

Annual Report 2006

Values and Numbers.



LOEWE.

The Loewe Group in numbers (IFRS)

Continuing division

EUR million	2006	2005	2004	2003	2002	2001	2000
Sales	341.9	319.1	267.8	283.2	366.8	372.6	339.7
thereof flat-panel display sets	296.0	218.5	89.7	21.5	13.6	17.8	10.4
thereof picture-tube display sets	6.6	47.6	138.7	219.0	353.2	354.8	329.3
inside Germany	161.7	144.6	136.4	148.5	181.4	189.1	188.5
outside Germany	175.4	154.1	131.4	134.7	185.4	183.5	151.2
TV, non-branded	4.8	20.4					
Earnings before interest and taxes (EBIT)	13.2	2.1	- 25.7	- 26.9	24.9	26.6	22.3
Earnings per share (EUR)	0.50	- 0.15	- 2.71	- 3.25	2.12	2.07	1.74

Continuing and discontinued divisions

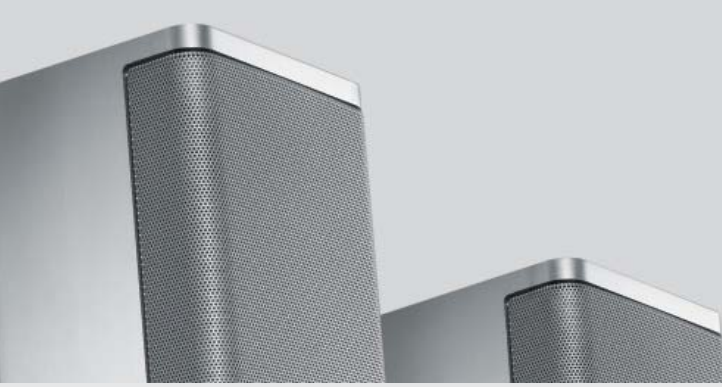
EUR million	2006	2005	2004	2003	2002	2001	2000
Sales	341.9	319.1	273.0	288.9	385.6	392.8	363.6
Earnings before interest and taxes (EBIT)	13.2	2.1	- 33.8	- 33.3	20.6	20.1	21.9
Net income/loss	6.5	- 1.9	- 29.4	- 29.7	10.9	10.4	12.0
Earnings per share (EUR)	0.50	- 0.15	- 3.74	- 4.14	1.52	1.45	1.70
Dividends per share (EUR)	0.00	0.00	0.00	0.00	0.85	0.85	0.85
Non-current assets	42.5	41.6	51.2	62.9	67.4	62.4	59.0
Current assets, net	45.8	29.2	21.9	41.9	50.7	52.1	44.8
Shareholders' equity	64.4	57.9	19.4	44.7	80.5	75.2	69.5
Bank liabilities, net	- 3.5	- 3.5	34.1	29.2	11.1	4.8	- 1.7
Factoring	0.0	2.8	27.4	14.0	0.0	0.0	0.0
Capital expenditure	18.5	11.8	15.3	20.8	26.4	25.8	23.7
Depreciation and amortization	17.6	21.4	25.5	25.2	21.1	22.2	18.5
Free cash flow	- 4.2	21.7	- 8.8	21.7	- 1.3	- 1.8	7.8
Development costs	13.0	12.5	12.9	14.0	13.3	12.0	12.0
Interest expense, net	2.7	4.0	6.4	2.6	1.8	2.0	1.1
Number of employees	965	945	1,063	1,245	1,261	1,209	1,106

Discontinued divisions

EUR million	2006	2005	2004	2003	2002	2001	2000
Sales							
USA	0.0	0.0	5.2	5.7	9.4	0.0	0.0
Telecommunications	0.0	0.0	0.0	0.0	9.4	20.2	23.9
Earnings before interest and taxes (EBIT)							
USA	0.0	0.0	- 8.1	- 6.4	- 4.3	- 0.5	0.0
Telecommunications	0.0	0.0	0.0	0.0	0.0	- 6.0	- 0.4
Earnings per share (EUR)							
USA	0.00	0.00	- 1.03	- 0.89	- 0.60	- 0.07	0.00
Telecommunications	0.00	0.00	0.00	0.00	0.00	- 0.55	- 0.04

LOEWE.





The uncommon is always a step ahead of the ordinary. It raises expectations to a new level – and perfection is the goal. A new chapter in Loewe’s story is about to begin. Three values embody this concept. **Exclusive individuality** that transforms an extraordinary personal desire into a benchmark. A **minimalistic design** philosophy, that elevates pure design to a guiding principle. **Meaningful innovation** that transforms complexity into simplicity. Together, these elements spell fascination.



Three values, **one brand.**



Exclusive Individuality

Every being is an individual.
And every life is unique.
It develops in its own special
way. A television set is no
exception. It can be a subtle
expression of what makes
life unique. It can satisfy very

At Loewe, every detail is designed to express the uncommon. Front panels, colors, lines, inlays, controls and materials combine to create

sheer harmony and beauty. These elements give technology a compelling face, making an entirely personal statement.

personal needs. Loewe televisions express a philosophy of life in which a sense of aesthetics and intelligent technology come to fruition, and in which the individual always comes first. That's exclusive individuality.





At Loewe, we attach great value to **individuality**. After all, TV sets mean different things to different people; people have different priorities with regard to color, materials or where they want to place their television. That's why you can customize many Loewe TV sets. For example, you can order the same set as a floor model or have it mounted on the wall to suit your decor. You can select materials, the color of the inlays, the screen size and the audio components. Don't forget that you can configure the television individually. For example, HDTV reception is built in and there is an option to add a hard-drive recorder. Loewe has the perfect solution for nearly every wish – highest quality materials and workmanship are guaranteed each and every time.

Design lends a product uniqueness, expressing a brand's individuality. Design appeals to the eye; it is the unmistakable perfection of form, the transformation of purely functional products into works of art

A Loewe television accents a room, lending it style. The room acquires a language – the language of the owner. A Loewe television is a sign of discerning tastes for people

with an eye for detail and an appreciation of the uncommon. Positioning creates drama through the interaction of clear design elements. Like Individual by Loewe – a homage to beauty.

that command our attention.
Design is Loewe in an unmistakable way. Clarity of form melds with style and elegance. Timeless design, commitment to the essentials – Loewe is television, taken to perfection.

Minimalistic Design





At Loewe, we pay attention to details. A prime example of this is the Individual. We left nothing to chance here. Its pure design and slender, elegant look turn television into a fascinating experience. High-quality materials such as the anodized aluminum cabinet radiate exclusivity and individuality. We used genuine materials everywhere, even in the back of the set. What's more, you can mount the set in a variety of ways – on the wall, on a table, or free standing on the floor. You'll find a solution for every situation, whether you live in an apartment, a house or a loft. The Loewe Individual exhibits perfect **design** all around. Even the screen design reflects uncompromising adherence to minimalist principles.

Meaningful Innovation

We take technical progress for granted. It makes life more convenient, easier and more interesting. Technical progress is a byproduct of growing knowledge. But it also must serve a purpose. It does with Loewe.

Loewe has always set standards, pointing the way ahead in design and technology. Loewe reduces technical progress to

pure and unconditional function – perceptibly, palpably, visibly. At every push of a button; for every individual desire.

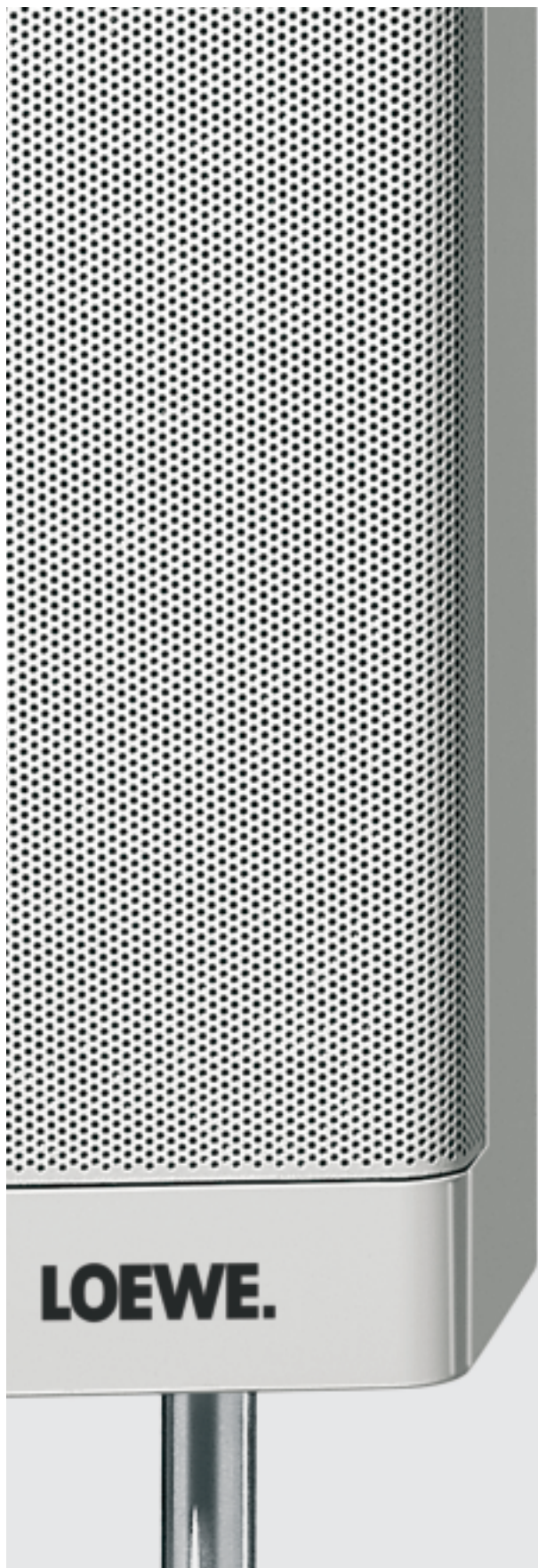


Intelligent technology teams up with brilliant design to form a total experience. Not to make everything more complex but to simplify the complex and render it more beautiful and purposeful for the perfect television experience.



Using progressive technology can be so easy. Loewe's intelligent Assist+ system does everything correctly and it does it intuitively, thanks in particular to its clear user interface. The key to convenient navigation is the newly developed Assist remote control that lets you access all the functions of any Loewe product at the touch of a button. Juggling different remote controls is a thing of the past. You can set up a program for recording by pressing a single button. You can stop a film by pressing the pause button and return to it later at exactly the same spot. And you can capture personal TV highlights for posterity by using the highlight function. That's what we at Loewe mean by **meaningful innovation**. But it doesn't end at functionality, though. Assist comes in a variety of materials including an elegant shell of high-quality aluminum.





Fiscal Year 2006

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

■ **Oliver Seidl**
Graduate in business
administration
Chief Financial Officer

■ **Gerhard Schaas**
Engineer
Chief Technology Officer

Dear Shareholders,

Your company developed very positively in 2006 and is continuing to grow profitably. With our individual premium products in consumer electronics, we are on the way to making Loewe the leading premium brand in Europe.

Positive demand stimuli from the FIFA World Cup in Germany, sustained dynamic market growth of the new display technologies and the attractive Loewe product portfolio of flat-panel display sets and home cinema solutions led to a 7% increase in sales to EUR 341.9 million in 2006. In LCD sets alone, we achieved growth of 41% to EUR 267.0 million.

We improved EBIT by EUR 11.1 million to EUR 13.2 million in 2006. The noticeable improvement in earnings is primarily due to our increased sales and production volume, an improved product mix, the value-based and margin-based marketing of our innovative home cinema solutions as well as a comparatively modest price reduction for Loewe products.

A highlight of the past fiscal year was the International Consumer Electronics Fair (IFA) in Berlin last September, which was very successful for Loewe. Our presence centered on a completely new, integrated home cinema concept: Loewe Individual Compose. The design and technical features of the large-screen LCD sets with a high-definition panel, an integrated HDTV receiver and a built-in hard disk recorder can be configured individually. Combining the TV set with a sound system developed specifically by Loewe results in a modular, flexible and very personal first-rate home cinema system. Individual Compose impressively demonstrates Loewe's competence in connecting premium image with premium sound.

Loewe's presence at IFA aimed to show off our brand enhancements and reinforced Loewe's position of leadership in the European home cinema market in a most demonstrative manner. The response of fair visitors, retailers and the media to Loewe's presentation was very favorable and gave us a strong start to the holiday season. Sales in Germany, our most important market, in advance of the rise in German value-added tax in 2007 additionally reinforced the strong start to the season.

In the current fiscal year we will continue our expansion of distribution both in terms of quality and quantity within and outside of Germany. In addition, we will increasingly shift our focus to premium-based, value-oriented marketing of our up-market, innovative home cinema solutions. The goal is to consistently sharpen the brand profile and position Loewe at a higher level. To that end, we invest internationally in first-rate shop-in-shop presentations so that together with our retailers, we can offer the premium customer a compelling shopping experience. Furthermore, our product offensive will of course continue to move ahead at full steam in 2007. In doing so, our focus will be on gradually upgrading our existing product lines to premium 100 Hz picture quality and introducing large-screen, high-definition LCD TVs in the new 42, 46 and 52 inch screen sizes. In addition, we will continuously expand our home cinema solutions to include new speaker systems. The successful market launch of our hard disk recorder integrated in the TV set and also capable of recording HDTV signals already represented a world premiere in the first quarter of 2007.

The strong and trusting cooperation with Sharp further strengthens Loewe's position. With the aim of bundling know-how and sharing costs, we will continue to push ahead in the future with the projects for high-definition television in our joint European Development Center in Kronach.

The conditions for Loewe are favorable: Consumers' increased brand awareness, new digital products, the dynamic market development of large-screen LCD TVs in Europe and the fascination with high-definition television (HDTV) will continue to stimulate demand in 2007. We are therefore convinced that Loewe will continue to grow profitably in the future.

Kronach, March 23, 2007

Dr. Rainer Hecker
Chief Executive Officer of Loewe AG



■ **Prof. Dr. Eberhard Scheffler**
Chairman of the Supervisory Board

Dear Shareholders,

The dynamic market growth in flat-panel display sets, the noticeably increased sales of LCD TV sets and the relatively stable price level of Loewe flat-panel display sets significantly increased EBIT by EUR 11.1 million to EUR 13.2 million. Loewe continues to grow profitably and we see ourselves well on the way to becoming the leading premium brand for home cinema solutions in Europe.

In exercising the responsibilities incumbent upon it in accordance with statutory regulations and the Company's bylaws, the Supervisory Board continuously oversaw the management of the Company and the Group and provided advice on basic policy issues. The Supervisory Board was regularly informed and was involved in all decisions of central importance to the further development of the Company. Essential subjects of discussion included the operational and strategic measures for continuing the profitable growth in 2007 and beyond. Furthermore, the new financing agreements, startup strategies for the introduction of numerous new products with high-definition television (full HD), and 100 Hz technology were discussed.

Outside of the meetings, the Chairman of the Supervisory Board was in regular contact with the Executive Board in order to discuss issues regarding strategy and implementation as well as significant single events such as the appointment of senior executives.

During the reporting period, the Supervisory Board met for a total of four times and the Audit Committee met once. The current position and the anticipated business development of the Loewe Group and its subsidiaries were discussed in each meeting of the Supervisory Board. Business risks and their development were also discussed on a regular basis. All members were present at all meetings of the Supervisory Board.

The meeting on March 21, 2006 focused on the discussion and review of the financial statements and management report of Loewe AG as well as the consolidated financial statements and Group management report for the year ended December 31, 2005. The discussion was based on the auditor's report and the report of the chairman of the Audit Committee. The auditors were also present at this meeting to report on the course of the audit and were available to answer additional questions by the Supervisory Board. Another object of discussion was the preparation for Loewe's Annual Shareholders' Meeting.

In the meeting of May 16, 2006, the Executive Board informed the Supervisory Board on the very good business development of Loewe which benefited in particular from TV purchases in advance of the FIFA World Cup in Germany. Based on the clear signals for a successful fiscal year 2006, the course for continuing the profitable growth in 2007 was discussed. Accordingly, Loewe will concentrate on topics for the future such as integrated HDTV sets, large-screen flat-panel display TVs and home cinema solutions.

The Supervisory Board meeting of September 19, 2006 discussed the results of the International Consumer Electronics Fair in Berlin, which had a very positive outcome for Loewe, and the key points of the Loewe strategy. The strategy is directed to an attractive program of high-quality premium products, with "premium" encompassing the entire performance spectrum of Loewe. The Executive Board presented the revised strategic course of action which is intended to offer employees more transparency in order to clearly coordinate the future development of the Company.

The meeting of December 12, 2006 focused on the budget presented by the Executive Board for 2007. After an intensive discussion of the key figures, including the corresponding opportunities and risks, the Supervisory Board approved the budget for 2007.

The annual financial statements of the Company for the year ended December 31, 2006 and the management report for fiscal year 2006 were prepared in accordance with the principles of the German Commercial Code and the German Stock Corporation Act. Pursuant to Section 315a of the German Commercial Code, the consolidated financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) and supplemented by a Group management report pursuant to Section 315 of the German Commercial Code. The auditor appointed by the Shareholders' Meeting on May 16, 2006 has reviewed these documents. 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 its meeting of March 13, 2007, the Audit Committee of the Supervisory Board reviewed the accounting documents of Loewe AG and the Loewe Group as of December 31, 2006. 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, internal auditing and prevention of corruption.

The annual financial statements and management report of Loewe AG for the year ended December 31, 2006, the consolidated financial statements and Group management

report for the year ended December 31, 2006 as well as the reports of the auditor were available to all members of the Supervisory Board. In the financial statements meeting of March 22, 2007, the auditors reported on significant results and focal points of their review. In addition, they answered other 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, the Supervisory Board agreed with the findings arrived at by the auditors. It approved the financial statements prepared by the Executive Board and the management report of Loewe AG for the year ended December 31, 2006, which can thus be considered adopted. The Supervisory Board also approved the consolidated financial statements for the year ended December 31, 2006 and the corresponding Group management report.

Dr. Burkhard Bamberger requested the Supervisory Board to accept his resignation from the Executive Board to allow him to pursue another professional opportunity. The Supervisory Board acceded to this request effective September 30, 2006. Oliver Seidl was appointed as a new member of the Executive Board of Loewe AG as of October 1, 2006.

The Supervisory Board thanks Dr. Bamberger for his high level of commitment to Loewe and his valuable work, in particular with respect to the financial restructuring of the company.

The Supervisory Board thanks all Loewe employees for their initiative and exceptional dedication. Loewe's turnaround, which was stabilized in 2006, is to their credit. The Supervisory Board is convinced that Loewe will be able to continue the upward trend of the past year on a lasting basis.

Kronach, March 23, 2007



Prof. Dr. Eberhard Scheffler
Chairman of the Supervisory Board



Corporate Governance Report

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Corporate Governance Report

- **Dedication to the Corporate Governance Code**
- **Declaration of conformity with the current code version**
- **Responsible risk management system**
- **Legal regulations are actively implemented**

Conscientious and transparent management

Our goal is to inspire customers in all key European markets with the individual premium products in our home consumer electronics line and to generate sustainable, profitable growth for Loewe. With that in mind, we ensure that our product quality and marketing conform to the highest standards. Our Executive Board and Supervisory Board set the same high standard with respect to the management of our company, which is characterized by responsible thinking and acting.

We first published the principles governing the cooperation based on trust between the Executive Board and Supervisory Board in the 2001 Annual Report. The Loewe Group is committed to a responsible, fair and transparent corporate policy. In the interest of the shareholders, customers and employees, our objective is to achieve a sustained increase of the company value. In doing so, we also consider environmental concerns. Effective corporate governance is an integral component of Loewe's corporate identity. Because of that, we endorse the German Corporate Governance Code issued by the Government Commission and most recently updated on June 12, 2006.

Achieve sustainable growth and take environmental concerns into account

Declaration of Conformity

We comply with the recommendations of the German Corporate Governance Code without exception. On December 1, 2006, the Executive Board and Supervisory Board issued their declaration of conformity pursuant to Section 161 German Stock Corporation Act. On December 5, 2006, 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 Section 161 of the German Stock Corporation Act regarding the recommendations of the Government Commission of the German Corporate Governance Code:

1. Loewe AG will fully comply with the recommendations of the German Corporate Governance Code as amended on June 12, 2006.
2. Loewe AG has complied with the recommendations of the German Corporate Governance Code as amended on June 2, 2005 since its last declaration of conformity of December 7, 2005 except for the recommendation set forth in sub-section 4.2.4 sentence 2 (publication of individual Executive Board members' remuneration)."

Remuneration of the Executive Board and Supervisory Board

In accordance with legal requirements, we publish the remuneration of the members of the Executive Board broken down into fixed and variable components. The members of the Executive Board are simultaneously managing directors of Loewe Opta GmbH. The remuneration of the Executive Board totaled EUR 1,524 thousand in 2006 (2005: EUR 831 thousand).

The amount of the variable remuneration for the Executive Board is based on the targets defined by the personnel committee of the Supervisory Board for the fiscal year in question. In addition to strategic goals that do not fall under a purely quantitative assessment, economic figures of the Loewe Group are also included. A thorough presentation of the remuneration policy principles and structure was made in the last Shareholders' Meeting and is also planned for the next one. See page 84 for detailed information on the individual remuneration of the Executive Board.

In general, the age limit for the members of the Executive Board is 65 years. Directors & officers liability insurance exists, the deductible of which is stipulated to be a component of the fixed annual remuneration of each 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 a fixed annual remuneration of EUR 15,000. Depending on business development, a variable component of EUR 15,000 is added to this. It is increased or reduced proportionally based on an earnings threshold 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 fiscal year 2006, the total remuneration of the Supervisory Board totaled EUR 113 thousand (2005: EUR 113 thousand). See page 83 for detailed information on the individual remuneration of the Supervisory Board. The members of the Supervisory Board performed no consulting and mediation services or similar services during the year under review. For that reason, no remuneration was granted in excess of the aforementioned components.

The Supervisory Board of Loewe AG includes six members and the same members were elected for a further five year term by the Shareholders' Meeting in 2006. Directors & officers insurance also exists for the Supervisory Board. An appropriate deductible – geared to the Supervisory Board incentive compensation – has been stipulated.

Loewe fully conforms to the recommendations of the German Corporate Governance Code

Executive remuneration published on individual basis

Expanded documentation and publicity requirements implemented under the investor protection act

Directors' Dealings

The implementation of the Market Abuse Directive of the European Commission significantly tightened the rules with respect to directors' dealings. Pursuant to Section 15a German Securities Trading Act, specific persons having management responsibilities as well as persons in close association with them, including legal entities, must disclose the purchase or sale of securities of Loewe AG if the value of the transactions equals or exceeds EUR 5,000 in a calendar year. A total of six transactions were reported to Loewe between December 7, 2005 and December 31, 2006. Loewe promptly reported the details concerning these transactions and displays them permanently at www.loewe.de under Investor Relations. It also properly informed the German Federal Financial Supervisory Authority.

Shareholdings of members of the Executive Board and Supervisory Board

As of December 31, 2006, the Executive Board held 622,718 shares (previous year: 632,061) in Loewe AG.

Compliance at Loewe

In addition to the implementation of the Corporate Governance Code, Loewe is also required to fulfill 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 dealings and we comply with regulations under corporation law as well as those relevant to stock exchanges and capital markets. In accordance with Section 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 relating to 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. Moreover, Loewe regularly publishes information relating to the "insider" theme on its Intranet pages.

Responsible handling of risks

Good corporate governance also includes responsible and consistent handling of risks. Our special risk management system for the systematic identification, evaluation, documentation and control of risks includes all divisions. This provides Loewe's management the ability to identify risks early, control them and initiate measures for their timely elimination. See page 43 of the Group Management Report for further details.

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. Detailed information concerning offices held by 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 on page 85. Loewe also publishes current company developments on the Loewe web pages at www.loewe.de. Annual financial statements, interim reports, press releases, ad hoc announcements and mandatory information on securities transactions can also be found there.

Kronach, March 23, 2007

For the Executive Board



Dr. Rainer Hecker
Chairman of the Executive Board

For the Supervisory Board



Prof. Dr. Eberhard Scheffler
Chairman of the Supervisory Board



Loewe Stock

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Loewe Stock

- Share price rises in positive market environment
- Analyst coverage remains at high level
- Trading volume nearly doubles
- Stable and broad shareholder structure

Market communication focused on continued positive growth

Our capital market communication in 2006 focused on further increasing sales and the significant improvement in earnings through value-based and margin-based marketing of the Loewe premium products. On the one hand, the FIFA World Cup and purchases in advance of the rise in the value-added tax in Germany favored the continued positive business development. Loewe also benefited from the sustained dynamic market development specifically in the case of large-screen flat-panel display sets in Europe.

Key data for Loewe stock

ISIN	DE 0006494107
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 2006

In the first five months, the markets continued the upward trend that had already started in 2005. In May, massive profit taking put pressure on all the equity markets and resulted in stock price adjustments as well as, in some instances, sharp price corrections. While the blue chip indices in the U.S. lost only about 10%, the German DAX gave up roughly 15%. The MDAX and SDAX lost 23% and 20%, respectively. The small-caps and mid-caps – the greatest outperformers in the preceding upward trend – experienced the most severe losses.

After this distinct cooling off period, the indices waited until late summer to continue on their record-breaking run. By the end of the market year, the May losses had been recouped and shareholders could enjoy new highs. Thus the year-end prices of the German blue chips with a 21% gain were just as positive as the performance of the SDAX (up 30%), MDAX (up 27%) and TecDAX (up 31%).

The favorable market environment could continue in 2007, as indicated by the continued high levels of the leading economic indicators. Furthermore, many stocks are still priced attractively on a historical comparison and the high global liquidity should also serve as the basis for a continuous increase in stock prices in the current year.

Price increase of Loewe stock

Loewe stock began the year 2006 at a share price of EUR 12.50. After publication of the preliminary key figures for 2005, several banks took the good figures as an opportunity to confirm their “buy” recommendations and increase target prices. Following the brilliant rally in January, the German equity market also moved upward in February, supported by the recovery on Wall Street. By the end of February, Loewe stock climbed to above EUR 20 amidst high daily trading and marked its high for 2006 at EUR 20.45. A consolidation phase in the following weeks caused the price to level out at approximately EUR 18.

By the time the 1st quarter figures were published on May 9, 2006, the stock price lowered to about EUR 17. In the wake of the strong first quarter figures with continuous sales growth and a significant improvement of the operating result, the price hovered between EUR 16 and 17 in a feeble market environment.

Weak guidance from the U.S. as well as inflationary and associated interest rate concerns then triggered a strong slide in equity prices in the European markets. The German capital market could not escape this negative trend which caused the DAX to decline by 15% by mid-June. During this phase, Loewe stock slid even more than others and dropped to about EUR 11 amidst heavy daily trading until it again rose to above EUR 12 by the time the six-month figures were released on August 8, 2006. In the weeks leading up to the opening of the International Consumer Electronics Fair (IFA) in early September, the price hovered in a narrow range between EUR 11.50 and 12.50.

Loewe's success at the IFA and the extremely positive media response to our new, individual flat-panel display sets drove up Loewe stock to just under EUR 14 by the end of October.

On November 2, the Loewe Executive Board published an ad hoc announcement stating that the EBIT forecast for fiscal year 2006 would be raised by 20% from approximately EUR 10 million to approximately EUR 12 million. The sustained dynamic market growth in large-screen flat-panel display TVs in Europe made it possible for us to increase sales by 23% to EUR 241.5 million in the first nine months compared to the same period of 2005. During the same period, EBIT improved by EUR 13.5 million to EUR 9.2 million. As expected, this positive news improved the price of Loewe stock in the following days and weeks to a level higher than EUR 15 at times.

Share price rose sharply following positive estimates by analysts early in the year

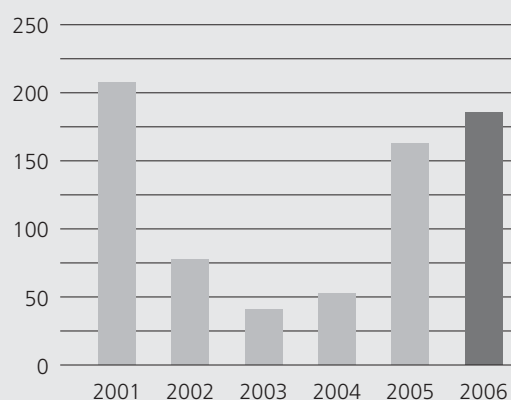
Positive reaction to EBIT forecast

The outlook for good year-end seasonal sales, supported by advance purchases due to the rise in the value-added tax in Germany in 2007, as well as further "buy" recommendations from renowned banks led to a continuous upward course. Until the preliminary key figures for fiscal 2006 were published on January 22, 2007, Loewe stock rose to EUR 17.70. Following that, the price consolidated at approximately EUR 17.

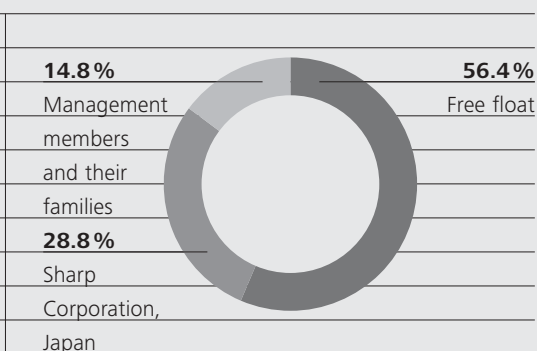
Development of the Loewe share price from January 2, 2006 to February 1, 2007



**Market capitalization of Loewe AG
on December 31 (EUR million)**



Shareholder structure of Loewe AG



Stable shareholder structure

In its eighth year as a publicly traded company, the shareholder structure of Loewe AG continues to be characterized by a high free float of 56.4% of the share capital. A total of 235 Loewe shareholders attended the 2006 Annual Shareholders' Meeting in Munich. More than 21,000 domestic securities accounts were registered. Since the most recent capital increase in October 2005, Sharp Corporation, Osaka, Japan, continues to hold its 28.8% stake in the Company, with Loewe management members and their families holding another 14.8%. Other than this, Loewe has received no reports of holdings of 5% or more. The percentage of Loewe shares held by institutional investors from within and outside of Germany increased significantly, compared to the previous year, in the wake of successful roadshows at the most important financial centers in Europe.

Significant rise in institutional investors from Germany and abroad

Key figures for Loewe stock

	2006	2005	2004	2003	2002	2001
Year-end closing price (EUR)	14.65	12.50	6.61	5.70	11.10	29.00
Annual high (EUR)	20.45	13.92	9.04	13.20	34.00	38.86
Annual low (EUR)	10.35	6.30	4.06	5.25	9.99	16.51
Average daily trading volume (Xetra + Frankfurt)	54,349	28,132	25,465	26,858	17,745	10,537
Number shares as of Dec. 31	13,009,229	13,009,229	7,876,600	7,176,600	7,176,600	7,149,400
Market capitalization on Dec. 31 (EUR million)	187.5	162.6	52.1	40.9	79.7	207.3
Earnings per share (EUR)	0.50	- 0.15	- 2.71	- 3.25	2.12	2.07
Dividends per share (EUR)	0.00	0.00	0.00	0.00	0.85	0.85

(Source: Bloomberg)

**Prompt, transparent
communication builds
trust**

Investor relations activities

Our investor relations work is chiefly aimed at maintaining and continuously increasing the existing high-quality coverage of Loewe stock, thus nurturing investor interest. To further strengthen the confidence of the financial community in Loewe, we attach special importance to regular, comprehensible and transparent communication with investors, analysts and financial journalists.

In addition to the Shareholders' Meeting, Loewe participated in the following presentations in 2006:

- three international capital market conferences,
- one DVFA analysts' conference,
- seven roadshows at important financial centers in Europe,
- four English-speaking conference calls and
- more than 70 personal discussions with fund managers and sales managers.

Furthermore, the Investor Relations section at www.loewe.de contains current information, information of interest on Loewe stock, the IR schedule, analysts' estimates, events and presentations and a newly designed service area. The Investor Relations Division expended a total of approximately EUR 0.4 million in 2006.

IR events for 2007

February 7, 2007	Roadshow	Paris
February 8, 2007	Roadshow	Zurich
March 27, 2007	Annual press conference	Munich
March 27, 2007	DVFA analysts' conference	Frankfurt/Main
March 28, 2007	Roadshow	Frankfurt/Main
April 23/24, 2007	Roadshow	London
May 9, 2007	1st quarter 2007	Kronach
May 25, 2007	Annual Shareholders' Meeting	Munich
June 20/21, 2007	German Corporate Conference	Frankfurt/Main
August 8, 2007	1st half 2007	Kronach
August 31 – September 5, 2007	IFA 2007	Berlin
November 7, 2007	1st nine months 2007	Kronach
November 12 – 14, 2007	German Equity Forum 2007	Frankfurt/Main

As in years before, a large number of analysts carefully observed and accordingly evaluated Loewe during the fiscal year just ended. The following table lists banks and research institutes that have prepared analyses and studies on Loewe in recent months. In addition, it summarizes the analysts' estimates of key data (as of February 15, 2007):

		Sales		EBIT		EPS		Target price	Rating
		2007	2008	2007	2008	2007	2008		
Berenberg Bank, M. Häckermann	02/12/07	379.0	426.0	19.0	27.0	0.83	1.21	24.0	Buy
Sal. Oppenheim, Dr. A. Gronski	01/24/07	385.3	439.3	18.9	27.7	0.79	1.20	19.0	Neutral
equinet, I. Faust	01/23/07	419.0	471.0	19.7	28.3	0.89	1.54	20.0	Buy
DZ Bank, B.-G. Müll	01/23/07	407.0	456.0	23.6	30.6	0.97	1.31	20.0	Buy
Deutsche Bank, N. Rountoleva	01/22/07	415.0	465.0	22.0	28.0	0.96	1.16	19.5	Buy
Credit Suisse, M. Geiger	01/22/07	395.4	426.0	20.4	27.0	0.86	1.26	21.8	Outperform
Consensus		400.1	447.2	20.6	28.1	0.88	1.28		

Trading volume more than doubled

Loewe stock is traded on a daily basis on all German stock exchanges and on the XETRA electronic trading platform. The transaction levels are highest on XETRA and on the Frankfurt Stock Exchange. In 2006, an average number of 54,000 shares were traded per day, almost twice as high as in the same period of 2005. This is a further indication of increased investor interest in Loewe AG. Since January 2006, equinet AG has exercised the role of market maker.

Dividends

As in previous years, a resolution will be proposed to the Shareholders' Meeting on May 25, 2007 that no dividends be distributed for fiscal 2006. Assuming that the positive business development will continue throughout this year, it appears possible that a dividend will be distributed for fiscal 2007.

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Management Report

- **Robust market growth in large-screen flat-panel TVs**
- **Loewe extremely well positioned in the LCD TV growth segment**
- **Sales increase by 7 % to EUR 341.9 million**
- **EBIT increases from EUR 2.1 million in 2005 to EUR 13.2 million**

Global economy remains robust, upward economic trend continues in Germany

The global recovery continued in 2006, with the economy stabilizing at an even higher level than in the previous year. At approximately 5%, the pace of global economic growth for 2006 is expected to be slightly higher than in the year before. In addition to the U.S. and the Asian economies, economic growth in the eurozone is also picking up. Global economic growth continues to be highest in the Asian economies.

Eurozone economic growth nearly doubled. Job market eases

In the eurozone, economic growth in 2006 was nearly double the rate of the previous year. Except for Spain and Ireland, all countries of the monetary community were able to increase their growth rates significantly, while Italy and Portugal remained in last place. The forecast rate of growth for real gross domestic product (GDP) of the eurozone countries is 2.7% for 2006 after 1.4% in 2005. The situation brightened especially in the European labor markets, where the drop in unemployment gathered pace in the final months of 2006. The unemployment rate dropped from 8.5% in 2005 to 7.9% in 2006. On an annual basis, unemployment fell by more than one million. At an anticipated rate of 2.2%, inflation will remain at the previous year's level.

The economy in Germany made a strong recovery in 2006. The real gross domestic product rose by 2.7%, representing the strongest economic recovery since the boom year of 2000. In contrast to the two previous years, growth was stimulated not only by the continued strong expansion of export trade (+12.4%) but also by expanding domestic demand. The most important underpinning was gross capital expenditure, which showed the highest growth since reunification. At 10.8%, the average annual unemployment rate remained clearly below the 2005 value of 11.7% for all of Germany. The business climate in the German economy was also very favorable at the start of the year, although the Ifo business climate index retreated slightly in January. Of course, growth rates will likely be somewhat lower in 2007 than in the previous year, but the upswing in Germany will continue.

The European market for televisions continues to grow at a dynamic pace

Compared to the previous year, the European market for televisions grew significantly by 13% to EUR 31.7 billion in 2006. By far the most important and fastest expanding segment in Europe is televisions which grew by 30% to EUR 19.7 billion in 2006. In contrast, the market segments DVD players and stereo systems declined sharply by 14% and 8%, respectively.

Market for televisions grew 30%

Consumer electronics market in Europe

EUR billion	2006	2005	± in %
Televisions	19.7	15.2	30
DVD players	3.3	3.8	- 14
Video recorders	0.2	0.3	- 45
Stereo systems	2.9	3.2	- 8
Subtotal	26.0	22.4	16
Audio, video games, etc.	5.7	5.7	- 1
Total	31.7	28.1	13

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

(Source: GfK, European market, market coverage just under 80%)

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

The European television market increased by 6% in volume due to the strong growth of the flat-panel segment. In 2006, sales of flat-panel display sets exceeded those of picture-tube sets for the first time. The volume of flat-panel display sets rose from 30% in 2005 to 53.3%. Despite rapid price erosion in all product segments, the average price of a television set in 2006 increased

by 22% to EUR 684 due to a sustained trend to 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 30% in 2006.

Television market in Europe by technology

	TV market in Europe (EUR billion)			Loewe market share (%)		
	2006	2005	± in %*	2006	2005	± in %*
Picture-tube	2.8	5.1	- 44	2.8	4.9	- 2.1
LCD	12.9	6.6	97	4.6	4.7	- 0.1
Plasma	3.6	3.1	17	1.5	2.1	- 0.6
Projection (front and rear)	0.2	0.3	- 39	0.2	0.9	- 0.7
Total	19.6	15.1	30	3.7	4.1	- 0.4

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

(Source: GfK, European market, market coverage just under 80%)

A total of 13.4 million picture-tube sets were sold in Europe in 2006, 29% fewer than in the previous year. Due to aggressive pricing, the average price of a picture-tube set was only EUR 211 in 2006. Despite the increasing significance of flat-panel sets, sales of picture-tube sets still accounted for 47% of total television sales on average in 2006, down from 70% in 2005. As a consequence of the sharp drop in prices for picture-tube sets, this segment declined in value by 44% to EUR 2.8 billion. It now represents only 14% of the total European market for televisions on an annual average.

Large-screen (37" and up) LCD sets led growth

Highest growth rate for LCD televisions

LCD televisions continue to evidence the highest growth rate among flat-panel sets. A total of 13.3 million LCD sets were sold in 2006, double the amount in the previous year. Sales of small-screen LCD sets (less than 22") increased by roughly 50%. However, the pace of their growth is slowing since the demand for large-screen LCD sets is rising. Sales of 32" LCD sets rose to 4.4 million units, compared to 1.3 million units in 2005. Growth rates were highest for LCD sets of 37" and larger, increasing from 0.2 million units in 2005 to 1.5 million in 2006. The proportion of LCD sets of 37" and larger in the LCD segment expanded to 11% in 2006 compared to 3% in 2005. This strong trend toward more expensive, large-screen sets kept the average price of an LCD television at just under EUR 1,000, only 4% lower than in 2005 despite sharp price declines in individual segments. In the 26" to over 40" segments, the market prices in 2006 declined between 17% and 36% year-on-year. The average price for a 32" LCD set was EUR 1,248, while in 2005 such sets were sold for an average price of EUR 1,637.

Total sales in the plasma segment (42/43") rose by 43% to 1.8 million sets year-on-year. The sharp decline in sales prices also persisted for plasma sets. The average price for a high-definition plasma set declined by 33% to approximately EUR 2,030 in 2006.

Competitors in the plasma-TV segment used aggressive pricing to market their sets. With largely stable prices, Loewe deliberately chose not to increase volumes and accepted a market share decline from 2.1% in 2005 to 1.5% in 2006 to prevent the margin from dropping.

Due to the planned cessation of production of picture-tube sets, Loewe's market share of the TV market declined from 4.1% to 3.7% in the year under review. The market share reduction in the discontinued picture-tube segment was not completely compensated by market share gains in flat-panel display sets.

In LCD televisions, Loewe's performance lagged slightly behind the market with a 4.6% market share in Europe after 4.7% in 2005. Loewe did not increase volume in the LCD entry level segment in order to avoid a negative impact on income.

In 2006, growth in the European television market accelerated in comparison with 2005, reaching an encouraging rate of approximately 30%. This solid increase was experienced in all major countries. Except for the Swiss and Italian television markets – with growth rates of 11% and 17%, respectively – the increases were above 30% in all countries. Even in Germany, the 29% growth rate in 2006 nearly equaled the European average. In terms of demand for new flat-panel display technologies, with its approximately 82% share, Germany now lies only slightly behind the other large European economies. Just under 92% of all expenditures for televisions in Switzerland were for flat-panel display sets. The European average in 2006 was approximately 85%.

Growth in Germany close to European average

Total television market in Europe by country

	TV market in Europe (EUR million)			Share of new display technologies (%)		
	2006	2005	± in %*	2006	2005	± in %*
United Kingdom	5,101.3	3,736.6	37	87.9	67.5	20.4
Germany	3,770.7	2,926.8	29	82.3	60.6	21.7
France	3,268.9	2,488.5	31	84.1	67.3	16.8
Italy	2,267.0	1,937.3	17	82.4	66.9	15.5
Spain	2,135.8	1,563.6	37	86.3	69.4	16.9
Benelux countries	1,590.7	1,217.5	31	87.4	66.8	20.6
Switzerland	529.8	478.9	11	92.0	76.5	15.5
Rest of Europe	1,024.8	769.2	33	86.6	65.1	21.5
Total Europe	19,689.0	15,118.4	30	85.1	66.2	18.9

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

(Source: GfK, European market)

Loewe's share of the LCD market in Germany increased sharply

The price of a television set in Germany rose by 25% to EUR 750 in 2006, thus exceeding the European average of EUR 684 by 10%. Prices in the United Kingdom, the Benelux countries and Scandinavia were above the European average. As in the previous year, the highest average price (EUR 1,024) was seen in Switzerland. Demand for high-end sets is a tradition in that country, which is also reflected in the striking proportion of flat-panel display sets. Average prices in Italy, Spain and France are significantly below the European average. In Italy, for example, the average price paid for a television set is less than EUR 500. In these countries, the low average prices are due to a larger share of entry level priced and small-screen sets as well as more intense price competition.

In 2006, Loewe's 4.6% LCD market share in the European television market was somewhat lower than in the previous year. Great progress was made in Germany, where the LCD market share was increased from 10.4% to 11.7%. On the other hand, Loewe lost considerable market shares in Spain and Switzerland.

Loewe share of the LCD television market in Europe by country

%	2006	2005	± in %
United Kingdom	0.6	0.4	0.2
Germany	11.7	10.4	1.3
France	1.9	1.9	0.0
Italy	2.0	2.2	- 0.2
Spain	6.5	9.5	- 3.0
Benelux countries	6.4	6.4	0.0
Switzerland	4.0	5.9	- 1.9
Rest of Europe	1.8	2.7	- 0.9
Total Europe	4.6	4.7	- 0.1

(Source: GfK, European market)

Outside of the core markets of Western Europe, Australia and the Russian Federation are particularly significant for Loewe. The market share in these countries is still relatively low. The overall trend here is less critical for Loewe's success than systematically establishing a premium position for Loewe in these countries.

Loewe's key performance indicators improved significantly

The Loewe Group's financial position improved considerably in fiscal year 2006. Sales rose by 7% to EUR 341.9 million. Declines for picture-tube sets and LCD sets for Sharp were offset by high sales of flat-panel TVs, in particular large-screen LCD sets. Loewe countered the price decline in all key segments by further optimizing the product mix and lowering manufacturing costs, resulting in an increase in EBIT to EUR 13.2 million in 2006.

Key figures

EUR million	2006	2005	± in %
Sales	341.9	319.1	7
EBIT	13.2	2.1	
Interest expense, net	- 2.7	- 4.0	33
Net income/loss	6.5	- 1.9	
Capital expenditure	18.5	11.8	57
Employees (annual average)	965	945	2

Net income rose in 2006 by EUR 8.4 million to EUR 6.5 million. Capital expenditure increased by EUR 6.7 million to EUR 18.5 million and exceeded depreciation by EUR 0.9 million. On an annual average, the number of employees was 2% higher than in the previous year because the higher production volume made it necessary to hire additional employees mainly in production.

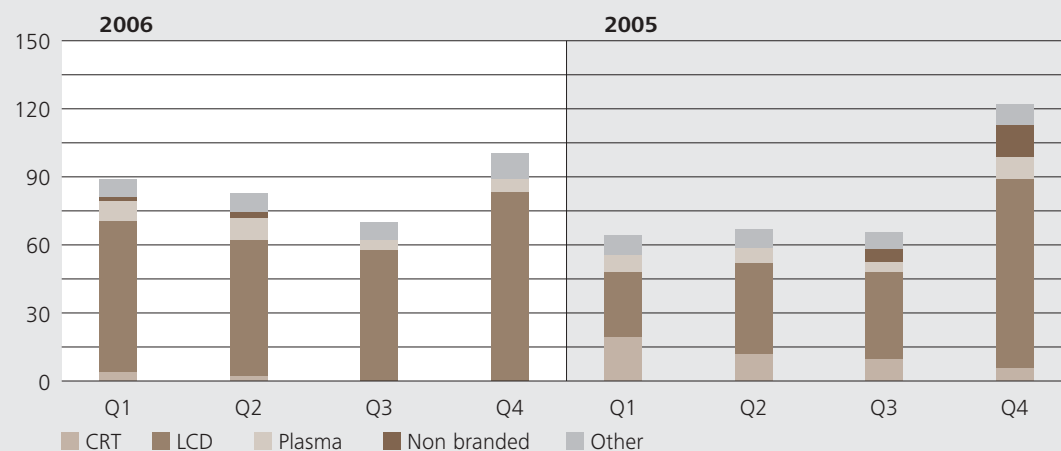
Dynamic growth

The high demand for flat-panel display sets, in particular large-screen sets, and strong impetus from the FIFA World Cup accelerated the growth in sales. In the first quarter of 2006, Loewe doubled sales of flat-panel TVs compared to the first quarter of 2005 and increased sales in the second quarter by 50%. In the second quarter, the production and sale of picture-tube sets were discontinued according to plan, due to the fact that only entry level products are marketed in this segment through aggressive pricing. In the same period of time, the production of LCD-OEM sets for Sharp was also phased out. Overall, Loewe increased sales by 31% in the first six months.

The growth in sales of flat-panel sets continued in the third quarter. Sales rose by just under 50% in this period compared to the third quarter of 2005. Despite the discontinuance of picture-tube sets and the LCD-OEM sets for Sharp, overall sales were up by 7% in the third quarter. In the fourth quarter of 2006, sales of flat-panel display sets almost reached the high level of the previous year although the very successful Individual product family had been launched in that period. However, the discontinuance of picture-tube sets of OEM sales to Sharp in the amount of EUR 20 million negatively impacted on fourth quarter results.

Dynamic growth in flat TVs. World Cup provided positive impulse

Sales by quarter (EUR million)



Loewe's sales revenues from LCD TVs rose 41 %

On an annual basis, Loewe increased sales of LCD flat-panel display sets by 41 % to EUR 267.0 million. The 37" and larger screen sizes accounted for most of the growth in sales. Sales of screen diagonals of 37" and larger rose from 16% in 2005 to 28% in 2006, substantiating the sustained trend toward larger displays. The majority of sales was generated with 32" LCD sets. Loewe has a strong position in this segment with a large number of models.

Sales structure by product area

EUR million	2006	2005	± in %
Flat screen	296.0	218.5	35
– LCD	267.0	190.0	41
– Plasma/rear projection	29.0	28.5	2
Picture-tube	6.6	47.6	– 86
Total televisions, Loewe	302.6	266.1	14
Televisions (non branded)	4.8	20.4	– 76
Other	34.5	32.6	6
Total sales	341.9	319.1	7

Sales of plasma sets in 2006 were only slightly higher than in 2005. Loewe did not push sales volumes of these sets further in order to avoid a negative impact on income. Loewe discontinued as planned the production and sales of picture-tube sets in the second quarter of 2006. The discontinuance of this product line caused a reduction of sales of EUR 41.0 million compared to the previous year. No additional measures were necessary for the disposal of the picture-tube sets.

Sales of non-branded televisions relate to sets produced by Loewe for Sharp. Production of these sets was discontinued in the second quarter of 2006, resulting in a decline in sales of EUR 15.6 million compared to 2005. However, electronic assemblies (tuners) developed by Loewe for Sharp have been produced and delivered since the fall of 2006.

Other sales increased by 5.8% to EUR 34.5 million in 2006. In DVD equipment, Loewe concentrates exclusively on the DVD recorder segment. The new speaker systems raised stereo sales by EUR 2.4 million to EUR 5.5 million. Sales of accessories, including assemblies, increased by 7% compared to 2005.

Loewe grew in all significant European markets in 2006. Higher exports increased the foreign share of Loewe's total sales revenue to 52%. The greatest growth in absolute terms was in Germany, Spain and the Benelux countries.

Loewe grew in all core markets

Sales structure by region

EUR million	2006	2005	± in %
Germany	161.7	144.6	12
(Percentage share of total sales)	48.0%	48.4%	
Spain	48.1	36.3	33
Benelux countries	38.4	32.3	19
Italy	21.5	18.9	14
France	17.5	14.9	17
United Kingdom	10.0	9.1	10
Austria	9.5	8.4	13
Switzerland	6.9	5.9	17
Other European countries	15.6	16.1	- 3
Europe (incl. Germany)	329.2	286.5	15
Australia	3.6	4.3	- 16
Russian Federation	2.0	6.1	- 67
Other non-European countries	2.3	1.8	28
Countries outside Europe	7.9	12.2	- 35
Total Loewe brand sales	337.1	298.7	13
TV (non branded)	4.8	20.4	
Total sales	341.9	319.1	7

In Germany, Loewe's most important market, sales grew by 12%. Adjusted for picture-tube sets, which still accounted for 28% of TV sales in 2005, the increase in sales comes to 45%. Loewe was thus able to increase its market share particularly in the LCD segment in Germany from 10.4% to 11.7%.

Outside of Germany, subsidiaries perform sales, marketing and service for Loewe in the Benelux countries, Italy, France, and Austria; in all other countries, this service is provided by external distribution partners.

Sales revenues grew fastest in Spain

In the Benelux countries, Loewe's sales increased by 19% to EUR 38.4 million in 2006, with 98% of this amount already being generated by sales of flat-panel display TVs.

In Italy, Loewe expanded its business and increased sales by 14% to EUR 21.5 million. In this area also, Loewe generated almost all of its TV sales with flat-panel displays.

Sales at Loewe France rose by 17% in 2006 to EUR 17.5 million. Loewe sales in France consisted almost exclusively of flat-panel display sets in 2006.

Loewe Austria GmbH increased sales by 13% to EUR 9.5 million. A total of 98% of Loewe's TV sales in Austria were from flat-panel display sets.

In the remaining countries, external distribution partners market Loewe products. Loewe's most important export market in Europe is Spain where sales increased by 33% to EUR 48.1 million in 2006.

In the United Kingdom, sales increased from EUR 9.1 million to EUR 10.0 million. Concrete measures are planned for the current fiscal year concerning the formation of a Loewe sales company in order to make significant progress in the largest European consumer electronics market and service the market more intensively.

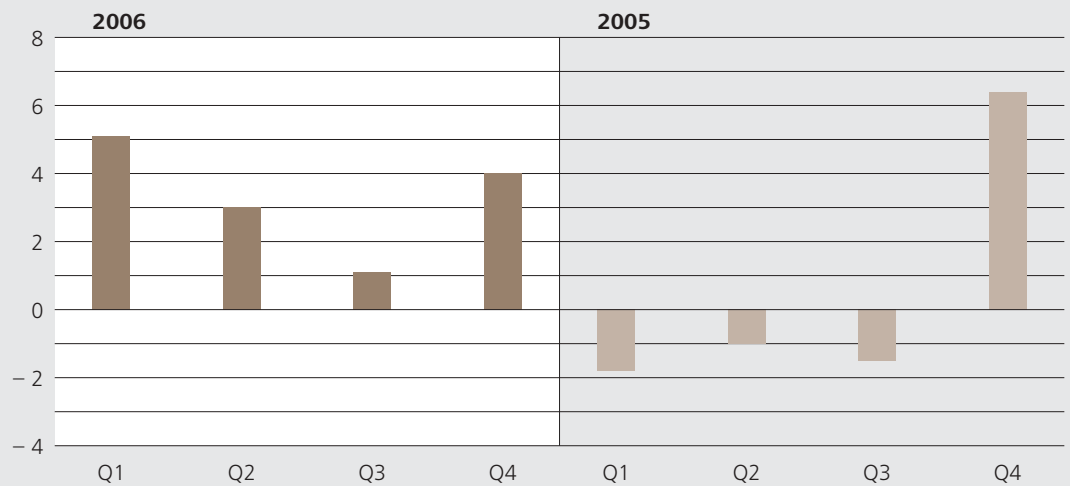
Despite its comparatively small size, the Swiss market is very attractive for high-end products. Loewe is well positioned in Switzerland and increased its sales by 17% to EUR 6.9 million.

Noticeably improved earnings in 2006

At EUR 13.2 million in 2006, EBIT was EUR 11.1 million higher than in the previous year. The improved earnings resulted primarily from the increased sales volume and the better product mix due to the high percentage of flat-panel display sets. The lower market prices were compensated by purchase price reductions. In addition, the cooperation with Sharp, in particular in the Joint Development Center, as well as the wage and salary concessions, which were agreed with the employees, had a positive impact on earnings in 2006.

Positive earnings trend continued

EBIT by quarter (EUR million)



Based on high sales volume and largely stable sales prices, Loewe achieved EBIT of EUR 8.1 million in the first and second quarters of 2006. Even in the third quarter, which is seasonally the weakest one, EBIT improved significantly to EUR 1.1 million compared to 2005. In the fourth quarter, it was not possible to equal the high earnings of the previous year due to lower sales volume. The discontinuance of the Sharp sales and the initial inventory effect of the new Individual TV line had a particular impact.

Manufacturing costs rise at a lower rate than sales

While sales rose 7%, manufacturing costs in the year under review were up only 3.2%. This improved the cost-of-manufacturing ratio from 79.7% to 76.8% in 2006. The primary cause for this development was that an improved product mix, lower procurement costs and the generally optimized cost structure more than compensated for lower prices for television sets. As a result, the gross margin improved overall from EUR 64.7 million in 2005 to EUR 79.5 million in 2006.

Higher margins due to better product mix, lower procurement costs and optimized cost structure

Selling and administrative expenses up slightly in absolute terms

Selling expenses increased by EUR 3.5 million in 2006 to EUR 56.6 million. Advertising expenses for Loewe's higher positioning in the most important markets and slightly higher warranty costs contributed mainly to this increase. The higher warranty costs resulted from the assumption of warranty obligations in Italy due to a new agreement with the Italian service partner. The lower freight costs resulting from the switch to a new logistics partner had a positive impact. As a percentage of sales, the selling expenses declined from 16.6% in 2005 to 16.5% in 2006. General and administrative expenses rose by EUR 1.6 million year-on-year, primarily due to higher allocations to pensions and contributions for insurance policies and consulting fees. As a percentage of sales, general and administrative expenses came to 2.6% compared to 2.2% in 2005.

Other operating income

Other operating income and expenses and income from equity investments resulted in a decrease in net expense to EUR 0.9 million down from EUR 1.4 million in 2005.

Other operating income, including income from equity investments of EUR 14.0 million, was significantly higher than in 2005 because a Belgian insurance company reimbursed just under EUR 4 million for the fire in the freight warehouse located there. It also included expenses for development services passed on to Sharp in the amount of EUR 3.1 million.

Other operating expenses, which widely correspond to other operating income, rose by EUR 2.2 million to EUR 14.9 million in 2006. The costs for the fire damages in Belgium and the provisions recognized for an inspection campaign of TV sets produced between 1999 and 2001 were largely compensated by the elimination of provisions and restructuring costs included in 2005. Other operating expenses include the costs incurred in connection with the expenses transferred to Sharp.

Net interest expense declines significantly

Net interest expense diminished from EUR 4.0 million to EUR 2.7 million as borrowings were significantly reduced compared to the previous year.

Higher capital expenditure

Capital expenditure and depreciation/amortization

EUR million	2006		2005	
	Investments	Depreciation/amortization	Investments	Depreciation/amortization
Intangible assets	6.7	7.2	5.5	5.6
Property, plant, and equipment	11.8	10.4	6.3	15.8
Financial assets	0.0	0.0	0.0	0.0
Total	18.5	17.6	11.8	21.4

Capital spending focused on new products and marketing

Capital expenditure rose by EUR 6.7 million to EUR 18.5 million year-on-year. Investment in property, plant, and equipment focused on tools for new products, presentation systems for retailers and streamlining measures in production.

Depreciation and amortization in the amount of EUR 17.6 million in 2006 was EUR 3.8 million lower than in 2005. The decline in depreciation and amortization primarily reflects the low level of capital spending in the previous years.

Equity rose to approximately EUR 66 million

Balance sheet ratios improved significantly – further increase in shareholders' equity

The net income for 2006 raised the shareholders' equity of the Loewe Group including minority interests from EUR 59.2 million to EUR 66.1 million. Total assets increased primarily due to the increased inventory assets. Trade accounts receivable were lower than in 2005.

Key figures of the consolidated balance sheet

EUR million	2006	2005	± in %
Non-current assets*	67.6	67.9	0
Current assets*	150.4	144.9	4
Assets of the discontinued division	0.0	0.1	
Total assets	218.0	212.9	2
Shareholders' equity incl. minority interests	66.1	59.2	12
Non-current liabilities*	55.2	58.3	- 5
Current liabilities*	96.3	94.6	2
Non-current/current liabilities of the discontinued division	0.4	0.8	
Total equity and liabilities	218.0	212.9	2

* continuing division only

Non-current assets nearly unchanged

The slight decline in non-current assets results from the reduced deferred tax assets which more than compensated for the increase in property, plant, and equipment.

Non-current assets

EUR million	2006	2005	± in %
Property, plant, and equipment	36.3	34.9	4
Deferred tax assets	24.1	25.7	- 6
Other non-current assets	7.2	7.3	- 1
Total non-current assets	67.6	67.9	0
as a percentage of total assets	31.0%	31.9%	

Property, plant, and equipment includes land and buildings, production facilities, and other machinery and office equipment in Kronach. The increase is mainly due to the fact that capital expenditure exceeded depreciation and amortization. Deferred tax assets declined by EUR 1.6 million to EUR 24.1 million in 2006, primarily due to the profit before taxes. Intangible assets chiefly relate to development costs for new products to be recognized in accordance with IAS 38.

Increased current assets

In order to ensure the availability of finished goods, inventories were significantly increased year-on-year. In contrast, trade accounts receivable were significantly reduced. Cash and cash equivalents as part of current assets decreased in 2006, as hardly any use was made of factoring and long-term loans were repaid.

Current assets

EUR million	2006	2005	± in %
Inventories	59.9	39.5	52
Trade accounts receivable after factoring	81.9	88.1	- 7
Current assets	8.6	17.3	- 50
Total current assets	150.4	144.9	4
as a percentage of total assets	69.0%	68.1%	

**Inventory level
normalized to ensure
delivery**

Inventories normalized

Inventories rose 52% to EUR 59.9 million compared to the previous year. This increase, which outpaced growth in sales, resulted from the increase in inventories of finished goods, since supply bottlenecks in LCD panels prevented adequate goods availability in 2005. The inventory range for finished products was roughly one month. Factory inventories were also built up in relation to the previous year. This was caused by higher volumes, the significantly increased share of large-screen LCD sets, and stockpiling of important components to ensure the market launch of the Individual Compose 46 and Compose 40 scheduled for early 2007. In addition, inventories were affected by the necessary closing inventories required to service phased-out picture-tubes.

Finished goods by product group

EUR million	2006	2005	± in %
CRT televisions	0.0	1.6	
LCD televisions	17.5	7.6	130
Plasma televisions	4.2	0.3	
DVD players and recorders	0.3	0.4	- 25
Stereo systems	0.9	0.6	50
Accessories and other inventories	7.4	6.4	16
Total inventories of finished goods and merchandise	30.3	16.9	79

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

Lower receivables, very low use of factoring

Adjusted for factoring, trade accounts receivable dropped 10% year-on-year to EUR 81.9 million. The decline is primarily due to the lower sales volume in the fourth quarter compared to the fourth quarter of 2005. The impact of the discontinuance of the LCD-OEM sales of Sharp was especially strong.

Trade accounts receivable

EUR million	2006	2005	± in %
Trade accounts receivable before factoring	81.9	90.9	- 10
Factoring	0.0	- 2.8	
Total trade accounts receivable*	81.9	88.1	- 7
as a percentage of total assets	37.6%	41.4%	
* thereof:			
Loewe Opta GmbH	61.4	66.7	- 8
Loewe Opta Benelux N.V./S.A.	4.1	5.5	- 25
Loewe France S.A.S.	3.9	5.4	- 28
Loewe Italiana S.r.l.	8.6	6.5	32
Loewe Austria GmbH	3.9	4.0	- 3

Due to the improved financial situation, factoring was utilized to only a very slight degree and was reduced by EUR 2.8 million compared to year-end 2005.

Solid equity base

The net income caused shareholders' equity including minority interests to increase by EUR 6.9 million to EUR 66.1 million. The equity-to-assets ratio improved from 27.8% to 30.3%.

Non-current provisions and liabilities reduced

The lower reduction in non-current liabilities compared to the previous year is the result of lowered provisions and reduced financial liabilities.

Non-current liabilities

EUR million	2006	2005	± in %
Pension provisions	37.9	36.8	3
Other provisions	13.1	15.0	- 13
Financial liabilities	4.2	6.5	- 35
Total non-current liabilities	55.2	58.3	- 5
as a percentage of total assets	25.3%	27.4%	

The EUR 1.1 million increase in pension provisions is primarily the result of adjusting the calculation base. Other provisions declined due to reclassifications from other non-current to other current provisions. The decline in financial liabilities relates to scheduled repayments of long-term liabilities to banks.

Pension liability reserves up slightly

Slight increase in current liabilities

Current liabilities

EUR million	2006	2005	± in %
Trade accounts payable	34.2	44.7	- 23
Other provisions	45.6	34.3	33
Other current liabilities	16.5	15.6	6
Total current liabilities	96.3	94.6	2
as a percentage of total assets	44.2%	44.4%	

The significant decline in trade accounts payable resulted primarily from LCD panel purchases from suppliers with German warehouses which led to shorter payment times. The purchasing volume from the Far East with a payment time of 90 days declined sharply in 2006. Other provisions increased due to higher sales revenue and relates primarily to bonuses paid to retailers. Furthermore, the pending inspection campaign of 100 Hz picture-tube sets from the production years 1999 to 2001 was accounted for in other provisions. A provision due in 2007 was reclassified from non-current into current provisions. This led to a slight increase in other provisions. The increase in other liabilities relates primarily to current liabilities to banks and other liabilities.

Secure financing

Financing

EUR million	2006	2005	± in %
Cash and cash equivalents	6.5	15.3	- 58
Long-term liabilities to banks	- 4.2	- 6.5	35
Short-term liabilities to banks	- 5.8	- 5.3	- 9
Subtotal	- 3.5	3.5	
Factoring	0.0	- 2.8	

The net bank balance of the Loewe Group decreased from EUR 3.5 million as of December 31, 2005 to EUR -3.5 million as of the 2006 closing date. At year-end 2006, the use of factoring came to only EUR 49 thousand compared to EUR 2.8 million as of year-end 2005.

The pooling agreement that had existed with banks since early 2004 was terminated in February 2006 and converted into a syndicate agreement. The factoring agreement which had existed since year-end 2003 was extended to mid-2010 under significantly improved conditions and expanded to a maximum volume of EUR 35 million. The solid capital structure and financing agreements will support Loewe's growth targets in the years to come.

**Factoring contract
extended to 2010
at greatly improved
conditions**

Slightly negative free cash flow

The free cash flow of EUR –3.8 million was slightly negative due to the funds tied up in net current assets and the higher capital expenditure. Cash flow before changes in net current assets improved year-on-year by EUR 5.3 million to EUR 24.9 million.

Key figures of the consolidated cash flow statement

EUR million	2006	2005
Cash flow before changes in net current assets*	24.9	19.6
Change in net current assets not incl. factoring*	– 10.2	14.1
Net cash used for investing activities*	– 18.5	– 11.7
Free cash flow of Home Media Systems	– 3.8	22.0
Free cash flow of the discontinued division	– 0.4	– 0.3
Total free cash flow	– 4.2	21.7

* continuing division only

The increase in net current assets due to increased inventories was intensified by lower trade accounts payable. The lower trade accounts payable and higher other provisions were only sufficient for a partial compensation of this increase.

Current assets, net

EUR million	2006	2005	± in %
Inventories	59.9	39.5	20.4
Trade accounts receivable without factoring	81.9	90.9	– 9.0
Other assets*	2.2	2.5	– 0.3
Trade accounts payable	– 34.2	– 44.7	10.5
Other provisions	– 45.6	– 34.3	– 11.3
Other short-term liabilities*	– 6.3	– 6.2	– 0.1
Total net current assets	57.9	47.7	10.2

* excluding income taxes

U.S. Division

Loewe's U.S. business was terminated in 2004. The subsidiary Loewe Opta, Inc. continues to exist and will be responsible for handling warranty obligations still to be incurred. The 2006 result was break-even.

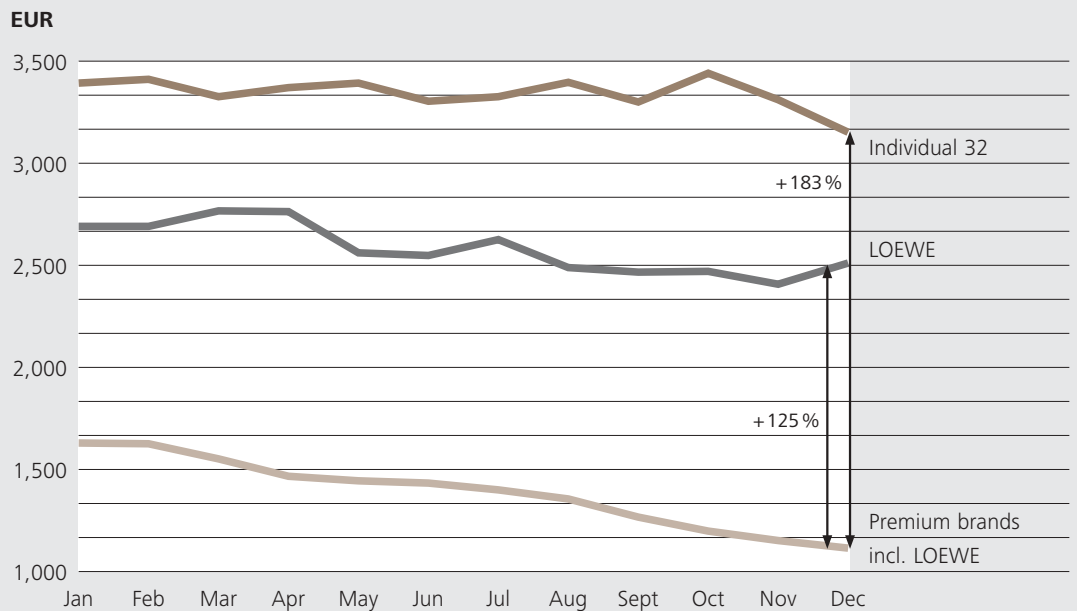
Targeted marketing activities stimulated demand

Marketing and sales

In 2006, Loewe continued to focus on sharpening the profile of its premium brand. The primary effort was centered on enhancing the brand’s intrinsic value and underscoring the expanded dimension of “Sound” to complement Loewe’s already known core competencies. In particular, the launch of Individual Sound with the large-screen LCD televisions of the Individual family represented a decisive step toward the enhancement of Loewe’s premium position.

The other product launches in 2006, including the associated marketing activities, had a stimulating effect on demand. The Loewe brand generates added value that is recognized by the market. Consumers were thus willing to pay considerably more for Loewe products than for products from other manufacturers in 2006. Loewe offers even more features such as reception units for digital and high-definition television, an integrated hard disk recorder (a global innovation that can even record HDTV signals), outstanding picture and sound quality and individualized mounting solutions. All of them can be controlled with a single remote control.

Premium prices in Europe for 32” LCD TVs in 2006



(Source: GfK)

IFA fair a media highlight

Loewe’s presence at the International Consumer Electronics Fair (IFA) in Berlin was the media highlight of 2006. Under the motto “Your ears won’t believe your eyes” Loewe impressively demonstrated the brand’s product range. Both retailers and end customers were enthusiastic about Loewe’s fascinating product ideas, led by Individual Compose as a new home cinema line, and the equally attention-grabbing displays and presentations.

In sales, the IFA provided Loewe the momentum needed to increase its volume of orders, primarily in Germany, ensuring a positive trend throughout the year. At the same time, despite severe price declines in all key European markets, Loewe was able to maintain pricing stability except for adjustments in a few areas. This resulted in a significant additional contribution to the gross margin. In all markets, sales were generally at a higher level than planned. This enabled Loewe to fully compensate for the delay in the launch of the new L2700 chassis for high-definition television.

The Loewe brand is persuasive and today is more in demand than ever before. A current image study by the Gruner + Jahr publishing house shows that with respect to public perception and quality, Loewe has made the greatest progress of all TV manufacturers, especially among brand-aware consumers with high purchasing power.

The results of the study underscore Loewe's successful brand strategy, which will be continued beyond 2007. Winning the Design Award of the Federal Republic of Germany is further proof of the consistently high quality of our work – from the product to presentation and marketing. Loewe has won the highest German design award two times: The Individual 32 LCD television and the Loewe exhibition stand at the IFA 2005 each won a silver design award.

In addition to the market launch of Individual Compose in the first quarter of 2007, Loewe is combining all of its activities in the current fiscal year under the Loewe premium offensive. The primary goal is to comprehensively enhance the Loewe brand image among retailers. If a consumer is willing to invest in Loewe products, his expectations with regard to quality, innovation, design and exclusivity will be particularly high. These expectations affect not only the products but also the related services or adequate brand presentation at the point of sale. Loewe will also launch large-screen, high-definition LCD TVs in the new 42", 46" and 52" screen sizes and expand the individual speaker systems in 2007. Furthermore, Loewe will increase the qualitative and quantitative distribution within and outside of Germany and increasingly concentrate on premium-based, value-oriented marketing of its individual home cinema solutions through high-quality presentation systems for retailers.

Qualitative and quantitative expansion of distribution network in Germany and abroad continued

Development and production

In addition to the general expansion of the product range, development and production activities were primarily focused on improving efficiency in 2006. It was possible to cover the mechanical systems for two product lines with only one tool set. Additional suppliers were qualified for the key component "display," thus improving purchasing conditions.

In new product development, the priority was on large screens. For that reason, a 40" set was added to the successful Individual product line. In the same context, Loewe introduced the Individual Sound speaker system. This system features high flexibility with numerous possibilities for combining form, color and function.

As part of the continuing enhancement of Loewe's unique selling points, Loewe's image optimization system Image+ was expanded to include the function DynamicContrast and the conceptual foundation stone was laid for 100 Hz control of LCD displays.

The communications focus of the now annually occurring International Consumer Electronic Fair was the new Individual Compose line (40" and 46"). In combination with the Individual Sound System, it was possible to present all the functions of this line. Loewe rounded out the current line of TVs with the new remote controls Assist 1 and Assist 2.

The majority of the large-screen sets displayed at the International Consumer Electronics Fair were equipped with the L2700 TV chassis developed with Sharp in the Joint Development Center. Significant new functions were displayed to a broad public, including recording and replay of high-definition TV broadcasts (HDTV) using the integrated hard disk recorder or the display of photos via a USB stick.

In the area of pre-engineering, work was continued on the subsidized research projects. These projects are primarily focused on innovative software systems, intelligent on-screen menus and the integration of the TV set into a home network. The research project DynAMITE focused on automatic detection of new audio/video components in networks and was successfully completed in pre-engineering.

New TV chassis a world first

Number of employees slightly higher

Loewe employed 965 people on an annual average, most of them at the Company's headquarters in Kronach. The average number of employees increased by 20 persons over the average for 2005. The higher production volume in 2006 necessitated additional hires in production. The increases in marketing and development were necessary to ensure the on-time market launch of new products and to advance brand presence, in particular in the key European markets.

The proportion of trainees in the entire workforce at Kronach was maintained at a constantly high level. On an annual average, approximately 8% of the workforce completed in-house training.

Higher production volume required additional staff

Employees by division

Annual average	2006	2005	± in %
Marketing, sales, service, quality	220	213	3
Development	118	115	3
Production	404	377	7
Administration and services	88	87	1
Trainees	70	76	- 8
Other (permanently absent, part-time retirement)	65	77	- 16
Total employees	965	945	2

Compared to the previous year, the workforce in the foreign subsidiaries increased by seven persons to 68 employees. The buildup was strongest in marketing and sales, primarily in Italy and France. In these significant markets for Loewe, it is intended to increase the brand presence among retailers to the level existing in Germany or the Benelux countries in the years to come.

Employees by country

Annual average	2006	2005	± in %
Germany	897	884	1
Benelux countries	33	31	6
France	17	16	6
Italy	12	8	50
Austria	6	6	0
Total employees	965	945	2

In addition to high-quality professional training, the human resources staff use additional activities for recruiting and retaining qualified employees.

To attract young talent, Loewe expanded its marketing in schools and universities. In addition to regional career information seminars for students in all types of schools, contacts with universities were intensified. Thus Loewe is already perceived as a potentially attractive employer in the early phase of career decision-making and can appeal to promising candidates at an early stage.

Particular highlights in 2006 were the active participation in the summer school and the implementation of "Technikmeile 2006" (The "Technikmeile Nürnberg" is organized by the association of German engineers (VDI) and aims to present technology and engineering science to a broader public.). Specific supportive measures such as stipends or networks support high-achieving students and integrate them into the Company's operations. In addition to fostering loyalty, these measures also have positive effects with regard to the transfer of knowledge from the universities to the company.

In order to take into account the increasing average age of the workforce in the future, the work on internal Project 67 was given added emphasis. The project has the purpose of meeting the special challenges of an aging workforce. The key points are competency management, company support of health and sports and the avoidance of improper stresses at the workstation. The conferring of the award "Company with Vision" by German Minister for Labor and Social Affairs, Franz Müntefering, is worthy of special mention.

As in 2005, the wage and salary concessions made an important contribution to the Company's positive results in 2006.

The outlook for the current fiscal year also shows that a lean and flexible organization is an essential prerequisite for sustained, profitable growth. The Executive Board is confident that the Company will continue to develop favorably and expresses its thanks to all employees for their high personal dedication.

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. Its objective is to fulfill obligations arising from the Act Governing the Sale, Return and Environmentally Sound Disposal of Electrical and Electronic Equipment (ElektroG) of March 23, 2005 in a more efficient manner both in terms of economics and the environment. As defined by Accounting Interpretation RIC 2 of the German Accounting Standards Committee (DRSC), this form of implementing the ElektroG is classified as a collective take-back system with cost allocation that does not require manufacturers marketing electric equipment to recognize provisions. In 2006, Loewe took back 1,440 tons of used equipment and disposed of them in accordance with environmental standards.

Loewe well prepared for EU environmental guidelines

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 2006. Since early 2006, all Loewe assemblies have been soldered without lead and 100% of the components used have 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.

Active promotion of new environmental technologies

Shareholders' Meeting on May 16, 2006

At the Shareholders' Meeting of Loewe AG held on May 16, 2006, all seven items on the agenda were adopted with only a few opposing votes. In addition to the resolution relating to amendments to the Company's Articles of Incorporation with respect to the Law on Corporate Integrity and Modernization of the Right of Avoidance (UMAG), the agenda also included the regularly scheduled election of the Supervisory Board. All six members of the Supervisory Board of Loewe AG were reelected. See page 83 of the Notes to the Consolidated Financial Statements for a detailed summary of the composition of the Supervisory Board.

Risk report

Risk management at Loewe

Intense global 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 proactive 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.

Loewe's risk management system is designed to detect and identify risks as early as possible. Defined risk areas and fields are standardized in a set of risk management guidelines. This leads to a transparent risk management 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 the Company's financial position and performance.

Individual risks are either of a quantitative or a 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, Loewe initiates suitable measures for risk reduction or management. By incorporating risk management into a document-management system, we have integrated our IT, enabling those responsible for risks to process individual risks in a decentralized fashion. IT integration also provides for central reporting. Risk monitoring reviews the efficiency and implementation of countermeasures.

Systematic risk management

Loewe's risk management system is an integral component of the entire planning, controlling, and reporting process. Controlling plays a substantial role here. A transparent reporting system makes it possible to detect discrepancies in key data early so that actions can be initiated or operational changes implemented. Regular reporting to the Executive Board, senior management, and the Supervisory Board ensures that all decision-makers are thoroughly informed about the Company's development.

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

**Premium positioning
an opportunity to
differentiate ourselves
from competitors**

Positioning in the premium 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 possible must be kept in reasonable balance. Only if the customer recognizes the better quality and special features of Loewe's products by paying 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 is opening up attractive opportunities for Loewe to differentiate itself through high-end, fully featured sets and generate attractive margins. However, Loewe faces the risk that the target segment of high-end, flat-panel, fully featured sets will have comparatively low market significance. In this scenario, the potential for sales, price differentiation, and thus attainable contributions to margin could be limited for Loewe.

The higher price positioning in the still rapidly growing market for flat-panel displays implies that Loewe might face the risk of having to accept a limited or lower price premium 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 design and equipment features continue to be an important differentiating and positioning criterion. The modular flexibility afforded by Loewe products (hard-disk recording/flexible connection of digital devices) provides the customer with customized solutions possessing added value. The thoroughly standardized, high-quality retail presentation of Loewe products will make an important contribution to premium positioning and differentiation.

Potential for technological differentiation

Sustainable and credible premium positioning requires that important product features of flat-panel display sets, such as, for example 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. In development, there is a risk that insufficient resources will be available to generate technological differentiation opportunities on a sustained basis.

Loewe therefore concentrates on areas of technology that offer customers 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. The development cooperation initiated with Sharp in early 2004 is also beneficial. Chassis platforms are developed jointly, making it possible for both companies to generate the desired results faster and more efficiently. This basis will make it possible for Sharp and Loewe to concentrate more on deriving brand-specific products from these chassis platforms. Loewe faces the risk that the jointly developed chassis platform will reduce the potential for differentiation from comparable Sharp products.

In addition to the cooperation with Sharp, we are attempting to exploit existing contacts to institutes, universities and the research facilities of significant companies intensively and also to expand them.

Purchasing conditions and availability of materials

The comparatively lower purchasing volume of flat-panel displays and important components makes it difficult for Loewe to achieve attractive conditions and constant availability of materials. Supply bottlenecks, in particular for large-format LCD modules, can lead to temporary sales losses and losses in the contribution margin which it may not be possible to compensate. 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. We qualified Samsung as a second supplier of LCD panels in 2005 and LG Philips as a third one in 2006. This enables Loewe to convert to LCD panels from an alternative supplier at 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 such standards are fallen short of by a large margin, there is a risk of damage to the reputation of the Loewe brand with 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.

The production of picture-tube sets was discontinued in the second quarter of 2006. Field failures from current production were within the established tolerance limits in 2006. Generally, the chief causes were the picture-tubes used, line output transformers or soldering. Quality problems exist with the 100 Hz picture-tube sets produced between 1999 and 2001. To limit residual risks, we initiated another inspection campaign of these sets in early 2007.

**Permanent,
consistent quality
assurance**

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 subsequent 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 picture-tube 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 over 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 the more direct relationship with the customer, facilitating better implementation of Loewe's premium strategy and higher sales. This is associated with higher operational risk because the marketing organization's fixed costs are incurred independent of the sales revenue achieved. Furthermore, the closure of a sales company can noticeably 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 centered in Germany in order to reduce the fixed costs of Loewe's foreign companies. Quarterly meetings are held with the persons responsible for the countries in order to detect deviations early and to initiate countermeasures.

Financing situation

The net income of EUR 6.9 million in 2006 caused shareholders' equity including minority interests to rise to EUR 66.1 million and distinctly improved the financing situation.

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

As of December 31, 2006, the Loewe Group had no current net bank liabilities and factoring was utilized to only a slight degree. Given the fact that Loewe's need for financing reaches its seasonal peak in the fourth quarter, this provides clear proof of the present financial latitude.

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 and U.S. dollars. In 2006, the total payment volume in these two currencies came to approximately EUR 88 million. To limit the associated exchange-rate risk, guidelines exist that guarantee a partial hedge of the exchange-rate risk. To this end, the anticipated foreign currency volume is determined using a rolling 12-month projection with the objective of hedging approximately 50% by forward exchange transactions, call options and zero-cost options.

Legal risks

Legal risks arise primarily from complaint and warranty claims, claims for compensatory damages and lawsuits. Recognizable legal risks are covered either by insurance or – if recognizable liabilities already exist – to an adequate degree by provisions. However, losses can arise that are not or are only inadequately insured or significantly exceed the provisions.

Tax law changes

Legal changes are usually difficult to forecast and they carry the risk of worsening the balance sheet of the Loewe Group. In accordance with International Financial Reporting Standards and current tax laws, the value of the deferred tax assets on loss carryforwards was recognized at EUR 18.3 million in the consolidated balance sheet as of December 31, 2006. This balance sheet item is based on the current tax legislation. A change in the tax rate would entail a valuation adjustment.

Events after the balance sheet date

The British consumer electronics market is the largest in Europe. To step up market development, Loewe cancelled the agreement with the local distributor in January 2007 and prepared to establish a company-owned sales company.

Quality problems exist with certain soldered rivet joints in 100 Hz picture-tube sets that were manufactured between 1999 and 2001. To avoid any remaining risk, Loewe initiated an additional inspection campaign of these sets in early 2007.

Outlook

The global economy will continue moving upward in 2007, however somewhat more slowly than in 2006. Growth will continue to center on Asia in the next two years as well. At approximately 4.4%, the global growth rate will be only slightly below the 2005 value of 5%. In particular in the U.S., the pace of economic development has slowed, but the economy is still robust overall. The end of the housing boom has slowed the growth in purchasing power of U.S. consumers compared to previous years. Consequently, private consumption will grow at a slower rate in 2007. At 2.3%, GDP growth may be slightly lower than in 2006. Nonetheless, instead of a recession in the U.S. economy, a soft landing followed by another recovery is expected for 2008 due to the continued positive employment figures.

**Global economy
continues to grow**

More growth forecast

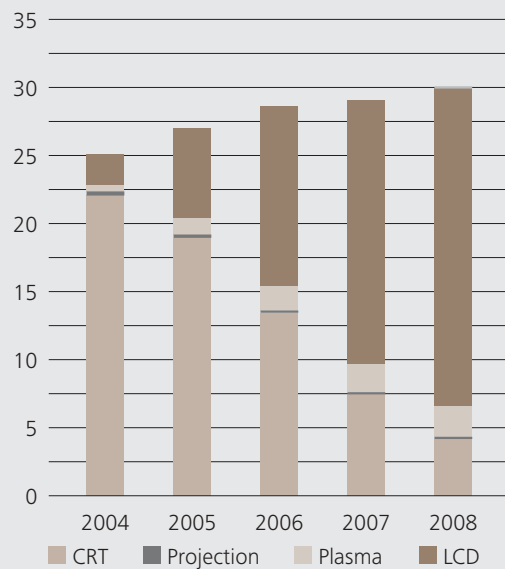
In the eurozone, the economic upswing will continue although the GDP growth rates for 2007/2008 at 2.0% and 2.1%, respectively, are forecast to be lower than in the previous year. European exports in particular might continue to benefit from the boom in Asia and the robust growth of many trading partners. However, slightly weaker demand must be expected from the United States. After the 2006 rally, the strain in the global petroleum markets should ease for the time being. Compared to the previous year, inflation should decline from 2.2% to 2.0% in 2007.

The most recent economic surveys at the beginning of the year indicate that the value-added tax increase did have a slight dampening effect on the German economy. The consumer climate index determined by GfK in January showed that the economy declined for the third time in succession after reaching a five-year high in autumn 2006. In the corporate sector in particular, the mood is no longer quite as buoyant as it was at year-end 2005. The Ifo index subsided somewhat in February, from 107.9 to 107.0 points. Based on the opinion of several renowned economic institutes, the generally positive economic trend will continue in 2007 at a GDP growth of 2.0 to 2.7%. The value-added tax rise could cause the inflation rate to temporarily exceed the two percent mark in early 2007.

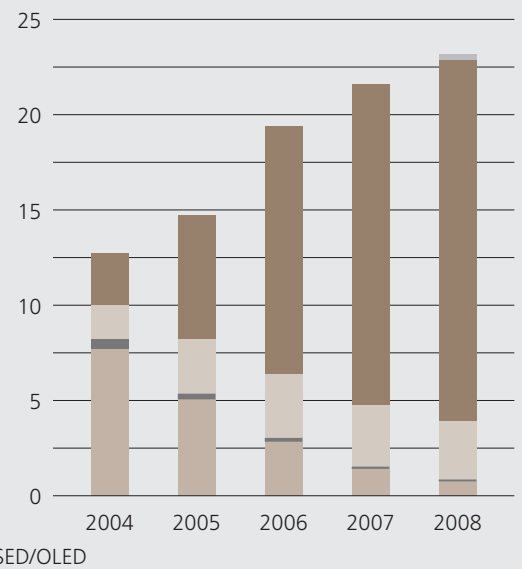
The consumer electronics market should continue to grow at a moderate pace in the current financial year. In the television segment, which is of relevance to Loewe, the substitution process from picture-tube sets to flat-panel sets will continue. The continued dynamic growth in LCD sets and home cinema solutions should compensate for the declining sales of picture-tube sets. Accordingly, market volume in Europe should continue at a high level for the medium term. Despite the persistent price decline, the increasing share of high-end LCD TVs in particular and the general trend to large-screen sets should cause the European television market to grow in the years to come. On this basis, Loewe's objective is to continue to grow profitably.

Television market in Europe

Units (million)



Value (EUR billion)



(Source: Loewe market research)

In the coming year, Loewe will see many positive conditions for growth. Consumers' increased brand awareness, new digital products, the annually occurring IFA and the fascination with high-definition television (HDTV) should continue to stimulate sales of Loewe home cinema solutions.

In 2007, Loewe will continue its product offensive with the launch of large-screen, high-definition LCD TVs in the new screen sizes 42", 46" and 52". In the first quarter of 2007, Loewe will introduce to the world a hard disk recorder integrated in the TV set, which is also capable of recording HDTV signals. In addition, Loewe is continuously expanding the home cinema solutions line to include new speaker systems.

Loewe's attractive product portfolio puts it in a very good position in the important LCD segment and the planned product launches in all major European countries should make it possible to achieve profitable sales growth.

The collective restructuring agreement negotiated for 2005 and 2006, including wage and salary concessions of up to 10%, expired at year-end. Loewe is currently negotiating with the Works Council and the labor unions to keep the rise in personnel expenses at as moderate a level as possible. Advertising expenditures and cost of materials can be expected to stay at a constant level or rise slightly. Capacity adjustments in development in particular will cause the number of employees to slightly exceed the level for 2006. In view of the increasing business volume, another moderate increase in the number of employees is expected for 2008.

Capital expenditure in 2007 will primarily be concentrated on tools for new products, production facilities and shop systems with retailers for adequate presentation of the brand. To stimulate further growth, capital expenditure will exceed depreciation and amortization.

Loewe is confident about the current fiscal year. In contrast to the World Cup year of 2006, Loewe's growth in 2007 is expected to occur in the second half. For 2007 as a whole, Loewe anticipates that sales will grow by approximately 10% to EUR 380 million and that EBIT will improve by at least 20% to EUR 16 to 18 million. In view of the continued positive market trend, we expect a further increase in sales and earnings in 2008.

More sales and earnings growth projected

Kronach, February 23, 2007

The Executive Board

Dr. Rainer Hecker

Gerhard Schaas

Oliver Seidl



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Consolidated Income Statement for the Year Ended December 31, 2006

	Notes No.	2006		2005	
		EUR thousands	%	EUR thousands	%
Sales		341,934		319,091	
Discontinued division		0		0	
Continuing division	1	341,934	100.0	319,091	100.0
Cost of sales*	2	- 262,446	- 76.8	- 254,378	- 79.7
Gross margin		79,488	23.2	64,713	20.3
Selling expenses	3	- 56,540	- 16.5	- 53,020	- 16.6
General administrative expenses	4	- 8,852	- 2.6	- 7,235	- 2.2
Other operating income	5	13,920	4.1	10,269	3.2
Other operating expenses	6	- 14,884	- 4.3	- 12,688	- 4.0
Income from investments		98	0.0	110	0.0
EBIT of the continuing division		13,230	3.9	2,149	0.7
EBIT of the discontinued division		0	0.0	0	0.0
EBIT		13,230	3.9	2,149	0.7
Interest and similar income		203	0.1	116	0.0
Interest and similar expenses	7	- 2,911	- 0.9	- 4,113	- 1.3
Profit from ordinary activities (EBT) of the continuing division		10,522	3.1	- 1,848	- 0.6
Profit from ordinary activities (EBT) of the discontinued division	8	0	0.0	0	0.0
Profit from ordinary activities (EBT)		10,522	3.1	- 1,848	- 0.6
Income taxes	9	- 3,639	- 1.1	265	0.1
Net income/loss before minority interests		6,883	2.0	- 1,583	- 0.5
Minority interests		- 343	- 0.1	- 313	- 0.1
Net income/loss		6,540	1.9	- 1,896	- 0.6
Loss carried forward		- 2,095		- 199	
Distributable profit/accumulated loss		4,445		- 2,095	

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

Net income/loss of the continuing division	10	6,540		- 1,896	
Basic earnings per share** of the continuing division		0.50		- 0.15	
Basic earnings per share*** of the continuing division		0.50		- 0.18	
** Number of shares issued as of December 31		13,009,229		13,009,229	
*** Weighted average number of shares pursuant to IAS		13,009,229		10,550,625	

Consolidated Balance Sheet as of December 31, 2006

EUR thousands	Notes No.	Dec. 31, 06	Dec. 31, 05
Assets			
Non-current assets*			
Intangible assets	11	5,485	6,008
Property, plant, and equipment	12	36,269	34,855
Financial assets	13	728	765
Other non-current receivables	14	968	575
Deferred tax assets	15	24,131	25,730
		67,581	67,933
Current assets*			
Inventories	16	59,937	39,450
Trade accounts receivable	17	81,886	88,114
Other current receivables	18	2,111	1,986
Cash and cash equivalents	19	6,455	15,341
		150,389	144,891
Assets of the discontinued division	20	47	92
Total assets		218,017	212,916
Liabilities and shareholders' equity			
Shareholders' equity			
Equity attributable to equity holders of the parent	21		
Subscribed capital		13,009	13,009
Conditional capital EUR 398 thousand (2005: EUR 398 thousand)			
Capital reserve		46,986	46,991
Distributable profit/accumulated loss		4,445	- 2,095
		64,440	57,905
Minority interests	22	1,653	1,310
		66,093	59,215
Non-current liabilities*			
Provisions for pensions and similar obligations	23	37,906	36,799
Other provisions	24	13,052	15,028
Financial liabilities	25	4,219	6,515
		55,177	58,342
Current liabilities*			
Tax provisions	26	3,979	3,987
Other provisions	27	45,576	34,238
Financial liabilities	28	5,782	5,362
Trade accounts payable	29	34,212	44,717
Other liabilities	30	6,824	6,228
		96,373	94,532
Provisions and liabilities of the discontinued division	31	374	827
Total liabilities and shareholders' equity		218,017	212,916

* of the continuing division

Consolidated Cash Flow Statement for the Year Ended December 31, 2006

EUR thousands	2006	2005
Operating activities*		
EBIT	13,230	2,149
Interest paid	– 2,708	– 3,997
Depreciation and amortization of non-current assets	17,604	21,378
Book profits (–) on disposals of non-current assets	– 31	– 83
Increase (+) of non-current provisions	– 1,976	3,462
Increase (+) in pension provisions	1,107	567
Income taxes paid	– 2,359	– 3,865
Cash flow before changes in net current assets	24,867	19,611
Change in net current assets		
Decrease (+)/increase (–) in inventories	– 20,487	– 3,047
Decrease (+)/increase (–) in trade accounts receivable and other assets	9,379	– 8,277
Decrease (–)/increase (+) in other current provisions	11,337	2,405
Decrease (–)/increase (+) in trade accounts payable and other liabilities	– 10,495	22,989
Change in net current* assets	– 10,266	14,070
Net cash from operating activities	14,601	33,681
Investing activities		
Payments for purchases of intangible assets and property, plant, and equipment	– 18,472	– 11,834
Payments for purchases of financial assets	– 28	– 38
Proceeds from disposals of intangible assets and property, plant, and equipment	73	173
Net cash from investing activities	– 18,427	– 11,699
Free cash flow of the continuing division	– 3,826	21,982
Free cash flow of the discontinued division**	– 416	– 289
Total free cash flow	– 4,242	21,693
Financing activities		
Capital increase	– 5	40,406
Repayment (–) of loans	– 5,325	– 193
Net cash from financing activities of the continuing division	– 5,330	40,213
Cash-effective change in liquidity	– 9,572	61,906

Composition of liquidity:	Dec. 31, 06	Dec. 31, 05	±
Cash and cash equivalents	6,459	15,354	– 8,895
Short-term bank loans	– 4,844	– 1,395	– 3,449
Use of factoring	– 49	– 2,821	2,772
Liquidity	1,566	11,138	– 9,572

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

** The free cash flow of the discontinued division is itemized in the notes on page 81.

About Loewe

The Loewe Group develops, produces and distributes electronic, electrotechnical and mechanical products and systems of every type as well as parts of the same, in particular in the field of consumer electronics and communications technology (home media systems). The Company's main products are TV sets and home cinema solutions.

The parent company is recorded under the name of Loewe AG in the Commercial Register (HRB 3004) of the Local Court Coburg, Germany.

The Company's registered offices are located at Industriestrasse 11, 96317 Kronach, Germany.

Basis of Presentation

The consolidated financial statements of Loewe AG have been prepared in accordance with the International Financial Reporting Standards (IFRS), which are required to be applied in the European Union as of the reporting date. The consolidated financial statements were prepared using the same accounting policies as in the consolidated financial statements for the year ended December 31, 2005. Standards that have not yet entered into force have not been adopted.

Changes to the existing standards and standards newly adopted by the IASB did not lead to any changes to the consolidated financial statements of Loewe AG.

The obligations for the disposal of electrical and electronic equipment arising from the Act Governing the Sale, Return and Environmentally Sound Disposal of Electrical and Electronic Equipment (ElektroG) were accounted for in conformity with Accounting Interpretation No. 2 of the Accounting Interpretations Committee of the German Accounting Standards Committee (DRSC).

Since Loewe has opted for the pay-as-you-go financing model through participating in a collective disposal system, the placing on the market of electrical and electronic equipment does not give rise to an obligation for Loewe to recognize a provision under Accounting Interpretation No. 2.

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).

Scope of Consolidation

The following companies were consolidated as of the reporting date of December 31, 2006. None of the values indicated have changed since the previous year.

	Share capital	Interest
Parent company		
Loewe AG, Kronach	EUR 13,009,229.00	
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.S., Strasbourg, France	EUR 150,000.00	75 %
Loewe Italiana S.r.l., Bozen/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 759.30	100 %

The subsidiary in the U.S. ceased business operations in 2004. The existing warranty obligations are being fulfilled by a services company.

Principles of Consolidation

The financial statements of the consolidated Group companies were prepared in accordance with uniform accounting policies and included in the consolidated financial statements.

All companies are fully consolidated. The financial statements of the individual subsidiaries are included using the purchase method, with the costs of acquiring the investment offset against the value of the shareholders' equity at the time of acquisition.

Intercompany expenses and income, receivables and payables as well as intercompany earnings between the companies included in the consolidated financial statements have been eliminated.

Currency Translation

All consolidated companies except for Loewe Opta, Inc., USA are located in the eurozone. In accordance 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 1.3170) and on the average rate (EUR 1 = USD 1.2630) in the income statement.

Accounting Policies

The accounting policies detailed below remain unchanged from those used in fiscal 2005. In accordance with IFRS 5, the expenses and income reported due to the cessation of the activities of Loewe Opta, Inc., 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. If capitalized development costs are no longer covered by future cash flows, write-downs are recognized under cost of sales.

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

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.

Additions during the fiscal 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 are recognized on product-related investments that cannot be expected to be fully used, or used at all, due to a shortening of the product lives or a reduction or phase-out of the production volumes.

For additions to depreciable non-current assets, depreciation is recorded only pro rata temporis for the period between purchase or manufacture and the end of year. Low-value assets costing less than EUR 410 are immediately written off in full.

The following depreciation rates are applied for straight-line depreciation (per annum):

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

Equity investments and investment securities recognized as **financial assets** are measured at cost or fair 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. Non-interest bearing receivables are recognized at present value. No valuation allowances were required.

Under IAS 12, **deferred tax assets** are computed on the basis of the timing 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. There were no deferred tax claims in the discontinued division.

The tax rate uniformly applicable to the Group is 37.0% as it was in the previous year. Tax increases that would be incurred in the event of a profit distribution received from a subsidiary out of shareholders' equity on which corporate tax has not yet been charged, are not deducted from deferred tax assets as there are no plans to make such distributions.

Inventories are shown at cost. In addition to cost of materials and labor, costs of conversion also include necessary material and production overheads. Inventories that cannot be sold or those for which their likely selling price, after deduction of costs to sell, would not cover their cost, are written down accordingly.

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

Other current receivables are reported at their nominal value less specific valuation allowances.

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

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 ask 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 using the projected unit credit method and are substantiated by actuarial reports.

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

Non-current financial liabilities reflect bank loans with a term to maturity longer than one year. They are shown in the balance sheet at the repayment amounts.

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 economic obligations exist that will become due within one year. The level of the provisions is set at the amounts anticipated to be payable in 2007.

Financial liabilities, trade accounts payable and all **other current liabilities** are also recognized at their repayment amounts.

Notes to the Income Statement

The cost-of-sales method is used. The notes below refer to the continuing division Home Media Systems division. 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 group are as follows:

	2006		2005	
	EUR thousands	%	EUR thousands	%
Flat-panel televisions, Loewe	295,929	86.6	218,473	68.5
CRT televisions, Loewe	6,594	1.9	47,597	14.9
Flat-panel televisions, non-branded	4,835	1.4	20,384	6.4
DVD players/recorders	5,276	1.5	6,568	2.1
Video recorders	3	0.0	924	0.3
Stereo systems	5,482	1.6	2,949	0.9
Accessories and other revenues	23,815	7.0	22,196	6.9
Total	341,934	100.0	319,091	100.0

Sales by region were as follows:

	2006		2005	
	EUR thousands	%	EUR thousands	%
Germany	161,744	47.3	144,596	45.3
Europe excluding Germany	164,184	48.0	141,865	44.5
Rest of the world	11,171	3.3	12,246	3.8
TV, non-branded	4,835	1.4	20,384	6.4
Total	341,934	100.0	319,091	100.0

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

Cost of Sales (2)

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

Cost of sales break down as follows:

EUR thousands	2006	2005
Raw materials and supplies	206,772	195,620
Merchandise	10,591	11,408
Purchased services	1,223	1,196
Personnel and social security costs	30,968	28,945
Depreciation of property, plant and equipment and amortization of software	9,053	14,265
Depreciation of capitalized development costs	6,721	5,093
Cost reduction from capitalized development costs	- 6,318	- 5,243
Other non-personnel costs	3,436	3,094
Total	262,446	254,378

The significantly lower depreciation of property, plant and equipment in 2006 is primarily due to a lower investment volume in the previous year and the write-downs taken in 2005 on tools and production facilities for CRT sets.

Selling Expenses (3)

Selling expenses comprise the following:

EUR thousands	2006	2005
Advertising costs	16,572	13,354
Freight	8,254	9,336
Warranty expenses	5,029	3,951
Personnel and social security costs	14,094	13,775
Depreciation of property, plant and equipment and amortization of software	1,750	1,961
Other non-personnel costs	10,841	10,643
Total	56,540	53,020

General Administrative Expenses (4)

The following expenses were incurred for administration:

EUR thousands	2006	2005
Personnel and social security costs	5,786	4,737
Depreciation of property, plant and equipment and amortization of software	80	59
Other non-personnel costs and overheads	2,986	2,439
Total	8,852	7,235

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

EUR thousands	2006	2005
Audit	251	238
Other audit or assessment services	71	217
Tax consultancy services	6	6
Other services	4	6
Total	332	467

Other Operating Income (5)

Other operating income comprises the following:

EUR thousands	2006	2005
Damages received	3,856	0
Grants to the Joint Development Center (jointly with Sharp)	3,062	3,825
Income from the release of provisions	2,727	1,875
Billed goods and services	1,799	1,844
Public support funds for development projects	732	628
Other income	1,744	2,097
Total	13,920	10,269

The damages received relate to insurance payments for a fire loss in the finished goods warehouse of the Belgian subsidiary. The respective damage costs are recognized under other operating expenses.

Income from the release of provisions mainly relates to statute-barred known risks and provisions for licenses that are no longer needed.

Other Operating Expenses (6)

Other operating expenses relate to:

EUR thousands	2006	2005
Costs for damages received	3,593	0
Expenses for the Joint Development Center	3,062	3,825
Allocation to the provision for rework of company-manufactured products (inspection campaign on CRT sets)	2,650	0
Billed goods and services as well as rental income	1,799	2,541
Restructuring costs	861	659
Expenses for public subsidies received for development projects	732	628
Costs for cancelled purchase contracts	539	925
Severance payments to employees	254	47
Allocation to the provision for reimbursement of the wage and salary deferment for 2004	0	2,760
Miscellaneous operating expenses	1,394	1,303
Total	14,884	12,688

Provisions for rework of company-manufactured products are primarily recognized for an inspection campaign of 100 Hz CRT sets from the production period March 1999 to October 2001.

The sets will be inspected by authorized workshops to counter existing residual long-term risks from specific soldered rivet joints.

Under the terms of the profit transfer agreement between Loewe AG and Loewe Opta GmbH, Dr. Hecker, CEO 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 Section 304 of the German Stock Corporation Act.

Interest and Similar Expenses (7)

Interest expenses have decreased due to the sustained reduction in the need for borrowing as a consequence of the capital increases implemented in 2005. They are broken down as follows:

EUR thousands	2006	2005
Interest on amounts allocated to provisions for pensions, anniversary bonuses and death benefits	1,677	1,826
Interest, commitment fees and processing fees paid to banks	728	1,120
Factoring interest and fees	486	1,149
Other expenses equivalent to interest	20	18
Total	2,911	4,113

Operating Result of the Discontinued Division Loewe USA (8)

The operating activities of the discontinued division Loewe USA were ended in 2004. 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 2006.

Income Taxes (9)

Income taxes include effective tax expenses of EUR 2,040 thousand (2005: EUR 52 thousand) and deferred tax liabilities of EUR 1,599 thousand (2005: deferred tax assets of EUR 213 thousand).

The expenses for deferred taxes are broken down as follows:

EUR thousands	2006	2005
Change in deferred tax assets from anticipated realizable loss carryforwards as of 12/31/2006	E 3,244	I 2,058
Reclassification of deferred tax assets to tax assets (former EK 40)	E 236	0
Change in deferred tax assets from differences between the financial statements and the tax accounts for future years	I 1,793	E 646
Change in deferred tax assets from accounting differences between the consolidated financial statements and the separate financial statements (HGB)	I 255	E 579
Provision for existing tax risks	E 167	E 620
Total	E 1,599	I 213

E = Expense, I = Income

The average effective tax rate is 34.6% and is thus 2.4 percentage points below the rate of 37.0% for deferred taxes.

Reconciliation of the applicable 37.0% tax rate to the average effective tax rate of 34.6%:

%	
Applicable tax rate	37.0
Consideration of additional tax risks	1.6
Differences resulting from tax rate differences among foreign subsidiaries	0.6
Temporary changes of tax-equalization items	– 4.6
Average effective tax rate	34.6

Earnings Per Share (10)

The net income of EUR 6,540 thousand of the continuing division is divided by the 13,009,229 outstanding shares of Loewe. This results in earnings per share of EUR 0.50 in the year under review (2005: EUR –0.15).

Based on the weighted average number of shares in accordance with IAS 33, the earnings per share are EUR 0.50 (2005: EUR –0.18).

	2006	2005
Net income (EUR thousands)	6,540	– 1,896
Basic earnings per share in EUR	0.50	– 0.15
Basic earnings per share (weighted average) determined according to IAS in EUR	0.50	– 0.18
Number of shares issued	13,009,229	13,009,229
Weighted average number of shares issued determined according to IAS	13,009,229	10,550,625
Number of shares issued and options	13,009,229	13,009,229
Authorized capital still available (2005 Authorized Capital)	2,598,154	2,598,154
Employee options still available (conditional capital)	398,400	398,400

Diluted earnings per share are not shown as no rights of third parties to subscribe to the securities are associated with the available 2005 Authorized Capital and the conditional capital.

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	Carrying amount at end of the fiscal year	Carrying amount previous year	Current depreciation/amortization
I. Intangible assets								
1. Software and similar assets	7,055	358	29	0	6,677	707	826	477
2. Development costs	15,809	6,318	6,785	0	10,564	4,778	5,182	6,721
Total	22,864	6,676	6,814	0	17,241	5,485	6,008	7,198
II. Property, Plant, and Equipment								
1. Land and buildings	40,780	0	0	0	19,777	21,003	21,993	990
2. Production facilities and machinery	15,497	2,007	1,250	– 33	14,525	1,696	545	856
3. Other equipment, factory and office equipment	97,906	9,789	12,867	33	81,291	13,570	12,317	8,556
Total	154,183	11,796	14,117	0	115,593	36,269	34,855	10,402
III. Financial assets								
1. Equity investments	25	0	0	0	0	25	25	0
2. Investment securities	640	18	3	0	4	651	640	4
3. Other loans	109	10	58	0	9	52	100	0
Total	774	28	61	0	13	728	765	4
Total non-current assets	177,821	18,500	20,992	0	132,847	42,482	41,628	17,604

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 2006 came to EUR 12,981 thousand (2005: EUR 12,453 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, high-quality presentation systems for sales as well as tools used by suppliers. Advance payments on tools in construction amounting to EUR 1,458 thousand (2005: EUR 1,321 thousand) are included.

The amortization on intangible assets and depreciation on property, plant, and equipment includes writedowns of EUR 2,761 thousand (2005: EUR 2,802 thousand) due to phase-outs of tools and production facilities no longer needed, and capitalizable development costs no longer covered.

Equity investments in sector-specific interest groups are between 7% and 10% of the share capital of the investees and refer primarily to investments 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	2006	2005
Claim for payment of the corporation tax credit (Section 37 (5) of the Corporation Tax Act)	388	0
Purchase price residual receivable from the disposal of equity interests in subsidiaries	250	250
Receivables from investees	154	154
Pension plan cost insurance	176	171
Total	968	575

The corporation tax credit is recognized at fair value.

Deferred Tax Assets (15)

The deferred tax assets reported in the Group primarily include taxes on earnings on anticipated realizable loss carryforwards with a deferred tax claim of EUR 18,322 thousand (2005: EUR 21,566 thousand) as well as temporary differences between the amounts reported in the tax accounts and those recognized in the consolidated financial statements at EUR 5,809 thousand (2005: EUR 3,928 thousand). The deferred tax assets (EUR 236 thousand) reported in the previous fiscal year have been reported as tax assets in the reporting year due to a change in corporate income tax law.

Due to favorable earnings prospects it appears feasible to charge the capitalized deferred tax assets on loss carryforwards to future tax income in a foreseeable future.

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

EUR thousands	Differences	Deferred taxes
Intangible assets	- 14,457	5,349
Property, plant, and equipment	4,720	- 1,746
Inventories	- 1,272	471
Tax-equalization item		
Loewe Italiana	- 1,981	675
Accounts receivable and other assets	6,747	- 2,496
Provisions	- 18,136	6,710
Liabilities	8,524	- 3,154
		5,809

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

Because possibilities for setting off exist (IAS 12.74), deferred tax liabilities are 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 corporation tax has not yet been charged (not planned at present) amount to EUR 1,305 thousand (2005: EUR 1,208 thousand).

Inventories (16)

The inventories are broken down as follows:

EUR thousands	2006	2005
Raw materials and supplies	28,132	20,756
Work in progress	1,445	1,780
Finished goods and merchandise	30,360	16,914
Total	59,937	39,450

Inventories of finished goods were increased at year-end 2006 to ensure improved availability for delivery.

The costs of inventories include write-downs of EUR 6,390 thousand (2005: EUR 5,714 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 3,109 thousand (2005: EUR 5,393 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 reduced the accounts receivable by a total of EUR 49 thousand (2005: EUR 2,821 thousand).

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 accordingly for accounts receivable in Germany as are available letters of credit, bank guarantees and credit insurance for international receivables. Moreover, the default risks are low due to the fact that the receivables portfolio is broadly diversified and accordingly no significant concentrations of risk exist. In addition, credit limit checks contribute to limiting risk. Furthermore, the factoring company bears the default risk for assigned receivables.

Other Current Receivables (18)

Other current receivables relate to:

EUR thousands	2006	2005
Value-added tax and income tax	787	440
Credit balances with suppliers	202	407
Claims on insurance companies	128	143
Advances for travel expenses and personnel	130	100
Carrying amounts of hedged items and fair value of derivative financial instruments	331	560
Other prepaid expenses and other current claims	533	336
Total	2,111	1,986

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

	Hedge volume				Market value	
					Positive value	Negative value
	JPY million	USD million	EUR million	Longest maturity	EUR thousands	EUR thousands
Forward exchange transactions	341	7.5	2.2 5.7	08/31/07 08/20/07	0 18	22 27
Spread options (zero cost options)	650	5.5	4.1 4.2	12/27/07 10/22/07	0 2	214 27
Call options	525	4.5	3.4 3.4	12/22/07 12/27/07	0 0	16 5
Subtotal JPY	1,516		9.7		0	252
Subtotal USD		17.5	13.3		20	59
Total			23.0		20	311

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 hedged items. The management report contains a detailed description of the risk management system.

The negative value of the forward exchange transactions is included in other liabilities. The hedging transactions are presented pursuant to IAS 32 and IAS 39.

EUR 20 thousand (2005: EUR 99 thousand) of the reported assets from foreign currency hedges refers to the positive market values of the forward exchange transactions, spread and call options and EUR 311 thousand (2005: EUR 461 thousand) refers to the valuation effects on the hedged items.

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 6,455 thousand (2005: EUR 15,341 thousand).

Assets, Provisions, and Liabilities of the Discontinued Division Loewe USA (20)

As of the reporting date December 31, 2006, the following items apply to the discontinued division:

EUR thousands	2006	2005
Current assets		
Other non-current receivables	20	28
Other current receivables (advance payments for services)	23	51
Cash and cash equivalents	4	13
Assets of the discontinued division	47	92

EUR thousands	2006	2005
Provisions and liabilities		
Other non-current provisions		
– Cost of warranties	90	258
Other current provisions		
– Cost of warranties	247	480
– Miscellaneous other	37	89
Provisions and liabilities of the discontinued division	374	827

Shareholders' Equity (21)

As of the balance sheet date, the Company's share capital of EUR 13,009,229 has not changed from the previous year and is divided into 13,009,229 no-par value bearer shares.

Additional conditional capital of 398,400 shares exists for the implementation of a stock option plan. In accordance with the resolution of the Shareholders' Meeting, the conditional capital increase was used to grant pre-emptive rights to the members of the Executive Board, authorized signatories and executives of the Company as well as managing directors, authorized signatories and executives of affiliated companies. The option program expired on July 1, 2005. The option rights were forfeited without the Company being obligated to provide any form of compensation.

By resolution of the Shareholders' Meeting on June 2, 2005, new authorized capital was created in the amount of EUR 5,200,000. This resolution authorized the Executive Board, with the consent of the Supervisory Board, to increase the Company's share capital by up to a total of EUR 5,200,000 through the issue of up to 5,200,000 no-par value bearer shares in exchange for contributions in kind or cash contributions on one or more occasions until no later than June 1, 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 more 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 not recorded in the Commercial Register as a suit was brought before the Regional Court (Landgericht) of Coburg by one shareholder with the petition to declare the resolution partially null and void. In a decision dated June 21, 2006, the Regional Court Coburg held that the above resolution passed in the Shareholders' Meeting on June 2, 2005 (authorization to issue convertible bonds and/or bonds with warrants and the creation of conditional capital in addition to an amendment to the Company's Articles of Incorporation) is null and void. The reasons the court gave for the nullity of the resolution concerning the conditional capital increase were that no specific issue amount or the basis according to which this amount may be calculated can be inferred from the resolution. Pursuant to Section 248a of the German Stock Corporation Act in conjunction with Section 149 (2) of the German Stock Corporation Act, the decision was announced in the Federal Gazette on June 29, 2006 and published on July 4, 2006.

This matter will not be pursued further as the resolution is of an anticipatory character.

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 for the years 2005 and 2006 are shown in the following table:

	Number of shares	Subscribed capital	Capital reserve	Group equity generated	Equity attributable to equity holders of the parent	Minority interests	Shareholders' 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	13,009,229	13,009	46,991	- 2,095	57,905	1,310	59,215
Subsequent costs of the capital increase 2005			- 5		- 5		- 5
Net income 2006				6,540	6,540	343	6,883
Balance as of December 31, 2006	13,009,229	13,009	46,986	4,445	64,440	1,653	66,093

The net income for 2006 will be carried forward to new account.

The reporting of a separate legal reserve in accordance with Section 150 (1) and (2) of the German 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.S. (25%). This item changed as follows:

EUR thousands	2006	2005
Balance at the beginning of the period	1,310	997
Additions	343	313
Balance at the end of the period	1,653	1,310
thereof:		
Loewe Opta GmbH	272	272
Loewe Opta Benelux N.V./S.A.	641	500
Loewe France S.A.S.	740	538
	1,653	1,310

Provisions for Pensions and Similar Obligations (23)

Pension provisions relate to individual and collective commitments to pay pensions to employees. The earned pension claims are basically salary-dependent (predominantly with a stipulated upper limit) and are based on the duration of employment of entitled 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.

%	2006	2005
Discount rate	4.5	4.5
Anticipated annual increases in wages and salaries	2.0	2.0
Anticipated annual increases in pensions	1.5	1.5

The present value of the pension obligations of the Loewe Group was recognized as a provision in the amount of EUR 37,906 thousand (2005: EUR 36,799 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.

The changes in pension provisions were as follows:

EUR thousands

Balance as of January 1, 2006		36,799
a) Changes not recognized in income		
Pension payments in 2006	– 2,071	
Additions for employee-financed pension commitments	116	– 1,955
		34,844
b) Changes recognized in income		
Reported under interest expenses		
– Interest expense for own commitments		1,586
Reported under manufacturing, selling and administrative costs		
– Current service cost	414	
– Actuarial losses	1,062	1,476
Balance as of December 31, 2006		37,906

Actuarial gains and losses are recognized in income when incurred.

The following is anticipated for 2007:

EUR thousands

Pension payments	2,392
Interest expense for own commitments	1,629
Current service cost	424

Other Provisions (non-current) (24)

Other non-current provisions comprise the following:

EUR thousands	2006	2005
Cost of warranties	3,726	2,804
Personnel expenses	4,136	8,220
License fees	4,985	3,134
Miscellaneous provisions	205	870
Total other non-current provisions	13,052	15,028

License fee provisions are set aside for risks resulting from possible infringements of industrial property rights and the probable payment of license fees.

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 result from the taxable income of Loewe AG and of the foreign subsidiaries. The not yet complete tax audit for the years 1996 to 2000 in Germany contains an additional item in dispute including interest on arrears resulting therefrom in the amount of EUR 1,800 thousand (2005: EUR 1,700 thousand).

Other Provisions (Current) (27)

Other provisions comprise the following:

EUR thousands	2006	2005
Annual sales compensation	23,513	18,589
Cost of warranties	5,881	5,652
Personnel costs	8,473	3,716
License fees	0	472
Inspection campaign (100 Hz CRT sets)	2,650	0
Miscellaneous provisions	5,059	5,809
Total other current provisions	45,576	34,238

Provisions for annual sales compensation were determined based on the agreements covering bonuses and other compensation. They apply largely to Germany. Provisions for warranties are calculated based on anticipated warranty costs in the future, allowing for a general warranty period of three years. However, only expenses expected to be incurred in 2007 were recognized. Provisions for personnel costs essentially comprise holiday pay, variable remuneration and the agreed special payment in connection with the wage and salary concessions in 2004.

The miscellaneous 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 2006:

EUR thousands	Balance Jan. 1, 2006	Additions	Utilization	Releases	Balance Dec. 31, 2006	thereof: non- current	thereof: current
Annual sales compensation	18,589	23,420	17,832	664	23,513	0	23,513
Cost of warranties	8,456	7,051	5,317	583	9,607	3,726	5,881
Personnel costs	11,936	5,835	5,106	56	12,609	4,136	8,473
License fees	3,606	2,318	470	469	4,985	4,985	0
Miscellaneous provisions	6,679	7,277	3,709	2,333	7,914	205	7,709
Total other provisions	49,266	45,901	32,434	4,105	58,628	13,052	45,576

Financial Liabilities (Current) (28)

Solely the interim financing of collections of receivables of a foreign company in the Group were reported as financial liabilities.

The agreed syndicated loan facility for working capital loans of EUR 19.25 million has been committed until April 30, 2007. Loewe secured these credit lines with significant collateral.

The loans granted may be utilized either by Loewe Opta GmbH or Loewe AG.

The factoring agreement with Fortis Commercial Finance may be utilized for up to EUR 35.0 million and runs until June 30, 2010.

Furthermore, independent lines of credit totaling EUR 7.1 million were granted to foreign companies in the Group by their banks.

Financial liabilities

Financial liabilities are reported at their payable amounts. The table below shows the significant financial liabilities as of the balance sheet date.

EUR thousands	Total 2006	Residual maturity less than 1 year	Residual maturity more than 1 year
Advances on current accounts	4,844	4,844	0
Long-term loans	5,157	938	4,219
Total	10,001	5,782	4,219

The advances on current accounts are reported by one subsidiary. The long-term loans from banks relate to a loan from a German bank.

The existing long-term loans and advances on current accounts are at market interest rates.

Trade Accounts Payable (29)

The trade accounts payable result primarily from deliveries of materials, services and deliveries of merchandise.

Other Liabilities (Current) (30)

Other current liabilities are due in less than one year and can be broken down as follows:

EUR thousands	2006	2005
Taxes and social security charges due	2,415	2,634
Customer credit balances	2,238	1,937
License fee liabilities	1,210	835
Hedging derivatives	331	447
Liabilities to personnel	159	146
Sundry liabilities	471	229
	6,824	6,228

Contingent liabilities

Contingencies and Other Financial Obligations

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

EUR thousands	2006	2005
Total liabilities from tenancy and servicing agreements and leases		
– due in 2007	2,489	
(previous year 2006)		2,508
– due between 2008 and 2011	2,772	
(previous year between 2007 and 2010)		2,276
– due after 2011	996	
(previous after 2010)		0

The Loewe Group has entered into various operating lease agreements for production facilities and motor vehicles. The terms range between two and three years. Most of the leases provide no renewal option.

Outstanding contributions for affiliated companies pursuant to Section 24 of the German Private Limited Companies Act amount to EUR 31 thousand (2005: EUR 31 thousand).

Other Disclosures

Staff and Personnel Costs

The average number of employees breaks down as follows:

Employees	2006	2005
Home Media Systems division		
Industrial workers	403	387
Salaried employees	492	482
Employees as defined by Section 285 (7) of the HGB	895	869
Trainees	70	76
Total employees	965	945

The **discontinued division** no longer had any employees in either year.

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

EUR thousands	2006	2005
Wages and salaries	41,309	39,470
Social security contributions	8,133	7,602
Expenses for pensions and other employee benefits	1,867	391
Total	51,309	47,463

Information Pursuant to Section 160 (1) no. 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 Section 25 (1) of the German Securities Trading Act

In accordance with Section 21 (1) of the 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 Section 22 (1) sentence 1 no. 1 of the 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. 213 of November 4, 2005:

“Notification pursuant to Section 25 (1) of the German Securities Trading Act

In accordance with Section 21 (1) of the 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 Section 22 (1) no. 1 of the German Securities Trading Act.”

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

“Publication pursuant to Section 25 (1) of the German Securities Trading Act

The Company has received a voluntary notification pursuant to Section 21 of the 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 Section 22 (1) no. 1 of the German Securities Trading Act.”

Information Pursuant to Section 161 of the German Stock Corporation Act

Joint declaration by the Executive Board and Supervisory Board of Loewe AG pursuant to Section 161 of the 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 Section 161 of the German Stock Corporation Act regarding the recommendations of the “Government Commission of the German Corporate Governance Code”:

1. Loewe AG will fully comply with the recommendations of the German Corporate Governance Code as amended on June 12, 2006.
2. Loewe AG has complied with the recommendations of the German Corporate Governance Code as amended on June 2, 2005 since its last declaration of conformity of December 7, 2005, except for the recommendation set forth in sub-Section 4.2.4 sentence 2 (publication of individual Executive Board members’ remuneration).

This declaration of conformity has been continuously accessible to the shareholders on the Internet (www.loewe.de) since December 1, 2006.

Loewe also publishes the notifications concerning directors’ dealings pursuant to Section 15a of the German Securities Trading Act) as well as the annual document pursuant to Section 10 of the German Securities Prospectus Act on the Internet (www.loewe.de).

Segment reporting

The Group is active only in one continuing division. Due to the decision taken in 2004 to cease marketing for the geographic territory of the U.S., these discontinued activities are reported separately as a discontinued division in accordance with IFRS 5.

Following the discontinuation of the U.S. business, the continuing Home Media Systems division is almost exclusively organized in the eurozone with the subgroups Loewe Opta Benelux N.V./S.A., Loewe AG, Loewe Opta GmbH, Loewe France S.A.S., 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. This division is the only segment in terms of industries.

As there is only a single segment by industry and a single segment by region, we have refrained from presenting a detailed segment report. For information on the mandatory disclosures for the single business segment, please refer to the relevant sections of the consolidated financial statements and notes.

Statement of Income by Division

The results by division are shown below:

EUR thousands	Continuing division January – December		Discontinued division January – December		Total January – December	
	2006	2005	2006	2005	2006	2005
Sales	341,934	319,091	0	0	341,934	319,091
Cost of sales	– 262,446	– 254,378	0	0	– 262,446	– 254,378
Gross margin	79,488	64,713	0	0	79,488	64,713
Selling expenses	– 56,540	– 53,020	0	0	– 56,540	– 53,020
General administrative expenses	– 8,852	– 7,235	0	0	– 8,852	– 7,235
Other operating income	13,920	10,269	31	182	13,951	10,451
Other operating expenses	– 14,884	– 12,688	– 31	– 182	– 14,915	– 12,870
Income from investments	98	110	0	0	98	110
EBIT	13,230	2,149	0	0	13,230	2,149
Interest and similar income	203	116	0	0	203	116
Interest and similar expenses	– 2,911	– 4,113	0	0	– 2,911	– 4,113
Profit from ordinary activities (EBT)	10,522	– 1,848	0	0	10,522	– 1,848
Income taxes	– 3,639	265	0	0	– 3,639	265
Net income/loss before minority interests	6,883	– 1,583	0	0	6,883	– 1,583
Minority interests	– 343	– 313	0	0	– 343	– 313
Net income/loss	6,540	– 1,896	0	0	6,540	– 1,896
Loss carried forward	– 2,095	– 199	0	0	– 2,095	– 199
Distributable profit/accumulated loss	4,445	– 2,095	0	0	4,445	– 2,095

Cash Flow Statement

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	
	2006	2005	2006	2005	2006	2005
Operating activities						
EBIT	13,230	2,149	0	0	13,230	2,149
plus/minus						
Interest paid	- 2,708	- 3,997	0	0	- 2,708	- 3,997
Depreciation and amortization of non-current assets	17,604	21,378	0	0	17,604	21,378
Book profits (-)/book losses (+) on disposals of non-current assets	- 31	- 83	0	0	- 31	- 83
Decrease (-)/Increase (+) of non-current provisions	- 1,976	3,462	- 168	0	- 2,144	3,462
Increase (+) in pension provisions	1,107	567	0	0	1,107	567
Income taxes paid	- 2,359	- 3,865	0	0	- 2,359	- 3,865
Cash flow before changes in net current assets	24,867	19,611	- 168	0	24,699	19,611
Decrease (+)/increase (-) in inventories	- 20,487	- 3,047	0	0	- 20,487	- 3,047
Decrease (+)/increase (-) in trade accounts receivable and other assets	9,379	- 8,277	36	- 78	9,415	- 8,355
Decrease (-)/increase (+) in other current provisions	11,337	2,405	- 284	- 165	11,053	2,240
Decrease (-)/increase (+) in trade accounts payable and other liabilities	- 10,495	22,989	0	- 46	- 10,495	22,943
Change in net current assets	- 10,266	14,070	- 248	- 289	- 10,514	13,781
Net cash from operating activities	14,601	33,681	- 416	- 289	14,185	33,392
Investing activities						
Payments for purchases of intangible assets and property, plant, and equipment	- 18,472	- 11,834	0	0	- 18,472	- 11,834
Payments for purchases of financial assets	- 28	- 38	0	0	- 28	- 38
Proceeds from disposals of intangible assets and property, plant, and equipment	73	173	0	0	73	173
Net cash from investing activities	- 18,427	- 11,699	0	0	- 18,427	- 11,699
Free cash flow	- 3,826	21,982	- 416	- 289	- 4,242	21,693
Financing activities						
Capital increase	- 5	40,406	0	0	- 5	40,406
Repayment (-) of loans	- 5,325	- 193	0	0	- 5,325	- 193
Internal financing	- 405	- 291	405	291	0	0
Net cash from financing activities	- 5,735	39,922	405	291	- 5,330	40,213
Cash-effective change in liquidity	- 9,561	61,904	- 11	2	- 9,572	61,906

Composition of liquidity	Dec. 31, 06	Dec. 31, 05	±
Cash and cash equivalents	6,459	15,354	- 8,895
Short-term bank loans	- 4,844	- 1,395	- 3,449
Use of factoring	- 49	- 2,821	2,772
Liquidity	1,566	11,138	- 9,572

Since the possibility of financing through factoring can change the cash and cash equivalents as of the closing date, the use of financing through factoring is assigned to the cash and cash equivalents. This provides more reliable and more relevant information concerning the Group's cash flows.

Supervisory Board

The following are members of the Supervisory Board:

Chairman

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

Deputy Chairman

- **Prof. 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 Prof. Dr. Eberhard Scheffler, Prof. Dr. Mark Wössner and Mr. Helmut Ricke.

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

The other offices held by members of the Supervisory Board are shown on page 85; those held by members of the Executive Board are shown on page 86. Information concerning the shares held by the Company's corporate boards is shown on page 86.

The remuneration of the Supervisory Board for 2006 comes to a total of EUR 116,500 (2005: EUR 112,500). It is made up of fixed remuneration of EUR 112,500 and performance-linked payments of EUR 4,000 (2005: EUR 0). Every member of the Supervisory Board receives a fixed amount of EUR 15,000 and additionally a variable remuneration of EUR 533 for 2006. The chairman receives double that amount and the deputy chairman receives one and one-half times the amount of the aforementioned individual amounts.

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
until September 30, 2006
- **Gerhard Schaas**
Engineer, Rödental
- **Oliver Seidl**
Graduate in business administration, Bad Boll
from October 1, 2006

Remuneration of the Company's Executive Board members is broken down as follows:

EUR	Total remuneration for 2006	thereof:		Additional remuneration through allocation to provisions for pensions
		fixed monthly remuneration for 2006	variable remuneration for 2006	
Dr. Rainer Hecker	621.320	291.320	330.000	291.963
(2005)	(325.523)	(280.523)	(45.000)	(170.328)
Gerhard Schaas	457.627	237.627	220.000	144.420
(2005)	(257.075)	(227.075)	(30.000)	(96.145)
Dr. Burkhard Bamberger	330.540	165.540	165.000	- 67.489*
(2005)	(248.792)	(218.792)	(30.000)	(55.586)
Oliver Seidl	114.311	59.311	55.000	13.588
(2005)	(-)	(-)	(-)	(-)
Total	1.523.798	753.798	770.000	382.482
(2005)	(831.390)	(726.390)	(105.000)	(322.059)

* Released as the provision was no longer being required under actuarial principles.

The provision for the active Executive Board members comes to EUR 1,905 thousand (2005: EUR 1,574 thousand). The entitlement arising from the pension commitment is based on the general principles of company pension commitments.

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 (2005: EUR 77 thousand) were paid as pensions to former members of the Executive Board in the year under review. Provisions set aside for pensions for former members of the Executive Board come to EUR 1,059 thousand (previous year: EUR 969 thousand).

Other offices held by members of the Supervisory Board of Loewe AG:

■ **Prof. Dr. Eberhard Scheffler**

Loewe Opta GmbH, Kronach
(Chairman of the Supervisory Board)

■ **Prof. Dr. Mark Wössner**

Citigroup Global Markets Deutschland AG & Co. KGaA, Frankfurt/Main and Munich
(Member of the Advisory Council and Chairman)
DaimlerChrysler AG, Stuttgart
(Member of the Supervisory Board)
Douglas Holding AG, Hagen
(Member of the Supervisory Board)
eCircle AG, Munich
(Chairman of the Supervisory Board)
Heidelberger Druckmaschinen AG, Heidelberg
(Chairman of the Supervisory Board)
Reuters Founders Share Company Ltd., London, UK
(Member of the Board of Trustees)

■ **Dr. Gerhard Heinrich**

Prevent AG, Hamburg
(Chairman 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)
AP-Stiftung gGmbH, Speyer
(Member of the Advisory Board)
Metallgesellschaft AG, Elsteraue
(Chairman of the Supervisory 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 Administrative Council)

■ **Gerhard Schaas**

IGR Interessengemeinschaft für Rundfunkschutzrechte GmbH, Düsseldorf
(Chairman of the Supervisory Board)
IGR Interessengemeinschaft für Rundfunkschutzrechte e.V., Düsseldorf
(Chairman of the Administrative Board)

Shares held by the Executive Board and Supervisory Board on December 31, 2006:

As of December 31, 2006, the Executive Board held 622,718 (previous year: 632,061) shares in Loewe AG.

Kronach, February 23, 2007

The Executive Board



Dr. Rainer Hecker



Gerhard Schaas



Oliver Seidl

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, 2006. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS), as applicable in the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB) is the responsibility of the Company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit. In addition, we were commissioned to express an opinion as to whether the consolidated financial statements are consistent with IFRSs.

We conducted our audit in accordance with Section 317 of the German Commercial Code and 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 in such a way that we can detect with reasonable assurance any misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test bases within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply with the IFRSs as applicable in the EU, the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Mönchengladbach, February 23, 2007

Abstoß & Wolters OHG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Quacken
Auditor

Cramer
Auditor

Financial Calendar

Publication of the 2006 Financial Statements of the Loewe Group

Tuesday, March 27, 9:30 a.m., Munich

DVFA Analysts' Conference

Tuesday, March 27, 2007, 4 p.m., Frankfurt/Main

Publication of the Q1 Report

(January 1 – March 31, 2007)

Conference call on Wednesday, May 9, 2007, 10:00 a.m.

Eighth Annual Shareholders' Meeting of Loewe AG

Friday, May 25, 2007, 11:00 a.m., Munich, ArabellaSheraton Grand Hotel

Publication of the Q2 Report

(January 1 – June 30, 2007)

Conference call on Wednesday, August 8, 2007, 10:00 a.m.

Publication of the Q3 Report

(January 1 – September 30, 2007)

Conference call on Wednesday, November 7, 2007, 10:00 a.m.

Publication of the Key Figures for the 2007 financial year

Conference call on Monday, January 28, 2008, 10:00 a.m.

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

Indices: 
Classic All share®
Prime All share
CDAX®

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

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