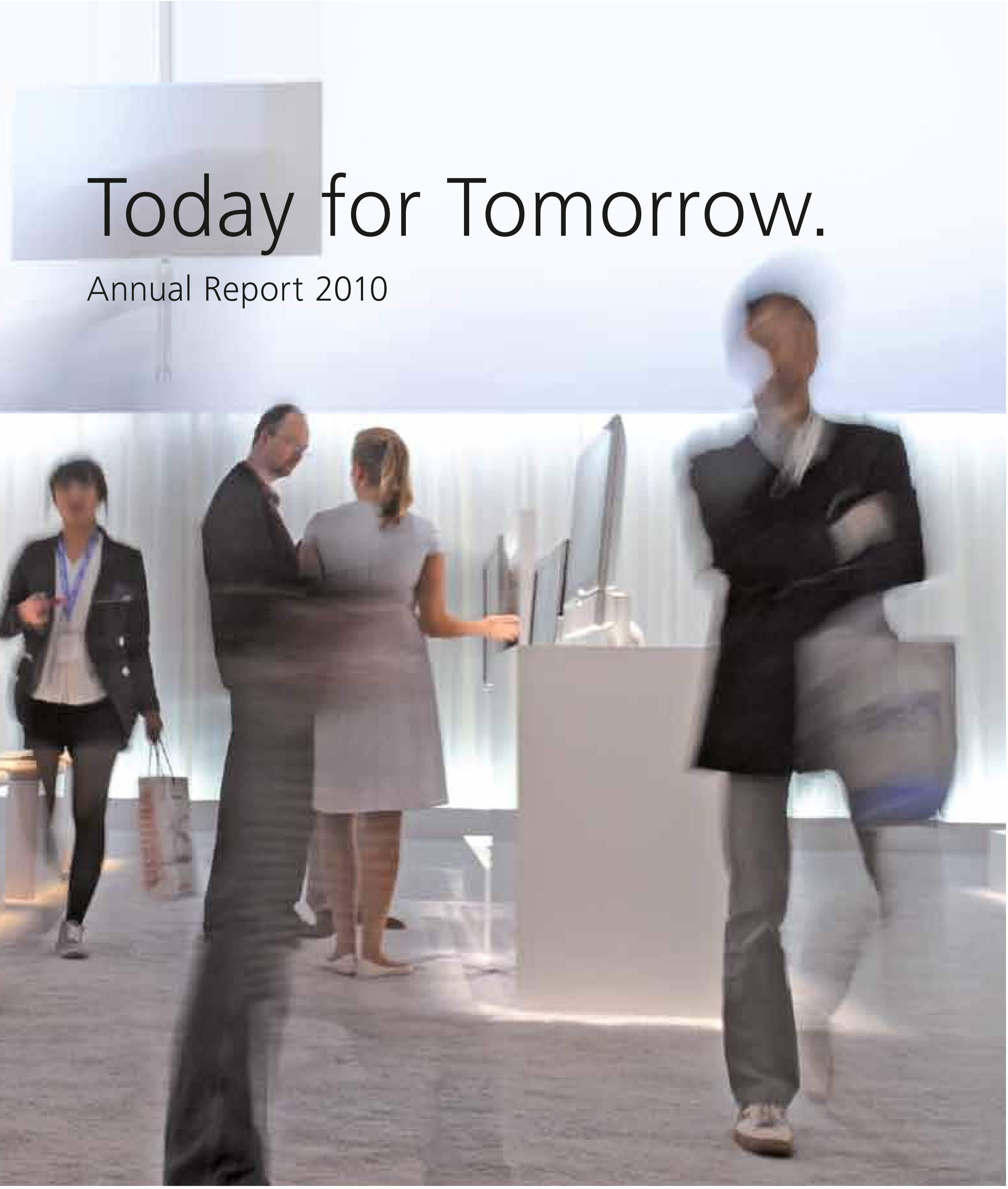
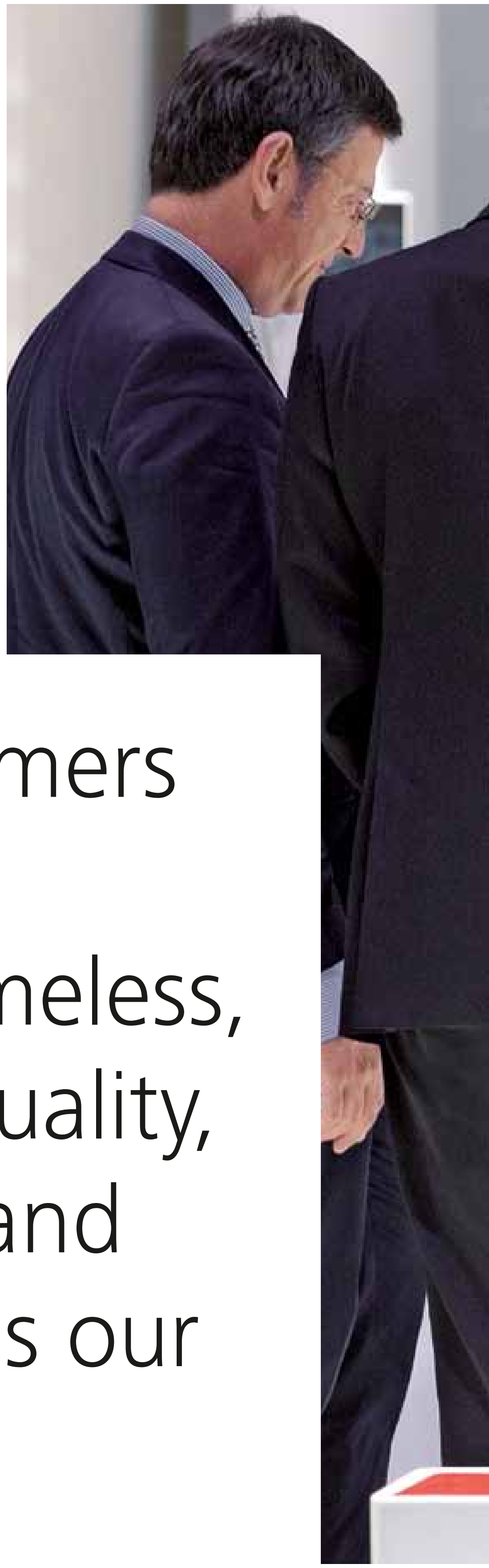
Today for Tomorrow.

Annual Report 2010



LOEWE.



We attract our customers with products whose aesthetic appeal is timeless, with exclusive individuality, sensible technology and easy operation. That is our mission.

Vision

Sophisticated customers in Europe and in selected global metropolises see Loewe as the leading premium brand in home entertainment systems.

About Loewe

Award-winning design, innovative technology and superior quality are features of all products sold under the Loewe premium brand. Technology highlights include: home entertainment systems with high-definition picture quality, an integrated hard disk recorder and a perfect connection between Internet and television. In 2010, sales for the public-listed company founded in 1923 in Berlin totalled EUR 307.3 million, with EBIT of EUR −5.3 million. Loewe manufactures and distributes televisions, Blu-ray players, DVD recorders, audio components and multi-room solutions. The Company has around 1,000 employees and, on an international level, is represented in 50 countries.

Key Figures (IFRS)

The Loewe Group in Numbers*

EUR million

	2010	2009	2008	2007	2006	2005	2004
Sales	307.3	324.0	374.0	372.5	341.9	319.1	273.0
EBIT	−5.3	13.5	28.5	21.1	13.2	2.1	−33.8
Net income/loss	−7.0	8.0	18.9	7.2	6.5	−1.9	−29.4
Earnings per share (EUR)	−0.54	0.62	1.45	0.55	0.50	−0.15	−3.74
Dividends per share (EUR)	0.00**	0.25	0.50	0.27	0.00	0.00	0.00
Non-current assets	47.2	48.2	49.6	46.4	42.5	41.6	51.2
Equity (excl. minority interest)	79.5	87.6	88.4	71.6	64.4	57.9	19.4
Net bank liabilities	−13.1	−35.1	−33.9	1.7	3.5	−3.5	34.1
Factoring	5.0	0.0	0.1	0.9	0.0	2.8	27.4
Capital expenditure	20.7	19.0	23.9	23.2	18.5	11.8	15.3
Depreciation and amortization	21.7	20.3	20.4	19.1	17.6	21.4	25.5
Free cash flow	−23.1	7.8	39.9	1.8	−4.2	21.7	−8.8
Development costs	15.9	16.1	15.6	14.4	13.0	12.5	12.9
Interest expense, net	2.4	1.8	1.0	2.2	2.7	4.0	6.4
Number of employees	1,062	1,042	1,007	997	965	945	1,063

* Continuing and discontinued segments

** Proposal to the Annual Shareholders' Meeting on May 26, 2011

Contents

The challenges of changed market and economic conditions must be faced with courage and passion. This courage gives us the strength to do things differently.


Zeitlos.
Loewe Art.

We launched our "Fast Forward" future strategy program in June of 2010 to boost the efficiency of our entire business. "Fast Forward" will strengthen the impact of our organization, reduce the time to market for new products and thus, create more value for our customers.

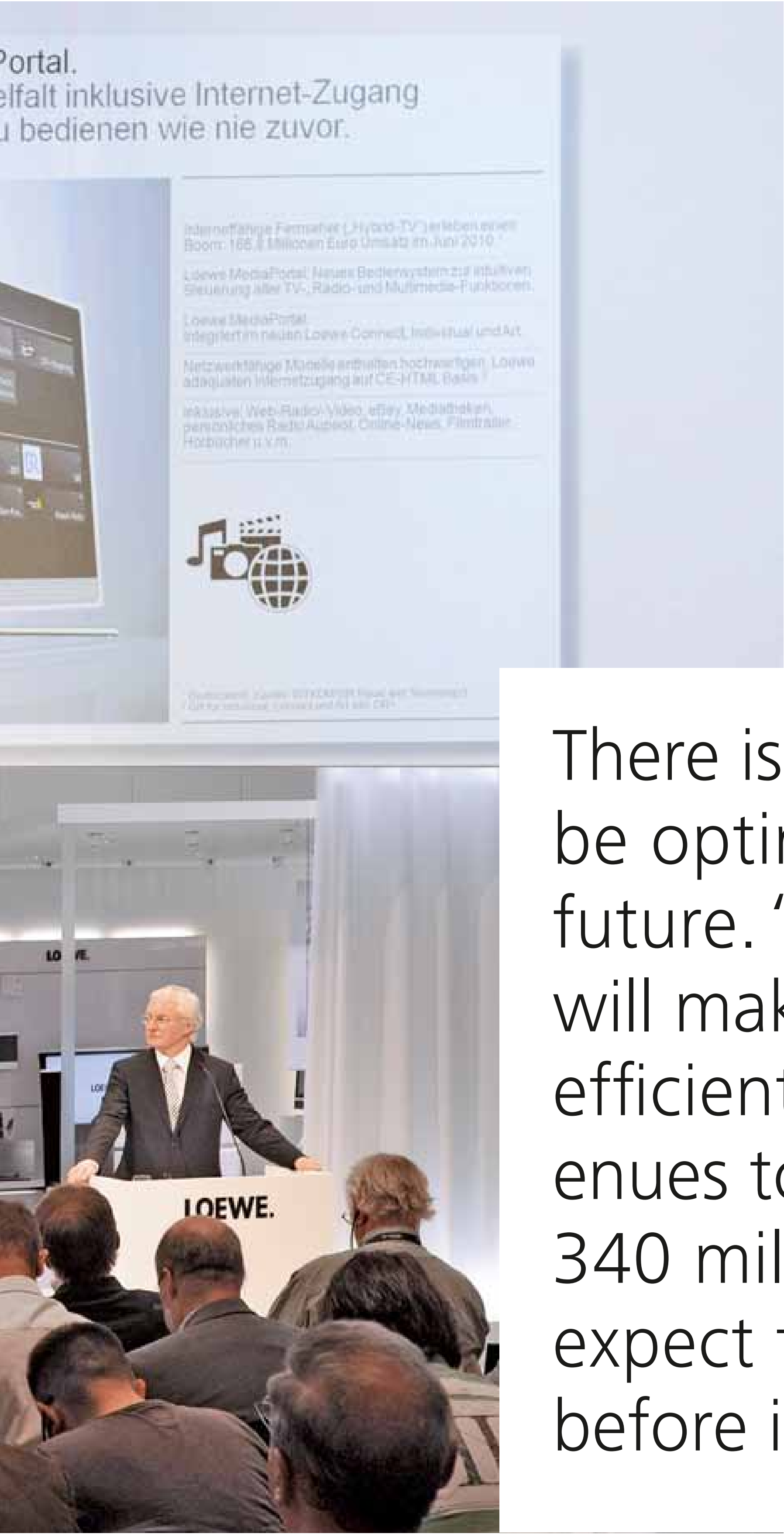
We don’t intend to reinvent the world of Loewe. Instead, we have to transform our knowledge into reality. We have to follow through on what we think and say we are going to do. Success does not come from superior concepts as much as from prompt, targeted action.


LOEWE.

Our passion will drive us. We are enthusiastically pursuing a trend at the moment: the transformation of TV sets into intelligent media centers.


LOEWE.


LOEWE.
LOEWE.
MEDIA PORTAL



There is good reason to be optimistic about the future. “Fast Forward” will make Loewe more efficient. We expect revenues to grow to around 340 million euros and expect to turn a profit before interest and taxes.

Gerhard Schaas
Engineer, Chief Technology Officer

Oliver Seidl
Graduate in business administration,
Chief Executive Officer

Manfred L. Fitzgerald
Chief Marketing Officer

Dear Shareholders,

We all had a different idea of how fiscal 2010 would turn out than how it actually did. Spurred by the FIFA World Cup in South Africa and new technologies, the year was expected to be successful. As you are now aware, we unfortunately did not achieve everything we had planned, especially in the first six months. In particular, the business related to the FIFA World Cup fell short of our expectations due to the delayed launch of the new Individual TV family. Advance purchases for the World Cup represented another burden on the market during the traditionally weaker summer months of July and August. The Company responded early, however, and started the “Fast Forward” future strategy program in June 2010 with the objective of again systematically enhancing Loewe's particular strengths of rapid action, flexibility and a competitive edge in innovation. However, before I go into greater detail concerning the current situation and the planned measures of “Fast Forward,” I would like to inform you briefly about the development of business in 2010.

The sales of the Loewe Group in fiscal year 2010, at EUR 307.3 million, were 5% lower than the 2009 figure of EUR 324.0 million. While sales in Germany at EUR 179.7 million in 2010 were 7% lower than in 2009, export sales declined by only 3% to EUR 127.6 million. The lower sales and production volume, necessary price adjustments and higher procurement costs (especially for the highly in demand LCD panels), caused an EBIT loss for Loewe of EUR −5.3 million in 2010 compared to positive EBIT of EUR 13.5 million in 2009.

After this very unsatisfactory fiscal year for everyone concerned, Loewe will give greater attention in general to demonstrating its capabilities as the leading European premium brand in consumer electronics once again. Therefore we need innovative products with attractive unique selling points. In the area of basic technologies, we must not be too far behind the first competitor in bringing our better solution to the market. In all the areas of our Company, we can and must become faster acting and more reliable. These necessary changes are challenges that we will meet with passion. However, passion also requires the courage to do things differently.

Loewe has established “Fast Forward” as a bold, comprehensive and sustainable program for the future. The goal is to create the basis for profitable growth again in the medium term through structural and organizational measures and by stringent cost discipline. To that end, our focus in the last few months was on streamlining the organizational structure. Managers with responsibility for product development were given an expanded range of competence across divisions. Furthermore, we are making progress in restructuring the central divisions of development, marketing and sales. In doing this, we will continually increase the effectiveness of the Company as a whole, in bringing new products to the market faster and creating additional customer benefit. Although the necessary elimination of TV sets with standard backlighting from the product line depressed sales in the fourth quarter of 2010, our work has begun to show results. All of the product lines with the most innovative LED technology were successfully launched in time for the Christmas shopping season. Moreover, about EUR 6 million in income-relevant savings was realized in the second half of 2010, especially in the area of purchasing.

Since our “Fast Forward” future strategy program spans several years, we have also set ambitious goals for the current fiscal year 2011. The focus will be on systematically continuing the themes initiated in 2010. However, the sales and earnings in the early months of 2011 will still be burdened by the continued elimination of TV sets with standard backlighting from the product line. After the reorganization of product development, we will further optimize the processes in order to accelerate the current product offensive. In addition, we will reduce the product costs, launch new products more rapidly on the market and specifically target our product line to the customers in the European premium segment. In spring 2011, Loewe will launch the Individual Compose as the first of a large number of new 3D televisions. The Company will continue to build up its leading market position in the convergence of the Internet and television. Furthermore, Loewe will systematically add innovative speaker and multi-room solutions to its home entertainment systems in the years to come.

The market offers good opportunities for Loewe. In addition to the continued replacement demand and the increasing ownership of more than one LCD TV in Europe, new technologies like 3D television and HbbTV (the connection of television and the Internet) offer growth opportunities that will last beyond the current fiscal year. Under the premise that the current situation in the wake of the natural disasters in Japan will not have a lasting negative effect on demand for premium durable products and the availability of production materials, the Loewe Group expects growth in sales of approximately 10% to EUR 340 million and positive EBIT for the current fiscal year 2011. By continuing the implementation of our “Fast Forward” future strategy program, we have set the stage for a successful future.

Sincerely yours,

O. Seidl

Oliver Seidl
Chief Executive Officer of Loewe AG

Dr. Rainer Hecker
Chairman
of the Supervisory Board

Dear Shareholders,

The 2010 fiscal year passed very unsatisfactorily overall for the Loewe Group. In the first six months in particular, Loewe significantly fell short of its substantially higher sales and earnings targets due to necessary price adjustments and higher procurement costs. An additional burden in the first half of 2010 was the delayed launch of the new Individual TV family. However, the Company responded early and initiated the "Fast Forward" future strategy program in June 2010 with the objective of once again considerably increasing the entire Company's efficiency. Despite early successes of "Fast Forward" and positive contributions to the margin in the fourth quarter of 2010, Loewe recorded an EBIT loss of EUR −5.3 million in the year as a whole.

In exercising the responsibilities incumbent upon it in accordance with statutory regulations and the Company's articles of association, as well as with the principles of the German Corporate Governance Code, the Supervisory Board continuously oversaw the management of the Company and the Group, provided advice on basic policy issues and discussed all significant business transactions with it. The Supervisory Board was regularly informed by the Executive Board and was involved in all decisions of central importance to the further development of the Company. Significant subjects of discussion were the development of business, the earnings and financial position, the human resources situation as well as corporate planning, capital expenditure projects and risk management. The primary themes included in particular the Company's strategic realignment in the context of the "Fast Forward" future strategy program, the 2009 financial statements, the general development of business in 2010 and the budget for fiscal year 2011. Between the board meetings, the Chairman of the Supervisory Board regularly exchanged information with the Executive Board, in particular regarding the implementation of "Fast Forward." In addition, the corporate planning and significant single events such as the appointment of senior executives were discussed.

To increase the efficiency of the Supervisory Board's work and the handling of complex situations, the Supervisory Board is supported in the performance of its responsibilities by three committees: the personnel committee, the audit committee and the nominating committee. Please refer to page 127 et seq. of the Notes to the Consolidated Financial Statements for a detailed summary of the composition and competencies of the Supervisory Board, and of the three committees.

The Supervisory Board continued to intensively review the development of the Corporate Governance Principles in fiscal year 2010. All recommendations of the German Corporate Governance Code issued by the Government Commission and most recently updated on May 26, 2010 will be fully implemented, except for sub-section 4.2.3 (4) sentence 1 of the Code. On November 26, 2010 the Executive Board and Supervisory Board published the new Declaration of Conformity which is included in the joint Corporate Governance Report on page 32 et seq.

During the period under review, the Supervisory Board met five times, the audit committee met six times, including four teleconferences, and the personnel 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. The Supervisory Board always discussed in detail the Executive Board's reports in all meetings and delivered its vote on this basis. All members of the Supervisory Board participated in the Supervisory Board meetings except for the meeting on March 18, 2010. The member of the Supervisory Board who was absent with valid excuse from this meeting was provided information by the Executive Board separately and in a timely manner.

In preparation for the Supervisory Board's financial statements meeting, the audit committee in its meeting of March 11, 2010 primarily reviewed the accounting documents of Loewe AG and the Loewe Group as of December 31, 2009. The order of events, essential findings and the results of the audit were discussed with the auditor. According to the conclusive result of its own review, the audit committee approved the presented accounting documents. In addition, the Executive Board explained the significant changes of the business risks in the current fiscal year. In addition, the internal audit projects carried out in 2009, the results of the follow-up audit and the planned audit focuses for 2010 were discussed in detail.

The meeting on March 18, 2010 focused on the presentation, discussion and review of the financial statements and management report of Loewe AG as well as the consolidated financial statements and the Group management report for the year ended December 31, 2009. 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. The Supervisory Board approved the accounting documents and thus adopted the financial statements for the year ended December 31, 2009. Furthermore, the Supervisory Board adopted the recommendation for the agenda of the Annual Shareholders' Meeting to be held in Munich on May 20, 2010.

Prior to the Annual Shareholders' Meeting on the same day, the Supervisory Board meeting on May 20, 2010 focused on day-to-day reporting by the Executive Board as well as the state of risk management in the Loewe Group. On the same date, the risk management system at Loewe and the status quo in risk assessment was again presented and explained. Furthermore, the Executive Board explained the present status of the majority acquisition of the non-listed multimedia company MacroSystem Digital Video AG by Loewe AG.

Mr. Frieder C. Löhrer accepted personal responsibility for the persistent unsatisfactory business development and submitted his immediate resignation as Chairman of the Executive Board of Loewe AG to the Supervisory Board in its meeting on July 26, 2010. The resignation was accepted unanimously in a resolution of the Supervisory Board on July 28, 2010. The Supervisory Board thanks Mr. Löhrer for his contributions, which reflected great dedication. In addition to his responsibilities as CFO, Mr. Oliver Seidl was appointed as the new Chairman of the Executive Board of Loewe AG effective August 1, 2010. At the same time, Mr. Seidl accepted the responsibility of leading the "Fast Forward" future strategy program. Until a new member is appointed to the Executive Board with responsibility for marketing and sales, he will also be provisionally responsible for this Executive Board function.

For consulting and support of the systematic implementation of "Fast Forward," a steering committee was formed which is made up of the Executive Board, the restructuring consultant and two members of the Supervisory Board. The determination of the content of the restructuring measures and the prompt implementation and monitoring were discussed in three meetings of the steering committee in the second half of the year.

The meeting of the audit committee on September 23, 2010 focused primarily on the changes in the German Corporate Governance Code. The need for action arising for Loewe was discussed in detail and appropriate actions were submitted to the full Supervisory Board for decision. The immediately following Supervisory Board meeting focused on the status of the "Fast Forward" future strategy program, the results of the International Consumer Electronics Fair in Berlin, the economic trend in selected export markets, and the key points of the Loewe Strategy 2014. This meeting also included the presentation and discussion of the amendments to the Corporate Governance Code and the pending actions were adopted.

The Supervisory Board Meeting on December 13, 2010 focused on the appointment of Mr. Manfred L. Fitzgerald as the new member of the Executive Board with responsibility for marketing and sales effective February 1, 2011, the ongoing reporting, and the detailed discussion and adoption of the budget for 2011. After a detailed discussion of the key data, including the corresponding opportunities and risks, the Supervisory Board approved the budget for 2011.

The financial statements of Loewe AG, the consolidated financial statements and the combined management report for Loewe AG and the Group were prepared in accordance with section 315a of the German Commercial Code (HGB) based on the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) or in accordance with the provisions of the German Commercial Code and Stock Corporation Act. The auditor appointed by the Shareholders' Meeting on May 20, 2010 has reviewed these documents. The auditor issued an unqualified audit opinion on the annual financial statements of Loewe AG and the consolidated financial statements and the combined management report for Loewe AG and the Group.

In its meeting of March 10, 2011, the audit committee of the Supervisory Board analyzed and discussed in detail the accounting documents of Loewe AG and the Loewe Group as of December 31, 2010. The order of events, essential findings and the results of the audit were discussed with the auditor. The audit committee approved the accounting documents presented based on the conclusive results of its own review. In addition to questions concerning the audit, the audit committee also discussed matters relating to the internal control system and internal auditing.

The financial statements of Loewe AG for the year ended December 31, 2010, the consolidated financial statements for the year ended December 31, 2010 and the combined management report of Loewe AG and the Group for fiscal year 2010 as well as the reports of the auditor were presented to all members of the Supervisory Board in due time. During the financial statements meeting of March 17, 2011, the financial statements were discussed in detail following a report by the Executive Board and the auditor. The auditor also reported the most important results of the audit. The audit committee chairman also presented information on the committee's activities and the results of its review.

The Supervisory Board approved the combined management report prepared by the Executive Board and the financial statements of Loewe AG for the year ended December 31, 2010 which can thus be considered adopted. Furthermore, the Supervisory Board adopted the recommendation for the agenda of the Annual Shareholders' Meeting to be held in Munich on May 26, 2011. In connection with the proposal for the appointment of the auditor for fiscal 2011, the Supervisory Board relied on the recommendation of the audit committee.

Pursuant to sections 289 (4) and 315 (4) of the German Commercial Code, Loewe must make disclosures concerning its rules on public offerings, the purchase of securities and company takeovers. In the year under review, the Supervisory Board saw no reason to address questions of a takeover of Loewe or to disclose any specific information under the Takeover Bids Directive Implementation Act (ÜbernRUmsG).

A very difficult fiscal year 2010 for Loewe demanded a great deal from the Executive Board, the employees and the employee representatives. The Supervisory Board thanks everyone involved for the work they have done and their great dedication. The Supervisory Board is convinced that Loewe's clear premium strategy in an improved economic environment and the early start of the "Fast Forward" future strategy program will enable it to speedily and successfully master the current difficult phase.

Kronach, March 17, 2011

Dr. Rainer Hecker
Chairman of the Supervisory Board

More Value.
The Loewe Reference System

Our Company

- Loewe **premium strategy** ensures lasting success
- **International expansion** planned
- **Price decline** for Loewe stock
- **Analyst coverage** continues at a high level
- **Excellent** capital market communications

Contents

The Loewe Premium Strategy

Value-based management ensures lasting success

The Loewe premium brand provides the framework for daily operations

The strategic goal for the Loewe brand is to become the most significant international premium brand in home entertainment systems. We have been systematically pursuing this goal for many years. We inspire our customers with products that are characterized by timeless elegance, the most advanced technology, and intuitive use. The Loewe premium brand is based on "minimalist design," "meaningful innovation" and "exclusive individuality." Loewe creates a fascinating world of brand experience that finds its source in attractive and individual products. Essential attributes of brand communication provide support – particularly at the point of sale through our unique shop systems. Our customers should be able to experience the Loewe brand clearly and authentically in all areas.

Loewe has built up a strong brand position in the premium segment, especially in Germany, Austria and Switzerland. In the years to come, we intend to gradually also build up a comparably strong position in our core markets of Benelux, Spain, France, Italy, United Kingdom and the Scandinavian countries. This development planning is accompanied by growing expectations of all stakeholders, including customers, shareholders, employees and the public as described in the "quadrangle of interests" on page 37. We see the task of value-based management as bringing these disparate interests into harmony. We feel this is the only way to achieve profitable and above all sustained growth. In particular against the backdrop of the economic recovery in large parts of Europe, Loewe's chief task in the years to come will be to enhance our brand's premium character even more, increase the Company's international orientation, and in doing so convert the positive brand and market impulses into profitable growth.

Early initiation of the "Fast Forward" future strategy program

As performance in the first half of 2010 did not fulfill our expectations, we took the early step of initiating the "Fast Forward" future strategy program as a way to achieve our goals. Initial, positive results were seen as of the fourth quarter of 2010. The program focuses on the reorganization of development, product marketing and sales in order to take into account the increased demands of the international markets.

International growth

Loewe pursues a clear, international development strategy and will enhance it by continuously upgrading the existing points of sale and opening additional premium quality and highly frequented points of sale in close collaboration with retailers. Both of these measures will serve to expand Loewe's position in large, key European markets. We will continue to systematically present the Loewe brand in a unique and uniform way wherever customers come into contact with it, thereby expanding their brand experience. Moreover, Loewe will in the future take greater advantage of opportunities in the international hotel and project business to enthuse discriminating hotel guests about the brand and also open up additional sales potential. The expansion of the project business will furthermore lead to sales opportunities outside of the key European markets.

Close cooperation with retailers will be further expanded

Expansion of premium marketing in cooperation with retailers

Another crucial factor for Loewe's success is the close and trusting cooperation with qualified retailers in Europe. Loewe will go one step further and expand premium marketing jointly with its retail partners, and in doing so, we will combine two objectives: On the one hand, we will enhance the brand-appropriate presentation at the point of sale; on the other Loewe will also intensify its presence in galleries, Partner-Plus dealers and partners and tailor it even more closely to the individual customer groups.

We would like to approach customers in the best possible way with customer relationship concepts appropriate to the Loewe brand: In the future, both retailers and Loewe itself will make greater efforts to meet customers' needs. The better we know our customers and their individual needs, the more successful will be our service to them. As a premium brand, Loewe has a strategically critical potential for development in this area, since our target group in particular expects a personal approach and excellent service. We succeeded in establishing our Customer Relationship Management (CRM) system in the German and Austrian markets in fiscal 2010. In the next two years, we will add more key markets to Loewe CRM and in doing so build up an integrated system in our most important markets.

The conditions for Loewe are extremely favorable due to the re-awakened market awareness of consumers, dynamic trends in LCD TV (3D, for instance), the replacement demand resulting from ongoing digitization in connection with high-definition television (HDTV) and the improved economic situation in large parts of Europe. Loewe will systematically continue to pursue the course of combining exceptional product designs with the most advanced technology.

The gradual conversion of the entire TV product line to sets with the most advanced LED backlighting and the successful launch of Loewe MediaNet will enable Loewe to meet the future requirements of a networked home. New technologies such as 3D TV and 3D Blu-ray players and even more enhanced individual and individualizable operating concepts will offer Loewe attractive growth opportunities that will last beyond the current fiscal year. For that reason, Loewe will continue to focus on premium-based, value-oriented marketing of its top-quality home cinema solutions in the future.

Loewe in the Capital Market

Euro still under massive pressure in early fiscal 2010

At the beginning of fiscal year 2010, the international stock exchanges were still firmly in the grip of the global financial crisis. Macroeconomic data and the rise in interest rates in China accompanied by a more restrictive monetary policy heightened concerns about the international growth engine in the Far East. The public debt of several European nations was to become a dominant topic in the European stock exchanges, and in particular in relation to the common European currency, extending well past the beginning of the year. Leading those nations was Greece which put the euro under massive pressure due to its high national deficit and the potential of national insolvency. The start of the reporting season for several U.S. firms set the stage for further negative market sentiment. The still high provisions for loan losses burdened the financial sector as did the technology sector which presented disappointing business figures. Under the influence of the international environment, the DAX reached its annual low of 5,433 on February 5. The Dow Jones dropped below the psychologically significant 10,000 mark for the first time since September 2009.

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

Price decline for Loewe stock

Contrary to the general market trend, the stock of Loewe AG made a positive start in the new trading year. In late January, we published our preliminary key figures for fiscal 2009. Despite a slight decline in sales, we were able to exceed our earnings forecast by more than 13 %. Our stock acknowledged this with rising prices and at EUR 10.60 reached a level close to the annual high. However, the worsening market conditions also caught up with the Loewe stock by the middle of February. In a sharp price correction, the stock dropped to a level of about EUR 9 within a few days. This continued on as a stable base until mid-year.

Eurozone countries and IMF provide respite with package of measures

The international equity markets achieved a turnaround in late February. Barclays Bank surprised the market with excellent business figures. The Ifo business climate index reached an 18 month high in Germany as well, thus providing early signs of a brightening of sentiment within German industry. Already at this point in time, Germany's strong exports established it as the economic engine of Europe. Greece's intensifying debt crisis and the downgrading of Portugal's national rating by Standard & Poor's led to an unprecedented package of measures by the eurozone countries and the IMF. This increasingly brought respite to market participants and by April buoyed the stock markets. In contrast, pressure on the euro was unabated. The stock markets followed the same trend in the second quarter of 2010 and moved sideways for the next six months.

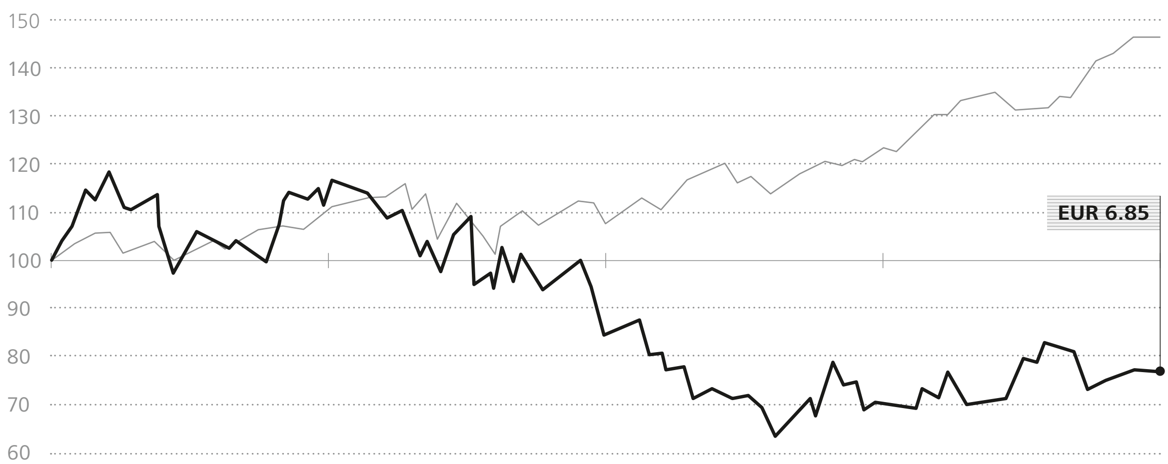
After reaching its annual high of EUR 11.28 in April, Loewe stock was subsequently confronted with increased selling interest. The stock price declined in several steps until it again reached the support level of EUR 9, which it repeatedly fell below by mid-year and was no longer able to surpass again on a sustained basis.

Oliver Seidl appointed new Chairman of the Executive Board

The announcement of the figures for the first half of 2010 prompted the Executive Board to take the business development thus far in the year into account. The Board lowered the forecast for the year as a whole and initiated early and comprehensive restructuring measures. Mr. Frieder C. Löhrer accepted personal responsibility for the persistent unsatisfactory business development and submitted his immediate resignation as Chairman of the Executive Board of Loewe AG. In addition to his responsibilities as CFO, Mr. Oliver Seidl was appointed as the new Chairman of the Executive Board of Loewe AG effective August 1, 2010. At the same time, Mr. Seidl accepted the responsibility of leading the "Fast Forward" future strategy program. Until a new member is appointed to the Executive Board with responsibility for marketing and sales, he will also be provisionally responsible for this Executive Board function.

During significantly higher trading volume and the accompanying selling pressure, our stock dropped in several waves to its annual low of EUR 5.62 on August 26. Buying interest was seen once again at this level, which offered the stock a floor already in January 2009 and accordingly marked the turning point in the price trend. The price set off in an impressive counter-movement and recovered more than 28 % of its lows within the following four weeks.

Loewe stock performance from December 30, 2009 to December 30, 2010
indexed against SDAX (Frankfurt), Loewe AG, SDAX



Positive economic data from China and the U.S. and relaxed equity and liquidity rules for the financial sector again boosted the markets at the beginning of the third quarter. Higher than expected quarterly figures of U.S. companies such as Intel and J.P. Morgan provided new momentum in the capital markets. As early as November, the DAX reached a two-year high and rose further. The economic data from Germany provided impressive support for this movement. The leading German index DAX closed the 2010 market year with a impressive increase of 16 %. The American Dow Jones was up by 11 % and the NASDAQ improved by 17 %.

The Loewe AG Stock looks back on an eventful year of 2010. Despite a discount of 23.9 % on an annual basis, the price recovered from its lows by more than 21 %. Supported by the systematic implementation of the restructuring program, the stock closed the 2010 trading year at EUR 6.85.

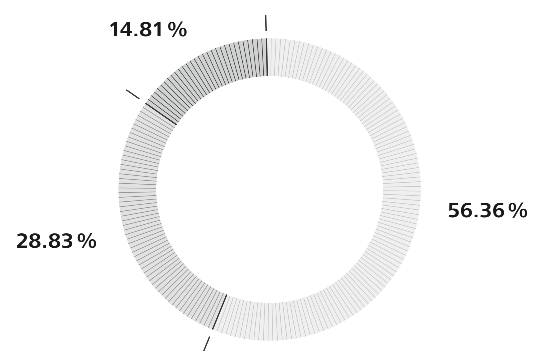
Stable and broad shareholder structure

All agenda items passed with few opposing votes

In its twelfth year as a publicly traded company, the shareholder structure continues to be characterized by a free float of 56.36 % of the share capital. Just under 14,000 securities accounts with Loewe shares were registered for the Annual Shareholders' Meeting in the "Alte Kongresshalle" in Munich on May 20, 2010. All ten items on agenda passed with only a few opposing votes. A total of around 200 Loewe shareholders and guests of the Company attended the Annual Shareholders' Meeting.

Since the most recent capital increase in October 2005, Sharp Corporation, Osaka, Japan, continues to hold its 28.83 % stake in the Company, with Loewe corporate bodies, committees and families holding another 14.81 %. In addition, the financial investor EQMC Fund (EQMC) has held 10.13 % of the share capital of Loewe since late June 2007.

Shareholder structure of Loewe AG



Free float | Sharp Corporation, Japan | Members of the Supervisory and Executive Boards and their families

Other than this, Loewe has received no reports of holdings of 3 % or more. Several large European investment funds now hold Loewe shares in the wake of successful roadshows.

Key figures for Loewe stock

	2010	2009	2008	2007	2006	2005
Year-end closing price Xetra (EUR)	6.85	9.00	8.61	15.65	14.65	12.50
Annual high Xetra (EUR)	11.28	11.42	15.65	18.86	20.45	13.92
Annual low Xetra (EUR)	5.62	5.80	7.37	14.03	10.35	6.30
Average daily trading volume (Xetra + Frankfurt)	22,260	15,781	26,030	37,907	54,349	28,132
Number of shares as of December 31	13,009,229	13,009,229	13,009,229	13,009,229	13,009,229	13,009,229
Market capitalization on December 31 (EUR million)	**89.1**	117.1	112.0	203.6	162.6	52.1
Earnings per share (EUR)	**−0.54**	0.62	1.45	0.55	−0.15	−2.71
Dividend per share (EUR)	**0.00**	0.25	0.50	0.27	0.00	0.00

Investor Relations activities

Regular, comprehensible and transparent communication strengthens confidence

Our investor relations activities are chiefly aimed at securing investors' attention for the Loewe share and maintaining or expanding the existing first-rate coverage of the share as comprehensively as possible. Furthermore, we will report continuously and in detail concerning the current status quo of our "Fast Forward" future strategy program in the current fiscal year. To strengthen the confidence in our share, we attach special importance to regular, comprehensible and transparent communication with investors, analysts and financial journalists.

In addition to the annual DVFA analysts' conference at the close of the year and the Loewe "Investors' Conference" at the International Consumer Electronics Fair (IFA) in Berlin, four conference calls were held as usual in English for analysts and financial journalists in connection with the 1st and 3rd quarter interim reporting, the six months' financial report and the publication of the key figures. Furthermore, Loewe was represented at two capital market conferences in Frankfurt and London. Moreover, we presented our equity story at six international roadshows in more than 50 individual conversations with fund managers. Management also participated in regular personal discussions with analysts, institutional investors as well as business and financial journalists at Loewe's headquarters in Kronach, Germany. The Annual Shareholders' Meeting on May 20, 2010 in Munich was the most important investor relations event for the Company's private shareholders.

IR events 2011

January 27, 2011	Key Figures 2010 *	Kronach
February 18, 2011	Roadshow	London
March 24, 2011	DVFA Analysts' Conference	Frankfurt
March 25, 2011	Roadshow	Frankfurt
May 4, 2011	1st quarter 2011 *	Kronach
May 6, 2011	Roadshow	Copenhagen
May 11, 2011	Small & Mid Cap Symposium	London
May 26, 2011	Annual Shareholders' Meeting	Munich
August 3, 2011	1st half 2011 *	Kronach
August 4, 2011	Roadshow	Frankfurt
September 5, 2011	Investors' Day at IFA	Berlin
September 23, 2011	Roadshow	Copenhagen
November 3, 2011	1st – 3rd quarter 2011 *	Kronach
November 4, 2011	Roadshow	London
November 17, 2011	Roadshow	Vienna
November 21 – 23, 2011	German Equity Forum 2011	Frankfurt

* Conference call with the Executive Board of Loewe AG at 10:00 a.m. on each date

Analyst coverage continues at a high level

A number of prominent analysts again closely observed and comprehensively evaluated Loewe during the 2010 fiscal year. The following table lists banks that have prepared reports on Loewe in recent weeks and months and provides information concerning significant key points of the analysts' assessments (revised: February 9, 2011):

Name	Date	Sales		EBIT		EPS		Target Price	Rating
		2011	2012	2011	2012	2011	2012		
DZ Bank, A. Rautenberg	Feb 9, 2011	337.0	348.5	5.4	11.5	0.19	0.52	10.00	BUY
Goldman Sachs, R. Dreyer	Feb 4, 2011	330.5	348.0	0.1	2.4	−0.10	0.04	7.90	NEUTRAL
Matelan Research, Dr. A. Gronski	Jan 28, 2011	334.2	350.9	11.0	12.0	0.46	0.51	7.50	BUY
equinet, I. Faust	Jan 27, 2011	336.0	352.0	10.1	14.1	0.40	0.61	7.50	HOLD
Deutsche Bank, M. Kuhn	Jan 27, 2011	336.0	348.0	10.0	17.0	0.43	0.82	9.00	BUY
Average		334.7	349.5	7.3	11.4	0.28	0.50		

Very good capital market communications – 2009 annual report receives award

Capital market communications award received

The Loewe 2009 annual report “Value. Development.” received the coveted “red dot design award 2010.” An international jury of the Design Zentrum Nordrhein-Westfalen paid tribute to the high design quality and exemplary aesthetics of the primary instrument of Loewe’s capital market communication.

Significantly higher trading volume

Loewe stock is traded on all German stock exchanges and on the Xetra electronic trading platform; with transaction levels being highest on Xetra and on the Frankfurt Stock Exchange. In 2010, an average number of almost 25,000 total shares was traded per day, significantly higher than in the same period of 2009.

Dividend

A resolution will be proposed to the Shareholders’ Meeting on May 26, 2011 that no dividend be distributed for fiscal year 2011.

Your direct contact with Loewe’s IR team

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More Individual.
The Loewe Individual

Our Responsibility

- Dedication to the **German Corporate Governance Code**
- All recommendations **implemented with just one exception**
- **Supervisory Board's objectives** put into words
- **Value-based management** as a permanent responsibility
- **Active increase** in energy efficiency

Contents

Corporate Governance

Conscientious and transparent management

Loewe's principles continue to conform to the recommendations of the German Corporate Governance Code with one exception

Loewe is an independent company with a clear brand strategy that has become well established as a premium brand in Europe in recent years. We attract our customers with products whose aesthetic appeal is timeless, with exclusive individuality, sensible technology and easy operation. The corporate bodies of Loewe AG also pursue the same high standards and sense an obligation to conscientious, transparent and sustained creation of value in managing the company. This is documented in particular by compliance with the corporate governance principles with only one exception.

Declaration of conformity for 2010 has no substantial limitations

Pursuant to Section 161 of the German Stock Corporation Act, the Executive Board and Supervisory Board of an exchange-listed company must declare once a year that the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette have been and are being complied with or which of the Code's recommendations have not been or are not being applied.

Our principles continue to conform to the recommendations of the Code with one exception. On November 26, 2010, the Executive Board and Supervisory Board issued their declaration of conformity and it was made permanently available to the shareholders at the proper time 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 in accordance with 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 continue to comply with the recommendations of the German Corporate Governance Code as amended on May 26, 2010, published in the electronic Federal Gazette on July 2, 2010, with the following exception:

   In the interest of protecting existing rights and in order to avoid unequal treatment of members of the Executive Board, no severance cap will be set for active members of the Executive Board when concluding new board member contracts or renewing existing ones (Section 4.2.3 (4) (1) of the Code).

2. Since its last declaration of conformity on November 27, 2009, Loewe AG has complied with the recommendations of the German Corporate Governance Code as amended on June 18, 2009, and published in the electronic Federal Gazette on August 5, 2009, except for the recommendation in section 4.2.3 (4) (1) (severance cap when concluding new board member contracts)."

Remuneration of the Executive Board of Loewe AG

The Supervisory Board determines the remuneration of the Executive Board of Loewe AG and the remuneration structure and reviews it on a regular basis. The remuneration system was most recently explained by the Supervisory Board in its meeting on March 18, 2010 and was adopted together with the significant remuneration components. In compliance with the German Corporate Governance Code, the remuneration system is set up in such a way that both the responsibilities and the personal performance of the members of the Executive Board, the performance of the Full Executive Board as well as the Company's economic position, business success and outlook for the future are taken into consideration.

The remuneration of the Executive Board is made up of fixed and variable, performance-related components as well as the pension commitment. The variable remuneration is oriented to the Company's long-term operating and strategic objectives. The members of the Executive Board are simultaneously managing directors of Loewe Opta GmbH; however, they receive no separate remuneration for this activity. All relevant information is disclosed individualized in detail on page 129 of the Notes to this Annual Report. In this report, we refer expressly to the information disclosed there.

Variable remuneration of the Executive Board oriented to the Company's long-term operating and strategic objectives

The remuneration of the Executive Board of Loewe AG for fiscal year 2010 totaled EUR 1,933,954 (2009: EUR 1,971,360) and is broken down as follows:

EUR thousands

	2010	2009
Non-performance	913	921
Performance-related	376	1,050
Severance payments	645	0
Total	**1,934**	1,971
Pensions	192	182

According to the Executive Organization Chart, the responsibilities of the Executive Board are as follows:

Oliver Seidl (Chairman, Finance and Services)	**Gerhard Schaas (Technology)**	**Manfred L. Fitzgerald (Marketing/Sales) from February 1, 2011**
Finance and Accounting	Development	Marketing
Controlling	Production and Disposition	Sales
Human Resources	Purchasing and Logistics	Customer Services
Information Technology	Patents	Product Design
Quality	Sponsorship Projects	
Project Management		
Press and PR		
Investor Relations		
Internal Audit		
Strategic Corporate Planning		

The deductible in insurance policies for liability arising from professional negligence prescribed since August 2009 based on the German Act on the Appropriateness of Executive Board Remuneration (VorstAG) is included in the contracts for all members of the Executive Board. An age limit of 65 years applies to the Executive Board. Employment contracts for the members of the Executive Board have a remaining life of somewhat more than three years. The contract with Mr. Seidl will expire on July 31, 2014; the contract with Mr. Schaas will expire on April 30, 2014; and the contract with Mr. Fitzgerald will expire on January 31, 2014.

A severance cap for the case of early termination is currently not provided in the existing Executive Board contracts in the interest of protecting existing rights.

Remuneration of the Supervisory Board of Loewe AG

In conformity with sub-section 5.4.6. of the German Corporate Governance Code, Loewe reports the compensation of the Supervisory Board individually and sub-divided according to components. In accordance with a resolution of the Shareholders' Meeting of June 5, 2009, the remuneration of the Supervisory Board was set down in the Articles of Incorporation of Loewe AG. It is made up of fixed and variable remuneration components. Each member of the Supervisory Board of Loewe AG receives a fixed annual remuneration of EUR 15,000. The variable bonus is performance-related and depends on net income. Each member of the Supervisory Board receives an additional EUR 15,000 if Group earnings per share reach EUR 2.20. If earnings are lower or higher, the variable component is reduced or increased proportionally. 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. The total remuneration of the Supervisory Board for fiscal 2010 came to EUR 122,982 (2009: EUR 154,482). See page 128 of the Notes for detailed information on the individual remuneration of the Supervisory Board. The members of the Supervisory Board performed no consulting and mediation services or other services during the year under review. For that reason, no remuneration was granted in excess of the aforementioned components.

Directors & officers insurance also exists for the Supervisory Board. An appropriate deductible – geared to the Supervisory Board incentive compensation – has been stipulated.

Objectives of the Supervisory Board

Supervisory Board's composition objectives put into words

The Loewe Supervisory Board has the following objectives relating to its composition:
"The members of Supervisory Board of Loewe AG should consistently exhibit a high level of professional competence. After additional European countries besides Germany, Austria, Switzerland and the Benelux countries become core markets of Loewe AG, this internationalization should also be reflected in the Supervisory Board of Loewe AG. For that reason, this body should also include members from those countries.

Furthermore, the members of the Supervisory Board of Loewe AG should not be exposed to any potential conflicts of interest. For that reason, this body should not include persons who hold executive or supervisory offices with customers of Loewe AG or have a significant business relationship with Loewe AG.

The Supervisory Board should generally not include persons older than 70 years on the date of their appointment or reappointment. If a nominee to the Supervisory Board is older than this general age limit, reasons must be given.

The composition of the Supervisory Board of Loewe AG should be as diverse as possible. The Supervisory Board of Loewe AG sees this objective as having been met if the Supervisory Board includes a financial expert, a legal expert, a businessman, an expert familiar with the technological interrelationships of the consumer electronics industry and a corporate finance expert. An appropriate participation of women should also be aimed for."

Avoidance of conflicts of interest

Both the members of the Executive Board and the members of the Supervisory Board are bound by the best interests of the Company of Loewe and may not pursue personal interests in their decisions. Members may not, in connection with their work, demand or accept from third parties payments or other advantages for themselves or for any other person or grant third parties unlawful advantages. The members of the Executive Board shall disclose such transactions or sideline activities to the Supervisory Board without delay and they require the approval of the Supervisory Board. The Supervisory Board shall inform the Annual Shareholders' Meeting of any conflicts of interest which have occurred together with their treatment. No such conflicts of interests have occurred with members of the Executive Board or the Supervisory Board in the period under review.

Directors' dealings

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Executive Board and of the Supervisory Board as well as persons in close association with them must disclose the purchase and the sale of the company's shares if the value of the transactions equals or exceeds EUR 5,000 in a calendar year. The Executive Board did not enter into any reportable transactions between November 26, 2009 and December 31, 2010.

Generally, Loewe promptly reports the details concerning these transactions and displays them permanently at www.loewe.de under Investor Relations. It also properly informs the German Federal Financial Supervisory Authority (BaFin).

Shareholdings of the Executive Board and Supervisory Board

As of the reporting date December 31, 2010, the Executive Board held 79,300 Loewe shares (2009: 158,458). No options exist. One member of the Supervisory Board directly holds 550,000 Loewe shares (2009: 550,000).

Compliance at Loewe

Code of conduct drawn up and communicated throughout the Company

For Loewe, sustainable economic, ecological and social action is an indispensable element of the corporate culture. To meet the standards of our premium brand, we must exhibit perfect ethical conduct in our interaction with customers, suppliers, colleagues and other persons. Our actions must not encroach on personal dignity and privacy. This behavior of course includes compliance with laws, regulations and guidelines as well as obligations. As a means to improve compliance standards, Loewe drew up its own code of conduct in fiscal year 2009 and communicated it throughout the Company. Compliance with the code is not only a management responsibility but is also something to be lived by all employees. Based on the fundamental value of integrity, all requirements for the conduct of employees are described in detail in the Loewe code. In addition to compliance with all relevant laws, relations with business partners, the avoidance of conflicts of interest, the handling of information and insider rules as well as compliance with environmental protection and safety provisions are of particular importance for us.

Transparent and fair reporting

Loewe treats all target groups equally according to the principle of fair disclosure

Following the expectation of transparent and fair corporate communications, we regularly and promptly inform our shareholders, financial analysts, shareholder associations, media and the interested public about the Company's position and significant business changes in German and English. In doing this, we comply with the rules defined in the German Corporate Governance Code. During the fiscal year, we provide information to the public in the six months' financial report and by means of the corresponding interim reports for the first and third quarters. Furthermore, Loewe also announces its information in press conferences and analysts' conferences, and all company reports can be retrieved from the web pages www.loewe.de. Following the principle of fair disclosure, we treat all shareholders and target groups equally. Concomitant with regular reporting, we use ad hoc notifications to provide information promptly concerning circumstances that are not public knowledge that, if disclosed, would be capable of influencing the Loewe share price considerably.

Responsible handling of risks

For years, Loewe has had systematic risk management which is reviewed by the auditor. Loewe identifies, evaluates and documents existing individual risks systematically by clearly defining risk areas. At the same time, the system models their impacts on the Company's financial position and performance. The risk management system is an integral component of Loewe's entire planning, controlling, and reporting process. Transparent reporting makes it possible to detect discrepancies in key data at an early stage, thereby enabling management to identify risks earlier, control them and initiate measures for their timely elimination. See the section "Opportunities and risks of future development" starting on page 66 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 three committees (personnel, audit and nominating committees) as well as the accounting and audit can be found in the Report of the Supervisory Board. Extensive information concerning offices held by the members of the Supervisory Board and Executive Board of Loewe AG can be found on page 127 et seq. of the Notes to the Consolidated Financial Statements in the section "Corporate Bodies and Offices Held".

Kronach, March 17, 2011

For the Executive Board	For the Supervisory Board
O. Seidl	R. Hecker
Oliver Seidl	**Dr. Rainer Hecker**
Chief Executive Officer	Chairman of the Supervisory Board

Corporate Social Responsibility

The goal of Loewe's value-based management is to achieve a balance between the interests of the shareholders, employees, customers and the public. Only on this basis is the sustained, long-term growth of the Company's value possible. Acting within this "quadrangle of interests" truly means acting in a businesslike, responsible manner, and we follow this guiding principle for the relations with all of our stakeholders.

Value-based management is basis for all strategic decision making

Quadrangle of interests of Loewe AG

Shareholders justifiably expect long-term growth in the value of their investment and reasonable interest on the capital invested. Loewe will spare no effort in meeting this expectation. In this complex network of relationships, open and transparent communication is a must. Following the principle of fair disclosure, we treat all shareholders and significant target groups equally.

Our employees, who make up the second group in the quadrangle of interests, expect high involvement in obtaining and developing job positions. They expect participative management that takes the shared responsibility of all employees seriously, adjusts to demographic change in good time, offers older employees a future within the Company and stimulates excitement in younger persons about working for the Company. Loewe is oriented to the needs of the family, for example by offering flexible working hours models and sees the realization of employees' professional and private goals as a worthy objective. An above-average share of trainees, active connections with schools, colleges and universities, and career planning for older employees are equally important to us.

Loewe customers, the third group in the quadrangle of interests, receive outstanding products with award-winning design that consistently achieve convincing top marks in tests. For instance, the magazine Video-HomeVision wrote the following about the Loewe Connect LED in January 2011: "Loewe's newest stroke of genius – no other television currently offers better networking and more options for interaction." Loewe also received numerous design awards in 2010, including the "Good Design Award" in Chicago.

Responsibility to the public – the fourth group in the quadrangle of interests – translates for instance into Loewe being a committed sponsor of the competition "Jugend forscht" (a German youth science competition) in the region surrounding our Company's headquarters. We are also involved in arts and culture and in promoting the economy and attractiveness of our region. At Loewe's initiative, the Italian sculptor Fabrizio Plessi created an internationally acclaimed video sculpture called "Waterfire" for the city of Kronach; the first sculpture of its kind to continuously be on exhibit outdoors. We are also active in sports: Loewe's sponsorship of an indoor football tournament is already in its 15th year. Twenty company teams vie for the Loewe Cup. In all these activities, we are guided by the awareness that the region lives from the strength of its economy but the economy also lives from the attractiveness of the region.

Value-based decision making consistently includes a personal component as well and always means taking personal responsibility, setting standards and acting as a role model. People determine the corporate culture and are a pivotal factor in the quality of the values seen and experienced at the Company. Does a climate of trust and personal respect prevail? Are all employees, the shareholders, the customers, and the public well informed concerning important questions of the Company's development? Is every employee accepted and supported as an individual and as a team member? Successful companies support and foster their employees' personal development. That is the way Loewe does business.

Sustained Environmental Orientation and Quality Management

Loewe actively increases energy efficiency

Continuous reduction of the environmental impact of all corporate activities is an essential goal at Loewe. For that reason, we expect and promote environmentally aware actions 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 and its quality management under DIN ISO 9001. Loewe has been a member of QuB (Quality Association of Environmentally Conscious Companies) since August 2008, thus reaffirming management's commitment to sustainability. Loewe employs specific annual safety and environmental improvement measures to actively increase its energy efficiency.

Several of the most important activities in this area are:

- Optimization of heat recovery for the purpose of significantly reducing energy expenses for compressed air
- Reduction of costs for electricity in production
- Completion of a research project for determining and optimizing energy flows in production
- The reduction of heating costs by adding insulation in various buildings
- The reduction of energy consumption in production by expanding low temperature soldering to additional components

Loewe continues to participate actively in various committees of the industry associations (including ZVEI, Digital Europe and EAR) for the purpose of early involvement in the discussion of relevant ecological themes. Loewe's environmental policy is expressed in its concern to ensure that its products have as little environmental impact as possible. Even in the design and development stage of all products, it is considered of utmost importance for them to contain no pollutants and be recycled as easily as possible.

Loewe has also achieved great progress with regard to the energy efficiency of its television sets. Standby consumption was accordingly reduced to about 0.3 watts and the use of LED backlight technology nearly cut the sets' consumption of electricity in half. Operating consumption was also reduced through the use of a light sensor that measures ambient brightness and adjusts the backlighting of the screen as appropriate. This sensor makes it possible to save an additional 15 to 25 %. Moreover, Loewe TVs save additional electricity by integrating additional functions such as the hard disk recorder or various DVB tuners as compared to comparable single components. Such integration is typical for Loewe. The reduced use of materials resulting from the integration, which contributes to the preservation of our environment's resources, is another advantage.

More Networked.
The Loewe Connect

Management Report

- Improving **economic situation**
- Market for LCD TVs **continues to grow**
- **Sales down** by 5 % to EUR 307.3 million
- **EBIT loss** of EUR −5.3 million
- **Positive contribution to earnings** of EUR 3.8 million in the fourth quarter of 2010
- **Solid capital structure** and stable financing
- **“Fast Forward” future strategy program** initiated early
- **LED product offensive** implemented according to plan
- **Sales expected to grow** by approximately 10 % to EUR 340 million in 2011
- **Positive EBIT** expected in 2011

Contents

Management Report

Business environment

Macroeconomic development

Sluggish economic recovery in industrial nations

The financial crisis appears to have been weathered; the global economy is once again on a growth track. However, one of the greatest challenges in the years to come will be the need to reduce the excess indebtedness of entire national economies. The emerging markets dominated economic momentum in 2010. The financial crisis had no impact or only indirect impact on them, enabling them to return to their accustomed growth trajectory very quickly. In contrast, the recovery in the industrial nations has been sluggish almost everywhere. Germany is the positive exception to this.

The financial crisis caused the eurozone economy to shrink significantly by 4.1 % in 2009. In 2010, the eurozone states again recorded 1.7 % growth of gross domestic product (GDP). Still, the trend was quite diverse in the individual countries of the eurozone. Germany (+ 3.8 %) and France (+ 1.6 %) recorded the most positive results in 2010. National economies such as Greece, Portugal and Ireland struggled with massive indebtedness with a significantly negative impact on their economic development. The eurozone is expected to see an annual growth rate of 1.2 % for 2011. Rising prices for energy and commodities contributed to a 1.5 % inflation rate in 2010. A rate at this level is also expected for 2011.

Germany the positive exception – current situation and business outlook the best since reunification

After a record 4.7 % GDP decline in 2009, the German economy worked its way out of the crisis with 3.8 % growth in 2010 and 2 to 3 % growth is expected in the current year of 2011. Leading economists say that the crisis is over. The assessment of the current situation and the business outlook of German companies has not been considered to be this good since reunification. The positive economic trend is supported by steadily rising exports, an upturn of corporate investment by German companies and significant growth in private consumption. According to the GfK consumer climate index, the propensity of consumers to purchase durable goods is higher than in the last three years. The annual inflation rate at 1.1 % was slightly below the European average in 2010 and is expected to increase to around 1.5 % in the current year.

Moderate growth of the European market for LCD TVs

Compared to the previous year, the European consumer electronics market grew by 1 % to EUR 30.2 billion in 2010. The sole market segment with declining sales was the DVD segment at – 9 %. The most significant product group within the European consumer electronics market continued to be television, sales of which rose by 4 % in 2010. Sales of LCD TVs also rose by 5 %, while the plasma TV market persisted at nearly the same level as in the previous year.

Western European consumer electronics market as defined by GfK
EUR billion

	2010	2009	± in %*
TV	22.5	21.7	+4
DVD/Blu-ray players	1.7	1.9	−9
Hi-Fi systems	2.6	2.6	
Subtotal	**26.8**	26.2	+2
Audio, video games, etc.	3.4	3.7	−7
Total	**30.2**	29.9	+1

*The percentage amounts are based on the unrounded market figures. (Source: GfK, Western European market)

The market trend in televisions is particularly important for Loewe because television represents the highest percentage of sales volume. Loewe concentrates on LCD TV, which is currently dominant in Europe and represents 89 % of total TV sales.

Total TV (excluding CRT TV) market in Western Europe by technology
EUR billion

	2010	2009	± in %
LCD	20.1	19.2	+5*
Plasma	2.4	2.5	−3
Total	**22.5**	21.7	+4

*The percentage amounts are based on the unrounded market figures. (Source: GfK, Western European market)

Continued growth of the LCD TV market in 2010

Growth in sales revenue and volume of LCD TVs

LCD sets continued to evidence growth in sales revenue and volume in 2010. 39.9 million LCD TVs were sold in 2010, 10 % more than in 2009. In the most important 32 inch screen size segment, sales in Europe increased by 1 % to 12 million sets. Sales of large-screen LCD TVs 37 inches and larger, which are highly significant for Loewe, showed very dynamic growth, rising 22 % from approximately 9.4 million sets in 2009 to approximately 11.5 million sets in 2010. The percentage of sales of LCD sets 37 inches and larger in the LCD TV total market expanded to 51 % in 2010 compared to 47 % in 2009. The price declines in the individual screen size categories were significantly less pronounced in 2010 than in 2009, as a result of which the average price per LCD TV at EUR 503 was only 5 % less than in the previous year due to the sustained trend to large-screen and more well featured sets. The average price for a 32 inch set came to only EUR 486 in 2010, down from EUR 523 in 2009. This reflects a decrease of 7 %.

Growth in sales in Loewe key markets below European average

In fiscal 2010, the growth in value of the European LCD TV market exceeded the previous year's already high value by 5 %. Broken down by country, the development showed disparities, with Switzerland (+ 17 %), Italy (+ 15 %), Sweden (+ 12 %), Austria (+ 10 %) and Spain (+ 7 %) recording above average growth. Only the market in the United Kingdom declined by 3 %. In the Netherlands (+ 1 %), France (+ 2 %), Belgium (+ 3 %) and Germany (+ 4 %), growth in sales was less than the European average of 5 %.

LCD TV market in Western Europe (by country)
EUR million

	2010	2009	± in %*
Germany	4,770.6	4,590.0	+4
United Kingdom	3,539.4	3,644.6	−3
France	3,525.8	3,459.0	+2
Italy	2,809.8	2,439.1	+15
Spain	2,128.0	1,982.3	+7
Netherlands	1,030.6	1,018.1	+1
Switzerland	596.7	509.7	+17
Belgium	579.1	563.7	+3
Sweden	568.1	506.5	+12
Austria	520.6	472.3	+10
Total Europe	**20,068.6**	19,185.4	+5

* The percentage amounts are based on the unrounded market figures. (Source: GfK, Western European market)

In Germany, the price per LCD set declined to EUR 665 in 2010 and was thus only 5 % lower than the previous year's level of EUR 699. The German average price of EUR 665 exceeded the European average price of EUR 503 by a significant 32 %. Prices in Belgium, Sweden, Austria and the Netherlands also exceeded the European average, in some cases by far. The highest price of EUR 807 (2 % higher than in the year before) continued to be seen in Switzerland where demand has been constant for very high-end and well featured flat-panel display sets for years. In contrast, prices in the United Kingdom and Italy did not exceed EUR 411, this being accounted for, among other things, by a higher percentage of small-picture sets in the market and intense price competition.

Loewe's market share in terms of value for LCD TVs among European retailers declined by 0.5 percentage points to 3.7 % in 2010. As it did in the previous year, Loewe expanded its market share in Switzerland where a high price level exists. The gain of 0.5 percentage points increased the market share in Switzerland to 8.5 % in 2010. In Belgium, Italy and France, Loewe barely managed to maintain the previous year's level. On the other hand, declines were recorded in the Netherlands, Spain and Germany.

Loewe's market share of LCD TVs in Europe at 3.7 %

Loewe share of the LCD TV market in Western Europe (by country), based on retail sales
in %

	2010	2009	± in %
Germany	8.6	9.7	− 1.1
United Kingdom	0.3	0.2	+ 0.1
France	1.6	1.9	− 0.3
Italy	0.4	0.6	− 0.2
Spain	1.9	3.0	− 1.1
Netherlands	4.0	5.2	− 1.2
Switzerland	8.5	8.0	+ 0.5
Belgium	4.6	4.8	− 0.2
Sweden	0.0	0.1	− 0.1
Austria	6.4	6.8	− 0.4
Total Europe	**3.7**	4.2	− 0.5

(Source: GfK, Western European market)

The European market for speakers and home cinema systems

Market share for speakers in Europe increases to 4.6 %

Especially in Germany, Loewe significantly influenced the market for speakers in the years 2009 and 2010. In 2010, Loewe increased its market share once again from 10.4 % in 2009 to 12.1 % and continued to be the second most important brand based on sales revenue in the market as a whole. It was primarily Loewe's individual speaker products that made this very positive development possible. In Europe, we achieved a market share of 4.6 % in 2010 (0.8 percentage points higher than the year before) and we were in 6th place among the top ten brands. In addition to Germany, our market share was also above average in Belgium and the Netherlands. The most significant brands for home cinema systems in Europe were Samsung and Bose, covering just under 40 % of the market. Throughout Europe, Loewe was in 9th place with a market share of 1.4 %.

Key performance indicators of the Loewe Group and of Loewe AG

Key figures
EUR million

	2010	2009	± in %
Sales	**307.3**	324.0	−5
EBIT	−5.3	13.5	
Net income	−7.0	8.0	
Capital expenditure	20.7	19.0	+9
Employees (annual average)	1,062	1,042	+2

Combined management report of Loewe AG and the Loewe Group

The management report of Loewe AG and the Group management report covering fiscal year 2010 have been prepared pursuant to Section 315 (3) in conjunction with Section 298 (3) of the German Commercial Code (HGB). The financial statements of Loewe AG pursuant to HGB and the combined management report are published simultaneously in the electronic Federal Gazette.

The development of business of the Loewe Group is explained below. Loewe AG is itself not an operating company and its income is primarily obtained from the profit transfer agreement with Loewe Opta GmbH, the most significant individual group company. The information below therefore primarily refers to the Loewe Group, as the economic development of the parent is directly dependent on events in the Group. Where necessary, Loewe AG is dealt with separately.

Negative EBIT with a 5 % decline in sales

5% decline in sales to EUR 307.3 million

At EUR 307.3 million, sales of the Loewe Group in fiscal year 2010 were 5 % lower than the 2009 figure of EUR 324.0 million. In its key German market, Loewe was not able to reach the high sales level of the previous year in entertainment electronics; sales declined by 7 % to EUR 179.7 million. Export sales of EUR 127.6 million also reflected a 3 % decline. The percentage of sales of large-picture TV sets with a screen diagonal of 37 inches and larger grew from 58 % of the Company's total sales in 2009 to 66 %.

After the negative repercussions of the global financial crisis in 2009, fiscal year 2010 was largely characterized by normalization and economic recovery in the most important European countries. Although almost all key markets reported a positive trend for LCD TVs in terms of value, the propensity of consumers to purchase durable premium products still did not return to the expected level.

A strategic positioning in the premium segment and an attractive and individual product portfolio have enabled Loewe to keep selling prices at an almost stable level in previous years. The average market prices for LCD TVs in Europe continued to trend downwards in 2010, although the price declines slowed significantly in the last months of the year. To create additional incentives to buy high-quality Loewe products, Loewe reduced prices, particularly in the entry level TV segment.

The necessary price adjustments and higher purchasing costs (especially for the highly in demand LCD panels) enabled Loewe to achieve a gross margin of only 22.8 % in fiscal year 2010 which was 6.4 percentage points lower than the previous year's figure of 29.2 %. The reduced sales and production volume thus led to an EBIT loss for Loewe of EUR –5.3 million in fiscal year 2010 (2009: positive EBIT of EUR 13.5 million).

Reduced sales and production volume led to EBIT loss of EUR 5.3 million

The resulting decline by EUR 15.0 million led to a loss of EUR 7.0 million in net income after taxes and minority interests.

Increased investments for tools for the newly launched LED products increased the total capital expenditure slightly by a total of EUR 1.7 million to EUR 20.7 million. This figure was less than depreciation/amortization by EUR 1.0 million.

The only significant investments on the level of Loewe AG were in the area of equity interests, resulting in particular from the acquisition of 78.98 % of the shares of MacroSystem Digital Video AG (MacroSystem).

On an annual average, the number of employees at 1,062 in the Loewe Group increased by 20 compared to 2009. Adjusted for the effect from the first-time consolidation of MacroSystem, the number of employees would have been reduced by eight persons.

In the same period, the net income of Loewe AG came to EUR 0.6 million compared to EUR 5.4 million in fiscal 2009. Loewe AG employed 19 persons on average in 2010 (2009: 20 persons).

Financial performance

Sales decline by 5 %

Although Group sales were 3 % higher in the first two quarters of the fiscal year than in same period of 2009, they fell short of expectations due to the fact that the FIFA World Cup in South Africa had triggered the substantial market growth in the first six months of 2010. The main cause for missing the sales target was the delayed market launch of the new Individual LED TV family in advance of the FIFA World Cup. For that reason sales of LCD TVs were generally 5 % lower in the first half than in the previous year. Higher sales were reported only for LCD TVs in the screen size categories of 40 inches and larger. The newly launched Individual 40" and 46" with LED backlighting had a positive impact despite the delays. Supported by the market launch of the Mediacenter, Audio/DVD achieved sales increases, which made it possible to compensate a little for the declines in TV sets in the first six months.

Third and fourth quarter sales were significantly lower year-on-year. Sales of LCD sets were down while sales of Audio/DVD stagnated at the previous year's level. Despite the launch of additional new devices in the Individual, Connect and Art product series with LED backlighting, a significant buying restraint in the market of relevance for Loewe was noticed from the middle of the fiscal year. For that reason, a number of targeted sales support measures were initiated in the second half in particular.

For the entire year, sales of LCD TVs by the Loewe Group declined by 11 % to EUR 249.8 million. The percentage of total sales of LCD TVs with screen diagonals of 37 inches and larger increased from about 58 % in fiscal 2009 to 66 % in 2010. This is proof of the sustained trend in the direction of larger displays. Loewe has a strong position in this product group with a large number of models.

Sales as a percentage of total sales of large screen LCD TVs increased to 66 %

Sales structure by product area
EUR million

	2010	2009	± in %
TV	249.8	280.5	−11
Audio	25.5	15.8	+61
DVD/Blu-ray	5.9	7.7	−23
Other	26.1	20.0	+31
Total sales	**307.3**	324.0	−5

Audio product group sales rise by 61 %

The attractive range of audio components for home cinema solutions had a positive impact on sales of audio and DVD/Blu-ray. The product group benefited primarily from the market launch of the Media-center product family in April 2010. Furthermore, additional innovative products such as AudioVision, Multiroom Receiver and speakers contributed to the expansion of business. Sales of the Audio product group rose by 61 % compared to the previous year.

Other sales (technical support and accessories) increased by 31 % to EUR 26.1 million in 2010. The trend was especially positive for accessories with their attractive placement solutions. Furthermore, the contribution to sales by MacroSystem Digital Video AG (consolidated for the first time in 2010) in the amount of EUR 2.4 million had a positive impact.

In its key German market, Loewe was not able to maintain the level of sales of the previous year in entertainment electronics in fiscal 2010. This was primarily attributable to the delayed launch of the new Individual LED product family during the FIFA World Cup and the restrained demand in the second half. Export sales also declined, although to a lesser degree. The foreign share of Loewe's total sales revenue increased slightly from 40.4 % to 41.5 %. Business development in the export markets exhibited divergent trends, with the largest declines occurring in Italy and the Benelux countries, and in the Netherlands in particular.

Sales structure by region
EUR million

	2010	2009	± in %
Germany	179.7	193.0	−7
Benelux countries	36.0	38.7	−7
Spain	18.7	18.3	+2
France	17.7	17.4	+2
Austria	13.2	13.4	−1
Italy	12.4	15.7	−21
Switzerland	10.5	9.8	+7
Other European countries	7.7	6.7	+15
United Kingdom	6.2	6.3	−2
Total Europe	**302.1**	319.3	−5
Australia	2.0	1.6	+25
CIS	1.9	1.9	±0
Other non-European countries	1.3	1.2	+8
Countries outside Europe	**5.2**	4.7	+11
Total sales	**307.3**	324.0	−5

Sales declined by 7 % in Germany

Sales in Germany declined by 7 % to EUR 179.7 million. In the LCD TV segment, Loewe's retail market share was 8.6 %, reflecting a decline of 1.1 percentage points compared to the previous year.

In the Benelux countries, Italy, France, Austria and the United Kingdom, subsidiaries perform sales and service of Loewe sets.

In the Benelux countries, Loewe recorded a 7 % decline in sales to EUR 36.0 million in 2010. While sales in Belgium were roughly at the level of the previous year, sales in the Netherlands declined steeply. Development of business in Italy was partially influenced by aggressive competitor pricing. Loewe's sales of EUR 12.4 million were down 21 % year-on-year. Sales at Loewe France increased slightly by 2 % in 2010 to EUR 17.7 million. On the other hand, Loewe Austria fell short of the 2009 figure by 1 % and achieved sales of EUR 13.2 million. With sales nearly amounting to EUR 6.2 million, the company in the United Kingdom nearly achieved the previous year's figure.

In the other countries, Loewe products are marketed by external distribution partners. Loewe's most important export market without a company-owned sales company is Spain where national sales rose by 2 % to EUR 18.7 million.

Despite its comparatively small size, the Swiss market is attractive for high-end products. Loewe continues to be well positioned in Switzerland where sales increased by 7 % to EUR 10.5 million.

EBIT loss in 2010

At EUR −5.3 million, EBIT in fiscal year 2010 was EUR 18.8 million lower than in the previous year. Loewe consistently stuck to its stable price policy for new products and the value-based marketing of its products. Nonetheless, price adjustments became necessary, particularly in the entry level TV segment, to increase the appeal of Loewe products for an expanded target group. A discriminating product mix and new product launches of TV sets as well as innovative audio/DVD components provided positive stimuli in 2010. However, the necessary price adjustments and higher procurement costs (especially for the very highly in demand LCD panels) had a negative impact on the gross margin.

After a slightly positive first quarter, losses were reported in the next two quarters, with an EBIT loss of EUR 9.1 million by the end of September 2010, which significantly exceeded the loss in the previous year. The "Fast Forward" future strategy program, higher sales and a further optimized product mix led to positive EBIT of EUR 3.8 million in the fourth quarter, making it possible to partially compensate for the previous losses.

Higher cost of sales

Increase in cost of sales due to higher procurement costs for LCD panels

In the year under review, the cost of sales rose by 3.5 % compared to the year before despite the reduced sales and production volume. The cost-of-sales ratio increased accordingly from 70.8 % in 2009 to 77.2 %. The higher procurement costs for LCD panels and the stronger U.S. dollar on an annual average compared to the year before were the chief factors in this increase. The further increase in production efficiency and the optimization of the cost structure did not compensate for these effects. The gross margin declined from a total of EUR 94.5 million in 2009 to EUR 69.9 million in 2010.

Selling expenses

Selling expenses declined in 2010 by EUR 5.3 million to EUR 68.7 million, due among other things to the more targeted employment of funds. While vigorous efforts at further expanding the brand position which were associated with correspondingly high expenses for communications and the expansion of retail shop-in-shop systems were continued, specific measures to cut costs had an impact. As a percentage of sales, the selling expenses also fell from 22.8 % in 2009 to 22.3 % in 2010.

Administrative expenses

Administrative expenses remained nearly constant year-on-year. At 2.8 % of sales, they were roughly at the level of the previous year.

Other operating income, net

At EUR 2.0 million in 2010, the balance of other operating income and expenses fell short of the previous year's figure by EUR 0.3 million.

Other operating income in the amount of EUR 7.8 million was approximately EUR 1.3 million higher than in 2009. Derecognition of lapsed existing liabilities particularly contributed to the rise.

Other operating income rose by EUR 1.0 million in 2010 to EUR 5.8 million, which was mainly due to expenses from personnel measures in the course of the restructuring.

Net interest expense

Net interest expense (balance of interest income and interest expenses) in 2010 came to EUR −2.4 million, thus declining by EUR 0.6 million compared to the year before. The reduction is mainly due to the lower interest for the investment of overnight money and term investments and the lower cash and cash equivalents.

Report on Assets and Financial position

Higher capital expenditure

Capital expenditure and depreciation/amortization
EUR million

	2010		2009	
	Capital expenditure	Depreciation and amortization	Capital expenditure	Depreciation and amortization
Intangible assets	9.5	8.2	7.6	7.0
Property, plant and equipment	10.7	13.5	11.0	13.3
Financial assets	0.5	0.0	0.4	0.0
Total	**20.7**	**21.7**	19.0	20.3

Investment in new products, in presentation systems for retailers and to increase efficiency

Capital expenditure increased year-on-year by EUR 1.7 million to EUR 20.7 million. Investment in property, plant, and equipment focused on tools for new products, presentation systems for retailers and streamlining measures in production. Intangible assets include development services subject to mandatory capitalization and corresponding capitalization arising from the acquisition of MacroSystem Digital Video AG.

Depreciation and amortization in the amount of EUR 21.7 million in 2010 was EUR 1.4 million higher than in 2009.

Stable balance sheet ratios

Equity ratio slightly lower at 37.1 %

Despite the dividend totaling EUR 3.3 million, the equity ratio changed only slightly from 38.0 % in 2009 to 37.1 % as of the 2010 balance sheet date. At EUR 80.1 million, the equity of the Loewe Group, including minority interests, was lower than the 2009 level by EUR 8.9 million. Total assets declined by EUR 18.3 million to EUR 215.7 million.

Non-current assets

The decrease in non-current assets resulted for the most part from the reduced value of property, plant and equipment. This compensated for the increase in miscellaneous non-current assets and deferred taxes.

Non-current assets
EUR million

	2010	2009	± in %
Property, plant and equipment	37.2	40.1	−7
Deferred taxes	11.0	10.9	+1
Miscellaneous non-current assets	10.4	8.7	+20
Total non-current assets	**58.6**	59.7	−2
as a percentage of total assets	27.2	25.5	

Property, plant, and equipment includes land and buildings, production facilities, and other factory and office equipment predominantly located in Kronach. The reduction is primarily attributable to the lower capital expenditure. The intangible assets included in the miscellaneous non-current assets chiefly relate to development costs for new products to be recognized in accordance with IAS 38.

Lower current assets

Inventories were significantly higher than in the year before. Lower sales in the fourth quarter compared to the previous year contributed to the EUR 14.8 million reduction in trade accounts receivable. Miscellaneous current financial assets also declined.

Current assets
EUR million

	2010	2009	± in %
Inventories	67.1	50.5	+33
Trade accounts receivable after factoring	70.5	85.3	−17
Miscellaneous current financial assets	19.5	38.5	−49
Total current assets	**157.1**	174.3	−10
as a percentage of total assets	72.8	74.5	

Increased inventories

Inventories rose by EUR 16.6 million from EUR 50.5 million as of the 2009 balance sheet date to EUR 67.1 million. The primary cause for this was an increase in factory inventories. Among other things, closing inventories of panels and other components were carried out, as manufacturers we are stopping deliveries of panels with the needed specifications. In addition, changed settlement terms compared to the previous year led to a buildup of inventories with a simultaneous increase in trade accounts payable. Loewe has deliberately purchased larger batches of LED panels which enabled it to obtain a significant purchase price reduction. Inventories of finished goods were slightly higher than in the previous year. Service inventories decreased compared to the level of fiscal 2009.

Increase in factory inventories due to panel inventory closing and changed settlement terms

Composition of inventories
EUR million

	2010	2009	± in %
Raw materials and supplies	23.8	14.2	+68
Work in progress	1.7	1.7	±0
Finished goods and merchandise	41.6	34.6	+20
Total	**67.1**	50.5	+33
as a percentage of total assets	31.1	21.6	

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

Lower trade accounts receivable

Trade accounts receivable adjusted for factoring dropped by 17 % year-on-year to EUR 70.5 million. The reduction is primarily due to the lower sales volume in the fourth quarter of 2010 compared to the fourth quarter of 2009.

Trade accounts receivable
EUR million

	2010	2009	± in %
Trade accounts receivable before factoring	75.5	85.3	−11
Factoring	−5.0	0.0	
Total trade accounts receivable	**70.5**	85.3	−17
as a percentage of total assets	32.7	36.5	

The utilization of factoring in the amount of EUR 5.0 million as of the 2010 balance sheet date was due to temporal overlaps in the repayment of lucrative term deposits.

Solid equity base

As of December 31, 2010, shareholders' equity including minority interests was EUR 80.1 million compared to EUR 89.0 million in 2009. The equity-to-assets ratio changed only slightly from 38.0 % to 37.1 %.

Non-current liabilities

The higher total amount of non-current liabilities year-on-year resulted primarily from the increase in non-current provisions and a simultaneous reduction of non-current financial liabilities.

Non-current liabilities
EUR million

	2010	2009	± in %
Pension provisions	40.8	40.3	+1
Other non-current provisions	17.5	17.1	+2
Non-current financial liabilities	0.0	0.1	
Total non-current liabilities	**58.3**	57.5	+1
as a percentage of total assets	27.0	24.6	

Decrease in current liabilities

The reduction in trade accounts payable was primarily due to the lower production and procurement volume than in the year before. The decline in other current provisions was mainly the result of reduced retailer bonuses due to the lower sales. The decrease in other current liabilities resulted from lower taxes and social security charges due as well as changes in the fair value of financial derivatives.

Current liabilities
EUR million

	2010	2009	± in %
Trade accounts payable	22.2	23.1	−4
Other current provisions	41.8	46.5	−10
Other current liabilities	13.3	17.9	−26
Total current liabilities	**77.3**	87.5	−12
as a percentage of total assets	35.8	37.4	

Stable financing

Net bank balances
EUR million

	2010	2009	± in %
Cash and cash equivalents	13.2	36.1	−63
Long-term liabilities to banks	0.0	−0.1	
Short-term liabilities to banks	−0.1	−0.9	−89
Net bank balances	**13.1**	35.1	−63
Factoring	−5.0	0.0	
Liquidity	**8.1**	35.1	

The net bank balance of the Loewe Group decreased by EUR 22.0 million from EUR 35.1 million as of December 31, 2009 to EUR 13.1 million as of the 2010 balance sheet date. The possibilities for factoring were utilized in the amount of EUR 5.0 million at year-end 2010.

No long-term bank liabilities will exist after March 2011

The syndicate agreement dating from 2007 in the amount of EUR 50 million is available until mid-2012. The new factoring agreement of EUR 35 million with improved conditions, which has existed since July 1, 2010, will expire in mid-2015. The solid capital structure and financing agreements will support Loewe's growth targets in the years to come. Furthermore, Loewe will amortize the last payment on a long term loan in March 2011, so that no further long-term bank liabilities will exist after that date.

Negative free cash flow

The free cash flow is a negative figure of EUR 23.1 million. The deciding factors were the lower earnings and an increased need for financing from the change in net current assets compared to the year before.

Key figures of the consolidated cash flow statement
EUR million

	2010	2009	±
Cash flow before changes in net current assets	13.9	29.1	−15.2
Change in net current assets not incl. factoring	−17.2	−2.5	−14.7
Net cash used for investing activities	−19.8	−18.8	−1.0
Total free cash flow	**−23.1**	7.8	−30.9

The chief causes for the increase in net current assets were the increased inventories and a simultaneous reduction of current liabilities and provisions.

Current assets, net
EUR million

	2010	2009	±
Inventories	67.1	50.5	+16.6
Trade accounts receivable not incl. factoring	75.5	85.3	−9.8
Other assets*	3.0	1.5	+1.5
Trade accounts payable	−22.2	−23.1	+0.9
Other current provisions	−41.8	−46.5	+4.7
Miscellaneous current liabilities*	−8.2	−10.7	+2.5
Total net current assets	**73.4**	57.0	+16.4

* excluding income taxes and derivatives

Loewe AG

In fiscal 2010, Loewe AG generated profit from ordinary activities of EUR 0.8 million compared to EUR 7.3 million in 2009. The primary cause for the decline was the EUR 7.1 million reduction in income, from investments resulting from the loss assumption in the amount of EUR 10.2 million in accordance with a profit transfer agreement concluded with Loewe Opta in 2001 as well as offsetting income from equity investments in the amount of EUR 6.9 million.

The other operating income, which rose slightly to EUR 14.5 million, primarily includes income from the Group charges as well as a trademark licensing agreement.

Totaling EUR 10.2 million, the administrative expenses and the miscellaneous expenses were at the same level as in 2009.

Net interest expense (balance of interest income and expense) came to EUR −0.2 million compared to EUR −0.4 million in 2009.

The revisions of the German Accounting Law Modernization Act were the cause of extraordinary expenses of EUR 0.2 million. Net income after income taxes of EUR 0.1 million thus comes to EUR 0.6 million compared to EUR 5.4 million in the previous year.

Equity ratio of Loewe AG improved to 84.3 %

Total assets decreased by EUR 13.0 million primarily as a consequence of the reduction in cash and cash equivalents and amounts owed to affiliated companies. This led to an improvement of the equity ratio from 76.7 % in 2009 to the current 84.3 %. In absolute terms, equity decreased by EUR 2.7 million due to the dividend payment of EUR 3.3 million for 2009.

Number of employees slightly higher

Loewe employed 1,062 people on an annual average in 2010, most of them at the Company's headquarters in Kronach. The average number of employees thus increased by 20 persons over the average for 2009. The increase is due to the first-time inclusion of MacroSystem Digital Video AG. If adjusted for this effect, the average headcount would have decreased by eight persons in 2010.

The proportion of trainees in the entire workforce at Kronach was at the level of the previous year. On an annual average, 8 % of the workforce completed in-house training.

Employees by division
Annual average

	2010	2009	±
Marketing, sales, service, quality	294	268	+26
Development	145	142	+3
Production	361	363	−2
Administration and services	104	103	+1
Trainees	85	88	−3
Other (permanently absent, part-time retirement)	73	78	−5
Total employees	**1,062**	1,042	+20

Compared to the previous year, the average workforce in the foreign subsidiaries decreased by six persons to 93 employees.

Employees by country
Annual average

	2010	2009	±
Germany	969	943	+26
Benelux countries	32	35	−3
France	19	19	±0
Italy	15	14	+1
Austria	10	10	±0
UK	17	21	−4
Total employees	**1,062**	1,042	+20

Strategic expansion of employee development

As soon as the earnings trend began to deviate from budget, cost cutting and restructuring measures were initiated. A hiring freeze was followed by additional steps in connection with the "Fast Forward" future strategy program.

Necessary job cuts implemented in socially-acceptable manner

A program for reducing jobs was implemented for medium to long-term cost cutting, which led to the elimination of 56 full-time positions. It should be stressed that the job cuts were implemented in a socially acceptable manner, i.e., without layoffs. This is in particular due to the non-replacement of resigning employees, individual working hours agreements and partial retirement arrangements.

Priority was given to organizational realignment in the areas of development, project management and marketing in order to make the product development process and the time to market launch more efficient. Furthermore, international sales activities were strengthened. One of the focuses in this connection was the introduction of a new career model, which in addition to the management career model, also provides separate career paths for project managers and specialists. Partnerships with universities continue to be of great significance for Loewe, for example, to enable change projects under scientific guidance or specialized further education measures. A prime example is the University of Bamberg, which together with the Technical University of Berlin (TU Berlin), provides us support under an EU-funded project for the enhancement of the innovation and performance culture. Furthermore, the Hof University for Applied Sciences is available to us for software training. This applies equally to the areas of mechanical and electrical engineering as well as engineering and natural sciences. The intense co-operation with the Universities of Coburg and Bayreuth provides outstanding support for technology transfer from science into our Company.

The positive effect of our sustained networking with schools, universities and scientific institutions is also evident with regard to the labor market-related consequences of demographic change. However, sustainability also means nationwide staff recruiting. To meet this need, Loewe AG continued its participation in events of the Bayerische EliteAkademie and the Campus of Excellence in 2010. Thanks to our strategically oriented junior staff planning and our numerous personnel marketing activities, we currently see no bottlenecks in filling training positions and in recruiting university graduates. This trend is also supported by the Company's strong reputation among the workforce. Our efforts to communicate the meaning of social responsibility not only outside of the Company but also within the working environment have borne fruits. Topics such as the support of health and sports, family and occupation, as well as further education on the job round out our comprehensive HR management approach and ensure that the turnover rate has been kept significantly below 1 % even during an economically difficult situation for the Company.

"Fast Forward" future strategy program

Early initiation of the "Fast Forward" future strategy program

Loewe responded early to the changed market and framework conditions. The "Fast Forward" future strategy program was launched in June 2010 with the objective of systematically enhancing Loewe's particular strengths of being able to respond rapidly, flexibly and with an innovative competitive edge.

Loewe's overall objective is to create the basis for profitable growth through structural and organizational measures and by stringent cost discipline. To that end, the focus of the last few months was on streamlining the organizational structure. Managers with responsibility for product development were given an expanded range of competence across divisions. Furthermore, Loewe has started the restructuring of the central divisions of development, marketing and sales, which will continuously increase the effectiveness of the Company as a whole and enable it to bring new products to the market faster and to create additional customer benefit. Although the necessary elimination of TV sets with standard backlighting from the product line lowered sales in the fourth quarter of 2010, the initial success of "Fast Forward" is becoming evident. All of the product lines with the most innovative LED technology announced for the Christmas shopping season were launched on the market in good time and with success. Moreover, about EUR 6 million in income-relevant savings was realized, especially in the area of purchasing.

Product costs to be reduced, new products to be launched more rapidly and product line to be more customer-specific

Loewe has also set ambitious goals for the current fiscal year 2011 and will continue to advance the Company's future viability through "Fast Forward." The focus will be on systematically continuing the themes initiated in 2010. After the reorganization of product development, Loewe will further optimize the processes in order to accelerate the current product offensive. In addition, product costs will be reduced, new products will be launched more rapidly on the market and the product line will be more specifically targeted to customers in the European premium segment. In the spring of 2011, Loewe will bring the Individual Compose to market as the first of many new 3D televisions. The Company will continue to build up its leading market position in connecting the Internet and television. Furthermore, Loewe will add innovative speaker and multi-room solutions to its home entertainment systems line in 2011.

In the future, Loewe will again put a stronger emphasis on enhancing its position as the European premium brand in consumer electronics. We have set the stage for this with "Fast Forward."

Overall statement on financial position and financial performance

Loewe's strong capital structure and robust financial base secures its future

In fiscal year 2010, the Loewe Group maintained its position in a persistently disparate economic environment while, however, not reaching its higher sales and earnings targets. A significant cause for the negative business development in Germany and in the export markets was the delay in product launches, in particular in connection with the FIFA World Cup. Increased procurement costs and significantly lower sales and production volume as well as necessary price adjustments prevented Loewe from generating a positive contribution to earnings in 2010. Nonetheless, the Company continues to have a very good equity base with only a slight reduction in the equity ratio. This strong financial base puts Loewe AG and the Loewe Group into an excellent position to successfully meet the market and cyclical risks still prevailing in the overall economy.

Marketing and sales

All marketing and sales activities in fiscal year 2010 were focused on further solidifying Loewe's good brand positioning in Europe. In particular, the presentation at the point of sale and the communication measures were constantly refined, thus ensuring brand-adequate sales support.

Expansion of international distribution

2010 saw 21 galleries opened worldwide

The quality of Loewe international distribution was enhanced and expanded. In fiscal year 2010, 21 galleries were opened worldwide, with the focus being on openings in the European markets outside of Germany. The new openings include galleries in France, the United Kingdom, Spain, Russia, Australia, two galleries in Austria and five in our most important market of Germany.

Loewe at IFA 2010 in Berlin

The highlight of the third quarter was Loewe's presence at the International Consumer Electronics Fair 2010 in Berlin. Under the motto, "Not everyone can measure up," Loewe again set standards and enthused both retailers and end customers with its appealing and individual product solutions.

A global innovation at IFA 2010: easy video streaming throughout the house

Loewe presented a global innovation at IFA 2010: easy distribution of video throughout the house with Loewe DR+ Streaming. The central TV's hard disk recorder becomes a server from which content such as films can be distributed into other rooms. A particularly attractive feature is the "Follow me" function that makes it possible to pause a television program at any time and then continue it on another television.

Another central theme of Loewe's presence at this year's IFA was the Loewe Individual product line with the most advanced LED backlighting. The first Loewe Individual was presented in 2005 and was a unique success both in financial terms and in enhancing the Loewe brand. In the new Individual LED line, which was launched in May, Loewe has continued to develop its formula for success to include color, forms, screen sizes, audio options, placement options, multimedia, room integration and technical features. The new Loewe Individual Sound Projector and the Individual speaker with ultraflat electrostatic technology, make this comprehensive premium concept convincing as a home entertainment system of the premium class. The Individual LED TV sets are available in the screen size categories 32, 40, 46 and 55 inches.

Another IFA highlight was the successor model of the Connect product line. Already three years ago, Loewe set a major trend for the entire consumer electronics industry with the successful Connect product line. Right from the outset, Connect exemplified the connectivity from which it takes its name, the simple networking of many multimedia applications. With the new Connect LED flat screen television in 32 and 40 inches, Loewe now takes this line to a new level.

Like the new Loewe Individual LED and Connect LED, the new Loewe Art is also equipped with an innovative LCD panel and LED backlighting. The added benefit for Loewe customers is higher contrast with even lower power consumption. The new Loewe Art LED is now even thinner and is nonetheless loaded with innovations due to its integration possibilities. The successors of the Connect and Art product lines especially inspired enthusiasm among the retailers in the dealer area of the trade show. The new product lines Art LED and Connect LED in the important screen sizes 32 and 40 inches were successfully launched in the fourth quarter. This completes the conversion of the product portfolio to LCD panels with more energy efficient LED backlights in the important volume segments.

Loewe also introduced the New Loewe MediaNet. The Loewe Webportal now integrates even more online content in the modern home entertainment center. The Loewe Webportal offers a selection of clearly arranged and editorially prepared Internet pages which are optimized for display on large flat screen TVs based on the common standard of CE-HTML. The new function thus makes it possible to use Internet content entirely independent of the PC in a very easy and convenient way.

In the area of Loewe Audio Home Systems, the Loewe Reference and Individual Mediacenter as well as the new attractive speaker solutions became firmly established in the market in 2010. This is proof of the positive market share development. Loewe continues to be clearly in 2nd place among the top ten speaker brands in Germany.

Customer Relationship Management (CRM)

The main goal of Loewe's Customer Relationship Management is a dialog with customers which understands their preferences and needs, thereby providing a focus for corporate strategy to directly support brand-appropriate growth in international markets. In the first quarter of 2010, Loewe began to introduce the CRM system in Germany; nearly all of the approximately 1,200 retail partners now work with that system. In mid-year, the introduction in Austria was scheduled as the international roll-out. In the current fiscal year 2011, it will be necessary to implement international marketing activities and the international product registration with system support. Loewe will introduce CRM in the United Kingdom, France and Italy in 2012. The international use of the CRM system will enable Loewe and retailers together to become better at utilizing sales potentials in the future.

Numerous awards and top marks in tests

Loewe won 3 renowned iF gold awards

Loewe offers a unique product portfolio in the premium segment of entertainment electronics. Top marks in tests and numerous awards received by Loewe products are the proof of this. For example, the Loewe Reference System won three renowned iF gold awards simultaneously in March 2010. The high performance of the new Loewe LED TVs with respect to picture and audio quality as well as their functional range is also underscored by numerous top marks in tests in the trade press. With a rating of "very good," the Art LED 200 immediately advanced to first place in the top scorers' list in the 1/2011 edition of Satvision magazine. Furthermore, the Connect 32 took first place in a comparison test of Sat. 1 Magazine in December.

Marketing and communications focus in 2011

“All business is local.” To offer retailers the best possible support in their local environment, Loewe has put together a local marketing support package. It contains pre-packaged communication media that can be easily adapted for retailers. Among other things, these provide retailers with optional support in recruiting new customers and keeping the loyalty of existing ones. The measures have been available for retailers in the Loewe CRM system since January 2011. In the pilot project, the individual marketing planning was already very successful for one Loewe gallery. Close and trusting cooperation with retailers as Loewe’s most important distribution channel will also play a key role in fiscal year 2011.

Development and production

Successful production start of the new Individual product line

Full-scale production of the 40 and 46 inch televisions of the Individual LED product family was started in the spring of 2010. Associated with this was the commissioning of the production line for a new Signalboard. After an intensive evaluation phase, two 3D paste printing inspection systems based on the latest technology were installed in automatic placement, representing another milestone for safeguarding the process quality of assemblies using reflow soldering.

Conversion to LED technology

The new SL150 electronics platform was integrated into flat-panel display units with LED backlighting in late summer. The platform makes it possible to design sets to be even thinner and it is also the basis for numerous new applications. This electronics platform has an integrated network interface, making it possible to establish a connection between the home network and the Internet. As an option, the connection can be made wirelessly via a WLAN module.

The gradual conversion of the television sets to screens with LED backlighting went according to plan. The first sets with this new screen technology were the Individual 32 Compose and Individual 32 Selection. The Art 32 and 40 as well as the Connect 32 and 40 followed. The LED technology reduces overall depth of the televisions while simultaneously lowering their power consumption significantly.

3D Television

Market launch of the first 3D TV systems planned for spring 2011

The research project PRIME has provided Loewe with significant knowledge in the area of 3D TV. The Fraunhofer Institute IIS in Erlangen and HHI in Berlin were the main partners in this project. Loewe began development of an electronics platform in the autumn of 2010 which enables the playback of 3D content. Prototypes were produced in late 2010 and the market launch of the first 3D TV systems (including compatible 3D Blu-ray players) will follow in the spring of 2011.

Technology projects at IFA 2010

In 2010, Loewe once again offered interested retailers visiting the IFA exhibition stand a look at current technology projects. A system remote control with touch screen attracted great interest among visitors from the retail sector. This remote control can be used not only to control Loewe TVs, it can also be used to display images and videos from the home network on the screen.

The television sets with an integrated Internet browser and the new Loewe Portal attracted a great amount of attention. Via the Portal, users can access selected Internet content adapted to navigation with a remote control very easily. It is of course also possible to navigate the Internet with no restrictions. Since last autumn, these product features are gradually being integrated into all new Loewe products. The next step is the addition of HbbTV, which was also displayed at the IFA and which allows users to conveniently access the new content offered by the broadcasters.

New electronics platform

Work on Loewe's newest electronics platform (SL200) began according to plan in the autumn. The SL200 will further increase the performance of the televisions and improve their response rate. The new platform concept also makes it possible to reduce the costs for the electronics significantly.

Loewe Mediacenter

Loewe Mediacenter ensures competitive edge in multiroom solutions

The Loewe Mediacenter, the ideal complement to the existing home entertainment systems, was successfully launched at the beginning of the year. The Mediacenter also enables Loewe to provide a design-oriented audio-video player and audio server. This unique system offers a significantly higher functional range than rival products. The Individual Sound electrostatic speaker and the Individual SL Sound Projector round out the audio program.

Research and sponsorship projects

Loewe is participating in the research project SEDICMA (Service Enabled Devices for Intelligent Connected Media Assistance) with a hybrid television set. This set analyzes measurement data and controls the devices networked with it. In addition to increased ease of use, SEDICMA is also aimed at significantly saving energy in the networked house. The project receives support from the German Federal Ministry of Economics and Technology, whose main partners are the Berlin Institute of Technology and Deutsche Telekom. More expertise was built up in four additional research projects aimed at making it possible to manage the future technology demands successfully.

Further disclosures pursuant to HGB

Remuneration of the Executive Board of Loewe AG

See page 32 of the Corporate Governance Report and page 129 of the Notes for comprehensive information on the individual compensation of the Executive Board.

Corporate governance declaration

The Company has published the corporate governance declaration to be issued in accordance with Section 289a of the German Commercial Code (HGB) on its website www.loewe.de. The declaration can be downloaded in the section Loewe AG, Investor Relations, under the heading Corporate Governance.

Events after the balance sheet date

In its meeting on December 13, 2010, the Supervisory Board of Loewe AG appointed Manfred L. Fitzgerald as a new member of the Executive Board. Effective February 1, 2011, he took over responsibility for marketing, sales, product design and customer services.

Explanatory report of the Executive Board on the disclosures pursuant to Sections 315 (4) and 289 (4) of the German Commercial Code (HGB)

Except for sub-section 7, the following information has not changed from fiscal year 2010.

1. On December 31, 2010, the Company's share capital amounted to EUR 13,009,229. It is divided into 13,009,229 no-par value bearer shares. All shares confer the same rights. Each share confers one vote in the Annual Shareholders' Meeting and the same participation in profits.

2. No voting rights restrictions exist. No restrictions relating to the transfer of shares are known.

3. The "direct" or "indirect" interests in the share capital which exceed 10 % of the voting rights and reported to the Company are listed in the Notes on page 124 et seq.

4. No shares with special rights exist, in particular such conferring supervisory powers.

5. No system of control of voting rights exists for the event that employees hold an interest in the capital and do not directly exercise their control rights.

6. The members of the Company's Executive Board are appointed and removed by the Supervisory Board pursuant to the provisions of Section 84 of the German Stock Corporation Act. The Articles of Incorporation of Loewe AG provide no further provisions in this regard.

   The Shareholders' Meeting decides on amendments to the Articles of Incorporation using a simple majority of the votes cast and of the share capital represented, unless the law mandatorily requires other procedures.

7. Pursuant to Section 76 (1) of the German Stock Corporation Act, the Executive Board is required to manage the Company under its own responsibility and represents the Company judicially and extrajudicially pursuant to Section 78 (1) of the German Stock Corporation Act.

Pursuant to Section 5 of the Articles of Incorporation, authorized and conditional capital exists.

a) By resolution of the Shareholders' Meeting on May 20, 2010, new authorized capital was created in the amount of EUR 6.504.614. This resolution authorized the Executive Board, with consent of the Supervisory Board, to increase the Company's share capital in exchange for cash or non-cash contributions on one occasion or in partial amounts by a total of up to 6,504,614 new bearer shares with dividend entitlement as of the beginning of the fiscal year current on the date of issue (2010 Authorized Capital) by no later than May 19, 2015. See page 107 et seq. of the Notes of Loewe AG for further details.

b) Additional conditional capital of up to EUR 398,400, divided in up to 398,400 shares, exists for the implementation of a stock option plan. The option program expired on July 1, 2005. The option rights were forfeited without the Company being obligated to provide any form of compensation. See page 107 of the Notes for further details.

By resolution of the Annual Shareholders' Meeting on May 20, 2010, the Company was authorized to acquire treasury shares for the Company of up to a total of 10 % of its share capital via the stock exchange or via a public offer to buy addressed to all shareholders. Together with the other shares held by the Company or to be treated as such in accordance with Sections 71d and 71e of the German Stock Corporation Act, the acquired shares may not at any time constitute more than 10 % of the share capital. The Executive Board was further authorized, with consent of the Supervisory Board, to offer the acquired shares to all shareholders, to sell them via the stock exchange, and to offer them to or recall them from third parties in connection with business transactions. See page 108 et seq. of the Notes for details.

8. Public Offerings for the purchase of shares of the Company are governed solely by the Articles of Incorporation and the law, including the provisions of the German Securities Purchase and Takeover Act (WpÜG). The Shareholders' Meeting has not authorized the Executive Board to take any actions falling within the former's sphere of responsibility in order to thwart the success of potential takeovers.

9. No compensation agreements of the Company were entered into with the members of the Executive Board or employees.

Control and Risk Management Process with Regard to Accounting

The Executive Board also bears complete responsibility for the internal control and risk management system with respect to the accounting process. All companies included in the consolidated financial statements are integrated via a clearly defined management and reporting organization.

Structural organization

The respective local financial accounting departments are responsible for preparing the financial statements of the foreign subsidiaries of Loewe AG in accordance with local accounting principles. The separate financial statements of Loewe AG and Loewe Opta GmbH and the consolidated financial statements of Loewe AG in accordance with IFRS are prepared centrally in the Finance and Accounting department in Kronach. The separate financial statements for all Group companies except Loewe Belgium are prepared within a uniform SAP R/3 accounting system.

The central accounting service center in Kronach supports and coordinates the preparation of the financial statements of the Loewe subsidiaries.

The accounting of the consolidated financial statements is based on a standardized consolidated chart of accounts in which the data of the separate financial statements are reconciled by machine. The consolidation is accomplished technically using specially designed accounting software and supporting subsystems, including, for example the determination of deferred taxes in accordance with IAS 12.

Workflow organization

The separate and consolidated financial statements are prepared using a detailed project overview. The employees responsible continuously monitor the process. Internal procedural and accounting standards that are regularly adjusted to external and internal developments exist for materially important balance sheet items and accounting procedures.

The financial statements of all consolidated Group companies are prepared in accordance with uniform accounting policies and included in the consolidated financial statements. All companies are included in the scope of consolidation and are fully consolidated.

The work involved in preparing the separate and consolidated financial statements is performed following the principles of segregation of functions and dual control. The accuracy and completeness of all data relevant to the financial statements is ensured by a large number of plausibility checks as well as preventive and subsequent controlling.

Risk management and internal control systems

The financial accounting organization in all companies of the Loewe Group is a regular component of audits of the internal control system and all associated value-added processes.

Furthermore, a test for plausibility of existing risks is performed regularly in each division.

The Group-wide risk management system with regard to the accounting process ensures that accurate and reliable information is prepared.

Opportunities and risks of future development

Risk management at Loewe

Risk management at Loewe is integral component of planning and control

Intense global competition continues to characterize the market for consumer electronics. As a comparatively small company, it is therefore important for Loewe to identify risks that are inseparable from business activity and reduce them to an acceptable level. Anticipatory risk management contributes to sustainable development and should increase earning power.

The risk management system is an integral component of Loewe's entire planning, controlling, and strategy process. By clearly defining risk areas and fields, Loewe is able to systematically identify, evaluate and document existing individual risks.

An essential component of this process is the evaluation of possible impacts on the Company's financial position and performance. The remaining residual risk is determined by evaluating existing safeguards and estimating probabilities of occurrence. It is the task of every person responsible for risks to promptly develop measures to avoid, reduce and hedge risk and to implement these measures promptly if necessary. In the subsequent risk monitoring process, the efficiency of the countermeasures is reviewed and their implementation is monitored. In the Executive Board's opinion, the system for early risk identification is capable of appropriately identifying the significant and major risks.

As of the balance sheet date of December 31, 2010, the following opportunities and risks exist that could have a substantial influence on the development of the Loewe Group.

Premium positioning in the home entertainment market

Premium brand offers opportunity for clear differentiation

The primary opportunities relate to Loewe's successful positioning as a premium provider of high-quality flat-panel display sets and home entertainment systems with innovative speaker systems and multiroom solutions in Europe. For the implementation of our product and price policy oriented to quality and stability of value, the price premiums achievable, the manufacturing costs and the achievable sales volumes must be kept in reasonable balance. Loewe practices strict cost discipline but also makes targeted investments in the positioning as a premium brand. Only if customers identify with Loewe products based on the brand, quality and product characteristics will they also be willing to pay a higher price. This is the way to compensate for the higher costs and generate an adequate contribution to margin.

In an improved economic environment, the LCD TV market will continue to grow moderately in the next few years, due in particular to the high replacement demand and increasing ownership of more than one set. Against this backdrop, new technologies such as 3D television, HbbTV (the connection of television and the Internet) and televisions with LED backlighting will provide market growth by value.

Product design and individual design and equipment features will continue to be an important differentiating and positioning criterion. In the meantime, however, several competitors have caught up in both design and features. The market entry of new competitors and the development of new business models in the TV segment have also increased the intensity of competition in the home entertainment environment. Furthermore, mass manufacturers in consumer electronics have achieved significant quality of manufacturing and output. In the future, it will be necessary for Loewe to set itself apart from competitors even more clearly through unique selling points and differentiating features in order to ensure the value-based marketing of individual home entertainment systems at stable prices. In particular, the modular flexibility of Loewe products (recording to hard disk, digital reception of high-definition media, DR+ streaming, connectivity, etc.) will provide customers individual and customized solutions with added value. Loewe is one of the first manufacturers to offer a new dimension of videotext, including direct access to media libraries available in the Internet, basing it on the HbbTV standard. It is also possible to navigate the Internet with no restrictions with our network-capable Loewe sets.

Loewe has reinforced its expertise in product-related multimedia software by obtaining the majority interest in the multimedia company MacroSystem Digital Video AG. Among other things, this know-how will be of great significance as Internet and television applications increasingly converge.

Sales and earnings risks could arise if new products are not launched in time or if production of current products is started late due to unavailability of materials. Systematic project controlling and permanent monitoring of critical success factors make it possible to identify discrepancies early and initiate appropriate countermeasures. To increase planning predictability in production, sales forecasts are subject to ongoing review using market analyses, intense market observation, etc.

Furthermore, the Loewe world of brand experience, which in addition to attractive products, includes in particular the standardized, high-quality retail presentation of the Loewe brand, the brand communication and premium service, makes an important contribution to premium presentation and differentiation from the competition.

Impacts of the global financial crisis

The present economic conditions in parts of Europe have significantly strained Loewe's business development, including its export business. This applies in particular to the important Italian and British markets. The current outlook for the European core markets is in part fraught with uncertainties, primarily related to the intensity of the economic downturn in the export markets and in private consumption. This could limit sales potential in the next few quarters and the planned contributions to margin for Loewe in this segment. To be able to respond flexibly and proactively to changes, we will very closely monitor the economic developments in our core European markets.

Expansion of technological differentiation potentials

Sustainable and credible premium positioning requires that important product features of flat-panel display sets and home entertainment systems, such as picture and sound quality, user interfaces or system capability, are judged positively in direct competition. Should this not be convincingly possible, there is the risk of a negative impact on the achievable price premiums and sales potentials.

Development division reorganized

Loewe therefore concentrates on areas of technology that offer customers added value and present opportunities for differentiation. The new electronics platform makes it possible to design sets to be even thinner and it is also the basis for numerous new applications. For years, Loewe has systematically developed televisions for multimedia centers. Great potential is seen in both the connection between Internet and television (HbbTV) and with regard to networking/multiroom. To minimize the risks of increasing complexity of technical platforms and further increase the reliability of new product generations, new sustainable chip concepts, for example, are also selected by taking into account the provided software. One of the measures to implement the announced development objectives was the acquisition of the majority interest in MacroSystem Digital Video AG. This made it possible to increase our expertise in the multimedia networking of home entertainment systems. Furthermore, the development division was reorganized under the "Fast Forward" future strategy program to systematically push ahead with the comprehensive development of the hardware and software components of home entertainment systems on an integrated basis.

Dependence on external development and cooperation partners can impact the product introduction and accordingly the generation of sales development. Through more intensive cooperation with external partners, we intend to increase startup reliability in the near term to be able to respond early to possible problems in the implementation process. The project managers were given support in expanding their expertise.

The lack of consistent standardization in Europe represents a growing risk for the reception of high-definition television in individual countries. Through intensive cooperation in committees, including on the European level, Loewe actively participates in the standardization process. Also for the technical implementation of national standards, we integrate externally developed technical solutions into the Loewe products in addition to intensive in-house development. Even longer term development partnerships and supplier relationships should in the future secure the detailed technical knowledge necessary for the further development of the key European markets on a sustained basis.

Nonetheless, the risk exists that technical trends may not be recognized and implemented early enough. The cooperation with research institutions in subsidized projects or universities as well as constant observation of the market trend should identify relevant technologies in good time. Our focus is on the implementation of meaningful innovations and developed technologies with specific customer benefit. In the current year, Loewe has continued its product offensive with the launch of large-screen, high definition LCD TVs with LED backlighting. In the spring of 2011, it will introduce the first 3D TV systems with correspondingly equipped 3D Blu-ray players.

Attractive purchasing conditions and availability of materials

Competitive procurement conditions and adequate availability of materials are of great significance especially for the higher priced LCD panels and components. Supply bottlenecks frequently occur in the startup phase of new technologies. Our lower purchasing volume compared with the competition makes it more difficult to achieve attractive purchasing conditions. Supplier delays, delivery shortfalls or quality defects can also lead to temporary production disruptions and thereby negatively impact the earnings situation.

Systematic bundling of purchasing volume to key suppliers

Loewe attempts to have a positive impact on purchasing conditions through systematic bundling of purchasing volume to key suppliers, reducing component diversity, the systematic use of platform concepts and qualifying alternative components and suppliers. Supplier selection, evaluation and control procedures, which can also include an evaluation of the financial situation, are used to limit procurement risks. Supported by comprehensive supply chain management, further risks are minimized from the procurement side to delivery and the procurement and production process is optimized.

Furthermore, we are systematically expanding existing agreements and continuously coordinating demand directly with suppliers and their partner organizations. The improved utilization of potentials in Asian procurement markets should reduce cost of materials on the procurement side on a sustained basis.

Product quality and liability risks

Successful and long-term implementation of the premium strategy presupposes a high level of quality. High standards apply to the reliability and safety of products. If these standards are fallen short of by a large margin, there is the risk of damage to the reputation of the Loewe brand with a long-term adverse impact on the Company’s earning power. Technical problems can lead to time-intensive and expensive rework and repair measures. In addition, deteriorating product quality can result in higher warranty expenses and replacements as a gesture of goodwill.

Constant, intense quality control

In the production process, Loewe products are under constant quality monitoring. Intensive tests are performed on the pilot series. In addition, a repair detection, control and tracking system makes it possible to determine the need for spare parts and the failure rates of the products on the market at an early time. This enables us to initiate countermeasures early and avoid subsequent errors.

Because of the high material component in flat-panel display sets, the quality of our suppliers becomes increasingly important. In addition to detailed supplier evaluations, Loewe regularly performs product/system audits and on-site acceptance inspections.

Personnel risks

An aging and shrinking population in Germany contains the risk that it will not be possible to recruit adequately qualified personnel in the future. In addition, inadequate succession policies could result in locational disadvantages or loss of know-how.

Loewe made preparations early on for counteracting this demographic change. We continuously establish contacts with potential future employees by building up close relations with schools, vocational schools and universities. At the same time, Loewe regularly participates in vocational training and human resources events. Another important pillar is in-house training.

Strategy-oriented competency management is used to systematically identify employee expertise and potential and to initiate specific employee development measures. Fitness and preventive health care services are intended to support the health and performance of the employees.

IT risks

In information technology, protection against unauthorized data access or data abuse is becoming more and more important; however, it cannot be completely guaranteed. Loewe counteracts these risks through, among other things, technical protective measures such as the use of virus scanners, firewall systems and access controls at the company and user level. In this connection, attention is constantly devoted to compliance with data protection regulations.

Foreign subsidiaries

Loewe generates roughly 40 % of its sales abroad. In Belgium, Italy, France, the Netherlands, Austria and the UK, marketing of Loewe’s products is performed by subsidiaries. In all other countries, independent distributors perform this function.

The advantage of having its own subsidiaries is the more direct relationship with the retail partner, facilitating better implementation of Loewe’s premium strategy and higher sales margins. This is, however, associated with higher operational risk because the marketing organization’s fixed costs are incurred independent of the sales revenue achieved.

To limit these risks, we have avoided costly decentralized warehousing by shipping directly to retail partners. Essential administrative functions are centrally located in Germany in order to keep fixed costs of Loewe’s foreign companies at a minimum. In addition to the current reporting, quarterly meetings are held with the persons responsible for the countries in order to detect deviations early and to initiate countermeasures.

Financing risks

Loewe's financing stable

To ensure Loewe's medium-term financing, a syndicate agreement with a financing volume of up to EUR 50 million (maturing on June 30, 2012) is available. Furthermore, follow-up financing for factoring with an additional financing volume of up to EUR 35 million was concluded in 2010 (maturing on June 30, 1015).

No liabilities to banks existed as of December 31, 2010. Only EUR 5.0 million of the line of factoring has been utilized. Monthly Group liquidity planning is prepared for the fiscal year for regular liquidity control. Multiyear financial and liquidity planning is used to secure medium-term and long-term liquidity.

We assume that Loewe's solid capital structure and existing financing agreements should prevent its growth potential from being limited in the years to come whatever the financial situation.

Financial investment risk

The cash and cash equivalents available in accordance with our financial planning are invested in interest-bearing overnight money and term financial investments with banks covered by the deposit protection fund. Through the described selection of investments, we seek the greatest possible risk minimization.

The goal of Loewe's capital management strategy is to safeguard the business operations, increase the company value, create a sound capital basis for the financing of the business policy, and guarantee dividend payments and debt servicing.

Currency risks

Higher procurement costs may be due to appreciation of U.S. dollar in relation to euro

The appreciation of the U.S. dollar in relation to the euro will lead to higher procurement costs, primarily for LCD panels. To soften the associated exchange rate risk, guidelines were established that guarantee a proportional hedge of the price risk. To this end, the anticipated foreign currency volume is determined using a rolling 36 month projection and up to a defined percentage is hedged by forward exchange transactions, call options and zero cost options. In addition, billing in British Pound Sterling (GBP) to the subsidiary Loewe UK Ltd., Irvine, Scotland constitutes a smaller risk.

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 – by adequate provisions. Nonetheless, losses can arise that are not or are only inadequately insured or significantly exceed the provisions.

Financial derivatives

See pages 119 to 121 of the Notes for details concerning risk management in connection with financial derivatives as well as credit and market risks.

Overall estimation of the risk situation

The described risks have the potential to negatively affect the financial position and financial performance of the Loewe Group. From the present perspective and considering all the known facts and circumstances, there are currently no risks that could endanger the continued existence of the Loewe Group in the foreseeable future.

Outlook

Overall economic trend

European GDP expected to show moderate growth in the next two years

The global turmoil caused by the financial and economic crisis has significantly calmed down in 2010. The eurozone has largely overcome the recession; nonetheless the crisis continues to impact the state budgets of the member nations. Necessary cost-cutting measures such as spending cuts and staff reductions in the public sector will cause the economic upturn to wind down in 2011 and 2012, so that the real GDP of the eurozone will only grow by an estimated 1.2 % in 2011 and by 1.5 % in 2012.

In Germany on the other hand, all factors in the corporate sector and in private households suggest that the favorable economic trend of last year will continue. Companies in the manufacturing sector, the construction industry and in retailing are now more confident about business development in the next few quarters than they have been in 30 years. And a steadily rising propensity of private households to purchase will ensure that consumer sentiment will continue to improve. For the German gross domestic product, a growth rate of 2 to 3 % is expected for 2011 and 1 to 2 % for 2012.

Industry trend

European LCD TV market continues to grow in value over the next few years

In an improved economic environment, the LCD TV market will grow in Europe in the next few years, due in particular to the continued replacement demand and increasing ownership of more than one set. From today’s perspective, the 5 % growth of the value of this market in 2010 will be followed by growth of approximately 7 % in 2011, due in particular to new technologies such as 3D television and HbbTV. Furthermore, the UEFA Euro 2012 in Poland and the Ukraine will bring additional purchasing stimuli and contribute to 6 % growth in sales.

Loewe Group and Loewe AG

We base our forecasts for the Loewe Group, and associated with that the financial position and financial performance of Loewe AG, on the aforementioned economic expectations, in particular with regard to moderate growth of the European gross domestic product in the next two fiscal years. Assuming that the price of the euro in relation to the U.S. dollar remains relatively stable and that the cost structure does not change significantly, Loewe forecasts profitable growth for fiscal years 2011 and 2012. From the present perspective, the number of employees will not significantly exceed the figure for 2010. Investment volume is at the level of the previous year and in 2011 will mainly be focused on tools for new products, development services to be capitalized, efficient production facilities and adequate brand presentation systems for retailers.

Moreover, Loewe's future viability will be further advanced through "Fast Forward." The focus will be on continuing the measures initiated in 2010. After the reorganization of product development, Loewe will further optimize the processes in order to accelerate the current product offensive with the launch of numerous 3D televisions and innovative speaker and multiroom solutions. In addition, product costs will be reduced, new products will be launched more rapidly on the market and the product line will be more specifically targeted to the customers in the European premium segment. The Company will also continue to systematically implement its targeted measures in strategically important areas, such as the qualitative and quantitative expansion of distribution in selected European core markets.

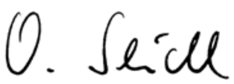
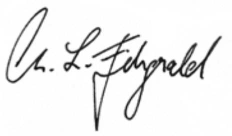
Overall statement concerning the future development

Loewe plans for growth in sales to EUR 340 million and positive EBIT

Loewe will again put a stronger emphasis on enhancing its position as the European premium brand in consumer electronics in the years to come. For this purpose the "Fast Forward" future strategy program has been implemented to tap the good market opportunities available to Loewe. In addition to the continued replacement demand and the increasing ownership of more than one LCD TV in Europe, new technologies like 3D television and HbbTV (the connection of television and the Internet) offer Loewe growth opportunities that will last beyond the current fiscal year. For that reason, the Loewe Group expects growth in sales of approximately 10% to EUR 340 million and positive EBIT for fiscal year 2011. Assuming that the value of the European market for LCD TVs will continue to grow in the years to come and the macroeconomic conditions in Europe will not worsen significantly again, growth in sales and earnings can also be expected for 2012. Moreover, Loewe's sound capital structure and wide-ranging financing agreements put the Company in a good position for future growth.

Kronach, February 18, 2011

The Executive Board


Oliver Seidl **Manfred L. Fitzgerald** **Gerhard Schaas**


More Elegant.
The Loewe Art

Consolidated Financial Statements, Notes

Contents

Consolidated Income Statement 2010

	Notes No.	2010		2009	
		EUR thousands	%	EUR thousands	%
Sales	1	307,299	100.0	323,950	100.0
Cost of sales	2	−237,351	−77.2	−229,407	−70.8
Gross margin		**69,948**	**22.8**	94,543	29.2
Selling expenses	3	−68,660	−22.3	−74,005	−22.8
General and administrative expenses	4	−8,664	−2.8	−8,731	−2.7
Other operating income	5	7,817	2.5	6,511	2.0
Other operating expenses	6	−5,815	−1.9	−4,815	−1.5
Income from investments		41	0.0	10	0.0
EBIT		**−5,333**	**−1.7**	13,513	4.2
Interest and similar income	7	620	0.2	1,311	0.4
Interest and similar expenses	8	−2,979	−1.0	−3,075	−1.0
Profit from ordinary activities (EBT)		**−7,692**	**−2.5**	11,749	3.6
Income tax expense	9	442	0.1	−3,645	−1.1
Profit after tax		**−7,250**	**−2.4**	8,104	2.5
Minority interests		212	0.1	−86	0.0
Net loss/income	10	**−7,038**	**−2.3**	8,018	2.5
Profit carried forward		12,268		13,455	
Dividend payment		−3,252		−6,505	
Allocation to retained earnings		0		−2,700	
Distributable profit		**1,978**		12,268	
Earnings per share					
Basic*	10	−0.54		0.62	
Diluted**		−0.54		0.62	
*Number of shares issued as of December 31		13,009,229		13,009,229	
**Weighted average number of shares pursuant to IFRS		13,009,229		13,009,229	

Consolidated Statement of Comprehensive Income 2010 EUR thousands	2010	2009
Profit after tax	−7,250	8,104
Other comprehensive income		
Change in fair value of hedges	2,985	−3,185
Tax effects	−833	882
Gains and losses recognized directly in equity	2,152	−2,303
Comprehensive income	−5,098	5,801
thereof:		
attributable to shareholders of Loewe AG	−4,886	5,715
attributable to minority interests	−212	86

Consolidated Balance Sheet 2010

EUR thousands

Assets	Notes No.	Dec. 31, 2010	Dec. 31, 2009
Non-current assets			
Intangible assets	11	7,890	6,539
Property, plant and equipment	12	37,235	40,084
Financial assets	13	2,073	1,573
Income tax assets	14	246	291
Miscellaneous non-current financial assets	15	216	274
Deferred taxes	16	10,971	10,939
		58,631	59,700
Current assets			
Inventories	17	67,147	50,464
Trade accounts receivable	18	70,476	85,326
Income tax assets	19	279	391
Miscellaneous current financial assets	20	5,995	2,070
Cash and cash equivalents	21	13,201	36,081
		157,098	174,332
Total assets		**215,729**	234,032

Liabilities and shareholders' equity	Notes No.	Dec. 31, 2010	Dec. 31, 2009
Shareholders' equity			
Equity attributable to equity holders of the parent	22		
Subscribed capital (conditional capital EUR 398,400)		13,009	13,009
Capital reserve		46,986	46,986
Retained earnings		16,200	16,200
Other reserve		1,328	−824
Accumulated profit		1,978	12,268
		79,501	87,639
Minority interests	23	633	1,325
		80,134	88,964
Non-current liabilities			
Provisions for pensions and similar obligations	24	40,760	40,312
Other non-current provisions	25	17,495	17,120
Non-current financial liabilities	26	0	94
		58,255	57,526
Current liabilities			
Income tax provisions	27	3,857	4,591
Other current provisions	28	41,759	46,547
Current financial liabilities	29	94	938
Trade accounts payable	30	22,234	23,077
Miscellaneous current financial liabilities	31	9,396	12,389
		77,340	87,542
Total liabilities and shareholders' equity		**215,729**	234,032

Consolidated Cash Flow Statement 2010

EUR thousands

	2010	2009
Operating activities		
EBIT	**−5,333**	13,513
Interest paid	−588	−1,016
Interest payments received	620	1,311
Depreciation and amortization of non-current assets	21,744	20,279
Other non-cash items	−2,423	−2,132
Decrease (+) in non-current receivables	58	53
Increase (+)/Decrease (–) in pension provisions	448	−639
Increase (+) of other non-current provisions	375	96
Income taxes paid	−953	−2,401
Cash flow before changes in net current assets	**13,948**	29,064
Change in net current assets		
Increase (–)/Decrease (+) in inventories	−16,442	642
Decrease (+) in trade accounts receivable and other assets	8,773	3,845
Decrease (–) in other current provisions	−5,274	−2,631
Decrease (–) in trade accounts payable and other liabilities	−4,260	−4,348
Change in net current assets	**−17,203**	−2,492
Net cash from operating activities	**−3,255**	26,572
Investing activities		
Payments for purchases of intangible assets and property, plant and equipment	−18,979	−18,546
Payments for purchases of financial assets	−500	−436
Payments for investments in consolidated companies, net of cash acquired	−445	0
Proceeds from disposals of intangible assets and property, plant and equipment	80	168
Net cash from investing activities	**−19,844**	−18,814
Free cash flow, total	**−23,099**	7,758
Financing activities		
Cash outflow in connection with the decrease in minority interests	−600	0
Dividend payment	−3,252	−6,505
Repayment (–) of loans	−938	−2,250
Net cash from financing activities	**−4,790**	−8,755
Cash-effective change in liquidity	**−27,889**	−997

Composition of liquidity	**Dec. 31, 2010**	**Dec. 31, 2009**	**Change**
Cash and cash equivalents	13,201	36,081	−22,880
Short-term bank loans	0	−1	1
Use of factoring	−5,014	−4	−5,010
Liquidity	**8,187**	36,076	−27,889

Consolidated Statement of Changes in Equity 2010

Group equity changed as follows in the years 2009 and 2010:

	Number of shares	**Sub-scribed capital**	**Capital reserve**	**Retained earnings**	**Other reserve**	**Accu-mulated profit/loss**	**Equity at-tributable to equity holders of the parent**	**Minority interests**	**Total equity**
	units	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Balance as of Dec. 31, 2008	13,009,229	13,009	46,986	13,500	1,479	13,455	88,429	1,239	89,668
Dividend payment for 2008						−6,505	−6,505		−6,505
Change in fair value of hedges					−2,303		−2,303		−2,303
Net income as of Dec. 31, 2009						8,018	8,018	86	8,104
Allocation to retained earnings				2,700		−2,700			
Balance as of Dec. 31, 2009	13,009,229	13,009	46,986	16,200	−824	12,268	87,639	1,325	88,964
Dividend payment for 2009						−3,252	−3,252	−600	−3,852
Changes in scope of consolidation								120	120
Change in fair value of hedges					2,152		2,152		2,152
Net income as of Dec. 31, 2010						−7,038	−7,038	−212	−7,250
Allocation to retained earnings				0		0			
Balance as of Dec. 31, 2010	**13,009,229**	**13,009**	**46,986**	**16,200**	**1,328**	**1,978**	**79,501**	**633**	**80,134**

Notes to the Consolidated Financial Statements

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 entertainment 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.

The final version of the consolidated financial statements was prepared by the Executive Board on February 18, 2011 and has been released for publication.

Basis of Presentation

As an exchange-listed parent company, Loewe AG participates in the Regulated Market as defined by Section 2 (5) of the German Securities Trading Act (WpHG). Pursuant to Section 315a of the German Commercial Code (HGB), the consolidated financial statements were prepared (as in the previous year) in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

The following standards and revisions of standards are applied for the first time in fiscal year 2010:

Standard	Required to be applied for fiscal years beginning on or after	Adopted by the EU as of Dec. 31, 2010	Impact on the Loewe Group
IFRS 1 (revised) Initial Adoption of International Financial Reporting Standards	Dec. 31, 2009	yes	none
IFRS 2 (revised) Share-based Payment	Jan. 1, 2010	yes	none
IFRS 3 Business Combinations and **IAS 27** Consolidated and Separate Financial Statements	July 1, 2009	yes	relevant for the initial consolidation of MacroSystem Digital Video AG, which was acquired in 2010
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Jan. 1, 2010	yes	none
IFRIC 9 Reassessment of Embedded Derivatives and amendments to **IAS 39** Financial Instruments: Recognition and Measurement	July 1, 2009	yes	none
IFRIC 12 Service Concession Arrangements	March 29, 2009	yes	none
IFRIC 15 Agreements for the Construction of Real Estate	Jan. 1, 2010	yes	none
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	July 1, 2009	yes	none
IFRIC 17 Distributions of Non-cash Assets to Owners	Nov. 1, 2009	yes	none
IFRIC 18 Transfers of Assets from Customers	Nov. 1, 2009	yes	none
Amendment to **IAS 1** Presentation of Financial Statements	Jan. 1, 2010	yes	none
Amendment to **IAS 36** Impairment of Assets	Jan. 1, 2010	yes	none
Amendment to **IAS 38** Intangible Assets	Jan. 1, 2010	yes	none

The International Accounting Standards Board (IASB) has published additional standards and interpretations that have in the meantime been adopted by the EU as European law and also some that have not yet been adopted. They are not expected to have any material influence on the consolidated financial statements of Loewe.

The consolidated financial statements have been prepared in euros. The figures in the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the notes and the consolidated cash flow statement as well as the consolidated statement of shareholders' equity have been rounded to the nearest thousands of euros (EUR thousands).

Material Discretionary Decisions, Estimates and Assumptions

In preparing the consolidated financial statements, discretionary decisions, estimates and assumptions are made that affect the level of assets, liabilities and the disclosure of contingent liabilities as well as the amounts of income and expense recognized as of the reporting date. These decisions include subjective measurements and estimates based on facts which are inherently characterized by uncertainty and may be subject to change. Over time, these estimates and assumptions can change and materially influence the presentation of the Company's financial position and performance. For an understanding of the underlying risks of financial reporting and the impacts that these estimates and assumptions can have on the consolidated financial statements, the material estimates and associated assumptions shown below are of critical importance.

With regard to the useful life of intangible assets and property, plant and equipment, the expected useful life is estimated. Estimates are also made in determining the impairments of intangible assets and property, plant and equipment. Among other things, the estimates relate to the cause, the date and the amount of an impairment. In making these estimates, management assumes an anticipated utilization, among other things. Should the demand for individual products not develop in such a way, this could result in a loss of income and possibly impairment losses due to write-downs to the fair value of the assets.

The recognition of deferred taxes, which primarily are based on unused tax loss carryforwards and temporary differences, is based on management estimates of the level and occurrence of taxable income available for use in the future. For this purpose, the expected taxable income is derived from the corporate planning.

When taking into account the realizable prices or technical risk with regard to inventories, estimates are made based on market data and empirically established figures. These estimates can vary from the prices realized later in the sales market.

By its nature, the recognition and measurement of provisions, in particular provisions for warranties, is associated with estimates.

Scope of consolidation

The following companies were consolidated as of the uniform reporting date of December 31, 2010.

Parent company	Subscribed capital	Interest 2010 (no change from 2009)
Loewe AG, Kronach, Germany	EUR 13,009,229.00	
Subsidiaries		
Loewe Opta GmbH, Kronach, Germany	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, The Netherlands (uncalled capital EUR 72,604.83)	EUR 90,756.04	100 %
Loewe France S.A.S., Strasbourg, France	EUR 150,000.00	100 %
Loewe Italiana S.r.l., Bolzano, Verona, Italy	EUR 100,000.00	100 %
Loewe Austria GmbH, Vienna, Austria	EUR 35,000.00	100 %
Loewe UK Ltd., Irvine, United Kingdom	GBP 50,000.00	100 %
Loewe Opta, Inc., City of Wilmington, County of New Castle, Delaware, USA	USD 1,000.00	100 %
The subsidiary ceased business activities in 2004. By year-end 2007, the company had settled the remaining warranty obligations in the U.S. The equity investment will now be maintained solely for the purpose of maintaining Loewe brand rights in the U.S.		
MacroSystem Digital Video AG, Wetter (Ruhr), Germany	EUR 6,000,000	78.98 %

The scope of consolidation has changed in relation to the consolidated financial statements as of December 31, 2009, as a result of the Company's acquisition of 78.73 % of the shares in MacroSystem Digital Video AG, Wetter, Germany, effective May 25, 2010. An additional 0.25 % of the shares were subsequently acquired from minor shareholders in July 2010, resulting in shareholdings of 78.98 % as of December 31, 2010.

MacroSystem Digital Video AG, founded in 1991, produces and sells high quality products in the home entertainment and video editing technology sectors.

In addition to continuing its core business, MacroSystem Digital Video AG will primarily take over contract development in the software sector for Loewe in the future. This acquisition strengthens Loewe's development expertise in the area of PC-based multimedia software.

The new subsidiary was included in the consolidated financial statements based on the purchase method. Earnings of MacroSystem Digital Video AG generated during the period since the acquisition date were taken into account in the present consolidated financial statements.

The fair values recognized as of the acquisition date for the assets acquired and liabilities assumed, as well as their carrying amounts immediately before the business combination, are shown in the following table.

EUR thousands	Carrying amount prior to acquisition date	Fair value as of the acquisition date
Assets		
• Property, plant and equipment	51	51
• Capitalized development costs	0	1,253
• Other intangible assets	5	5
• Inventories	242	242
• Trade accounts receivable	304	304
• Miscellaneous current financial assets	142	142
• Cash and cash equivalents	160	160
Total assets	904	2,157
Liabilities		
• Other current provisions	−465	−465
• Trade accounts payable	−911	−911
• Current financial liabilities	−165	−165
• Miscellaneous current financial liabilities	−61	−61
Total liabilities	−1,602	−1,602
Total identifiable net assets at fair value		555

The purchase price paid for the 78.98 % share in MacroSystem Digital Video AG acquired by Loewe AG amounts to EUR 440 thousand. Minority interests in net assets as of December 31, 2010 amount to EUR −146 thousand.

The fair values of assets, liabilities and contingent liabilities were determined by referring to existing market prices. If no market prices could be identified, we used income-specific approaches or cost-based procedures to measure acquired assets and assumed liabilities.

Deferred tax liabilities attributable to capitalized development costs measured at fair value are matched with deferred tax assets of the same amount. According to IAS 12, these may be offset within the valuation unit of MacroSystem Digital Video AG. Therefore, no deferred taxes have to be recognized.

Breakdown of cash outflows from business acquisition:

EUR thousands	
Cash acquired in connection with the subsidiary (included in cash flows from investing activities)	−5
Cash outflow for the purchase price payment	−440
Net cash outflow	−445

Since the acquisition date, MacroSystem Digital Video AG has made a negative contribution of EUR 707 thousand to net income for the period and a positive contribution of EUR 2,369 thousand to Group sales. If the business combination had been effected as of the beginning of 2010, the Group's profit after tax would have been EUR 6,481 thousand higher, however, this figure includes pro-rata extraordinary income of EUR 7,585 thousand due to the waiver of legacy creditors in the wake of the insolvency plan at MacroSystem Digital Video AG. Sales would have been EUR 4,022 thousand higher. In the wake of the implementation of the insolvency plan, extraordinary income of EUR 9,604 thousand (EUR 7,585 thousand on a pro-rata basis) was recorded at MacroSystem Digital Video AG prior to initial consolidation due to the waiver of legacy creditors, which largely offset the existing negative equity of the company. The negative result presented by MacroSystem Digital Video AG in fiscal year 2010 still reflects the cost situation before the acquisition date and the losses incurred during the insolvency proceedings. Cost synergies brought about by the relocation of the Wetter site and the production facilities to Kronach, the takeover of the production of TV sets of Loewe Opta GmbH for MacroSystem Digital Video AG and an intensification of sales cooperation will come to complete fruition as of the 2011 fiscal year.

The transaction costs for the acquisition of the company totaled EUR 327 thousand, of which EUR 305 thousand was recognized in administrative expenses in fiscal year 2009 and EUR 22 thousand in fiscal year 2010.

Loewe Opta GmbH makes use of the exemption pursuant to section 264 (3) of the German Commercial Code (HGB) and does not publish its financial statements in the German federal gazette (elektronischer Bundesanzeiger) since the company is included in the consolidated financial statements of Loewe AG.

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 included in the scope of consolidation and 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 shareholders' equity at the time of acquisition.

The financial statements of the subsidiaries included in the consolidated financial statements are prepared in accordance with local law for the reporting dates of the consolidated financial statements, and – except for the annual financial statements of Loewe Opta, Inc., which is no longer carrying out operating activities – are reviewed by independent auditors.

Intercompany expenses and income, receivables and payables, as well as profits and losses between the companies included in the consolidated financial statements, have been eliminated. All currency translation differences are recognized in income. Deferred taxes were recognized for consolidation adjustments recognized in the income statement.

Currency Translation

Each company within the group of companies represents an integrated unit. The functional currency is the reporting currency, the euro. The items presented in the annual financial statements of the Group companies are measured using the functional currency. Any foreign currency transactions are initially translated using the spot rate of the day of the transaction. Assets and liabilities are translated from the foreign currency to the functional currency using the average spot exchange rate prevailing on the reporting date.

All consolidated companies, except Loewe UK Ltd., Irvine, United Kingdom and Loewe Opta, Inc., USA, are located in the eurozone. In accordance with IAS 21 "The Effects of Changes in Foreign Currency Exchange Rates," currency translation in the balance sheet was based on the reference rate of the European Central Bank (ECB) as of the closing date and on the average rate for the year 2010 in the income statement. The resulting exchange differences are recognized in the income statement.

Currency rates

Country	Currency	EUR	Closing rate		Average rate	
			2010	2009	**2010**	2009
United Kingdom	GBP	EUR 1	0.8608	0.8881	0.8582	0.8911
USA	USD	EUR 1	1.3362	1.4406	1.3268	1.3933

Accounting Policies

The accounting policies detailed below remain unchanged from those used in fiscal year 2009.

Sales revenues and **other operating income** are recognized as soon as the services have been rendered or the goods or products have been delivered or the risk has been transferred to the customer. They are recognized after sales deductions such as rebates, discounts and rebates. Sales revenues are reported excluding value added tax.

Operating expenses are recognized in income on the date of performance or when incurred.

Interest income or expense is accrued; if applicable, by applying the effective interest method.

Income tax expense relates to direct income taxes as well as deferred taxes. Deferred taxes and current taxes are calculated in accordance with IAS 12. Deferred taxes are recognized for temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the tax accounts as well as for recoverable tax loss carryforwards. The calculation is based on the tax rates expected to be applicable as of the realization date, i.e. those tax rates that are enacted or substantively enacted as of the balance sheet date. Deferred tax assets are recognized only to the extent that the related tax receivables will probably be utilized. Loss carryforwards are included in the deferred taxes to the extent that they will probably be realized.

Changes in **deferred taxes** in the balance sheet generally result in deferred tax charges or deferred tax income. In case of events resulting in changes to deferred taxes for items requiring a recognition directly in equity, the corresponding change in deferred taxes is also recorded directly in equity.

The useful life of **intangible assets** is limited. They are recognized 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 "Intangible Assets." They are capitalized at the personnel and other administrative 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 over the period during which the developed products are likely to be produced and sold.

The following useful lives and amortization rates are applied:

	Useful life		Amortization rates, p. a.	
	2010	2009	**2010**	2009
Software	2 to 5 years	2 to 6 years	20 to 50 %	17 to 50 %
Development costs	2 years	2 years	50 %	50 %

Property, plant and equipment

Loewe AG prepared its consolidated financial statements in accordance with IFRS/IAS for the first time as of December 31, 1997. At that time, hidden reserves in land and buildings uncovered as the result of a valuation survey were disclosed and recognized as an asset. There were no hidden reserves in other balance sheet items. 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, less straight-line depreciation.

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.

Impairment losses are reversed if the recoverable amount of the asset increases subsequently. The reversal of an impairment loss is limited to the depreciated cost which would have resulted had no impairment occurred.

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

Buildings	2 % to 10 %
Production facilities and machinery	10 % to 20 %
Other facilities, factory and office equipment	5 % to 33 %

Loewe AG has concluded lease agreements as lessee (mainly for cars and copiers) which have to be classified as operating leases in accordance with IAS 17, as the lessor substantially retains all the risks and rewards incidental to ownership of the leased assets. Lease payments for such operating leases are recognized in the income statement as cost of sales, selling expenses and general and administrative expenses, and amortized over the lease term.

Equity investments and investment securities recognized as **financial assets** are measured at cost or fair value. Other loans are reported at cost less principal payments and are individually written down to the extent necessary.

Non-current **income tax assets** for the current and earlier periods are recognized at the amount at which a reimbursement from the revenue authorities is expected.

Miscellaneous non-current financial assets are recognized at their nominal amount. Non-interest bearing receivables are recognized at present value. Impairment losses are recognized in income if the realizable amount of the asset is less than the carrying amount.

Under IAS 12 "Income Taxes," **deferred taxes** are computed on the basis of the temporary differences between the consolidated financial statements and the tax accounts. Deferred tax claims from loss carryforwards are recognized if utilization is probable. Deferred taxes based on items that are directly recognized in equity are not recognized in the income statement but in equity.

The tax rate uniformly applicable to the Group is 27.9 % (2009: 27.9 %).

Inventories are recognized at cost. In addition to direct materials and direct labor, costs of conversion also include related indirect materials and indirect labor. Interest on debt capital is not included in the costs of conversion. Inventories that cannot be sold, or those for which their likely selling price (after deduction of costs still to be incurred) would not cover their cost, are written down as necessary. The net realizable value corresponds to the selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade accounts receivable are reported at their principal amount less specific valuation allowances for credit risks. Cash discounts, interest and processing costs are accounted for by valuation allowances. Receivables in foreign currencies are measured at the average spot exchange rate prevailing on the reporting date.

The amount recognized for current **income tax assets** relates to the claim for payment of the corporation tax credit under Section 37 (5) of the Corporation Tax Act. The credit is recognized at fair value using an interest rate appropriate to the maturity and free of risk.

Miscellaneous current financial assets are reported at their nominal amount 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. The measurement reflects fair value (mark-to-market method) and is based on the calculation bases provided by the banks. The asset value of the positive intrinsic values of derivatives is recognized in miscellaneous current financial assets. Any negative net asset value of these financial derivatives is shown in miscellaneous current financial liabilities. **Hedging transactions** are recognized in accordance with IAS 39 and explained in accordance with IFRS 7. The effective portion of the change in value of currency hedges (which are exclusively in the form of cash flow hedges) is recognized directly in equity (Other reserves) with no effect on income until the gain or loss on the hedged item is recognized – after recognition of deferred taxes.

Loewe fulfills the requirements for the use of hedge accounting as established by IAS 39. At the beginning of a hedging transaction, both the relationship between the financial instrument used as a hedging instrument and the hedged item, as well as the goal and strategy of the hedge, are documented. This includes both the specific assignment of the hedging instruments to the corresponding future transactions as well as the estimation of the degree of effectiveness of the hedging instruments used. Existing hedging transactions are constantly monitored for effectiveness.

Financial assets and financial liabilities are reported by applying IAS 39 "Financial Instruments: Recognition and Measurement."

Cash and cash equivalents in the form of cash on hand, checks on hand and bank balances are shown at their nominal amounts. Foreign currency balances are reported at the rate prevailing on the reporting date.

Subscribed capital is reported at nominal value.

Changes in equity not recognized in income are recognized in **other provisions** unless they are based on capital transactions with shareholders. These primarily refer to the fair value of derivative financial instruments and the related deferred tax effects.

Minority interests relate to non-controlling interests in subsidiaries. They are reported in equity at their pro rata value.

Provisions for pensions and similar obligations are calculated using the actuarial projected unit credit method. Future benefit obligations are measured on the basis of benefit entitlements earned on a pro-rated basis as of the reporting date. Measurement reflects assumptions as to the future development of certain parameters affecting the level of future benefits. The calculation is based on actuarial opinions, taking into account biometric principles.

The expenses for the unwinding of discounts on pension obligations as well as the expected return on plan assets are reported separately as interest expense or interest income, respectively. All other expenses from the allocation to provisions for pensions are classified as personnel costs.

Other non-current provisions relate to economic obligations that are expected to become due more than 12 months after the reporting date. They are reported at the present value of the expected settlement amounts, based on a pre-tax interest rate reflecting the current market expectations with regard to the time value of money.

Non-current financial liabilities reflect bank loans with a term to maturity longer than one year. They are shown in the balance sheet at amortized cost using the effective interest method.

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

Other current provisions relate to economic obligations that are expected to become due within one year. The provisions are recognized at the settlement amounts anticipated to be payable in 2011.

Current financial liabilities, trade accounts payable and all **miscellaneous current financial liabilities** are also recognized at their repayment amounts.

Government grants are recognized if there is reasonable assurance that the grants will be received and the Company complies with the conditions attached to them. Expense-related grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis.

Notes to the Income Statement

The cost-of-sales method as set forth in IAS 1.92 is used.

Sales revenue (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:

	2010		2009	
	EUR thousands	%	EUR thousands	%
LCD televisions	249,811	81.3	280,471	86.6
DVD/Blu-ray	5,916	1.9	7,719	2.3
Audio	25,500	8.3	15,749	4.9
Other revenues	26,072	8.5	20,011	6.2
Total	**307,299**	**100.0**	323,950	100.0

The decline in sales of LCD television was caused by the lower market shares in Germany and in the export markets.

The increase in sales in the Audio segment is attributable to the attractive range of audio components for home cinema solutions as well as to the market launch of the Mediacenter product family in April 2010.

The increase in other revenues is primarily a result of higher sales with accessories (TV furniture, etc.) and of the sales generated by the new subsidiary MacroSystem Digital Video AG, which were included for the first time.

* The numerals given in brackets for the following line items refer to the corresponding numbers indicated in the financial statements.

The breakdown of sales by geographical regions is as follows:

	2010		2009	
	EUR thousands	%	EUR thousands	%
Germany	179,703	58.5	192,952	59.6
Europe (excluding Germany)	122,563	39.9	126,324	39.0
Rest of world	5,033	1.6	4,674	1.4
Total	**307,299**	**100.0**	323,950	100.0

The decline in sales by a total of EUR 16,651 thousand or 5.1 % is largely due to the weaker domestic demand, which fell by EUR 13,249 thousand or 6.9 %. The decrease in sales in European countries excluding Germany of EUR 3,761 thousand or 3.0 % was relatively moderate, while sales were up slightly in Non-European countries.

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 breaks down as follows:

EUR thousands	2010	2009
Raw materials and supplies	168,965	165,666
Merchandise	13,465	13,164
Amount of inventories recognized as an expense during the reporting period	**182,430**	178,830
Purchased services	1,596	1,366
Personnel and social security costs	35,487	34,275
Depreciation of property, plant and equipment and amortization of software	10,042	9,222
Amortization of capitalized development costs	6,450	5,964
Capitalized development costs	−6,423	−5,997
Other non-staff administrative costs	7,769	5,747
Total	**237,351**	229,407

This increase of costs for raw materials and supplies used is a result of higher prices for panels and other significant production materials as well as unfavorable exchange rates.

The increase in personnel and social security costs is attributable to wage and salary increases based on collective agreements resulting from increased costs in the area of part-time retirement as well as to higher personnel expenses in connection with restructuring measures.

Non-staff administrative expenses have increased, above all due to higher licensing costs as well as higher legal and consulting fees in connection with restructuring.

Selling Expenses (3)

Selling expenses comprise the following:

EUR thousands

	2010	2009
Advertising costs	15,959	19,403
Personnel and social security costs	20,985	20,294
Freight	8,641	8,730
Warranty expenses	4,252	4,999
Dues, fees, and similar expenses	2,852	3,442
Depreciation of property, plant and equipment and amortization of software	4,667	4,355
Travel and hospitality expenses	2,511	2,383
Other non-staff administrative costs	8,793	10,399
Total	**68,660**	74,005

The decline in advertising costs is primarily due to measures to cut costs in this area by concentrating expenditures on important focus issues.

The reduction in warranty expenses is a result of lower allocations to provisions for warranties than in the year before because of the reduced sales volume.

The significant decline of other non-staff administrative costs is largely attributable to the reversal of valuation allowances on trade accounts receivable due to the lower volume of receivables.

General and Administrative Expenses (4)

The following expenses were incurred for administration:

EUR thousands	2010	2009
Personnel and social security costs	7,198	7,247
Depreciation of property, plant and equipment and amortization of software	585	738
Other non-staff administrative costs and overheads	881	746
Total	**8,664**	8,731

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

EUR thousands	2010	2009
Audit services (financial statements)	145	165
Audit-related services (interim and special audits)	72	83
Other services	10	4
Total	**227**	252

The fees for the Group auditor for 2010 include for the first time services rendered for MacroSystem Digital Video AG in the amount of EUR 16 thousand.

The fees charged by other auditors for the separate financial statements of foreign subsidiaries are not shown in the table.

Other Operating Income (5)

Other operating income comprises the following:

EUR thousands

	2010	2009
Income from the reversal of provisions	1,818	2,971
Goods and services invoiced	2,598	2,445
Public subsidies for development projects	512	222
Miscellaneous income	2,889	873
Total	**7,817**	6,511

Income from the reversal of provisions mainly refer to the release of provisions for licensing obligations as well as for expenses for rework of company-manufactured products. The increase in Miscellaneous income compared to the prior year mainly results from the derecognition of barred liabilities.

Other Operating Expenses (6)

Other operating expenses include the following items:

EUR thousands

	2010	2009
Goods and services invoiced	2,598	2,445
Expenses for rework of company-manufactured products	204	868
Expenses for subsidized development projects	512	222
Costs for canceled purchase contracts	159	131
Severance payments to employees	1,038	35
Miscellaneous operating expenses	1,304	1,114
Total	**5,815**	4,815

Personnel restructuring measures and the retirement of a member of the Executive Board resulted in a significant increase in severance payments to employees.

Interest Income (7)

Interest and similar income results from:

EUR thousands	2010	2009
Overnight money and term money investments	450	1,163
Interest on current bank balances	44	115
Interest and bank charges passed on	15	33
Discounting of non-current provisions	111	0
Total	**620**	1,311

The decline of interest income primarily is a result of the lower interest rate level compared to the previous year as well as of the lower volume of free cash available for investment.

Interest Expense (8)

Interest and similar expenses comprise the following:

EUR thousands	2010	2009
Interest on amounts allocated to provisions for pensions, anniversary bonuses, part-time retirement and death benefits	2,391	2,059
Interest, commitment fees and processing fees paid to banks	360	327
Factoring interest and fees	224	356
Miscellaneous expenses equivalent to interest	4	333
Total	**2,979**	3,075

The decrease of miscellaneous expenses equivalent to interest is primarily due to the interest rate risks recognized in the previous year in relation to a then incomplete tax audit for the period 2001 to 2006, substantial parts of which were completed in the year under review.

Income Taxes (9)

Income taxes for Germany and outside of Germany are broken down as follows:

EUR thousands

	2010	2009
Current taxes		
• Germany	91	1,957
• Outside of Germany	332	423
	423	2,380
Deferred taxes		
• Germany	−620	1,151
• Outside of Germany	−245	114
	−865	1,265
Total	**−442**	3,645

Income taxes include both the income taxes to be paid directly as well as deferred taxes. Deferred tax assets and liabilities are recognized for temporary differences between figures stated in the consolidated balance sheet and the tax accounts as well as for tax loss carryforwards.

The breakdown by tax expense is as follows:

EUR thousands

	2010	2009
Current tax expenses	483	1,448
Tax income (–) and expense (+) from other acounting periods	−60	932
Deferred tax income (–) and expense (+)	−865	1,265
Total	**−442**	3,645

The applicable average tax rate for current taxation and the determination based on all deferred taxes in Germany is comprised as follows:

in %	2010	2009
Trade tax	12.1 %	12.1 %
Corporate income tax	15.0 %	15.0 %
Solidarity surcharge	0.8 %	0.8 %
	27.9 %	27.9 %

The average effective tax rate is 5.7 % and is thus 22.2 percentage points lower than the applicable tax rate of 27.9 %.

Reconciliation of the applicable tax rate to the average effective tax rate:

	2010		2009	
	EUR thousands	%	EUR thousands	%
Profit from ordinary activities (EBT)	−7,692		11,748	
Taxes at applicable income tax rate	−2,146	27.9	3,278	27.9
Difference in local tax rate	12	−0.2	97	0.8
Tax effects from previous years	−60	0.8	932	7.9
Tax effects from tax rate changes	0	0	−137	−1.2
Non-deductible levies less tax-exempt income and tax effects from consolidation	810	−10.5	48	0.4
Effects from loss carryforwards	657	−8.6	−557	−4.7
Effects from additions/deductions for trade taxes	87	−1.1	69	0.6
Other tax effects	198	−2.6	−85	−0.7
	−442	**5.7**	3,645	31.0

The negative difference compared to the applicable tax rate is attributable to opposing effects.

A significant tax effect in 2010 is attributable to income from equity investments eliminated for consolidation purposes as well as to further temporary differences arising at Group level (EUR 810 thousand or −10.5 % compared to the applicable tax rate).

Another opposing effect with regard to the computed tax rate is the lower amount of capitalized deferred tax assets on loss carryforwards (EUR 657 thousand or −8.6 % compared to the applicable tax rate).

Earnings Per Share (10)

To calculate earnings per share, the net loss of EUR 7,038 thousand is divided by the 13,009,229 outstanding shares in Loewe. This results in earnings per share of EUR −0.54 in the year under review (2009: EUR 0.62).

The weighted average number of shares in accordance with IAS 33 “Earnings per Share” results in unchanged earnings per share of EUR −0.54 (2009: EUR 0.62), as the number of Loewe shares did not change in the year under review.

Overview

	2010	2009
Net loss/income (EUR thousand)	−7,038	8,018
Basic/diluted earnings per share in EUR	−0.54	0.62
Basic/diluted earnings per share (weighted average) determined according to IAS in EUR	−0.54	0.62
Number of shares issued	13,009,229	13,009,229
Weighted average number of shares issued determined according to IAS	13,009,229	13,009,229
Number of shares issued and options granted	13,009,229	13,009,229
Authorized capital still available (Authorized Capital 2005)	0	2,598,154
Authorized capital still available (Authorized Capital 2010)	6,504,614	0
Available capital from employee options Capital (conditional capital)	398,400	398,400

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

Notes to the Balance Sheet

Intangible Assets (11)

The changes in intangible assets were as follows:

EUR thousands	Software and similar assets	Development costs	Advance payments	**Intangible assets**
Carrying amounts on January 1, 2009	821	4,829	240	5,890
Cost (accumulated)	7,355	18,297	240	25,892
Additions	841	6,745	32	7,618
Disposals				
• At cost	141	10,589	0	10,730
• Carrying amounts	8	0	0	8
Transfers	109	0	−75	34
Current amortization/impairment				
• Amortization	719	5,272	0	5,991
• Impairment	0	1,012	0	1,012
Accumulated amortization/impairment	7,112	9,163	0	16,275
Currency differences	8	0	0	8
Carrying amounts on December 31, 2009	1,052	5,290	197	6,539
Cost (accumulated)	8,164	14,453	197	22,814
Changes in the scope of consolidation	5	0	0	5
Additions	708	8,534	300	9,542
Disposals				
• At cost	460	3,962	0	4,422
• Carrying amounts	6	0	0	6
Transfers	47	0	−12	35
Current amortization/impairment				
• Amortization	631	7,458	0	8,089
• Impairment	136	0	0	136
Accumulated amortization/impairment	7,425	12,659	0	20,084
Carrying amounts on December 31, 2010	**1,039**	**6,366**	**485**	**7,890**

Intangible assets primarily include product and IT software as well as internal and external development costs. Project expenses for in-house product developments recorded in detail are shown in the capitalized development expenses. The total cost of development charged to expense in 2010 came to EUR 15,941 thousand (2009: EUR 16,094 thousand), not including development cost subsidies received and transferred costs.

Total amortization/impairment on intangible assets include impairment losses in the amount of EUR 136 thousand related to software.

Property, Plant and Equipment (12)

The changes in financial assets were as follows:

EUR thousands	Land and buildings	Production facilities and machinery	Office furniture and equipment	**Property, plant and equipment**
Carrying amounts on January 1, 2009	19,071	4,425	19,063	42,559
Cost (accumulated)	40,789	18,784	105,396	164,969
Additions	10	436	10,482	10,928
Disposals				
• At cost	0	749	13,181	13,930
• Carrying amounts	0	0	158	158
Transfers	54	32	−120	−34
Current depreciation/impairment				
• Depreciation	945	1,101	10,330	12,376
• Impairment	0	0	900	900
Accumulated depreciation/impairment	22,663	14,711	84,475	121,849
Currency differences	0	0	65	65
Carrying amounts on December 31, 2009	18,190	3,792	18,102	40,084
Cost (accumulated)	40,853	18,503	102,577	161,933
Changes in the scope of consolidation	0	0	52	52
Additions	0	836	9,858	10,694
Disposals				
• At cost	0	519	12,910	13,429
• Carrying amounts	0	0	71	71
Transfers	0	9	−44	−35
Current depreciation/impairment				
• Depreciation	940	1,262	11,156	13,358
• Impairment	0	0	161	161
Accumulated depreciation/impairment	23,603	15,454	82,923	121,980
Currency differences	0	0	30	30
Carrying amounts on December 31, 2010	**17,250**	**3,375**	**16,610**	**37,235**

Land and buildings as well as production facilities and machinery are 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. Property, plant and equipment includes advance payments and facilities under construction in the amount of EUR 1,294 thousand (2009: EUR 2,078 thousand).

Total depreciation/impairment on property, plant and equipment includes impairment losses of EUR 161 thousand (2009: EUR 900 thousand) in connection with tools and production facilities no longer needed or no longer covered by future income.

Financial Assets (13)

The changes in financial assets were as follows:

EUR thousands	Equity investments	Investment securities	Other loans	**Financial assets**
Carrying amounts on January 1, 2009	25	1,091	24	1,140
Cost (accumulated)	25	1,114	24	1,163
Additions	0	436	0	436
Disposals				
• (At cost)	0	0	3	3
• (Carrying amounts)	0	0	3	3
Accumulated amortization/impairment	0	23	0	23
Carrying amounts on December 31, 2009	25	1,527	21	1,573
Cost (accumulated)	25	1,550	21	1,596
Additions	0	371	106	477
Current write-ups	0	23	0	23
Accumulated amortization/impairment	0	0	0	0
Carrying amounts on December 31, 2010	**25**	**1,921**	**127**	**2,073**

Equity investments in sector-specific interest groups are between 7 % and 10 % of investee share capital and refer to investments in poolings of interests for business purposes of the Group.

The portfolio of securities has been assigned as collateral (guarantee deposit for insurance) for existing part-time retirement obligations and employee-financed pension benefits. The increase can be attributed to further contributions made by employees to long-term retirement benefit schemes.

Income Tax Assets – Non-Current (14)

The amount recognized of EUR 246 thousand (2009: EUR 291 thousand) relates to the claim for payment of the corporation tax credit under Section 37 (5) of the Corporation Tax Act. The credit is recognized at fair value.

Miscellaneous Non-Current Financial Assets (15)

The following are reported as miscellaneous non-current financial assets with a residual maturity of more than one year:

EUR thousands	2010	2009
Receivables from investees	147	148
Pension plan cost insurance	69	126
Total	**216**	274

Deferred Taxes (16)

The deferred tax assets reported in the Group primarily include income taxes on loss carryforwards that are likely to be offsettable against a deferred tax claim of EUR 6,007 thousand (2009: EUR 4,678 thousand) as well as temporary differences between the amounts recognized in the consolidated financial statements and those reported in the tax accounts of EUR 4,964 thousand (2009: EUR 6,261 thousand).

The deferred taxes are apportioned to the following significant balance sheet items and loss carryforwards:

EUR thousands	2010		2009	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	3,823	1,809	4,294	1,476
Property, plant and equipment	107	1,039	63	1,153
Inventories	410	0	381	0
Other assets	134	1,064	285	233
Pension provisions	3,858	0	3,654	0
Remaining provisions	2,719	61	2,904	569
Liabilities	1,677	3,791	1,845	3,734
	12,728	**7,764**	13,426	7,165
Loss carryforwards	6,007	0	4,678	0
	18,735	**7,764**	18,104	7,165
Netting	−7,764	−7,764	−7,165	−7,165
Total	**10,971**	**0**	10,939	0
thereof recognized in equity (Other reserves)	0	514	319	0

Deferred tax liabilities are set off against deferred tax assets if the requirements set forth in IAS 12.74 relating to taxation authorities have been met.

As of the reporting date, realizable loss carryforwards of roughly EUR 22.5 million still existed (2009: roughly EUR 17 million). They are considered nettable.

As in 2009, no deferred tax assets are recognized on existing loss carryforwards of Loewe Opta Inc., USA in the amount of EUR 8.9 million due to the low probability of realization. Furthermore, the loss carryforwards were also measured according to their realizability at other domestic and foreign subsidiaries and allowances were created in the amount of EUR 5.8 million (2009: EUR 2.8 million).

Inventories (17)

The inventories are broken down as follows:

EUR thousands	2010	2009
Raw materials and supplies	23,877	14,176
Work in progress	1,706	1,735
Finished goods and merchandise	41,564	34,553
Total	**67,147**	50,464

The costs of inventories include write-downs of EUR 9,673 thousand (2009: EUR 7,155 thousand) in order to ensure the loss-free valuation of finished goods and merchandise in accounting for obsolete inventories. Write-downs of EUR 3,665 thousand (2009: EUR 1,999 thousand) have been recognized on raw materials and supplies and on work in progress.

Trade Accounts Receivable (18)

The accounts receivable balance declined as a result of the proportionate utilization of the financing possibilities resulting from the factoring agreement in the amount of EUR 5,014 thousand (2009: EUR 4 thousand).

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

Allowances for potential insolvency risks are measured individually. Existing credit insurance is accordingly recognized, as are letters of credit, bank guarantees, and credit insurance that are additionally available for some international receivables. Moreover, the default risk is low due to the fact that the receivables portfolio is broadly diversified. In addition, credit limit checks contribute to limiting risk. Furthermore, the factoring company bears the default risk for assigned receivables.

The maximum remaining default risk for Loewe is equal to the carrying amount of the receivable.

The allowances changed as follows:

EUR thousands	2010	2009
Balance as of January 1	5,059	3,684
Allocations (expenses for allowances)	618	1,644
Charge-offs	−702	−160
Reversals	−840	−109
Balance as of December 31	**4,135**	5,059

The net decrease of valuation allowances by EUR 924 thousand is mainly attributable to the significantly lower volume of trade accounts receivable. In addition, a higher amount of existing valuation allowances was utilized compared to the prior year due to payment defaults of retailers.

All trade accounts receivable are due within one year. The carrying amounts have the following maturity structure:

EUR thousands	2010	2009
Carrying amount of trade accounts receivable	70,476	85,326
thereof neither impaired nor past due on the reporting date	66,411	82,546
thereof not impaired and past due on the reporting date in the following time ranges:		
• less than 30 days	2,358	1,645
• between 30 and 90 days	765	579
• between 91 and 180 days	343	311
• more than 180 days	599	245

Receivables past due for more than 90 days primarily refer to VAT amounts that can only be reclaimed from the tax authorities after final derecognition of the respective trade accounts receivable.

With regard to the trade accounts receivable that were neither impaired nor past due, as of the closing date there was no evidence to suggest that the debtors would not comply with their payment obligations.

Of the trade accounts receivable that had already been written down, EUR 23 thousand (2009: EUR 51 thousand) was collected in the fiscal year.

Income Tax Assets – Current (19)

The current income tax assets of EUR 279 thousand (2009: EUR 391 thousand) include tax reimbursement claims in connection with advance payments and the current portion of the claim to payment of the corporation tax credit under Section 37 (5) of the Corporation Tax Act.

Miscellaneous Current Financial Assets (20)

The assets relate to:

EUR thousands	**2010**	2009
Positive value of financial derivatives	3,020	545
Assets arising from advance payments	810	544
Credit balances with suppliers	1,022	201
Advances for travel expenses and personnel	183	190
Claims on insurance companies/forwarding agents	22	70
Other current claims	938	520
Total	**5,995**	2,070

The increase in the positive intrinsic value of financial derivatives is due to the favorable EUR/USD exchange rate on the date the Loewe purchase was hedged compared to the reporting date.

All miscellaneous current financial assets are due within one year.

Cash and Cash Equivalents (21)

The cash and cash equivalents consist of current deposits and time deposit investments with commercial banks of EUR 13,201 thousand (2009: EUR 36,081 thousand), which can be withdrawn on short notice. Cash funds in the amount of EUR 5,014 thousand result from the use of financing possibilities in relation to the factoring agreement.

Shareholders’ equity

Equity Attributable to Equity Holders of the Parent (22)

As of the reporting date, the Company’s share capital of EUR 13,009,229 is fully paid in and has not changed from the previous year. It is divided into 13,009,229 no-par value bearer shares.

The capital reserve exclusively contains premium on the capital stock issued. 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.

In the line “Fair value measurement of hedging instruments,” Other reserves include changes in value of derivatives not recognized in income (less deferred tax liabilities of EUR 514 thousand [previous year plus deferred tax assets of EUR 319 thousand]) which are used as hedging instruments in the sense of a cash flow hedge and which can be proven to be effective for the purposes of IAS 39.

For the past fiscal year a dividend of EUR 0.25 per share or a total of EUR 3,252 thousand was distributed from the distributable profit.

Together with the Group profit carried forward from the previous year and after deduction of the dividend payment for 2009, the net loss will be reported as Group distributable profit of EUR 1,978 thousand as of December 31, 2010.

The statement of changes in equity is shown as a separate table.

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 May 20, 2010, new authorized capital was created in the amount of EUR 6,504,614. This resolution authorizes the Executive Board, with the consent of the Supervisory Board, to increase the Company’s share capital in exchange for cash contributions and/or contributions in kind on one or more occasions by a total of up to EUR 6,504,614 through the issue of up to 6,504,614 new bearer shares with dividend entitlement as of the beginning of the fiscal year current on the date of issue (2010 Authorized Capital) by no later than May 19, 2015. The Executive Board is authorized, with the consent of the Supervisory Board, to exclude the statutory subscription right of the shareholders,

- if a capital increase in exchange for cash contributions does not exceed 10 % of the share capital and the issue amount of the new shares is not substantially lower than the stock exchange price (Section 186 (3) sentence 4 of the German Stock Corporation Act); if use is made of this authorization with exclusion of the subscription right pursuant to Section 186 (3) sentence 4 of the German Stock Corporation Act, the exclusion of the subscription right based on other authorizations must be taken into account in accordance with Section 186 (3) sentence 4 of the German Stock Corporation Act;

- if the shares are issued in exchange for contributions in kind for the purpose of acquiring companies or equity interests in companies or business units or for the purpose of acquiring claims against the Company;

- if it is necessary to even out fractional amounts.

The sum total of shares issued in exchange for cash contributions or contributions in kind in accordance with this authorization, subject to exclusion of the subscription right, shall not exceed a proportionate amount of 20 % of the share capital existing on the date this authorization takes effect and – if this value is lower – on the date this authorization is used.

The Executive Board is authorized, with the consent of the Supervisory Board, to determine the additional details of the capital increase and its execution. The Supervisory Board is authorized to revise the wording of the Articles of Incorporation in accordance with the utilization of the Authorized Capital.

By resolution of the Shareholders' Meeting on May 20, 2010, the Company was authorized to acquire treasury shares under the following conditions:

1. The Company is authorized to acquire treasury shares equaling up to 10 % of its share capital existing on the date of the resolution. Together with the other shares held by the Company or to be treated as such in accordance with Sections 71d and 71e of the German Stock Corporation Act, the acquired shares may not at any time constitute more than 10 % of the share capital.

2. The authorization can be exercised by the Company or by third parties for its account in entire or partial amounts and on one or several occasions in pursuing one or several purposes. The authorization is valid until May 19, 2015.

3. At the discretion of the Executive Board, the shares may be acquired via the stock exchange or via a public offer to buy addressed to all shareholders of the Company.
   a. If the acquisition is made via the stock exchange, the purchase price to be paid by the Company per share of the Company (not including ancillary acquisition costs) may not be more than 10 % higher or lower than the average closing prices on the three trading days preceding the acceptance of the obligation. In this connection, with regard to each trading day, the **"closing price"** is the final price determined in the final auction, or if such a final price is not determined on the trading day concerned, the last price of the Company's share determined in continuous trading in the XETRA trading system (or a comparable successor system) of the Frankfurt Stock Exchange.
   b. If the acquisition is made via a public offer to buy addressed to all shareholders of the Company, the purchase price per share offered by the Company (not including ancillary acquisition costs) may not be more than 10 % higher or lower than the average of the closing prices (as defined in letter a) above) on the three trading days before the record date. **"Record date"** is the day the Company announces its decision to issue a public offer, or in the case of a change of offer, the day of the Executive Board's final decision concerning the change of offer. The offer to buy can include conditions. If more shares are tendered to the Company for repurchase than the total number offered by the Company for repurchase, the Company will carry out the acquisition in proportion to the tendered shares. The Company can provide a preferential acceptance of low share numbers of up to 100 shares tendered per shareholder.

4. The Executive Board is authorized, with the consent of the Supervisory Board, to use the shares acquired under this authorization for all purposes allowed by law but also for the following purposes in particular:
   a. The shares may be recalled without the necessity of another resolution of the Annual Shareholders' Meeting being required for the recall or its implementation. A recall will result in a capital reduction. The shares may also be recalled in a simplified procedure without a capital reduction by adjusting the proportion of the remaining shares in the Company's share capital. The recall may also be limited to a portion of the acquired shares. The authorization to recall shares may be exercised more than once.
   b. The shares can be transferred against performance in kind.

c. The shares can also be sold in another manner than via the stock exchange if the shares are sold in exchange for cash at a price that is not substantially lower than the stock exchange price of the shares at the time of the sale. If the shares sold are offered to the shareholders while not safeguarding their subscription right, they may in aggregate not exceed 10 % of the share capital, and specifically neither on the date this authorization takes effect nor on the date of its exercise.

5. The authorizations in letters 4. a., b. and c. also apply to shares of the Company that are acquired based on Section 71d sentence 5 of the German Stock Corporation Act.

6. The authorizations in letter 4. can be exercised on one or several occasions, entirely or in parts, individually or collectively.

7. The subscription right of the shareholders to treasury shares can be excluded with the consent of the Supervisory Board if it is used in accordance with the authorizations in letters 4. b. to c. The 10 % limit applicable to sales of treasury shares in accordance with the authorization in letter 4. c. while excluding the subscription right must be taken into account based on other authorizations in accordance with Section 186 (3) sentence 4 of the German Stock Corporation Act.

8. The currently existing authorization to acquire and use treasury shares issued by the Company's Annual Shareholders' Meeting on May 26, 2009 and time-limited until November 25, 2010, has expired.

Minority Interests (23)

Minority interests are held at Loewe Opta GmbH, Kronach (1 %), at Loewe Opta Benelux N.V./S.A. (10 %), and at MacroSystem Digital Video AG (21.02 %). This item changed as follows:

EUR thousands

	2010	2009
Balance at the beginning of the period	1,325	1,239
Change in minority interests	−212	86
Acquisition of MacroSystem	120	0
Distribution to minority shareholders in Belgium	−600	0
Balance at the end of the period	**633**	1,325
thereof:		
• Loewe Opta GmbH	272	272
• Loewe Opta Benelux N.V./S.A.	507	1,053
• MacroSystem Digital Video AG	−146	0
	633	1,325

Under the terms of the profit and loss transfer agreement between Loewe AG and Loewe Opta GmbH of April 21, 2001, the minority shareholder, 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.

Provisions for Pensions and Similar Obligations (24)

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 calculated in accordance with actuarial standards.

To calculate pension obligations, the discount rate and the expected increases in wages, salaries and pensions were assessed to reflect the long-term trend; the economic assumptions on which the calculation is based are therefore as follows:

in %

	2010	2009	2008	2007	2006
Discount rate p. a.	4.75	5.0	5.0	4.75	4.5
Anticipated annual increases in wages and salaries	3.5	3.5	3.5	3.0	2.0
Anticipated annual increases in pensions	2.5	2.5	2.5	2.0	1.5

The present value of the pension obligations of the Loewe Group changed as follows:

EUR thousands

	2010	2009	2008	2007	2006
Present value of pension obligations	40,760	40,312	40,951	39,434	37,906

The carrying amount of provisions for pensions from defined benefit plans is determined using the projected unit credit method, based on actuarial methods. The “Richttafeln 2005 G” (mortality tables) by Dr. Klaus Heubeck were used to determine mortality and invalidity.

The changes in pension provisions were as follows:

EUR thousands		
Present value of pension obligations as of January 1, 2009		40,951
a. Changes not recognized in income		
Pension payments in 2009	−2,326	
Additions for employee-financed pension commitments	83	−2,243
		38,708
b. Changes recognized in income		
Reported under interest expenses		
• Interest expense for own commitments		1,978
Reported as personnel expenses under cost of sales, selling expenses and administrative expenses		
• Current service cost	438	
• Actuarial gains	−812	−374
Present value of pension obligations as of December 31, 2009		40,312
a. Changes not recognized in income		
Pension payments in 2010	−2,518	
Additions for employee-financed pension commitments	74	−2,444
		37,868
b. Changes recognized in income		
Reported under interest expenses		
• Reported under interest expenses		1,943
Reported as personnel expenses under cost of sales, selling expenses and administrative expenses		
• Current service cost	413	
• Actuarial losses	536	949
Present value of pension obligations as of December 31, 2010		**40,760**

Actuarial gains and losses are recognized in income when incurred.

The following is anticipated for 2011:

EUR thousands	
Pension payments	2,503
Interest expense for own commitments	1,849
Current service cost	389

Current service cost and actuarial gains and losses are recognized as follows in the income statement:

EUR thousands	**2010**	2009
Cost of sales	623	−246
Selling expenses	92	−36
Administrative expenses	234	−92
Total	**949**	−374

Other Non-Current Provisions (25)

Other non-current provisions comprise the following:

EUR thousands	**2010**	2009
Warranty obligations	7,272	6,545
Personnel costs	7,501	7,335
License fees	2,722	3,240
Total	**17,495**	17,120

Non-current provisions are recognized for warranties for services that must be provided 12 to 39 months, or in some cases 12 to 63 months, after the reporting date. They are recognized on the basis of a general warranty period of three or five years plus a three-month grace period. The increase in provisions resulted from the extension of some warranty periods to up to five years as well as from increased costs of the service department.

Non-current provisions for personnel costs are recognized primarily for part-time retirement contracts with employees (terms of 2 to 6 years), obligations for future employment anniversary payments (terms of 2 to 25 years). The increases in the obligation resulting from the adjustment of the provision for part-time retirement are offset by non-current provisions for personnel expenses within the context of an agreement concluded with the trade union to support restructuring efforts (EUR 1,084 thousand).

License fee provisions are recognized for risks resulting from infringements of industrial property rights and the payment of license fees that will be incurred in two to three years.

The change in other non-current provisions is shown together with other operating provisions in Note 28.

Non-Current Financial Liabilities (26)

There are non-current financial liabilities reported as of December 31, 2010 (2009: EUR 94 thousand). The long-term bank loan existing at Loewe Opta GmbH was almost fully repaid in the year under review. The last repayment installment in the amount of EUR 94 thousand will be paid in March 2011 and is reported as the short-term portion of the loan in the balance sheet item "Current financial liabilities."

Income Tax Provisions (27)

Income tax provisions are comprised of:

EUR thousands	**2010**	2009
Provision for income tax payments, current year	597	1,331
Risks from previous years	3,260	3,260
Total	**3,857**	4,591

At the present time, it must be expected that the assessments will be made during the next fiscal year for the tax liability from prior years.

Other Current Provisions (28)

Other current provisions with an anticipated utilization within one year comprise the following:

EUR thousands	2010	2009
Provisions for:		
Annual sales compensation	15,947	20,068
Warranty obligations	8,365	8,894
Personnel costs	7,823	8,265
License fees	1,299	560
Rework of company-manufactured products	893	1,284
Remaining provisions	7,432	7,476
Total	**41,759**	46,547

Provisions for annual sales compensation were determined based on the agreements covering bonuses and other compensation. They primarily relate to Germany and, because of the reduced sales volume, are significantly below the previous year's figure.

Provisions for warranties are calculated based on anticipated warranty costs in the future, allowing for a general warranty period of three to five years.

Provisions for personnel costs essentially comprise holiday pay, variable remuneration to be paid and the current component of part-time retirement contracts.

The provisions for rework of company-manufactured products were primarily recognized for the safety inspection campaign with respect to 100Hz CRT sets from the production period between March 1999 and October 2001. The sets were inspected by authorized workshops to rule out existing residual long-term risks from manufacturing-related weak points in specific soldered rivet joints.

The miscellaneous provisions include, among other things, items for cancellation costs, third-party product liability claims, and additional costs that may be incurred.

The total other provisions (non-current and current) changed as follows in 2010:

EUR thousands

	Annual sales compensation	Cost of warranties	Personnel costs	License fees	Miscellaneous provisions	**Total other provisions**
Balance as of January 1, 2009	22,009	14,858	15,198	6,190	7,947	66,202
Additions	20,118	8,845	8,791	246	10,255	48,255
Utilization	21,944	8,206	8,214	416	9,039	47,819
Reversals	115	58	175	2,220	403	2,971
Balance as of December 31, 2009	20,068	15,439	15,600	3,800	8,760	63,667
thereof: non-current	0	6,545	7,335	3,240	0	17,120
thereof: current	20,068	8,894	8,265	560	8,760	46,547
Balance as of January 1, 2010	20,068	15,439	15,600	3,800	8,760	**63,667**
Additions	15,947	12,376	8,784	851	6,031	43,989
Utilization	20,059	12,119	8,841	0	5,552	46,571
Reversals	9	59	219	630	914	1,831
Balance as of December 31, 2010	15,947	15,637	15,324	4,021	8,325	**59,254**
thereof: non-current	0	7,272	7,501	2,722	0	17,495
thereof: current	15,947	8,365	7,823	1,299	8,325	41,759

Current Financial Liabilities (29)

Current financial liabilities comprise the remaining repayment installment for a long-term loan in the amount of EUR 94 thousand (2009: EUR 938 thousand).

Interest is at market rates.

Interest expenses on the unpaid principal balance of the long-term loan maturing in 2011 amount to EUR 1 thousand. Interest is at market rates. The loan is secured by a mortgage.

Trade Accounts Payable (30)

Trade accounts receivable of EUR 22,234 thousand (2009: EUR 23,077 thousand) result primarily from deliveries of materials, services and deliveries of merchandise. All trade accounts payable are due within one year.

Miscellaneous Current Financial Liabilities (31)

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

EUR thousands	2010	2009
Taxes and social security charges due	4,034	5,386
Customer credit balances	518	2,209
Fair value of hedged financial assets	1,178	1,689
License fee liabilities	1,537	1,364
Liabilities to personnel	1,159	846
Sundry liabilities	970	895
Total	**9,396**	12,389

The decline in customer credit balances results from the derecognition of barred claims in the amount of EUR 1,585 thousand.

Additional disclosures on financial instruments in accordance with IFRS 7

For the purposes of measuring financial assets and financial liabilities, management classifies such instruments upon initial recognition according to the following categories, depending on instrument type and intended use:

- Loans and receivables,
- Held-to-maturity investments,
- Primary and derivative financial assets held for trading,
- Available-for-sale financial assets,
- Financial liabilities measured at fair value through profit or loss,
- Other financial liabilities.

The Group generally does not make use of the fair value option. Neither in 2010 nor in 2009 did the Group hold financial assets for trading and financial liabilities measured at financing through profit or loss.

There were no redesignations or reclassifications in 2010 or 2009.

The measurement of the financial assets and financial liabilities of the Loewe Group is described in the section on general accounting policies.

The carrying amounts, measurement principles and fair values of all financial assets and financial liabilities recognized in the financial statements of the Loewe Group are as follows:

Amount recognized in the balance sheet
EUR thousands

	December 31, 2010*					December 31, 2009*			
	Category	Carrying amount	Amortized cost	Market value recognized in equity	Fair value	Category	Carrying amount	Market value recognized in equity	Fair value
Assets									
Non-current financial assets									
Equity investments	(2)	25**	25**			25**	25**		
Financial investments	(2)	1,920	1,920		1,920	1,527		1,527	1,527
Other non-current financial assets	(3)	345	345		345	295	295		295
Current financial assets									
Trade accounts receivable	(3)	70,476	70,476		70,476	85,326	85,326		85,326
Other current financial assets	(3)	2,518	2,518		2,518	661	661		661
Derivatives with hedging relationship	n/a	3,020		3,020	3,020	545		545	545
Cash and cash equivalents	(3)	13,201	13,201		13,201	36,081	36,081		36,081
Equity and liabilities									
Non-current liabilities									
Financial liabilities	(4)	0				−94	−94		−94
Current liabilities									
Financial liabilities	(4)	−94	−94		−94	−938	−938		−938
Trade accounts payable	(4)	−22,234	−22,234		−22,234	−23,077	−23,077		−23,077
Other current financial liabilities	(4)	−3,025	−3,025		−3,025	−4,468	−4,468		−4,468
Derivatives with hedging relationship	n/a	−1,178		−1,178	−1,178	−1,689		−1,689	−1,689

The presentation of the prior-year figures 2009 was adjusted to improve clarity of presentation.

(1) Held-to-maturity investments (none were held as of the reporting date)
(2) Available-for-sale financial assets
(3) Loans and receivables
(4) Financial liabilities measured at amortized cost
* No market values to be recognized in profit or loss existed as of the reporting date.
** The absence of an active market makes it impossible to determine a fair value for equity investments, for which reason they are measured at amortized cost. No sale of the financial instruments is planned.

Notes to the Cash Flow Statement

The cash flow statement was prepared in accordance with IAS 7 "Cash Flow Statements." The changes in cash and cash equivalents and the cash flows of significance to them are broken down by operating, investing, and financing activity. Cash flows from operating activities are reported using the indirect method.

The individual items of the cash flow statement are as follows:

Net cash from operating activities

Net cash from operating activities was positive at EUR 13,948 thousand; however it declined year-on-year by EUR 15,116 thousand. The significant decrease is mainly attributable to negative earnings before interest and taxes (EBIT) (EUR 18,846 thousand below the prior-year level), the cash outflow in connection with the build-up of inventories (EUR 17,084 thousand above the prior-year level) as well as the reduction of provisions and related payments (EUR 2,643 thousand above the prior-year level).

The accelerated reduction of trade accounts receivable and other assets, resulting in cash inflows increasing by EUR 4,928 thousand compared to prior year, had a compensating effect.

The purchase price payments within the context of the acquisition of MacroSystem Digital Video AG are included in the cash flows from investing activities (cash outflow of EUR 445 thousand).

The presentation of the change in net current assets has been adjusted for the non-cash changes in the value of financial hedging instruments. The other non-cash effects result primarily from the interest expenditure on pension provisions.

Net cash from investing activities

In fiscal year 2010, the Loewe Group invested EUR 8,285 thousand (2009: EUR 7,618 thousand) in intangible assets (excluding capitalized development costs from the acquisition of MacroSystem Digital Video AG) and EUR 10,694 thousand (2009: EUR 10,928 thousand) in property, plant and equipment.

Net cash from financing activities

The cash-effective changes comprise the dividend payment for fiscal year 2009 and scheduled repayments of a long-term loan.

The cash outflow in connection with the decrease in minority interests (EUR 600 thousand) is attributable to a distribution made by Loewe Opta Benelux N.V./S.A. to Loewe AG in which a minority shareholder participated on pro-rata basis.

Cash-effective change in liquidity

Cash and cash equivalents decreased overall by EUR 27,889 thousand to EUR 8,187 thousand. The factoring agreement is handled like a bank overdraft facility. Therefore, the use of factoring as of the balance sheet date in the amount of EUR 5,014 thousand is deducted from cash and cash equivalents.

Risk Management and Financial Derivatives

Risk management

Loewe AG has a centralized risk management approach for identifying, measuring and controlling risks. With respect to its assets, liabilities and planned transactions, Loewe AG is in particular subject to market and price risks as well as risks arising from interest rate and exchange rate changes. Currency risks arising from planned foreign-currency expenditures are largely reduced by forward exchange transactions, call options and zero cost options using a rolling 36-month projection (2009: 18-month projection). A substantial portion of the expected foreign currency expenditures is currently covered in this manner.

The effectiveness of the risk control is reviewed on a regular basis. The goals, principles, responsibilities and competencies for the finance department are set down in Group internal guidelines with binding effect and follow the principle of segregation of functions.

Derivative financial instruments (cash flow hedges)

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

	Hedge volume USD million	Hedge volume EUR million	Longest residual maturity until	Intrinsic value EUR thousands Positive	Intrinsic value EUR thousands Negative
Forward exchange transactions	153.0	113.4	November 29, 2013	2,702	1,178
Spread options (zero cost options)	10.0	7.3	September 28, 2012	312	0
Total	**163.0**	**120.7**		**3,014**	**1,178**

The above derivative financial instruments are recognized at fair value. The hierarchy provided by IAS 39 for the measurement of financial instruments at fair value is as follows:

Level 1 Quoted market prices in active markets for identical assets or liabilities
Level 2 Inputs other than quoted market prices that are observable either directly (i. e. as prices) or indirectly (i. e. derived from prices)
Level 3 Inputs for assets and liabilities that are not based on observable market data

The fair values recognized for derivative financial instruments within the Loewe Group are allocated to Level 2.

With respect to their residual maturity, the existing currency hedging transactions are broken down as follows:

USD thousands	Volume			
	Balance	thereof maturing in:		
	12/31/2010	2011	2012	2013
Foreign exchange forwards	153,000	64,000	47,000	42,000
Spread options	10,000	7,000	3,000	0
Total	**163,000**	**71,000**	**50,000**	**42,000**

EUR thousands	Equivalent amount			
	Balance	thereof maturing in:		
	12/31/2010	2011	2012	2013
Foreign exchange forwards	113,438.8	47,753.7	34,763.9	30,921.2
Spread options	7,288.0	5,003.6	2,284.4	0
Total	**120,726.8**	**52,757.3**	**37,048.3**	**30,921.2**

EUR thousands	Intrinsic value			
	Balance	thereof maturing in:		
	12/31/2010	2011	2012	2013
Forward exchange transactions, positive	2,702.4	1,150.5	759.9	792.0
Forward exchange transactions, negative	−1,178.1	−900.0	−218.7	−59.4
Spread options, positive	312.0	285.3	26.7	0
Forward exchange transactions in GBP	6.0	6.0	0	0
Total	**1,842.3**	**541.8**	**567.9**	**732.6**

Derivative financial instruments are used for hedging the risk of purchases in foreign currency. Their use is in compliance with relevant Group guidelines. The efficiency of the hedging relationships required according to IFRS is in conformity with the intention pursued by Loewe that only risks from designated hedged items are hedged by derivatives, and derivatives may not be entered into at any time for speculative purposes.

The positive value of the forward exchange transactions and spread options is recognized in miscellaneous current financial assets, the negative value in miscellaneous current financial liabilities. As the hedging transactions are used to hedge future payment flows and must be seen as cash flow hedges, the offsetting entry of the market value is recognized directly in equity (within Other reserves) with no effect on income in the amount of EUR – 1,842 thousand. Deferred tax liabilities in the amount of EUR 514 thousand are recognized in these reserves.

Of the fair values recognized for derivative financial instruments within equity as of the end of fiscal year 2009, a volume of EUR 1,405 thousand (measurement as of December 31, 2009) was used in the course of fiscal year 2010 to provide USD currency exposures for the purchase of production materials and other services.

Credit risks

Credit risks can still be seen as slight due to the fact that the receivables portfolio is broadly diversified and transactions are only entered into with business partners who have an excellent credit rating. In addition, risk is mitigated by a system of credit lines. In all cases, the maximum default risk is limited to the carrying amount of the receivable in question.

Specific valuation allowances are only recognized for customer receivables. With receivables before valuation allowances amounting to EUR 74,611 thousand (2009: EUR 90,385 thousand), valuation allowances were recognized in the amount of EUR 4,135 thousand (2009: EUR 5,059 thousand). The portfolio of receivables for which no valuation allowances were set up contains no receivables with significant payment disruptions.

Market risks

Currency risks

The foreign currency risk for Loewe is essentially limited to the procurement of panels and components that are settled in US dollars. The anticipated foreign currency volume is determined using a rolling 36-month projection with the objective of hedging a defined percentage with forward exchange transactions, call options and zero cost options.

In addition, since the establishment of Loewe UK Ltd. in fiscal year 2007, currency translation gains and losses have resulted from the relationship of the EUR to the GBP.

Interest rate risks

Most of the Company’s remaining financial liabilities carry fixed interest rates. The other interest-bearing receivables and liabilities bear variable interest rates.

Other market price risks

No appreciable price risks exist, as Loewe holds only insignificant shares in investment funds.

Liquidity risks

To ensure long-range financing, a syndicate agreement tied to compliance with covenants with a total volume of EUR 50 million was concluded with a banking syndicate in 2007. This line of credit is intended to finance the business operations as well as the planned capital expenditure of the Loewe Group and has been committed until June 30, 2012. The covenants were complied with in 2010.

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

The previous factoring agreement expired on June 30, 2010. A follow-up agreement was concluded with a new provider for a period of five years over the same financing volume (EUR 35 million), but at improved terms and conditions. The agreement is subject to compliance with covenants.

Furthermore, independent lines of credit totaling EUR 5.4 million (2009: EUR 6.3 million) were granted to foreign companies in the Group by their banks.

The size of the existing lines is sufficient to exclude any significant liquidity risks.

Financial investment risks

The cash and cash equivalents available in accordance with our financial planning were invested in banks subject to the deposit protection fund. Through this selection of investments, we seek the greatest possible minimization of risks.

The goal of Loewe AG's capital management strategy is to safeguard business operations, increase company value, and create a sound capital basis for financing the business policy and servicing debt.

Goals and methods of financial risk management

Capital management

The primary goal of the Group's capital management is to secure a credit rating appropriate for the support of its operating activities and a positive equity ratio.

The Group manages its capital structure in order to reduce the cost of capital and undertakes the necessary business adjustments in light of changed general economic conditions.

No changes to the goals, guidelines and methods were undertaken as of December 31, 2010 and December 31, 2009.

Contingencies and other financial obligations

Outstanding contributions for affiliated companies pursuant to Section 24 of the German Private Limited Companies Act (GmbHG) amount to EUR 31 thousand (2009: EUR 31 thousand).

The following other financial liabilities exist:

EUR thousands	2010	2009
Total liabilities from tenancy and servicing agreements and leases		
• due in 2011	3,976	
(previous year: 2010)		(3,910)
• due between 2012 and 2015	3,022	
previous year: between 2011 and 2014)		(3,754)
• due after 2015	844	
(previous year: after 2014)		(1,575)

The Loewe Group has entered into various operating lease agreements for factory and office equipment, rental properties and motor vehicles. The terms usually range between two and three years. Most of the leases provide no renewal option.

There are no guarantees, contingent liabilities or notes payable.

Transactions with shareholders

In fiscal year 2010, transactions with companies of the Sharp Group exclusively consisted of the delivery of panels to Loewe.

All agreements are concluded on an arm's length basis. Furthermore, as a shareholder, Sharp cannot be classified as a related party. Sharp has no influence over Loewe management, is not represented on the Loewe Supervisory Board and does not participate in any decision-making processes at Loewe.

Other disclosures

Staff and personnel costs

The average number of employees breaks down as follows:

Employees	2010	2009
Industrial workers	368	395
Salaried employees	609	559
Employees as defined by Section 314 (1) sub-section No.4 HGB	**977**	954
Vocational trainees	85	88
Total	**1,062**	1,042

The increase in the average number of employees is attributable to the initial inclusion of MacroSystem Digital Video AG. Excluding this effect, the average number of employees would have declined by eight employees in fiscal year 2010.

On December 31, 2010, the number of employees in the Group totaled 1,083 (2009: 1,072).

The operating expenses incurred for personnel costs are broken down as follows:

EUR thousands	2010	2009
Wages and salaries	52,406	52,404
Social security contributions	9,612	9,003
Expenses for pensions and other employee benefits	1,652	409
Total	**63,670**	61,816

The increase in personnel expenses is primarily a result of the increased expenses for part-time retirement agreements. Therefore, wages and salaries did not rise, despite initial inclusion of the personnel expenses at MacroSystem Digital Video AG, as increases in costs for wages and salaries were compensated by a non-current provision for personnel expenses.

Events after the reporting date

Effective February 1, 2011, Manfred L. Fitzgerald was appointed by the Supervisory Board as new Executive Board member responsible for marketing and sales.

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) WpHG (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 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, WD18 8WT, United Kingdom."

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

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

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

J & A Vermögensverwaltung GmbH has notified us that it fell short of the threshold of 10 % of the voting rights in Loewe AG on November 2, 2005 and now holds 9.72 % of the voting rights in Loewe AG. These voting rights are attributable to Dr. Rainer Hecker in accordance with 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 German Securities Trading Act."

The Company made the following notification to the German Financial Supervisory Authority (BaFin) on June 25, 2007 and simultaneously conveyed it to the Commercial Register:

Publication of a voting rights announcement pursuant to Section 26 (1) of the German Securities Trading Act (WpHG) with the goal of Europe-wide dissemination

"In the name of Electra QMC Europe Development Capital Fund plc, Dublin, Ireland as well as in the name of and by order of the additional persons named below, the following was reported to the Company on June 25, 2007, pursuant to Sections 21 (1), 22 of the German Securities Trading Act:

The share of the voting rights in Loewe AG with registered offices in Kronach (address: Industriestr. 11, D-96317 Kronach) held by the persons named below on June 20, 2007 exceeded the thresholds of 3 %, 5 % and 10 % of the voting rights, following which they held 10.132 % of the voting rights (corresponding to 1,318,050 voting rights from the same number of shares):

1. Electra QMC Europe Development Capital Fund plc with registered offices in Dublin, Ireland (address: c/o RBC Europe Dexia Investor Services Ireland, Georges Quay House, 43 Townsend Street, Dublin 2, Ireland);
2. Electra Quoted Management Ltd. with registered offices in London, United Kingdom (address: Paternoster House, 65 St. Paul's Churchyard, London EC4M 8AB, United Kingdom);
3. Electra Kingsway Holdings Ltd. with registered offices in London, United Kingdom (address: Paternoster House, 65 St. Paul's Churchyard, London EC4M 8AB, United Kingdom);
4. Electra Partners Group Ltd. with registered offices in London, United Kingdom (address: Paternoster House, 65 St. Paul's Churchyard, London EC4M 8AB, United Kingdom);
5. Nmas1 Agencia de Valores S.A. with registered offices in Madrid, Spain (address: Padilla 17, 28006 Madrid, Spain); and
6. Nmas Uno IBG S.A. with registered offices in Madrid, Spain (address: Padilla 17, 28006 Madrid, Spain); and

All of the aforementioned 1,318,050 voting rights are directly held by Electra QMC Europe Development Capital Fund plc.

Pursuant to Section 22 (1) sentence 1 No. 1 in conjunction with sentence 3 of the German Securities Trading Act, each of the aforementioned 1,318,050 voting rights from the shares held by Electra QMC Europe Development Capital Fund plc are fully attributable to the persons named above in subsections 2 to 6.

These shares are held by the persons named above in subsections 2 to 6 as follows through Electra QMC Europe Development Capital Fund plc, a company directly or indirectly controlled by them:

- Electra QMC Europe Development Capital Fund plc is a company directly under the joint control of Electra Quoted Management Ltd. and Nmas1 Agencia de Valores S.A.

- For its part, Electra Quoted Management Ltd. is directly controlled by Electra Kingsway Holdings Ltd. and the latter is directly controlled by Electra Partners Group Ltd.

- Nmas1 Agencia de Valores S.A. is in turn directly controlled by Nmas Uno IBG S.A."

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 in accordance with 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 continue to comply with the recommendations of the German Corporate Governance Code as amended on May 26, 2010, published in the electronic Federal Gazette on July 2, 2010, with the following exception:

   In concluding or renewing Executive Board contracts with members of the Executive Board currently in office, no severance payment cap will be agreed for the protection of established rights and for the prevention of unequal treatment of members of the Executive Board (sub-section 4.2.3 (4) sentence 1 of the Code).

2. Loewe AG has complied with the recommendations of the German Corporate Governance Code as amended on June 18, 2009, published in the electronic Federal Gazette on August 5, 2009 since its last declaration of conformity of November 27, 2009 except for the recommendation set forth in subsection 4.2.3 (4) sentence 1 (severance payment cap in concluding Executive Board contracts).

This declaration of conformity has been continuously accessible to the shareholders on the Internet (www.loewe.de) since November 26, 2010.

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 Home Entertainment Systems division is engaged in the sale of television sets manufactured internally and under cooperative agreements as well as DVD players/recorders, audio components and other products in the home entertainment area. This division is the only segment in terms of industries. The table on page 91 shows the national and international sales generated with external customers in this segment.

As there is only a single segment by industry (Home Entertainment) and by region (Europe), we have refrained from presenting a detailed segment report.

For information on the mandatory disclosures for the single business segment (Home Entertainment Systems), please refer to the relevant sections of the consolidated financial statements and notes.

Following the discontinuation of the U.S. business in 2004, the continuing Home Entertainment Systems division is exclusively organized in the European region as Loewe AG, Loewe Opta GmbH, MacroSystem Digital Video AG, the subgroups Loewe Opta Benelux N.V./S.A., Loewe France S.A.S., Loewe Austria GmbH, Loewe UK Ltd. and Loewe Italiana S.r.l.

The non-current assets (excluding deferred taxes) come to EUR 44,541 thousand (2009: EUR 44,543 thousand) in Germany and EUR 3,119 thousand (2009: EUR 4,218 thousand) outside of Germany. These relate primarily to property, plant and equipment.

No sales revenues exceeding 10 % of total sales are generated with any single customer.

Corporate Bodies and Offices Held

Corporate Bodies of the Parent Company Loewe AG

Supervisory Board

The following are members of the Supervisory Board:

Chairman

- **Dr. Rainer Hecker,**
  former Chief Executive Officer of Loewe AG, Kronach
  former Chairman of the Management Board of Loewe Opta GmbH, Kronach,
  residing in Mannheim

Deputy Chairman

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

Additional members of the Supervisory Board

- **Dr. Axel Berger,**
  Vice-President of the German Finance Reporting Enforcement Panel, Berlin,
  residing in Rösrath

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

• **Dr. Sönke Mehrgardt,**
Managing Partner with MVP Munich Venture Partners and
former member of the Executive Board of Infineon Technologies AG, Munich,
residing in Deisenhofen

• **Dr. Michael Witzel,**
Partner of Lovells Law Firm LLP, Munich,
residing in Munich

Members of the **Personnel Committee** are Dr. Rainer Hecker, Dr. Mark Wössner and Dr. Michael Witzel. Dr. Rainer Hecker has been appointed chairman of the committee.

The **Audit Committee** is made up of Dr. Axel Berger, Dr. Rainer Hecker and Dr. Sönke Mehrgardt. Dr. Axel Berger has been appointed chairman of the committee.

Members of the **Nominating Committee** are Dr. Rainer Hecker, Dr. Axel Berger and Dr. Mark Wössner. Dr. Rainer Hecker has been appointed chairman of the committee.

The other offices held by members of the Supervisory Board are shown on pages 130 and 131. Please refer to page 131 for an overview of the offices held by members of the Executive Board and for information on shares held by members of the Executive Board and Supervisory Board.

The remuneration of the Supervisory Board totaled EUR 123 thousand (2009: EUR 154 thousand) in 2010 and was made up of the following components.

EUR

	Total remuneration for 2010	**thereof: fixed remuneration for 2010**	**thereof: performance-linked remuneration for 2010**
Dr. Rainer Hecker	36,136	36,136	0
(2009)	(44,536)	(36,136)	(8,400)
Dr. Mark Wössner	22,500	22,500	0
(2009)	(28,800)	(22,500)	(6,300)
Dr. Gerhard Heinrich	15,000	15,000	0
(2009)	(19,200)	(15,000)	(4,200)
Dr. Sönke Mehrgardt	15,000	15,000	0
(2009)	(19,200)	(15,000)	(4,200)
Dr. Axel Berger	19,346	19,346	0
(2009)	(23,546)	(19,346)	(4,200)
Dr. Michael Witzel	15,000	15,000	0
(2009)	(19,200)	(15,000)	(4,200)
Total	**122,982**	122,982	0
(2009)	(154,482)	(122,982)	(31,500)

Executive Board

The following were appointed as members of the Company's Executive Board in fiscal year 2010:

- **Oliver Seidl**
  Graduate in business administration, Bad Boll
  Chief Executive Officer (since August 1, 2010)

- **Frieder C. Löhrer**
  Engineer, Kronach
  Chief Executive Officer (until July 31, 2010)

- **Gerhard Schaas**
  Engineer, Rödental

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

Effective February 1, 2011, Manfred L. Fitzgerald was appointed by the Supervisory Board as new Executive Board member responsible for marketing and sales.

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

Euro

	Total remuneration for 2010	thereof: fixed remuneration for 2010	thereof: variable remuneration for 2010	thereof: severance payment	Additional remuneration through allocation to provisions for pensions
Oliver Seidl	563,752	358,252	205,500	0	175,740
(2009)	(573,518)	(273,518)	(300,000)	0	(71,408)
Frieder C. Löhrer (until July 31, 2010)	850,437	205,437	0	645,000	−123,499
(2009)	(795,130)	(345,130)	(450,000)	(0)	(69,004)
Gerhard Schaas	519,765	349,765	170,000	0	140,594
(2009)	(602,712)	(302,712)	(300,000)	(0)	(41,245)
Total	**1,933,954**	913,454	375,500	645,000	192,835
(2009)	(1,971,360)	(921,360)	(1,050,000)	(0)	(181,657)

The provision for pensions for the active Executive Board members comes to EUR 2,122 thousand (2009: EUR 1,929 thousand). The entitlement arising from the pension commitment is based on the general principles of company pension commitments.

Amounts totaling EUR 191 thousand (2009: EUR 191 thousand) were paid as pensions to former members of the Executive Board and to members who had resigned. The provisions set aside for these pensions come to EUR 3,242 thousand (2009: EUR 3,629 thousand).

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

- **Dr. Rainer Hecker**
  Bayerische Landeszentrale für neue Medien (BLM), Munich
  (Member of the Administrative Council)
  Gesellschaft für Unterhaltungs- und Kommunikationselektronik
  (gfu) mbH, Frankfurt/Main
  (Chairman of the Supervisory Board)
  Loewe Opta GmbH, Kronach, Germany
  (Chairman of the Supervisory Board)
  Spectral Audio Möbel GmbH, Bietigheim-Bissingen
  (Chairman of the Advisory Board)

- **Dr. Mark Wössner**
  Douglas Holding AG, Hagen
  (Member of the Supervisory Board)
  Heidelberger Druckmaschinen AG, Heidelberg
  (Chairman of the Supervisory Board)

- **Dr. Axel Berger**
  Berlin-Hannoversche Hypothekenbank AG, Berlin
  (Member of the Supervisory Board)
  Loewe Opta GmbH, Kronach, Germany
  (Deputy Chairman of the Supervisory Board)

- **Dr. Gerhard Heinrich**
  Prevent AG, Hamburg
  (Chairman of the Supervisory Board)
  Rühl AG, Friedrichsdorf
  (Member of the Supervisory Board)
  Validd AG, Mainz
  (Member of the Supervisory Board)

- **Dr. Sönke Mehrgardt**
  Agnion Energy Inc., Pfaffenhofen
  (Member of the Advisory Board)
  Bekon AG, Munich
  (Member of the Supervisory Board)
  CPM GmbH, Munich
  (Member of the Advisory Board)
  Fludicon GmbH, Darmstadt
  (Chairman of the Advisory Board)
  Silicon Line GmbH, Munich
  (Chairman of the Advisory Board)

- **Dr. Michael Witzel**
  AP-Stiftung gGmbH, Speyer
  (Member of the Advisory Board)
  BMG Capital AG, Frankfurt/Main
  (Member of the Supervisory Board)
  Eramon AG, Gersthofen
  (Chairman of the Supervisory Board)
  Graphit Kropfmühl AG, Hauzenberg
  (Member of the Supervisory Board)
  Metallgesellschaft AG, Elsteraue
  (Chairman of the Supervisory Board)
  PFW Aerospace AG, Speyer
  (Member of the Supervisory Board)

Offices held by members of the Executive Board of Loewe AG:

- **Frieder C. Löhrer (until July 31, 2010)**
  MAX.P AG, Strategische Immobilien-Beratung, Düsseldorf
  (Member of the Supervisory Board)
  Vistec AG, Vision Technologies, Olching
  (Member of the Supervisory Board)

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

Shares held by the Executive Board and Supervisory Board on December 31, 2010:

As of December 31, 2010, the Executive Board held 79,300 (2009: 158,458) shares in Loewe AG. The decrease in comparison to the prior year is attributable to the retirement of Frieder C. Löhrer from the Executive Board. No options have been granted. One member of the Supervisory Board directly holds 550,000 Loewe shares (2009: 550,000).

Responsibility Statement

Responsibility statement pursuant to Section 37 y No. 1 WpHG and Sections 297 (2) sentence 4, 315 (1) sentence 6 HGB

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements of the Loewe Group give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the combined management report for Loewe AG and the Loewe Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Kronach, February 18, 2011

The Executive Board

Oliver Seidl **Manfred L. Fitzgerald** **Gerhard Schaas**

Independent Auditor's Report

We have audited the consolidated financial statements prepared by Loewe AG, Kronach – consisting of the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement as well as the group management report for the financial year from January 1 to December 31, 2009. 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.

We conducted our audit in accordance with Section 317 of the (HGB) and German generally accepted standards for the audit of financial statements as 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 basis 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 HGB 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 devel opment.

Mönchengladbach, February 18, 2010

Abstoß & Wolters OHG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Quacken Auditor

Cramer Auditor

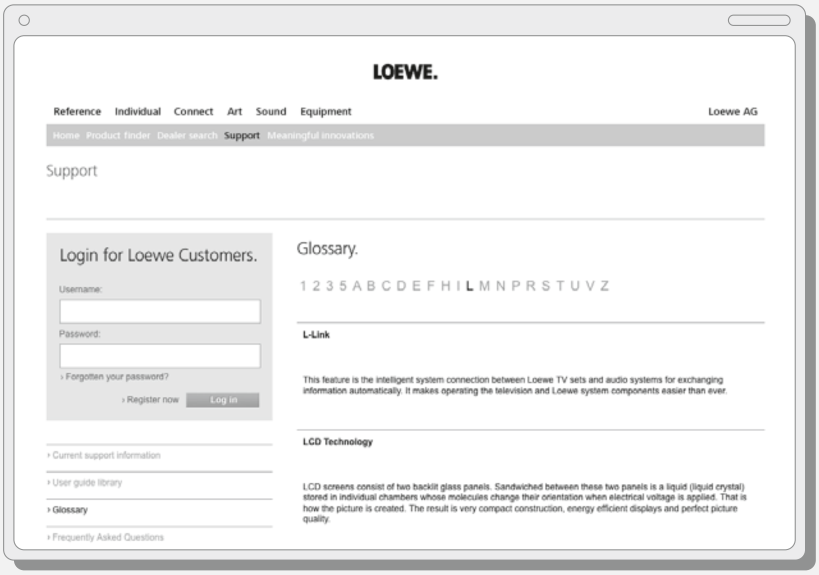
More Vibrant.
The Loewe Audio Systems

Service

Contents

Glossary

The current comprehensive glossary and explanation of technical terms, sorted in numerical and alphabetical order, is available at the Loewe website www.loewe.de under 'Support.' To protect the environment, we have deliberately decided that this extensive list should no longer be printed in the Loewe Annual Report.



Financial Calendar

Publication of the 2010 Financial Statements of the Loewe Group
Thursday, March 24, 2011, 9:30 a.m., Munich

DVFA Analysts' Conference
Thursday, March 24, 2011, 4 p.m., Frankfurt/Main

Publication of the Q1 Report
(01/01 – 3/31/2011)
Conference call on Wednesday, May 4, 2011, 10:00 a.m.

Annual Shareholders' Meeting of Loewe AG
Thursday, May 26, 2011, 11:00 a.m., Munich,
Alte Kongresshalle, Theresienhöhe 15

Publication of the Q2 Report
(01/01 – 6/30/2011)
Conference call on Wednesday, August 3, 2011, 10:00 a.m.

Publication of the Q3 Report
(01/01 – 9/30/2011)
Conference call on Thursday, November 3, 2011, 10:00 a.m.

Publication of the preliminary Key Figures for the 2011 financial year
Conference call on Thursday, January 26, 2012, 10:00 a.m.

Publications

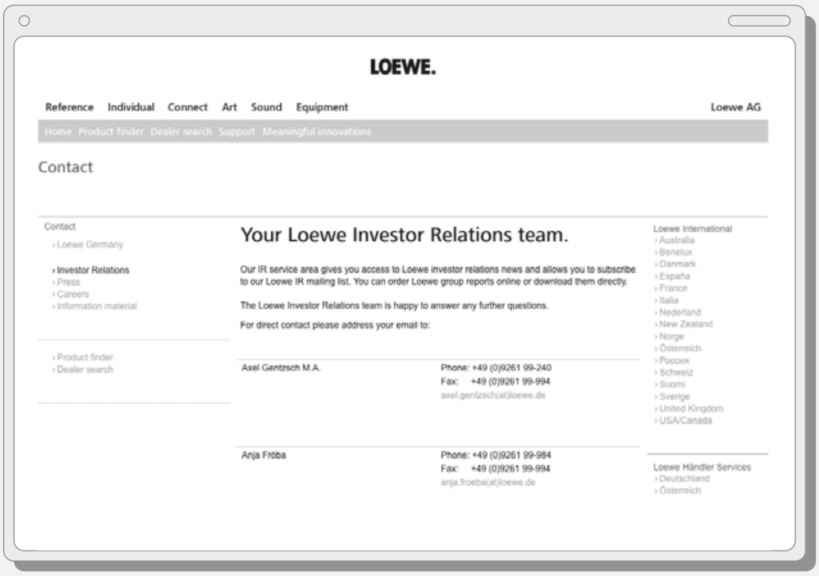
The following publications can be requested from Loewe Investor Relations –
in German and/or English:

- **Loewe annual report**

- **Loewe quarterly reports**

- **Loewe complete product range**

These publications can also be obtained via the Internet at www.loewe.de in the area Loewe AG Investor Relations or can be ordered using our online contact form.



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ISIN:	DE 0006494107

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