

ANNUAL REPORT 2005.
**THE INDIVIDUALIZED APPROACH
TO PROFITABLE GROWTH.**



LOEWE.

THE LOEWE GROUP IN NUMBERS (IFRS)

CONTINUING DIVISION

EUR million

	2005	2004	2003	2002	2001	2000	1999
Sales	319.1	267.8	283.2	366.8	372.6	339.7	284.3
thereof flat-panel display sets	271.5	129.1	129.1	13.6	17.8	10.4	11.3
thereof picture-tube display sets	47.6	138.7	138.7	353.2	354.8	329.3	273.0
thereof domestic	144.6	136.4	148.5	181.4	189.1	188.5	173.3
thereof foreign	154.1	131.4	134.7	185.4	183.5	151.2	111.0
thereof TV non-branded	20.4						
Earnings before interest and taxes (EBIT)	2.1	- 25.7	- 26.9	24.9	26.6	22.3	18.5
Earnings per share (EUR)	- 0.15	- 2.71	- 3.25	2.12	2.07	1.74	1.22

CONTINUING AND DISCONTINUED DIVISIONS

EUR million

	2005	2004	2003	2002	2001	2000	1999
Sales	319.1	273.0	288.9	385.6	392.8	363.6	309.5
Earnings before interest and taxes (EBIT)	2.1	- 33.8	- 33.3	20.6	20.1	21.9	18.0
Net income/loss	- 1.9	- 29.4	- 29.7	10.9	10.4	12.0	5.3
Earnings per share (EUR)	- 0.15	- 3.74	- 4.14	1.52	1.45	1.70	1.16
Dividend per share (EUR)	0.00	0.00	0.00	0.85	0.85	0.85	0.0
Non-current assets	41.6	51.2	62.9	67.4	62.4	59.0	54.0
Current assets, net	29.2	21.9	41.9	50.7	52.1	44.8	43.5
Shareholders' equity	57.9	19.4	44.7	80.5	75.2	69.5	57.5
Bank liabilities, net	- 3.5	34.1	29.2	11.1	4.8	- 1.7	- 1.2
Factoring	2.8	27.4	14.0	0.0	0.0	0.0	0.0
Capital expenditure	11.8	15.3	20.8	26.4	25.8	23.7	18.5
Depreciation and amortization	21.4	25.5	25.2	21.1	22.2	18.5	16.2
Free cash flow	21.7	- 8.8	- 22.2	- 1.3	- 1.8	7.8	10.4
Development costs	12.5	12.9	14.0	13.3	12.0	12.0	11.3
Interest expense, net	4.0	6.4	2.6	1.8	2.0	1.1	3.1
Number of employees	945	1,063	1,245	1,261	1,209	1,106	1,087

Discontinued divisions

EUR million

	2005	2004	2003	2002	2001	2000	1999
Sales							
USA	0.0	5.2	5.7	9.4	0.0	0.0	0.0
Telecommunications	0.0	0.0	0.0	9.4	20.2	23.9	25.2
Earnings before interest and taxes (EBIT)							
USA	0.0	- 8.1	- 6.4	- 4.3	- 0.5	0.0	0.0
Telecommunications	0.0	0.0	0.0	0.0	- 6.0	- 0.4	- 0.5
Earnings per share (EUR)							
USA	0.00	- 1.03	- 0.89	- 0.60	- 0.07	0.00	0.00
Telecommunications	0.00	0.00	0.00	0.00	- 0.55	- 0.04	- 0.06

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“With our premium brand strategy, we have decided to break tradition with standard sector practice and create something unique that will secure market shares. It is our firm belief that Loewe can only generate sustained, profitable growth in the premium market.”

Dr. Rainer Hecker, Chief Executive Officer of Loewe AG



■ **Gerhard Schaas**
Engineer
Chief Technology Officer

■ **Dr. Rainer Hecker**
Industrial Engineer
Chief Executive Officer

■ **Dr. Burkhard Bamberger**
MBA
Chief Financial Officer

Dear Shareholders,

Loewe AG achieved the turnaround in 2005 and is back on a profitable growth track. The Company has clearly sharpened its profile and is well on the way to becoming the leading premium brand in the European flat-panel display TV market. We are profiting from sustained dynamic market growth in medium and large screen LCD and plasma TVs in Europe. In addition, our broad and attractive product portfolio has put us in a strong position for gaining market shares in flat-panel TVs in particular. For example, Loewe's market share in LCD sets sold by European retailers has grown from 1.9% to 4.6% within the last year.

Against this backdrop, Loewe Group sales surged from EUR 267.8 million in 2004 to EUR 319.1 million in 2005. The share of flat-panel TVs in Loewe's total television sales increased to more than 80% after only 39% in 2004.

The growth in sales, the resulting improvement in the product mix and the cost reductions achieved led to an EBIT of EUR 2.1 million compared to a negative EBIT of EUR 25.7 million in the same period of 2004.

Loewe has implemented the "Taurus" restructuring program in the past two years, successfully completing the turnaround. Our restructuring activities focused on systematically expanding our product portfolio by more than 20 new flat-panel display sets in 2004 and 2005, sharpening our brand profile and expanding sales in terms of both quality and quantity. In addition, a stringent cost cutting program was implemented in all areas.

Loewe's position has also been strengthened by the successful partnership with Sharp. In January 2005, the joint development center in Kronach was initiated, and Loewe has been producing medium and large screen LCD TVs for Sharp at the Kronach site since the second half of 2005. Our good and trusting relationship with Sharp will be continued beyond 2006.

A highlight of the past fiscal year was the International Consumer Electronics Fair (IFA) in Berlin, which was very successful for Loewe. Our new TV line, Loewe Individual, became the star of the show among retailers, fair visitors and the media. The design and technical features of this product line can be customized to a high degree. The fact that Loewe was able to generate significantly more orders than in the last IFA show in 2003 was due in particular to the contribution of this product line. Our convincing presence at the IFA 2005 marked an important milestone on our way to becoming the leading premium brand in the European flat TV market. Our clear brand message has shown that Loewe is going its own way in a market still characterized by intensive price competition and mass merchandisers. With our premium brand strategy, we have deliberately decided to break the rules of the industry and create something special. The fact that Loewe's premium positioning is now taking hold in the flat TV market as well is clear evidence of the success of this strategy.

This year we will continue our product and brand offensive and launch innovative, high-quality flat-panel display TVs on the market. We will add an audio system and later a large screen LCD set to our successful Individual line. Moreover, at the IFA 2006, Loewe will introduce the first flat-panel TV line to deliver high-definition television (HDTV) as a standard feature without an external set-top box.

Loewe's corporate communications in 2006 will especially emphasize the further expansion of adequate brand presentation of Loewe products among qualified retailers, accompanied by an incentive-based marketing initiative. In sales, we will continue to attract new customers in selected European markets, increasing both reach and quality of our distribution channels.

We expect strong market stimuli from the 2006 FIFA World Cup in Germany, the IFA (now held on an annual basis) as well as from purchases in advance of the rise in value-added tax which Germany's government plans for 2007. In addition, new digital products and the launch of high-definition television will further stimulate demand. We are convinced that based on these advantages in combination with our lean, flexible organization, Loewe's upward trend will continue on a sustained basis.

Sincerely yours,



Dr. Rainer Hecker
Chief Executive Officer of Loewe AG



■ **Professor Dr. Eberhard Scheffler**

Chairman of the Supervisory Board

Dear Shareholders,

In fiscal 2005, Loewe succeeded in turning its business around following two years of heavy losses. Stringent restructuring measures and a broad product offensive in medium and large-screen LCD and plasma TVs have allowed Loewe to participate to a great extent in the strong growth of television sets incorporating new screen technologies in Europe. The Company reversed its earnings trend in the reporting year and is now experiencing profitable growth. Loewe sees itself as being well on the way to becoming the leading premium brand in the flat-screen television market. Dynamic market growth, higher sales of flat-screen TVs and a stabilized price level in the second half of 2005 enabled earnings before interest and taxes (EBIT) of EUR 2.1 million in financial year 2005.

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. The Supervisory Board was involved in all decisions of fundamental importance for the Company.

Significant subjects of discussion included the reestablishment of Loewe's premier position in Europe and the strategy for phasing out picture-tube sets. Discussion also focused on developing and stabilizing the Company's financing structure, the related financing measures and the cooperation with Sharp. 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 the appointment of management executives.

During the reporting period, the Supervisory Board met four times and the Audit Committee once. The current position and the anticipated business development of the Loewe Group and its companies in the current fiscal year, including the risk situation, were discussed in all of the meetings of the Supervisory Board. All of the members of the Supervisory Board were present at all meetings.

The meeting of March 22, 2005 focused on the separate and consolidated financial statements for the year ended December 31, 2003 along with the associated management reports and the audit of the 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 Loewe's Annual Shareholders' Meeting. In addition, the budget for 2005 was adopted.

In its meeting of June 2, 2005, the Executive Board informed the Supervisory Board on the successful continuation of the cooperation with Sharp in developing television sets and in production. In connection with transposition of the European Directive on Waste Electrical and Electronic Equipment WEEE into German law, Loewe – with the approval of the Supervisory Board – invested in ProReturn GbR and Garantiegesellschaft für Geräte der Unterhaltungselektronik GbR mit beschränkter Haftung. The WEEE stipulates that starting in March 2006, manufacturers of electrical and electronic equipment are required to take back used equipment from private consumers and to dispose of such equipment in accordance with ecological standards.

In the Supervisory Board meeting of October 6, 2005, the Executive Board presented the preliminary key figures for the 2006 budget and for the medium-term planning until 2008. An intensive discussion followed concerning Loewe's strategic orientation and the implementation and control measures necessary to put the planned budget into effect. An analysis demonstrated, among other things, that additional equity of approximately EUR 25 million is necessary to finance the planned growth and improve the capital structure. The Supervisory Board therefore approved the resolution of the Executive Board to increase the share capital of the Company by up to EUR 2,601,846.00 to up to EUR 13,009,229.00 by issuing new shares at an issue price of EUR 9.60 per share.

The focus of the Supervisory Board meeting of December 7, 2005 was on discussing and adopting the budget for 2006. On this occasion, the Supervisory Board enhanced the planning basis and the intended use of the sales potential related to the 2006 FIFA World Cup and the effects of the planned increase in the sales tax at the start of 2007.

The Executive Board prepared the annual financial statements of the Company for the year ended December 31, 2005 and the management report for fiscal year 2005 in accordance with the principles of the German Commercial Code and the German Stock Corporation Act. Pursuant to Section 315 of the German Commercial Code (Handelsgesetzbuch, or HGB), the consolidated financial statements of Loewe AG and its subsidiaries were prepared on the basis of International Financial Reporting Standards (IFRS). Moreover, a Group management report was prepared. The auditor appointed by the Shareholders' Meeting on June 2, 2005 has reviewed these accounts. The auditor issued an unqualified audit opinion on the annual financial statements and management report of the Company and its consolidated financial statements and Group management report.

In a meeting on March 15, 2006, the audit committee of the Supervisory Board reviewed the accounting documents of Loewe AG and the Loewe Group as of December 31, 2005. The order of events, essential findings and the results of the audit were discussed with the auditor. The audit committee approved the accounting documents presented based on the conclusive results of its own review. In addition to questions concerning the audit, the audit committee also discussed matters relating to the internal control system and internal auditing.

The annual financial statements and management report of Loewe AG, the consolidated financial statements and Group management report, as well as the reports of the auditor were presented to all Supervisory Board members in due time. The auditors present at the financial statements meeting on March 21, 2006 reported on significant events and emphases 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.

Based on the conclusive results of its own review of the aforementioned documents, the Supervisory Board agreed with the findings arrived at by the auditors and approved the management report prepared by the Executive Board and the annual financial statements for the year ended December 31, 2005, which can thus be considered adopted. The Supervisory Board also approved the consolidated financial statements for the year ended December 31, 2005 and the Group management report.

During the fiscal year just ended, Loewe made important inroads toward ensuring profitable growth in the future. The Supervisory Board thanks the Executive Board and all employees for their high level of commitment and their achievements. The Supervisory Board is convinced that Loewe will be able to continue the positive trend of the past year on a lasting basis.

Kronach, March 22, 2006



Professor Dr. Eberhard Scheffler
Chairman of the Supervisory Board

Corporate Governance Report

- **Special emphasis on responsible corporate policy**
- **Declaration of conformity with the current code version**
- **Compliance is implemented actively**

**Permanently
increasing enterprise
value while adhering
to environmental
concerns**

Commitment to the Corporate Governance Code

Our goal is to become the leading premium brand in the European market for flat-panel display televisions. To this end, we ensure that our product quality and marketing conform to the highest standards. We have set the same high standard with respect to the management of our company, which is characterized by responsible thinking and acting.

Loewe first published the principles concerning cooperation based on trust between the Executive Board and the Supervisory Board in 2001. The Loewe Group 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. In doing so, we also consider environmental concerns. In this way, Loewe underscores the idea that effective corporate governance is an integral component of our corporate identity and it supports the German Corporate Governance Code issued by the Government Commission and most recently updated on June 2, 2005. Loewe implements all recommendations with the exception of the individualized figures concerning the remuneration of the members of the Executive Board for fiscal year 2005.

Declaration of Conformity

Our principles conform to the recommendations of the Code. On December 7, 2005, the Executive Board and Supervisory Board issued their declaration of conformity pursuant to § 161 German Stock Corporation Act. The following declaration of conformity was made permanently available to the shareholders on the Company's web pages at www.loewe.de under Investor Relations.

"The Executive Board and Supervisory Board of Loewe AG hereby issue the following declaration of conformity pursuant to § 161 German Stock Corporation Act regarding the recommendations of the "Government Commission of the German Corporate Governance Code":

1. Loewe AG will on principle comply with the recommendations of the German Corporate Governance Code as amended on June 2, 2005 – published in the electronic Federal Gazette on July 20, 2005 and corrected on July 21, 2005 – with the following exception:
Code sub-section 4.2.4, sentence 2
To protect their privacy, the Company will not publish details of the remuneration paid to individual members of the Executive Board.
2. Loewe AG has in principle complied with the recommendations of the German Corporate Governance Code as amended on May 21, 2003 – published in the electronic Federal Gazette on July 4, 2003 – since its last declaration of conformity of December 8, 2004. The recommendation set forth in sub-section 4.2.4, sentence 2 was not applied."

Declaration of conformity submitted by Executive Board and Supervisory Board

Remuneration of the Executive Board and Supervisory Board

The corporate governance code provides that the remuneration of the Executive Board must be disclosed in individualized form. For the protection of the rights of privacy of the members of the Loewe Executive Board, we have decided not to comply with this recommendation and we publish the remuneration of the members of the Executive Board in accordance with legal requirements, broken down into fixed and variable components. In our opinion, this adequately takes into account the need of the public and of our shareholders for information regarding the remuneration of the Executive Board for a three person executive board in particular. The structure compared to the same period in 2004 is as follows:

EUR thousands	2005		2004	
	Amount	Proportion in %	Amount	Proportion in %
Fixed remuneration	726	87	736	100
Incentive compensation	105	13	0	0
Remuneration	831	100	736	100

The amount of the incentive compensation is based on the targets defined by the personnel committee of the Supervisory Board for the fiscal year in question. These targets include both key economic figures of the Loewe Group as well as strategic goals that do not fall under a purely quantitative assessment. A thorough presentation of the remuneration policy principles and structure was presented to the last Shareholders' Meeting and is also planned for the next one. In general, the age limit for the three members of the Executive Board is 65 years and the existing directors & officers insurance includes an appropriate deductible in the amount of 25% of the annual fixed remuneration of a member of the Executive Board.

The remuneration of Loewe's Supervisory Board is made up of a fixed and a variable component. Each member of the Supervisory Board receives an annual remuneration of EUR 15,000. Depending on business development, a component of EUR 15,000 is added to this. It is increased or reduced proportionally based on earnings of EUR 2.20 per share. This fixed and variable remuneration is doubled for the chairman of the Supervisory Board, and the Deputy Chairman receives one and one-half times that amount. In the 2005 financial year just ended, the fixed remuneration of the Supervisory Board came to EUR 113 thousand (2004: EUR 113 thousand). Based on Group net income, no variable remuneration was paid for fiscal years 2004 and 2005. The members of the Supervisory Board performed no consulting and mediation services or other services during the year under review. Consequently, no additional remuneration was paid.

The Supervisory Board of Loewe AG includes six members and was elected for a term of five years by the Shareholders' Meeting in 2001. The age limit for members of the Supervisory Board is 73 years, as determined within the framework of the Corporate Governance directive. The directors & officers liability insurance taken out for the Supervisory Board also contains an appropriate deductible in the amount of 50% of the particular Supervisory Board incentive compensation.

Directors' Dealings

The following transactions were reported to Loewe between December 8, 2004 and December 7, 2005:

On the occasion of the capital increase with subscription rights adopted by the Executive Board and Supervisory Board on October 6, 2005, various existing shareholders lent shares free of charge, the same number being transferred back to them after the capital increase was implemented. You can find an exact description of the existing shareholders, the reduction in holdings after the stock lending as well as the increase in holdings after the return of the borrowed shares in the Loewe web pages at www.loewe.de under Investor Relations.

Also in connection with the capital increase adopted on October 6, subscription rights were exercised by members of the Executive Board or by closely related persons.

Closing date	Person required to report	Number of shares	Price per share	Transaction volume
October 26, 2005	Dr. Rainer Hecker	34,225	EUR 9.60	EUR 328,560.00
October 26, 2005	Dr. Burkhard Bamberger	8,268	EUR 9.60	EUR 79,372.80
October 26, 2005	Gerhard Schaas	8,143	EUR 9.60	EUR 78,172.80
October 26, 2005	Johannes Schaas	2,625	EUR 9.60	EUR 25,200.00

To avoid conflicts of interest in connection with the appointment of Prof. Dr. Eberhard Scheffler as President of the German Financial Reporting Panel, the Chairman of the Supervisory Board sold his Loewe shares.

Shareholdings of members of the Executive Board and Supervisory Board

As of December 31, 2005, the Executive Board held 632,061 shares (previous year: 581,425) in Loewe AG. No options (previous year: 93,800) or similar incentive systems exist at this time. The Supervisory Board no longer holds any shares (previous year: 1,260).

Compliance at Loewe

In addition to the implementation of the Corporate Governance Code, Loewe fulfills the new documentation and publication requirements of the Investor Protection Improvement Act (AnSVG), which entered into force on October 30, 2004. We implement appropriate measures to prevent insider trading and we ensure compliance with regulations under corporate law as well as regulations relevant to the stock markets and capital markets. 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 are continuously informed of their obligation to report transactions with financial instruments of our company. Furthermore, the relevant groups of persons are informed regularly concerning insider issues, directors' dealings and ad hoc notifications. We inform newly hired employees about the possibility of coming into contact with insider information and the necessary course of conduct. Furthermore, information relating to the "insider" theme is published on the Company's Intranet pages.

Adhering to new requirements of the Investor Protection Act

Further information on corporate governance at Loewe

Additional information concerning the cooperation of the Supervisory Board and Executive Board, the activity of the Supervisory Board and its committees as well as the accounting and audit can be found in the Report of the Supervisory Board. Information concerning offices held by the members of the Supervisory Board and Executive Board of Loewe AG can be found in the Notes to the Consolidated Financial Statements in the section Corporate Bodies/Offices Held. In addition, current developments of the Company, annual financial statements, interim reports, press releases as well as ad hoc notifications and reportable securities transactions are published on the Loewe web pages at www.loewe.de.

Kronach, March 21, 2006

For the Executive Board

Dr. Rainer Hecker
Chief Executive Officer

For the Supervisory Board

Professor Dr. Eberhard Scheffler
Chairman of the Supervisory Board



THE TV SET AS A STATEMENT OF INDIVIDUALITY

A unique personality expresses itself in individual terms. Choose from individual features like high-quality inlays, an imaginative mounting solution, or a bright color. Your TV should match your own individuality.

WHAT IS THE TECHNOLOGY OF THE FUTURE?

HDTV is coming – and Loewe is ready. Flat-panel displays with integrated receivers for digital TV are already standard at Loewe. This is what sets us apart from the competition. And guarantees brilliant images and sound.

Loewe Stock

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Loewe Stock

- **Strong rise of share price in positive market environment**
- **Successful rights issue improves financial structure**
- **Analyst coverage remains at high level**
- **Market capitalization more than tripled**

Capital markets focus on good performance

In addition to the Company's good performance as evidenced by rising sales and a considerable reduction in operating losses, Loewe's capital market communication in 2005 focused on the positive market trend projected for the next few years for medium and large-format LCD and plasma TVs in Germany and the rest of Europe. The rights issue in October 2005 significantly strengthened our financial structure, creating a solid foundation for Loewe's planned future growth.

Key data for Loewe stock:

ISIN	DE 006494107
WKN	649410
Frankfurt Stock Exchange	LOE
Reuters: Xetra trading	LOEG.DE
Frankfurt Stock Exchange	LOEG.F
Bloomberg: Xetra trading	LOE GY
Frankfurt Stock Exchange	LOE GF

The stock market in 2005

Positive trends dominated the overall performance of the international equity markets in 2005. The emerging markets of Eastern Europe, Asia and Latin America generated the highest yields. As a result, the Euro Stoxx 50 gained 21.3%, while the Nikkei 225 jumped 40.2%. In comparison, the markets in the USA showed a relatively weak performance, with the S&P 500 rising only a modest 3%, and the Dow Jones falling slightly short of the previous year's level. The German blue chip index DAX achieved a sharp increase of 27.1% in 2005 after a 7.3% rise in 2004. The German mid-cap index SDAX rose an even more impressive 35.2%.

In Germany, this good performance is expected to continue in 2006, as indicated by the high levels of the recently published leading economic indicators. The DAX has only now regained its level from the start of 1998, corporate profits have continued to rise and numerous German stocks are priced attractively on a historical and international comparison.

Strong increase of Loewe stock

Loewe stock began the year 2005 at a share price of EUR 6.65. In mid February, Deutsche Börse AG announced that as of February 28, 2005, Loewe stock would be readmitted to the SDAX. This unscheduled move led to an increased focus on our stock by investors and analysts. Based on the announcement from Deutsche Börse as well as positive analysts' reports, Loewe stock surged to over EUR 10 per share amidst heavy trading of more than 100,000 shares per day.

By May 2005, the share price had evened out at around EUR 8 before climbing to approximately EUR 9 at the end of the month in the wake of Loewe's strong first quarter figures. Loewe announced a continued increase in sales, a significant reduction in operating losses, and several "buy" recommendations from analysts.

The Company's good performance in the initial months of the year led to confirmation of the sales and earnings forecasts for 2005 at the Shareholders' Meeting on June 2, 2005. Against this backdrop, the share price stabilized at just under EUR 9 over the next few weeks amidst light daily trading and low volatility. After the release of positive six-month figures on August 9, 2005, the daily trading volume increased and the share price improved to around EUR 9.30.

On August 24, British financial investor 3i announced the divestment of its entire remaining stake in Loewe AG of nearly 5%. The sale met with strong demand, and a total of 517,942 shares were placed with institutional investors (3i had invested in Loewe in 1997 and taken the company public in 1999, after which 3i began systematically to reduce its stake in Loewe). This transaction, along with the extremely positive media response to the continued increase in the Company's market share, drove up Loewe stock to more than EUR 13.50 in extremely heavy trading of nearly 200,000 shares per day by the start of the IFA consumer electronics fair in Berlin. In the weeks following Loewe's success at the IFA, the Company's share price remained between EUR 11 and 12.

On October 6, Loewe published an ad hoc announcement stating that a share capital increase would be carried out by issuing subscription rights to more than 2.6 million shares. The share capital increase was implemented successfully on October 26 with the placement of the entire share volume at a subscription price of EUR 9.60 per share. As a result, Loewe generated proceeds of approx. EUR 25 million. Towards the end of the subscription period, the share price softened slightly to stabilize at approximately EUR 11.50 by the time Loewe's nine-month figures were announced on November 8, 2005.

After publication of the well-received nine-month figures, the share price remained stable at EUR 11.50 over the next few weeks amidst low daily trading. Prospects for strong seasonal sales and positive press reports led to an increase in the share price to around EUR 12.50 by year end.

The upward trend persisted at the start of the new fiscal year on the basis of another "buy" recommendation from a renowned bank and ensuing high demand, with daily trading exceeding 100,000 shares and the share price rising to EUR 14.50 shortly before publication of the key figures for 2005 on January 23, 2006.

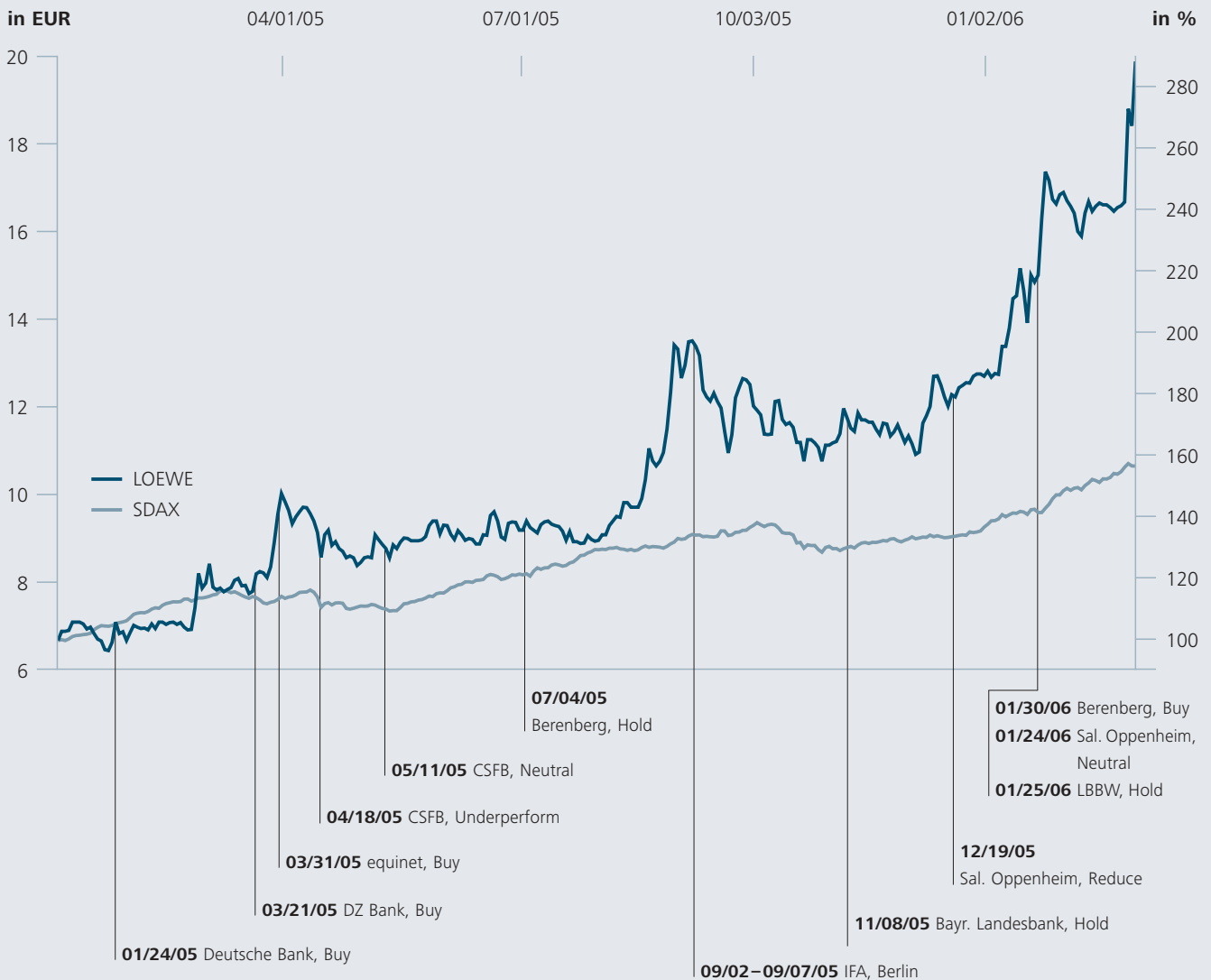
Loewe stock continued on its upward course after publication of the preliminary key figures for fiscal 2005. Several banks took the good figures as an opportunity to confirm their "buy" recommendations and increase target prices. In the following weeks, Loewe stock climbed to approximately EUR 20 amidst heavy trading, leveling off at around EUR 18.50 by the start of March.

**Unscheduled
admission to SDAX**

**Positive response
to successful rights
issue**

Development of the Loewe share price from January 3, 2005 to March 1, 2006

against SDAX (Frankfurt)



Studies with changed investment ratings only

Successful rights issue

On October 6, 2005, the Executive and Supervisory Boards of Loewe AG resolved to increase the Company's share capital. A total of 2,601,846 new shares were issued at a notional par value of EUR 1 per share and ongoing dividend payment at a ratio of 4 to 1. The subscription period ran from October 12 to 26, 2005. The subscription price for the new shares, which were fully entitled to dividends for fiscal 2005, was EUR 9.60. No subscription rights were traded. The funds raised by means of the rights issue constituted a part of the authorized capital approved by the Shareholders' Meeting of Loewe AG on June 2, 2005.

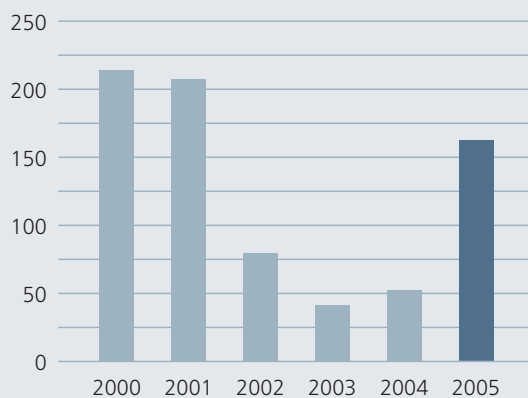
The new shares were allocated on October 26 following the exercise of subscription rights to nearly 1.6 million shares. As the largest single shareholders, the Sharp Corporation, Osaka, Japan and Sharp International Finance, (UK) PLC made full use of their subscription rights, maintaining their respective stakes at 28.8% each. Members of Loewe management also exercised subscription rights. The remaining unsubscribed shares were allocated to institutional investors by equinet Securities AG in private placement. Based on the high demand, the issue was significantly oversubscribed and not all orders from institutional investors could be executed.

Prior to the capital increase, existing shareholders had announced that they would make some of their shares, which were already admitted for trading, available for deposit to the securities accounts of subscribing shareholders and new investors. The borrowed shares were then retransferred to the existing shareholders at the beginning of November 2005. The new shares were listed on the official market of the Frankfurt Stock Exchange (Prime Standard) on December 1, 2005.

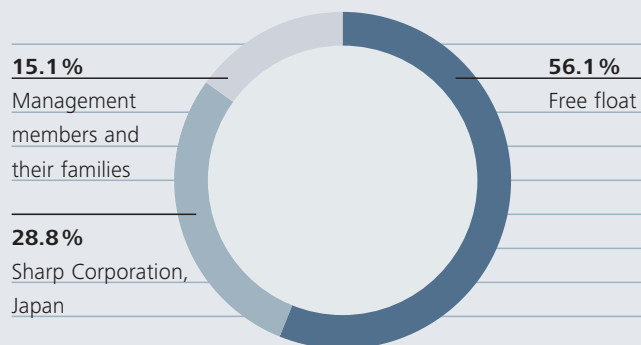
The successful placement increased Loewe's registered share capital by 2,601,846 shares to the current 13,009,229 shares. The capital increase was entered in the Commercial Register of Coburg on November 11, 2005. The gross proceeds of approximately EUR 25 million fundamentally improved Loewe's capital base. The new funds are to be used to finance planned growth over the next few years.

Proceeds fundamentally improve capital structure

Market capitalization of Loewe AG, December 31 (in EUR million)



Shareholder structure of Loewe AG



Stable shareholder structure

In the seventh year after the initial public offering (IPO), the shareholder structure of Loewe AG is characterized by a free float of 56.1% of the share capital. Nearly 19,000 securities accounts were registered in Germany as of the Shareholders' Meeting in June 2005. The Sharp Corporation, Osaka, Japan, participated in the most recent capital increase in October 2005, maintaining its stake in the Company of 28.8%, with Loewe management members and their families holding another 15.1%. In August, British financial investor 3i informed us that the company had fully divested its remaining stake of 5%. Other than this, Loewe has received no reports of holdings of 5% or more. The percentage of Loewe shares held by institutional investors increased significantly in the wake of several successful roadshows in Europe.

Key figures for Loewe stock

	2005	2004	2003	2002	2001	2000
Year-end closing price (EUR)	12.50	6.61	5.70	11.10	29.00	30.30
Annual high (EUR)	13.92	9.04	13.20	34.00	38.86	40.00
Annual low (EUR)	6.30	4.06	5.25	9.99	16.51	15.30
Average daily trading volume (Xetra + Frankfurt)	28,132	25,465	26,858	17,745	10,537	18,412
Number shares as of Dec. 31	13,009,229	7,876,600	7,176,600	7,176,600	7,149,400	7,075,000
Earnings per share (EUR)	- 0.15	- 2.71	- 3.25	2.12	2.07	1.74
Dividends per share (EUR)	0.00	0.00	0.00	0.85	0.85	0.85

Investor relations activities

Our investor relations work is aimed at maintaining and increasing the existing high-quality coverage of Loewe stock, thus nurturing investor interest. To this end, Loewe discussed its strategy and the situation of the sector in detail with European fund managers and analysts in some 70 one-on-one meetings as well as at three investor conferences in 2005. In 2006, we will continue to intensify our good relationships with banks and institutional investors, holding roadshows at the major European stock exchanges and illustrating Loewe's potential at capital market conferences.

In addition to our investor relations events, our communications with the capital markets will remain regular, prompt and transparent. We will thus continue to build up a relationship of trust with Loewe shareholders, institutional investors and analysts. The management of Loewe AG will also continue to hold conference calls with question-and-answer sessions in English upon publication of the quarterly reports and the key figures.

IR events already scheduled for 2006

February 16, 2006	Roadshow	Paris
March 23, 2006	Annual press conference	Munich
March 23, 2006	DVFA analysts' conference	Frankfurt
April 4, 2006	Small & Mid Cap Conference	Frankfurt
April 12-13, 2006	Roadshow	Edinburgh/London
April 20, 2006	Roadshow	Düsseldorf/Cologne
April 25, 2006	Roadshow	Amsterdam
May 10, 2006	Roadshow	Frankfurt
May 11-12, 2006	Roadshow	Zurich
June 7-8, 2006	European Small & Mid Cap Conference	London
August 9, 2006	Roadshow	Frankfurt
August 10-11, 2006	Roadshow	Scandinavia
September 1-6, 2006	IFA	Berlin
November 27-29, 2006	German Equity Forum Autumn 2006	Frankfurt

Prompt, transparent communication improves confidence

Several banks and research institutes have prepared analyses and studies on Loewe in recent months. Analysts' estimates of key data have been summarized in the table below:

		Sales		EBIT		EPS		Target price	Rating
		2006	2007	2006	2007	2006	2007		
Berenberg Bank , M. Häckermann	01/30/06	388.0	438.0	14.0	24.0	0.53	0.97	20.0	Buy
LBBW , G. Deppisch	01/25/06	350.1	386.4	9.5	19.3	0.37	0.83	17.0	Hold
Sal. Oppenheim , Dr. A. Gronski	01/24/06	350.0	400.0	12.9	16.8	0.41	0.61	15.2	Neutral
equinet , I. Faust	01/24/06	350.0	395.0	10.0	16.0	0.44	0.73	18.0	Buy
Credit Suisse , M. Geiger	01/23/06	353.8	375.4	10.4	17.2	0.29	0.65	13.6	Neutral
DZ BANK , B.-G. Müll	01/23/06	340.0	370.0	9.9	19.2	0.33	0.81	16.0	Buy
Deutsche Bank , J. Harkanyi	01/23/06	351.0	430.0	10.0	23.5	0.27	0.95	18.0	Buy
Bay. Landesbank , M. Endner	11/08/05	342.0		6.7		0.12		12.5	Hold
Consensus		<u>353.1</u>	<u>399.3</u>	<u>10.4</u>	<u>19.4</u>	<u>0.35</u>	<u>0.79</u>		

Higher trading volumes; Loewe derivatives launched

Loewe stock is actively traded on a daily basis on all German stock exchanges and on the XETRA electronic trading platform. Our transaction levels are highest in XETRA trading and on the Frankfurt Stock Exchange. In 2005, an average number of 28,000 shares were traded per day. Since January 2006, equinet Institutional Services AG has exercised the role of market maker.

Discount certificates issued by Deutsche Bank on Loewe shares have been on the market since October 27, 2005. Since January 11, 2006, put and call options have also been available – a further indication of increased investor interest in Loewe AG.

Dividends

As in previous years, a resolution will be proposed to the Shareholders' Meeting on May 16, 2006 that no dividends be distributed for fiscal 2005.

The Investor Relations division expended a total of approx. EUR 0.4 million in 2005. Please see www.loewe.de, Investor Relations, for current information on the Company, information of interest on Loewe stock, the IR schedule, analysts' estimates, events and presentations and an extensive service area.

Loewe's IR Team

Loewe AG

Industriestrasse 11

D-96317 Kronach

Phone: +49 (0) 92 61/99-240 Axel Gentzsch

+49 (0) 92 61/99-984 Anja Fröba

Fax: +49 (0) 92 61/99-994

Email: ir@loewe.de

Internet: www.loewe.de



WHAT MAKES A PERFECT TV SET?

The perfect television is ready for the trends of the future. Its timeless design means it will never look old. Ease of use and a clear and appealing design statement are the result of our philosophy that perfection does not need the superfluous. Setting a new benchmark in individuality and aesthetics.

THE MODERN INTERIOR IS ABOUT INDIVIDUALITY

Premium TVs aren't just televisions. They are an integral part of the individualized approach to modern interior design, like a valuable piece of furniture or an object of art. It's about expressing your own individuality, in all of its manifold facets.

Management Report

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Management Report

- **Robust growth in large-screen flat-panel TVs**
- **Significant market share gains in LCD televisions; Loewe optimally positioned in this growth segment**
- **Sales increased 19% to EUR 319.1 million, EBIT of EUR 2.1 million after two years of losses**
- **Successful rights issue; financial restructuring completed**

ROBUST GLOBAL ECONOMY, UPTURN IN GERMANY

The global economy remained robust at year-end 2005. At approximately 4.3%, the pace of global economic growth for 2005 is expected to be similar to that of the year before. World trade has accelerated and trading volume in fall 2005 was approximately 8% higher than in the previous year. The robust growth, particularly in Asia and North America, was supported by a solid upward trend in Japan and economic recovery in the euro zone.

In the euro zone, the economy recovered somewhat in the second half of 2005 due to an expansive monetary policy, still low long-term interest rates and the relatively weak euro as well as exceptionally dynamic export markets. In contrast, the persistently weak employment picture in the large member countries had a dampening effect, with unemployment remaining high at 8.6%. In addition, consumer spending remained relatively constrained due to high energy prices. For 2005, the euro zone can expect moderate real growth in gross domestic product (GDP) of 1.3% after 2.1% in 2004. The inflation rate of 2.2% was slightly higher than the 2004 rate of 2.1%.

Economy recovering in euro countries, high unemployment remains risk factor

The mild economic upturn in Germany continued. German GDP increased by 0.9% in 2005, after 1.6% growth the year before. The major driver of growth in Germany was again exports, which expanded by 7.5%. As in the year before, domestic demand in 2005 failed to meet expectations and stagnating consumer spending had a negative impact on economic growth. The budget deficit for 2005 is 3.3% of GDP, thus exceeding the 3% European deficit limit for the fourth year in a row. At 9.5%, the average annual unemployment rate for 2005 was only slightly below the 2004 rate for all of Germany.

THE EUROPEAN MARKET FOR TELEVISIONS CONTINUES TO GROW AT A DYNAMIC PACE

At EUR 24.1 billion, the European consumer electronics market in 2005 only slightly surpassed the previous year by 0.1 billion euros. By far the most important and fastest growing segment is televisions which grew in Europe to EUR 14.7 billion in 2005. In contrast, growth in DVD players softened significantly to only 2% due to rapid price erosion. As in 2004, the stereo systems segment declined sharply, shrinking 22% to EUR 3.5 billion.

Consumer electronics market in Europe

in EUR billion	2005	2004	± in %*
Televisions	14.7	12.6	16
TV recorders	0.1	0.3	- 61
DVD players	3.7	3.7	2
Video recorders	0.3	0.7	- 50
Stereo systems	3.5	4.5	- 22
Subtotal	<u>22.3</u>	<u>21.8</u>	<u>3</u>
Audio, video games, etc.	1.8	2.2	- 18
Total	<u>24.1</u>	<u>24.0</u>	<u>1</u>

* 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 2005 survey basis)

Market for television sets grows 16%

The trend in televisions is critical to Loewe because televisions represent nearly 90% of Loewe's sales.

Volume in the European television market increased by 10%. Despite rapid price erosion in all product segments, the average price of a television set in 2005 increased by 6% to EUR 544 due to the impressive growth of comparatively expensive large-screen flat-panel display sets. As a consequence of higher volume and the higher average price, the European market for televisions grew by 16% in 2005.

Television market in Europe by technology

	TV market in Europe (in EUR billion)			Loewe market share (in %)		
	2005	2004	± in %*	2005	2004	±
Picture-tube set	5.5	8.1	- 32	5	5.9	- 0.9
LCD	5.9	2.4	146	4.6	1.9	2.7
Plasma	3.0	1.7	77	1.9	0.9	1.0
Projection (front and rear)	0.4	0.5	- 28	0.9	0.5	0.4
Total	<u>14.7</u>	<u>12.6</u>	<u>16</u>	<u>4.1</u>	<u>4.1</u>	<u>0.0</u>

* 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 2005 survey basis)

19.8 million picture-tube sets were sold in Europe in 2005, 10% fewer than in the previous year. Despite a 24% decline in price, sales of picture-tube sets are now beginning to drop. Falling prices had made it possible to increase sales up until 2004.

An average CRT set cost only EUR 277 in 2005 since almost all sets sold were entry-level sets priced aggressively. Despite the growing significance of flat-panel sets, sales of picture-tube sets still account for 73% of total television sales annually, down from nearly 90% in 2004. As a consequence of the sharp drop in prices for picture-tube sets, this segment declined by 32% to EUR 5.5 billion. It now represents only 37% of the total market for televisions in Europe.

LCD televisions continue to evidence the highest growth rate among flat-panel sets. 5.7 million LCD sets were sold in 2005, roughly three times more than in the previous year. Sales of small-screen LCD sets (smaller than 22") doubled in 2005. Nonetheless, their momentum is slowing due to increased demand for large-screen LCD sets. Accordingly, sales of 32" LCD sets increased more than tenfold to 1 million units. This strong trend toward more expensive, large-screen sets kept the average price of an LCD television at somewhat above EUR 1,000, only 20% lower than in 2004 despite sharp price declines in individual segments. In contrast, the average price in the 32" LCD segment dropped by almost one-half over the course of the year to somewhat above EUR 1,800. The prices for small-screen sets under 22" also declined by 34% to approximately EUR 500.

Plasma sets also continued to experience strong price erosion. The average unit price declined by 38% in 2005 to approximately EUR 2,500. Year-to-year sales almost tripled in 2005 to 1.2 million units. Loewe is concentrating, however, on the premium segment of higher-definition plasma sets. In the dominant 42" HD category, 0.2 million units were sold in 2005 at an average price of EUR 3,400 after almost EUR 5,500 in 2004.

Loewe's market share of the TV market stabilized at 4.1% in the year under review. Significant market-share gains in flat-panel display sets compensated for the expected loss of market share in the picture-tube segment, which has now become less attractive for Loewe.

Highest growth rate in LCD TVs

In LCD televisions, Loewe was able to significantly expand its market share in Europe. Loewe's share more than doubled from 1.9% to 4.6% in 2005. Until 2004, Loewe's long-term average market share for picture-tube sets was approximately 6%. The goal is to reach this target in the LCD segment in the medium term as well.

Loewe expanded its share of the plasma segment from 0.9% in 2004 to 1.9% in 2005 by broadening its product line. The Concept 42, an entry-level product, was launched in December 2004. It was followed in February 2005 by the medium-range Xelos 42. The Spheros 42, a premium product, was sold until October 2005.

The attractive 16 % growth of the European television market in 2005 accelerated over 2004. This solid growth can be seen in all major countries. Except for the Benelux countries, which grew by only 5 % due to weakness in the Netherlands, growth in all other countries was at least 15%. Even in Germany, which in 2004 exhibited the lowest increase in Europe at 5%, growth rose to 17% in 2005 placing it slightly above the European average. With its 57 % share, however, Germany continued to be in last place among major European countries in terms of demand for new flat-panel display technologies. Just under 75 % of all outlays for televisions in Switzerland were for flat-panel display sets; in Spain the figure was approximately 67 %. The European average in 2005 was 63%.

Loewe's market share in LCD TVs more than doubles

Total television market in Europe by country

	TV Market in Europe (in EUR million)			Share of new display technologies (in %)		
	2005	2004	± in %*	2005	2004	± %pts
United Kingdom	3,611.9	3,136.8	15	62.8	36.8	26.0
Germany	2,854.7	2,445.7	17	57.2	27.6	29.6
France	2,377.2	2,040.1	17	63.7	41.1	22.6
Italy	1,877.6	1,530.8	23	64.4	41.3	23.1
Spain	1,552.5	1,287.6	21	66.8	35.3	31.5
Benelux countries	1,179.2	1,119.8	5	61.8	35.1	26.7
Switzerland	457.7	404.8	16	74.7	51.8	22.9
Rest of Europe	734.4	627.5	17	59.8	30.0	29.8
Total Europe	<u>14,645.2</u>	<u>12,593.1</u>	<u>16</u>	<u>62.6</u>	<u>36.1</u>	<u>26.5</u>

* 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 2005 survey basis)

The price of a television set in Germany rose by 16% to EUR 584 in 2005, slightly higher than the European average of EUR 544. The average price climbed by 13% in Spain as well in 2005. Both countries profited from the sharply increasing proportion of new display technologies. In all other countries, the average price of a television set barely changed. As in the previous year, the highest average price of almost EUR 1000 was seen in Switzerland. Demand for high-end sets is a tradition in that country, which is also reflected in the high proportion of flat-panel display sets.

On the other hand, the average price paid for a television set is less than EUR 500 in Italy and Spain. Beside the larger share of small screens in these countries, more intense competition is the reason for the low average price.

Loewe's share of the European television market stabilized at 4.1% in 2005 after a negative trend in recent years. The decline of Loewe's market share in Germany is a result of the residual strength of the picture-tube segment, a market from which Loewe is gradually withdrawing.

In Spain, however, Loewe significantly increased its market share from 5.3% to 7.4%.

Loewe share of the television market in Europe by country

in %	2005	2004	± in %*
United Kingdom	0.4	0.5	- 0.1
Germany	10.0	10.7	- 0.7
France	1.2	1.1	0.1
Italy	1.8	2.3	- 0.5
Spain	7.4	5.3	2.1
Benelux countries	5.2	4.9	0.3
Switzerland	6.2	5.8	0.4
Rest of Europe	1.9	2.2	- 0.3
Total Europe	<u>4.1</u>	<u>4.1</u>	<u>0.0</u>

* 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 particularly significant for Loewe. Loewe's market share there is still relatively low. The overall development in these countries is less critical for Loewe's success than systematically establishing a premium position in these markets.

Loewe's market
share stabilizes in
Europe

IMPLEMENTATION AND CONCLUSION OF RESTRUCTURING ON SCHEDULE

Loewe implemented the realignment started in 2003 during 2004 and 2005 and successfully completed the principal restructuring projects. The focus was on converting the product line to flat-panel sets, sharpening Loewe's brand image, marketing measures to adapt distribution, cutting manufacturing and administrative costs, and the operational cooperation with Sharp. Concomitantly, two capital increases were effected in 2005 and an adequate level of financing was secured via banks and factoring.

**Restructuring of
Loewe completed**

Flat-panel product offensive continued

The flat-panel product offensive continued in 2005. Following ten product launches in 2004, 13 additional new flat-panel sets were introduced in 2005. All activities focused on transferring Loewe's former strength in picture-tube sets to the new segment. For that reason, the emphasis of new product development was on systematically digitalizing all reception modes and making our sets easy to use.

In the first quarter of 2005, another LCD product in 32" format with integrated electronics, the Xelos A 32, joined the Xelos family while the plasma range was expanded to include a high-definition 42" unit, the Xelos A 42, also featuring integrated chassis electronics. Both products, as well as the previously introduced Xelos A 26, have garnered first place in comparative tests. Production of an additional LCD product family under the name Concept began in the second quarter of 2005. The 26" and 32" formats are equipped with an integrated chassis as electronics-on-board solutions. Furthermore, the Xelos family was expanded to include a 37" set, also outfitted with integrated electronics. The new, revolutionary Individual TV line was launched in time for the 2005 International Consumer Electronics Fair (IFA). Beside novel materials, colors and positioning, Individual makes use of an enhanced electronics platform. A newly developed speaker system for home cinema will supplement the new product family in 2006, prototypes of the new system were also introduced at the IFA.

**New Individual line:
unique in the global
market**

The major activity in chassis and assemblies in 2005 was the completion of the L 2650 chassis. The primary features of this new platform are the integration of the three DVB reception modes DVB-T, DVB-C and DVB-S as well as the option of an integrated hard disk recorder, which makes time-shift viewing possible. The conversion to a more economical and powerful LCD panel also occurred on this platform in 2005. A cable-ready DVB receiver expanded the existing differentiation potential. The premium price segment offers the option of an integrated hard disk, making it possible to receive 2 channels of digital programming. In the area of video processing, we introduced Image+ image enhancement based on a proprietary algorithm. Development of the next generation of an integrated HDTV chassis for high-definition television was also stepped up in 2005. An important milestone was the presentation of a play-capable prototype at the IFA. Developed in close collaboration with semiconductor manufacturers STMicroelectronics and Micronas, the world's first integrated HDTV receiver based on the MPEG-4-AVC standard met with high praise from experts.

Production capacity increased for flat screen TVs

In manufacturing, the existing final assembly line for flat-panel display products was adapted to meet increasing capacity requirements. This also necessitated development of a new placement line in order to be able to manufacture greater numbers of SMD components in an efficient manner. Commencement of mass production of the OEM sets developed for Sharp and manufactured by Loewe in Kronach required additional production capacity in the third quarter of 2005.

The Joint Development Center opened its doors in early January 2005 in accordance with the agreements with Sharp and met its targets during the course of the year. The major goal is joint development of a chassis platform to enable integrated HDTV reception and display high-definition television signals on real HD panels (1080 x 1920 pixel resolution) in high quality.

Sharper brand image and stronger distribution

Loewe continued its fast pace of product launches with the introduction of new products in 2005. The large number of design awards and successes in independent tests underscore the fact that Loewe is on its way to becoming the leading premium brand of flat-panel TVs. Communications activities focused on informing retailers quickly and effectively about Loewe's unique selling points. A core element here was the Loewe information folder that communicated all of the Group's activities for the first half of 2005 to all its retail partners.

Qualitative and quantitative expansion of distribution in Europe continued

The successful introduction of new products meant a qualitative expansion of Loewe distribution in key European markets. Furthermore, efforts to gain new customers continued in selected markets, thus enhancing distribution values. Another marketing focus in the first quarter of 2005 was participation in trade shows of the major purchasing cooperatives in Germany.

In the second quarter, Loewe concentrated on launching the Concept sets. Attractively priced LCD TVs, the Concept sets round out the Loewe "Life" segment. Using attention-grabbing communications, literature and various dialogue-marketing measures, Loewe supported its retail partners in launching the new product line. At the same time, we continued to expand distribution and increased points of sale in France and Italy as well as increasing the visibility of our flat-panel TVs at retailers. Furthermore, we previewed the IFA highlight Loewe Individual for approximately 300 selected top dealers from Germany, Austria and Switzerland.

Highlight: the IFA in Berlin

The successful IFA in Berlin highlighted the third quarter. The new Individual TV line, whose design and technical features are highly customizable, met with great interest from retailers, visitors and the media. The fact that Loewe was able to generate significantly more orders than two years ago was due in no small part to this product line. The novel, modular concept permits a diversity of design never before seen in television sets.

Loewe Individual provides for more than 400 possible design combinations of colors, surfaces, materials or mounting solutions. But its technology is also standard-setting. The sets are already outfitted for high definition television (HDTV) reception. Moreover, Loewe is one of the first companies to offer such a broad line of TV sets with integrated receivers for digital television.

During the IFA, Loewe also presented the initial results of its partnership with furniture manufacturer Interlübke. Flat televisions are increasingly becoming an integral component of home furnishings. The cooperation will make it possible to also equip the new Individual sets with Interlübke colors and surfaces. Loewe technology will now be the perfect match to sideboards and cabinetry from premium furniture manufacturer Interlübke. A joint sales and service concept rounds out the partnership.

The IFA also marked the start of Loewe's communications offensive for the second half of 2005. Under the motto "The only rule is that there are no rules," the overall concept of the campaign is already attracting attention with special-format advertisements in high-circulation newspapers. However, the campaign represents only the beginning in a series of further measures such as poster campaigns, on-line promotions, articles and events. Loewe pays particular

attention to retail presentation that adequately promotes the brand. With a comprehensive marketing concept, Loewe offers retailers every opportunity to ensure a successful shopping season – a holiday season that merges seamlessly into the time leading up to the Winter Olympic Games in Turin and the 2006 FIFA World Cup in Germany.

Expanded cooperation with Sharp

In 2005, we intensified our long cooperation with Sharp. The joint European Development Center in Kronach combines Sharp's LCD panel technology with Loewe's expertise in digital electronics to refine a completely digital electronic platform for LCD-TVs and peripherals. Development work progressed according to plan in 2005 and significant milestones were achieved, such as the presentation of an L 2700 chassis prototype in September 2005. The next milestone will be preparing the HDTV chassis for mass production by mid-2006.

Furthermore, production of medium and large-screen LCD televisions bearing the Sharp name commenced in Kronach in the second half of 2005. Sales revenues in 2005 amounted to EUR 20 million and fell short of the original target by more than one-half. Manufacturing for Sharp in Kronach will continue in the current year.

Sharp has underscored its close cooperation by taking just under a 29% interest in Loewe. Sharp also participated in the capital increase effectuated in October 2005 and exercised all its subscription rights. Sharp consequently continues to hold just under a 29% interest in Loewe.

Sharp largest single shareholder with nearly 29%

Cost cutting as planned, solid capital structure

The targets set for the year under review for cutting material and administrative costs were attained. In addition to the workforce reduction initiated in 2005 and now completed, a 10% concession on wages and salaries for 2006 and 2006 had a positive impact on earnings. Planned savings in advertising, sales and materials were also effected in the year under review. For the current fiscal year, stringent cost discipline will continue to be applied, although growing business volume will make it difficult to find further potential for cutting costs.

The capital increase effected in October and improved operations at Loewe made it possible to renegotiate the financing agreements with banks and a factoring company. With an equity-to-assets ratio of almost 30%, a liberal financing limit and low utilization, Loewe's capital structure is on a sound footing and financial restructuring has been completed.

Planned cost cuts implemented, equity-to-assets ratio increases to almost 30%

LOEWE'S KEY PERFORMANCE INDICATORS IMPROVED SIGNIFICANTLY

Loewe's restructuring was largely completed in fiscal year 2005. After two years of losses with shrinking sales, the Company achieved a strong 19% increase in revenues to EUR 319.1 million. Higher sales of flat-panel sets improved the product mix and reduced the cost basis, permitting EBIT of EUR 2.1 million after EUR –25.7 million in 2004.

Key figures

in EUR million	2005	2004	± in %
Sales	319.1	267.8	19
EBIT	2.1	– 25.7	
Interest expense, net	– 4.0	– 6.4	– 38
Net loss for the period	– 1.9	– 21.4	
Capital expenditure	11.8	15.3	– 23
Employees (annual average)	945	1,054	– 10

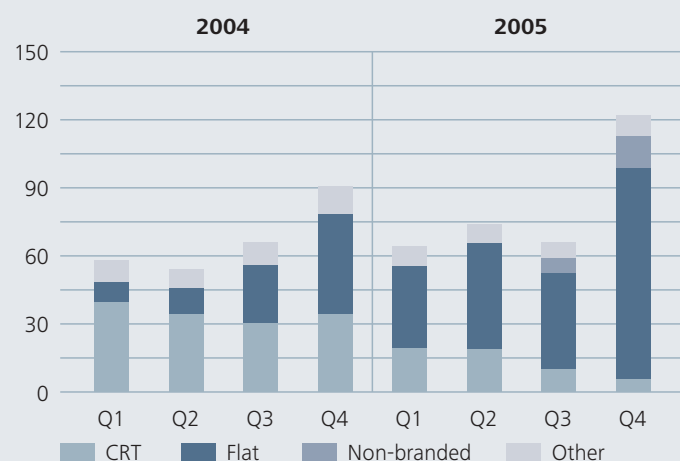
The improved operating result and lower interest expenses reduced the consolidated net loss to EUR –1.9 million. Significant savings were realized in capital expenditures which diminished to EUR 11.8 million. On an annual average, the number of employees was 10% lower than in the previous year.

Dynamic growth despite declining sales of CRT sets

A significant factor in the improved performance was rapid sales growth, particularly of large-screen flat-panel sets. In the third quarter of 2004, sales of flat-panel display sets were able to compensate for declining sales of CRT sets for the first time. This trend accelerated in the first two quarters of 2005. Loewe profited from rapid growth in the LCD TV market and high acceptance of the Xelos product family, leading to a rapid increase in market share. Initial shipments of Sharp sets made by Loewe were not sufficient to lift the third quarter of 2005 over the previous year's level as purchasing bottlenecks that had existed since September 2005 limited production and sales volume throughout the entire fourth quarter. Nonetheless, sales in the fourth quarter of 2005 were up by approximately 30% compared to the previous year. The Individual product family, which was successfully introduced at the IFA, contributed strongly to this result. In the course of 2005, sales of picture-tube sets declined from 35% in the first quarter to 6% of total sales in the fourth quarter.

Dynamic sales growth in flat screen TVs

Sales by quarter (EUR million)



On an annual basis, sales of flat-panel display sets rose by 145% to EUR 218.5 million. This is primarily the result of rapid growth in LCD sets in the 26" and 32" category. Loewe features a large number of models in this category and benefited highly from that growth.

Sales structure by product area

in EUR million	2005	2004	± in %
Flat screen	218.5	89.3	145
– LCD	190.0	75.7	151
– Plasma/rear projection	28.5	13.6	110
Picture-tube	47.6	138.7	– 66
Total			
Loewe televisions	266.1	228.0	17
Televisions (non branded)	20.4	0.0	NM
Other	32.6	39.8	– 18
Total sales	319.1	267.8	19

Sales of plasma sets more than doubled in 2005, although Loewe's product line was limited to three sets in the 42" category. The Xelos 42 contributed most to sales revenue and earnings. Loewe has not produced rear-projection units since 2005 because customers prefer high-end products based on LCD and plasma technology. Consequently, sales revenues dropped to EUR 2.3 million from EUR 2.9 million in the previous year.

The decline in sales of picture-tube sets accelerated in 2005. Since these units are marketed almost exclusively through aggressive pricing and it is now almost impossible to sell high-end CRT sets, Loewe's sales revenues in 2005 sank by 66% to less than EUR 50 million. The share of picture-tube sets declined from 61% in 2004 to 18% in 2005. Production is slated to cease in the first half of 2006.

Sales of non-branded televisions relate to sets developed by Loewe for Sharp and manufactured in Kronach since July 2005. Sales revenue in 2005 was EUR 20.4 million.

Share of picture-tube sets sinks to 18%

The 18% reduction in other revenues to EUR 32.6 million resulted primarily from the sale of TV accessories and DVD players. Since flat-panel sets require less elaborate positioning and sometimes are simply mounted on the wall, there are fewer possibilities for supplemental sales that with picture-tube sets. Sales of DVD players and stereo systems remained roughly at the 2004 level.

Loewe grew in all significant markets in 2005. Higher exports lowered the domestic share of Loewe's total sales revenue to 48.4%. The greatest growth in absolute terms was in Spain, Germany and France.

Sales structure by region

Loewe is growing in all key markets

in EUR million	2005	2004	± in %
Germany	144.6	136.4	6
(Percentage share of total sales)	48.4%	50.9%	
Benelux countries*	32.3	30.7	5
Italy**	18.9	17.8	6
Spain	36.3	27.9	30
United Kingdom	9.1	8.1	12
France***	14.9	9.2	62
Switzerland	5.9	4.7	26
Austria****	8.4	6.9	22
Other European countries	16.1	12.5	29
Europe (incl. Germany)	<u>286.5</u>	<u>254.2</u>	<u>13</u>
Australia	4.3	5.9	- 27
Russian Federation	6.1	5.6	9
Other non-European countries	1.8	2.1	- 14
Countries outside Europe	<u>12.2</u>	<u>13.6</u>	<u>- 10</u>
Total Loewe brand sales	<u>298.7</u>	<u>267.8</u>	<u>12</u>
TV (non-branded)	20.4	0.0	
Total sales	<u>319.1</u>	<u>267.8</u>	<u>19</u>

* Sales through Loewe Opta Benelux N.V./S.A.

** Sales through Loewe Italiana S.r.l.

*** Sales through Loewe France S.A.

**** Sales through Loewe Austria GmbH

In Germany, Loewe's most important market, sales rose by 6%, slower than the total television market. The decline in Loewe's market share from 10.7% to 10.0% is attributable to losses in the picture-tube segment, as the significance of premium products here continues to diminish. In contrast, Loewe greatly increased its market share in Germany in the flat-panel segment.

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

In the Benelux countries, Loewe's sales increased by 5% to EUR 32.3 million. The share of flat-panel products of the total television market in Belgium is 61.8%, roughly reflecting the European average. Loewe generated 85% of its sales of flat-panel display televisions in the Benelux countries in 2005. Loewe's market share rose by 0.3 percentage points to 5.2%. The company's headcount of 32 people remained at the previous year's level. As in the previous years, the company made a positive contribution to earnings.

Loewe's business in Italy also expanded slightly. Sales rose by 6% to EUR 18.9 million; however, it lagged far behind the turbulent growth of the Italian market. With a 22% growth in volume and a 23% growth in revenues, the Italian television market leads Europe. However, at EUR 421, the average price of a television set is the lowest in Europe. This is the result of higher sales of small-screen sets and very stiff price competition in Italy. The share of flat-panel sets in Italy is 64.4%, slightly above the European average of 62.6%. The number of employees in 2005 averaged only eight because headquarters in Kronach performed most logistics and administrative functions. Following startup losses in previous years, the Company made a positive earnings contribution in 2005.

The largest percentage of growth in sales in the Loewe Group was generated in France. Sales at Loewe France rose by 62% in 2005 to EUR 14.9 million. The attractive 17% market growth and expansion of the distribution basis favored this development. At 63.7%, market acceptance of flat-panel display products in France is slightly above the European average. As in the previous year, the company developed profitably and employed 16 people in 2005.

Since early 2004, a fully-owned subsidiary handles business in Austria. The company's development has been positive and in 2005, it increased its sales revenue from EUR 6.9 million to EUR 8.4 million. As in Germany, the market trend was positive. The company employed 6 people in 2005 on the average. Loewe performs all essential administrative and logistics functions from Kronach. The company has developed profitably in its second year in business.

In the remaining countries, outside distribution partners market Loewe products. Loewe's most important export market in Europe is Spain. Loewe increased its sales in 2005 by EUR 8.4 million to EUR 36.3 million. On a country-to-country basis, this represents the highest absolute growth. In addition to robust growth of 21%, the Spanish market has a comparatively high proportion of flat-panel display sets, which in 2005 had already reached 55.8%. Loewe's improved positioning is evident in the market-share increase from 5.3% to 7.4%

Loewe is under-represented in the United Kingdom, Europe's largest market for television sets. Although sales increased from EUR 8.1 million to EUR 9.1 million, Loewe's market share still remains below 1%. Loewe is far from exhausting the potential of the U.K. market. Measures are set to make noticeable progress in this significant market in 2006.

Despite its comparatively small size, the Swiss market is very attractive for high-end products. The share of new display technology at 74.7% and the average price per television set at EUR 981 are the highest in Europe. Loewe is well positioned in Switzerland and increased its sales by 26% to EUR 5.9 million and its market share from 5.8% to 6.2% in the year under review.

**Loewe flat screen
TVs in high
demand in France**

**Highest sales
growth in Spain**

Noticeably improved earnings in 2005

At EUR 2.1 million in 2005, EBIT was EUR 27.8 million higher than in the previous year. The positive trend evident since early 2004 is a result of increasing sales volume, improved product mix due to the increased share of flat-panel sets, and successful cost reduction. Since the end of the third quarter of 2005, there have been industry-wide supply bottlenecks for large-format LCD panels. Order backlogs for the newly launched Individual product family limited Loewe's sales in the third quarter of 2005, depressing EBIT by EUR 1.5 million. Price erosion, strong in the first half, diminished sharply in the fourth quarter due to noticeable supply bottlenecks for LCD panels.

Loewe was thus able to keep prices at a steady level in the fourth quarter and nonetheless achieve high sales, permitting positive EBIT of more than EUR 6 million.

EBIT by quarter (EUR million)



In fiscal year 2005, cooperation with Sharp and wage and salary concessions by all employees had a positive impact on earnings.

Manufacturing costs rise at a lower rate than sales

While sales rose 19%, manufacturing costs in 2005 were up only 11% over the previous year. This improved the cost-of-manufacturing ratio from 85.4% in 2004 to 79.7% in 2005. The primary cause for this development was that an improved product mix, lower procurement costs and the leaner cost structure compensated for lower prices for television sets. Overall, the gross margin was significantly improved from EUR 39.1 million in 2004 to EUR 64.7 million in 2005.

Higher margins
due to improved
product mix

Sales and administrative expenses further reduced

The cost-cutting program initiated in 2003 permitted considerable savings in the year under review. Sales and marketing expenses declined again in 2005 and were 10.2% below the previous year's figure. In addition to the workforce reduction and measures to reduce the cost of materials, lower advertising, freight and warranty costs brought relief in sales and marketing. Administrative expenses were only slightly below those of the previous year because a large part of savings was counter-balanced by higher pension costs resulting from the lowering of the discount rate from 5.0% to 4.5%.

Cost-cutting program enables high savings

Other operating income

The balance of interest expense and income from equity investments was EUR 2.3 million in 2005 compared to a balance of operating income and expenses of EUR 1.5 million in 2004.

At EUR 10.4 million, other operating income including income from equity investments was significantly below the previous year due to fewer one-time effects factors and releases of provisions. As in the previous year, other operating income for 2005 includes development services passed on to Sharp in the amount of EUR 3.8 million.

Other operating expenses declined by EUR 4.5 million to EUR 12.7 million in 2005. The primary cause for this was the elimination of one-time effects included in 2004. Other operating expenses include costs of EUR 3.8 million for development services passed on to Sharp and expenses in connection with a planned special payment arising from wage and salary concessions in 2004.

Interest expenses decline significantly

Interest expenses diminished from EUR 6.4 million to EUR 4.0 million because the need for borrowing was considerably lower than in 2004, due to the capital increases and significant earnings improvement.

Lower financing costs

Reduced capital expenditure

Capital expenditure and depreciation/amortization

in EUR million	2005		2004	
	Investments	Depreciation/amortization	Investments	Depreciation/amortization
Intangible assets	5.5	5.6	7.5	9.5
Property, plant and equipment	6.3	15.8	7.2	15.8
Financial assets	0.0	0.0	0.6	
Total	<u>11.8</u>	<u>21.4</u>	<u>15.3</u>	<u>25.3</u>

Capital expenditure was down by EUR 3.5 million to EUR 11.8 million compared to the prior year because only urgently needed measures were implemented under the restructuring program from 2003 to 2005. Investments in tools for new products were lower in 2005 than in the previous year because advance payments were made in 2004 for tools that were not finished until 2005.

Capital expenditure scaled back further

Depreciation/amortization in 2005 came to EUR 21.4 million and included EUR 2.8 million in extraordinary write-offs on product-related assets for picture-tube sets. The decline of EUR 3.9 million in relation to the previous year is attributable to low investing activity in previous years.

Shareholders' equity increases to EUR 59.2 million

Balance sheet ratios improved significantly

Total assets increased primarily due to a significant reduction in the use of factoring. The corresponding increase in accounts receivable and the higher cash and cash equivalents led to the increase in current assets. The capital increases raised the shareholders' equity of the Loewe Group including minority interests from EUR 20.4 million to EUR 59.2 million. Despite significantly lower amounts owed to banks year-on-year, current liabilities were slightly higher because high production volume in the fourth quarter of 2005 strongly increased accounts payable.

Key figures of the consolidated balance sheet

in EUR million	2005	2004	± in %
Non-current assets*	67.9	76.7	- 11
Current assets*	144.9	95.8	51
Assets of the discontinued division	0.1	0.0	
Total assets	<u>212.9</u>	<u>172.5</u>	<u>23</u>
Shareholders' equity incl. minority interests	59.2	20.4	190
Non-current liabilities*	58.3	58.2	0
Current liabilities*	94.6	92.9	2
Non-current/current liabilities of the discontinued division	0.8	1.0	- 20
Total equity and liabilities	<u>212.9</u>	<u>172.5</u>	<u>23</u>

* Continuing division only

Non-current assets slightly lower

The decline in non-current assets results from lesser amounts for property, plant and equipment.

Non-current assets

in EUR million	2005	2004	± in %
Property, plant and equipment	34.9	44.3	- 21
Deferred tax assets	25.7	24.9	3
Other non-current assets	7.3	7.5	- 3
Total non-current assets	<u>67.9</u>	<u>76.7</u>	<u>- 11</u>
as a percentage of total assets	31.9 %	44.5 %	

Property, plant, and equipment includes almost exclusively land and buildings, production facilities, and other machinery and office equipment in Kronach. The 21 % decline is primarily due to reduced capital expenditures but also due to extraordinary write-offs of tools for picture-tube sets, which by now have been almost completely written off. Deferred tax assets increased by EUR 0.8 million to EUR 25.7 million in 2005, primarily due to negative contributions from ordinary activities. Other non-current assets chiefly relate to development costs for new products in accordance with IAS 38.

Increased current assets

Loewe's improved financial situation brought about an increase in current assets as the Company hardly used opportunities for factoring, and cash and cash equivalents increased significantly year-on-year.

Current assets

in EUR million	2005	2004	± in %
Inventories	39.5	36.4	9
Trade accounts receivable	88.1	51.8	70
Current assets	17.3	7.6	128
Total current assets	<u>144.9</u>	<u>95.8</u>	<u>51</u>
as a percentage of total assets	68.1 %	55.5 %	

Inventories at low levels

Inventories increase at a lower rate than business volume

At EUR 39.5 million, inventories rose only 9% compared to the previous year. This lower rate of increase compared to sales results from higher factory inventories due to increased supply bottlenecks beginning in the fourth quarter of 2005. In contrast, inventories of finished goods continued to decrease, due in particular to reduced inventories of picture-tube sets.

At year-end, supply-chain bottlenecks led to very low inventories of flat-panel display sets. Consequently, inventory range was less than 0.4 months and thus only half as high as the target.

Finished goods by product group

in EUR million	2005	2004	± in %
CRT televisions	1.6	6.0	- 73
LCD televisions	7.6	3.3	130
Plasma televisions	0.3	1.8	- 83
DVD players and recorders	0.4	0.3	33
Video recorders	0.0	0.1	- 100
Stereo systems	0.6	1.3	- 54
Accessories and other inventories	6.4	7.1	- 10
Total inventories of finished goods and merchandise	<u>16.9</u>	<u>19.9</u>	<u>- 15</u>

Inventories are concentrated in the central warehouse in Germany because Loewe Opta Benelux is the only foreign company to maintain its own warehouse.

Higher receivables, reduced factoring volume

Adjusted for factoring, trade accounts receivable rose 15% year-on-year to EUR 90.9 million. Positive structural effects made it possible to reduce the average days sales outstanding (DSO) period to approximately 65 days at year-end.

Trade accounts receivable

in EUR million	2005	2004	± in %
Trade accounts receivable before factoring	90.9	79.2	15
Factoring	- 2.8	- 27.4	- 90
Total trade accounts receivable*	<u>88.1</u>	<u>51.8</u>	<u>70</u>
as a percentage of total assets	41.4%	30.0%	
* thereof:			
Loewe Opta GmbH	66.7	36.9	81
Loewe Opta Benelux N.V./S.A.	5.5	4.4	25
Loewe France S.A.	5.4	2.9	86
Loewe Italiana S.r.l.	6.5	5.1	27
Loewe Austria GmbH	4.0	2.5	60

The significantly improved financial situation made it possible to reduce financing through factoring from EUR 27.4 million at year-end 2004 to EUR 2.8 million at year-end 2005. As a result, trade accounts receivable have increased by 70% to EUR 88.1 million.

Solid equity base

Due to the two capital increases, shareholders' equity including minority interests increased significantly in 2005 to EUR 59.2 million as of December 31, 2005. The equity-to assets ratio improved accordingly from 11.8% to 27.8%.

Non-current liabilities slightly higher

The minimal change in non-current liabilities from the previous year is the result of higher provisions and lower financial liabilities.

Non-current liabilities

in EUR million	2005	2004	± in %
Pension provisions	36.8	36.2	2
Other provisions	15.0	11.5	30
Financial liabilities	6.5	10.5	- 38
Total non-current liabilities	<u>58.3</u>	<u>58.2</u>	<u>0</u>
as a percentage of total assets	27.4%	33.7%	

Pension provisions nearly unchanged

The EUR 0.6 million increase in pension provisions is primarily the result of lowering the discount interest rate from 5.0% to 4.5%, in accordance with the low level of market rates. Application of the new Heubeck 2005 G actuarial tables had an offsetting effect. The need for other provisions increased due to special payments in connection with the wage and salary concession of 2004. The decline in financial liabilities relates to repayments of long-term loans in 2006.

Current liabilities slightly higher

Current liabilities

in EUR million	2005	2004	± in %
Trade accounts payable	44.7	21.7	106
Other provisions	34.3	31.9	8
Other current liabilities	15.6	39.3	- 60
Total current liabilities	<u>94.6</u>	<u>92.9</u>	<u>2</u>
as a percentage of total assets	44.4%	53.9%	

The sharp increase in trade accounts payable results from higher production volume, in particular in the fourth quarter of 2005, and the longer payment times for LCD panels. The other need for provisions increased due to higher sales revenue and relates primarily to bonuses paid to retailers. The low miscellaneous liabilities primarily relate to lower short-term bank loans.

Financing situation improved significantly

Financing

in EUR million	2005	2004	± in %
Cash and cash equivalents	15.3	2.1	629
Long-term bank loans	- 6.5	- 10.5	- 38
Short-term banks loans	- 5.3	- 25.7	- 79
Subtotal	<u>3.5</u>	<u>- 34.1</u>	<u>- 110</u>
Factoring	- 2.8	- 27.4	- 90

The net bank balance of the Loewe Group improved from EUR –34.1 million as of 12/31/2004 to EUR 3.5 million as of the 2005 closing date. Furthermore, factoring was held to only EUR 2.8 million after EUR 27.4 million at year-end 2004. Overall, this has improved the financial situation by more than EUR 60 million, resulting primarily from the two capital increases in 2005 and the lowered working capital.

The pooling agreement that has been in effect with the banks since early 2004 was therefore terminated and converted into a syndicate agreement. Furthermore, the factoring agreement which had existed since year-end 2003 was extended to mid-2010 at significantly improved conditions and expanded to a maximum volume of EUR 35 million. From the present perspective, Loewe's financial restructuring is complete. The solid capital structure and financing agreements should not limit Loewe's growth potential in the years to come.

**Pooling agreement with banks terminated.
Financial restructuring completed**

High free cash flow

In 2005, it was possible to generate free cash flow of EUR 22.0 million after a negative free cash flow of EUR 18.7 million in 2004. The major causes were the significant improvement in earnings and releases of funds from net current assets.

Key figures of the consolidated cash flow statement

in EUR million	2005	2004
Net cash before changes in net current assets*	19.6	– 7.2
Change in net current assets not incl. factoring*	14.1	1.1
Net cash used for investing activities*	– 11.7	– 12.6
Free cash flow of Home Media Systems	<u>22.0</u>	<u>– 18.7</u>
Free cash flow of the discontinued division	– 0.3	– 3.5
Total free cash flow	<u>21.7</u>	<u>– 22.2</u>

* Continuing division only

The reduction in net current assets relates primarily to the increase in trade accounts payable and higher miscellaneous provisions.

Net current assets

in EUR million	2005	2004	± in %
Inventories	39.5	36.4	3.1
Trade accounts receivable not incl. factoring	90.9	79.2	11.7
Other assets*	2.5	6.1	- 3.6
Trade accounts payable	- 44.7	- 21.7	- 23.0
Other provisions	- 34.3	- 31.9	- 2.4
Other short-term liabilities	- 6.2	- 6.3	0.1
Total net current assets	<u>47.7</u>	<u>61.8</u>	<u>- 14.1</u>

* excluding income taxes

Due to the two capital increases in 2005, cash flow from financing activities increased significantly by EUR 36.5 million to EUR 40.2 million.

U.S. division shut down

Loewe's U.S. business has been terminated. The subsidiary Loewe Opta, Inc. continues to exist and will be responsible for handling warranty obligations still to be incurred. The 2005 result was break-even.

Key figures of the discontinued division

in EUR million	2005	2004
Sales	0.0	5.2
EBIT	0.0	- 8.1
Net loss for the period	0.0	- 8.1
Capital expenditure	0.0	0.0
Employees (annual average)	0	9

U.S. activities terminated

WORKFORCE REDUCED ACCORDING TO PLAN

The restructuring program initiated in 2003 concluded in the fiscal year just ended. By mid-year all measures planned for reducing the number of indirect employees were completed. 16 direct employees were released for business reasons in August 2005. Loewe employed 945 people on an annual average, most of them at the Company's headquarters in Kronach. The average number of employees was lower by 99 people than in 2004. In addition to normal turnover, use was made of part-time retirement arrangements and part-time work agreements to reduce the workforce in a socially compatible manner.

Compared to the previous year, the proportion of trainees in the entire workforce remained at a constantly high level. On an annual average, approximately 9% of the workforce completed in-house training.

Personnel cuts finalized

Employees by division

Annual average	2005	2004	± in %
Marketing, sales, service, quality	213	266	- 20
Development	115	124	- 7
Production	377	408	- 8
Administration and services	87	114	- 24
Trainees	76	86	- 12
Other (permanently absent, part-time retirement)	77	56	38
Total employees	<u>945</u>	<u>1,054</u>	<u>- 10</u>

The number of employees hardly changed in the foreign subsidiaries. Overall, 61 people work in the subsidiaries, compared to 62 in the previous year.

Employees by country

Annual average	2005	2004	± in %
Germany	884	992	- 11
Benelux countries	31	32	- 3
France	16	17	- 6
Italy	8	7	14
Austria	6	6	
Total employees	<u>945</u>	<u>1,054</u>	<u>- 10</u>

The collective restructuring agreement negotiated in 2004 made an important contribution to staying within the personnel budget. The agreement provides for concession of roughly 10% of fixed compensation for all Loewe employees for the years 2005 and 2006. Annual savings amount to approximately EUR 4.0 million.

As in the past, one focus of personnel marketing activities was on extensive liaisons with schools and universities in order to maintain Loewe's image as an attractive employer for highly qualified applicants.

The year 2005 was marked by a successful turnaround and Loewe's strategic realignment. Significantly increased demands as well as the wage and salary concessions have placed all Loewe employees under extreme pressure during the past year. The outlook for the following financial year indicates likewise that profits and growth will only be possible with a lean and flexible organization. The Executive Board is convinced that Loewe will continue to develop very favorably in 2006 and expresses its thanks to all employees for their exemplary commitment to Loewe's interests.

SUSTAINED ENVIRONMENTAL ORIENTATION

Continuous reduction of the environmental impact of all corporate activities is an essential goal at Loewe. For that reason, we expect and promote environmental awareness and personal responsibility among all our employees. Beyond the legal requirements, Loewe participates in "Umweltpakt Bayern," a Bavarian government and industry initiative committed to continuous improvement of the environment and has certified its environmental management system under DIN ISO 14001.

Loewe's involvement in committees of the German Electrical and Electronic Manufacturers' Association (ZVEI) prepares it extremely well to implement the EU's environmental directives. In collaboration with Philips and Sharp, Loewe established the manufacturers' cooperative arrangement ProReturn in order to fulfill obligations arising from the Act Governing the Sale, Return and Environmentally Sound Disposal of Electrical and Electronic Equipment (ElectroG) of March 23, 2005, in a more efficient manner. As defined by Accounting Interpretation RIC 2 of the DRSC, this form of implementing the ElektroG is classified as a collective assessment system that does not provide for reserves in the case of manufacturers marketing electric equipment.

Another focal point in the development of technically high-quality and environmentally safe products was the early implementation of the Restriction of Hazardous Substances Directive (RoHS) in 2005. As of year-end 2005, nearly all Loewe assemblies were soldered lead-free and 95% of the components conformed to RoHS. Of course, Loewe uses no halogen-containing flame retardants in circuit boards and plastic parts.

Suppliers continue to be involved at an early stage in order to select suitable packaging materials to minimize waste. In this connection, a standard for reusable packaging will go into effect with several suppliers. Loewe has also underscored its efforts to support new environmental technologies by installing an emergency power system based on fuel-cell technology in October 2005.

SHAREHOLDERS' MEETING ON JUNE 2, 2005

At the Shareholders' Meeting of Loewe AG held on June 2, 2005, all items on the agenda were adopted with only a few opposing votes. Items on the agenda included, among other things, approval of new authorized capital as the existing capital authorized in 1994 had largely been used up. Furthermore, shareholders approved contingent capital in order to permit attractive financing alternatives on a short-term basis if needed. The association for the protection of minority shareholders' interests (S. a. M.) has filed a suit contesting this agenda item in the regional court in Coburg. The first hearing has been set for June 1, 2006 at the regional court of Coburg.

**Loewe well prepared
for EU environmental
directives**

**Environmental
protection of central
significance**

RISK REPORT

Risk management at Loewe

Intense competition has characterized the market for consumer electronics for decades. As a comparatively small company, Loewe is exposed to a large number of risks that are inseparable from every business activity. A diversification policy strives to reduce potential risks to an acceptable level. Risk management contributes to Loewe's ability to grow successfully and increase its earning power.

The existing risk management system was refined in financial year 2005. Standardization of clearly defined areas of risk into a set of guidelines leads to a transparent structure to which the various individual risks can be assigned, making it possible to identify, evaluate and document risks systematically. At the same time, the system models their impacts on net worth, finances and operating results. Individual risks are of a quantitative or qualitative nature depending on the methods used for identification and evaluation. The remaining net risk is determined by evaluating existing safeguards and estimating probabilities of occurrence. If necessary, suitable measures for risk reduction or management are then initiated. By incorporating risk management into a document-management system, we have integrated our IT, enabling those responsible for risks to process individual risks in decentralized fashion. IT integration also provides for central reporting. Risk monitoring reviews the efficiency and implementation of countermeasures.

Loewe's risk management system is an integral component of the entire planning, controlling and reporting process. Controlling plays a very important role here.

A transparent reporting system detects discrepancies in key data early so that actions can be initiated or operational changes implemented. Regular reporting to the Executive Board, management and the Supervisory Board ensures that decision-makers are thoroughly informed about the company's development.

Despite such measures, risk can never be completely ruled out. The major risks are described below.

Premium positioning in the flat-panel display market

A key element of Loewe's business model is the marketing of high-quality televisions. In doing so, the price premiums achievable, the costs of manufacturing the products and the sales volumes attainable must be kept in reasonable balance. Only if the customer recognizes the quality and features of Loewe's products and is willing to pay a higher price, will it be possible to compensate for the higher costs and generate an adequate contribution to margin.

The maturing of the flat-panel market should open up attractive opportunities for Loewe to differentiate itself through high-end, fully-featured sets and generate attractive margins. In the meantime, Loewe faces the risk that the target segment of high-end, flat-panel, fully-featured sets will have comparatively low market significance at first. Consequently, the potential for sales, price differentiation and thus, attainable contributions to earnings could be limited.

Systematic risk management

In this transition phase, Loewe will therefore have to accept a lower price premium or reduced sales volumes than was the case with high-end picture-tube sets in a mature market. Loewe will gradually take more advantage of the differentiation potential of flat-panel televisions. Product design and individual equipment features will continue to be an important differentiating and positioning criterion. Furthermore, the modular flexibility afforded by Loewe products (integrated Internet use, hard-disk recording or flexible connection of digital devices) will provide the customer with customized solutions possessing added value.

Expansion of the potential for technological differentiation

Lasting and credible premium positioning requires that such important features of flat-panel sets as picture and sound quality, ease of use or system capability, meet with positive judgments. Should this not be the case over an extended period, there is a risk that it will have a negative impact on achievable price premiums and sales. As the cost-cutting measures of recent years have also impacted development, there is a risk that insufficient resources will be available to generate lasting technological differentiation.

Loewe therefore concentrates on areas of technology that offer the customer added value and present opportunities for differentiation. Modules and components are outsourced if it is not possible to achieve a better result for the customer through our own efforts. Furthermore, the development cooperation with Sharp initiated in early 2004 is beneficial as chassis platforms are being developed jointly, making it possible for both companies to generate the desired results faster and more efficiently. Using the chassis platforms as a basis, Sharp and Loewe will be able to concentrate more on deriving brand-specific products from them.

Furthermore, we are attempting to exploit existing contacts to institutes, universities and the research facilities of significant companies more intensively and also, to expand them.

Attractive purchasing conditions and availability of materials

Loewe's comparatively lower purchasing volume of flat-panel displays and important components makes it difficult to achieve attractive conditions and constant availability of materials. In recent months, supply bottlenecks have arisen for large-format LCD modules, and these could persist in the coming months. Furthermore there is a risk that future cost reductions on the purchasing side will not compensate for the negative impact of lower sales prices.

Loewe counteracts these problems by systematically bundling volume with key suppliers, reducing component diversity, refining electronic procurement systems to reduce processing costs and qualifying alternative components and suppliers. The cooperation with Sharp is also advantageous because Sharp is an international leader in the production of high-quality LCD panels. Because Loewe is under no contractual constraints in selecting its panel suppliers, Sharp is in competition with alternative suppliers in this area. In 2005, Samsung qualified as a second major supplier of LCD panels and the first Loewe products have already been equipped with these high-quality panels. In the future, Loewe will be able to switch to LCD panels from alternate suppliers, even on short notice. Furthermore, we are systematically expanding existing agreements and continuously coordinating demand directly with suppliers and their partner organizations.

Product quality and liability risks

Successful long-term implementation of a premium strategy presupposes a high level of quality. High standards apply to the reliability and safety of products. If these standards are not met, there is a risk of damage to the reputation of the Loewe brand with long-term adverse impacts on the Company's earning power.

The increasing share of flat-panel display products should make a higher quality level possible. This is all the more the case since the current generation of sets is equipped with an optimized chassis designed for comparatively high numbers of units

Sales of picture-tube units declined again sharply in 2005. Production of CRT sets will cease in 2006. In recent years, it has become increasingly difficult to achieve quality goals because measures to increase performance led to increased stress on components. Improvements led to a decline in field failures in picture-tube sets. Field failures were within the established tolerance limits in 2005. Generally, the chief causes were the picture-tubes used, line output transformers or soldering.

Loewe constantly monitors the quality of the products during manufacture and analyzes the quality of sets on the market. Intensive tests are performed on the pilot series, enabling us to initiate countermeasures and avoid errors. Close involvement with suppliers is becoming increasingly important because material components in the manufacturing costs are clearly higher for flat-panel sets than for CRT sets. For that reason, we regularly evaluate suppliers according to specific and clearly defined quality criteria. The basis of this evaluation is intensive supplier support in the form of product/system audits and on-site acceptance inspections.

Foreign subsidiaries

Loewe generates roughly 50% of its sales abroad. In the Benelux countries, Italy, France and Austria, marketing of Loewe's products is performed by subsidiaries. In all other countries, independent distribution companies perform this function. The advantage of subsidiaries is a more direct relationship with the customer, facilitating better implementation of Loewe's premium strategy and higher sales. This is associated with higher operating risk because the marketing organization's fixed costs are incurred independent of the sales revenue achieved. Furthermore, the closure of a sales company can significantly burden the Company's overall earnings situation.

To limit these risks, we have avoided costly decentralized warehousing by shipping directly to customers in Italy, France and Austria. Essential administrative functions are performed centrally in Germany in order to reduce the fixed costs of the export companies. In addition to constant reporting, quarterly meetings are held in order to detect deviations early and to initiate countermeasures.

Financial situation

In 2004 and 2005, three capital increases were implemented, increasing shareholders' equity by approximately EUR 45 million. Furthermore, the clearly improved operating result in 2005 and the positive EBIT on an annual basis corroborate Loewe's ongoing recovery.

The pooling agreement that had existed with banks since early 2004 was consequently terminated and converted into a syndicate agreement. Furthermore, in February 2006, the factoring agreement which had existed since year-end 2003 was extended to mid-2010 at significantly improved conditions and expanded to a maximum volume of EUR 35 million.

Permanent and consistent quality assurance

Loewe funding secured

As of December 2005, there were no net bank liabilities and factoring was also not utilized. Given the fact that Loewe's need for financing reaches its seasonal peak in the fourth quarter, this provides clear proof of the existing financial latitude.

From the present perspective, Loewe's financial restructuring has been completed. The solid capital structure and financing agreements should not limit Loewe's growth potential in the years to come.

Currency risks

The currency risk for Loewe is essentially limited to the procurement of LCD panels that are predominantly settled in Japanese yen. In 2005, the total volume amounted to approximately 10.3 billion yen (approximately EUR 75 million). To limit exchange-rate risk, guidelines were established that provide for a proportional hedge of the exchange-rate risk. To this end, anticipated foreign currency volume was estimated using a rolling 12-month plan and approximately 50% was hedged by forward exchange transactions, call options and zero-cost options.

Tax law changes

Legal changes are sometimes difficult to forecast and they carry the risk of worsening the balance sheet of the Loewe Group. In conformity with International Financial Reporting Standards and current tax laws, the value of the tax loss carryforwards was recognized at EUR 21.3 million in the consolidated balance sheet as of December 31, 2005. Although there are no signs that a new tax law will be enacted, such an event could make a corresponding revaluation necessary.

EVENTS AFTER THE BALANCE SHEET DATE

No events of special significance occurred after the end of the fiscal year.

OUTLOOK

Growth of the global economy is expected to continue in 2006. The Ifo survey of the world economic climate has shown an improvement in the fourth quarter of 2005 for the first time since early 2004. In particular, the estimates for Western Europe and Asia have brightened. The index thus points to a stable world economy, although the 4.1% global growth rate assumed for 2006 will prove to be somewhat weaker than in the year before. The greatest risk factors for growth of the world economy in 2006 and 2007 continue to be oil and commodity price trends as well as possible political crises and conflicts in the Near and Middle East.

Economic growth in the euro zone should recover somewhat in 2006 due to higher capital expenditure and continued healthy exports. The forecast is for GDP growth of 1.9% following approximately 1.3% in the previous year. Compared to the previous year, inflation should decline from 2.2% to 1.9%.

A similar trend is expected for 2007, although the persistently poor employment situation and weak private consumption remain the greatest uncertainties.

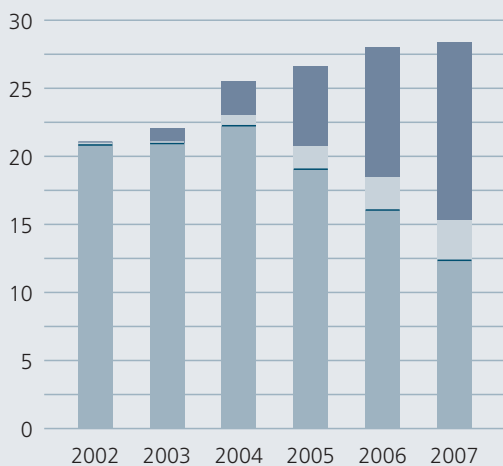
In Germany, the economic recovery will continue. The continuing export boom, increased capital expenditure and the current growth in domestic demand should allow the economy to grow at least 1.4% in the current year and still more in 2007. Nonetheless, the uneasy situation in the German labor market may not improve significantly during this period.

The consumer electronics market should continue to grow at a moderate pace in the current financial year. In the television segment, which is of particular importance for Loewe, the substitution process in the direction of flat-panel sets will continue. The dynamic growth in flat-panel display units should compensate for the decline in sales of picture-tube sets so that market volume in Europe should continue at a high level. Despite persistent price erosion, the increasing share of more expensive flat-panel sets and the trend to large-screen sets should make it possible for the European television market to continue to grow in value in the years to come.

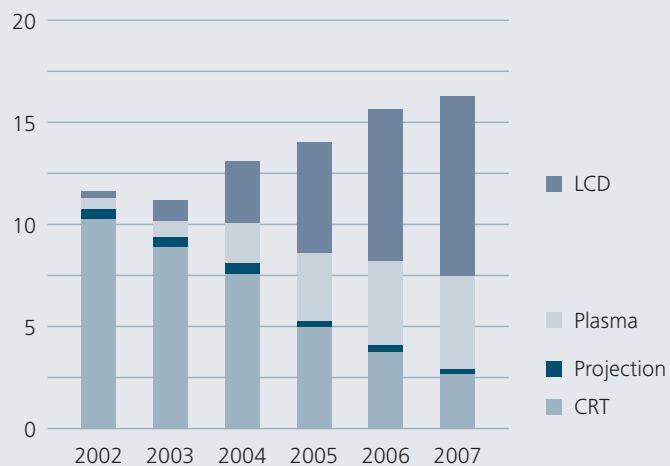
Additional growth expected

Television market in Europe

Units (in million)



Value (in EUR billion)



Source: Loewe market research

**Additional growth
planned in sales and
earnings**

Since Loewe will concentrate exclusively on LCD and plasma sets from mid-2006 on, this market should present attractive growth possibilities in the years to come.

The year 2006 will provide good growth opportunities for Loewe because the 2006 FIFA World Cup may very well stimulate television sales, especially in the first quarter. In addition, IFA, which will become an annual event starting in 2006, and the planned increase in German value-added tax in 2007 may provide additional stimuli. Starting in 2007, increased prevalence of HDTV programming should further stimulate purchases of new televisions and substitution of high-definition flat-panel sets for picture-tube sets should continue.

In the second half of 2006, the relaunch of the very successful Xelos product family, the launch of a 40" LCD set in the Individual product family and new large-screen sets with screen diagonals larger than 42" will occupy center stage. A new integrated electronics platform will allow reception of HDTV signals – without any additional external devices – and should reinforce Loewe's pioneering role in integrated and user-friendly televisions. This should be particularly significant starting in 2007 when Loewe begins offering more high-definition and large-screen flat-panel sets and the penetration of HDTV programming expands significantly.

For 2006, it is expected that higher sales of flat-panel display sets will more than compensate for the more than EUR 40 million decline in sales of picture-tube sets. Loewe is well positioned in the LCD segment and should be able to achieve higher sales in all major countries with the planned product lineup. Consequently, we expect continued profitable growth in sales for 2006 and 2007. Furthermore, as part of our cooperation with Sharp, we plan to continue manufacturing Sharp flat-panel display sets in Kronach in 2006. Beside improving utilization of our production capacity, the Joint Development Center based in Kronach will enable us to bring Loewe products to market faster and to share development expenses.

After significant cost-cutting in 2004 and 2005, the potential in this area has been largely exhausted. The 10% wage and salary concessions agreed in 2005 will continue unchanged until year-end 2006; however, advertising expenditures and the cost of materials can be expected to stay at a constant level or rise slightly. The number of employees at year-end 2006 will probably be roughly the same as the previous year. No significant increase in headcount is planned for 2007.

Capital expenditures in 2006 will concentrate on tools for new products, manufacturing facilities and product presentation systems for dealers. Including development services to be capitalized, maximum investment volume should be EUR 20 million, thus exceeding depreciation. No investment projects are planned for subsequent years that might lead to a significant increase in capital expenditure.

The proceeds from the capital increase implemented in October 2005, the improved financing conditions and the anticipated positive self-financing effect should keep net interest payable in 2006 and 2007 below the figure for the year under review.

Under the assumption that supply bottlenecks, for LCD panels in particular, will not worsen, we anticipate sales in the current financial year to grow to between EUR 330 to 350 million and EBIT of EUR 5 to 10 million. In view of the dynamic market trend, we expect sales and earnings to increase still more in 2007.

Kronach, February 28, 2006

The Executive Board



Dr. R. Hecker



Dr. B. Bamberger



G. Schaas



FURNITURE AND TELEVISION: THE PERFECT MATCH

In the home of tomorrow, furniture and displays will create a harmonious unity through the use of complementary colors and surfaces. Loudspeakers will be integrated into furniture pieces. This is an example of harmony by design.

THE RIGHT TO CHANGE

Change is part of individuality. Loewe's Individual TV set is prepared for a change in taste. Red today, next week silver. You've got the right to change.

Loewe's Effective Marketing Approach

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Products – Daring to be different Loewe's effective marketing approach

About two years ago, Loewe was faced with the dilemma of either resorting to the aggressive pricing techniques of other flat TV providers, or breaking with industry tradition and following our own path to create something special. Loewe decided to go against the flow and design unique premium products. A world premier was celebrated with the introduction of Loewe's new Individual product

line at the 2005 IFA, the consumer electronics trade fair in Berlin. Individual is the only flat-panel display TV in the world that can be individually configured both with regard to technological features and design. With Individual, Loewe has validated its leading role in the premium segment of consumer electronics, once again proving to be an industry trendsetter and leader.





IFA 2005 –
Communicating individuality
through timeless design
Loewe's effective
marketing approach



The IFA in Berlin was a special highlight in 2005. Under the motto "The only rule is that there are no rules," Loewe impressively demonstrated the brand's attractiveness and appeal at the sector's most important trade fair.

The timeless white design of the Loewe exhibition stand delivered a clear brand message. In a spacious setting, Loewe presented a number of practical technical innovations paired with individual experiences.



Print campaign – Special advertising formats Loewe's effective marketing approach



Premium brands must stand out from the competition, particularly in advertising. Making use of unusual special formats, Loewe has created a completely unique advertising campaign that attracts a great amount of attention in high-circulation publications. With clear and convincing words and changing motifs, the campaign projects an up-to-the-minute image to consumers. The campaign also reinforces the Loewe brand values of "individual experience," "practical progress" and "impressive minimalism" both in terms of substance and emotion.



Gute Studienbedingungen werden auch den Studierenden selbst geschaf

... und generell dabei, dass die Fachhochschule mit privaten Angeboten...
... und generell dabei, dass die Fachhochschule mit privaten Angeboten...
... und generell dabei, dass die Fachhochschule mit privaten Angeboten...

Monoton? Nie.
Nach alten Regeln gegen die Regeln. Loewe über über 400 Ausstattungsvarianten von Farben über bis Aufstellmöglichkeiten - der einzige Fernseher, den gestalten können. Probieren Sie es aus: www.loewe.de

LOEWE.

Point of Sale – Experiencing design first-hand Loewe's effective marketing approach



Our point of sale (POS) strategy can be summed up quite simply: To make it possible to experience the premium brand of Loewe in all of its dimensions. Ideal product presentation is key to this strategy, which is where the New Loewe shop system comes in, providing the perfect platform. High flexibility in adapting to the available space is one important criterion for a modern POS presentation. This is where New Loewe shows off its strengths. Stand-up and tabletop TV sets are showcased just as effectively as wall-mounted flat-panel

TVs. Large posters sum up Loewe's message quickly and simply for consumers. With comprehensive, customizable communication packages, Loewe offers its retail partners diverse possibilities for bringing customers to the place where they make the decision to buy – the point of sale. Premium products need a premium presentation. The following is impressive proof that this strategy works: After implementing the Loewe shop system, Loewe Galleries posted a 42% increase in sales in 2005 compared to the prior year.



A plus for every customer

Unique Loewe technology

Loewe is already excellently prepared for digital television. We are the only company in the industry to offer a comprehensive and highly attractive line of flat-panel TVs with integrated receivers for digital television (DVB), creating a distinct advantage for ourselves over the competition. A digital decoder and a hybrid tuner for the reception of digital terrestrial television (DVB-T) as well as reception via cable (DVB-C) are integrated as

standard features in our unique, fully digital TV platform Digital⁺. An uncomplicated upgrade also makes it possible to receive digital TV via satellite (DVB-S). Of course, the system is also capable of receiving analog signals. The advanced digital High Definition Multimedia Interface (HDMI), including HDCP copy protection, will enable all Loewe TVs with the Digital⁺ TV platform to receive the high definition television (HDTV) standard

of the future, which is why these sets carry the European seal of quality, "HD ready." Furthermore, in the fall of 2006 Loewe will be one of the very first manufacturers to offer a product line with an HDTV receiver integrated in the TV set as a standard feature. The Digital⁺ TV platform once again underscores Loewe's technological leadership and pioneering role in the consumer electronics industry.

Digital+



DVB
Digital Video
Broadcasting

HD
ready

HDMI
HIGH DEFINITION MULTIMEDIA INTERFACE

- Future proof: The HDMI interface makes it "HD ready" for the future HDTV standard
- Flexible: DVB-T and DVB-C are already integrated, upgradeable to DVB-S on request
- The best image thanks to Image+
- Sound+ provides the best sound
- Intelligent: Recording to hard disk at the press of a button with DR+
- Convenience: Simple operation via Assist+

A plus for eyes and ears

Unique Loewe technology

Loewe developed its image enhancement technology Image⁺ specifically for the Digital⁺ TV platform. The optimum interaction of the Image⁺ components of contrast, sharpness and color produces an image quality previously unheard of. The definition, color accuracy, contrast and motion blur of every incoming image signal, whether analog or digital, is checked and optimized if necessary. Another

unique characteristic is that Loewe Image⁺ is already suitable for real HDTV.

With respect to sound quality, the low overall depth of the new flat, elegant LCD TVs brings an acoustic disadvantage. The low volume of the speakers makes the bases somewhat weaker than in conventional picture-tube sets that have more resonance space. The innovative CRX[®] sound system,

which is unique to Loewe and operates under Sound⁺, has found a solution for this problem, providing impressive dynamics and high acoustic pressure in a small space. Rather than shortening the bass reflex tube to fit it into the LCD housing, it was cleverly folded. The length required for voluminous bass playback is thus preserved, giving all new Loewe LCDs a powerful sound.

Image+

picture quality with Image+



picture quality without Image+



- Image+: perfects the picture quality of the Loewe top-of-the-line sets
- Image+: is ready for high definition digital TV

- Image+: delivers images of maximum quality, regardless of the input source

Sound+



- Sound+: provides impressive dynamics and high acoustic pressure even in small spaces
- Loewe's own innovative CRX® sound system makes LCD TVs sound powerful and dynamic

A plus for quality and future

Unique Loewe technology

HDTV is a worldwide, digital TV standard in 16:9 format that provides picture quality that has never been known before. It is broadcast at a resolution of up to five times higher than conventional signals to produce a picture having an unexpected three-dimensional quality. The images are more vivid, the contours sharper. Their high-definition displays and their HDMI or DVI digital interfaces,

including HDCP copy protection, already enable all Loewe flat-panel TVs sized 26 inches and above to display HDTV content, which is why all of these sets carry the European seal of quality, "HD ready." Moreover, Loewe continues to work systematically on its integration philosophy. Loewe offers the broadest assortment of TV sets with integrated receivers for digital terrestrial television

(DVB) and is thus optimally prepared for the digital future. The standard features of all new flat-panel TVs already include an integrated digital decoder and an integrated digital terrestrial tuner (DVB-T) as well as a digital tuner for reception via cable (DVB-C). The sets can also be easily provided with a digital satellite tuner (DVB-S).

HD ready

- HD ready: All new Loewe TVs are equipped for the high-definition image format HDTV
- HD ready: Loewe offers a large selection of flat-panel TVs in all screen sizes, design lines and price categories
- HD ready: Fully digital processing of image and sound signals enables the digital interfaces HDMI and DVI to offer simple operation without quality losses



DVB



- DVB-T: offers a greater digital program variety without cable charges as well as portable use

- DVB-C: makes a larger number of digital channels available at the same cost
- DVB-S: provides the largest possible selection of digital broadcasters

A plus for flexibility and convenience

Unique Loewe technology

What once was possible only with an external set-top box has now been integrated in the new Digital+ TV platform: the digital hard disk memory Digital RecorderPlus (DR+) from Loewe. DR+ continuously records the TV signal whether it has been preprogrammed to do so or during a running television broadcast. This process makes time shift viewing possible. If, for instance,

the telephone rings during a current program, a simple push of a button makes it possible to resume viewing without interruption. Replay can even be started while a program is still being recorded.

Like all other applications, DR+ is also incorporated in the new Loewe on-screen menu Assist+. All Loewe flat-panel displays that run on the

Digital+ TV platform can be controlled logically and intuitively via a new, clearly arranged screen menu. Assist+ also includes an electronic program guide (EPG) that can be used, for instance, to program DVD recorders conveniently. In addition, the design of Assist+ perfectly matches Loewe's outstanding set design.

DR+



- DR+: for time shift viewing
- DR+: with up to 100 hours of recording capacity
- DR+: makes control extremely easy
- DR+: allows long-term storage at the push of a button via the Loewe DVD recorder

Assist+



- Assist+: a clear navigational structure with high ease of use
- Assist+: stores personal settings
- Assist+: for simple and fast record programming using the EPG



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THE TV SET AS AN ATTENTION GRABBER

Television sets are no longer tied to a specific corner in your living room. They can be turned, swiveled, and basically mounted anywhere. As high-tech design pieces, tomorrow's TVs will be proudly displayed. Think modern sculpture.

WHAT MAKES A PERFECT LOUDSPEAKER SYSTEM?

Fascinating sound and superb technology characterize Loewe's speaker solutions. Individuality by design.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005

	Notes No.	2005		2004	
		EUR thousands	%	EUR thousands	%
Sales		319,091		272,960	
Discontinued division		0		- 5,150	
Continuing division	1	<u>319,091</u>	<u>100.0</u>	<u>267,810</u>	<u>100.0</u>
Cost of sales*	2	- 254,378	- 79.7	- 228,666	- 85.4
Gross margin		<u>64,713</u>	<u>20.3</u>	<u>39,144</u>	<u>14.6</u>
Selling expenses	3	- 53,020	- 16.6	- 59,036	- 22.0
General administrative expenses	4	- 7,235	- 2.2	- 7,340	- 2.8
Other operating income	5	10,269	3.2	18,487	6.9
Other operating expenses	6	- 12,688	- 4.0	- 17,240	- 6.4
Income from investments		110	0.0	227	0.2
EBIT of the continuing division		<u>2,149</u>	<u>0.7</u>	<u>- 25,758</u>	<u>- 9.5</u>
EBIT of the discontinued division		0	0.0	- 8,054	- 3.0
EBIT		<u>2,149</u>	<u>0.7</u>	<u>- 33,812</u>	<u>- 12.6</u>
Interest and similar income		116	0.0	234	0.1
Interest and similar expenses	7	- 4,113	- 1.3	- 6,620	- 2.5
Profit from ordinary activities (EBT) of the continuing division		<u>- 1,848</u>	<u>- 0.6</u>	<u>- 32,144</u>	<u>- 11.9</u>
Profit from ordinary activities (EBT) of the discontinued division	8	0	0.0	- 8,054	- 3.0
Profit from ordinary activities (EBT)		<u>- 1,848</u>	<u>- 0.6</u>	<u>- 40,198</u>	<u>- 14.9</u>
Income taxes	9	265	0.1	10,801	4.0
Net loss before minority interests		<u>- 1,583</u>	<u>- 0.5</u>	<u>- 29,397</u>	<u>- 10.9</u>
Minority interests		- 313	- 0.1	- 29	0.0
Net loss		<u>- 1,896</u>	<u>- 0.6</u>	<u>- 29,426</u>	<u>- 10.9</u>
Loss carried forward		- 199		- 773	
Appropriations from capital reserve		0		30,000	
Accumulated loss		<u>- 2,095</u>		<u>- 199</u>	
* The following items up to and including interest and similar expenses only contain information concerning the continuing division					
Net loss of the continuing division	10	- 1,896		- 21,363	
Basic earnings per share** of the continuing division		- 0.15		- 2.71	
Basic earnings per share*** of the continuing division		- 0.18		- 2.84	
** Number of shares issued as of December 31		13,009,229		7,876,600	
*** Weighted average number of shares pursuant to IAS		10,550,625		7,526,600	

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005

EUR thousands	Notes No.	Dec. 31, 05	Dec. 31, 04
Assets			
Non-current assets*			
Intangible Assets	11	6,008	6,121
Property, plant, and equipment	12	34,855	44,331
Financial assets	13	765	772
Other non-current receivables	14	575	562
Deferred tax assets	15	25,730	24,916
		<u>67,933</u>	<u>76,702</u>
Current assets*			
Inventories	16	39,450	36,403
Trade accounts receivable	17	88,114	51,753
Other current receivables	18	1,986	5,552
Cash and cash equivalents	19	15,341	2,051
		<u>144,891</u>	<u>95,759</u>
Assets of the discontinued division	20	<u>92</u>	<u>12</u>
Total assets		<u>212,916</u>	<u>172,473</u>
Liabilities and shareholders' equity			
Shareholders' equity			
Equity attributable to equity holders of the parent			
Subscribed capital		13,009	7,877
Conditional capital EUR 398 thousand (previous year: EUR 398 thousand)			
Capital reserve		46,991	11,718
Accumulated loss		- 2,095	- 199
		<u>57,905</u>	<u>19,396</u>
Minority interests	22	<u>1,310</u>	<u>997</u>
		<u>59,215</u>	<u>20,393</u>
Non-current liabilities*			
Provisions for pensions and similar obligations	23	36,799	36,232
Other provisions	24	15,028	11,508
Financial liabilities	25	6,515	10,483
		<u>58,342</u>	<u>58,223</u>
Current liabilities*			
Tax provisions	26	3,987	7,271
Other provisions	27	34,238	31,892
Financial liabilities	28	5,362	25,655
Trade accounts payable	29	44,717	21,688
Other liabilities	30	6,228	6,314
		<u>94,532</u>	<u>92,820</u>
Provisions and liabilities of the discontinued division	31	<u>827</u>	<u>1,037</u>
Total liabilities and shareholders' equity		<u>212,916</u>	<u>172,473</u>

* of the continuing division

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005

EUR thousands	2005	2004	
Operating activities*			
EBIT	2,149	- 25,758	
Interest paid	- 3,997	- 6,386	
Depreciation and amortization of non-current assets	21,378	25,351	
Book profits (-)/book losses (+) on disposals of non-current assets	- 83	- 1,418	
Increase (+) of non-current provisions	3,462	1,205	
Increase (+) in pension provisions	567	227	
Income taxes paid	- 3,865	- 411	
Cash flow before changes in net current assets	<u>19,611</u>	<u>- 7,190</u>	
Change in net current assets			
Decrease (+)/increase (-) in inventories	- 3,047	6,697	
Decrease (+)/increase (-) in accounts receivable and other assets	- 8,277	502	
Decrease (-)/increase (+) in other current provisions	2,405	- 5,124	
Decrease (-)/increase (+) in trade accounts payable and other liabilities	22,989	- 971	
Change in net current assets	<u>14,070</u>	<u>1,104</u>	
Net cash from operating activities	<u>33,681</u>	<u>- 6,086</u>	
Investing activities			
Payments for purchases of intangible assets and property, plant and equipment	- 11,834	- 14,769	
Payments for purchases of financial assets	- 38	- 554	
Proceeds from disposals of intangible assets and property, plant and equipment	173	2,737	
Net cash from investing activities	<u>- 11,699</u>	<u>- 12,586</u>	
Free cash flow of the continuing division	21,982	- 18,672	
Free cash flow of the discontinued division**	- 289	- 3,490	
Total free cash flow	<u>21,693</u>	<u>- 22,162</u>	
Financing activities			
Decrease (-)/increase (+) in minority interests	0	- 220	
Capital increase	40,406	4,118	
Repayment (-) of loans	- 193	- 175	
Net cash from financing activities in the continuing division	<u>40,213</u>	<u>3,723</u>	
Cash-effective change in liquidity	<u>61,906</u>	<u>- 18,439</u>	
Composition of liquidity	Dec. 31, 05	Dec. 31, 04	±
Cash and cash equivalents	15,354	2,062	13,292
Short-term bank loans	- 1,395	- 25,462	24,067
Use of factoring	- 2,821	- 27,368	24,547
Liquidity	<u>11,138</u>	<u>- 50,768</u>	<u>61,906</u>

* 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 discontinued division is itemized in the notes on page 98

BASIS OF PRESENTATION

The consolidated financial statements of Loewe AG have been prepared in accordance with the International Financial Reporting Standards (IFRS). With the exception of the revisions described below, these consolidated financial statements were prepared using the same accounting policies as in the consolidated financial statements for the year ended December 31, 2004.

The IASB approved a number of changes to the existing standards and adopted several new IFRS standards which are applied by Loewe.

Application of the changed IFRSs essentially had the following effects on the consolidated financial statements for the year ended December 31, 2005.

According to IAS 1, balance sheets must be classified by maturity. Therefore, assets and liabilities on the balance sheet of the Loewe Group are classified as non-current or current. Assets and liabilities are classified as current if they have a remaining life of less than one year or are realized or settled within a normal production cycle.

On principle, trade accounts payable and receivable are classified as current; other accounts receivable are classified as current or non-current, in line with their maturities.

Provisions for pensions and similar obligations are stated under non-current liabilities, in line with their nature. All other obligations are stated under current or non-current liabilities, in line with their maturity.

On principle, deferred taxes are classified on the balance sheet as non-current.

IAS 32 and IAS 39 introduce minor changes in hedge accounting. The effects of the hedging transactions are not recognized as income at the time and are recognized in the income statement only when the underlying transaction is settled. The first-time application of IAS 39 led to immaterial changes from the previous approach. Taking issues of materiality into account there was no need to adjust amounts stated for the previous year.

Changes to the remaining standards did not lead to any changes in the consolidated financial statements. The figures from previous years that were affected by the changes were reclassified accordingly.

The financial statements have been prepared in euros. The figures in the balance sheet, the income statement, the notes and the cash flow statement have been rounded to thousands of euros (EUR thousands) and to millions of euros (EUR millions) in the management report.

Scope of Consolidation

The following companies were consolidated as of the balance sheet date of December 31, 2005:

	Share capital	Interest
Parent company		
Loewe AG, Kronach Industriestrasse 11 96317 Kronach	EUR 13,009,229.00 Euro	
Subsidiaries		
Loewe Opta GmbH, Kronach	EUR 23,010,000.00	99 %
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 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 %
Loewe Opta, Inc., City of Wilmington, County of New Castle, Delaware, USA	USD 1,000.00 EUR 847.67	100 %

The subsidiary in the U.S. ceased business operations in 2004. In the context of the liquidation, the company's financial statements for fiscal year 2005 show net income of USD 15.1 thousand and negative equity of USD 11.9 million (EUR 10.1 million). The carrying amount of the investment was written off in full. The existing warranty obligations are being fulfilled by a services company.

Currency Translation

All consolidated companies except Loewe Opta, Inc., USA are in the euro zone. In conformity with IAS 21, the currency translation in the balance sheet of Loewe Opta, Inc., USA was based on the reference rate of the European Central Bank (ECB) as of the closing date (EUR 1 = USD 1.1797) and on the average rate (EUR 1 = USD 1.2380) in the income statement.

ACCOUNTING POLICIES

The accounting policies detailed below have not been changed from those used last year except for the changes described above. The structure of the consolidated financial statements is consistent with the EU accounting directives and accords. Applying IFRS 5, the expenses and income reported due to the cessation of the activities of Loewe USA were reported separately as those of a discontinued division.

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 their 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	20% to 66%
Development costs	33% to 50% p. a.

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 a valuation survey 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 2.8 million were taken on product-related investments for which it cannot be expected that they cannot be fully used due to a shortening of the product lives or a reduction of the production volumes.

For additions to depreciable non-current assets, 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%

Equity interests and long-term securities recognized as **financial assets** 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.

Other **non-current receivables** are recognized at their nominal value. No value adjustments were required.

Under IAS 12, **deferred tax assets** are computed on the basis of the time 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. No deferred tax claims were derived from the loss carryforward of the discontinued division.

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.

Inventories are shown at cost. Costs of conversion include the cost of materials and labor as well as necessary material and production overheads. 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 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 current receivables are reported at their nominal value less specific value adjustments.

Forward exchange transactions, spread options and call options were concluded as a proportional hedge of the currency risk for existing purchase contracts. They are measured using the mark-to-market method. The asset value is recognized in the current receivables. Any negative net asset value of these financial derivatives is shown in current liabilities. Pursuant to IAS 32 and IAS 39, the hedging transactions are disclosed for the first time for fiscal year 2005.

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

Subscribed capital is reported at nominal value.

Minority interests relate to minority interests in subsidiaries. They are reported at their pro rata value in consolidated equity.

Provisions for pensions and similar obligations are calculated in accordance with IAS 19 (revised 2002) according to the projected unit credit method.

Other **non-current provisions** relate to specific obligations that will become due only in later years. They are recognized at the anticipated amounts to be payable.

Bank loans with a term to maturity longer than one year are solely reported as **non-current financial liabilities**. They are shown in the balance sheet at the amounts to be repaid.

Tax provisions contain taxes likely to be payable. It was not necessary to report deferred tax liabilities because there were possibilities for setting them off against deferred tax assets.

Other current provisions were set aside where definite obligations exist that will become due within one year. The level of the provisions is set at the amounts anticipated to be payable in 2006.

The repayment amounts are also recognized for **all other current 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 discontinued division have been reported separately.

Sales (1)*

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:

	2005		2004	
	EUR thousands	%	EUR thousands	%
Flat-panel televisions, Loewe	218,473	68.5	89,340	33.3
CRT televisions, Loewe	47,597	14.9	138,644	51.8
Flat-panel televisions, non-branded	20,384	6.4	0	0.0
DVD players/recorders	6,568	2.1	5,955	2.2
Video recorders	924	0.3	1,953	0.8
Stereo systems	2,949	0.9	3,202	1.2
Accessories and other revenues	22,196	6.9	28,716	10.7
Total	<u>319,091</u>	<u>100.0</u>	<u>267,810</u>	<u>100.0</u>

Sales by region were as follows:

	2005		2004	
	EUR thousands	%	EUR thousands	%
Germany	144,596	45.3	136,381	50.9
Europe excluding Germany	141,865	44.5	117,812	44.0
Rest of the world	12,246	3.8	13,617	5.1
TV, non-branded	20,384	6.4	0	0.0
Total	<u>319,091</u>	<u>100.0</u>	<u>267,810</u>	<u>100.0</u>

Cost of Sales (2)

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:

* The numerals refer to the numbers indicated in the balance sheet and income statement.

EUR thousands	2005	2004
Raw materials and supplies	195,620	162,465
Merchandise	11,408	12,560
Purchased services	1,196	1,130
Personnel and social security costs	28,945	30,740
Other material costs	17,209	21,771
Total	<u>254,378</u>	<u>228,666</u>

Selling Expenses (3)

Selling expenses comprise the following:

EUR thousands	2005	2004
Advertising costs	13,354	17,098
Freight	9,336	9,669
Warranties	3,951	4,444
Personnel and social security costs	13,775	15,426
Other material costs	12,604	12,399
Total	<u>53,020</u>	<u>59,036</u>

General Administrative Expenses (4)

The following expenses were incurred for administration:

EUR thousands	2005	2004
Personnel and social security costs	4,737	5,202
Other material costs and overheads	2,498	2,138
Total	<u>7,235</u>	<u>7,340</u>

The following fees of the Group auditor are included as an expense within the administrative expenses:

EUR thousands	2005
Audit	238
Other audit or assessment services	217
Tax consultancy services	6
Other services	6
Total	<u>467</u>

The other audit or assessment services mainly reflect the assessment of the prospectus for the rights issue in the year under review.

Other Operating Income (5)

Other operating income comprises the following:

EUR thousands	2005	2004
Billed goods and services	1,667	1,981
Income from the sale of development services	0	1,295
Grants to the Joint Development Center	3,825	0
Rental income	177	157
Public support funds for development projects	628	237
Income from the release of provisions	1,875	5,058
Transfer of assets of Loewe Opta Unterstützungskasse e.V.	0	8,550
Other income	2,097	1,209
Total	<u>10,269</u>	<u>18,487</u>

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

The income from the transfer of the assets of Loewe Opta Unterstützungskasse e.V. reported in 2004 was related to the simultaneous assumption of the pension commitments reported under Other operating expenses.

Other Operating Expenses (6)

Other operating expenses relate to:

EUR thousands	2005	2004
Billed goods and services as well as rental income	2,541	2,191
Expenses for the Joint Development Center	3,825	0
Expenses for subsidies received	628	237
Allocation to the provision for anticipated losses	0	2,100
Assumption of the pension commitments of Loewe Opta Unterstützungskasse e.V.	0	9,133
Costs for cancelled purchase contracts	925	504
Severance payments to employees	47	1,131
Allocation to the provision for reimbursement of the wage and salary deferment for 2004	2,760	0
Consulting fees restructuring	659	1,342
Other operating expenses	1,303	602
Total	<u>12,688</u>	<u>17,240</u>

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).

Interest and Similar Expenses (7)

The interest expenses have decreased due to the lower need for borrowing as a consequence of the two capital increases implemented in 2005. They are broken down as follows:

EUR thousands	2005	2004
Interest, commitment fees and processing fees paid to banks	1,120	3,173
Loan interest to Loewe Opta Unterstützungskasse e.V.	0	270
Factoring interest and fees	1,149	1,270
Interest on amounts allocated to provisions pensions, anniversary bonuses and death benefits	1,826	1,830
Other expenses equivalent to interest	18	77
Total	<u>4,113</u>	<u>6,620</u>

Operating Result of the Discontinued Division Loewe USA (8)

The operating activities of the discontinued 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. In the course of the liquidation, the discontinued division had a break-even result in fiscal year 2005.

Income Taxes (9)

Income taxes include effective tax claims of EUR 52 thousand and deferred tax proceeds amounting to EUR 213 thousand.

The expenses for deferred taxes are broken down as follows:

EUR thousands	
Increase in deferred tax assets on anticipated realizable loss carryforwards as of December 31, 2005	+ 2,058
Change in the deferred tax claims from the tax-equalization item as a consequence of the differences between the commercial balance sheets and tax balance sheets for future years	- 646
Change in deferred tax assets based on the accounting differences between the consolidated balance sheet and the commercial balance sheet	- 579
Provision for existing deferred tax risks	- 620
Total	<u>+ 213</u>

The average effective tax rate is 14.3% and is thus 22.7 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 14.3%:

%	
Applicable tax rate	37.0
Consideration of additional tax risks	+ 22.7
Differences resulting from tax rate differences among foreign subsidiaries	– 5.6
Temporary changes of tax-equalization items	– 35.0
Other net differences	– 4.8
Average effective tax rate	<u>14.3</u>

The low earnings base results in relatively high differential percentage rates between the two tax rates.

Earnings Per Share (10)

The consolidated net loss of EUR 1,896 thousand of the continuing division must be related to the 13,009,229 outstanding shares of Loewe. This results in earnings per share of EUR -0.15 in the year under review (previous year: EUR -2.71).

Based on the weighted average number of shares in accordance with IAS 33, the increase from 7,876,600 shares to 13,009,229 results in a loss per share of EUR -0.18.

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

	2005	2004
Net income (EUR thousands)	– 1,896	– 21,363
Basic earnings per share in EUR	– 0.15	– 2.71
Basic earnings per share (weighted average) determined according to IAS in EUR	– 0.18	– 2.84
Number of shares issued	13,009,229	7,876,600
Weighted average number of shares issued determined according to IAS	10,550,625	7,526,600
Number of shares issued and options	13,009,229	10,805,783

NOTES TO THE BALANCE SHEET

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

Non-Current Assets (11–13)

The changes in non-current assets were as follows:

EUR thousands	Cost (accumulated)	Additions	Disposals (at cost)	Reclassifications	Accumulated depreciation/ amortization	Book value at end of the financial year	Carrying amount previous year	Current depreciation/ amortization
I. Intangible assets								
1. Software and similar assets	7,106	275	330	5	6,230	826	1,088	539
2. Development costs	20,768	5,243	10,202	0	10,627	5,182	5,033	5,093
Total	<u>27,874</u>	<u>5,518</u>	<u>10,532</u>	<u>5</u>	<u>16,857</u>	<u>6,008</u>	<u>6,121</u>	<u>5,632</u>
II. Property, Plant, and Equipment								
1. Land and buildings	40,808	0	28	0	18,787	21,993	22,983	990
2. Production facilities and machinery	15,637	98	1,585	1,347	14,952	545	1,519	1,147
3. Other equipment, factory and office equipment	105,154	6,218	12,114	– 1,352	85,589	12,317	19,829	13,609
Total	<u>161,599</u>	<u>6,316</u>	<u>13,727</u>	<u>– 5</u>	<u>119,328</u>	<u>34,855</u>	<u>44,331</u>	<u>15,746</u>
III. Financial assets								
1. Equity investments	23	2	0	0	0	25	23	0
2. Long-term securities	642	1	3	0	0	640	642	0
3. Other loans	116	35	42	0	9	100	107	0
Total	<u>781</u>	<u>38</u>	<u>45</u>	<u>0</u>	<u>9</u>	<u>765</u>	<u>772</u>	<u>0</u>
Total non-current assets	<u>190,254</u>	<u>11,872</u>	<u>24,304</u>	<u>0</u>	<u>136,194</u>	<u>41,628</u>	<u>51,224</u>	<u>21,378</u>

Intangible assets include product and IT software and development costs. Project expenses for in-house product developments recorded in detail are shown in the capitalized development expenses. The total cost of development in 2005 came to EUR 12,453 thousand (2004: EUR 12,871 thousand), not including development cost subsidies received and transferred costs.

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, factory and office equipment and high-quality presentation systems for sales as well as tools used by suppliers. Advance payments on tools in construction amounting to EUR 1,321 thousand are included.

The depreciation on intangible assets and property, plant and equipment includes write-downs of EUR 2,802 thousand due to the phase-out of the CRT production.

Equity investments in sector-specific interest groups 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.

Other Non-current Receivables (14)

The following are shown as other non-current receivables with a residual maturity of more than one year:

EUR thousands	2005	2004
Purchase price residual receivable from the disposal of equity interests in subsidiaries	250	250
Claims on affiliated companies	154	154
Pension plan cost insurance	171	158
Total	<u>575</u>	<u>562</u>

Deferred Tax Assets (15)

The deferred tax assets reported in the Group primarily include taxes on earnings on anticipated realizable loss carryforwards (EUR 58 million) with a deferred tax claim of EUR 21,566 thousand, time differences between the amounts reported in the tax accounts and those recognized in the consolidated financial statements at EUR 3,928 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	- 15,703	+ 5,809
Property, Plant, and Equipment	+ 5,057	- 1,871
Inventories	- 319	+ 118
Tax-equalization item Loewe Italiana	- 1,506	+ 530
Accounts receivable and other assets	+ 6,451	- 2,387
Provisions	- 13,995	+ 5,179
Liabilities	+ 9,326	- 3,450
		<u>+ 3,928</u>

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

Because possibilities for setting off existed (IAS 12 Sec. 74), deferred tax liabilities were offset against deferred tax assets.

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.

Inventories (16)

The inventories are broken down as follows:

EUR thousands	2005	2004
Raw materials and supplies	20,756	14,951
Work in progress	1,780	1,589
Finished goods and merchandise	16,914	19,863
Total	<u>39,450</u>	<u>36,403</u>

The procurement difficulties for LCD panels, which have existed since the fourth quarter of 2005, have made it necessary to build up backup inventories of raw materials and supplies to be able to react more flexibly to short-term supply bottlenecks.

The costs of inventories include write-downs of EUR 5,714 thousand (2004: EUR 6,038 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 5,393 thousand (2004: EUR 4,766 thousand) on raw materials and supplies and on work in progress have been recognized.

Trade Accounts Receivable (17)

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 2.8 million (2004: EUR 27.4 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.

Other Current Receivables (18)

Other current receivables relate to:

EUR thousands	2005	2004
Value-added tax and income tax	440	1,851
Credit balances with suppliers	407	220
Claims on insurance companies	143	357
Advances for travel expenses and personnel	100	87
Assets from hedging	560	0
Claims on the sale of development results	0	2,590
Other prepaid expenses and other current claims	336	447
Total	<u>1,986</u>	<u>5,552</u>

The hedging transactions used to hedge the currency risk for existing purchase contracts are based on the following figures:

	Hedge volume			Market value	
			Longest maturity	Positive value	Negative value
	Yen million	EUR million		EUR thousands	EUR thousands
Forward exchange transactions	1,400	10.1	04/28/06	74	48
Spread options (zero cost options)	2,250	17.0	11/30/06	18	214
Call options	1,600	12.1	11/30/06	7	86
Total	<u>5,250</u>	<u>39.2</u>		<u>99</u>	<u>348</u>

The derivative financial instruments are used for hedging the risk of purchases in foreign currency. Their use is in compliance with relevant corporate guidelines which specify that derivative financial instruments may be used only for hedging existing underlying transactions.

The negative value of the forward exchange transactions is included in Other liabilities. Pursuant to IAS 32 and IAS 39, the hedging transactions are presented for the first time for fiscal year 2005.

EUR 206 thousand of the reported assets from rate hedging refers to call options; EUR 92 thousand refers to the positive market values of the forward exchange transactions and spread options and EUR 262 thousand refers to the valuation effects on the hedged underlying transactions.

All Other current receivables are due within one year.

Cash and Cash Equivalents (19)

The cash and cash equivalents consist of current deposits with the commercial banks of EUR 15,341 thousand (2003: EUR 2,051 thousand).

Assets of the Discontinued Division Loewe USA (20)

As of the balance sheet date December 31, 2005, the discontinued division still had the following assets:

EUR thousands	2005	2004
Current assets		
Other non-current receivables	28	0
Other current receivables (advance payments for services)	51	1
Cash and cash equivalents	13	11
Assets of the discontinued division	<u>92</u>	<u>12</u>

The liabilities of the discontinued division Loewe USA are shown in (31).

Shareholders' Equity (21)

As of the balance sheet date, the Company's share capital is EUR 13,009 thousand (2004: EUR 7,877 thousand). It is divided into 13,009,229 no-par value bearer shares.

Additional conditional capital of 398,400 shares exists for the implementation of the stock option plan. The conditional capital increase was used 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. The option program expired on July 1, 2005. The option rights were forfeited without the company being obligated to provide any form of compensation.

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 2,800,000 by issuing up to 2,800,000 new shares within the framework of the authorized capital. The shareholders were entitled to a subscription right at an 8:3 ratio. The subscription price for each new share was 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 subscribed to 2,300,000 shares; thus adding up to a total of 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 was applied for as of June 14, 2005. After this capital increase the authorized capital of June 26, 2002 (2002 authorized capital) was still EUR 269,217.

By resolution of the Shareholders' Meeting on June 2, 2005, the authorized capital still not utilized in the amount of EUR 269,217 was cancelled and new authorized capital was created in the amount of EUR 5,200,000. Through this resolution, the Executive Board was authorized, with the consent of the Supervisory Board, to increase the Company's share capital up to a total of EUR 5,200,000 through the issue of up to 5,200,000.00 no-par value bearer shares in exchange for non-cash or cash contribution on one or several occasions until no later than June 20, 2010 (2005 authorized capital). The shareholders must be granted a subscription right. However, the Executive

Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders for fractional amounts as well as establish the further content of the rights inherent in shares and the conditions for the issue of shares.

By another resolution of the Shareholders' Meeting on June 2, 2005, the Executive Board was authorized, with the consent of the Supervisory Board to issue, by June 1, 2010 on one or several occasions, bearer convertible bonds and/or bonds with warrants in a total nominal amount of up to EUR 50,000,000 with a maximum term to maturity of 20 years and to grant the holders of the bonds conversion or option rights to new shares of Loewe AG with a pro rata amount of the share capital up to a total of EUR 4,805,290 in closer accordance with the conditions (Conditional Capital II).

This resolution was contested by one shareholder and a suit was brought before the Regional Court of Coburg with the petition to declare the resolution partially null and void. To date, no request has been made for the resolution to be recorded in the Commercial Register.

On October 6, 2005, the Executive Board of Loewe AG, with the consent of the Supervisory Board, adopted the partial utilization of the authorized capital of EUR 5,200,000 and to increase the share capital of EUR 10,407,383 through the issue of 2,601,846 bearer shares with a notional par value of EUR 1.00 per share. The shareholders were entitled to a subscription right at a 4:1 ratio. The subscription price for each new share was EUR 9.60. The subscription right could be exercised in the period between October 12, 2005 and October 26, 2005. As of January 1, 2005, 2,601,846 shares with full dividend entitlement were subscribed.

The capital increase was recorded in the Commercial Register in the Local Court of Coburg on November 11, 2005. The new shares were admitted to official trading on the Frankfurt Stock exchange on December 1, 2005.

After the partial utilization, the authorized capital of June 2, 2005 (2005 authorized capital) is still EUR 2,598,154.00.

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

	Number of shares	Sub- scribed capital	Capital reserve	Group equity generated	Equity attrib- utable to equity holders of the parent	Minority interests	Share- holders' equity
	units	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Balance as of December 31, 2004	7,876,600	7,877	11,718	- 199	19,396	997	20,393
Subsequent costs of the capital increase of July 2004			- 150		- 150		- 150
- Deferred tax effects arising therefrom			56		56		56
Capital increase December 2004/January 2005	2,530,783	2,530	13,919		16,449		16,449
Costs of the capital increase			- 841		- 841		- 841
- Deferred tax effects arising therefrom			311		311		311
Capital increase October 2005	2,601,846	2,602	22,376		24,978		24,978
Costs of the capital increase			- 631		- 631		- 631
- Deferred tax effects arising therefrom			233		233		233
Net loss for 2005				- 1,896	- 1,896	313	- 1,583
Balance as of December 31, 2005	<u>13,009,229</u>	<u>13,009</u>	<u>46,991</u>	<u>- 2,095</u>	<u>57,905</u>	<u>1,310</u>	<u>59,215</u>

The costs of each capital increase were recognized directly in shareholders' equity with consideration of a deferred tax claim of 37%.

The net loss for 2005 will be carried forward to new account.

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.

Minority Interests (22)

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 January 1, 2005	997
Profit increase in 2005	313
Balance as of December 31, 2005	<u>1,310</u>
thereof:	
Loewe Opta GmbH	272
Loewe Opta Benelux N.V./S.A.	500
Loewe France S.A.	538
	<u>1,310</u>

Provisions for Pensions and Similar Obligations (23)

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 new "Richttafeln 2005 G" (mortality tables) by Dr. Klaus Heubeck were used to determine mortality and invalidity.

With regard to a long-term development, the pension obligations were calculated based on the following economic assumptions. The underlying interest rate applied was reduced from 5.0% to 4.5% due to the development of the long-term interest rate level.

%	2005	2004
Discount rate	4.5	5.0
Anticipated annual increases in wages and salaries	2.0	2.0
Anticipated annual increases in pensions	1.5	1.5

The net present value of the pension obligations of the Loewe Group was recognized as a provision in the amount of EUR 36,799 thousand (2004: EUR 36,232 thousand).

The pension obligations were 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 January 1, 2005		<u>36,232</u>
a) Changes not recognized as income		
Pension payments in 2005	- 2,137	
Additions for employee-financed pension commitments	9	- 2,128
		<u>34,104</u>
b) Changes recognized as income		
Reported under interest expenses		
- Interest expense for own commitments		1,733
Reported under manufacturing, selling and administrative costs		
- Current service cost	379	
- Actuarial losses	583	962
Balance as of December 31, 2005		<u>36,799</u>

Actuarial gains and losses are recognized as incurred.

The following is anticipated for 2006:

EUR thousands	
Pension payments	2,343
Interest expense for own commitments	1,586
Current service cost	414

Other Provisions (non-current) (24)

Other non-current provisions comprise the following:

EUR thousands	2005	2004
Cost of warranties	2,804	2,842
Personnel expenses	8,220	5,465
License fees	3,134	2,389
Other provisions	870	812
Total other non-current provisions	<u>15,028</u>	<u>11,508</u>

The increase in provisions for personnel expenses is due to the agreed special payment arising from wage and salary concessions in 2004.

Financial Liabilities (Non-current) (25)

Non-current financial liabilities relate to bank loans and exist exclusively with Loewe Opta GmbH.

Tax Provisions (26)

The tax provisions relate to taxable income of the foreign subsidiaries and the residual risks from the not yet complete tax audit for the years 1996 to 2000 in Germany and interest on arrears resulting therefrom.

Other Provisions (Current) (27)

Other provisions comprise the following:

EUR thousands	2005	2004
Annual sales compensation	18,589	13,992
Cost of warranties	5,652	5,166
Personnel costs	3,716	3,586
License fees	472	113
Other provisions	5,809	9,035
Total other current provisions	<u>34,238</u>	<u>31,892</u>

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 a general warranty period of three years. However, only the expenses expected to be incurred in 2006 were recognized. Provisions for personnel costs essentially comprise holiday pay and variable remuneration. 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 within one year.

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

The total other provisions (non-current and current) changed as follows in 2005:

EUR thousands	Balance Jan. 1, 2005	Additions	Utilization	Releases	Balance Dec. 31, 2005	thereof: non-current	thereof: current
Annual sales compensation	13,992	18,349	13,679	73	18,589	0	18,589
Cost of warranties	8,008	6,054	5,606	0	8,456	2,804	5,652
Personnel costs	9,051	7,814	4,760	169	11,936	8,220	3,716
License fees	2,502	1,558	0	454	3,606	3,134	472
Other provisions	9,847	5,386	7,694	860	6,679	870	5,809
Total other provisions	<u>43,400</u>	<u>39,161</u>	<u>31,739</u>	<u>1,556</u>	<u>49,266</u>	<u>15,028</u>	<u>34,238</u>

Financial Liabilities (Current) (28)

The short-term utilizations of operating capital loans claimed on banks were recognized as financial liabilities.

The agreed financing limit for operating capital loans of EUR 33.9 million has been committed until February 28, 2006 under the existing pooling agreements. Loewe secured these credit lines with significant collateral.

The loans granted are made available to Loewe Opta GmbH or to Loewe AG for optional utilization.

In February 2006, the existing pool agreements with the former principal banks was replaced by a syndicated loan with improved conditions. The cessions of the trade accounts receivable are released from the existing collateral. The factoring agreement with Fortis Commercial Finance was extended until 2010, also with better conditions.

Furthermore, independent lines of credit totaling EUR 5.6 million were granted to foreign companies in the Group.

Trade Accounts Payable (29)

The liabilities result primarily from deliveries of materials, services and deliveries of merchandise.

Other Liabilities (Current) (30)

Other current liabilities relate primarily to customer credit balances, license fee liabilities, negative market values of forward exchange transactions and spread options as well as social security charges and taxes still to be paid. All amounts reported as current liabilities are due in less than one year.

Provisions and Liabilities of the Discontinued Division Loewe USA (31)

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

EUR thousand	2005	2004
Other provisions (non-current)		
– Cost of warranties	258	316
Other provisions (current)		
– Cost of warranties	480	587
– Other provisions	89	88
Trade accounts payable	0	30
Other current liabilities	0	16
Total provisions and liabilities of the discontinued division	<u>827</u>	<u>1,037</u>

OTHER DISCLOSURES

Contingencies and Other Financial Obligations

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

EUR thousand	2005	2004
Liabilities from tenancy and servicing agreements and leases		
– due in 2006 (previous year 2005)	2,508	2,933
– due between 2007 and 2010 (previous year between 2006 and 2009)	2,276	2,148

Outstanding contributions for affiliated companies pursuant to § 24 of the German Private Limited Companies Act amount to EUR 31 thousand (2004: EUR 31 thousand).

Contingent Liabilities

Under the agreements entered into with the pool banks, the banks receive a 2% one-off compensation on the maximum total lines of credit/loans (EUR 52.1 million) made available to Loewe Opta GmbH and Loewe AG. The claim arises as soon as a positive annual net income before taxes is reported for the Loewe Group on a group level; however, the maximum amount is 50% of the annual net income. Should the calculated amount be less than 2%, the remaining amount is brought forward to the subsequent years. The term is unlimited.

Staff and Personnel Costs

The average number of employees breaks down as follows:

Employees	2005	2004
Home Media Systems division		
Industrial workers	387	410
Salaried employees	482	558
Employees as defined by Section 285 (7) HGB	<u>869</u>	<u>968</u>
Trainees	76	86
Total employees, Home Media Systems division	<u>945</u>	<u>1,054</u>
Discontinued division		
Industrial workers	0	0
Salaried employees	0	9
Employees as defined by Section 285 (7) HGB	<u>0</u>	<u>9</u>
Trainees	0	0
Total employees, discontinued division	<u>0</u>	<u>9</u>
Total employees	<u>945</u>	<u>1,063</u>

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

EUR thousands	2005	2004
Wages and salaries	39,470	42,887
Compulsory social security contributions	7,602	8,467
Expenses for pensions and other employee benefits	391	314
Total	<u>47,463</u>	<u>51,668</u>

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

The Company published the following announcement in Börsen-Zeitung No. 28 of February 10, 2005:

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

In accordance with § 21 (1) German Securities Trading Act, the Company has received a notification concerning shareholdings exceeding 10% and 25% of the voting rights.

Sharp Corporation, 22-22, Nagaike-Cho, Abeno-Ku, Osaka 545-8522, Japan (“Sharp”) has notified us that with the recording of the implementation of a capital increase of Loewe AG (“Loewe”) on February 3, 2005, it has exceeded the threshold of 10% and 25% of the voting rights in Loewe and now directly and indirectly holds 28,83% of the voting rights in Loewe. Of that amount, pursuant to § 22 (1) sentence 1 No. 1 German Securities Trading Act, 6.73% of the voting rights must be attributed to Sharp, which are held by its fully owned subsidiary Sharp International Finance (UK) Plc, Sherbourne House, The Croxley Centre, Watford Hertfordshire WE18 8WT, United Kingdom.”

The Company published the following announcement in Börsen-Zeitung No. 60 of March 30, 2005:

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

In accordance with § 21 (1) German Securities Trading Act, the Company has received a notification concerning shareholdings not meeting 5% of the voting rights.

1. 3i Group plc., England, has notified us that it fell short of the 5% threshold on March 18, 2005 and its total share in the voting rights of Loewe AG is now 4.86%, 2.43% 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 it fell short of the 5% threshold on March 18, 2005 and its total share in the voting rights of Loewe AG is now 4.86%, all of which is attributable to 3i Investment plc. in accordance with § 22 (1) No. 6 German Securities Trading Act.”

The Company published the following announcement in Börsen-Zeitung No. 213 of November 4, 2005:

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

In accordance with § 21 (1) German Securities Trading Act, the Company has received a notification concerning shareholdings not meeting 10% of the voting rights.

J & A Vermögensverwaltung GmbH has notified us that it fell short of the threshold of 10% of the voting rights in Loewe AG on November 2, 2005 and now holds 9.72% of the voting rights in Loewe AG. These voting rights are attributable to Dr. Rainer Hecker in accordance with § 22 (1) No. 1 German Securities Trading Act.”

The Company published the following announcement in Börsen-Zeitung No. 216 of November 9, 2005:

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

The Company has received a voluntary notification pursuant to § 21 German Securities Trading Act.

Dr. Rainer Hecker, Joseph-Haydn-Straße 9, 96317 Kronach, has notified us that with the recording of the capital increase of Loewe AG on February 3, 2005, he held 17.11% of the voting rights in Loewe AG and with the recording of the capital increase of Loewe AG on November 2, 2005, he now holds 13.95% of the voting rights in Loewe AG.

Of the voting rights in Loewe AG held by J & A Vermögensverwaltung GmbH, Joseph-Haydn-Strasse 9, 96317 Kronach, 12.15% were attributable to him on February 3, 2005 and 9.72% on November 2, 2005 in accordance with § 22 (1) No. 1 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 hereby issue the following declaration of conformity pursuant to § 161 German Stock Corporation Act regarding the recommendations of the “Government Commission of the German Corporate Governance Code”:

1. Loewe AG will on principle comply with the recommendations of the German Corporate Governance Code as amended on June 2, 2005 – published in the electronic Federal Gazette on July 20, 2005 and corrected on July 21, 2005 – with the following exception:
Code sub-section 4.2.4, sentence 2
To protect their privacy, the Company will not publish details of the remuneration paid to individual members of the Executive Board.
2. Loewe AG has in principle complied with the recommendations of the German Corporate Governance Code as amended on May 21, 2003 – published in the electronic Federal Gazette on July 4, 2003 – since its last declaration of conformity of December 8, 2004. The recommendation set forth in sub-section 4.2.4, sentence 2 was not applied.

This statement of compliance has been continuously accessible to the shareholders on the Internet since December 7, 2005.

SEGMENT REPORTING

The Group is active only in one continuing 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 discontinued division (IFRS 5).

The Home Media Systems division is organized as the subgroups 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/recorders, stereo systems, video recorders and other consumer electronics products.

Statement of Income by Segment

The segmental results by division are shown below:

EUR thousands	Continuing division		Discontinued division		Total	
	January – December		January – December		January – December	
	2005	2004	2005	2004	2005	2004
Sales	319,091	267,810	0	5,150	319,091	272,960
Cost of sales	– 254,378	– 228,666	0	– 7,954	– 254,378	– 236,620
Gross margin	<u>64,713</u>	<u>39,144</u>	<u>0</u>	<u>– 2,804</u>	<u>64,713</u>	<u>36,340</u>
Selling expenses	– 53,020	– 59,036	0	– 5,444	– 53,020	– 64,480
General administrative expenses	– 7,235	– 7,340	0	0	– 7,235	– 7,340
Other operating income	10,269	18,487	182	194	10,451	21,705
Other operating expenses	– 12,688	– 17,240	– 182	0	– 12,870	– 17,240
Income from affiliated companies	110	227	0	0	110	227
EBIT	<u>2,149</u>	<u>– 25,758</u>	<u>0</u>	<u>– 8,054</u>	<u>2,149</u>	<u>– 33,812</u>
Interest and similar income	116	234	0	0	116	234
Interest and similar expenses	– 4,113	– 6,620	0	0	– 4,113	– 6,620
Profit from ordinary activities (EBT)	<u>– 1,848</u>	<u>– 32,144</u>	<u>0</u>	<u>– 8,054</u>	<u>– 1,848</u>	<u>– 40,198</u>
Income taxes	265	10,810	0	– 9	265	10,801
Net loss before minority interests	<u>– 1,583</u>	<u>– 21,334</u>	<u>0</u>	<u>– 8,063</u>	<u>– 1,583</u>	<u>– 29,397</u>
Minority interests	– 313	– 29	0	0	– 313	– 29
Net loss	<u>– 1,896</u>	<u>– 21,363</u>	<u>0</u>	<u>– 8,063</u>	<u>– 1,896</u>	<u>– 29,426</u>
Loss carried forward	– 199	– 773	0	0	– 199	– 773
Appropriations from capital reserve	0	30,000	0	0	0	30,000
Distributable profit/loss	<u>– 2,095</u>	<u>7,864</u>	<u>0</u>	<u>– 8,063</u>	<u>– 2,095</u>	<u>– 199</u>

CASH FLOW

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

EUR thousands	Continuing division		Discontinued division		Total	
	2005	2004	2005	2004	2005	2004
Operating activities						
EBIT	2,149	- 25,758	0	- 8,054	2,149	- 33,812
plus/minus						
Interest paid	- 3,997	- 6,386	0	0	- 3,997	- 6,386
Depreciation and amortization of non-current assets	21,378	25,351	0	202	21,378	25,553
Book profits (-)/book losses (+) on disposals of non-current assets	- 83	- 1,418	0	0	- 83	- 1,418
Increase (+) of non-current provisions	3,462	1,205	0	0	3,462	1,205
Increase (+) in pension provisions	567	227	0	0	567	227
Income taxes paid	- 3,865	- 411	0	- 9	- 3,865	- 420
Cash flow before changes in net current assets	<u>19,611</u>	<u>- 7,190</u>	<u>0</u>	<u>- 7,861</u>	<u>19,611</u>	<u>- 15,051</u>
Decrease (+)/increase (-) in inventories	- 3,047	6,697	0	2,899	- 3,047	9,596
Decrease (+)/increase (-) in accounts receivable and other assets	- 8,277	502	- 78	1,630	- 8,355	2,132
Decrease (-)/increase (+) in other current provisions	2,405	- 5,124	- 165	100	2,240	- 5,024
Decrease (-)/increase (+) in trade accounts payable and other liabilities	22,989	- 971	- 46	- 291	22,943	- 1,262
Change in net current assets	<u>14,070</u>	<u>1,104</u>	<u>- 289</u>	<u>4,338</u>	<u>13,781</u>	<u>5,442</u>
Net cash from operating activities	<u>33,681</u>	<u>- 6,086</u>	<u>- 289</u>	<u>- 3,523</u>	<u>33,392</u>	<u>- 9,609</u>
Investing activities						
Payments for purchases of intangible assets and property, plant and equipment	- 11,834	- 14,769	0	- 18	- 11,834	- 14,787
Payments for purchases of financial assets	- 38	- 554	0	0	- 38	- 554
Proceeds from disposals of intangible assets and property, plant and equipment	173	2,737	0	51	173	2,788
Net cash from investing activities	<u>- 11,699</u>	<u>- 12,586</u>	<u>0</u>	<u>33</u>	<u>- 11,699</u>	<u>- 12,553</u>
Free cash flow	<u>21,982</u>	<u>- 18,672</u>	<u>- 289</u>	<u>- 3,490</u>	<u>21,693</u>	<u>- 22,162</u>
Financing activities						
Decrease (-)/increase(+) in minority interests	0	- 220	0	0	0	- 220
Capital increase	40,406	4,118	0	0	40,406	4,118
Repayment (-) of loans	- 193	- 175	0	0	- 193	- 175
Internal financing	- 291	- 3,225	291	3,225	0	0
Net cash from financing activities	<u>39,922</u>	<u>498</u>	<u>291</u>	<u>3,225</u>	<u>40,213</u>	<u>3,723</u>
Cash-effective change in liquidity	<u>61,904</u>	<u>- 18,174</u>	<u>2</u>	<u>- 265</u>	<u>61,906</u>	<u>- 18,439</u>

Composition of liquidity	Dec. 31, 05	Dec. 31, 04	±
Cash and cash equivalents	15,354	2,062	13,292
Short-term bank loans	- 1,395	- 25,462	24,067
Use of factoring	- 2,821	- 27,368	24,547
Liquidity	<u>11,138</u>	<u>- 50,768</u>	<u>61,906</u>

The composition of liquidity was changed from the previous year. Since the possibility of factoring/financing can change the cash and cash equivalents as of the closing date, the use of factoring/financing is assigned to the cash and cash equivalents. This provides more reliable and more relevant information concerning the Group's cash flows. The previous year was adjusted accordingly for the purpose of comparability and consistency.

SUPERVISORY BOARD

The following are members of the Supervisory Board:

Chairman

- **Professor Dr. Eberhard Scheffler**
Auditor, Hamburg
President of the German Finance Reporting Enforcement Panel

Deputy Chairman

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

Additional members of the Supervisory Board

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

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 101 and 102; those held by members of the Executive Board are shown on page 102. Information concerning the shares held by the Company's corporate boards is shown on page 102.

The remuneration of the Supervisory Board totaled EUR 113 thousand (2004: EUR 113 thousand). Every member of the Supervisory Board receives remuneration of EUR 15 thousand; the chairman receives double that amount and deputy chairman receives one and one-half times that amount.

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 831 thousand (2004: EUR 736 thousand). Of that amount, EUR 105 thousand was variable remuneration (2004: EUR 0 thousand). The service cost for the existing pension commitments additionally charged to expenses amounts to EUR 103 thousand (2004: EUR 102 thousand).

The members of the Executive Board are simultaneously managing directors of Loewe Opta GmbH. No additional remuneration is paid for these activities.

Amounts totaling EUR 77 thousand (previous year: EUR 77 thousand) were paid as pensions to former members of the Executive Board and to members who had resigned. Provisions set aside for pensions for the Executive Board and former members of the Executive Board come to EUR 969 thousand (previous year: EUR 965 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)
- **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)
eCircle AG, Munich
(Chairman of the Supervisory Board)
Heidelberger Druckmaschinen AG
(Chairman of the Supervisory Board)
- **Dr. Gerhard Heinrich**
Prevent AG, Hamburg
(Member of the Supervisory Board)

- **Helmut Ricke**
Loewe Opta GmbH, Kronach
(Deputy Chairman of the Supervisory Board)
- **Dr. Michael Witzel**
Eramon AG, Gersthofen
(Chairman of the Supervisory Board)
Stone GmbH, Speyer
(Member of the Advisory Board)

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, 2005:

As of December 31, 2005, the Executive Board held 632,061 (previous year: 581,425) shares in Loewe AG. All options have expired (previous year: 93,800). The Supervisory Board no longer holds any Loewe shares (previous year: 1,260).

Kronach, February 28, 2006

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, 2005. 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, 2005, 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, 2005 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, February 28, 2006

Abstoß & Wolters OHG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Straaten
Auditor

Cramer
Auditor

FINANCIAL CALENDAR

Publication of the 2005 Consolidated Financial Statements

Thursday, March 23, 2006, 9.30 a.m., Munich

DVFA Analysts' Conference

Thursday, March 23, 2006, 4.00 p.m., Frankfurt/Main

Publication of the Q1 2006 Report

(January 1, 2006 – March 31, 2006)

Conference call at 10.00 a.m., Tuesday, May 9, 2006

Seventh Annual Shareholders' Meeting of Loewe AG

Tuesday, May 16, 2006, 11.00 a.m., Munich,

Holiday Inn Munich City Centre

Publication of the Q2 2006 Report

(January 1, 2006 – June 30, 2006)

Conference call at 10.00 a.m., Tuesday, August 8, 2006

Publication of the Q3 2006 Report

(January 1, 2006 – September 30, 2006)

Conference call at 10.00 a.m., Tuesday, November 7, 2006

Publication of the Key Figures for the 2006 Financial Year

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CONTACTS/PUBLICATION CREDITS

Loewe AG
Industriestrasse 11
D-96317 Kronach

PO Box 1554
D-96305 Kronach

Investor Relations: +49 (0) 92 61/99-984
Email: ir@loewe.de
Fax: +49 (0) 92 61/99-994


Public Relations: +49 (0) 92 61/99-477
Email: presse@loewe.de

Customer Care Center: +49 (0) 18 01/22 25 63 93
Email: ccc@loewe.de

Telephone switchboard: +49 (0) 92 61/99-0
Internet: www.loewe.de

Ticker symbol: LOE
WKN: 649410
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Industriestrasse 11
D-96317 Kronach
www.loewe.de

Loewe Stock:
Ticker symbol: LOE
ISIN code: DE 0006494107

Phone: +49 (0) 92 61/99-984
Email: ir@loewe.de

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