1
Change in net current assets*	15.7	17.2
Net cash used by investing activities*	– 12.6	– 20.5
Free cash flow of Home Media Systems division	**– 5.3**	**– 8.4**
Free cash flow of the discontinuing division	– 3.5	– 6.6
Total free cash flow	**– 8.8**	**– 15.0**

* Continuing division only

The reduction in net current assets relates primarily to the reduced trade accounts receivable due to factoring as well as the reduced inventories.

Net current assets

in EUR million	2004	2003	± in %
Inventories	36.4	43.1	– 6.7
Trade accounts receivable	51.8	69.1	– 17.3
Other assets*	6.1	2.6	3.5
Trade accounts payable	– 21.7	– 21.4	– 0.3
Other provisions	– 43.4	– 47.3	3.9
Other short-term liabilities	– 6.3	– 7.5	1.2
Total net current assets	**22.9**	**38.6**	**– 15.7**

* excluding income taxes

Despite the heavy reduction of inventories and receivables, the discontinuing division in the U.S. had a negative free cash flow of EUR 3.5 million. The additional financing needs in the Group of EUR 8.8 million were covered by a capital increase (EUR 4.1 million) and higher loans.

Discontinuation of Loewe USA

U.S. business closed

In mid-2004, we decided to close Loewe's U.S. business because the servicing of the U.S. market demanded a high priority of resource allocation, which is not possible in the current economic situation. Unfavorable currency parities also made it impossible to foresee economic success for Loewe in the U.S. with the current business concept. Sales activities in the U.S. were stopped in the third quarter of 2004 and all 15 employees were laid off. The subsidiary Loewe Opta, Inc. continues to exist and will be responsible for the administrative handling of warranty obligations still to be incurred.

Key figures of the discontinuing division

in EUR million	2004	2003
Sales	5.2	5.7
EBIT	– 8.1	– 6.4
Net loss for the period	– 8.1	– 6.4
Capital expenditure	0.0	0.1
Employees (annual average)	9	15

Sales revenues of EUR 5.2 million were generated in 2004. Including closing costs, the burden on EBIT was EUR -8.1 million. The first quarter of 2004 accounted for EUR 3.7 million of that amount and the second for EUR 4.4 million. Beyond that, no future losses are expected from the U.S. business.

Spheros 32 HD
- 80-cm screen diagonal
- HD-LCD technology
- Digital PhotoViewer
- DVI interface
- Integrated hard disk recorder

NOTICEABLY REDUCED WORKFORCE

Personnel changes implemented extensively

The restructuring program initiated in 2003 includes an adjustment of the employee base to the clearly reduced business volume. In 2004, Loewe employed an average of 1,054 persons, the largest number of them at the headquarters of Loewe AG and Loewe Opta GmbH in Kronach. The average number of employees is below the comparable figure for 2003 by 176 persons. As of the balance sheet date of January 1, 2005, the workforce consisted of only 995 persons since many employment contracts expired on December 31, 2004. In addition to natural turnover and dismissals based on operational requirements, increasing use was made of part-time retirement arrangements and outsourcing to reduce the workforce in a socially compatible manner. The already defined measures for further reducing the number of indirect employees will take effect in the first half of 2005. No further reductions in the number of direct employees are planned because of the production orders for Sharp expected in the second half. The flexible working hours model will compensate for the lower staffing need in the first half.

Employees by division

Annual average	2004	2003	± in %
Marketing, sales, service, quality	266	305	– 13
Development	124	141	– 12
Production	408	499	– 18
Administration and services	114	137	– 17
Trainees	86	94	– 9
Other (permanently absent, part-time retirement)	56	54	4
Total employees	**1,054**	**1,230**	**– 14**

In the foreign subsidiaries as well, the employee basis was adjusted to the lower business volume. Overall, the reduction is lower in the foreign companies because the new subsidiaries in Italy and Austria did not reach their target level until 2004.

Concept L 42
- 106-cm screen diagonal
- Design: Design 3
- Plasma technology
- Integrated electronics
- Low overall depth
- Convenient user interface
- Can be used as a PC monitor

Employees by country

Annual average	2004	2003	± in %
Germany	992	1,166	– 15
Benelux countries	32	40	– 20
France	17	20	– 15
Italy	7	4	75
Austria	6	0	
Total employees	**1,054**	**1,230**	**– 14**

The measures adopted for reducing the workforce constituted a primary focus of human relations work in 2004. Furthermore, alternative models for making personnel cost reductions possible without further reducing the workforce were negotiated with the works council and the IG Metall labor union. To that end, a supplemental collective agreement was adopted for the 2004 financial year including a deferment of wages and salaries on the order of EUR 2.7 million.

Agreement to 10% deferment of wages and salaries

The continued unsatisfactory economic development of Loewe in the first half of 2004 made additional cost-cutting measures necessary. To minimize the need for an additional personnel cut, a collective restructuring agreement was adopted in the fourth quarter of 2004. This agreement includes a deferment of roughly 10% of the fixed compensation of all Loewe employees for the years 2005 and 2006. This is expected to bring almost EUR 4 million in additional savings for each of the years 2005 and 2006.

In order to ensure the availability of qualified employees in the future, savings taken in the area of in-house training were significantly lower. Loewe makes 90 training positions available. The activities in connection with the provision of student traineeships and internships and maintenance of contacts with schools and universities will be continued. This is aimed at maintaining the company's good image as an attractive employer for highly qualified graduates.

In view of the clearly increased requirements, the smaller workforce and the agreed wage and salary deferment, the year 2004 placed extremely high demands on all Loewe employees. The outlook for the following financial year also shows that a high degree of commitment and flexibility will continue to be required of all persons involved to master this difficult phase. The Executive Board is convinced that Loewe's restructuring will be successful and it wishes to thank all of the employees and the works councils for their exemplary commitment to Loewe's interests.

ENVIRONMENTAL ORIENTATION SOLIDLY ROOTED

Loewe's goal is to go beyond compliance with the legal environmental regulations to continuously reduce the environmental impact of all Company activities. For that reason, we demand and support environmental awareness and personal responsibility of our employees.

Loewe is very well prepared to implement the EU Waste Electronic and Electrical Equipment Directive and is collaborating with the appropriate committees of the German Electrical and Electronic Manufacturers' Association (ZVEI). One result of the association's activities was the establishment of the Waste Electrical Equipment Register (EAR) foundation on August 19, 2004. Loewe intends to meet the requirement of the European Waste Electronic and Electrical Equipment Directive to take back all products sold and offered for sale after August 2005 free of charge under the framework of a manufacturers' cooperative arrangement with Philips and Sharp. Suppliers are involved at an early stage in order to select suitable environmentally-friendly packaging materials for waste avoidance. In this connection, it was possible to implement a standardization for reusable packaging with several suppliers.

Cooperative agreement in place

Great value placed on environmental protection

Our efforts to bring technically high quality and environmentally safe products to the market led to further important successes in 2004.

One-half of all Loewe components were soldered without lead already in 2004. The qualification for the remaining components was successfully completed in 2004. Furthermore, nearly all circuit boards and plastic parts used are free from halogen-containing flame retardants.

SHAREHOLDERS' MEETING ON JUNE 23, 2004

At the Shareholders' Meeting of Loewe AG held on June 23, 2004, all items on the agenda were adopted with only a few opposing votes. The approximately 300 shareholders present represented roughly 45 % of the subscribed capital.

The shareholders elected Dr. Michael Witzel, Munich, to the Supervisory Board to replace Professor Dr. Rolf-Dieter Leister who resigned from his position on June 23, 2004. No counterproposals or actions in rescission were raised to the resolutions of the Shareholders' Meeting.

RISKS OF FUTURE DEVELOPMENT

Risk management at Loewe

A consistent awareness of risk in all divisions is a prerequisite for the early detection, evaluation and systematic handling of risk. As persons responsible for risk, all executives have been sensitized to recognize risk in the daily business operations and to initiate suitable measures for risk avoidance, reduction or management.

Loewe's risk management system is targeted to a systematic identification, evaluation, documentation and monitoring of risks. Single risks are detected according to clearly defined risk areas and their impact on the net assets, financial position, results of operations and cash flows is depicted. The single risks are of a quantitative or qualitative nature depending on the methods for identification and evaluation. With respect to quantitative risks, a monetary loss is determined in the form of the gross risk. The remaining net risk is determined by evaluating suitable safeguards and estimating probabilities of occurrence.

Systematic risk management

As part of risk monitoring, the efficiency of the countermeasures is reviewed and their implementation is monitored. Particularly in times of market upheaval and the paradigm shift to flat-panel display devices, Loewe has improved its project management and controlling in order to be able to coordinate new development projects more efficiently between marketing, development and even production and react more flexibly to changes.

Furthermore, the controlling system in place at Loewe rounds out the integrated view of risks and opportunities. Supported by a transparent reporting system, discrepancies in essential key data are detected early so that necessary actions can be initiated or operational changes implemented. Reports to the Executive Board, the other managers and the Supervisory Board on a regular basis ensure that the decision-makers are comprehensively informed concerning goal attainment as well as changes in market and sales circumstances that can have a significant impact on corporate development.

Despite such measures, risks can never be completely ruled out. As part of its business operations, the Loewe Group is confronted with various risk areas:

Spheros R 37 Masterpiece
94-cm screen diagonal
One-piece glass front
Highest-quality workmanship
Sculptured stand-mounted unit

Flat-panel display sets replace picture tube sets

Declining business volume in picture tube sets

The market trend in 2004 shows that the increasing substitution of conventional picture tube sets by flat-panel display sets is proceeding rapidly and the market for high-end picture tube sets is declining sharply in Europe. In the foreseeable future, this category of sets will be exclusively in the low price segment because customers will be increasingly less willing to pay a price premium for high-end picture tube sets. Loewe assumes, however, that it will still be possible to generate significant contributions to sales and earnings with picture tube sets in at least the next two financial years. If the business volume of picture tubes declines more rapidly than assumed, the lack of contribution margins will have a negative impact on earnings.

Furthermore, it is assumed that from mid-2005, there will be a significantly reduced availability of picture tubes that make it possible to produce slender picture tube sets with a noticeably reduced overall depth.

For Loewe, it is therefore critical to exhaust the sales potentials to the best extent possible while securing a reduced premium positioning in picture tube sets. The employment of resources for this product category will be reduced to a necessary minimum. The number of products and models will be reduced further to improve the cost structure. All cost elements not honored by the customer will be eliminated while ensuring that Loewe products retain their premium character.

Competitive flat-panel display line

The market for televisions with flat-panel displays grew significantly in 2004 and now represents almost 40% of the total market. At the same time, the sales price erosion at more than 30% per year in some areas is especially strongly pronounced. Loewe's market share in this segment is still less than 2% compared to 6% for picture tube sets.

In this dynamic market segment, Loewe must grow at an extremely fast rate and increase its market significance. Only through a rapidly increasing, profitable business volume in this area will it be possible to compensate for the declining contributions to sales and earnings of picture tube sets. For Loewe, there is consequently the risk that it will not be successful to an adequate degree to position a competitive product line of flat-panel displays which will deliver the planned contributions to sales and earnings.

Loewe is counteracting this risk by developing and introducing a broader product range of flat-panel display sets. In 2004, the first large-screen LCD televisions were launched on the market and additional models will be added in 2005. In doing so, a decisive focus is on the implementation of cost-optimized product concepts and the closure of gaps in the product line in the entry level price segment.

Sharp cooperation brings competitive advantages

Furthermore, the closer cooperation with Sharp will be helpful in mastering the challenges in this area. The access to high-quality LCD panels, the joint development activities and the planned production of LCD sets for Sharp are important building blocks toward a stronger competitive position of Loewe in flat-panel televisions.

Premium positioning in the flat-panel display market

The prices for large-screen flat-panel display sets, which are still high compared to picture tube sets, offer providers of premium sets only limited options for generating higher sales prices at acceptable minimum sales volumes with especially high-end sets. As the flat-panel market matures, the general price level will decline. However, unlimited opportunities will arise for Loewe to differentiate itself clearly from the competition with particularly well-equipped sets. In the meantime, Loewe faces the risk that the target segment of high-end flat-panel display sets with extensive features will initially have comparatively little market significance and consequently the sales potential and the possibilities for price differentiation for Loewe could be limited.

In this transition phase, Loewe will therefore concentrate more strongly on the marketing of flat-panel display units and accept a lower price premium than was the case with more strongly differentiated picture tube sets in a mature market environment.

Design remains highly relevant

Even with flat-panel televisions, there are many possibilities for differentiation. For Loewe, the product design will continue to be an important differentiating and positioning criterion in relation to competitors' products. Accordingly, individual design possibilities resulting from flexibility and modularization will become increasingly important even in the external appearance of the products. Furthermore, the modular upgradeability of Loewe products (integrated Internet use, hard disk recording or the flexible connection of digital devices) will provide the customer with individual and customized solutions.

Developing technological differentiation potentials

Loewe products are of high technical quality

The successful premium positioning of flat-panel display sets requires the presence of competitive advantages in important product characteristics such as picture and sound quality, ease of use or system capability. Some of the technical expertise that made it possible for Loewe to produce particularly high-quality picture tube sets can in fact be transferred to flat-panel sets, for example, in terms of system capability, a simple user interface and a high level of quality. On the other hand, the assurance of outstanding picture quality, for example, requires additional technological developments.

Loewe will take actions to limit the risk that not enough resources will be available to generate technical differentiation potentials on a sustained basis, in particular as a consequence of the workforce reduction.

For years, Loewe has therefore concentrated on the development areas that offer it differentiation potentials. Modules and components are outsourced if it is not possible to achieve a better result from the customer's perspective through our own efforts. Furthermore, the development cooperation with Sharp that has been started in the meantime is very helpful. Chassis platforms are being developed jointly that make it possible for Sharp and Loewe to generate the desired development results faster and more efficiently. The access to the Sharp development resources in LCD panels also offers good possibilities for realizing the common objective of the best possible picture quality. Using the jointly developed chassis platforms as a basis, Sharp and Loewe will be able to concentrate more strongly on deriving brand-specific products from them.

In addition, an attempt is being made to use the existing contacts with institutes, universities and research institutions of significant companies more intensively and also expand them.

Attractive procurement conditions and availability of materials

The sharply declining production and purchasing volume of Loewe picture tube sets and the still comparatively small volume of Loewe flat-panel display sets make it difficult to achieve attractive purchasing conditions and a constant availability of materials in the case of allocations. From the present perspective, no supply bottlenecks can be seen for picture tubes or flat-panel displays. Nonetheless, a phase of scarcity could ensue, leading to higher price volatility. These conditions could negatively affect the procurement conditions and the availability of materials in the future.

Loewe counteracts these problems by systematically bundling volume with key suppliers, reducing the numbers of products and models, refining electronic procurement systems to reduce suppliers' processing costs and qualifying alternative components and suppliers. The cooperation with Sharp is also advantageous in this area because Sharp has an international position of leadership in the production of LCD panels of the highest quality. Because Loewe is under no contractual constraints in selecting its panel suppliers, Sharp is in competition with alternative suppliers in this area. There is also a continuing systematic expansion of existing cooperative agreements and continuous coordination of volume demand directly with the supplier companies and their partner organizations.

Xelos A 26

66-cm screen diagonal

Design: Phoenix Design

HD-LCD technology

Integrated electronics

Product quality and minimization of liability risks

For premium providers in particular, a high standard of reliability and product quality is critical. In picture tube sets, it has become more difficult to achieve high quality goals in recent years because measures to increase performance led to greater stress on the components used. Despite systematic quality assurance measures, field failures in picture tube sets have increased. Generally, the chief causes relate to the picture tubes used, line output transformers or the soldering.

The increasing share of flat-panel display products may make a higher quality level possible, depending on the concept. All the more because the current generation of sets is equipped with an optimized chassis which is designed for comparatively higher numbers of units in contrast to some predecessor products.

Consistent quality assurance

Loewe has for years taken extensive measures intended to ensure the quality of the products in production and in the market. For example, as part of formal evaluations, intensive tests are performed in the pilot production series. In this way, possibilities for early countermeasures can be created and consequential errors can be avoided. In software, fully operational standard components are increasingly replacing individual solutions. For an optimum interaction with the hardware, synchronization points are defined and analyzed in the hardware-software development. Moreover, a standardized supplier evaluation is performed according to specific and clearly defined quality criteria for the best possible quality of the delivered material. The basis of this evaluation is intensive supplier support in the sense of product/system audits and onsite acceptance inspections at the supplier's premises.

Marketing through company-owned export companies

In the Benelux countries, Italy, France and Austria, the marketing of Loewe products is performed by company-owned subsidiaries. In all other countries, independent distribution companies perform this function. The advantage of company-owned subsidiaries is higher sales revenues and a more direct relationship with the customer. This is associated with a higher operating risk because the additional fixed costs of the marketing organization are incurred mostly independent of the sales volume achieved.

To limit this risk, costly decentralized warehousing is avoided by supplying the customers in Italy, France and Austria directly. Wherever possible, essential administrative functions are centrally located in Germany in order to reduce the fixed costs in the export companies. Quarterly meetings are held with the persons responsible in the countries in order to detect nonconformities early and to initiate countermeasures.

Coverage of borrowing requirements

Financing assured

In 2004, two capital increases were initiated that in aggregate, raise Loewe's shareholders' equity by more than EUR 20 million. In addition, Loewe's financiers at yearend 2004 declared their willingness to extend the financing agreements to February 28, 2006, thus assuring Loewe's financing from the present perspective. An important prerequisite is that the restructuring measures initiated in 2005 will show the planned effect and earnings are achieved in line with a breakeven EBIT.

Currency risks

Despite its international focus, the currency risk is moderate for Loewe since the greatest share of foreign sales is billed in euros. Risks are derived only from the increasing purchasing volume of flat-panel displays which are settled in Japanese yen. These currency risks are partially counteracted through the use of hedging instruments.

EVENTS AFTER THE END OF THE FINANCIAL YEAR

The capital increase of Loewe AG of up to 2.8 million shares announced on December 9, 2004 was recorded in the Commercial Register on February 1, 2005. A total of 2.5 million shares were issued and a cash flow of EUR 16.5 million was generated.

OUTLOOK

The global economy continues to be on a growth path. After the highest expansion rate since 1984, growth should slow down from the rate of almost 5% of the year just ended. Nonetheless, it should stay at a relatively high level of roughly 4.0% in 2005.

The economy in the euro zone softened after the second half of 2004 and in the current year is experiencing only moderate recovery with projected GDP growth of approximately 1.7%. Compared to the previous year, the inflation rate should drop from 2.1% to 1.8%. The unemployment rate is also likely to persist at a very high level of 9%. Risk factors for continued economic growth in the euro zone continue to be the most recent price trends for oil and raw materials as well as the robust appreciation of the euro against the U.S. dollar.

The German economy is improving very slowly with anticipated GDP growth of 1.2%. In addition to the persistently weak domestic demand, the strained labor market situation is making economic recovery more difficult.

Moderate market growth expected

The consumer electronics market should continue to have moderate growth in the current financial year. In the television segment, which is of critical importance for Loewe, the substitution process in the direction of flat-panel display sets should continue in 2005. The pronounced price erosion is also likely to persist in 2005. Sales in the still dominant market segment of television sets with picture tubes will drop further. The impact of this on the high-end and high-priced picture tube segment will be especially severe.

The further expansion of the flat-panel display product line in 2005 and the full availability of the products introduced in 2004 on an annual basis will strengthen Loewe's competitiveness in the flat-panel segment. The focus of the product launches in the first half of 2005 will be on closing

Concept L 26, platinum
- 66-cm screen diagonal
- 16:9 wide screen format
- Integrated electronics
- Low overall depth

Concept L 32, platinum
- 80-cm screen diagonal
- Design: Phoenix Design
- Functional design
- Low overall depth

the gaps in the entry level category of LCD 26” and 32” sets with two new products of the Concept family. In the 42” plasma segment, a medium-priced product of the Xelos line will be positioned between the Spheros and the Concept in order to more strongly take advantage of Loewe’s market potential in plasma sets. Starting in the first quarter, the Xelos products will be converted to an electronics on board version in order to realize cost-cutting potentials. In the second half, this economy measure will be extended to the Spheros family. The most important product launch at the IFA Consumer Electronics Fair will be a new product family that will allow the greatest possible individualization of the products and offer cost advantages resulting from a common platform with the Concept line.

Overall, it should be possible in 2005 for the growth in sales of Loewe flat-panel display sets to overcompensate slightly the expected decline in picture tube sets. Furthermore, as part of the closer cooperation with Sharp, it is planned that Loewe will manufacture Sharp flat-panel display sets in Kronach. In addition to the improved utilization of production capacity, the joint development center based in Kronach will make it possible to bring Loewe products to market faster. Moreover, the share of costs to be borne by Loewe will fall despite the expansion of development activities resulting from the Sharp partnership.

Significant net relief is anticipated in 2005 from the cost-cutting program of EUR 18 million. Roughly 50% of this relief will result from lower personnel costs. In addition to the reduced number of employees, the collective streamlining agreement concluded for the years 2005 and 2006, which provides for a roughly 10% wage and salary deferment, is having a positive impact. The remaining savings relate to lower advertising expenses and other reductions in cost of materials.

Capital expenditure will primarily be concentrated on tooling for new products. All other investments will be limited to a necessary minimum.

After approximately 240 positions were eliminated at Loewe in 2003 and 2004, only a moderate decline in the number of employees is anticipated for 2005. The measures required for this have already been defined and are in the implementation phase. In the case of direct employees, the flexible working hours model in the first half of 2005 will compensate for the capacity requirement starting in mid 2005 due to the Sharp orders.

The capital increases of more than EUR 20 million which will be implemented by early 2005 and the extension of the financing agreements until February 28 2006 will ensure Loewe’s financing. An additional prerequisite is that the restructuring measures will have the planned effect in 2005 and the earnings targets for 2005 will be essentially met.

Because of the increasing significance of the brand and of the premium segment in the flat-panel display TV market, we anticipate that sales of Loewe products will pick up slightly in 2005. Starting in the second half, the cooperation with Sharp aims to add approximately EUR 50 million in additional sales volume. This expanded business volume and the restructuring measures lead us to expect earnings at around breakeven EBIT.

Kronach, March 15, 2005

The Executive Board

Dr. R. Hecker   Dr. B. Bamberger   G. Schaas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Innovation for the Future

- **Increase in value of the premium Loewe brand**
- **Significant improvements made to product orientation**
- **Development of market presence to suit target groups**
- **Product offensive with flat-panel displays**

Brand image successfully sharpened
A primary focus of the "Taurus" restructuring program is to sharpen the Loewe image as a premium brand. Values that the Loewe product line stands for under the brand umbrella include

- Minimalist expression of form
- Meaningful progress
- Individual experience

New Loewe product nomenclature for targeting specific consumer groups

Based on these Loewe brand values, we significantly enhanced our overall market presentation in 2004. The new Loewe product nomenclature targeted to specific groups of customers plays a significant role in this. Each Loewe TV model is assigned to one of four product segments – Reference, Art, Life or Classic. Each of these segments embodies a distinct statement of values that the end customer can identify with. The advantage of the new product nomenclature is that it helps orient the products to the requirements of the Loewe target groups. In addition, it produces a clear, hierarchical structure of the product line with a distinct possibility for differentiation. The new product line structure has already been in use since fall 2004 in the new, revised product literature, such as the Loewe catalog.

Loewe "Reference" is perfect for anyone who is not willing to compromise and is also not afraid to show it. It represents the new top of the line segment of the Spheros product family. Loewe "Art" primarily addresses individualists who prefer refined, intelligent and light forms such as in the Loewe Xelos. Loewe "Life" with the Concept and Mimo product families is especially suited to young people with high standards of mobility and technical competence. And Loewe "Classic" offers traditional picture tube sets for consumers who want to stay with the tried and true but also value the benefit of technically sensible innovations.

Ad campaign sharpens brand attractiveness

In addition to the new product nomenclature, our current ad campaign in widely circulated magazines and daily newspapers is the second key factor for sharpening Loewe's brand image. Our persuasive ad campaign increases Loewe's brand attractiveness and furthers the expansion of brand awareness by concentrating on the flat screen. Moreover, Loewe's updated Web site went live in mid-October 2004. The focus of the re-launch was user friendliness and concentration on the product.

Furthermore, Loewe offers active sales support through close and trusting teamwork with our retail partners. The high-quality, brand-oriented product presentation for the new Loewe LCD and plasma TVs strengthens our presence at the point of sale, and Loewe also supports its qualified retail partners with individual retail marketing campaigns.

We are convinced that branded products will be able to prevail again in the future against the "stingy is cool" mentality. Our position is validated by a representative survey conducted by the management consulting firm Marketing Corporation in Bad Homburg. The survey showed that 83% of consumers now base their buying decisions primarily on quality, only 17% on price. In addition to branded products, advice and service in the retail shop are once again high on the list of customer interests.

Systematic expansion of the Loewe product portfolio with new flat-panel displays

Loewe has already had an early start in building up technical expertise in the new flat-panel display technologies – plasma (1998) and LCD (2000). We started our 2004 product offensive with a broad and attractive product range just in time for the emerging market for medium-format and large-format LCD sets. In the meantime, Loewe has regained the number four position in the German market for LCD televisions with an 8.4% market share by value in the German retail trade in December 2004. The strong growth of our market share is the result of the systematic continuation of our successful premium strategy as well as the product offensive with the launch of ten new flat-panel display sets in 2004.

In April 2004, we brought the Spheros 37 HD to the market as a global innovation with an integrated hard disk recorder. The LCD panel with high-definition imaging guarantees a unique, brilliant picture quality at a screen diagonal of 94 centimeters. Moreover, the Spheros 37 HD already has all the important digital interfaces for high-definition television (HDTV) such as Digital Visual Interface (DVI) with copy protection (HDCP). The Xelos SL 37 HD is another large-screen LCD television that was launched in the retail trade earlier than planned with a large-scale marketing campaign. The Xelos family represents sophisticated design and the most advanced LCD technology with high-definition picture quality at an attractive price-performance ratio. The large-screen Xelos SL 37 HD and Xelos SL 32 HD with a high-definition LCD display in the 16:9 wide-screen format offer a brilliant picture due to the new MediaPlus HD technology and thus ensure a first-rate home cinema experience.

Large-screen LCD sets enhance the Loewe portfolio

Spheros R 26, platinum
66-cm screen diagonal
High-definition LCD panel
DVB-T integrated, DVB-S optional
HD-ready through HDMI interface

Spheros 42 HD/DR+
106-cm screen diagonal
Cube 1
Certos DVD player
Concertos speaker system

Technological trendsetter with accomplished design competence

The new Loewe showcase product, the Spheros R 37 Masterpiece LCD-TV was successfully launched on the market in large national and international road shows in time for the start of the holiday shopping season in the fall. The clear, consistent design of the dark one-piece glass front combined with high-quality materials and outstanding workmanship make the exquisite Loewe stand-mounted unit into a design classic, even today. With a visible screen diagonal of 94 centimeters, the Loewe "Masterpiece" is a sculptured stand-mounted unit, backing up Loewe's claim of being the technological trendsetter with accomplished design competence in the TV industry. Early in 2005, the Spheros R 37 Masterpiece has already earned top rankings in tests. The trade journal "Video" selected the Masterpiece as its test winner with the highest ratings for operation and features.

Nearly all Loewe flat-panel sets with a screen diagonal greater than 26" are capable of displaying the outstanding picture quality of high definition television (HDTV) and therefore bear the European seal of quality "HD ready." Generally, the logo is only awarded to TV sets that meet this highest level of quality.

The Loewe MediaPlus HD technology makes it possible to integrate or connect utility-based features such as Digital RecordingPlus or Digital Photoviewer as well as Premier, DVB-S and DVB-T reception in many new Loewe television sets.

The "Time-to-Market" project management initiative brought all product development projects to completion and scaled up for production according to plan. The development work for the L 2600 television chassis was completed on schedule. An important innovation is an integrated digital receiver, which makes possible completely digital signal processing from the receiver module to the display on the LCD screen. The Xelos A 26 was the first LCD television to be equipped with this innovative technology. The L 2600 chassis offers a new intuitive user interface with advanced animated graphic elements. The significant reduction in size of the electronics modules and the resulting elimination of an additional signal box allowed for product cost reductions.

The automatic placement capacity was adapted to cover the increasing demand for large-screen LCD units. The chassis production lines and final assembly were equipped and optimized for LCD products. Another adjustment of production capacity will be necessary in 2005 for the expanded product range of Loewe sets and the additional production of Sharp sets.

Global innovation in time for IFA 2005

Loewe will further expand its product portfolio of flat-panel display TV by ten new sets in 2005. A focus in the first half will be the entry-level range for LCD-TV with the new Concept family in 26" and 32" sizes. In the medium price segment, the Xelos A 42 plasma TV will add another large-screen set to the market for discriminating home cinema enthusiasts. Furthermore, we will introduce an exceptional global innovation at the IFA Internal Consumer Electronics Fair in Berlin in 2005. With a new product family, Loewe will demonstrate that flat-panel display products offer almost unlimited possibilities for differentiation and individualization.

In general, our strategic orientation remains the same. Loewe will continue to improve the television in order to be able to offer discriminating customers a particularly attractive all-round solution – a set with a large, brilliant picture and perfect surround sound that looks good even when switched off. This is for people who want more than just television, people who want digital storage media and possibilities for receiving digital TV or pay TV.

Expansion of marketing to the key European markets

In 2004, we gradually began to build up the distribution of the new medium- and large-screen Loewe flat-panel display sets. The response to the new products was entirely positive and made a fast, widespread market launch possible. In the key European markets in particular, this enabled Loewe to obtain a higher market significance compared to the previous year.

Independent of the widespread introduction of our flat-panel display technology products, we continued at the same time to expand our customer base by gaining new customers in selected markets. We also intend to increase the weighted distribution quota in Europe from 28% to over 35% in 2005. Moreover, we plan an additional quantitative expansion of distribution by gaining approximately 350 new customers in European countries other than Germany through 2005. This should improve the Loewe presence in France and Italy in particular.

In Germany, the weighted distribution quota will be increased by improving quality distinctly. Alongside the enhancement of the quality of consulting and services, the high-quality and brand-oriented presentation of the Loewe LCD and plasma TVs was further improved through cooperation with qualified retailers. This should yield even stronger retailer support for us. The systematic implementation of the Loewe marketing structure should enable at least 500 retailers in Germany to attain the status "Loewe Gallery" or "Loewe PartnerPlus." Today this number is around 200.

Rated highest by German retailers

A representative survey of electronics retailers conducted by the German market research group (GfK) shows that strengthening the Loewe brand also puts us on the right track with respect to marketing. Loewe earned the highest ratings.

Cost-cutting program successfully started

In addition to continuing the product offensive, the sharpening of the brand image and the expansion of marketing, the "Taurus" restructuring program also signifies stringent cost management and further organizational streamlining.

A cost-cutting program amounting to EUR 12 million was adopted and implemented for 2004. As part of the workforce reductions announced in 2003, we also significantly streamlined the Loewe organization. The workforce reduction was accomplished through layoffs as well as socially compatible measures such as outsourcing, early retirement and attrition. After the personnel cuts, Loewe's total employment figures are expected to stabilize in 2005. Furthermore, savings were achieved in marketing and advertising costs as well as in other material costs.

All employees – including the Loewe management team – made an additional contribution to cost reduction and profit performance through a company-wide deferment of wages and salaries of just under 10%. In addition, a supplementary collective agreement was concluded between the company, the works council and the IG Metall labor union.

Cost-cutting program successfully adopted

The EUR 18 million cost-cutting program for 2005 announced last year has been initiated successfully. In addition to the reduction in the number of employees, the collective restructuring agreement concluded for the years 2005 and 2006 is having a positive impact. It provides for a roughly 10% deferment of wages and salaries. The remaining savings relate to lower advertising expenses and other reductions in cost of materials.

The closer cooperation with Sharp brings additional momentum

Loewe has been cooperating with Sharp in the development and production of small-screen LCD televisions since 2000. This partnership was significantly intensified in 2004. The important elements of this deepened partnership are the establishment of a joint European development center in Kronach, the planned production of Sharp LCD televisions by Loewe and the increase of the Sharp interest in Loewe to just under 29% as part of a cash capital increase.

Since January 2005, both companies have operated a European development center in Kronach, which is operated jointly by Loewe and Sharp. The goal is to further develop a completely digital electronics platform for LCD-TVs and peripherals based on Sharp's LCD panel technology and Loewe's expertise in electronics. The focus will be on the European broadcasting standard for digital television (DVB) and the development of integrated HDTV receivers for high-definition television with optimum picture quality. Both companies expect it to lead to enhanced ability to compete, faster time to market and distinct cost advantages due to cost sharing of corresponding project costs. Altogether, more than 30 people from the Loewe development department are working at the new development center. For Loewe, this results in a significant lowering of development costs. At the same time, it will make it possible to keep the staffing levels in the development department at least at the current level.

New LCD production line operational

Furthermore, we plan to start the production of medium- and large-screen LCD televisions under the Sharp brand name during the second half of 2005. We put a very flexible, highly automated production line for LCD televisions into operation in 2004. This line will also enable us to produce flat televisions of the highest quality and in large numbers of units for Sharp at competitive prices. Our production target is approximately 50,000 LCD televisions at a production volume of approximately EUR 50 million. Under these conditions, the planned layoff of approximately 50 employees in production can be avoided. Because Sharp's orders will not be reflected in a higher production volume until the beginning of the second half of 2005, we will continue to use the flexitime measures in the early months of 2005 that have been put into practice previously.

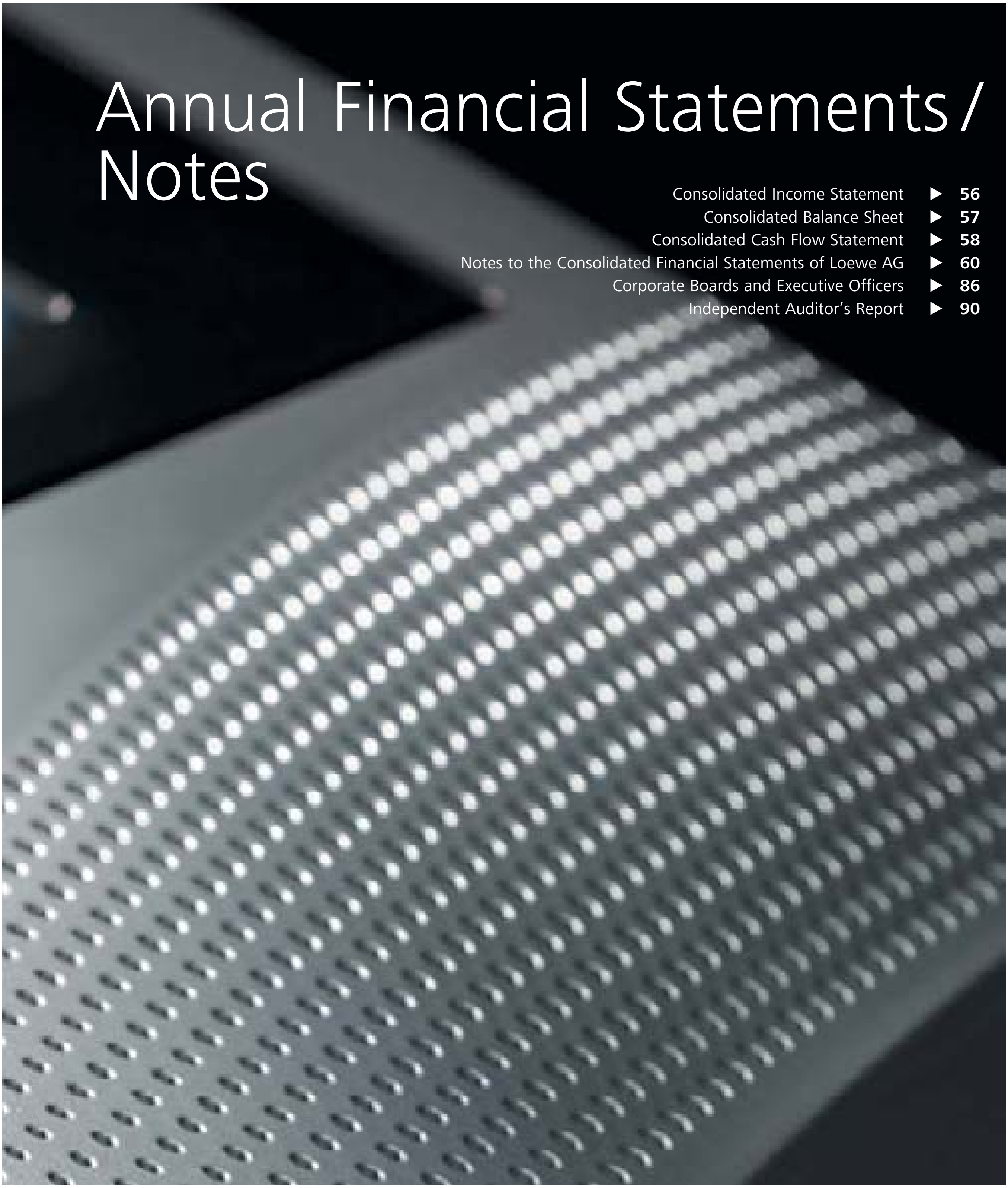
In June 2004, a cash capital increase raised the shareholders' equity of Loewe AG by 700,000 shares, corresponding to approximately EUR 4.3 million. Sharp fully subscribed to this amount. The second capital increase announced in December 2004 was implemented in January 2005 and recorded in the commercial register on February 1. In total, 2.531 million shares were subscribed in the second tranche at EUR 6.50, bringing Loewe additional shareholders' equity of EUR 16.5 million. Sharp subscribed to 2.3 million shares of the capital increase and increased its stake in Loewe to just under 29%. The interest of management and 3i is now roughly 18% and

7 %, respectively. The total net cash for Loewe from the two capital increases amounts to roughly EUR 20 million, increasing the equity ratio to approximately 20 %. The restructuring successfully initiated by Loewe can be continued on a solid financial footing in 2005.

In addition to the strengthening of the financial position resulting from the two capital increases, the cooperation with Sharp will also result in cost relief for Loewe and improved profit performance in operating activities around the middle of the single-digit million euro range. In general, the individual projects with Sharp will contribute to an improvement of the fixed cost structure, increase the capacity utilization of the Loewe factory and thus safeguard jobs at the Kronach location. Loewe is thus receiving additional support for the already successfully initiated turnaround with the objective of becoming profitable again as soon as possible.

Xelos A 22
56-cm screen diagonal
Flat-TV F-Stand 2
FM radio
Alarm function


LOEWE.
M
+



Annual Financial Statements / Notes

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2004

	Notes No.	January – December 2004		January – December 2003	
		EUR thousands	%	EUR thousands	%
Sales		272,960		288,921	
Discontinuing division		– 5,150		– 5,694	
Continuing division	1	**267,810**	**100.0**	**283,227**	**100.0**
Cost of sales*	2	– 228,666	– 85.4	– 229,020	– 80.9
Gross margin		**39,144**	**14.6**	**54,207**	**19.1**
Marketing and selling expenses	3	– 59,036	– 22.0	– 69,175	– 24.4
General administrative expenses	4	– 7,340	– 2.8	– 8,795	– 3.1
Other operating income	5	18,487	6.9	8,402	3.0
Other operating expenses	6	– 17,240	– 6.4	– 11,639	– 4.1
Income from participating interests		227	0.1	106	0.1
EBIT of the continuing division		**– 25,758**	**– 9.6**	**– 26,894**	**– 9.4**
Interest and similar income		234	0.1	259	0.1
Interest and similar expenses	7	– 6,620	– 2.5	– 2,839	– 1.0
Profit from ordinary activities (EBT) of the continuing division		**– 32,144**	**– 12.0**	**– 29,474**	**– 10.3**
Profit from ordinary activities (EBT) of the discontinuing division	8	– 8,054	– 3.0	– 6,418	– 2.3
Profit from ordinary activities (EBT)		**– 40,198**	**– 15.0**	**– 35,892**	**– 12.6**
Income taxes	9	10,801	4.0	6,174	2.2
Net loss before minority interests		**– 29,397**	**– 11.0**	**– 29,718**	**– 10.4**
Minority interests		– 29	0.0	– 21	0.0
Net loss		**– 29,426**	**– 11.0**	**– 29,739**	**– 10.4**
Loss/profit carried forward		– 773		17,508	
Dividend payment		0		– 6,100	
Appropriations from capital reserve		30,000		17,558	
Net loss		**– 199**		**– 773**	

* The following items up to and including interest and similar expenses only contain information concerning the continuing division

	Notes No.	2004		2003	
Net loss of the continuing division	10	– 21,363		– 23,305	
Basic earnings per share** of the continuing division		– 2.71		– 3.25	
Basic earnings per share*** of the continuing division		– 2.84		– 3.25	
** Number of shares issued as of December 31		7,876,600		7,176,600	
*** Weighted average number of shares pursuant to IAS		7,526,600		7,176,600	

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2004

EUR thousands	Notes No.	2004	2003
Assets			
Non-current assets*	11		
Intangible assets		6,121	9,389
Property, plant and equipment		44,331	52,975
Financial assets		772	255
Total non-current assets		**51,224**	**62,619**
Current assets*			
Inventories	12	36,403	43,100
Trade accounts receivable	13	51,753	69,070
Other short-term receivables	14	6,114	2,831
Cash and cash equivalents	15	2,051	2,661
Total current assets		**96,321**	**117,662**
Deferred tax assets	16	**24,916**	**15,191**
Assets of the discontinuing division	17	**12**	**5,041**
Total assets		**172,473**	**200,513**
Liabilities and shareholders' equity			
Shareholders' equity	18		
Subscribed capital		7,877	7,177
Conditional capital EUR 398 thousands (previous year: EUR 398 thousands)			
Capital reserve		11,718	38,300
Distributable loss		– 199	– 773
Total shareholders' equity		**19,396**	**44,704**
Minority interests	19	**997**	**1,188**
Provisions*			
Provisions for pensions and similar obligations	20	36,232	27,105
Tax provisions	21	7,271	6,875
Deferred tax liabilities	22	0	2,095
Other provisions	23	43,400	47,319
Total provisions		**86,903**	**83,394**
Liabilities*	24		
Long-term debt		10,483	9,952
Trade accounts payable		21,688	21,354
Other short-term liabilities		31,969	38,693
Total liabilities		**64,140**	**69,999**
Provisions and liabilities of the discontinuing division	25	**1,037**	**1,228**
Total liabilities and shareholders' equity		**172,473**	**200,513**

* of the continuing division

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2004

EUR thousands	2004	2003
Operating activities*		
Profit from ordinary activities	– 32,144	– 29,474
Depreciation and amortization of non-current assets	25,351	25,075
Unrealized gains (–) on the disposal of assets	– 1,418	– 5
Increase (+)/Decrease (–) in pension provisions	227	– 1,065
Income taxes paid	– 411	387
Net cash before changes in net current assets	**– 8,395**	**– 5,082**
Change in net current assets		
Decrease (+) in inventories	6,697	7,882
Decrease (+) in trade accounts receivable and other assets	13,879	10,902
Decrease (–)/Increase (+) in other provisions	– 3,919	761
Decrease (–) in trade accounts payable and other liabilities	– 971	– 2,361
Change in net current assets	**15,686**	**17,184**
Net cash from operating activities	**7,291**	**12,102**
Investing activities		
Payments for purchases of intangible assets and property, plant and equipment	– 14,769	– 20,594
Payments for purchases of financial assets	– 554	– 118
Proceeds from disposals of property, plant and equipment	2,737	100
Proceeds from disposals of financial assets	0	91
Net cash used by investing activities	**– 12,586**	**– 20,521**
Free cash flow of the continuing division	**– 5,295**	**– 8,419**
Free cash flow of the discontinuing divisions**	**– 3,490**	**– 6,567**
Total free cash flow	**– 8,785**	**– 14,986**
Financing activities		
Decrease (–) in minority interests	– 220	0
Capital increase	4,118	0
Dividend payment	0	– 6,100
Repayment (–)/Borrowing (+) of loans	– 175	9,602
Net cash from financing activities in the continuing division	**3,723**	**3,502**
Cash-effective change in liquidity	**– 5,062**	**– 11,484**

Composition of liquidity	12/31/04	12/31/03	±
Cash and cash equivalents	2,062	2,937	– 875
Short-term bank loans	– 25,462	– 21,275	– 4,187
Liquidity	**– 23,400**	**– 18,338**	**– 5,062**

* The following items up to and including net cash used by investing activities only include data of the continuing division

** The free cash flow of the discontinuing division is itemized in the notes on page 84

BASIS OF PRESENTATION

Pursuant to § 292a German Commercial Code (HGB), the consolidated financial statements of Loewe AG have been prepared in accordance with the International Financial Reporting Standards (IFRS). These accounting principles remain unchanged from last year.

Principles of Consolidation

The assets and liabilities reported in the consolidated financial statements have been recognized and measured in accordance with uniform accounting principles, which have not changed from the previous year. All intra-Group receivables and payables as well as sales, services, income, expenses, and profits have been eliminated.

The Group's acquisitions have been accounted for using the purchase method by offsetting the carrying amount of investments in subsidiaries and associated companies against the shareholders' equity attributable to the parent company at the time of acquisition.

The following accounting principles that differ from German commercial and joint-stock company law and are mandatory under International Financial Reporting Standards (IFRS) were applied for these consolidated financial statements. The IFRS/IAS standards mentioned refer to the most recently amended version.

1. The Company's own development costs are accounted for as internally generated intangible assets in accordance with IAS 38.
2. Deferred taxes are established in accordance with the balance-sheet liability method under IAS 12.
3. Pension provisions are accounted for under the projected unit credit method in accordance with IAS 19.
4. In conformity with IAS 19, provisions for anniversary bonuses and death benefits are accounted for under the projected unit credit method in accordance with U.S. accounting rules (Financial Accounting Standards Sec. 87).
5. Separation of the discontinuing division pursuant to IAS 35.
6. Impairment losses recognized in income or directly in equity in accordance with IAS 32 and IAS 36.

Scope of Consolidation

The following companies were consolidated as of the balance sheet date of December 31, 2004:

	Share capital	Interest
Parent company		
Loewe AG, Kronach	EUR 7,876,600.00	
Subsidiaries		
Loewe Opta GmbH, Kronach	EUR 23,010,000.00	99 %

The wholly owned subsidiary of Loewe Opta GmbH, Loewe Pensionsgesellschaft mbH, Kronach (capital of EUR 30,000.00), was merged into the acquiring company effective January 1, 2004 without a capital increase by virtue of the agreement for absorption dated July 13, 2004.

The termination of Loewe Pensionsgesellschaft mbH was recorded in the Commercial Register on August 4, 2004.

Loewe Telecom GmbH i. L., Kronach

Loewe Telecom GmbH i. L. Kronach (capital of EUR 1,535,000.00) has been in liquidation proceedings since November 2002. The termination and deconsolidation of the company was recorded in the Commercial Register on June 30, 2004.

Loewe Opta Benelux N.V./S.A., Antwerp, Belgium	EUR 61,973.38	90 %
Subsidiary of Loewe Opta Benelux N.V/S.A.:		
■ Loewe Opta Nederland B.V., Nieuwegein, Netherlands (uncalled capital EUR 72,604.83)	EUR 90,756.04	100 %
Loewe Opta, Inc., City of Wilmington, County of New Castle, Delaware, USA	US$ 1,000.00 EUR 734.16	100 %

The subsidiary in the U.S. ceased business operations in 2004. By year-end all assets had been liquidated or fully written off. Due to the cessation of business operations, the company's financial statements show a net loss of EUR 5.2 million (US$ 7.4 million) and negative equity of EUR 8.8 million (US$ 12.0 million). The carrying amount of the investment and the claims outstanding were written off in full. The existing warranty obligations are being fulfilled by a services company.

Loewe France S.A., Strasbourg, France	EUR 150,000.00	75 %
Loewe Italiana S.r.l., Bolzano/Verona, Italy	EUR 100,000.00	99 %
Loewe Austria GmbH, Vienna, Austria	EUR 35,000.00	100 %

The subsidiary was formed in late 2003 and has handled sales activities in Austria since early 2004.

Currency Translation
All consolidated companies except Loewe Opta, Inc., U.S., are in the euro zone. In conformity with IAS 21, currency translation in the balance sheet of Loewe Opta, Inc. was based on the offering price as of the closing date (EUR 1 = US$ 1.3621) and on the average rate (EUR 1 = US$ 1.2462) in the income statement.

ACCOUNTING POLICIES

The accounting policies detailed below have not been changed from those used last year. The structure of the consolidated financial statements is consistent with the EU accounting directives and accords. Applying IAS 35, the expenses and income reported due to the cessation of the activities of Loewe USA were reported separately as those of a discontinuing division. The previous year's figures were adjusted accordingly.

The continuing division Home Media Systems is accounted for as a going concern.

Intangible Assets (11)*

Software and other intangible assets are capitalized at cost and amortized on a straight-line basis over their estimated useful life.

The Group's development costs are capitalized insofar as they meet the criteria specified in IAS 38. They are capitalized at the personnel and materials costs incurred for the specific projects.

Amortization is charged on a straight-line basis and corresponds to the period during which the developed products are likely to be produced and sold.

The following amortization rates are applied:

Software	14% to 66%
Development costs	33% to 50% p.a.

Property, Plant, and Equipment (11)

Property, plant, and equipment are reported at their net carrying amounts.

At the first-time consolidation as of December 31, 1997, hidden reserves in land and buildings discovered as the result of an appraisal report were disclosed and capitalized. There were no hidden reserves in other items of property, plant, and equipment. Production facilities and machinery as well as other equipment, factory and office equipment are reported at cost less accumulated depreciation.

Investments acquired during the financial year are reported at cost.

Buildings are depreciated on a straight-line basis over their estimated useful life. Production facilities, machinery, other equipment, factory and office equipment are depreciated over their useful life, in some cases on a straight-line basis and in other cases under the declining-balance method. Write-downs of EUR 1.9 million were taken on product-related investments for which it cannot be expected that the coverage originally planned will be achieved due to a shortening of the product lives or a reduction of the production volumes. For additions to depreciable non-current assets,

* Figures in parentheses refer to the respective figures in the income statement and balance sheet.

depreciation was taken only pro rata temporis for the period between purchase or manufacture and the end of year. Minor-value assets costing less than EUR 410 are immediately written off in full.

The following depreciation rates are applied for straight-line depreciation:

Buildings	2,5% to 7%
Production facilities and machinery	7% to 20%
Other equipment, factory and office equipment	8% to 33%

Financial Assets (11)

Equity investments and long-term securities are valued at the lower of cost or market value. Other loans are reported at cost less redemption payments and are individually written down to the extent necessary.

Inventories (12)

Inventories are shown at cost. Costs of conversion include the cost of materials and labor as well as necessary material and production overheads. Normal utilization was assumed in determining the costing rates. Inventories that cannot be sold or those for which their likely selling price, after deduction of selling costs, would not cover their cost, are written down accordingly.

Trade Accounts Receivable (13)

Trade accounts receivable are reported at their nominal value less specific value adjustments for credit risks. Cash discounts, interest and processing costs have been accounted for by lump sum value adjustments. Receivables in foreign currencies are measured at the lower of the original exchange rate and the bid price as of the balance sheet date.

Other Short-Term Receivables (14)

Other short-term receivables are reported at their nominal value less specific value adjustments.

Cash and Cash Equivalents (15)

Cash on hand and bank balances are shown at their nominal value. Bank balances in foreign currency are reported at the offering price as of the balance sheet date.

Deferred Tax Assets (16)

Under IAS 12, deferred tax assets are computed on the basis of the differences between the consolidated financial statements and the tax accounts. Deferred tax claims from loss carryforwards are capitalized if it is likely that they can be realized.

The tax rate uniformly applicable to the Group is 37.0% (previous year: 37.0%). Tax increases that would be incurred in the event of a profit distribution from shareholders' equity on which corporate tax has not yet been charged are not deducted from deferred tax assets. In order to optimize the Group's tax position, there are no plans to make such distributions.

Subscribed Capital (18)

The subscribed capital is reported at nominal value.

Provisions (20 – 23)

Pension provisions are calculated in accordance with IAS 19 (revised 2002) according to the projected unit credit method.

Tax provisions contain taxes likely to be payable. It was not necessary to report deferred tax liabilities.

Other provisions are set aside where definite obligations exist. The level of the provisions is set at the amounts likely to materialize.

Long-Term Debt (24)

Bank loans and other liabilities are reported at their repayment amounts.

Short-Term Liabilities (24)

The repayment amounts are also recognized for the short-term liabilities.

NOTES TO THE INCOME STATEMENT

The cost-of-sales method is used. The notes below refer to the continuing division Home Media Systems. The results of the discontinuing division have been reported separately. For the sake of comparability, the previous year's figures were adjusted accordingly.

(1) Sales

Sales represent net revenues from the sale of the Company's own products, merchandise, and related services after all sales deductions.

Sales broken down by product line are as follows:

	2004		2003	
	EUR thousands	%	EUR thousands	%
Television including multimedia	227,984	85.1	240,491	84.9
DVD players	5,955	2.2	4,109	1.5
Video recorders	1,953	0.8	3,435	1.2
Stereo systems	3,202	1.2	4,174	1.5
Accessories and other revenues	28,716	10.7	31,018	10.9
Total	**267,810**	**100.0**	**283,227**	**100.0**

Sales by region were as follows:

	2004		2003	
	EUR thousands	%	EUR thousands	%
Germany	136,381	50.9	148,476	52.4
Europe excluding Germany	117,812	44.0	118,277	41.8
Rest of the world	13,617	5.1	16,474	5.8
Total	**267,810**	**100.0**	**283,227**	**100.0**

(2) Cost of Sales

The cost of sales comprises the cost of materials for the manufacture of Loewe products and the cost of purchased merchandise as well as the cost of labor and materials needed to achieve these sales, unless these costs are shown under administrative and selling expenses, which are reported separately. They are broken down as follows:

EUR thousands	**2004**	**2003**
Raw materials and supplies	162,465	161,457
Merchandise	12,560	14,343
Purchased services	1,130	1,459
Personnel and social security costs	30,740	35,247
Other material costs	21,771	16,514
Total	**228,666**	**229,020**

(3) Selling Expenses

Selling expenses comprise the following:

EUR thousands	2004	2003
Advertising costs	17,098	20,158
Freight	9,669	10,481
Warranties	4,444	6,279
Personnel and social security costs	15,426	17,694
Other material costs	12,399	14,563
Total	**59,036**	**69,175**

(4) General Administrative Expenses

The following expenses were incurred for administration:

EUR thousands	2004	2003
Personnel and social security costs	5,202	6,094
Other material costs and overheads	2,138	2,701
Total	**7,340**	**8,795**

(5) Other Operating Income

Other operating income comprises the following:

EUR thousands	2004	2003
Billed goods and services	1,981	2,148
Rental income	157	165
Public support funds for development projects	237	481
Income from development services	1,295	0
Income from the release of provisions	5,058	4,168
Transfer of assets of Loewe Opta Unterstützungskasse e.V.	8,550	0
Other income	1,209	1,440
Total	**18,487**	**8,402**

Income from the transfer of the assets of Loewe Opta Unterstützungskasse e.V. is related to the simultaneous assumption of the pension commitments reported under other operating expenses.

Income from the release of provisions mainly relates to provisions for impending losses and license fees that were no longer needed.

(6) Other Operating Expenses

Other operating expenses relate to:

EUR thousands	2004	2003
Billed goods and services as well as rental income	2,191	2,372
Expenses for subsidies received	237	481
Allocation to the provision for anticipated losses	2,100	0
Assumption of the pension commitments of Loewe Opta Unterstützungskasse e.V.	9,133	0
Costs for cancelled purchase contracts	504	1,600
Severance payments to employees	1,131	2,263
Consulting fees restructuring	1,342	0
Other operating expenses	602	4,923
Total	**17,240**	**11,639**

The expenses for billed goods and services correspond to the revenues reported under other operating income.

Under the terms of the profit transfer agreement between Loewe AG and Loewe Opta GmbH, one member of the Executive Board of Loewe AG who has held a 1 % interest in the share capital of Loewe Opta GmbH since 1997 receives an annual equalization payment in the amount of EUR 73.6 thousand pursuant to § 304 AktG (Aktiengesetz – German Stock Corporation Act).

(7) Interest and Similar Expenses

The interest expenses have increased due to the greater need for borrowing and a worsening of interest rates. They are broken down as follows:

EUR thousands	2004	2003
Loan interest and fees to principal bankers	3,173	1,021
Loan interest to Loewe Opta Unterstützungskasse e.V.	270	316
Factoring interest and fees	1,270	352
Interest on amounts allocated to provisions pensions, anniversary bonuses and death benefits	1,830	1,134
Other expenses equivalent to interest	77	16
Total	**6,620**	**2,839**

(8) Operating Result of the Discontinuing Division Loewe USA

The operating activities of the discontinuing division Loewe USA were ended in 2004. The existing warranty obligations are being fulfilled by a services company on behalf of Loewe Opta, Inc., USA. The net loss for the discontinuing division for 2004 came to EUR 8.063 thousand.

(9) Income Taxes

Income tax expenses include EUR 411 thousand in actual taxes and EUR 600 thousand in taxes and interest from the not yet completed tax audit. This is offset by EUR 11,821 in deferred tax proceeds.

The expenses for deferred taxes are broken down as follows:

EUR thousands	
Change in deferred tax assets based on the accounting differences between the consolidated balance sheet and the commercial balance sheet	+ 8,225
Increase in deferred tax assets on anticipated realizable loss carryforwards	+ 5,131
Increase in deferred tax benefits on retained earnings	+ 2
Change in the deferred tax claims from the tax-equalization item as a consequence of the differences between the commercial balance sheets and the tax balance sheets	– 1,500
Provision for existing deferred tax risks	– 37
Total	**+ 11,821**

In the financial year, new valuation allowances were formed on deferred tax assets in the amount of EUR 1,338 thousand. The total amount of the valuation allowances on deferred tax assets is EUR 4,245 thousand.

The average effective tax rate is 33.6% and is thus 3.4 percentage points below the rate of 37.0% for deferred taxes.

Reconciliation of the applicable 37.0% tax rate to the average effective tax rate of 33.6%:

%	
Applicable tax rate	37.0
Consideration of additional tax risks	– 0.5
Differences resulting from tax rate differences in Italy	– 0.8
Additional taxes from the not yet completed tax audit	– 1.9
Other net differences	– 0.2
Average effective tax rate	**33.6**

(10) Earnings Per Share

The consolidated net loss of EUR 21,363 thousand of the discontinuing division must be related to the 7,876,600 outstanding shares of Loewe. This results in earnings per share of EUR −2.71 in the year under review (previous year: EUR −3.25).

Based on the weighted average number of shares in accordance with IAS 33, the increase from 7,176,000 shares to 7,876,600 shares results in a loss per share of EUR 2.84.

In accordance with IAS 33, diluted earnings per share are not shown as the loss per share would actually result in improved earnings per share.

	2004	2003
Net income (EUR thousands)	− 21,363	− 23,305
Basic earnings per share in EUR	− 2.71	− 3.25
Basic earnings per share (weighted average) determined according to IAS in EUR	− 2.84	− 3.25
Number of shares issued	7,876,600	7,176,600
Weighted average number of shares issued (IAS)	7,526,600	7,176,600
Number of shares (incl. capital increase in January 2005) issued and options	10,805,783	7,575,000

NOTES TO THE BALANCE SHEET

If not reported separately, the balance sheet items explained below refer to the continuing division Home Media Systems.

(11) Non-Current Assets

The changes in non-current assets were as follows:

EUR thousands	Cost (accumulated)	Additions	Disposals (at cost)	Reclassifications	Accumulated depreciation/amortization	Carrying amount at end of year	Carrying amount previous year	Current depreciation/amortization
I. Intangible assets								
1. Software and similar assets	7,012	303	210	0	6,017	1,088	1,614	829
2. Development costs	19,867	7,233	6,332	0	15,735	5,033	7,775	8,682
Total	**26,879**	**7,536**	**6,542**	**0**	**21,752**	**6,121**	**9,389**	**9,511**
II. Property, Plant and Equipment								
1. Land and buildings	40,777	54	23	0	17,825	22,983	23,942	990
2. Production facilities and machinery	15,561	76	0	0	14,118	1,519	2,784	1,341
3. Other equipment, factory and office equipment	107,729	7,102	9,676	0	85,326	19,829	26,249	13,509
Total	**164,067**	**7,232**	**9,699**	**0**	**117,269**	**44,331**	**52,975**	**15,840**
III. Financial assets								
1. Equity investments	48	0	25	0	0	23	23	0
2. Long-term securities	96	549	3	0	0	642	96	0
3. Other loans	145	5	34	0	9	107	136	0
Total	**289**	**554**	**62**	**0**	**9**	**772**	**255**	**0**
Total non-current assets	**191,235**	**15,322**	**16,303**	**0**	**139,030**	**51,224**	**62,619**	**25,351**

Intangible assets include product and IT software and development costs. The development costs primarily include capitalized in-house development expenses. The total cost of development in 2004 came to EUR 12,871 thousand (2003: EUR 13,986 thousand). Other intangible assets primarily relate to purchased software.

Land and buildings as well as production facilities and machinery are mainly used for production in Kronach. Other equipment, factory and office equipment includes office, furniture and equipment and high-quality presentation systems for sales as well as tools used by suppliers.

Equity investments are between 7% and 10% of the share capital of the companies invested in and refer primarily to participations in poolings of interests for business purposes.

Securities purchased have been ceded to an insurance company as collateral (15% guarantee) for part-time retirement obligations.

(12) Inventories

The inventories are broken down as follows:

EUR thousands	2004	2003
Raw materials and supplies	14,951	13,639
Work in progress	1,589	2,140
Finished goods and merchandise	19,863	27,321
Total	**36,403**	**43,100**

The increased inventory of raw materials and supplies is primarily due to purchases of panels from the Far East that were still seaborne.

The decline in finished goods and merchandise results from the systematic reduction of the finished goods inventory in the fourth quarter of 2004.

The costs of inventories include write-downs of EUR 6,038 thousand (2003: EUR 5,461 thousand) in order to ensure the loss-free valuation of finished goods and merchandise in accounting for obsolete and excess inventories. Write-downs of EUR 4,766 thousand (2003: EUR 3,464 thousand) on raw materials and supplies and on work in progress have been recognized.

(13) Trade Accounts Receivable

Trade accounts receivable consist entirely of accounts receivable from business operations. Factoring of accounts receivable in Germany and in the Italian subsidiary reduced the accounts receivable by a total of EUR 27.4 million (2003: EUR 14.0 million).

The amount reported for trade accounts receivable includes adequate allowances for insolvency risk, cash discount reductions, processing costs and interest.

Allowances for insolvency risk are measured individually. The existing credit insurance is recognized for accounts receivable in Germany; available letters of credit, bank guarantees and credit insurance were recognized accordingly for international receivables.

(14) Other Short-Term Receivables

Other short-term receivables relate to:

EUR thousands	2004	2003
Assets from hedging	0	696
Value-added tax and income tax	1,851	402
Credit balances with suppliers	220	360
Residual receivables from the disposal of equity interests in subsidiaries	250	278
Claims on insurance companies	516	37
Claims on the Office of Employment	9	99
Claims on affiliated companies	146	184
Advances for travel expenses and personnel	87	143
Claims on the sale of development results	2,590	0
Other prepaid expenses and other short-term claims	445	632
Total	**6,114**	**2,831**

Of the receivables, EUR 159 thousand is due in one to five years (2003: EUR 72 thousand). The remaining receivables are due within one year.

(15) Cash and Cash Equivalents

The cash and cash equivalents consist of current deposits with the commercial banks of EUR 2,051 thousand (2003: EUR 2,661 thousand).

(16) Deferred Tax Assets

The deferred tax assets reported in the Group primarily include taxes on earnings on anticipated realizable loss carryforwards with a deferred tax claim of EUR 18,907 thousand, timing differences between the amounts reported in the tax accounts and those recognized in the consolidated financial statements at EUR 5,773 thousand and a tax credit based on the old corporation tax law in the amount of EUR 236 thousand.

For the capitalized tax assets on loss carryforwards, it is considered feasible to charge them to future tax income in a foreseeable time due to positive income prospects.

The timing differences and the deferred tax amounts applicable to them are broken down as follows:

EUR thousands	Differ-ences	Deferred taxes
Intangible assets	– 17,440	+ 6,453
Property, plant, and equipment	+ 4,928	– 1,823
Inventories	– 450	+ 166
Tax-equalization item Loewe Italiana	– 596	+ 210
Accounts receivable and other assets	+ 5,335	– 1,974
Provisions	– 15,791	+ 5,842
Liabilities	+ 8,381	– 3,101
		+ 5,773

A uniform income tax rate of 37.0% was recognized in the calculation unless country-specific tax rates were considered.

(17) Assets of the Discontinuing Division, Loewe USA

As of the balance sheet date December 31, 2004, only slight assets were still available in the discontinuing division.

EUR thousands	2004	2003
Non-current assets		
Property, plant, and equipment	0	235
	0	**235**
Current assets		
Inventories	0	2,899
Trade accounts receivable	0	1,460
Other short-term receivables	1	171
Cash and cash equivalents	11	276
	12	**4,806**
Assets of the discontinuing division	**12**	**5,041**

Obligations referring to the discontinuing division Loewe USA are detailed in note (25).

(18) Shareholders' Equity

As of the balance sheet date, the Company's share capital is EUR 7,877 thousand (2003: EUR 7,177 thousand). It is divided into 7,876,600 no-par value bearer shares.

The share capital is conditionally further increased by up to 398,400 shares (conditional capital) to implement the stock option plan. The conditional capital increase serves to grant pre-emptive rights to the members of the Executive Board, managing directors, authorized signatories and executives of the company as well as managing directors, authorized signatories and executives of affiliated companies in accordance with the resolution of the Shareholders' Meeting.

Of the stock option program for employees, 101,600 of the options granted have been exercised to this time. According to the existing option conditions, it will only be possible to exercise the option if the stock market price reaches or exceeds EUR 22.50 in the period from April 1 to April 16, 2005., The option program will expire on July 1, 2005. Option rights not exercised will be forfeited without the company being obligated to provide any form of compensation.

Because the option prerequisites were not met in financial year 2003 and 2004, no additional options were exercised under the stock option plan.

By resolution of the Shareholders' Meeting on June 26, 2002, the Executive Board was authorized, with the consent of the Supervisory Board, to increase the Company's share capital to EUR 3,500,000 through the issue of up to 3,500,000 bearer shares in exchange for non-cash or cash contribution on one or several occasions until no later than June 26, 2007. The shareholders must be granted a subscription right. However, the Executive Board is authorized, in each case with the consent of the Supervisory Board, to exclude the subscription right in the following cases:

a) for the evening out of fractional amounts;
b) to obtain property, plant and equipment, in particular in the form of companies or business units;
c) in the case of a capital increase in exchange for cash contributions, if the capital increase does not exceed ten percent of the share capital and the issue price of the shares does not significantly fall below the stock market price.

The Executive Board is authorized, with the consent of the Supervisory Board, to establish the further content of the rights inherent in shares and the conditions for the issue of shares (authorized capital 2002).

On June 22, 2004, the Executive Board of Loewe AG, with the consent of the Supervisory Board on June 23, 2004, adopted to utilize a portion of the authorized capital and to increase the share capital by EUR 700,000 from EUR 7,176,600 to EUR 7,876,600 in exchange for a cash contribution by issuing 700,000 new bearer shares with a notional par value of EUR 1 at the issue price of EUR 6.14 per share. The new shares are ranking for dividend as of January 1, 2004. The subscription right of the shareholders was excluded.

Sharp International Finance (UK) Plc, London, England, a fully owned subsidiary of Sharp Corporation, Osaka, Japan, subscribed to the new shares of Loewe AG.

The capital increase was recorded in the Commercial Register in the Local Court of Coburg on July 29, 2004.

The 700,000 new bearer shares of Loewe AG were admitted to official trading on the Frankfurt Stock Exchange on September 1, 2004. After this capital increase, the authorized capital of June 26, 2002 (2002 authorized capital) is still EUR 2,800,000.

The changes in the Group's equity are shown in the following table:

	Number of shares	**Sub-scribed capital**	**Capital reserve**	**Group equity generated**	**Total share-holders' equity**	**Minority interests**	**Group equity**
	units	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Balance as of 12/31/03	**7,176,600**	**7,177**	**38,300**	**– 773**	**44,704**	**1,188**	**45,892**
Capital increase of July 2004	700,000	700	3,598		4,298		4,298
Costs of the capital increase			– 180		– 180		– 180
Net loss for 2004				– 29,426	– 29,426	29	– 29,397
Dividend distribution of Loewe Benelux to Loewe AG and minority shareholder				0	0	– 220	– 200
Appropriations			– 30,000	30,000	0		0
Balance as of 12/31/04	**7,876,600**	**7,877**	**11,718**	**– 199**	**19,396**	**997**	**20,393**

The reporting of a separate statutory reserve in accordance with § 150 (1) and (2) of the German Joint Stock Corporation Act is not necessary owing to the size of the existing capital reserve.

Furthermore, on December 8, 2004, the Executive Board of Loewe AG, with the consent of the Supervisory Board on December 8, 2004, adopted to increase the share capital from EUR 7,876,600 by up to EUR 2,800,00 by issuing up to 2,800,000 new shares within the framework of the authorized capital. The shareholders are entitled to a subscription right at an 8:3 ratio. The subscription price for each new share is EUR 6.50. It was possible to exercise the subscription right in the period from December 15, 2004 through December 30, 2004. The new shares are ranking for dividend as of January 1, 2005.

Of the new shares of Loewe AG, existing shareholders subscribed to 230,783 shares and Sharp Corporation, Osaka, Japan thus subscribed to 2,530,783 shares.

The capital increase was recorded in the Commercial Register in the Local Court of Coburg on February 1, 2005.

The 2,530,783 new shares of Loewe AG were initially not listed on the stock exchange. Admission to official trading on the Frankfurt Stock Exchange will be applied for as of June 30, 2005 with the requirement to publish a prospectus. After this capital increase, the authorized capital of June 26, 2002 (2002 authorized capital) is still EUR 269,217.

(19) Minority Interests

Minority interests exist at Loewe Opta GmbH, Kronach (1%), at Loewe Opta Benelux N.V./S.A. (10%) and at Loewe France S.A. (25%). This item changed as follows:

EUR thousands	
Balance as of 01/01/04	1,188
Profit increase in 2004	29
Dividend distribution by Loewe Opta Benelux N.V./S.A.	– 220
Balance as of 12/31/04	**997**
thereof:	
Loewe Opta GmbH	272
Loewe Opta Benelux N.V./S.A.	353
Loewe France S.A.	372
	997

(20) Pension Provisions

Pension provisions relate to individual and collective commitments to pay pensions to employees. Provisions for pension obligations have been established according to actuarial standards.

The pension plan for lump-sum commitments was closed on December 31, 1995 and the pensioners with lump-sum commitments at yearend 1997 were transferred from Loewe Opta GmbH to Loewe Opta Unterstützungskasse e.V., Kronach.

In an agreement dated July 23, 2004, Loewe Opta GmbH took over all pension obligations to former employees or their survivors from Loewe Opta Unterstützungskasse e.V. (EUR 9,133 thousand) effective August 1, 2004. Since the support fund no longer had any liabilities after that time, the excess was returned to Loewe Opta GmbH and employed in accordance with the articles of incorporation. The association has been dissolved and was deleted from the Register of Associations on December 2, 2004.

The pension commitments have been calculated for both balance sheet dates based on the following long-term average assumptions:

%	2004	2003
Discount rate	5.0	5.0
Anticipated annual increases in wages and salaries	2.0	2.0
Anticipated annual increases in pensions	1.5	1.5

Provisions are reported as follows:

EUR thousands	2004	2003
Net present value of the pension commitments of the Loewe Group	36,232	22,013
Net present value of the pension commitments of the support fund	0	14,082
Net present value of commitments, total	**36,232**	**36,095**
less assets of the support fund	0	8,990
Provision	**36,232**	**27,105**

The net present value of commitments was determined for both balance sheet dates on the basis of actuarial valuations under the projected unit credit method in accordance with IAS 19 (revised 2002).

The changes in pension provisions were as follows:

EUR thousands		
Balance as of 01/01/04		**27,105**
a) Changes not recognized as income		
Pension payments in 2004	– 2,177	
Transfer of assets of Loewe Opta Unterstützungskasse e.V.	8,990	
Additions for employer-financed pension commitments	99	6,912
		34,017
b) Changes recognized as income		
Reported under interest expenses		
– Interest expense for own commitments		1,974
Reported under manufacturing, selling and administrative costs		
– Current service cost	407	
– Actuarial gains	– 166	241
Balance as of 12/31/04		**36,232**

Actuarial gains and losses are recognized as incurred.

The following is anticipated for 2005:

EUR thousands	
Pension payments	2,357
Interest expense for own commitments	1,718
Current service cost	421

(21) Tax Provisions

Tax provisions relate almost exclusively to the subsequent payments expected because of the current tax audit. The reported amounts are expected to be due for payment within one year.

(22) Deferred Tax Liabilities

No deferred tax liabilities were formed as of the balance sheet date. It was possible to offset tax liabilities recognized in single items and deferred tax assets because possibilities for setting off existed (IAS 12 Sec. 74)

Tax increases that do not have to be accounted for but that would be incurred if a profit distribution were made from shareholders' equity on which corporate tax has not yet been charged (not planned at present) amount to EUR 1,208 thousand.

(23) Other Provisions

Other provisions comprise the following:

EUR thousands	2004	2003
Annual sales compensation	13,992	15,251
Cost of warranties	8,007	8,766
Personnel costs	9,052	9,659
License fees	2,502	2,063
Other provisions	9,847	11,580
Total other provisions	**43,400**	**47,319**

The other provisions changed as follows in 2004:

EUR thousands	Balance 01/01/04	Additions	Utilization	Releases	Balance 12/31/04
Annual sales compensation	15,251	13,783	14,790	252	13,992
Cost of warranties	8,766	7,433	8,192	0	8,007
Personnel costs	9,659	5,444	5,884	167	9,052
License fees	2,063	1,153	2	712	2,502
Other provisions	11,580	8,305	6,111	3,927	9,847
Total other provisions	**47,319**	**36,118**	**34,979**	**5,058**	**43,400**

Provisions for annual sales compensation were determined based on the agreements covering bonuses and other compensation, and apply largely to Germany. Provisions for warranties are calculated on the basis of anticipated warranty costs in the future, allowing for the general extension of the warranty period to three years. Provisions for personnel costs essentially comprise holiday pay, anniversary bonuses, part-time retirement claims, variable remuneration and dismissal costs. License fee provisions are set aside for risks resulting from possible infringements of industrial property rights and the probable payment of license fees resulting from this.

The other provisions include, among other things, items for cancellation costs, rework, and additional costs that may be incurred.

The other provisions are generally due within one year except for an approximately EUR 2.5 million portion of the provisions for warranties which have a time to maturity of longer than one year.

(24) Liabilities

EUR thousand	12/31/04		12/31/03
Long-term debt		**10,483**	**9,952**
thereof: owed to banks	(10,483)		(9,952)
thereof: due in			
– 1 to 5 years	(7,436)		(5,968)
– more than 5 years	(3,047)		(3,984)
thereof: secured by land charges	(10,483)		(9,952)
Trade accounts payable		**21,688**	**21,354**
thereof: due in			
– less than 1 year	(21,688)		(21,354)
Other short-term liabilities		**31,969**	**38,693**
thereof: due in			
– less than 1 year	(31,969)		(38,693)
Short-term bank loans	(25,463)		(21,275)
Short-term portions of long-term debt	(192)		(898)
thereof: owed to banks	(192)		(898)
thereof: secured by land charges	(192)		(898)
Other short-term liabilities	(6,314)		(16,520)
thereof: resulting from taxes	(1,315)		(2,061)
relating to social security	(1,239)		(1,367)
Total liabilities of the Home Media Systems division		**64,140**	**69,999**

Long-term debt

Long-term liabilities relate to bank loans and exist exclusively with Loewe Opta GmbH.

Other short-term liabilities

Loewe has bank credit lines covering short-term overdrafts in the amount of EUR 32.5 million as well as an additional discount credit line of EUR 1.4 million. On December 14, 2004, Loewe's banks and other financing partners agreed to extend the term of the financing concept to February 28, 2006. Loewe secured these credit lines with significant collateral.

Other short-term liabilities relate primarily to customer credit balances, license fee liabilities and social security charges and taxes still to be paid. All amounts reported as short-term liabilities are due in less than one year.

(25) Provisions and Liabilities of the Discontinuing Division Loewe USA

As of the balance sheet date, only the liabilities listed below still existed for the discontinuing division:

EUR thousands	2004	2003
Other provisions		
Annual sales compensation	0	220
Personnel expenses	3	69
Cost of warranties	903	200
Other provisions	85	402
	991	**891**
Liabilities		
Trade accounts payable	30	333
Other short-term liabilities	16	4
	46	**337**
Total provisions and liabilities of the discontinuing division	**1,037**	**1,228**

OTHER DISCLOSURES

Contingencies and other financial obligations

Contingencies and other financial obligations of the continuing division are broken down as follows:

EUR thousands	2004	2003
Liabilities from the issue and transfer of bills of exchange and similar instruments	**0**	**4,471**
Liabilities from tenancy and servicing agreements and leases		
– due in 2005	2,933	
(previous year 2004)		3,401
– due between 2006 and 2009	2,148	
(previous year between 2005 and 2008)		2,010

Outstanding contributions for affiliated companies pursuant to § 24 of the German Private Limited Companies Act amount to EUR 31 thousand (2003: EUR 31 thousand).

Contingent liabilities

On May 14, 2004, a works council agreement and a supplementary collective bargaining agreement on reducing personnel costs were concluded between Loewe Opta GmbH and its works council as well as with IG Metall and the Employers's Association (AGV). These agreements will also apply to Loewe AG.

The agreements stipulate that all employees waive part of their vacation pay/Christmas bonus for 2004. The waiver is subject to the condition that if earnings are positive, the amount waived, plus 25 % interest over the entire term will be repaid as a type of profit sharing scheme. As of the reporting date, the amount waived was EUR 1,972 thousand, and potential interest amounted to EUR 493 thousand. The period of review for the profit-sharing scheme is five years, i.e. from January 1, 2005 to December 31, 2009.

The agreements concluded with the syndicate banks specify a one-time fee of 2 % of the total of all credit lines/loans available to Loewe Opta GmbH and Loewe AG (EUR 52.1 million).

The claim will fall due as soon as the Loewe Group shows a positive net income before taxes, but shall not exceed 50 % of net income. If the amount calculated is less than 2 %, the remaining amount will be carried over to the following years. The term is not limited.

Staff and personnel costs

The average number of employees breaks down as follows:

Employees	2004	2003
Home Media Systems division		
Industrial workers	410	510
Salaried employees	558	626
Employees as defined by § 285 Sec. 7 HGB	**968**	**1,136**
Trainees	86	94
Total employees	**1,054**	**1,230**
Discontinuing division		
Industrial workers	0	0
Salaried employees	9	15
Employees as defined by § 285 Sec. 7 HGB	**9**	**15**
Trainees	0	0
Total employees	**9**	**15**
Total employees	**1,063**	**1,245**

The personnel costs included in the operating expenses of the continuing division are broken down as follows:

EUR thousands	2004	2003
Wages and salaries	42,887	49,452
Compulsory social security contributions	8,467	9,107
Expenses for pensions and other employee benefits	314	475
Total	**51,668**	**59,034**

Information Pursuant to § 160 (1) Section 8 of the German Stock Corporation Act

The Company published the following announcement in Börsen-Zeitung No. 8 of January 12, 2002:

"Notification pursuant to § 25 (1) WpHG (German Securities Trading Act)

In accordance with § 21 (1) German Securities Trading Act, the Company has received notifications concerning shareholdings of 10% or more of the voting rights and not meeting the 5% voting rights threshold:

J&A Vermögensverwaltungs GmbH, Kronach, has notified us that it exceeded the 5% threshold and the 10% threshold on December 27, 2001 and now holds 17.67% of the voting rights.

Dr. Rainer Hecker, Kronach has notified us that his share in the voting rights by attribution pursuant to § 22 (1) No. 2 German Securities Trading Act has exceeded the 10% threshold and his share in the voting rights is now 24.75%, of that amount 17.67% being attributed to him through J&A Vermögensverwaltungs GmbH, Kronach in accordance with § 22 (1) No. 2 German Securities Trading Act."

The Company published the following announcement in Börsen-Zeitung No. 153 of August 11, 2004:

"Publication pursuant to § 25 (1) German Securities Trading Act

In accordance with § 21 (1) German Securities Trading Act, the Company has received notifications concerning shareholdings of 5% or more of the voting rights and not meeting the 10% and 5% voting rights threshold:

I.

1. Sharp International Finance (UK) Plc., England, has notified us that as a result of subscribing to a capital increase of Loewe AG, which was recorded on July 29, 2004, it has exceeded the 5% voting rights threshold. Before the capital increase, Sharp International Finance (UK) Plc.'s share in the voting rights was 0%. As a result of the capital increase, the share in the voting rights is now 8.89%.
2. Sharp Corporation, Japan, has notified us that as a result of subscribing to a capital increase of Loewe AG through its subsidiary Sharp International Finance (UK) Plc, which was recorded on July 29, 2004, it has indirectly exceeded the 5% voting rights threshold. Before the capital increase, Sharp Corporation's direct and indirect share in the voting rights was 0%. As a result of the capital increase, the indirect share in the voting rights is now 8.89%, the shares in the voting rights being attributable to Sharp in accordance with § 22 (1) sentence 1 No. 1 German Securities Trading Act.

II.

1. 3i Group plc., England, has notified us that it fell short of the 10% threshold on July 29, 2004 and its share in the voting rights is now 9.12%, 4.56% of the shares in the voting rights being attributable to 3i Group plc. in accordance with § 22 (1) No. 1 German Securities Trading Act.
2. 3i Investment plc., England, has notified us that with the share in the voting rights held directly by it in aggregate, it fell short of the 10% threshold on July 29, 2004 and its share in the voting rights is now 9.12%, all of which is attributable to 3i Investment plc. in accordance with § 22 (1) No. 6 German Securities Trading Act.
3. 3i Europartners II LP, England, has notified us that it fell short of the 5% threshold on July 29, 2004 and its share in the voting rights is now 4.56%.

4. 3i Europartners II GP, England, has notified us that it fell short of the 5% threshold on July 29, 2004 and its share in the voting rights is now 4.56%, all of which is attributable to 3i Europartners II GP Ltd. in accordance with § 22 (1) No. 1 German Securities Trading Act.
5. 3i Holdings plc., England, has notified us that it fell short of the 5% threshold on July 29, 2004 and its share in the voting rights is now 4.56%, all of which is attributable to 3i Holdings plc. in accordance with § 22 (1) No. 1 German Securities Trading Act.
6. Falling short of the voting rights thresholds is in each instance a consequence of the capital increase of Loewe AG which was recorded in the Commercial Register on July 29, 2004."

The Company has not received further notifications pursuant to § 21et seq. German Securities Trading Act.

Information Pursuant to § 161 German Stock Corporation Act

Joint declaration by the Executive Board and Supervisory Board of Loewe AG pursuant to § 161 German Stock Corporation Act regarding the recommendations of the Government Commission of the German Corporate Governance Code
The Executive Board and Supervisory Board of Loewe AG decided on December 8, 2004 to adapt their declaration of conformity pursuant to § 161 German Stock Corporation Act dated December 10, 2002 to the amendments of the German Corporate Governance Code (Code Version of May 21, 2003) and therefore declare:

"The recommendations of the Government Commission of the German Corporate Governance Code (Code Version of May 21, 2003) as published in the electronic Federal Gazette on July 4, 2003 have been and will be followed with the following exception:
Code sub-section 4.2.4, sentence 2
For the protection of privacy, individualized figures concerning the compensation of the members of the Executive Board have not been and will not be published."

This statement of compliance has been continuously accessible to the shareholders on the Internet since December 21, 2004.

SEGMENT REPORTING

As of 2003, the Group has only one active division. Through the decision taken in 2004 to cease marketing for the geographic territory of the U.S., these activities are reported separately as a discontinuing division (IAS 35). The previous year's figures were adjusted accordingly.

The Home Media Systems division is organized in the subgroup Loewe Opta Benelux N.V./S.A., Loewe Opta GmbH, Loewe France S.A., Loewe Austria GmbH and Loewe Italiana S.r.l.

The Home Media Systems division is engaged in the sale of television sets manufactured internally and in cooperative agreements as well as purchased DVD players, stereo systems, video recorders and other consumer electronics products.

CASH FLOW

The cash flow statements of the continuing division and of the discontinuing divisions are shown in detail in the following table.

EUR thousands	Continuing division 2004	Continuing division 2003	Discontinuing divisions 2004	Discontinuing divisions 2003	Total 2004	Total 2003
Operating activities						
Profit from ordinary activities	– 32,144	– 29,474	– 8,054	– 6,418	– 40,198	– 35,892
plus/minus						
Depreciation and amortization of non-current assets	25,351	25,075	202	131	25,553	25,206
Unrealized gains (–) on the disposal of assets	– 1,418	– 5	0	0	– 1,418	– 5
Increase (+)/Decrease (–) in pension provisions	227	– 1,065	0	0	227	– 1,065
Income taxes paid	– 411	387	– 9	– 16	– 420	371
Net cash before changes in net current assets	**– 8,395**	**– 5,082**	**– 7,861**	**– 6,303**	**– 16,256**	**– 11,385**
Decrease (+) in inventories	6,697	7,882	2,899	751	9,596	8,633
Decrease (+) in trade accounts receivables and other assets	13,879	10,902	1,630	172	15,509	11,074
Decrease (–)/Increase (+) in other provisions	– 3,919	761	100	– 795	– 3,819	– 34
Decrease (–) in trade accounts payable and other liabilities	– 971	– 2,361	– 291	– 295	– 1,262	– 2,656
Change in net current assets	**15,686**	**17,184**	**4,338**	**– 167**	**20,024**	**17,017**
Net cash from operating activities	**7,291**	**12,102**	**– 3,523**	**– 6,470**	**3,768**	**5,632**
Investing activities						
Payments for purchases of intangible assets and property, plant and equipment	– 14,769	– 20,594	– 18	– 117	– 14,787	– 20,711
Payments for purchases of financial assets	– 554	– 118	0	0	– 554	– 118
Proceeds from disposals of intangible assets and property, plant and equipment	2,737	100	51	20	2,788	120
Proceeds from disposals of financial assets	0	91	0	0	0	91
Net cash used by investing activities	**– 12,586**	**– 20,521**	**33**	**– 97**	**– 12,553**	**– 20,618**
Free cash flow	**– 5,295**	**– 8,419**	**– 3,490**	**– 6,567**	**– 8,785**	**– 14,986**
Financing activities						
Decrease (–) in minority interests	– 220	0	0	0	– 220	0
Capital increase	4,118	0	0	0	4,118	0
Dividend payment	0	– 6,100	0	0	0	– 6,100
Repayment (–)/Borrowing (+) of loans	– 175	9,602	0	0	– 175	9,602
Internal financing	– 3,225	– 6,042	3,225	6,042	0	0
Net cash from financing activities	**498**	**– 2,540**	**3,225**	**6,042**	**3,723**	**3,502**
Cash-effective change in liquidity	**– 4,797**	**– 10,959**	**– 265**	**– 525**	**– 5,062**	**– 11,484**

Composition of liquidity	12/31/04	12/31/93	±
Cash and cash equivalents	2,062	2,937	– 875
Short-term bank loans	– 25,462	– 21,275	– 4,187
Liquidity	**– 23,400**	**– 18,338**	**– 5,062**

Statement of Income by Segment

The segmental results by division are shown below.

EUR thousands	Continuing division January – December 2004	2003	Discontinuing division January – December 2004	2003	Total January – December 2004	2003
Sales	267,810	283,227	5,150	5,694	272,960	288,921
Cost of sales	– 228,666	– 229,020	– 7,954	– 6,654	– 236,620	– 235,674
Gross margin	**39,144**	**54,207**	**– 2,804**	**– 960**	**36,340**	**53,247**
Selling expenses	– 59,036	– 69,175	– 5,444	– 5,117	– 64,480	– 74,292
General administrative expenses	– 7,340	– 8,795	0	0	– 7,341	– 8,795
Other operating income	18,487	8,402	194	0	21,705	8,402
Other operating expenses	– 17,240	– 11,639	0	– 341	– 20,263	– 11,980
Income from participating interests	227	106	0	0	227	106
EBIT	**– 25,758**	**– 26,894**	**– 8,054**	**– 6,418**	**– 33,812**	**– 33,312**
Interest and similar income	234	259	0	0	234	259
Interest and similar expenses	– 6,620	– 2,839	0	0	– 6,620	– 2,839
Profit from ordinary activities (EBT)	**– 32,144**	**– 29,474**	**– 8,054**	**– 6,418**	**– 40,198**	**– 35,892**
Income taxes	10,810	6,190	– 9	– 16	10,801	6,174
Net loss before minority interests	**– 21,334**	**– 23,284**	**– 8,063**	**– 6,434**	**– 29,397**	**– 29,718**
Minority interests	– 29	– 21	0	0	– 29	– 21
Net loss	**– 21,363**	**– 23,305**	**– 8,063**	**– 6,434**	**– 29,426**	**– 29,739**
Loss/profit carried forward	– 773	17,508	0	0	– 773	17,508
Dividend payment	0	– 6,100	0	0	0	– 6,100
Appropriations from capital reserve	30,000	17,558	0	0	30,000	17,558
Distributable profit/loss	**7,864**	**5,661**	**– 8,063**	**– 6,434**	**– 199**	**– 773**

SUPERVISORY BOARD

The following are members of the Supervisory Board:

- **Professor Dr. Eberhard Scheffler**
  Auditor, Hamburg
  Chairman

- **Dr. Mark Wössner**
  former Chairman of the Executive Board and former Chairman of the Supervisory Board of Bertelsmann AG, Munich
  Deputy Chairman

- **Dr. Gerhard Heinrich**
  Partner and Managing Director of Heinrich & Cie. Unternehmensberatungs GmbH, Frankfurt/Main

- **Professor Dr. Rolf-Dieter Leister**
  Management Consultant, Lucerne (until June 23, 2004)

- **Dr. Soenke Mehrgardt**
  Former Member of the Executive Board of Infineon Technologies AG, Munich

- **Helmut Ricke**
  Businessman, Krefeld

- **Dr. Michael Witzel**
  Partner of Lovells Law Firm, Munich (as of June 23, 2004)

At the Shareholders' Meeting of June 23, 2004, the Chairman announced that Professor Dr. Rolf-Dieter Leister was resigning from his Supervisory Board appointment effective June 23, 2004. The Shareholders' Meeting elected Dr. Michael Wetzel to be a member of the Supervisory Board for the remainder of the term in office, i.e., until the end of the Shareholders' Meeting which ratifies the actions of the Supervisory Board for the 2005 financial year.

Under its rules of procedure, the Supervisory Board formed two committees.

Members of the personnel committee are Professor Dr. Eberhard Scheffler, Dr. Mark Wössner and Mr. Helmut Ricke.

The audit committee elected in accordance with the corporate governance principles includes Professor Dr. Eberhard Scheffler, Dr. Soenke Mehrgard and Mr. Helmut Ricke.

The other offices held by members of the Supervisory Board are shown on pages 87 to 89; those held by members of the Executive Board are shown on page 89. Information concerning the shares held by the Company's management bodies is shown on page 89.

EXECUTIVE BOARD

The following are Members of the Company's Executive Board:

- **Dr. Rainer Hecker**
  Industrial Engineer, Kronach
  Chairman of the Executive Board

- **Dr. Burkhard Bamberger**
  MBA, Kronach

- **Gerhard Schaas**
  Engineer, Rödental

The remuneration of the Company's Executive Board amounted to EUR 736 thousand (previous year: EUR 1,328 thousand). The remuneration of the Supervisory Board totaled EUR 122 thousand (previous year: EUR 182 thousand).

Amounts totaling EUR 77 thousand (previous year including severance packages: EUR 781 thousand) were paid as pensions to former members of the Executive Board and to members who had resigned. The provisions made for pensions came to EUR 965 thousand (previous year: EUR 979 thousand).

Other Offices held by Members of the Supervisory Board of Loewe AG:

- **Professor Dr. Eberhard Scheffler**
  Loewe Opta GmbH, Kronach
  (Chairman of the Supervisory Board)
  Smurfit Europa Carton GmbH, Hamburg
  (Member of the Supervisory Board)
  Smurfit Verwaltungsgesellschaft mbH, Hamburg
  (Member of the Supervisory Board)

- **Dr. Mark Wössner**
  Citigroup Global Markets Deutschland AG&Co KGaA
  (Member of the Advisory Council and Chairman)
  DaimlerChrysler AG
  (Member of the Supervisory Board)
  Douglas Holding AG
  (Member of the Supervisory Board)
  Dussmann AG & Co. KG aA, Berlin
  (Member of the Supervisory Board)
  eCircle AG, München
  (Chairman of the Supervisory Board)
  Heidelberger Druckmaschinen AG
  (Chairman of the Supervisory Board)
  thorborgnet GmbH & Co. KG aA, Frankfurt
  (Chairman of the Supervisory Board)

- **Professor Dr. Rolf-Dieter Leister**
  (until June 23, 2004)
  Loewe Opta GmbH, Kronach
  (Member of the Supervisory Board until June 23, 2004)
  Berlinwasser Holding AG, Berlin
  (Chairman of the Supervisory Board)
  BÖWE Systec AG, Augsburg
  (Member of the Supervisory Board)
  Deutsche Beteiligungs AG, Frankfurt
  (Deputy Chairman of the Supervisory Board)
  DaimlerChrysler Services AG, Berlin
  (Member of the Supervisory Board)
  Südwestdeutsche Medien Holding GmbH, Stuttgart
  (Member of the Expanded Supervisory Board)
  ASCOM AG, Bern
  (Member of the Board of Directors)

- **Dr. Gerhard Heinrich**
  Prevent AG, Hamburg
  (Member of the Supervisory Board)

- **Dr. Soenke Mehrgardt**
  Loewe Opta GmbH, Kronach
  (Member of the Supervisory Board until June 23, 2004)
  Xignal Technologies AG, Unterhaching
  (Member of the Supervisory Board)

- **Helmut Ricke**
  Loewe Opta GmbH, Kronach
  (Deputy Chairman of the Supervisory Board)

- **Dr. Michael Witzel**
  (from June 23, 2004)
  MPLS Networks AG, Gersthofen
  (Chairman of the Supervisory Board)
  Stone GmbH, Speyer
  (Member of the Advisory Council)

Offices Held by Members of the Executive Board of Loewe AG:

- **Dr. Rainer Hecker**
  Gesellschaft für Unterhaltungs- und Kommunikationselektronik (gfu) mbH, Frankfurt
  (Chairman of the Supervisory Board)
  IHK-Akademie Oberfranken GmbH, Bayreuth
  (Member of the Supervisory Board)
  Bayerische Landeszentrale für neue Medien (BLM), Munich
  (Member of the Board of Directors)

- **Gerhard Schaas**
  IGR Interessengemeinschaft für Rundfunkschutzrechte GmbH, Düsseldorf
  (Deputy Chairman of the Supervisory Board)
  IGR Interessengemeinschaft für Rundfunkschutzrechte e.V., Düsseldorf
  (Chairman of the Board of Directors)

Shares Held by the Executive Board and Supervisory Board on December 31, 2004:
As of December 31, 2004, the Executive Board held 581,425 (previous year: 581,425) shares in Loewe AG as well as 93,800 options (previous year: 93,800). The Supervisory Board holds 1,260 (previous year: 710) shares.

Kronach, March 15, 2005

The Executive Board

Dr. R. Hecker | Dr. B. Bamberger | G. Schaas

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Loewe AG, Kronach – consisting of the balance sheet, income statement, statement of changes in shareholders' equity, cash flow statement, notes and segment reporting for the business year from January 1 to December 31, 2004. The preparation and content of the consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion, based on our audit, as to whether the consolidated financial statements are consistent with the International Financial Reporting Standards (IFRS).

We conducted our audit of the consolidated financial statements in accordance with the International Standards on Auditing (ISA), German auditing principles and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW/Institute of German Auditors). Those standards require that we plan and perform the audit such that we can detect with reasonable assurance whether the consolidated financial statements are free of material misstatements. The evidence supporting the disclosures in the consolidated financial statements is examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group during the business year in accordance with the International Financial Reporting Standards (IFRS).

Our audit, which covered the Group management report prepared by the management for the business year from January 1 to December 31, 2004, has not led to any reservations.

In our opinion, the Group management report on the whole provides a suitable understanding of the Group's position and suitably presents the risks of future development. Furthermore, we confirm that the consolidated financial statements and the Group management report for the business year from January 1 to December 31, 2004 meet the requirements exempting the Company from the obligation to prepare consolidated financial statements and a Group management report in accordance with German law.

Mönchengladbach, March 16, 2005

Abstoß & Wolters OHG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Straaten	Cramer
Auditor	Auditor

FINANCIAL CALENDAR

Publication of the 2004 Financial Statements of the Loewe Group
Wednesday, March 30, 2005, 9.30 a.m., Munich

DVFA Analysts' Conference
Wednesday, March 30, 2005, 4.00 p.m., Frankfurt/Main

Publication of the Q1 2005 Report
(January 1, 2005 – March 31, 2005)
Conference call at 10.00 a.m., Tuesday, May 10, 2005

Sixth Annual Shareholders' Meeting of Loewe AG
Thursday, June 2, 2005, 11.00 a.m., Munich,
Holiday Inn Munich City Centre

Publication of the Q2 2005 Report
(January 1, 2005 – June 30, 2005)
Conference call at 10.00 a.m., Tuesday, August 9, 2005

Publication of the Q3 2005 Report
(January 1, 2005 – September 30, 2005)
Conference call at 10.00 a.m., Tuesday, November 8, 2005

Publication of the Key Figures for the 2005 Financial Year
Conference call at 10.00 a.m., Monday, January 23, 2006

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ISIN:	DE 0006494107

Loewe shares are traded in the Prime Segment of the German Stock Exchange.

Indices:	SDAX®
	Classic All Share®
	Prime All Share
	CDAX®

In addition to the annual report, Loewe publishes interim reports on a quarterly basis (reviewed by the auditor) that include the consolidated financial statements. The quarterly reports are complemented by conference calls with journalists and analysts.

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