



## REPORT ON THE FIRST HALF OF FISCAL YEAR 2002

- SALES UP BY 8% DESPITE WEAK TV MARKET
- DISPROPORTIONATELY HIGH GROWTH OF EBIT AND EPS
- DIFFICULT MARKET ENVIRONMENT IN EUROPE

**LOEWE.**



## Dear shareholders

The Loewe Group showed further profitable growth in the first six months of 2002. Sales are up by 8% to EUR 175 million. Compared to 2001, earnings before interest and taxes (EBIT) improved 13% in the second quarter of 2002 and 12% in the first half of 2002. The cause for this is the expansion of business volume with an again slightly improved product mix and declining wholesale prices for production materials. On a comparable basis, earnings per share were up 11% to EUR 1.13 in the first half of 2002.

The economic environment in Germany and Europe did not improve in the second quarter of 2002. Loewe continued to counter this trend by delivering more televisions to retail outlets. At 55% in the second quarter and 54% in the first half of 2002, the foreign share of sales clearly surpassed the 50% hurdle.

In May and June 2002, the Gesellschaft für Konsumforschung (GfK) conducted a survey on dealer satisfaction among German electrical retailers. The German retailers continued to rank Loewe as Number One. Of the 48 criteria in all (such as company image / product policy / workmanship / technical service / product mix / delivery service / after sales service), Loewe was the absolute winner. We regard this rating as a stimulus to continue to work with our retail partners to improve Loewe's position in the interest of our customers.

Events designed to launch the complete Systems line were held on June 20, 2002 in the Loewe Galleries in Berlin, Hamburg, Munich and Stuttgart. The new product lines were introduced to more than 2,000 invited guests. The unique characteristic of Systems is the perfect systems integration and the associated large number of functions with a simple user interface. The performance spectrum of the televisions with the MediaPlus concept represents the highest standard of current TV technology and it also makes it possible to integrate digital TV and Internet television. The intelligence and outstanding sound quality of its integrated Concertos speaker system contribute to the appeal of the Certos home audio system. Presentations of the complete Systems line will take place at more than 100 dealers in Germany and abroad in the coming weeks.

In early July 2002, Loewe AG acquired all of the shares of its French sales partner, Sorep Import S.A., Strasbourg. Subsequently, the previous and future management in France obtained a stake in the company. The commitment in France is an important milestone in Loewe's internationalization strategy. Up to now, Loewe has been working with 270 retail partners in France. Under the direct responsibility of Loewe, this number is to be increased to more than 400 in the coming years. This will make it possible to develop a highly promising potential market for the Loewe product line of high-end televisions, DVD players, stereo and home cinema systems with perfect harmony of technology and design.

For all of 2002, the Loewe Executive Board anticipates a further increase of the key performance indicators in relation to 2001. The expected upturn in consumer demand and the expansion of the Loewe product line in the second half of 2002 will contribute to this. For that reason, we assume that we will achieve our medium-range growth targets of 8% in sales, 10% in EBIT and more than 10% in earnings per share in 2002, given that these targets are ambitious in this market situation.

Kronach, August 2002

Dr. Rainer Hecker, Chairman of the Executive Board of Loewe AG



## THE LOEWE GROUP AT A GLANCE<sup>\*)</sup>

| in EUR million                                       | 2nd Quarter<br>2002 | 2nd Quarter<br>2001 | Change<br>in % | 1st Half<br>2002 | 1st Half<br>2001 | Change<br>in % |
|--|---------------------|---------------------|----------------|------------------|------------------|----------------|
| <b>Sales</b>   | <b>79.3</b>         | <b>73.2</b>         | <b>+ 8</b>     | <b>175.3</b>     | <b>162.5</b>     | <b>+ 8</b>     |
| Germany  | 35.4                | 34.0                | + 4            | 80.0             | 77.7             | + 3            |
| Foreign  | 43.9                | 39.2                | + 12           | 95.3             | 84.8             | + 12           |
| <b>Earnings before interest<br/>and taxes (EBIT)</b> | <b>7.0</b>          | <b>6.2</b>          | <b>+ 13</b>    | <b>14.5</b>      | <b>13.0</b>      | <b>+ 12</b>    |
| <b>Net income<br/>after minority interests</b>       | <b>3.9</b>          | <b>3.4</b>          | <b>+ 15</b>    | <b>8.1</b>       | <b>7.2</b>       | <b>+ 13</b>    |
| <b>Earnings per share<br/>in EUR<sup>**)</sup></b>   | <b>0.54</b>         | <b>0.49</b>         | <b>+ 10</b>    | <b>1.13</b>      | <b>1.02</b>      | <b>+ 11</b>    |
| <b>Further key figures</b>                           |                     |                     |                |                  |                  |                |
| Cash flow provided by<br>operating activities        | - 0.5               | 4.4                 | ~              | 18.6             | 14.3             | + 30           |
| Capital expenditure                                  | 6.3                 | 3.9                 | + 62           | 10.3             | 9.5              | + 8            |
| Depreciation and amortization                        | 4.5                 | 4.7                 | - 4            | 9.1              | 9.5              | - 4            |
| Development costs                                    | 3.0                 | 2.8                 | + 7            | 6.1              | 5.4              | + 13           |
| <b>Number of employees</b>                           | <b>1,224</b>        | <b>1,147</b>        | <b>+ 7</b>     | <b>1,221</b>     | <b>1,134</b>     | <b>+ 8</b>     |

<sup>\*)</sup> Following the resolution passed in December 2001 concerning the closing of the Telecommunications division, only the figures for the Home Media System to be continued are reported. The previous year's figures were adjusted accordingly.

All consolidated financial statements are in accordance with IAS and were compiled using the same accounting and valuation methods.

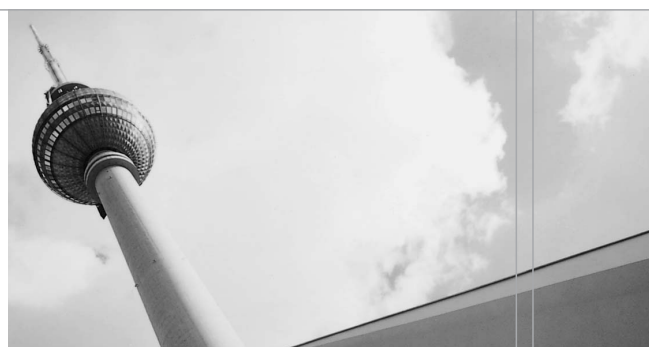
<sup>\*\*)</sup> Net income in relation to the number of shares outstanding totaling 7,158,200 shares (previous year: 7,075,000 shares).

### SALES GROW BY 8% TO EUR 175 MILLION DESPITE DIFFICULT ENVIRONMENT

The economic environment in Germany and Europe has not improved. Nonetheless, Loewe's second quarter sales in the Home Media Systems division to be continued were up 8% over the comparable period of the previous year. Sales in the first half of

2002 were also up by 8%. The Company thus achieved its mid-range growth target despite the continuing difficult overall conditions.

Despite an uneven development, the foreign business also grew at a disproportionately high rate of 12% in the second quarter as well as in the first half of 2002. In Germany, the Company was able to achieve



sales growth of 4% in the second quarter and 3% in the first half of 2002 despite the slightly weaker market for televisions.

#### **CONTINUED DISPROPORTIONATELY HIGH EARNINGS GROWTH IN THE FIRST HALF**

The 13% increase in the second quarter of 2002 and the 12% increase in the first half of 2002 in earnings before interest and taxes (EBIT) in the Home Media Systems division to be continued in relation to the comparable period of the previous year is a result of the expansion of business volume and again a slightly improved product mix with largely stable prices. Moreover, the purchase prices for production materials were down. In the first half of 2002, the EBIT margin was up by 0.3 percentage points to 8.3% in relation to the comparable period of the previous year.

As expected, the earnings of the division to be discontinued were in line with planning. The sale of the inventories and the disposal of the assets have been mostly completed. The value adjustments and provisions formed in the previous year for the discontinuance of the Telecommunications division were also adequate for the closing of the division adopted in April 2002.

As a consequence of the improved EBIT and lower net interest expenses, the net income after minority interests of the division to be continued rose by 13% to EUR 8.1 million in the first half of 2002. On the other hand, the consolidated net income after minority interests was up 17% after no longer being weighed down by losses of the Telecommunications division. In the first half of 2002, the undiluted earnings per share of the division to be continued rose by 11% to EUR 1.13.

Under the employee stock option program started in 1999, which involved a total of 500,000 stock options to be exercised from the conditional capital, 416,800 options can still be exercised by 2005. Including these options, the fully diluted earnings of the division to be continued came to EUR 1.07 per share.

## **BUSINESS DEVELOPMENT IN THE FIRST HALF OF 2002**

### **1. SALES UP PREDOMINANTLY IN EXPORTS**

| <b>Sales</b><br>in EUR million                     | <b>2nd Quarter</b><br><b>2002</b> | <b>2nd Quarter</b><br><b>2001</b> | <b>Change</b><br><b>in %</b> | <b>1st Half</b><br><b>2002</b> | <b>1st Half</b><br><b>2001</b> | <b>Change</b><br><b>in %</b> |
|--|-----------------------------------|-----------------------------------|------------------------------|--------------------------------|--------------------------------|------------------------------|
| <b>Home Media Systems</b>                          |                                   |                                   |                              |                                |                                |                              |
| Televisions and multimedia                         | 67.5                              | 62.0                              | + 9                          | 147.7                          | 136.9                          | + 8                          |
| DVDs, video recorders, stereo systems, accessories | 11.8                              | 11.2                              | + 5                          | 27.6                           | 25.6                           | + 8                          |
| <b>Total</b>                                       | <b>79.3</b>                       | <b>73.2</b>                       | <b>+ 8</b>                   | <b>175.3</b>                   | <b>162.5</b>                   | <b>+ 8</b>                   |



Convincing video technology and surround sound audio: the Spheros S with MediaPlus technology

#### TELEVISION/MULTIMEDIA PRODUCT AREA

After a slight decline in the European market for televisions (measured against sales to end consumers) in February/March 2002 in relation to the comparable period of the previous year, the market grew by 1%<sup>1</sup> in the overall period of February to May 2002 stimulated by the World Soccer Championship. The development in Germany showed a similar trend. After a 9% market decline in February/March 2002, the market grew by 9% in April/May so that it was only necessary to post a 1% decline for the period February to May 2002.<sup>1</sup> The market was also down in export countries of importance to Loewe. The sales volume was down by 6%<sup>1</sup> in Italy and by 2%<sup>1</sup> in Switzerland. On the other hand, clearly positive developments were evident in Spain (+7%)<sup>1</sup> and the United Kingdom (+6%)<sup>1</sup>.

The 9% increase in sales of televisions generated by Loewe in the second quarter and 8% in the first half of 2002 in relation to the comparable period of the previous year is noticeably higher than the growth of the market. Due to the market weakness, it must however be assumed that this partially resulted in an increase in inventories held by German retail partners and foreign distributors.

In the Western European markets, the Loewe market share declined by 0.3 percentage points to 6.7%<sup>2</sup> in relation to the comparable period of the previous year because out of profitability considerations, the Company did not follow price reductions by the competition and thus not all sales potentials were fully realized. Despite clearly reduced average prices in the market, Loewe did not reduce prices. The dampening effect on sales growth that resulted from this was accepted in favor of better earnings.

While the Loewe market share in Germany grew by 1 percentage point to 14%<sup>2</sup> in relation to the comparable period of the previous year and slight gains were also posted in France and the United Kingdom, our market share in Switzerland in particular and in Italy dropped by more than one percentage point. In these markets, the trend toward completely flat picture tube sets is further along than in Germany, for instance. This has increased the competitive pressure on one part of the Loewe product line.

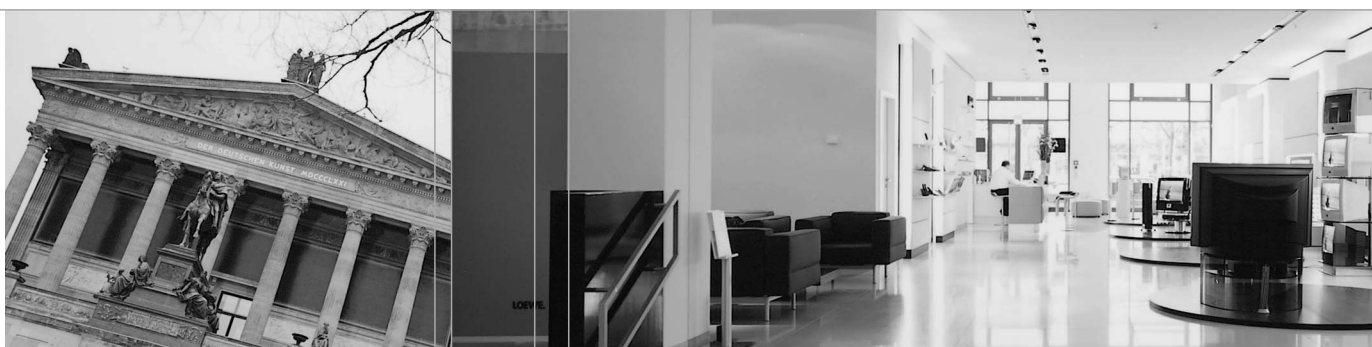
#### DVDS, VIDEO RECORDERS, STEREO SYSTEMS AND ACCESSORIES PRODUCT AREAS

Sales in these product areas grew by 8% in the first half. As expected, sales of video recorders were slow due to the substitution effects of DVD players. Sales of DVD players could not offset the sales decline in video recorders since Loewe did not follow a 30% decline in average market prices out of profitability considerations.

The significant sales growth in stereo systems is attributable to the introduction of the new Concertos sound system. The technology and design of this subwoofer satellite system developed in collaboration with Bose are matched to the new Systems product family. The similarly considerable sales growth in accessories is primarily due to high-end racks for the Systems line.

<sup>1</sup> Source GfK: Market growth by value in Europe in the period February to May 2002

<sup>2</sup> Source GfK: Retail market share by value in the period February to May 2002



### FOREIGN SHARE OF SALES CLIMBS TO MORE THAN 54%

In line with the Company's strategic goals, Loewe continued to expand its foreign sales, posting a 12% gain in the second quarter of 2002 and in the first half of 2002. At 55% in the second quarter and 54% in the first half, the foreign share of sales clearly surpassed the 50% hurdle. The newly organized subsidiary in the U.S. made a significant contribution to this outcome although the noticeable increase in U.S. sales is attributable to the exceptionally low sales level in the first half of the previous year.

only able to generate a sales volume in the first half, which is 5% below the comparable prior year value.

Sales in the Telecommunications division to be discontinued were EUR 7.9 million in the first half of 2002 after EUR 8.6 million in the comparable period of the previous year. They are not included in the sales figures of the Home Media Systems division to be continued.

### 2. EARNINGS CONTINUE TO GROW AT A DISPROPORTIONATELY HIGH RATE

| EBIT<br>in EUR million  | 2nd Quarter<br>2002 | 2nd Quarter<br>2001 | Change<br>in % | 1st Half<br>2002 | 1st Half<br>2001 | Change<br>in % |
|-------------------------|---------------------|---------------------|----------------|------------------|------------------|----------------|
| Home Media Systems      | 7.0                 | 6.2                 | + 13           | 14.5             | 13.0             | + 12           |
| <b>EBIT margin in %</b> | <b>8.8</b>          | <b>8.5</b>          |                | <b>8.3</b>       | <b>8.0</b>       |                |

There was also a large upsurge in growth in Australia due to the introduction of the Aconda 102 in the second quarter. The concentration on high-end and large-format sets and the positive market development in some countries also made it possible to achieve clear sales growth in Spain, the United Kingdom, Russia and France.

In the other Western European countries, the purchasing behavior of the distributors was, however, characterized by the uncertain market situation prevalent in those markets. For this reason, with our Italian distribution partner, for example, we were

The 12% increase in earnings before interest and taxes to EUR 14.5 million in the first half of 2002 was primarily due to a higher gross margin, which rose by 0.8 percentage points to 28.9% of sales. Very stable sales prices, a slightly improved product mix and reduced prices for production materials offset the increased cost of labor and other materials. In addition, the takeover of sales activities in the U.S. by our own subsidiary Loewe Opta, Inc. resulted in higher average profits due to the elimination of the margin of the previous distributor. However, the higher profits were partially eaten up by the low price level of the U.S. dollar.



The Loewe Channel turns online applications into child's play

The disproportionately high increase in sales and marketing expenses of EUR 4.4 million or 1.2 percentage points to 18.4 % of sales in the first half of 2002 in relation to the comparable prior year period was primarily related to the costs for the sales organization of Loewe Opta, Inc., USA in the first half of 2002. The costs of the Loewe sales organization in the U.S., which have still not been completely covered, adversely affected EBIT in the first half of 2002 in the amount of EUR 0.8 million. On a total year basis we do not expect the negative EBIT contribution of our U.S. subsidiary to exceed EUR 0.5 million in 2002.

General administrative expenses increased at a disproportionately low amount of EUR 0.2 million in relation to the comparable period of the previous year and declined by 0.1 percentage points to 3.0% of sales.

The balance of other operating income and expenses, which was higher by EUR 1.0 million, results in part from no longer needed provisions for remodeling expenses that had been formed in connection with a component change for the startup of a new series of televisions.

Due to the lower commitment of funds in working capital and lower tax payments, the balance of interest expenses and income was slightly lower and as a percentage of sales was unchanged at 0.4%.

### 3. CAPITAL EXPENDITURE SLIGHTLY ABOVE PREVIOUS YEAR

At EUR 10.3 million, the capital expenditure in the first half of 2002 was 8% above that of the comparable prior year period. In addition to development costs subject to mandatory capitalization in accordance with International Accounting Standards (IAS) (EUR 2.8 million), they relate to the first phase in the construction of a warehouse for the production area (EUR 1.1 million). The total volume of this building project is EUR 4 million and it should contribute to an improvement of the logistics processes at Kronach. In addition, investments were made in high-quality presentation systems for the retail trade (EUR 0.8 million), automatic placement machines in production (EUR 0.6 million) and in projects primarily aimed at streamlining production.

At EUR 9.1, depreciation and amortization for the first half of 2002 were somewhat under the level of the previous year due to lower depreciation on tools.

#### Home Media Systems

in EUR million

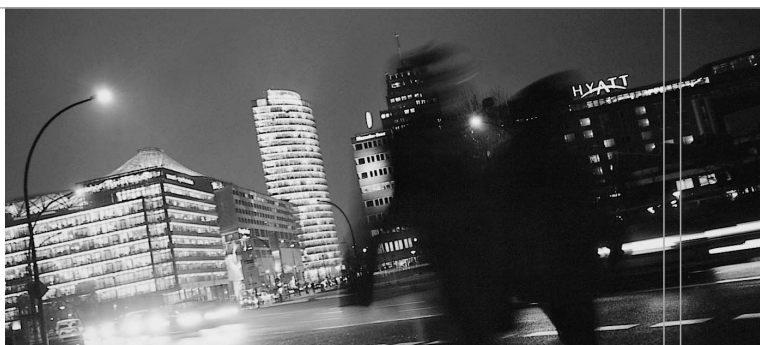
Intangible assets

Property, plant, and equipment

Financial assets

**Total capital expenditure / depreciation, amortization**

|   | Capital expenditure |               | Depreciation and amortization |               |
|---|---------------------|---------------|-------------------------------|---------------|
|   | 1st Half 2002       | 1st Half 2001 | 1st Half 2002                 | 1st Half 2001 |
| Intangible assets   | 3.4                 | 2.8           | 2.9                           | 2.8           |
| Property, plant, and equipment                                | 6.9                 | 6.7           | 6.2                           | 6.7           |
| Financial assets  | –                   | –             | –                             | –             |
| <b>Total capital expenditure / depreciation, amortization</b> | <b>10.3</b>         | <b>9.5</b>    | <b>9.1</b>                    | <b>9.5</b>    |



Seven different upgrade kits can extend the capabilities of the new Systems TV Articos 32 at any time.

#### 4. REDUCTION IN NET FINANCIAL DEBT IN THE FIRST HALF OF 2002

in EUR million

|  | June 30,<br>2002 | December 31,<br>2001 | June 30,<br>2001 |
|--|------------------|----------------------|------------------|
| <b>Fixed assets</b>  | 63.6             | 62.4                 | 58.4             |
| <b>Working Capital</b>   | 46.7             | 47.1                 | 41.8             |
| <b>Assets/liabilities<br/>of the division to be<br/>discontinued</b> | 2.5              | 5.1                  | 8.8              |
| <b>Shareholders' equity</b>  | 77.4             | 75.2                 | 70.4             |
| <b>Minority interests</b>  | 0.9              | 0.8                  | 0.8              |
| <b>Net financial debt</b>  | 34.5             | 38.6                 | 37.8             |

| Working capital,<br>Home Media Systems<br>in EUR million | June 30,<br>2002 | December 31,<br>2001 | June 30,<br>2001 |
|--|------------------|----------------------|------------------|
| <b>Inventories</b>                                       | 57.0             | 45.1                 | 57.4             |
| thereof: raw materials and<br>supplies, unfinished goods | 15.1             | 14.5                 | 20.9             |
| thereof: finished goods<br>and merchandise               | 41.9             | 30.6                 | 36.5             |
| <b>Trade accounts receivable<br/>and other assets</b>    | 64.4             | 90.9                 | 56.2             |
| <b>Other provisions</b>                                  | - 37.8           | - 50.2               | - 39.9           |
| <b>Trade accounts payable<br/>and other liabilities</b>  | - 36.9           | - 38.7               | - 31.9           |
| <b>Working capital</b>                                   | <b>46.7</b>      | <b>47.1</b>          | <b>41.8</b>      |

Compared to December 31, 2001, the balance sheet structure as of June 30, 2002 improved. The continued positive development of sales and earnings and the repatriation of the assets tied up in the division to be discontinued made it possible to reduce the net indebtedness despite the dividend distribution in June.

The increase in inventories compared to December 31, 2001 reflects both the expansion in volume as well as structural changes in the sales organization. In addition to the buildup of the finished goods inventory for the direct supply of retailers in France, the buildup of the finished goods inventory at the newly founded Loewe Opta, Inc., USA also had an effect in the first half of 2002. Moreover, we did not reach our sales targets in the U.S. in particular due to the strong downward pressure on prices, in Russia due to the temporary suspension of tariff preferences and in Switzerland due to the market weakness there.

The sharp reduction in trade accounts receivable and other assets by EUR 26.5 million compared to the balance as of December 31, 2001 is in line with the seasonal trend of sales. The disproportionately high increase compared to June 30, 2001 results primarily from the sales growth realized in June 2002 and the timing of sales.

The decline in other provisions since December 31, 2001 relates primarily to annual bonuses to dealers, which were paid according to plan in the 1st quarter of 2002.



Storage space with elegance: the Articos 32 on Cube 2

The assets tied up in the Telecommunications division to be discontinued, after deduction of liabilities, primarily relate to inventories and trade accounts receivable as well as other provisions. The decrease in relation to yearend 2001 results primarily from the reduction in inventories by EUR 5.9 million to EUR 0.7 million and the reduction in trade accounts payable by EUR 3.1 million to EUR 0.2 million. In the 3rd quarter, the trade accounts receivable reported as of June 30, 2002 in the amount of EUR 4.0 million will be further reduced and the remaining inventories will be sold.

The net income for the first half of 2002 and the dividend for fiscal year 2001 distributed in June 2002 are netted in the EUR 2.1 million increase in shareholders' equity to EUR 77.4 million. In addition, EUR 0.2 million accrued to Loewe AG in May 2002 through the issue of new shares under the still existing options of the first tranche of the stock option program.

## 5. CASH FLOW NOTICEABLY HIGHER THAN IN PRIOR YEAR PERIOD

in EUR million

### Cash flow from

Operating activities of the Home Media Systems division

Investing activities of the Home Media Systems division

### Free cash flow of

#### Home Media Systems division

Free cash flow of

Telecommunications division

Net cash used by financing activities

### Cash-effective change in liquidity

|   | 1st Half<br>2002 | 1st Half<br>2001 |
|---|------------------|------------------|
| Operating activities of the Home Media Systems division | 18.6             | 14.3             |
| Investing activities of the Home Media Systems division | - 10.3           | - 9.4            |
| <b>Free cash flow of Home Media Systems division</b>    | <b>8.3</b>       | <b>4.9</b>       |
| Free cash flow of Telecommunications division           | 2.6              | - 6.5            |
| Net cash used by financing activities                   | - 5.6            | - 5.8            |
| <b>Cash-effective change in liquidity</b>               | <b>5.3</b>       | <b>- 7.4</b>     |

| Shareholders' equity<br>in EUR million | Subscribed<br>capital | Capital<br>reserve | Retained<br>earnings | Profit<br>brought<br>forward | Total<br>shareholders'<br>equity |
|--|-----------------------|--------------------|----------------------|------------------------------|----------------------------------|
| Balance as of 12/31/01                 | 7.1                   | 44.9               | 5.5                  | 17.7                         | 75.2                             |
| Capital increase                       | 0.1                   | 0.1                |                      |                              | 0.2                              |
| Net income<br>1st half 2002            |                       |                    |                      | 8.1                          | 8.1                              |
| Dividend for 2001                      |                       |                    |                      | - 6.1                        | - 6.1                            |
| <b>Balance as of 6/30/02</b>           | <b>7.2</b>            | <b>45.0</b>        | <b>5.5</b>           | <b>19.7</b>                  | <b>77.4</b>                      |



The feeling of cinema at home: With its integrated Dolby Digital upgrade kit the Aconda offers a breathtaking sound experience.



At EUR 18.6 million, the cash flow from operating activities was EUR 4.3 million higher than in the comparable prior year period, which is primarily a consequence of the EUR 3.5 million reduction in tax payments.

The net cash used by investing activities of EUR 10.3 million exceeded the amount of the comparable prior year period by EUR 0.9 million. The increase is for the most part attributed to the first phase in the construction of a new warehouse on the Loewe plant premises.

At EUR 2.6 million, the free cash flow of the Telecommunications division to be discontinued was clearly better than the prior year value of EUR -6.5 million. In the first half of 2002, this was primarily due to the almost complete reduction in inventories.

Overall, the cash and cash equivalents of the Loewe Group were increased by EUR 5.3 million to EUR 6.0 million in the first half of 2002.

## SHAREHOLDERS' MEETING ON JUNE 26, 2002

The Shareholders' Meeting of Loewe AG held in Munich on June 26, 2002 adopted, among other things, the following resolutions:

The unappropriated retained earnings for the year 2001 reported in the amount of EUR 6.4 million in the Company's annual financial statements will be used to distribute a dividend of EUR 6.1 million. EUR 0.3 million was carried forward to the next year's accounts. The dividend of EUR 0.85 per share was paid out on June 27, 2002.

The authorization contained in the original articles of incorporation to increase the share capital was cancelled, EUR 425,000 of it still not having been used.

The Executive Board was authorized to increase the Company's share capital by up to a total of EUR 3,500,000 by issuing up to 3,500,000 bearer shares by no later than June 26, 2007. The subscription right to be granted to the shareholders may only be excluded under the known conditions.

Moreover, it was adopted that each member of the Supervisory Board will receive, in addition to the reimbursement of outlays incurred and a fixed remuneration payable annually, a variable remuneration dependent on the development of the earnings per share of Loewe AG.

The Company was authorized to take out directors & officers liability insurance for the members of the Supervisory Board; the premiums must be appropriate and will be paid by the Company.



The DVD player and television form one unit: the Xemix can be operated effortlessly with the remote control of the Loewe television.

## DEVELOPMENT ACTIVITIES

In the second quarter, the focus of the development work was on completing the entire Loewe Systems line and its transition to large-scale production. In doing so, the complete sound system and the system linkage of all components presented special demands. In combination with the new Systems remote control RC 1, Loewe has succeeded in creating a system that combines sound and video in an ideal manner. It makes all digital media such as DVD, Internet, TV or digital radio easy to use and reproduces them in outstanding quality.

After completing the move to the Q 2500 chassis platform, the focus of 100 Hz development is on the continued improvement of the scope of features and increasing performance.

The development of the online platform TVO 3 was also completed and it was implemented in the MediaPlus chassis.

In picture tube televisions, the focus remains on design approvals and concept releases for additional lines of sets with completely flat "real flat" picture tubes. Corresponding products are expected in late 2002.

In flat display technologies, the development work on a 20" set to be launched in the market in the fall was continued according to plan. The design and development work was started for a 15" set, which is intended to round off the LCD product line. The development toward the next generation of plasma TVs was continued according to plan.

The development work for the next generation of integrated digital television is also on schedule.

With an interface for the conditional access module planned, this generation will make a clear extension of the standard possible. This will make it possible to receive pay TV programs from different companies without a separate set-top box.

In the field of basic development projects, it was possible to obtain a follow-up support project with the aim of comprehensively analyzing and further developing the rear projection technologies. The results of the SIPROS support project were basically implemented in the product development of a rear projection receiver with a 55" screen diagonal based on DLP technology. According to schedule, this set should be available in fall 2003.

## SALES AND MARKETING

With the successful launch of the new Certos sound system, the unique Loewe Home Cinema system is now available as a complete system. Loewe clearly stands out from the competition by networking television, sound, Internet and home automation functions. The new innovative RC1 remote control brings a new simplicity to the human/technology interface to the benefit of the consumer. The cooperation with Bose in developing a 5.1 subwoofer satellite system offers Loewe customers a world of sound experience in their own four walls. Loewe Systems is redefining the premium segment home cinema.

The third generation of the Internet module Loewe OnlinePlus was successfully launched in the German market as part of the global introduction of Systems.



Loewe in Berlin: the new gallery "Unter den Linden"

Loewe is thus demonstrating its innovative leadership in the area of television and Internet convergence products.

The communication activities in the second quarter of 2002 were focused on the launch of the premium Loewe Systems line. Innovative events in the Loewe Galleries and at selected retailers in Germany were used to introduce the Systems products in the most attention-getting manner to customers and journalists. In the coming months, the event concept will also be used in the most important foreign markets to launch the Systems line. Besides supporting the product launch, these events and the accompanying activities also serve to position the Loewe brand at a higher level.

Together with our partner Gira, we introduced the "Home Automation Starter Kit" to the market in the second quarter. Wireless Home Automation will make it possible to operate many wireless electrical appliances in the home via the Loewe TV simply by pressing a button on the Loewe remote control. The Loewe television with the new Internet module Loewe OnlinePlus is the central interface for an intelligent home.

Loewe Systems is not only home cinema, home media (OnlinePlus Internet module) but also home automation. The Loewe product strategy was implemented in this way in the first half of 2002.

In the most important German market, the systematic expansion of the Loewe partnership dealer network in the first half ensured that it would be possible to achieve the growth of the previous year despite the difficult market environment. In Loewe's targeted growth markets, a definite expansion of distribution was achieved in the United Kingdom (+32%) and in France (+11%) in particular.

## NEW JOBS CREATED

With an 8% expansion of business volume in the Home Media Systems division to be continued, the average number of employees was also up by 8% compared to the end of the first half of the previous year. Of the 87 employees added, 37 are primarily involved in expanding sales and marketing and 16 are in development. With 15 persons, the newly founded Loewe Opta, Inc. USA is included in the buildup of human resource capacities.

At the end of the first half, fifteen persons were still employed in the Telecommunications division to be discontinued, most of whom will leave the Company after the cessation of sales activities in July or they will be taken over into the Home Media Systems division.

## RISKS OF FUTURE DEVELOPMENT

The most important risk areas include market risk, the technology and design position, dependence on important suppliers and employees in key positions, product liability, interest, and currency risks as well



as the potential effects of the EU Electronic Waste Directive as of 2005. The individual risks are in part interrelated and can overlap.

A comprehensive risk report can be found on pages 48 to 51 of the annual report for 2001.

There were no significant changes from the previous year in the first half of fiscal year 2002.

### IMPORTANT EVENTS AFTER THE END OF THE QUARTER

To be even better able to utilize the potential of the French market, Loewe AG acquired its former distributor SOREP IMPORT S.A. At the same time, the previous and future management acquired an interest in the company. In 2001, the company generated sales of EUR 11 million and employed 15 persons. The successful and profitable development work in this important market will now be further expanded under the direct responsibility of Loewe. The priority is on the expansion of distribution and concentration on the high-end market segment. As in the past, the former SOREP IMPORT S.A. and future Loewe France S.A. will concentrate exclusively on the marketing of Loewe products in France.

No additional events of special significance occurred after the end of the first half of 2002.

### OUTLOOK FOR ALL OF 2002

The first six months of 2002 were successful for Loewe. We achieved our mid-range targets of increasing sales by 8%, EBIT by 10% and earnings per share by over 10% despite the difficult conditions.

We will make every effort to continue to spur the profitable growth of Loewe and we assume that it should also be possible in 2002 to achieve our mid-range financial targets, which are ambitious in this market situation.

### OTHER INFORMATION

These interim financial statements were drawn up in accordance with DRS (German Accounting Standard) No. 6.

This first half report was thoroughly reviewed by the group auditor Abstoß & Wolters OHG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Mönchengladbach. No exceptions were found.

As of June 30, 2002, the Executive Board held 572,025 shares in Loewe AG, which was unchanged from the balance as of December 31, 2001.

Kronach, July 26, 2002

The Executive Board

Dr. R. Hecker

Dr. B. Bamberger

T. Bender

G. Schaas

## CONSOLIDATED INCOME STATEMENT FOR THE PERIOD JANUARY 1 THROUGH JUNE 30, 2002

| EUR million  | April – June 2002 |              | April – June 2001 |              | January – June 2002 |              | January – June 2001 |              |
|--|-------------------|--------------|-------------------|--------------|---------------------|--------------|---------------------|--------------|
|  |                   | %            |                   | %            |                     | %            |                     | %            |
| <b>Sales</b>   | <b>82.2</b>       |              | <b>77.0</b>       |              | <b>183.2</b>        |              | <b>171.1</b>        |              |
| Division to be discontinued  | - 2.9             |              | - 3.8             |              | - 7.9               |              | - 8.6               |              |
| <b>Home Media Systems division</b>   | <b>79.3</b>       | <b>100.0</b> | <b>73.2</b>       | <b>100.0</b> | <b>175.3</b>        | <b>100.0</b> | <b>162.5</b>        | <b>100.0</b> |
| Manufacturing cost of goods and services produced in order to generate sales <sup>*)</sup> | - 55.6            | - 70.1       | - 51.6            | - 70.5       | -124.6              | - 71.1       | -116.9              | - 71.9       |
| <b>Gross margin</b>  | <b>23.7</b>       | <b>29.9</b>  | <b>21.6</b>       | <b>29.5</b>  | <b>50.7</b>         | <b>28.9</b>  | <b>45.6</b>         | <b>28.1</b>  |
| Selling expenses   | - 15.6            | - 19.6       | - 13.3            | - 18.1       | - 32.4              | - 18.4       | - 28.0              | - 17.2       |
| General administrative expenses  | - 2.5             | - 3.2        | - 2.4             | - 3.3        | - 5.2               | - 3.0        | - 5.0               | - 3.1        |
| Other operating income/expense   | 1.3               | 1.6          | 0.2               | 0.3          | 1.3                 | 0.7          | 0.3                 | 0.2          |
| Income from participating interests  | 0.1               | 0.1          | 0.1               | 0.1          | 0.1                 | 0.1          | 0.1                 | 0.0          |
| <b>EBIT of the division to be continued</b>  | <b>7.0</b>        | <b>8.8</b>   | <b>6.2</b>        | <b>8.5</b>   | <b>14.5</b>         | <b>8.3</b>   | <b>13.0</b>         | <b>8.0</b>   |
| Interest and similar income  | 0.2               | 0.2          | 0.2               | 0.2          | 0.3                 | 0.1          | 0.3                 | 0.2          |
| Interest and similar expenses  | - 0.5             | - 0.6        | - 0.6             | - 0.8        | - 0.9               | - 0.5        | - 1.0               | - 0.6        |
| <b>Profit from ordinary activities (EBT) of the division to be continued</b>               | <b>6.7</b>        | <b>8.4</b>   | <b>5.8</b>        | <b>7.9</b>   | <b>13.9</b>         | <b>7.9</b>   | <b>12.3</b>         | <b>7.6</b>   |
| Profit from ordinary activities (EBT) of the division to be discontinued                   | 0.0               | 0.0          | - 0.5             | - 0.7        | 0.0                 | 0.0          | - 0.6               | - 0.4        |
| Profit from ordinary activities (EBT)  | 6.7               | 8.4          | 5.3               | 7.2          | 13.9                | 7.9          | 11.7                | 7.2          |
| Income taxes   | - 2.8             | - 3.5        | - 2.1             | - 2.8        | - 5.7               | - 3.2        | - 4.7               | - 2.9        |
| Net income before minority interests   | 3.9               | 4.9          | 3.2               | 4.4          | 8.2                 | 4.7          | 7.0                 | 4.3          |
| Minority interests   | 0.0               | 0.0          | 0.0               | 0.0          | - 0.1               | - 0.1        | - 0.1               | - 0.1        |
| <b>Net income after minority interests</b>   | <b>3.9</b>        | <b>4.9</b>   | <b>3.2</b>        | <b>4.4</b>   | <b>8.1</b>          | <b>4.6</b>   | <b>6.9</b>          | <b>4.2</b>   |
| thereof:   |                   |              |                   |              |                     |              |                     |              |
| Division to be continued   | 3.9               | 4.9          | 3.4               | 4.6          | 8.1                 | 4.6          | 7.2                 | 4.4          |
| Division to be discontinued  | 0.0               | 0.0          | - 0.2             | - 0.2        | 0.0                 | 0.0          | - 0.3               | - 0.2        |

<sup>\*)</sup> the following items up to and including interest and similar expenses only contain information concerning the division to be continued

|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Basic earnings per share                                   | 0.54      | 0.46      | 1.13      | 0.98      |
| Basic earnings per share of the division to be continued   | 0.54      | 0.49      | 1.13      | 1.02      |
| Diluted earnings per share of the division to be continued | 0.52      | 0.46      | 1.07      | 0.95      |
| Number of shares issued                                    | 7,158,200 | 7,075,000 | 7,158,200 | 7,075,000 |
| Number of shares and options issued                        | 7,575,000 | 7,575,000 | 7,575,000 | 7,575,000 |

## CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2002

| in EUR million   | 6/30/2002    | 12/31/2001   | 6/30/2001    |
|--|--------------|--------------|--------------|
| <b>ASSETS</b>  |              |              |              |
| <b>Fixed assets<sup>1)</sup></b>                                     |              |              |              |
| Intangible assets  | 9.5          | 9.5          | 8.8          |
| Property, plant, and equipment                                       | 53.9         | 52.6         | 49.3         |
| Financial assets   | 0.2          | 0.3          | 0.3          |
|  | <b>63.6</b>  | <b>62.4</b>  | <b>58.4</b>  |
| <b>Current assets<sup>1)</sup></b>                                   |              |              |              |
| Inventories  | 57.0         | 45.1         | 57.4         |
| Trade accounts receivable  | 58.9         | 86.1         | 51.4         |
| Other short-term receivables   | 5.5          | 4.8          | 4.8          |
| Cash and cash equivalents  | 6.0          | 9.5          | 0.6          |
|  | <b>127.4</b> | <b>145.5</b> | <b>114.2</b> |
| <b>Deferred tax assets<sup>1)</sup></b>                              | <b>1.6</b>   | <b>1.3</b>   | <b>0.7</b>   |
| <b>Assets of the division to be discontinued</b>                     | <b>5.5</b>   | <b>11.7</b>  | <b>11.5</b>  |
| <b>Total ASSETS</b>  | <b>198.1</b> | <b>220.9</b> | <b>184.8</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                          |              |              |              |
| <b>Shareholders' equity</b>  |              |              |              |
| Subscribed capital   | 7.2          | 7.1          | 7.1          |
| Capital reserve  | 45.0         | 44.9         | 43.6         |
| Retained earnings  | 5.5          | 5.5          | 2.5          |
| Distributable profit   | 19.7         | 17.7         | 17.2         |
|  | <b>77.4</b>  | <b>75.2</b>  | <b>70.4</b>  |
| <b>Minority interests</b>  | <b>0.9</b>   | <b>0.8</b>   | <b>0.8</b>   |
| <b>Provisions<sup>1)</sup></b>                                       |              |              |              |
| Provisions for pensions and similar obligations                      | 27.0         | 27.7         | 26.4         |
| Tax provisions   | 3.8          | 1.9          | 0.5          |
| Other provisions   | 37.8         | 50.2         | 39.9         |
|  | <b>68.6</b>  | <b>79.8</b>  | <b>66.8</b>  |
| <b>Liabilities<sup>1)</sup></b>                                      |              |              |              |
| Long-term debt   | 3.8          | 4.3          | 4.8          |
| Trade accounts payable   | 28.3         | 29.8         | 24.2         |
| Other short-term liabilities   | 16.1         | 24.4         | 15.1         |
|  | <b>48.2</b>  | <b>58.5</b>  | <b>44.1</b>  |
| <b>Provisions and liabilities of the division to be discontinued</b> | <b>3.0</b>   | <b>6.6</b>   | <b>2.7</b>   |
| <b>Total LIABILITIES AND SHAREHOLDERS' EQUITY</b>                    | <b>198.1</b> | <b>220.9</b> | <b>184.8</b> |

<sup>1)</sup> of the division to be continued

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD JANUARY TO JUNE 2002

| in EUR million  | 2002          | 2001         |
|---|---------------|--------------|
| <b>Operating activities<sup>1)</sup></b>                                      |               |              |
| <b>Profit from ordinary activities</b>  | <b>13.9</b>   | <b>12.3</b>  |
| Depreciation and amortization of fixed assets                                 | 9.1           | 9.5          |
| Increase in pension provisions  | - 0.7         | - 0.7        |
| Income taxes paid   | - 4.1         | - 7.6        |
| <b>Net cash before changes in net current assets</b>                          | <b>18.2</b>   | <b>13.5</b>  |
| <b>Change in net current assets</b>   |               |              |
| Increase in inventories   | - 11.9        | - 14.4       |
| Decrease in trade accounts receivable and other assets                        | 26.5          | 26.5         |
| Decrease in other provisions  | - 12.4        | - 1.7        |
| Decrease in trade accounts payable and other liabilities                      | - 1.8         | - 9.6        |
| <b>Change in net current assets</b>   | <b>0.4</b>    | <b>0.8</b>   |
| <b>Net cash provided by operating activities</b>                              | <b>18.6</b>   | <b>14.3</b>  |
| <b>Investing activities</b>   |               |              |
| Payments for purchases of intangible assets and property, plant and equipment | - 10.3        | - 9.5        |
| Proceeds from disposals of investments  | 0.0           | 0.1          |
| <b>Net cash used by investing activities</b>                                  | <b>- 10.3</b> | <b>- 9.4</b> |
| Free cash flow of the division to be continued                                | 8.3           | 4.9          |
| Free cash flow of the division to be discontinued                             | 2.6           | - 6.5        |
| <b>Total free cash flow</b>   | <b>10.9</b>   | <b>- 1.6</b> |
| <b>Financing activities</b>   |               |              |
| Capital increase  | 0.2           | 0.0          |
| Borrowing   | 0.3           | 6.1          |
| Repayment of loans  | 0.0           | - 5.9        |
| Dividend payment  | - 6.1         | - 6.0        |
| <b>Net cash used by financing activities</b>                                  | <b>- 5.6</b>  | <b>- 5.8</b> |
| <b>Cash-effective change in liquidity</b>                                     | <b>5.3</b>    | <b>- 7.4</b> |

| Composition of cash and cash equivalents<br>(in EUR million): | 6/30/2002 | 12/31/2001 | Change |
|---|-----------|------------|--------|
| Liquid funds  | 6.0       | 9.5        | - 3.5  |
| Short-term bank loans   | 0.0       | - 8.8      | 8.8    |
| Cash and cash equivalents                                     | 6.0       | 0.7        | 5.3    |

<sup>1)</sup> The following items up to and including net cash used by investing activities only contain data of the division to be continued

## REVIEW REPORT

To: the Executive Board of Loewe AG, Kronach

We have reviewed the interim consolidated financial statements consisting of the balance sheet, income statement and statement of changes in shareholders' equity and the group management report for the period January 1 to June 30, 2002. The preparation of the interim consolidated financial statements and the group management report according to International Accounting Standards (IAS) is the responsibility of the company's management. Our responsibility is to issue a report concerning the interim consolidated financial statements and the group management report on the basis of our review.

We conducted our review of the interim consolidated financial statements and management report in accordance with the German principles for the review of financial statements established by the "Institut der Wirtschaftsprüfer" (IDW). These standards require that we plan and perform the review such that with a critical evaluation, we can obtain reasonable assurance that no indications are present that the consolidated interim financial statements were not prepared in all material aspects in conformity with IAS or that in accordance with the principles of orderly accounting, the group management report does not convey overall a suitable understanding of the Group's assets, financial position and earnings or does not suitably present the risks of future development.

A review is limited primarily to inquiries of the employees of the Group and analytical audit evaluations and therefore does not provide the assurance achievable through an audit. Since in accordance with our engagement, we have not performed an audit, we cannot issue an audit opinion.

On the basis of our review, we certify that no matters became known to us which give us cause to believe that the consolidated interim financial statements were not prepared in all material aspects in conformity with IAS or that in accordance with the principles of orderly accounting, the group management report does not convey overall a suitable understanding of the Group's assets, financial position and earnings or does not suitably present the risks of future development.

Mönchengladbach, August 1, 2002

Abstoß & Wolters OHG  
Wirtschaftsprüfungsgesellschaft  
Steuerberatungsgesellschaft

|         |          |
|---------|----------|
| Grage   | Straaten |
| Auditor | Auditor  |

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Security code number: 649410  
ISIN code: DE 0006494107

Stock market trading with official listing  
and participation in the MDAX

Indices:

- MDAX
- DAX 100
- DAX 100 Software & Technology
- CDAX General
- CDAX Technology
- MSCI Morgan Stanley Capital International