LUDWIG BECK

Ludwig Beck

REPORT FOR THE FIRST 6 MONTHS OF 2002

Sales_ Weak economy and depressed consumer spending lead to fall in sales revenues_ **Earnings**_ Net income in first 6 months only slightly down on prior-year figure_ **Outlook**_ Greater focus on organic growth through increased store sales_ Further development in 2002 dependent on economy_ Additional sales generated by »Wellness House« and »Warehouse Outlet«

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Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG _ Marienplatz 11 _ D-80331 Munich _
Phone +49 (89) 23 691-0 _ Fax +49 (89) 23 691-600 _ Info@ludwigbeck.de _ www.ludwigbeck.de _

Key Figures

		01.01.-30.06. 2002	01.01.-30.06. 2001
Gross sales (incl. VAT)	€ million	41.4	43,3
Net trading margin[1)]	€ million	16.6	18,1
Earnings before interest, taxes and depreciation (EBITDA)	€ million	0.3	1.4
Operating result (EBIT)	€ million	- 1.3	0.0
Net income HGB	€ million	- 1.5	- 1.4
Net income IAS	€ million	- 1.5	- 0.7
Earnings per share DVFA[2)]	€	- 0.34	- 0.24
Earnings per share IAS[2)]	€	- 0.47	- 0.21
Cash flow	€ million	- 1.2	0.5
Capital expenditures	€ million	2.9	1.2
Employees (as of June 30)[3)]		554	597
Apprentices		87	78
Employees (weighted)		441	451
Apprentices		43	39

1) Net sales minus material expenses 2) Outstanding shares 2001: 3.20 million; 2002: 3.12 million 3) Without apprentices

In the first six months of 2002 Ludwig Beck suffered a decline in both sales and earnings as a result of the extremely weak economic environment. Further rigorous cost savings in combination with revamped sales areas and the further expansion of the Group's new sales subsidiary (Vertriebs GmbH) are expected to boost revenues and improve earnings in the coming months.

Sales

In the first six months of 2002 the Ludwig Beck Group generated gross sales of € 41.4 (43.3) million and was thus 4.4% down on the comparable period last year. In an extremely depressed market environment, the Group failed to achieve the sales targets it had set itself for the second quarter. Reconstruction work to expand the Munich store's underwear house also led to temporary revenue shortfalls. A total of 5% of floor space was closed for almost three months at the flagship Marienplatz store. Important passageways in the main building were also affected by the reconstruction activities.

The decline in sales due to the general economic downturn hit almost all departments equally hard. The only positive exceptions were the underwear department – where a successful clearance sale helped keep revenues stable – and the men's Young Fashion department on the fourth floor of the main building, which in contrast to the general sector trend even succeeded in raising revenues.

Despite the temporary loss of sales space due to reconstruction work, Ludwig Beck's revenues developed in line with the general sector trend.

Germany's retail sector experienced its worst ever fall in revenues during the first half of 2002. The often highly irrational media reporting of price increases due to the introduction of the euro coupled with a continued economic downturn and fears of further job losses resulted in an almost complete breakdown in consumer spending affecting all retail sectors. According to the trade magazine »TextilWirtschaft«, the German retail clothing sector suffered losses of 7% in the first six months.

Despite these difficulties, however, Ludwig Beck decided against the use of short-term price promotions – a tactic used by several large retail chains to prop up sales. In addition to our innovative concept, excellent service and unique blend of product ranges, our key success factor is the enduring trust which Ludwig Beck's customers place in the quality and value-for-money of our products. In our experience, such global price discounts only generate short-term revenues with insufficient margins and thus serve to destroy the long-term profitability of a business.

In order to secure and expand the company's sales and earnings even in such difficult market circumstances, Ludwig Beck laid the foundation last year for its own organic, qualitative expansion. Ludwig Beck Vertriebs GmbH, consolidated for the first time in 2002, has already made a strong contribution to sales with its chain of monolabel stores retailing well-known fashion brands. Launched in February, the new subsidiary has already generated sales of € 1.3 million. In the second quarter, the company opened two stores (»S.Oliver« and »Gerry Weber«) in the »Regensburg Arcaden« shopping center. Ludwig Beck Vertriebs GmbH now operates five stores, with a further store planned for October.

A range of carefully considered modifications to the product range and strategy of our »Beck« branch stores has brought about a sustained improvement in performance. The Perlach shopping center (pep) store posted an impressive 5.7% increase in sales over the first six months. The introduction of the new strategy has proven increasingly successful since the start of the current year.

All in all, Ludwig Beck feels well positioned to utilize its substantial strength, clear profile and successful »Store of the Senses« concept, even in such difficult market circumstances, and to underline once again its position as one of Germany's most innovative retail companies.

Earnings

Against the backdrop of sluggish consumer spending and falling sales, Ludwig Beck was forced to accept a fall in earnings during the period under review. The result from ordinary activities amounted to € -1.4 (-0.5) million. This figure includes the Group's operating subsidiaries Ludwig Beck Vertriebs GmbH (€ -0.3 million) and ludwigbeck-online GmbH (€ -0.1 million). Net income for the first six months rose only slightly to € -1.5 (-1.4) million. Earnings in the retail sector are generally negative in the first six months as fixed costs are spread evenly throughout the year while sales are strongest in the last two quarters.

The consolidation of the Group's real estate activities and two once-only effects resulted in an overall positive contribution to earnings:

- In order to reduce processing time and costs for goods and speed up deliveries to stores, the Ludwig Beck Group modified its logistics processes as of July 1. Price labelling has been outsourced to a specialized service provider. Together with other restructuring efforts at the company's main store, this will result in the loss of 35 jobs. A provision for expected total costs of € 0.7 million in 2002 has already been formed in full in the balance sheet as of June 30.

- On the cost side, the consolidation of the Group's real estate company, Ludwig Beck Beteiligungs GmbH, led to a reduction of € 1.4

million in other operating expenses. On balance, therefore, there will be a sustained improvement in EBIT in the current year, compared to the previous period. This is offset, however, by a contrary effect to the interest result of € 1.1 million, caused by the cost of financing company property.

- In the second quarter, Ludwig Beck AG once again acquired an existing debt of Feldmeier KG towards credit institutes. The difference between the nominal balance sheet value of the claims and their cash value (purchase price) resulted in a once-only consolidation profit of € 1.6 million for the first six months in the HGB accounts (German Commercial Code).

In total, the Group's financial result improved to € -0.1 (-0.5) million. This figure includes a charge of € 0.2 million from the revaluation of 238,438 own shares, which were valued at € 11 as of June 30.

In anticipation of the expected economic downturn, Ludwig Beck AG took appropriate steps at an early stage to reduce costs. A major component of these savings are measures in the field of human resources. As of June 30, headcount (excluding apprentices) was reduced to 554 (597). The number of full-time staff fell by 2.2% to 441 (451). The staff reduction measures introduced so far will lead to a fall in full-time staff to around 400 by the end of 2002. In addition, the Executive Board has agreed to renounce in full its claim to the variable portion of its remuneration for fiscal 2002. This corresponds to around 20% of total remuneration.

The reconciliation chart to IAS accounting method produces a net loss for the first six months of € -1.5 million. The greatest differences between HGB and IAS accounting result from the once-only effect of purchasing claims (largely neutralized under IAS accounting) as well as in the field of deferred taxes. Loss carryforwards are treated by IAS as an asset. This asset is reduced by positive results and expanded by negative results. At the same time, the amortization of own shares amounting to € 0.2 million has been neutralized, as own shares are netted with equity capital without affecting earnings.

The interim accounts were prepared in accordance with German Accounting Standard (DRS) No. 6. The same accounting and valuation methods were applied as for the consolidated annual financial statements for the fiscal year ending December 31, 2001. Earnings per share were calculated by dividing the result for the period by the average weighted number of outstanding common shares during the period. As of December 31, 2002 the entire consolidated accounting system will be changed completely to IAS methods.

Capital expenditures

Capital expenditures in the first six months totalled € 2.9 (€ 1.2) million. Of this total, reconstruction work at the company's flagship store – mostly work on the planned »Wellness« house – accounted for € 1.5 million, while an amount of € 1.4 million was invested in the establishment of the new sales company (Vertriebs GmbH).

Annual General Meeting

The company's AGM on May 17 in Munich was attended by over 600 shareholders, representing over 60% of total share capital. All items on the agenda were adopted almost unanimously, including the decision to allow the company to sell privately those shares it had previously bought back from the market. Furthermore, the AGM adopted a controlling and profit transfer agreement with subsidiary Ludwig Vertriebs GmbH. The agreement will enable the Group to optimize its tax payments. The AGM also approved Ludwig Beck's traditionally shareholder-friendly dividend payment, voting to accept an unchanged dividend payment of € 0.87 per share. Due to existing loss carryforwards, the dividend remains tax-free for investors.

Executive and Supervisory Board

At its meeting of July 17, 2002, the Supervisory Board of Ludwig Beck AG agreed to a premature extension of the service contract of Dieter Münch (47) – a member of the Executive Board since April 1998 – by a further five years to March 31, 2008. Worker representative Annemarie Geißler retired from the Supervisory Board as of April 30, 2002, as she is leaving the company. Her seat on the Board was taken by Eva-Maria Stähle.

Outlook

Following the challenges of 2001, the German retail clothing sector is having to face a further lean year in which sales are expected to fall once again. At present, no end is in sight to the current low in consumer spending brought about by the economic downturn and the discussion about alleged price increases due to the euro. All efforts and objective facts to the contrary have so far failed to banish the spectre of a »perceived inflation« which is currently dogging the Germany economy.

Ludwig Beck reacted swiftly to the approaching economic downturn by launching a wide range of measures as well as examining and adapting all its cost categories. Due to the further deterioration of sales in the second quarter, these cost-saving efforts are to be extended further.

In view of the current situation, Ludwig Beck has also taken the appropriate strategic steps. The Executive Board has decided to increase the company's focus on core business, as well as on store-based sales and to seek expansion through organic growth. This will result in three concrete measures:

- Store-based activities in the Munich region will continue to be expanded.

  The sales space at our flagship store in Munich is to be expanded once again. In August our successful cosmetics department – one of the store's main growth drivers – will be re-opened with greater floor space and featuring new and unique product lines and a directly connected spa area. The move will help us benefit from the constant increase in spending on wellness articles, which has remained unaffected by the current economic difficulties. At the same time, we will also be strengthening our ladies' lingerie department with new collections, especially in the field of designer fashions. The shoe department on the fourth floor, whose sales area is below the store's critical mass level, will be closed. The resulting space will be utilized by the Young Designer department, which provides considerably higher contribution margins. The newly created Designer Sportswear department will feature completely new collections aimed at women looking for attractive leisure clothing. The range complements our traditional strength in business-oriented designer fashions by providing an additional selection of after-work clothing.

We will continue to support the positive development of our new sales company, Vertriebs GmbH. The former »Beck« store in Munich's Olympic Shopping Center (OEZ) was closed as of June 15. Vertriebs GmbH will open a new »Esprit« monolabel store in the OEZ with a sales area of almost 1,000 qm in October.

With the opening on June 29 of its »Fashion Warehouse Outlet« in Munich-Parsdorf, Ludwig Beck has succeeded in creating an additional sales channel for its business. The new store is positioned in an attractive location, next to a similar discount outlet of the high-class food retailer »Feinkost Käfer«. Sales in the first few weeks exceeded all expectations. The »Fashion Warehouse Outlet« will allow the company to market excess stock more directly, quickly and profitably to a completely different target group than Ludwig Beck's traditional customers.

A new store is also planned for the high-class »Fünf Höfen» shopping precinct in central Munich. Due for opening in spring 2003, the 160 qm store represents the company's first attempt to duplicate the success of its

»Hautnah« concept outside the flagship Marienplatz location.

- The initial, promising growth of our online subsidiary at the beginning of the year has slowed down considerably in the last few months. Despite the generally positive development of sales to € 0.186 (0.176) and a loss of € 0.1 million, the overall growth rate remains well below expectations. As a result of the subsidiary's generally disappointing progress so far, operations of ludwigbeck-online GmbH are to be suspended as of September 30, 2002 and the company will be wound up.

- Due to our increased focus on organic growth and the critical situation of the retail trade at present, Ludwig Beck has abandoned its plans to acquire other companies. The Executive Board therefore decided to sell the company shares it had been holding. As of August 6, the 238,438 no-par value shares (common stock) held by Ludwig Beck AG were sold to Buchanan Holdings Ltd., Isle of Man (Great Britain) at a price of € 9.55 per share. The institutional investor, which already had a small shareholding in Ludwig Beck AG, specializes in long-term investments in value-oriented companies. As a result of the sale, the company's free float ratio increased to 79.11%. The transaction will burden the financial result of the Ludwig Beck Group by € 0.3 million.

Although the economy remains depressed, Ludwig Beck expects that its carefully targeted expansion measures will help the Group achieve the same sales level as in the previous year. A strong boost to sales in the current year is expected, above all, from the newly opened departments. The company has reacted to the ongoing slump in consumer spending by introducing cost-cutting measures, which will produce lasting savings in operating expenditure of € 1 million.

The company's further development, however, depends strongly on the general economic trend in the second half of the year – and especially in the traditionally strong fourth quarter. All in all, we expect that the whole sector will face a difficult year, during which the anticipated recovery in the economy and consumer spending will probably not be reached in full.

Munich, August 2002
The Executive Board

IAS Reconciliation Table

€ million	01.01-30.06.2002	01.01-30.06.2001
Result acc. to HGB	**- 1.7**	**- 1.4**
Adjustments to IAS		
Fixed assets	0.1	0.1
Own shares	0.2	0.2
Non-interest bearing liabilities	- 1.2	0.0
Deferred taxes	1.1	0.5
Result acc. to IAS	**- 1.5**	**- 0.7**

Income Statement of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich acc. to HGB

€ million	01.01.– 30.06.2002	01.01.– 30.06.2001	01.04.– 30.06.2002	01.04.– 30.06.2001
Sales revenues				
- gross sales	41.4	43.3	20.2	21.7
- minus VAT	5.7	6.0	2.8	3.0
- net sales	35.7	37.4	17.4	18.8
Other capitalized costs	0.1	0.1	0.1	0.0
Other operating income	1.4	0.7	0.7	0.4
	37.2	**38.2**	**18.2**	**19.2**
Material expenses	19.1	19.3	8.9	9.4
Personnel expenses	9.8	9.6	4.9	4.8
Depreciation	1.6	1.4	0.9	0.7
Other operating expenses	8.0	7.8	4.0	3.9
	38.6	**38.2**	**18.7**	**18.7**
Operating result (EBIT)	**- 1.3**	**0.0**	**- 0.5**	**0.5**
Financial result	- 0.1	- 0.5	- 0.7	- 0.4
Results from ordinary activities	**- 1.4**	**- 0.5**	**- 1.3**	**0.1**
Extraordinary result	0.0	- 0.9	0.0	- 0.9
Taxes	0.0	0.0	0.0	0.0
Net income	**- 1.5**	**- 1.4**	**- 1.3**	**- 0.8**
Minority interests	0.3	0.1	- 0.1	- 0.1
Net income after minority interests	**- 1.7**	**- 1.3**	**- 1.4**	**- 0.7**

Balance Sheet

€ million	30.06.2002	31.12.2001
ASSETS		
A. FIXED ASSETS	79.5	78.2
B. CURRENT ASSETS	15.0	15.2
C. PREPAID EXPENSES	0.5	0.2
	95.0	**93.6**
SHAREHOLDERS' EQUITY AND LIABILITIES		
A. SHAREHOLDERS' EQUITY	34.5	38.9
B. ACCRUALS	2.5	1.9
C. LIABILITIES	58.0	52.7
	95.0	**93.6**

Cash Flow Statement Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

€ million	01.01.-30.06.2002	01.01.-30.06.2001
Net loss	- 1.5	- 1.4
Depreciation	1.6	1.4
Non-cash income/expenses	- 1.4	0.4
Cash flow	**- 1.2**	**0.5**
Increase in working capital	- 1.4	- 0.6
Net cash used for operating activities	**- 2.6**	**- 0.2**
Disbursements for purchases of fixed assets	- 2.9	- 1.2
Net cash used for investing activities	**- 2.9**	**- 1.2**
Dividend payment	- 2.7	- 2.8
Purchase of own shares	0.0	- 0.1
Disbursements to/contributions of minority shareholders	- 0.3	0.1
Increase in interest-bearing liabilities	8.1	4.6
Net cash provided by financing activities	**5.1**	**1.8**
Changes in cash funds	- 0.4	0.4
Cash, beginning of period	1.0	0.6
Cash, end of period	**0.6**	**1.0**

Segment Reporting First 6 Months 01.01.2002 - 30.06.2002

€ k	Ludwig Beck	online	Monolabel	Real Estate	Reconciliation	Group
Net sales	34,410	162	1,174	2,468		38,214
Inter-segment sales	- 104		- 18	- 2,376		- 2,498
Non-group sales	**34,306**	**162**	**1,156**	**92**		**35,716**
Segment result	**- 2,869**	**- 110**	**- 271**	**222**	**1,560**	**- 1,468**

Segment Reporting First Quarter 01.04.2002 - 30.06.2002

€ k	Ludwig Beck	online	Monolabel	Real Estate	Reconciliation	Group
Net sales	16,422	75	911	1,234		18,642
Inter-segment sales	- 48		- 18	- 1,188		- 1,254
Non-group sales	**16,374**	**75**	**893**	**46**		**17,388**
Segment result	**- 1,390**	**- 61**	**- 166**	**96**	**223**	**- 1,298**