LUDWIG BECK

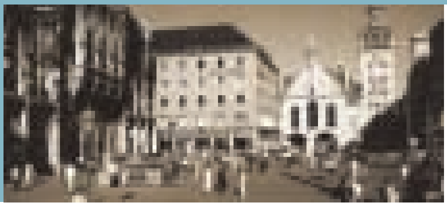
»MORE THAN >A STORE«

Annual Report 2003

key > figures of the group

Result		2003	2002	2001	2000
		IFRS/IAS	IFRS/IAS	HGB	HGB
Sales (gross)	€ million	93.1	95.1	98.0	100.3
VAT	€ million	12.8	13.0	13.5	13.8
Net sales	€ million	80.3	82.0	84.5	86.5
	%	100.0	100.0	100.0	100.0
Gross profit	€ million	36.9	37.6	40.6	42.0
	%	45.9	45.8	48.0	48.5
EBITDA	€ million	5.4	6.9	8.2	9.0
	%	6.8	8.3	9.7	10.4
EBIT	€ million	1.9	3.1	5.2	6.1
	%	2.4	3.7	6.1	7.0
Result from ordinary activities	€ million	-1.7	0.0	3.9	5.2
	%	-2.1	0.0	4.5	6.0
Net loss (income)	€ million	-0.9	0.4	3.8	5.2
	%	-1.1	0.5	4.5	6.0
Result acc. to IAS (after reconciliation)	€ million	–	–	1.7	2.0
Balance sheet					
Equity	€ million	42.7	44.3	38.9	17.7
Equity ratio including minority interests	%	37.9	39.1	41.6	57.5
Return on equity	%	-2.1	0.9	9.8	29.5
Capital expenditure	€ million	3.0	6.3	12.5	4.0
Balance sheet total	€ million	112.8	113.3	93.6	30.8
Return on invested capital (ROIC)	%			6.2	27.1
Personnel					
Employees	number	539	563	626	665
Personnel expenses	€ million	17.9	19.2	19.3	19.3
	%	22.3	23.4	22.9	22.3
Sales per employee (weighted average)	€k	209	196	210	205
Per share					
Number of shares	million	3.36	3.20	3.18	3.31
Consolidated net loss (income) before minority interest	€	-0.27	0.13	1.20	1.59
Dividend	€	0.00	0.00	0.87	0.87
Other details (as of Dec. 31)					
Sales area	m^2	19,910	17,080	14,010	13,000
Sales per m^2	€/m^2	4,676	5,566	6,980	7,700

LUDWIG BECK is one of Germany's leading retail companies with one of the country's top locations in Munich's central Marienplatz square. Our strategic alignment is the »Store of the Senses« concept. We focus on superior quality, maximum expertise, a unique range of goods and individual presentation. We appeal to an attractive consumer group and achieve exceptionally high levels of loyalty. Our customers value the outstanding quality of advice and the friendliness of our sales assistants – a result of our commitment to providing continual training. We aim to utilize these strengths in order to generate above-average revenues and earnings.



inter>view

Fiscal 2003 was another difficult year for Ludwig Beck AG. Sales were down and investors confronted with losses rather than dividends. Did you maybe fail to recognize the signs early enough?

UNKEL: No, just the opposite in fact. We reacted very quickly and effectively. This enabled us to fare considerably better than the sector as a whole last year. 2003 was the most difficult year for the German retail industry as a whole since 1945. Seemingly endless discussions about various government reform packages produced a complete state of uncertainty among consumers. Coupled with an ailing economy and the continuing problem of high unemployment, retailers were faced with an unprecedented slump in consumer demand. Even the traditionally strong Christmas period failed to provide sufficient relief this year.


Reiner Unkel

MÜNCH: According to the trade journal »TextilWirtschaft« the German retail clothing sector suffered a decline of 5% in sales last year – in southern Germany the fall reached as much as 7%. Considering these figures, Ludwig Beck is not exactly proud of its 2.1% decline in revenues – but we certainly don't have to fear comparison.

This apparently mild decline in sales, however, had quite a strong negative impact on earnings.

UNKEL: Unfortunately, this disproportionate burden on earnings was unavoidable. The fall in revenues was mainly a consequence of savage discounting by the retail sector majors, which even Ludwig Beck could not escape completely. The incessant discounting of many competitors has made consumers highly sensitive to price reductions and special offers – something they have now come to expect and even demand. As a consequence, average shopping bills have fallen. Such discounts have therefore put pressure on our margins and consequently resulted in lower profitability.


Dieter Münch

MÜNCH: Considering the adverse circumstances, however, earnings were not too bad. Ludwig Beck has sufficient substance to cope with such losses: we have considerable retained earnings from the above-average profits of the previous years, an excellent financial structure with an equity ratio including minority interests of 37.9% and, last but not least, we own our flagship store in Munich's premier location – the »Marienplatz«. But obviously we don't intend to just live from this substance: we used the past difficult year to speed up our comprehensive reorganization process and improve the quality of our internal structures.

Which measures has Ludwig Beck introduced to counter this general slump in consumer demand?

UNKEL: Ludwig Beck has introduced and implemented a wide range of measures in three key areas: cost structures, efficiency and strategy.

What does this mean exactly for your cost structures?

MÜNCH: This means that we've reduced costs by € 1.5 million to € 37.1 million – even though we now have more outlets and longer opening hours.

UNKEL: This was only possible, of course, with highly motivated and completely loyal employees. With our most spectacular measure, we even set a precedent in the German retail sector: we have left the German Employers' Association and re-introduced the 40-hour week – without full wage compensation. This enabled us to manage the extra four hours opening time on Saturdays without having to hire new staff. In total, our employees now work 6.8% longer hours for 1.5% extra salary.

MÜNCH: By the way, it was not only our store assistants who agreed to tighten their belts – cuts were made across all salary bands and hierarchical levels. The Executive Board accepted a 10% cut in fixed components and its complete variable remuneration for 2003, all management staff have permanently waived their rights to fixed salary components and there was no annual rise in staff wages and salaries. Furthermore, we introduced a variety of internal cost savings which also lowered – and will continue to lower – our other operating expenditure.

OK. Enough about costs. What have you done to improve efficiency?

MÜNCH: The most important measures were the separation of purchasing and sales, as well as the introduction of a materials management system. This new materials management system, which will be introduced in the second half of 2004, will enable us to tailor our processes even more precisely to our target groups. The new central purchasing department for our flagship store and all branches – including those of sales subsidiary »Vertriebs GmbH« – represents a further improvement. We expect these measures to raise our gross margin already in 2004.

UNKEL: What's more, we didn't just save money with staff last year, but also invested in them. Our internal quality drive aims to build on one of our greatest strengths: the quality of service and sales advice at Ludwig Beck's stores. We have long been a »service oasis« in Germany, where customers are always welcomed and offered expert advice at any time of the day. Our comprehensive training program has prepared staff for the new, more demanding customer expectations. This has not only resulted in increased customer satisfaction, but also raised the efficiency of our sales staff.

Let's then move on to the third aspect: strategy. Have you made any changes here?

UNKEL: Yes. For one thing, we haven't stuck our head in the sand but have been actively implementing our strategy. Our fashion warehouse business, for example, has grown faster than expected with the opening of further two outlets in late 2003. We have also given the Group a much clearer organizational structure, consisting of our flagship store, the »Beck« branches, our fashion warehouse outlets and the mono-label stores of Ludwig Beck Vertriebs GmbH.

MÜNCH: Our growth strategy focuses on two main pillars. Firstly, we will continue to concentrate on our core business, i.e. over-the-counter sales at our flagship store. The second growth driver is organic expansion with our branch concept, where we aim to utilize every possibility to generate additional growth and earnings – from multi-label to mono-label and fashion warehouse outlets.

Wouldn't you agree that over-the-counter sales at your flagship store can hardly be regarded as a growth pillar at present?

UNKEL: No, not at all. We've also fully utilized our potential in this category. Take the new Saturday opening hours, for example. Since June 2003 we've been allowed to stay open on Saturdays until 8 p.m. – instead of the former 4 p.m. limit – and we have fully exploited this possibility. Thanks to our flagship store's unique location in the heart of Munich, sales there have been raised by an average of 30%. And that's just the start: we regard Saturday as the shopping day of the future.

MÜNCH: At the same time, of course, we've been continuing our active floor space management program, which has helped us cushion sales losses in our clothing business. Our success story »Perfumes and Wellness« continued last year with a further increase in sales of 20% to € 6.4 million. Other departments where we enjoy a clear market lead, such as classical and jazz music or haberdashery, also succeeded in extending their market share. In 2004 we shall continue to strengthen those areas where we have virtually no competitors. The next area of focus will be our outsize fashions department.

Price sensitivity among consumers continued to rise last year. How has Ludwig Beck reacted to this trend?

UNKEL: In times of recession, it's clear that some of Ludwig Beck's customers in the medium-price segment are also tempted by offers in lower price categories. We have obviously reacted to this trend by altering our entry price levels – while maintaining our high service quality. This year, we intend to focus on Ludwig Beck's strengths by launching a series of »value-for-money« campaigns – offering top quality and excellent value. Our customers in the upper price segment, however, continue to look for excellent quality and expert advice at a fair price.

MÜNCH: We have thus reacted to the realities of the current market situation while remaining true to our own philosophy. We are convinced that many of our customers will return to the higher price segments once the economy picks up. In the long run, penny-pinching isn't fun – it's depressing.

Well, Ludwig Beck's philosophy is certainly the opposite: to make shopping enjoyable. Does this approach have any chance of success in such austere times?

UNKEL: Certainly, and it's exactly here that we aim to exploit Ludwig Beck's unique selling proposition. Take our traditional Christmas market, for example. We were particularly active last year and were able to feature 25 artisans from South Africa, who presented a wide variety of goods – from feathers, jewelry and fabrics to ostrich eggs in all variations. Despite the adverse market conditions, our Christmas market was able to generate similar revenues to those of the previous year. Our actual Christmas goods did not suffer from reduced consumer spending.

MÜNCH: We plan to develop such in-house topics during the current year and to celebrate a number of special events as part of our image campaign. We will start with our »French Weeks« – a three-week gourmet cooking campaign in cooperation with »Feinkost-Käfer«, Munich's best-known delicatessen and caterer. The event is expected to reinforce our image as the »Store of the Senses«.

Quite a package of events for the Group's flagship store. Do modern retailers really need to go to such lengths to stay successful?

UNKEL: Above all, modern retailers have to be innovative and constantly come up with new ideas. Our business isn't easy, but it's still lots of fun – both for us and our customers. Apart from these more sensual pleasures, however, we'll also be continuing our normal product range strategy. We shall intensify our efforts in those segments, for example, which are developing stronger than average. One particular topic for the future is the changing age structure of the German population. This will give rise to new needs, which have been insufficiently addressed so far. Ludwig Beck will position itself clearly in this segment in cooperation with partners such as Gerry Weber.

Are you just as busy tweaking business in your branch segment?

UNKEL: The same thing applies here: if you're standing still, you're already going backwards. We're pursuing a finely balanced branch concept, based on three main pillars: growth through our traditional »Beck« stores, i.e. our multi-label business, and additional potential through our mono-label stores and fashion warehouse outlets. We are thus fully exploiting all growth opportunities available to the retail trade at present.

The fastest growing sector right now is the mono-label business. Does this sector really fit to Ludwig Beck?

UNKEL: Yes, by entering this vertical distribution channel we're able to utilize tried and trusted Ludwig Beck know-how to generate additional sales and earnings. The simple rule is: if you can't beat them, join them. The success of such vertical distribution channels, i.e. production and retail under a single brand, has certainly cost us turnover in the past few years. But instead of fighting these systems, we decided to profit from them by founding our sales company Ludwig Beck Vertriebs GmbH. Obviously, we also benefit tremendously from our enormous purchasing and product range expertise. In fact, we could justifiably write on our mono-label shop windows: »Powered by Ludwig Beck«.

MÜNCH: Since launching our subsidiary Ludwig Beck Vertriebs GmbH in late February 2002, it has already opened eight stores and contributed gross sales of € 7.8 (2002: 4.6) million in 2003. We aim to reach break-even in this segment in 2004, despite the adverse market conditions.

Your expansion last year into fashion warehouse outlets came as quite a surprise to some. After all, this must be a completely different target group to your traditional Ludwig Beck customers.

MÜNCH: That's right. But that's also exactly the reason why we're so successful in our over-the-counter, multi-label sector: the new outlets don't cannibalize sales of our flagship store. These fashion warehouse outlets allow the company to market excess stock and special offers more directly, quickly and profitably. The concept fits perfectly to consumers looking exactly for such offers – a completely different target group than Ludwig Beck's traditional customers.

What is the outlook for 2004 in general, then?

UNKEL: We are generally upbeat about prospects for the new year. Thanks to the measures taken so far, we can see the first signs of a clear turnaround in demand. More positive news in the second half of the year is expected to produce a general revival in retail sales. The greatest challenge of the new year for the retail sector will be to normalize prices again and to reduce the currently excessive and completely senseless level of discounting.

MÜNCH: In real terms, this means that we expect double-digit growth in sales for the Group in 2004. This growth will be driven above all by our targeted expansion in the mono-label sector: the new stores opened last year will be joined by a further three outlets in the new Munich-Riem shopping center from March onwards. For the Group as a whole, we expect to at least break even this year. Should consumer spending recover, however, this will obviously have an even more beneficial impact on earnings.

All in all, then, Ludwig Beck seems to have completed its turnaround. Mr. Unkel, Mr. Münch, thank you for the interview and all the best for the further implementation of your strategy.

REINER UNKEL

(45), Chairman of the Executive Board of Ludwig Beck AG

Reiner Unkel's interests extend beyond economics and markets to the people behind the figures. After graduating in economics, he went straight into retailing: »I wanted not only to achieve objectives with others but to feel the daily reaction of the customer«, says Unkel. After eleven years in various management positions and departments with well-known clothes retailer E. Breuninger GmbH & Co. in Stuttgart, he joined the Executive Board of Ludwig Beck AG in March 1997. Since April 1998 he has been Chairman of the Executive Board with special responsibility for purchasing, sales and marketing.

DIETER MÜNCH

(49), Member of the Executive Board of Ludwig Beck AG

Dieter Münch made his first contact with Ludwig Beck as a student intern while studying business administration in Munich. Fascinated by the special Ludwig Beck flair, he joined the company's Controlling department directly after graduating in 1980. He was drawn by the peculiar attraction exerted by financial statistics and the opportunity to control the business processes of a clearly structured organization. After holding several positions within the organization, he joined the Executive Board in April 1998 where he has been responsible for finance, investor relations and personnel since May 1999.

Ludwig Beck AG

… 100% Ludwig Beck Vertriebs GmbH

… 100% Ludwig Beck Beteiligungs GmbH

… 50.1% Feldmeier GmbH & Co. Betriebs KG

… 50.2% Ludwig Beck Verwaltungs GmbH

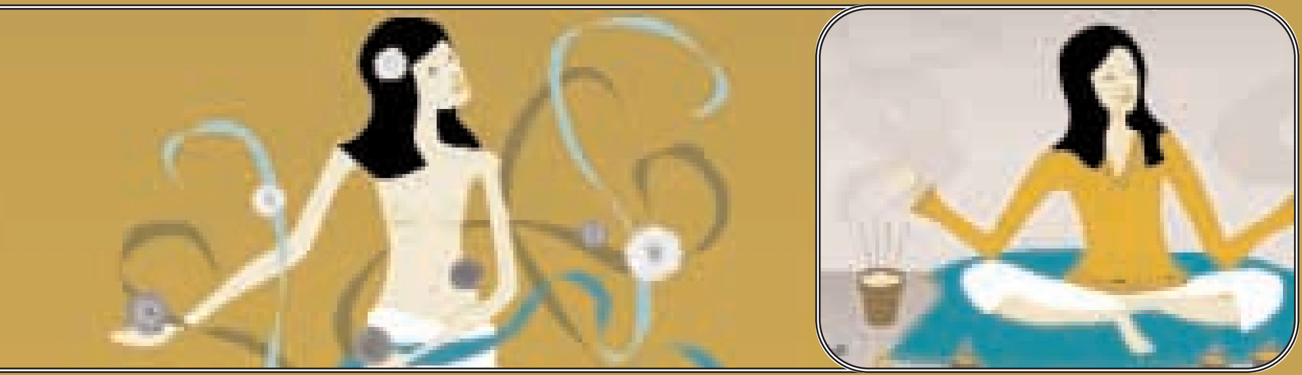
group structure

Ludwig Beck already established a group structure in 2001.

The Ludwig Beck Group is clearly structured according to its various business segments:

- *Ludwig Beck AG comprises our traditional business with the flagship Marienplatz store, the »Beck« branches and the fashion warehouse outlets.*
- *Ludwig Beck Vertriebs GmbH is a sales company aimed at exploiting the tremendous growth opportunities of mono-label stores.*
- *Ludwig Beck Beteiligungs GmbH contains the company's real estate assets.*
  For legal reasons, there are two further companies below the »Beteiligungs GmbH«: Ludwig Beck Verwaltungs GmbH (in which Ludwig Beck Beteiligungs GmbH holds the majority share) is responsible for the management of Feldmeier GmbH & Co. Betriebs KG, the owner of our Marienplatz premises.

»MORE THAN >A STORE«



THERE ARE FOUR MAJOR STRUCTURAL CHANGES AFFECTING THE GERMAN RETAIL SECTOR AT PRESENT: THE DEMISE OF THE SPECIALIST STORE, THE CREATION OF NEW, HIGH-VALUE LOCATIONS IN THE CITY CENTER, THE GROWTH OF VERTICAL SALES SYSTEMS AND THE INCREASING COST CONSCIOUSNESS OF CONSUMERS. WITH ITS CLEAR POSITIONING AND CONSISTENT MARKET STRATEGY, LUDWIG BECK HAS SUCCEEDED IN PROFITING FROM ALL FOUR TRENDS.

strategy >»flagship store«

With its clearly defined market profile and »Store of the Senses« concept, Ludwig Beck AG has established itself as one of Germany's most innovative retail companies. The unique central Munich location of the company's flagship store combined with its focussed marketing and target-group strategy have also made Ludwig Beck one of the sector's most successful retailers. Thanks to the high quality of its sales assistants, tremendous product range variety and unrivaled specialization in particular areas, Ludwig Beck's Marienplatz store is able to serve as a replacement for many specialist retailers.

strategy >»branch concept«

With the aid of its targeted branch concept, Ludwig Beck is well placed to tap the market's most attractive growth potential.

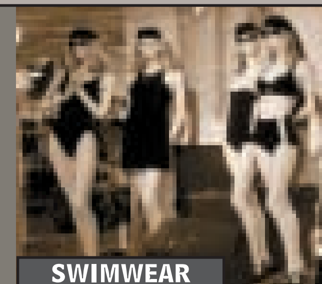
- One central element of our branch strategy are the long established **offshoots** of our main store, located in major shopping centers and trading under the »Beck« label. With the Fashion Store concept launched in 2001, Ludwig Beck AG has been successful in tapping a far greater sales potential.
- New, high-quality shopping precincts have been opened in Munich's city center, such as the »Fünf Höfe« (Theatiner-Block) and »Maximilianshöfe« projects. As of March 2003, Ludwig Beck has been present in the »Fünf Höfe« precinct with its own **»Hautnah« cosmetics store**.
- The opening and expansion of mono-label stores, such as Esprit and H&M in downtown Munich locations, is aimed more at attracting customers in the medium-price segment. Ludwig Beck has already grasped this opportunity to benefit from the growth of mono-label stores with the foundation of its subsidiary Ludwig Beck **Vertriebs GmbH**.
- With its expansion into **fashion warehouse outlets** in 2003, Ludwig Beck successfully and quickly adapted to the new trend toward more price-conscious shopping. In order to avoid any cannibalization effects, the two new fashion warehouse outlets were opened in the neighboring state of Baden-Württemberg.

JEANS

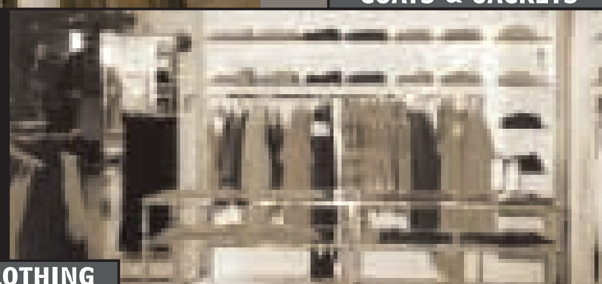
YOUNG FASHIONS

DESIGNER

COATS & JACKETS



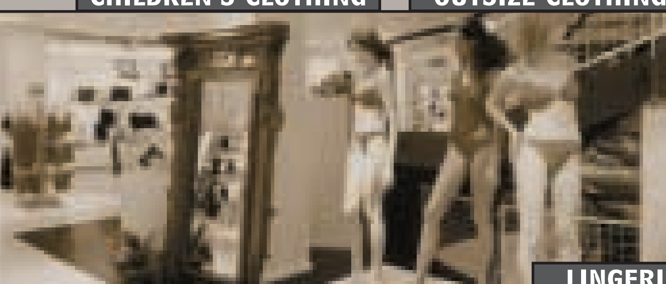
SWIMWEAR



CHILDREN'S CLOTHING

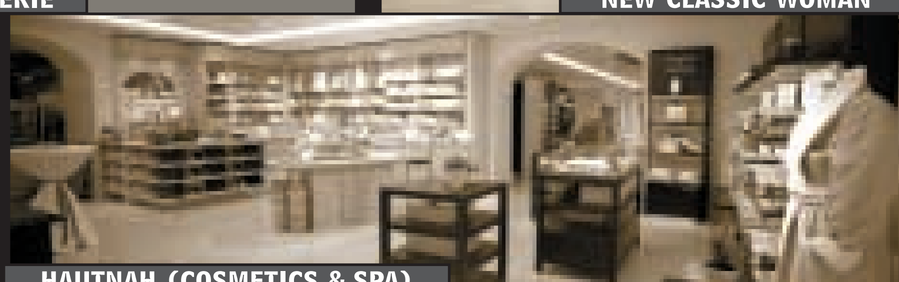
OUTSIZE CLOTHING

TRADITIONAL COSTUMES



LINGERIE

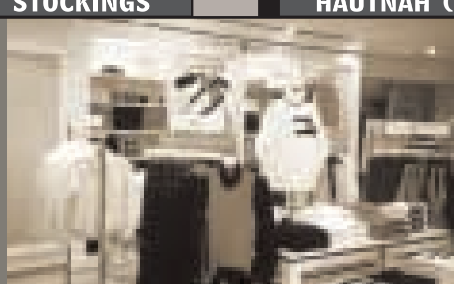
NEW CLASSIC WOMAN



ACCESSOIRES

STOCKINGS

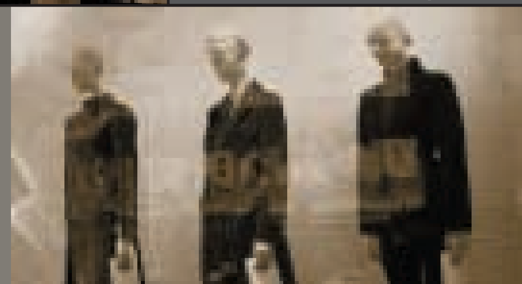
HAUTNAH (COSMETICS & SPA)



MEN'S FASHIONS

4

CLASSICAL & JAZZ/SPOKEN WORD



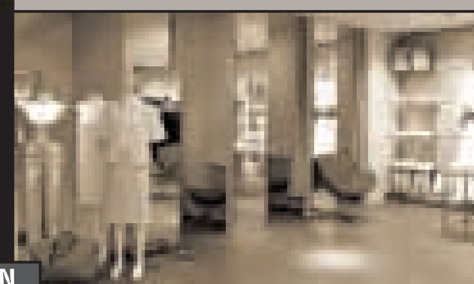
3

EVENING FASHIONS

2

STATIONERY

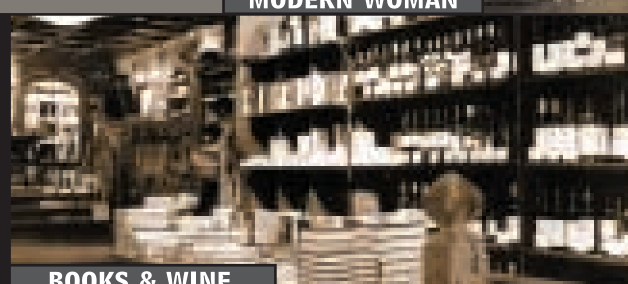
KNITWEAR



1

CHRISTMAS HOUSE

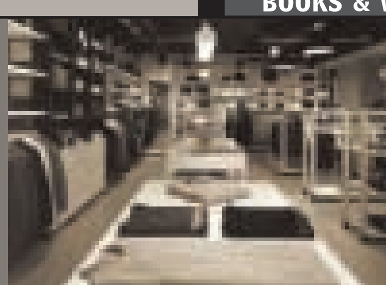
MODERN WOMAN



G

BOOKS & WINE

HABERDASHERY



B

DAY AND NIGHT WEAR

strategy

»FLAGSHIP STORE«

INNOVATIVE PRODUCT RANGE CONCEPTS FOR CORE BUSINESS: OUR TRADITIONAL BUSINESS AT THE MARIENPLATZ STORE REMAINS OUR MOST IMPORTANT GROWTH PILLAR. THANKS TO TARGETED INVESTMENTS, EFFICIENT FLOOR SPACE MANAGEMENT AND SYSTEMATIC EXPANSION OF SALES AREAS, LUDWIG BECK'S FLAGSHIP STORE REMAINS EXTREMELY SUCCESSFUL. TOGETHER WITH THE SUCCESS OF ITS »STORE OF THE SENSES« PHILOSOPHY, THE FLAGSHIP STORE'S STRATEGY OF COMBINING THE STRENGTHS OF A DEPARTMENT STORE WITH THOSE OF A SPECIALIST SHOP HAVE HELPED IT CREATE A UNIQUE POSITIONING WELL BEYOND MUNICH'S CITY LIMITS.

Our main store is located in Munich's Marienplatz square, the historical center of the Bavarian capital. With over 500,000 visitors per day, the famous Marienplatz square is now one of Europe's most frequently visited attractions and premier retail locations. As a junction for all major tram and underground lines, the Marienplatz is also easy to access for visitors, 80% of whom arrive by public transport. With its spectacular tourist attractions, such as the »Glockenspiel« bells, »Mariensäule« statue and historical town hall, the square acts as a magnet for all visitors to the city – a highly cosmopolitan location.

■ > **RECESSION ALSO HITS MUNICH REGION.** Even the traditionally strong, economic region of Munich was hit hard by the recession in 2003. The difficulties experienced by those sectors which are normally strongest in the Munich region, such as Media and Internet, not only caused a marked slowdown in the Bavarian capital's economic growth but also led to an increase in unemployment – especially among (former) top earners and high-spending singles.

According to a report for the business magazine »Capital« published in January 2003 by the Bad Homburg-based research institute Feri, Munich has lost the top position it held in March 2001 and has now been overtaken by Düsseldorf as Germany's strongest economic region. The study concluded, however, that major conurbations such as Düsseldorf, Munich or Hamburg (3rd position) were still best equipped to cope with the current difficulties and will remain Germany's major economic centers in the coming years. The study examined the regional economic strength of 60 major German cities for the period up to 2009, with regard to economic performance, jobs, population development and purchasing power.

A study by the market research institute GfK in 2003 found that the Munich region still had the greatest per capita spending power (€ 20,989) – a long way ahead of Stuttgart (€ 19,425) and the Cologne-Bonn region (€ 18,681). According to GfK, the Munich region owes this lead to its modern, economic structure with an above-average proportion of skilled labor, high salary levels and low unemployment.

With 1.3 million inhabitants in the city itself and 2.7 million in the region, Munich is a highly attractive shopping city which appeals to all the senses – lively, cosmopolitan and modern.

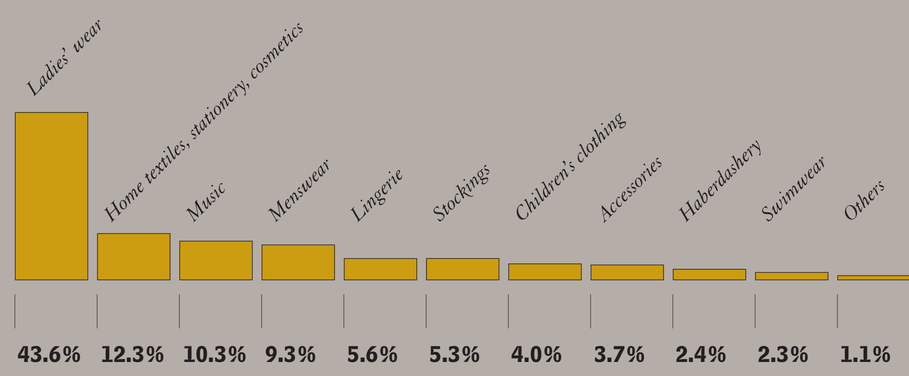
■ > **COMBINING THE STRENGTHS OF DEPARTMENT AND SPECIALIST STORES.** One of Ludwig Beck's success factors is its ability to combine the strengths of a department store with those of a specialist shop under one roof: we offer both the depth of range of a large-scale store and the expertise in individual product areas of a specialist retailer.

We are already market leader in several product categories. In addition to our most important sales lines – fashion and clothing – we offer a wide variety of Beck-specific ranges, such as our new cosmetics and wellness area, classical and jazz records, Italian wines and gifts. These ranges are supported by numerous marketing activities, such as markets, fashion shows, exhibitions, readings and music performances. The store's traditional »Christmas house«, where up to 50 artisans from around the world display their skills and products, has long established itself as a much-loved institution famous well beyond Munich's boundaries.

All these measures are aimed at achieving one target: from floor to floor and department to department, the customer should discover new worlds of goods and lifestyles.

■ > **THE »STORE OF THE SENSES« CONCEPT.** At the entrance door to Ludwig Beck the customer realizes that this is no ordinary department store, but a way of life: »2 minutes to closing time – Welcome to Ludwig Beck!« Customers are still treated with individual care if they arrive shortly before closing time – and even if it means staying a quarter of an hour longer.

There are a number of things which are different about Ludwig Beck – the service, the level of competence, the range of goods and the store's fittings and decorations. Ludwig Beck has always set high standards of creativity, individuality, quality, modernity and emotionality. The tradition started with the foundation of the main store by the button-maker and master haberdasher Ludwig Beck in 1861. Since this time the store has been committed to embracing new ideas, product ranges and innovations.



2003 sales by category (Marienplatz)

Our concept is called: »Store of the Senses«. It combines the unique features of Ludwig Beck – an emotional promise which leverages Ludwig Beck's special qualities and has the power to activate the public. The atmosphere is pleasant: people feel at home. Beck's highly motivated staff make sure of that. The customer feels relaxed and that he is being individually attended to. We aim to strengthen this special shopping experience in future with further emotionally appealing store events.

To put it briefly: shopping is fun. And Beck makes you want to shop. It's more than just a store.

■ > **PRODUCT RANGE STRATEGY: CLEAR TARGET GROUPS.** Ludwig Beck offers an individual mixture of product ranges focussing mainly on fashion and textiles. The store also adds new ranges if they emphasize the typical Beck style. We are beginning to offer goods at attractive entry-level prices, but still concentrate primarily on medium-priced and upmarket products.

Our clothing ranges for ladies, men and children are tailored to specific target groups, such as Modern Woman and New Classic Woman. They are always targeted at customers with a strong interest in fashionable, branded clothing. Our chief area of focus in the menswear department is the Modern Man category, and in particular the casual clothing segment.

Customers can find all major fashion labels at Ludwig Beck stores. In the case of extensive fashion label ranges, we concentrate on those categories most relevant to our target groups – and ignore the rest. We present the selected collections in their own topic areas and lifestyle worlds.

This clear target-group segmentation fits well with our successful »Store of the Senses« concept. Ludwig Beck appeals to all the senses of our targeted customer groups. Customers can see, smell, hear, feel and even taste something. They don't just get clothing, but a whole experience which they can take home with them.

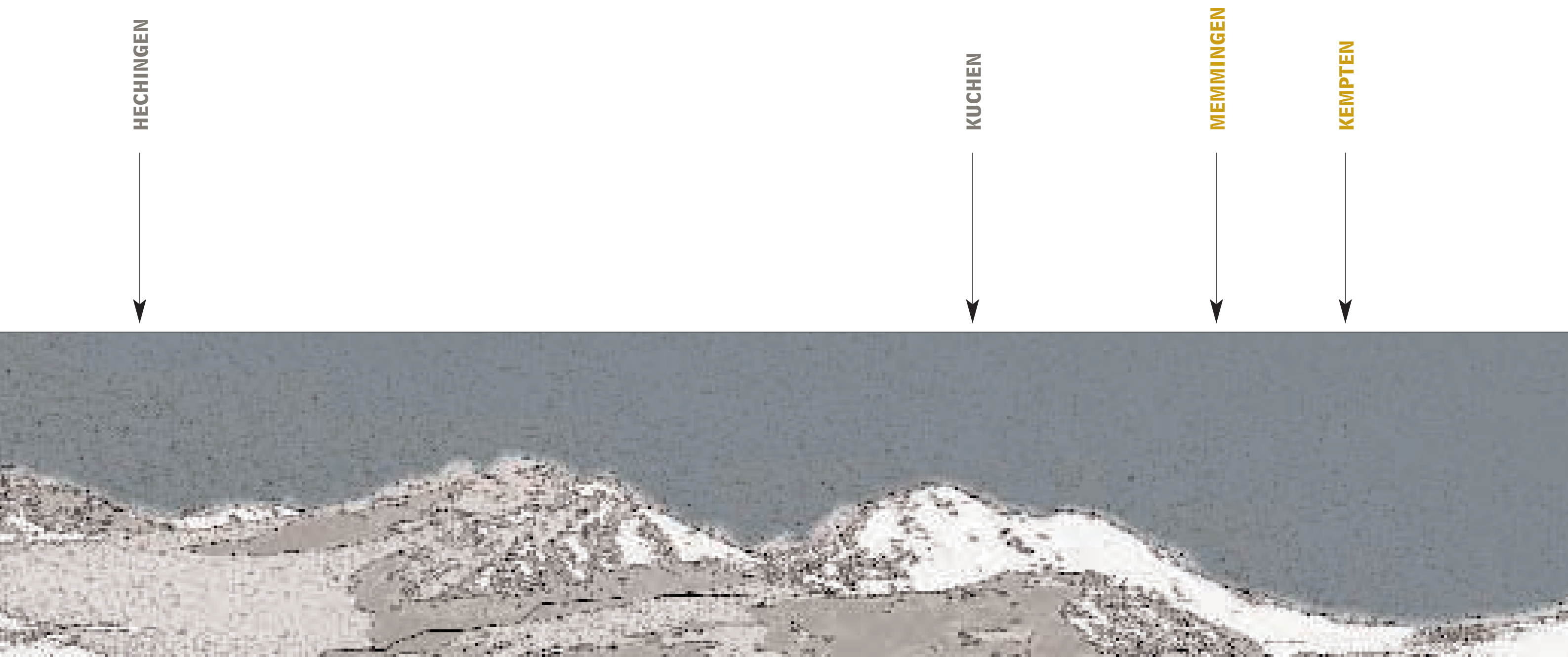
■ > **FURTHER GROWTH AT FLAGSHIP STORE: TARGETED EXPANSION OF HIGH-GROWTH RANGES.** There is still plenty of potential at the company's flagship Marienplatz store. Ludwig Beck is continually finding creative ideas for new ranges and events, as well as opportunities for expanding the store's retail floor space. By carefully adapting its product range assortment, Ludwig Beck will continue to focus on high-growth categories.

One example of this, is the success of our cosmetics and wellness department, which has performed extremely well since its launch. Ludwig Beck has positioned itself clearly above the low-priced, mass-manufactured perfumes: customers are still willing to pay higher prices for exceptional quality and exclusivity. Ludwig Beck's range of cosmetics and perfumes is unique in Germany. Most products are purchased from the USA, Great Britain and Italy, where they are prepared according to traditional recipes – often more than 100 years old – using only natural ingredients. The diversity of international brands presented in our »Hautnah« department is unrivaled in Europe. Many of the products are cult labels in their respective countries. It is no surprise, therefore, that most of our customers are also highly cosmopolitan.

In order to exploit the success of our »Hautnah« department and secure our strong position on the Munich market, Ludwig Beck opened a separate store in March 2003 in the newly developed, high-class »Fünf Höfe« shopping arcade in central Munich.

In 2004, we will continue to focus our efforts on those segments which are developing better than the market average. There are already firm plans for expansion of our outsize fashion department. A further topic for us is the change in Germany's demographic structure. We see interesting opportunities in the fast growing older generation segment – a target group which has not yet been properly addressed. In cooperation with partners such as Gerry Weber, Ludwig Beck aims to position itself clearly in this segment with its own specially developed concepts.

We also plan to generate additional revenue with in-store events, similar to our traditional »Christmas House« campaign. The latter contributed greatly to our Christmas sales in what was generally a disappointing season for the retail trade as a whole. In addition to developing this Christmas event, we are planning campaigns on a variety of other topics. We will start with our »French Weeks« – a three-week gourmet cooking campaign in cooperation with »Feinkost-Käfer«, Munich's best-known delicatessen and caterer. The event will reinforce our image in 2004 as the »Store of the Senses«.



Multi-label stores

Mono-label stores

Fashion outlets

strategy > »branch concept«

WITH ITS BRANCH CONCEPT, LUDWIG BECK AG HAS ENTERED THE FASTEST GROWING SEGMENTS OF THE GERMAN RETAIL TRADE: FASHIONABLE CLOTHING STORES IN SHOPPING CENTERS, THE GROWTH OF MONO-LABEL SYSTEMS AND THE RECENT BOOM IN FASHION WAREHOUSE OUTLETS. WITH THE AID OF ITS TRADITIONALLY STRONG PURCHASING POWER AND PRODUCT RANGE EXPERTISE, LUDWIG BECK HAS ALREADY SUCCESSFULLY ESTABLISHED ITSELF IN ALL THREE OF THESE SEGMENTS.

■ > **»BECK« STORES: GROWTH WITH LUDWIG BECK FASHION STORES IN MUNICH REGION.** One central element of our branch strategy are the long established offshoots of our main store, located in major shopping centers and trading under the »Beck« label. With the rejuvenated »Beck« store concept Fashion Stores launched in 2000, Ludwig Beck AG has been successful in tapping a far greater sales potential. We shall continue to open further »Beck« stores in carefully selected locations.

■ > **CONCEPT: FOCUS ON MODERATELY PRICED FASHIONS.** The »Beck« store concept is tailored to branches with a floor space of around 1,000 m^2. The product ranges are aimed at men and women seeking moderately fashionable clothing in the mid- to lower price range. This target group often shops at modern shopping centers – the preferred location for our »Beck« stores. The product range consists of well-known fashion labels but – as always with Ludwig Beck – also offers something special: Beck is more individual and more creative. Beck presents variations, alternatives, cross-benefits. Customers can combine brands and lifestyles themselves. Ludwig Beck offers self-actualization at moderate prices.

■ > **LOCATIONS: THREE STORES IN MUNICH REGION.** The existing »Beck« stores in Munich's Neuperlach (»pep«) shopping center and the relatively new »City-Galerie« center in Augsburg have continued to stabilize sales. As part of the company's planned expansion of its »Beck» branch network in the attractive Munich region, a third store was opened on October 23, 2003 in the new »City-Center« in Landshut.

A further branch is planned for March 2004 in the shopping center of the new Munich-Riem trade fair district (»Riem-Arcaden«). The 1,000 m^2 store will help Ludwig Beck serve the whole eastern Munich region.

■ > **MONO-LABEL STORES: VERTICAL EXPANSION.** The second element of our branch strategy is the operation by Ludwig Beck Vertriebs GmbH of mono-label stores featuring well-known brands. Whether as shop-in-shop or stand-alone franchise system, the so-called mono-label stores have been the fastest growing segment in clothes retailing over the past few years. Take for example s.Oliver: based in Rottendorf, near Würzburg, the company already generates a third of its revenues at so-called »system sales« locations.

The success of vertical sales channels, i.e. the production and retailing of a single brand, has cost traditional retailers considerable sales volume over the past few years. But instead of fighting this trend, the foundation of its own mono-label stores has helped Ludwig Beck benefit from this growth. By participating in this segment, Ludwig Beck can also draw on its tremendous expertise in purchasing, product range management and service to generate additional sales and earnings potential.

■ > **CONCEPT: FRANCHISE POWERED BY LUDWIG BECK.** In order to benefit from the growth opportunities offered by mono-label stores, Ludwig Beck AG founded a 100% sales subsidiary, Ludwig Beck Vertriebs GmbH, in February 2002. By forming strategic alliances, the new subsidiary operates its own shops as a franchisee of well-known brands, such as s.Oliver, Gerry Weber, Vero Moda, Tommy Hilfiger, Bestseller and Esprit. With this step Ludwig Beck successfully took a share of the growing mono-label retail business, which complements its existing and highly successful multi-label business by providing additional sales and earnings.

With a clearly focussed brand mix targeted at attractive consumer groups, Ludwig Beck will continue to utilize the high growth potential of the vertical sales channel. We currently offer five different labels aimed at various target groups:

- Tommy Hilfiger appeals to a younger, sports-oriented group of 25 – 49 year-olds.
- Esprit and s.Oliver have targeted the Modern Woman group, aged between 25 and 39.
- Gerry Weber serves the slightly older New Classic Women segment.
- Bestseller and Vero Moda offer attractively priced fashions for a younger, fashion-oriented target group, aged from 15 to 29.

Ludwig Beck capitalizes on the benefits offered by such vertical retail concepts and complements them with its expertise in the marketing of product assortments. Ludwig Beck Vertriebs GmbH specifically focuses on those shopping centers which offer the appropriate infrastructure and the possibility to open a variety of stores featuring different product labels.

In the new »Riem-Arcaden« shopping center of the Munich-Riem trade fair district, Ludwig Beck will open both a multi-label »Beck« store (1,025 square meters) as well as two further mono-label stores (Tommy Hilfiger 308 m^2 and Gerry Weber 325 m^2) in March 2004.

■ > **LOCATIONS: GROWTH IN SOUTHERN GERMANY.** Speed is of the essence for those companies seeking to benefit from fast-growing markets: in its first operating year (2002), Ludwig Beck Vertriebs GmbH already opened six stores in Regensburg, Memmingen and Munich. In 2003 it added a further two stores in Kempten (»Forum Allgäu« with Tommy Hilfiger and Gerry Weber). In 2003 the Group's subsidiary accounted for gross sales of € 7.8 million.

■ > **FASHION WAREHOUSE OUTLETS: ADDITIONAL SALES CHANNEL FOR SPECIAL OFFERS.** In its over-the-counter, multi-label business segment, Ludwig Beck is also continuing to expand and strengthen its position as an innovative retail organization with new concepts. With the opening in late June 2002 of a fashion warehouse outlet in Munich-Parsdorf, Ludwig Beck succeeded in creating an additional sales channel for its business. Located attractively next to similar outlets of »Feinkost Käfer« and »Möbelhaus Segmüller«, the new store made a considerable contribution to Group sales and earnings in its first fiscal year.

■ > **CONCEPT: ADDITIONAL EARNINGS POTENTIAL FROM NEW TARGET GROUPS.** The new Fashion Warehouse Outlet sales channel not only allows the company to market excess stock more efficiently. The more important benefit is that Ludwig Beck can procure attractive special offers and market them quickly and profitably to a completely different target group than its traditional customers. The fashion warehouse outlets only sell clothing of various manufacturers for ladies, men and children – from outer garments to underwear – which can be procured at attractive prices.

Especially in times of economic difficulties, such fashion warehouse outlets are highly popular with increasingly price-sensitive consumers. By procuring and marketing attractively priced special offers we can utilize this trend and benefit from its high contribution margins.

■ > **LOCATIONS: FURTHER OUTLETS ALREADY OPENED.** The Fashion Warehouse Outlet segment already generated such a high level of sales and earnings after such a short period that we decided to expand this channel with the opening of two further stores in Kuchen and Hechingen (Baden-Württemberg) in October and November 2003.

FINANCIAL > INFORMATION

INVESTOR RELATIONS/SHARE

The unbroken slide in share prices at international stock exchanges observed since mid-2000, has finally come to an end. The general recovery in Europe last year was even spearheaded by the German stock exchange. The German blue chip index (DAX) recorded average growth of 37% and was thus clearly ahead of its European counterparts. The Euro-Stoxx-50 index managed just 15.6%. The surprisingly strong recovery was partly due to the extreme decline of the past three years. From its peak of 8,130 in March 2000 to its eight-year low of 2,189 in March 2003, the DAX lost almost 75% of its value. With a year-end level of 3,965 (31.12.2002: 2,892), the DAX had still not even reached half its former record standing. The German stock exchange's other indices performed even better than the DAX: the mid-cap MDAX index recorded growth of 47.8% and the new TecDAX for high-tech companies grew by 50.9%. The TecDAX replaced the former »Neuer Markt« segment in spring last year. During the past year, however, there was still not one single German IPO.

The Ludwig Beck share was unable to escape the strong downward trend up to March 2003. From its year-end level of € 7.25 (31.12.2002), the share fell to its all-time low of € 4.50 in March 2003. This was followed by a strong recovery which lifted the share price to around € 6.50 again. Toward year-end, however, the general pessimistic mood in the retail trade and the seemingly endless discussions about tax and health reforms pulled the share down again to € 5.00.

Since the beginning of 2004, the Ludwig Beck share has been trading at prices between € 5.50 and € 4.90. Once again, the share price has been moving more or less in harmony with a more stable, yet still somewhat nervous market.

■ > **CHANGE TO PRIME STANDARD.** In order to strengthen investor confidence in the German capital market, Deutsche Börse (German stock exchange operator) decided to restructure the German market into new segments in January 2003: the newly created Prime Standard has set Europe's highest transparency standards for those companies listed in this premium segment. The requirements include quarterly reports, analyst conferences, publication of a company event calendar and the adoption of international accounting standards. Companies listed in the newly formed General Standard segment only need meet the minimum legal requirements.

Ludwig Beck has been listed in the Prime Standard segment since its creation. As a member in the Prime Standard segment we continue to reach a widely-spread base of international shareholders and a high proportion of institutional investors. Our designated sponsor is the HypoVereinsbank AG, Munich (rating: AA).

■ > **AGM ON MAY 27, 2003.** Over 430 shareholders representing more than 53% of total capital attended the company's Annual General Meeting in Munich on May 27. The agenda included the discharge of the Executive Board and Supervisory Board. There were also various changes to the company's articles in connection with the new Transparency and Disclosure Act. A further item was the opportunity for shareholders to exchange views with members of the company's management team. All items of the agenda were accepted with voting majorities of over 99%.

■ > **THE LUDWIG BECK SHARE: AN INVESTMENT IN STRONG ASSETS.** The Ludwig Beck share is an investment with an innovative growth strategy, a solid financial structure and an attractive property asset in a top location of central Munich. With the prospect of a return to dividend payments – which are still tax-exempted for shareholders – the share's current price appears to be generally safe from further downward corrections.

The following factors support an investment decision:

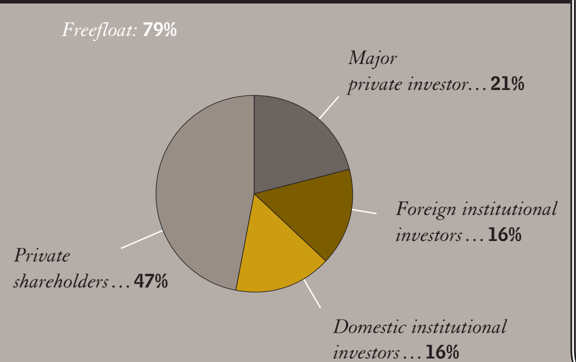
- value-oriented corporate strategy
- innovative growth strategy
- sound financial situation
- ownership of Marienplatz premises
- excellent market positioning
- strong position in financially sound state of Bavaria
- consistently high cash flow
- dedicated work force
- active investor relations policy

■ > **SHAREHOLDER STRUCTURE.** Ludwig Beck shares are spread widely throughout the world; over half of our free float portion is held by institutional investors. These are the results of a survey carried out via depositary banks as of September 30, 2003 and based on 3 million registrations. Considering the total number of 3.36 (3.36) million shares, there was an overwhelming response to the survey of 89.1%. The free float proportion of Ludwig Beck AG amounts to 79%. Of this amount, 32% of shares are held by institutional investors. 16% are foreign investors. 47% of shares are held by private investors. There is one major shareholder, who owns 21% of total shares. A total of 4,000 depositary accounts were registered.

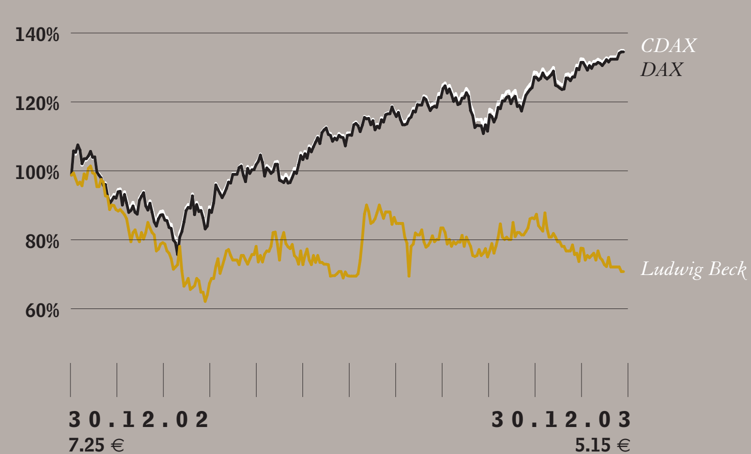
■ > **FULL CONFORMITY WITH GERMAN CORPORATE GOVERNANCE CODE.** From the shareholder's point of view, one of the most important requirements for a listed company is open, honest and speedy communication with the capital market. A major prerequisite for investing in a company is the trust which shareholders have in its management and controlling committees, i.e. its so-called corporate governance.

For many years there were no clear guidelines, regulations or even laws in Germany concerning this topic. In order to address this problem – particularly with regard to achieving international comparability – the German Ministry of Justice convened a special government commission. This commission drew up the so-called German Corporate Governance Code – a list of recommendations concerning all aspects of company procedures. The Code contains suggested behavior, especially with regard to the previously inadequate consideration of shareholder interests and the relationship and dependencies between Executive Board and Supervisory Board. A further demand is the absolute independence of the company's auditors.

Shareholder structure



Ludwig Beck share price in comparison



Ludwig Beck accepts in full the recommendations of the German Corporate Governance Code. The 4th Financial Market Promotion Act obliges listed public companies to state their compliance with the Code's guidelines or to explain any deviations in their annual reports on a »comply or explain« basis. The Executive Board and Supervisory Board of Ludwig Beck AG filed their declaration pursuant to § 161 German Stock Corporation Law (AktG) in July 2003. The recommendations of the »Government Commission for a German Corporate Governance Code« were all met, without exception. The declaration of compliance was based on the Code as valid on May 21, 2003.

■ > **ACTIVE INVESTOR RELATIONS.** In the past fiscal year Ludwig Beck AG once again stabilized the long-term trust of its current and future investors by means of its active investor relations policy. Investors receive all relevant details necessary to formulate an informed opinion concerning the underlying value of the Ludwig Beck share and its current market valuation. To ensure this, we provide open, comprehensive and up-to-date information about the current profit situation, strategy and value development of the company. In the past year we published a total of eight ad hoc reports and press releases, which were sent directly to our institutional and private investors.

The Ludwig Beck share at a glance

Dividend	€ 0.00 (0.00)
Total dividend	€ 0.00 (0.00) million
Number of shares	3.36 (3.20) million
Year-end price	€ 5.15
Year-high price	€ 7.75
Year-low price	€ 4.30
Market capitalization	€ 17.3 million
Dividend yield	0.00%
Reuters code	ECK
SIN	519 990
ISIN	DE0005199905
Designated sponsors	HypoVereinsbank AG Munich
Stock exchanges	Official trading in Munich and Frankfurt, Xetra, unlisted trading in Berlin, Stuttgart, Düsseldorf, Hamburg

Financial calendar 2004

Press conference	March 23 (Munich)
DVFA analyst conference	March 24 (Frankfurt)
1st quarter report	May 6
Annual General Meeting	May 21 (Munich)
Interim report	August 4
3rd quarter report	November 3
Sales figures 2004	January 2005

CONSOLIDATED MANAGEMENT REPORT

for Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

■ > **ECONOMIC SITUATION.** For only the second time since reunification, the German economy slipped into recession in 2003. Real gross domestic product (GDP) fell by 0.1% in 2003 – the second worst result since East and West Germany were reunited. Consumers in Germany reduced spending by 0.2% in real terms, following a 0.5% decline in consumer spending in 2002. For the second year in a row, therefore, German consumers continued to cut spending while raising their personal savings ratio to 10.8 (10.6)%. German working households had less income to spend in the past year. Gross wages and salaries fell by 0.1%, while both social security contributions (+2.3%) and income tax (+0.6%) continued to rise. The remaining net wages and salaries fell by 0.9%. The long economic slump is now finally beginning to leave its mark. As net incomes fall, consumer uncertainty continues to grow. Due to endless discussions about possible government reforms, consumers feel unable to make plans for the future. The current development reflects this confusion among consumers with regard to their financial prospects. There has never been such a situation in the history of the Federal Republic of Germany.

■ > **RETAIL TRADE.** The German retail sector experienced a further disappointing year with a one-percent decrease in sales. Once again revenues fell below the already low level of the previous year. The crisis year of 2002 was thus followed by an equally poor 2003. Worst hit of all was the textile and clothing sector, which suffered losses of 5% according to the trade journal »TextilWirtschaft«. The decision to bring forward planned tax reforms shortly before Christmas arrived too late to have any positive effect on consumption.

The major retail companies reacted to this negative sales trend by offering – often excessive – price discounts throughout the year. This only served to confuse consumers further. For the first time ever, retailers began offering discounts and special offers weeks before the otherwise normal Christmas shopping period. This behavior failed to boost demand, however, and simply served to worsen profit margins.

The only cause for optimism was the liberalization of shopping hours on Saturdays. The major retail centers profited more than average from this development. Saturday has now finally established itself as the most important shopping day – also in terms of sales revenues.

■ > **SALES DEVELOPMENT.** Net sales revenues (excluding VAT) of the Ludwig Beck Group fell slightly in the past fiscal year from € 82.0 to € 80.3 million. This corresponds to a decline of 2.1%. Consolidated sales revenues contain net sales of Ludwig Beck Vertriebs GmbH of € 6.8 (prior-year: € 4.0) million.

Consolidated sales revenues also contain, for the first time, sales of the Ludwig Beck AG branch opened in spring in the »5 Höfe« arcade in Munich, as well as the Ludwig Beck AG store openings in late fall in Landshut, Kuchen and Hechingen and the new Ludwig Beck Vertriebs GmbH stores opened in fall 2003 in Kempten (Tommy Hilfiger and Gerry Weber).

The decline in sales affected almost every product category. The most notable exception was the recently revamped Cosmetics & Wellness department, which continues to perform strongly with sales growth of 20%.

The Group's Fashion Warehouse Outlets, which Ludwig Beck AG operates in Munich-Parsdorf and two new sites in Baden-Württemberg (Kuchen and Hechingen), also made encouraging progress. The concept is aimed at more price-sensitive consumers than those of our traditional stores. The »City Galerie« store in Augsburg succeeded in establishing itself and performed slightly better than in the previous year.

■ > **EARNINGS SITUATION.** In addition to Ludwig Beck AG, the consolidated financial statements of the Ludwig Beck Group also contain the 100% subsidiaries Ludwig Beck Beteiligungs GmbH and Ludwig Beck Vertriebs GmbH.

Ludwig Beck Beteiligungs GmbH owns a majority holding in Feldmeier GmbH & Co. Betriebs KG and its fully liable partner. Feldmeier GmbH & Co. Betriebs KG is the owner of the company's flagship store premises in central Munich. In fiscal year 2003, Ludwig Beck Beteiligungs GmbH almost succeeded in breaking even. Following scheduled start-up losses in the early years, the real estate company is expected to make a positive contribution to earnings in future.

Ludwig Beck Vertriebs GmbH manages the Group's franchise store operations. The company currently operates eight stores. Due to start-up costs and the current adverse economic climate, the company recorded an annual loss of € –0.4 (–0.5) million.

Consolidated income statement for Ludwig Beck AG

	2003		2002	
	€ million	%	€ million	%
Sales revenues	80.3	100.0	82.0	100.0
Total other operating income	2.1	2.7	4.1	5.0
	82.5	102.7	86.1	105.0
Cost of materials	43.5	54.1	44.4	54.2
Total other operating expenses	37.1	46.2	38.6	47.1
EBIT	1.9	2.4	3.1	3.7
Financial result	–3.6	–4.5	–3.1	–3.7
RESULT OF ORDINARY ACTIVITIES	–1.7	–2.1	0.0	0.0
Taxes	–0.7	–0.9	–0.4	0.5
CONSOLIDATED NET INCOME/LOSS	–0.9	–1.1	0.4	0.5

The Group reacted swiftly to the development of sales revenues in 2003. Measures implemented in all areas resulted in sustained cost reductions. The decrease in other operating expenses of € 1.5 million (–4.0%) had a positive impact on earnings.

The Group's EBITDA margin (the ratio between EBITDA and net sales) amounts to 6.8%, following 8.4% in the previous year. The tremendous efforts made in the field of cost reduction failed to completely compensate for the fall in revenues. As a result, consolidated EBIT was down € 1.1 million on the previous year to stand at € 1.9 million.

Other operating income is only partly comparable with the prior-year figure. Special items from sub-letting amounting to € 2.1 million in the previous year, no longer existed in 2003. Consolidated net income fell by € 1.3 million from € 0.4 to € –0.9 million.

■ > **PERSONNEL.** Personnel expenses fell during the period under review from € 19.2 to € 17.9 million. Personnel expenses represented 22.3 (23.4)% of net sales. Compared with the previous year, the number of employees of Ludwig Beck AG fell from 528 to 486. The number of apprentices was down slightly on the prior-year to stand at 70 (84).

Consolidated balance sheet structure of Ludwig Beck AG

		2003 € million	%	2002 € million	%
ASSETS					
SHORT-TERM ASSETS					
I.	Cash and cash equivalents	1.1	1.0	0.8	0.7
II.	Receivables and other assets	1.5	1.3	1.9	1.7
III.	Inventories	10.0	8.9	10.5	9.2
		12.6	11.2	13.2	11.7
LONG-TERM ASSETS					
I.	Property, plant and equipment	92.2	81.8	92.7	81.8
II.	Intangible assets	2.3	2.0	2.4	2.1
III.	Deferred taxes	5.5	4.9	4.8	4.3
IV.	Other assets	0.2	0.2	0.2	0.2
		100.2	88.8	100.1	88.3
TOTAL		112.8	100.0	113.3	100.0

The weighted total number of full-time employees amounted to 378 (420). In fiscal year 2003, Ludwig Beck Vertriebs GmbH employed an average of 53 (35) people. 3 apprentices were in training at the company. The weighted number of full-time employees amounted to an annual average of 33 (22). Ludwig Beck Beteiligungs GmbH did not employ any staff in 2003.

■ > **FINANCIAL RESULT.** The financial result of the Ludwig Beck Group fell by € 0.5 million, from € –3.1 to € –3.6 million. In the previous year, earnings were positively influenced by consolidation effects totaling € 0.4 million. After adjustment for this effect, the financial result fell by € 0.1 million due to a slight rise in the Group's net indebtedness ratio.

■ > **TAXES.** Due to temporary differences between assets and liabilities in the commercial balance sheet according to IFRS/IAS and the tax balance sheets of the Group's individual members, as well as to an increase in tax carry forwards, deferred tax income of € 0.7 (0.4) million was created during fiscal year 2003.

As of December 31, 2003 the tax loss carry forward of the Ludwig Beck Group amounted to € 11.0 (9.7) million for trade tax and € 17.2 (15.5) million for corporate taxes.

SHAREHOLDERS' EQUITY AND LIABILITIES		2003 € million	%	2002 € million	%
SHORT-TERM LIABILITIES					
I.	Liabilities to banks	13.7	12.1	10.2	9.0
II.	Trade liabilities	1.4	1.3	2.0	1.8
III.	Other liabilities	4.0	3.5	4.0	3.6
		19.1	16.9	16.3	14.4
LONG-TERM LIABILITIES					
I.	Liabilities to banks	40.9	36.2	42.0	37.1
II.	Accruals	1.0	0.9	1.0	0.9
III.	Other liabilities	4.6	4.1	5.1	4.5
IV.	Deferred tax liabilities	4.6	4.1	4.7	4.1
		51.0	45.2	52.8	46.6
MINORITY INTERESTS		24.6	21.8	24.7	21.8
SHAREHOLDERS' EQUITY		18.1	16.1	19.6	17.3
TOTAL		112.8	100.0	113.3	100.0

■ > **INVESTMENT AND FINANCE.** At € 3.0 (6.3) million, cash flow from investing activities of the Ludwig Beck Group was well below the prior-year figure in 2003. As in the previous year, the main share of capital expenditures was for property, plant and equipment. Major investments during the past year were for new store openings (€ 1.6 million) and investments in the Group's flagship store in Munich (€ 1.4 million).

The investments were financed by cash flow from operating and financing activities. As of December 31, 2003 cash and cash equivalents of the Ludwig Beck Group were well above the prior-year figure at € 1.1 (0.8) million. Further details are provided in the »Consolidated cash flow statement«.

■ > **BALANCE SHEET STRUCTURE.** The balance sheet total fell slightly by 0.5% to € 112.8 (113.3) million. Shareholders' equity fell by the amount of the generated net loss for the year, amounting to € 1.5 million. At the same time, liabilities increased by a total of € 1.0 million. The Group's equity ratio (incl. minority interests) stands at 37.9 (39.1)%.

■ > **HGB EARNINGS.** Ludwig Beck AG was listed in the SMAX index up to December 31, 2002. As of January 1, 2003 Ludwig Beck AG is now listed in the Prime Standard segment, the new quality segment of the German stock exchange. As a condition for acceptance, Ludwig Beck was obliged to prepare its consolidated financial statements according to international accounting standards.

The effect on earnings of the resulting changes is presented in a reconciliation table of IFRS/IAS earnings to HGB earnings in the notes to the consolidated financial statements.

■ > **RISK REPORT.** In the course of business on its specified sales markets, the Ludwig Beck Group is exposed to a wide variety of risks involved in any business operation. These may affect the Group's net assets, finances and earnings. We have established modern controlling instruments to recognize, monitor and communicate such risks. These instruments ensure that our executives receive information about the development of such risks in time to launch suitable counter measures. Responsibilities have been clearly defined within the organization. Especially with regard to the expansion of Ludwig Beck Vertriebs GmbH, these instruments are optimized on an ongoing basis in order to take sufficient account of any changes in the organizational structure.

In addition to the usual business risks, the Group is exposed to the following additional risks:

COMPETITION/ECONOMIC AND SECTOR RISKS. The development of the over-the-counter retail sector is characterized by the continued growth of vertical sales systems, an increase in store selling space and the decline of traditional specialist stores. In addition to fiercer competition, there is also a strong dependency on consumer behavior.

Such changes in consumer behavior, caused by the general economic situation, political conditions and changes in income, require constant realignment of our sales concept with the behavior and requirements of consumers. The alignment of strategy results above all from careful market observation, analysis of the competitive situation and trends in consumer behavior as well as the behavior of our relevant target groups. With our clear positioning and corporate strategy, we are utilizing the opportunities resulting from this permanent market change. Our high-quality service and depth of product range make us well placed to benefit from niches in the specialist store segment.

We can utilize the prestigious location of our flagship store to create a distinctive image for our new high-quality outlets. Ludwig Beck can also benefit from the trend toward vertical retail systems by operating its own mono-label stores offering well-known brands via its subsidiary Ludwig Beck Vertriebs GmbH. The alignment of Ludwig Beck is aimed at expanding the market position of our flagship store, while utilizing existing know-how to generate additional sales and earnings through new sales channels.

SEASONAL RISKS. The Ludwig Beck Group publishes quarterly reports of its business development. These reports highlight certain seasonal fluctuations, which are common in our business. For example, the Group regularly generates a high proportion of its sales and earnings during the Christmas season in the fourth quarter. Some 33% of Group sales are generated during this period.

As goods are purchased much earlier than the seasonal peak sales periods, this causes outflows of cash at times during which there are not necessarily corresponding inflows of cash from sales revenues. For such instances, we have established a variety of cash management instruments.

FINANCIAL RISKS. Ludwig Beck AG operates a financial clearing system for the Group. This internal clearing system helps reduce the amount of external finance required and optimizes cash deposits. As a result, the system has a positive impact on the interest result of both individual companies and the Group as a whole.

Ludwig Beck's open and up-to-date information policy and equal treatment of all lenders is the basis for the high level of trust which creditors have in the company and thus for their willingness to provide credit lines. The Group's own equity position, its current cash flows and the bank loans it receives, form the basis for the company's long-term finance. In order to cover future capital requirements, the company's financial management team also regularly checks alternative finance opportunities.

LOSS OF RECEIVABLES RISK. Ludwig Beck is exposed to the risk of non-payment of receivables only to a very limited extent. The risks resulting from credit card payments are mainly borne by the credit card providers. In the case of other non-cash payment transactions, the general risk is extremely low.

LEGAL AND TAX RISKS. To the best of our knowledge the Ludwig Beck Group is not currently facing, nor expecting, legal proceedings or arbitration which might have a significant impact on its economic situation. As a result, no impact on business development is expected. In the case of legal questions, the Group always seeks the help of external legal advisers. The Group has sufficient insurance cover for risks from damages and liability claims.

To the best of our knowledge, the Group is not exposed to any tax risks which might have a significant impact on our economic situation.

IT RISKS. IT risks mainly concern the necessity for permanent availability of our cash register and computer systems and thus the necessary IT network, as well as the integrity of data in connection with potential external attacks on our IT systems. The quality and security of processes in the field of data processing are guaranteed by a combination of external and internal services. An effective IT management system ensures that the Group's IT systems are permanently available and that measures to protect the system from external attacks are taken.

PERSONNEL RISKS. Employees are one of the most decisive success factors of our company. Our human resources activities focus on providing effective training measures and developing junior managers. The development of staff, in combination with the application of our management principles, reduces the risk of personnel fluctuations and secures the high qualification standards of our employees.

OVERALL RISK. With regard to fiscal 2004, the most significant risks lie in grossly misjudging the future development of sales as well as in a significant increase in price competition. There are no recognizable risks which might endanger the company's continued existence.

■ > **OUTLOOK.** The challenges for the German retail clothing sector in 2004 remain as difficult as in the past year. Additional payments for health services and the confusing way discussions are being held about the future of Germany's pension system have combined to totally unsettle consumers. The effects from the second stage of the government's tax reform have therefore provided little impetus to demand and consumer confidence remains permanently subdued.

The German government expects an increase in GDP in real terms of between 1.5% and 2.0% in 2004, following a decline of 0.1% in 2003. The number of unemployed is expected to fall by some 100,000 in 2004, compared with the previous year. These positive effects are expected to be accompanied by an improvement in business confidence among exporting companies.

In the field of domestic consumption, however, most experts predict only modest growth. As a consequence, it is to be expected that many German retailers will continue to seek salvation in ever fiercer discounting – although the sector as a whole cannot expect to benefit from the resulting fall in margins.

With its 3-pillar strategy, Ludwig Beck is excellently placed to face these adverse market conditions.

- Via its Fashion Warehouse Outlets, Ludwig Beck AG can attract consumers for whom excellent value for money is decisive. We expect a positive development in sales for 2004. This not only underlines the increasing importance of this segment but also vindicates our decision to enter this growing market.
- With its mono-label store concept, Ludwig Beck Vertriebs GmbH will continue to enjoy above-average growth this year. The »Riem-Arcaden« shopping center in Munich is expected to open in March, where we will operate two new stores (Tommy Hilfiger/Gerry Weber). We expect a strong improvement in earnings this year for this company. In its third year of operations, the subsidiary is expected to break even for the first time.
- With its multi-label concept and premium location in the heart of Munich, Ludwig Beck AG aims to counter the current penny-pinching and »fun-less« shopping mentality of many consumers. We know that a large majority of shoppers are not only interested in the virtues of thrift but also wish to satisfy a basic need: the enjoyment of shopping and the finer things of life! In order to fulfill these needs, we shall continue to fill our »Store of the Senses« with enjoyable experiences and events. A further multi-label store is due to be opened in the »Riem-Arcaden« shopping center in March.

The many years of our successful product concept based on providing unique ranges in fields such as haberdashery, classical music, jazz and the recently launched »Hautnah« department (cosmetics and wellness) strengthen our conviction that innovation, product quality, excellent service and an incomparable product assortment will continue to form the basis for our successful marketing mix – even in such difficult times. We will build on this strategy by developing and implementing our claim to uniqueness, also in our clothing ranges. At the same time, we aim to take account of the gradual change in Germany's age structure.

The long-term credibility of Ludwig Beck for its customers will continue to form the basis for our own store-generated demand in 2004. For the Group as a whole, we expect a clear increase in sales and a significant improvement in earnings.

Munich, February 2004
The Executive Board

CONSOLIDATED BALANCE SHEET

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

as of Dec. 31, 2003 acc. to IASB

Assets in €k			*Notes*	31.12.2003	31.12.2002
A.	SHORT-TERM ASSETS				
	I.	Cash and cash equivalents	(1)	1,113	835
	II.	Receivables and other assets	(2)	1,486	1,913
	III.	Inventories	(3)	10,033	10,473
				12,632	13,221
B.	LONG-TERM ASSETS				
	I.	Property, plant and equipment	(4)	92,239	92,676
	II.	Intangible assets	(4)	2,255	2,410
	III.	Deferred taxes	(5)	5,510	4,829
	IV.	Other assets	(6)	172	206
				100,176	100,121
				112,808	113,342

Shareholders' equity and liabilities in €k			Notes	31.12.2003	31.12.2002
A.	SHORT-TERM LIABILITIES				
	I.	Liabilities to banks	(7)	13,651	10,238
	II.	Trade liabilities	(7)	1,438	2,009
	III.	Accruals	(8)	15	35
	IV.	Other liabilities	(7)	3,976	3,995
				19,080	16,277
B.	LONG-TERM LIABILITIES				
	I.	Liabilities to banks	(7)	40,851	42,010
	II.	Accruals	(8)	998	1,010
	III.	Other liabilities	(7)	4,576	5,127
	IV.	Deferred tax liabilities	(9)	4,593	4,651
				51,018	52,798
C.	MINORITY INTERESTS		(10)	24,586	24,676
D.	SHAREHOLDERS' EQUITY		(11)	18,124	19,591
				112,808	113,342

CONSOLIDATED INCOME STATEMENT

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

for the period Jan. 1 – Dec. 31, 2003 acc. to IASB

in €k		Notes	01.01.–31.12.2003		01.01.–31.12.2002	
1.	Sales revenues	(12)				
	- sales (gross)		93,107		95,074	
	- minus sales tax		12,785	80,322	13,093	81,981
2.	Own work capitalized	(13)		23		162
3.	Other operating income	(14)		2,118		3,967
				82,463		86,110
4.	Cost of materials	(15)	43,462		44,417	
5.	Personnel expenses	(16)	17,880		19,208	
6.	Depreciation	(17)	3,520		3,804	
7.	Other operating expenses	(18)	15,673	80,535	15,613	83,042
8.	EBIT			1,928		3,068
9.	Financial result – of which financing expenses: € 3,596k (prior-year: € 3,468k)	(19)		−3,584		−3,059
10.	EBT			−1,656		9
11.	Deferred taxes	(20)		−738		−406
12.	Consolidated net loss (prior-year: net income) before minority interests			−918		415
13.	Minority interests	(21)		549		697
14.	Consolidated net loss after minority interests			−1,467		−282
15.	Transfers to/from reserves	(22)		1,467		282
16.	**UNAPPROPRIATED CONSOLIDATED NET INCOME**			**0**		**0**
	Earnings per share in €	(23)		−0.44		−0.09
	Average number of outstanding shares in thousands			3,360		3,201

CONSOLIDATED EQUITY STATEMENT

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

for the period Jan. 1 - Dec. 31, 2002 in €k	Subscribed capital	Capital reserves	Accumulated earnings	Total
Balance as of 01.01.2002	7,981	7	12,323	20,311
Consolidated net loss	0	0	−282	−282
Dividend payments	0	0	−2,716	−2,716
Sale of treasury shares	609	0	1,669	2,278
BALANCE AS OF 31.12.2002	**8,590**	**7**	**10,994**	**19,591**

for the period Jan. 1 - Dec. 31, 2003 in €k	Subscribed capital	Capital reserves	Accumulated earnings	Total
Balance as of 01.01.2003	8,590	7	10,994	19,591
Consolidated net loss	0	0	−1,467	−1,467
BALANCE AS OF 31.12.2003	**8,590**	**7**	**9,527**	**18,124**

CONSOLIDATED CASH FLOW STATEMENT

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

for the period Jan. 1 - Dec. 31, 2003 acc. to IASB

in €k	2003	2002
Net loss (prior-year: net income) before minority interest and taxes	-1,656	9
Adjustments for:		
Depreciation of fixed assets	3,687	3,803
Revaluation of fixed assets	-167	0
Increase/Decrease (+/-) in long-term accruals	-12	-39
Other non-cash expenditure/income (+/-)	-3	-15
Financial income	-13	-409
Interest expenses	3,596	3,468
Operating result before changes to working capital	5,432	6,817
Loss/profit (+/-)from disposal of fixed assets	77	22
Increase/decrease (-/+) in short-term assets:		
Inventories	440	-1,157
Trade receivables	667	-62
Other assets, prepaid expenses	-206	197
Increase/decrease (-/+) in liabilities:		
Trade payables	-571	468
Other liabilities	275	-284
Increase/Decrease (+/-) in short-term accruals	-20	-20
Net cash from operating activities (before interest payments)	6,094	5,981
Interest paid	-3,591	-3,447
Interest received	13	16
NET CASH FROM OPERATING ACTIVITIES	**2,516**	**2,550**

continued…

in €k	2003	2002
NET CASH FROM OPERATING ACTIVITIES	**2,516**	**2,550**
Proceeds from disposal of fixed assets	2	19
Disbursements for additions to fixed assets	–3,006	–6,264
Disbursements for investments in affiliated companies	0	–60
NET CASH USED IN INVESTING ACTIVITIES	**–3,004**	**–6,305**
Disbursements to minority interests	–638	–532
Dividend payment	0	–2,716
Sale of treasury shares	0	2,277
Acceptance of bank liabilities	5,047	9,844
Repayment of bank liabilities	–2,798	–3,613
Repayment of other short- and long-term borrowing	0	–895
Acceptance/Repayment (+/-) of finance leases	–845	–726
NET CASH FROM FINANCING ACTIVITIES	**766**	**3,639**
Change in cash and cash equivalents	278	–116
Cash and cash equivalents at beginning of fiscal year	835	951
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	**1,113**	**835**

NOTES

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

to the consolidated financial statements acc. to IFRS/IAS for the fiscal year 2003

A. BASIS OF PRESENTATION

Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich (in the following also referred to as Ludwig Beck AG), the parent company of the Ludwig Beck Group, was founded on September 24, 1992 by means of transformation from the company Ludwig Beck am Rathauseck – Textilhaus Feldmeier GmbH, Munich.

Ludwig Beck AG is listed in the Commercial Register of the district court of Munich under HR B No. 100213.

The object of the Ludwig Beck Group is the sale of all goods, especially the wholesale and retail of textiles, clothing, hardware and other merchandise, also by mail order, as well as the acquisition, holding and managing of investments in unincorporated and incorporated companies, especially such companies which own real estate or which themselves hold investments in such companies.

The consolidated financial statements of Ludwig Beck AG as of December 31, 2003 have been prepared in accordance with International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC)/Standing Interpretations Committee (SIC). All mandatory requirements of the International Accounting Standards (IAS) and interpretations of the Standing Interpretations Committee (SIC) for fiscal year 2003 were complied with. The consolidated financial statements according to IFRS/IAS exempt the Company from the preparation of consolidated financial statements according to Sec. 292a German Commercial Code (HGB). Consolidated financial statements according to IFRS/IAS were already prepared in the previous year on a voluntary basis.

The consolidated balance sheet of Ludwig Beck AG was drawn up as of the balance sheet dates December 31, 2003 and December 31, 2002. The respective consolidated income statement, consolidated equity statement, consolidated cash flow statement and the notes to the consolidated financial statements comprise the periods from January 1, 2003 to December 31, 2003 and from January 1, 2002 to December 31, 2002. The balance sheet dates of the consolidated companies are identical. A consolidated management report is not required according to IFRS/IAS, but was prepared in line with Sec. 292a HGB.

All amounts in the consolidated financial statement are stated in €k (thousand euros).

The layout of items in the consolidated balance sheet, consolidated income statement (total cost method), equity statement and cash flow statement is in accordance with IAS 1.

The preparation of the consolidated financial statements requires estimations and assumptions which may affect the amounts stated for assets, liabilities and financial commitments as of the balance sheet date, as well as income and expenses of the fiscal year. Actual amounts may differ from these estimations.

B. EXPLANATION OF SIGNIFICANT DIFFERENCES TO ACCOUNTING, VALUATION AND CONSOLIDATION METHODS ACCORDING TO GERMAN LAW

The IFRS/IAS accounting regulations were adopted retrospectively for the first time in the previous year in accordance with SIC 8. To this end, the necessary adjustments to the Company's accounting principles and valuation methods for the initial application of IFRS/IAS were made retrospectively, as if the Company had always prepared its accounts according to IFRS/IAS.

The major differences to German accounting, valuation and consolidation methods are as follows:

- IAS 12 requires deferred taxes to be stated for temporary differences between assets and liabilities of the commercial balance sheet according to IFRS/IAS and the tax balance sheet (Liability Method).
- According to IAS 12, a deferred tax asset is recognized for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.
- Due to an acquisition through merger by Ludwig Beck AG, land and buildings of Feldmeier GmbH & Co. Betriebs KG are carried at their fair value in accordance with IAS 22. There is no limitation of asset values to their actual acquisition cost under IFRS/IAS.
- In those cases in which leasing agreements qualify as finance leases pursuant to IAS 17, the leased asset is capitalized and the payment obligation carried as a liability at its present value. Finance leases give rise to a depreciation expense and a finance expense in the income statement.
- Receivables and payables denominated in foreign currencies are valued at the closing rate in accordance with IAS 21.
- Pursuant to IAS 37, accruals are only formed if the probability of the obligation is greater than 50%. Accrued liabilities were disclosed under other liabilities.
- Accrued expenses were not formed according to IAS 37.
- In accordance with IAS 27, minority interests are shown separately from shareholders' equity and liabilities pertaining to the shareholders of the parent company in the consolidated balance sheet.
- IAS 16 requires property, plant and equipment to be depreciated on a systematic basis over their useful lives. Non-real-estate assets up to a value of € 410.00 are capitalized and depreciated over a period of three years.
- In accordance with IFRS/IAS, goodwill is depreciated over a period of 20 years.
- Land and buildings are carried according to the revaluation method pursuant to IAS 16.
- In accordance with SIC 16, treasury shares are presented in the balance sheet as a deduction from equity. No gain or loss is recognized in the income statement.

– Non-interest-bearing liabilities are carried at their present value in the balance sheet.
– IAS 39 divides financial assets into the following categories:
  - financial asset or liability held for trading purposes,
  - held-to-maturity investments,
  - loans and receivables originated by the enterprise and
  - available-for-sale financial assets.

In the consolidated financial statements of the Ludwig Beck Group, financial instruments are generally classified as »loans and receivables originated by the enterprise« or as »available-for-sale financial assets«.

A »regular way« purchase or sale of financial assets is recognized using settlement date accounting, i.e. the day the asset is delivered to the enterprise.

Financial instruments are carried at net book value or fair value.

In the case of short-term receivables and liabilities, net book value is always equivalent to the nominal amount or the amount repayable. Fair value generally corresponds to the market or stock exchange value.

– The consolidated balance sheet is divided into short-term and long-term assets and short-term and long-term liabilities.
– Extended disclosure obligations are required by IFRS/IAS with regard to details provided in the notes to the consolidated financial statements.

Reconciliation of consolidated balance sheet and consolidated income statement acc. to HGB to IFRS/IAS:

in €k	31.12.2003	31.12.2002
Shareholders' equity acc. to HGB (incl. minority interests)	33,906	35,954
Adjustments to IFRS/IAS		
Intangible assets	453	396
Property, plant and equipment	7,867	7,916
Financial leasing	5,128	5,647
Receivables and other assets	–338	3
Discounted liabilities	73	78
Other liabilities	–5,296	–5,905
Deferred taxes	917	178
Total	42,710	44,267
minus minority interests	–24,587	–24,676
SHAREHOLDERS' EQUITY ACC. TO IFRS/IAS	**18,123**	**19,591**

in €k	01.01.–31.12.2003	01.01.–31.12.2002
Consolidated net loss (prior-year: income) acc. to HGB before minority interests	–1,410	352
Adjustments to IFRS/IAS		
Intangible assets	56	56
Property, plant and equipment	–50	75
Financial leasing	–518	–687
Receivables and other assets	–341	0
Treasury shares	0	584
Discounted liabilities	612	848
Other liabilities	–5	–1,219
Deferred taxes	738	406
CONSOLIDATED NET LOSS (PRIOR-YEAR: INCOME) ACC. TO IFRS/IAS BEFORE MINORITY INTERESTS	**–918**	**415**

C. FULFILLMENT OF CRITERIA FOR EXEMPTION FROM CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO SECTION 292A GERMAN COMMERCIAL CODE (HGB)

On the basis of Sec. 292a HGB, the consolidated financial accounts acc. to IFRS/IAS exempt the Company from the necessity to file consolidated financial accounts according to German commercial law. The Company has fulfilled all necessary criteria for exemption:

- The parent company utilizes an organized market pursuant to Sec. 2 (5) German Securities Trading Law (WpHG) with issued securities pursuant to Sec. 2 (1) Sentence 1 WpHG.
- German commercial law regulations (Sections 290, 295, 296 HGB) for the scope of the consolidated group are observed.
- The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC)/Standing Interpretations Committee (SIC).
- The information provided by the IFRS/IAS consolidated financial statements and respective documents is equivalent to that of consolidated financial statements and the group management report prepared in accordance with German commercial law pursuant to German Accounting Standard (DRS) 1 and fulfills EU guidelines.
- The explanation of differences to accounting, valuation and consolidation methods according to German law is provided in a separate section (see above).
- The documents providing exemption are audited by the independent auditors appointed pursuant to Sec. 318 HGB.
- These consolidated financial statements are presented according to Sections 325, 328 HGB in German and in euros (€).

D. CONSOLIDATION PRINCIPLES

I. Consolidated group

In addition to Ludwig Beck AG as parent company, the following subsidiaries are included in the consolidated financial statements:

Name	Country	Shareholding (also voting rights)
Direct shareholdings:		
Ludwig Beck Vertriebs GmbH	Germany	100.0%
Ludwig Beck Beteiligungs GmbH	Germany	100.0%
ludwigbeck-online GmbH i.L.	Germany	100.0%
Indirect shareholdings:		
Ludwig Beck Verwaltungs GmbH	Germany	50.2%
Feldmeier GmbH & Co. Betriebs KG	Germany	50.1%

As the Company has majority shares and thus a controlling interest in all the above subsidiaries, they are all fully consolidated. The scope of the consolidated group was without prejudice to Sections 295, 296 HGB (Sec. 292a (2) No. 1 HGB). As of December 4, 2003 ludwigbeck-online GmbH i.L. was removed from the Commercial Register.

II. Consolidated balance sheet date

The consolidated balance sheet of Ludwig Beck AG was prepared as at December 31, 2003. The consolidated income statement, the equity statement and the cash flow statement comprise the period January 1, 2003 to December 31, 2003. The fiscal years of all subsidiaries correspond with this period.

III. Consolidation methods

■ > **1. CAPITAL CONSOLIDATION.** The capital of the fully consolidated companies is consolidated using the purchase method of accounting. The acquisition costs of the investment are offset against the proportionate shareholders' equity of the fully consolidated company at the time of purchase. In the course of consolidation, the hidden assets and liabilities were distributed among the assets and liabilities of the acquired company. A complete revaluation of assets and liabilities was undertaken during consolidation. In this way, the shares of other shareholders are also measured at the fair values of identifiable assets and liabilities attributable to the minority interests.

The purchase method of accounting was applied to the acquisition of Feldmeier GmbH & Co. Betriebs KG, while for all other first-tier and second-tier subsidiaries capital consolidation was undertaken at the time of acquisition of the company.

In the case of subsequent consolidation, uncovered hidden assets and liabilities are treated in the same way as the corresponding assets and liabilities.

Minority interests of other shareholders in equity capital and net income were accounted for by the formation of an appropriate position according to their relative shareholding and disclosed under shareholders' equity in the consolidated balance sheet. Drawings from the capital accounts of other shareholders (limited partners) in Feldmeier GmbH & Co. KG reduce minority interests.

There were no credit balances resulting from capital consolidations.

■ > **2. CONSOLIDATION OF RECEIVABLES AND LIABILITIES.** Receivables and liabilities between consolidated companies were eliminated during the consolidation of receivables and liabilities.

■ > **3. CONSOLIDATION OF INCOME AND EXPENSES.** Intercompany sales and other operating incomes were offset against material expenses and the corresponding other operating expenses. Interest income and expenditures within the Group were also netted against each other.

■ > **4. ELIMINATION OF UNREALIZED PROFITS.** There was no need for elimination of unrealized profits resulting from intercompany sales and services.

IV. Principles of foreign currency translation

No foreign currency translations were required during consolidation, as all subsidiaries are German.

The reporting currency is thousand euros (€k).

V. Accounting principles and valuation methods

■ > **1. GENERAL.** The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS)/International Accounting Standards (IAS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC)/Standing Interpretations Committee (SIC), as valid on the balance sheet date.

The consolidated balance sheet and income statement of the companies included in the consolidated financial statements were mainly prepared according to the following accounting principles and valuation methods of the parent company.

■ > **2. CURRENCY TRANSLATION USED IN THE CONSOLIDATED COMPANIES.** There is no hedging for foreign currencies.

Receivables and payables in foreign currencies are always converted at the exchange rate valid on the day of transaction, pursuant to IAS 21.

Receivables and payables in foreign currencies are valued at the lower buying rate or higher selling rate valid on the balance sheet date.

■ > **3. CASH AND CASH EQUIVALENTS.** Cash and cash equivalents comprise cash-in-hand and short-term bank balances. The amounts are given at nominal values.

■ > **4. RECEIVABLES AND OTHER ASSETS.** Receivables and other assets are carried at nominal values. Recognizable risks are covered by appropriate allowances. Bad debts are written off.

Other receivables and other assets are carried at the lower of nominal value and fair value on the balance sheet date.

Long-term receivables were not discounted, as there is already a market interest rate.

Prepaid expenses contain only prepaid operating expenses.

■ > **5. INVENTORIES.** In accordance with IAS 2, raw materials, supplies and merchandise are always valued at acquisition cost. The cost of raw materials and supplies was assigned using the last-in, first-out (LIFO) method, while weighted average costs were used for merchandise.

Appropriate deductions to net realizable value were made for old stock and goods of reduced salability. The cost of external capital was not capitalized.

■ > **6. PROPERTY, PLANT AND EQUIPMENT.** With the exception of land and buildings, property, plant and equipment is carried at cost (acc. to IAS 16), including any ancillary expenses.

Due to an acquisition through merger by Ludwig Beck Beteiligungs GmbH, land and buildings of Feldmeier GmbH & Co. Betriebs KG are carried at their fair value in accordance with IAS 22. Subsequent value is measured according to the revaluation method, as provided by IAS 16. For the fair value measurement of land at initial consolidation in 2001, the acquisition costs and development of guideline land prices between 1998 and 2000 were considered. The carrying value of land is always adjusted, if the guideline land prices change by more than 10% compared to the guideline land prices used for the respective current valuation. No revaluations have been made since the initial consolidation of Feldmeier GmbH & Co. Betriebs KG in 2001. The building is depreciated in scheduled amounts over its expected useful life.

Depreciable objects of property, plant and equipment are written down in scheduled amounts using the straight-line method over their useful life (possibly limited by shorter leases). The following useful lives are applied to assets:

Buildings	30 years
Buildings including buildings on third party land	10-30 years
Other fixtures and fittings, tools and equipment	3-10 years

Non-real-estate assets up to a value of € 410.00 are depreciated over a period of three years.

During the period under review, no non-scheduled writedowns were made for expected impairment in excess of the usual wear-related loss in value.

Payments on account and assets under construction are capitalized with the amount paid and depreciated following completed construction in scheduled amounts over their useful life using the straight-line method.

Maintenance costs are expensed in the respective period.

LEASING. In those cases in which leasing agreements qualify as finance leases pursuant to IAS 17, the leasing object is capitalized and payment obligations with regard to future leasing installments carried as a liability. Treatment as a finance lease results in depreciation charges in the consolidated income statement in relation to the useful life of the leasing object as well as a finance expense.

■ > 7. INTANGIBLE ASSETS.

In accordance with IAS 38, acquired intangible assets are capitalized at acquisition cost and amortized using the straight-line method over their useful lives.

No non-scheduled writedowns were made.

CONCESSIONS, INDUSTRIAL AND SIMILAR RIGHTS AND LICENSES IN SUCH RIGHTS. These mainly concern licenses and modifications to user software, which are written down over an expected useful life of 3 to 5 years.

GOODWILL. Goodwill is always amortized over an expected useful life of 20 years. Goodwill arising from accrual is amortized according to the remaining lease periods of the respective sites (IAS 22).

■ > 8. DEFERRED TAXES.

Deferred taxes are calculated according to the liability method (IAS 12). This requires them to be stated for all temporary accounting and valuation differences between assets and liabilities according to IFRS/IAS and tax balance sheet valuations. Deferred tax credits are only considered if recognition is expected.

A deferred tax asset is recognized for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

In calculating deferred taxes, a Group-wide tax rate of 41% was always applied. For temporary differences resulting from Feldmeier GmbH & Co. Betriebs KG, a tax rate of 26.375% (corporate tax and solidarity surcharge) was applied to that part attributable to the majority shareholder (Ludwig Beck Beteiligungs GmbH), as Feldmeier GmbH & Co. Betriebs KG is exempted from trade tax and, due to trade tax reduction regulations, Ludwig Beck Beteiligungs GmbH is not subject to trade tax on the proportional income from Feldmeier GmbH & Co. Betriebs KG. There are no other Group taxes for minority shares.

Deferred tax assets and liabilities were offset in accordance with IAS 12.

■ > **9. LIABILITIES.** Liabilities are always valued at their discharge or repayment values.

Long-term, non-interest-bearing liabilities were discounted to their present value.

■ > **10. ACCRUALS.** According to IAS 37, accruals are recognized when an enterprise has a present obligation (legal or constructive) as a result of a past event; when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and when a reliable estimate can be made of the amount of the obligation. Other accruals cover all recognizable risks. The valuation is based on the probable amount.

PENSION ACCRUALS. Due to their minor significance, pension accruals in the IFRS/IAS consolidated financial statements are valued as in the consolidated financial statements of Ludwig Beck AG according to HGB. Pension accruals are calculated according to actuarial principles at going concern values, on the basis of an interest rate of 6%, as allowed for by German tax law regulations (Sec. 6a EStG). The guidelines drawn up in 1998 by Prof. Dr. Klaus Heubeck are applied.

■ > **11. REVENUE RECOGNITION.** Revenue is recognized from the sale of goods when the goods are delivered. Revenue from the rendering of services is recognized when the service is performed. Sales revenues are disclosed net of sales tax, discounts and credit notes.

■ > **12. FINANCIAL INSTRUMENTS (IAS 32 AND 39).** In the consolidated financial statements, financial assets and liabilities comprise cash and cash equivalents, trade receivables and payables, other receivables, other liabilities and liabilities to banks. The accounting principles regarding valuation and carrying amounts are described in the respective explanations of these items in the notes to the consolidated financial statements.

Financial instruments are classified as assets or liabilities, according to the economic content of the contractual terms. Interest, income and losses from these financial instruments are therefore carried as income and expenses. Financial instruments are offset, if the Group has a legally enforceable right to offset and intends either to settle just the difference or both the receivable and payable at the same time.

Risks from interest rate changes in comparison to market development only exist insofar as long-term, fixed-rate interest agreements have been made.

E. NOTES AND EXPLANATIONS TO INDIVIDUAL ITEMS OF THE CONSOLIDATED BALANCE SHEET AND CONSOLIDATED INCOME STATEMENT

I. Consolidated balance sheet

■ > **(1) CASH AND CASH EQUIVALENTS.** Cash and cash equivalents comprise cash-in-hand and bank balances. This item also represents the corresponding »cash and cash equivalents« balance of the cash flow statement acc. to IAS 7.

Cash and cash equivalents contain the following items:

in €k	31.12.2003	31.12.2002
Cash-in-hand	515	455
Bank balances	598	380
TOTAL	1,113	835

Bank balances receive interest of between 0% and 0.5% p.a. Cash-in-hand does not bear interest. There are no hedging activities.

■ > **(2) RECEIVABLES AND OTHER ASSETS.** Receivables and other assets comprise the following:

in €k	31.12.2003	31.12.2002
Trade receivables	715	1,382
Other assets	671	464
Prepaid expenses	100	67
TOTAL	1,486	1,913

The disclosed carrying amounts correspond to present values. All maturities are less than one year.

For the first time, trade receivables include receivables from EC-card payments, which were included under cash and cash equivalents in the previous year. The prior-year figures were adjusted accordingly (€ 281k).

TRADE RECEIVABLES. Trade receivables contain the following:

in €k	31.12.2003	31.12.2002
Total receivables	**739**	**1,404**
less discounts	*–24*	*–22*
TRADE RECEIVABLES	**715**	**1,382**

Discounts refer to expected bad debts.

»Enforceable« receivables passed on to collection agencies were discounted in full. There were no further loss risks or hedging activities.

OTHER ASSETS (SHORT-TERM). Other short-term assets consist of the following:

in €k	31.12.2003	31.12.2002
Debit-side creditors	**357**	**326**
Loans to Wieners	**7**	**6**
Loans to employees	**5**	**3**
Profit share of insurance policies	**9**	**14**
Bonus receivables from suppliers	**154**	**0**
Others	**139**	**115**
	671	**464**

PREPAID EXPENSES. Prepaid expenses concern various expenses representing cost for a specific period after the consolidated balance sheet date and amount to € 100k (prior-year: € 67k).

Prepaid expenses for rent prepayments are to be released as of June 30, 2018. As the term exceeds 1 year, the amount is carried under long-term assets. In order to aid comparison, the prior-year amount was also adjusted (€ 143k).

■ > **(3) INVENTORIES.** Inventories consist of the following items:

in €k	31.12.2003	31.12.2002
Raw materials and supplies (at cost)	**72**	**68**
Merchandise (at cost)	**11,132**	**11,420**
less impairment of merchandise	*–1,171*	*–1,015*
	10,033	**10,473**

There are no significant limitations to ownership or disposal of the disclosed inventories.

All merchandise is carried at cost minus possible impairments. Appropriate deductions to the lower net realizable value were made for old stock and goods of reduced salability.

■ > **(4) FIXED ASSETS.** Fixed assets comprise the following two items in the consolidated balance sheet:

– Property, plant and equipment
– Intangible assets

The development of acquisition costs, cumulative depreciation and book values of fixed assets is presented in the following »Development of fixed assets« schedule.

DEVELOPMENT OF CONSOLIDATED FIXED ASSETS

for Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

from Jan. 1 - Dec. 31, 2003

in €k	Acquisition/Manufacturing costs		
	As of 01.01.2003	Additions	Disposals
I. Intangible assets			
1. Concessions, industrial and similar rights and assets as well as licenses in such rights and assets	419	0	120
2. Goodwill	4,213	0	814
	4,632	0	934
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third party land	99,654	354	1,572
2. Other fixtures and fittings, tools and equipment	12,224 *	977	333
3. Payments on account and assets under construction	605	1,675	29
	112,483	3,006	1,934
	117,115	**3,006**	**2,868**

* *The prior-year values of acquisition costs and cumulative depreciation were adjusted by € 551k each.*

Reclassifications	As of 31.12.2003	Cumulative depreciation	Write-ups of fiscal year	Book value 31.12.2003	Book value 31.12.2002	Depreciation of fiscal year
112	411	194	0	**217**	202	97
0	3,399	1,361	0	**2,038**	2,208	170
112	3,810	1,555	0	**2,255**	2,410	267
1,058	99,494	14,390	0	**85,104**	85,526	1,829
869	13,737	6,981*	167	**6,923**	6,545	1,591
−2,039	212	0	0	**212**	605	0
−112	113,443	21,371	167	**92,239**	92,676	3,420
0	**117,253**	**22,926**	**167**	**94,494**	**95,086**	**3,687**

PROPERTY, PLANT AND EQUIPMENT

LAND, LAND RIGHTS AND BUILDINGS, INCLUDING BUILDINGS ON THIRD PARTY LAND. The building is depreciated over its expected useful life of 30 years using the straight-line method. Improvements are always depreciated by Group companies over an expected useful life of 10 years using the straight-line method.

The land was valued on September 1, 2001 at € 68,779k. The building (valued on September 1, 2001 at € 3,527k) will be depreciated from the point of revaluation over 30 years in annual rates of € 118k. Hidden reserves amounting to € 66,661k were uncovered during revaluation. The book value without revaluation of the property amounts to € 5,114k (prior-year: € 5,347k). The revaluation results mainly from the development of guideline land prices, as determined by the city of Munich.

The additions in fiscal year 2003 amounting to € 1,412k (of which € 449k was prepaid as of Dec. 31, 2002 and € 609k in fiscal year 2003) mainly concern:

– Improvements in sales outlets of Ludwig Beck AG	€k	813
– Improvements in sales outlets of Ludwig Beck Vertriebs GmbH	€k	599

Additions in the »Development of fixed assets« schedule amount to € 354k. This figure consists of acquisition costs totaling € 1,412k, less payments on account of € 1,058k.

– Financial leasing. Land and buildings includes property from the Munich-Haar real estate agreement. This agreement represents a finance lease as the lease term is approximately the same as the useful life of the leased object and all major risks and opportunities connected with the object were transferred from the lessor to Ludwig Beck AG. The building has been capitalized and will be depreciated over a useful life of 29 years, according to the lease term. The asset value of the preliminary expenses was also capitalized. It will be depreciated over a useful life of 22.5 years, according to the lease term.

The carrying value of the Haar property, including preliminary expenses incurred, developed as follows in fiscal year 2003:

As of Jan. 1, 2003	€k	4,039
Depreciation 2003	€k	233
As of Dec. 31, 2003	€k	3,806

OTHER FIXTURES AND FITTINGS, TOOLS AND EQUIPMENT. The assets listed under this item are all depreciated over a useful life of 3 to 10 years using the straight-line method.

The additions in fiscal year 2003 amounting to € 1,846k consist mainly of the following:

– Other fixtures and fittings, tools and equipment for Ludwig Beck AG	€k	1,272
– Other fixtures and fittings, tools and equipment for outlets of Ludwig Beck Vertriebs GmbH	€k	574

Additions in the »Development of fixed assets« schedule amount to € 977k. This figure consists of acquisition costs totaling € 1,846k, less payments on account of € 869k.

– Financial leasing. Other fixtures and fittings, tools and equipment includes leasing objects representing finance leases as the lease terms are approximately the same as the useful life of the leased objects and all major risks and opportunities connected with the objects were transferred from the lessor to Ludwig Beck AG. These leasing objects have been capitalized and will be depreciated over their useful working lives.

The leasing objects have the following book values as of Dec. 31, 2003:

Shop fittings	€k	1,019
Cash registers	€k	268
Cars	€k	70
Total	€k	1,357

The carrying values developed as follows in fiscal year 2003:

As of Jan. 1, 2003	€k	1,607
Revaluations 2003	€k	167
Disposals 2003	€k	0
Depreciation 2003	€k	417
As of Dec. 31, 2003	€k	1,357

The revaluation (write-up) was made due to an adjustment to useful life.

INTANGIBLE ASSETS. All intangible assets were acquired.

INDUSTRIAL AND SIMILAR RIGHTS. The useful life of user software is 3-5 years. Software is depreciated using the straight-line method.

GOODWILL. Goodwill originating from the purchase of the company name »Ludwig Beck«, is amortized using the straight-line method in annual amounts of € 170k. The name »Ludwig Beck« has a long tradition and high awareness level. For this reason, a useful life of 20 years was chosen.

■ > **(5) DEFERRED TAXES.** The deferred tax assets and liabilities refer to the following items of the consolidated balance sheet:

in €k	31.12.2003		31.12.2002	
	asset	*liability*	*asset*	*liability*
Building	51		56	
Pension accrual	4		4	
Leasing	83		134	
Tenant loans	140		0	
Loss carry forward	5,848		5,206	
Other accruals		27		34
Goodwill		186		162
Non-interest-bearing liabilities		235		257
Land		4,578		4,578
Property, plant and equipment		181		205
Other		2	14	
Total	6,126	5,209	5,414	5,236
Net balance of deferred taxes	–616	–616	–585	–585
TOTAL STATED IN CONSOLIDATED BALANCE SHEET	**5,510**	**4,593**	**4,829**	**4,651**

Deferred tax assets are only recognized for the carry forward of unused tax losses of Ludwig Beck AG and Ludwig Beck Beteiligungs GmbH to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

Ludwig Beck AG has trade tax and corporate tax loss carry forwards, which can be carried forward for an indefinite period. A reduction of these loss carry forwards is expected in future. Over 97% of deferred tax assets on loss carry forwards result from Ludwig Beck AG.

Ludwig Beck Beteiligungs GmbH is engaged in the holding of shares in unincorporated and incorporated companies, especially such companies which own real estate or which themselves hold or manage investments in such companies. Initially, the company's interest expenses exceed its income from investments. In future, however, the company is expected to generate earnings from its real estate business, which will then use up its accrued corporate tax losses.

Due to a profit and loss transfer agreement between Ludwig Beck AG and Ludwig Beck Vertriebs GmbH, the entire income or loss of Ludwig Beck Vertriebs GmbH is transferred to Ludwig Beck AG as of 2002. The corporate tax loss of Ludwig Beck Vertriebs GmbH amounting to € 50k accrued as of December 31, 2001 shall remain unused for tax purposes for the duration of the profit and loss transfer agreement.

The deferred taxes for buildings (€ 51k), pension accruals (€ 4k), other accruals (€ 27k), goodwill (€ 186k), leasing (€ 83k), non-interest-bearing liabilities (€ 235k), tenant loans (€ 140k) and property, plant and equipment (€ 181k) resulted exclusively from temporary differences between the commercial balance sheet according to IFRS/IAS of the respective company and the tax balance sheet (IAS 12.15). These temporary differences, and hence the deferred taxes, will be released over a corresponding period (until the recognition of the asset or liability).

In accordance with SIC 21, an accrual for deferred taxes was formed (€ 4,578k) for a »quasi-permanent« difference between the valuation of a real estate asset in the tax balance sheet of Feldmeier GmbH & Co. Betriebs KG and the restated IFRS/IAS balance sheet.

■ > (6) OTHER ASSETS (LONG-TERM).

in €k	31.12.2003	31.12.2002
Loans to employees	3	30
Loans to Wieners	26	33
Rent prepayment	143	143
	172	**206**

The loans bear interest at market conditions. The interest rate is between 6% and 7%.

■ > (7) LIABILITIES.

in €k	TOTAL	of which due within one year	of which due between 1 and 5 years	of which due over 5 years
1. Liabilities to banks	**54,502**	**13,651**	**8,446**	**32,405**
prior-year	52,248	10,238	8,935	33,075
2. Trade liabilities	**1,438**	**1,438**	**0**	**0**
prior-year	2,009	2,009	0	0
3. Other liabilities	**8,552**	**3,976**	**2,135**	**2,441**
prior-year	9,122	3,995	2,227	2,900
– of which taxes: € 1,186k (prior-year: € 1,134k)				
– of which social security: € 469k (prior-year: € 441k)				
31.12.2003	**64,492**	**19,065**	**10,581**	**34,846**
prior-year	63,379	16,242	11,162	35,975

Liabilities to banks resulting from the purchase of the »Marienplatz« property are secured as follows:

Mortgages:	€k	33,234
Guaranties of minority shareholders:	€k	176

According to IAS 32, liabilities to banks are classified as financial instruments. Liabilities to banks bear risks from interest rate changes with regard to overdraft facilities with variable interest rates. These interest rates are then adapted to current market rates. In the case of loans with fixed-rate interest agreements, there is the risk that market interest rates may fall. The consolidated balance sheet amount corresponds to the present value of liabilities.

In order to minimize interest rate risks, fixed interest rates were agreed for part of the real estate finance (short- and long-term: € 29,655k) at an annual rate of 6% for a period of 20 years. No derivative (structured product) is to be separated or valued separately.

Interest-swap loans were also taken (short- and long-term: € 3,731k as of December 31, 2003). These concern fixed-interest agreements. No derivative (structured product) is to be separated or valued separately.

All leasing agreements, deemed as such under German law, are classified as finance leases pursuant to IAS 17. Operating lease agreements mainly concern rent leases for Group branch stores, which are shown under other financial obligations.

The following leasing rates or repayments result from current finance lease agreements:

in €k	Leasing rate	Interest	Repayment
Due within one year	**1,041**	**251**	**790**
Due between one and five years	**2,799**	**664**	**2,135**
Due after five years	**2,761**	**320**	**2,441**
	6,601	**1,235**	**5,366**

Total liabilities from finance leases amount to € 5,366k, prior-year: € 5,976k – of which present value up to one year: € 790k (prior-year: € 849k), between 1 and 5 years: € 2,135k (prior-year: € 2,227k) and over 5 years: € 2,441k (prior-year: € 2,900k).

Total minimum leasing payments from finance leases amount to € 6,601k, prior-year: € 8,109k – of which up to one year: € 1,041k (prior-year: € 1,107k), between 1 and 5 years: € 2,799k (prior-year: € 3,334k) and over 5 years: € 2,761k (prior-year: € 3,668k).

LIABILITIES TO BANKS (SHORT-TERM). Short-term liabilities to banks are carried at their repayment value and consist of the following:

in €k	31.12.2003	31.12.2002
Loans	**4,132**	**2,266**
Overdrafts	**9,519**	**7,972**
	13,651	**10,238**

As of December 31, 2003 there were current account credit lines of € 17,814k, which bore interest at market rates when utilized.

The interest rates for loans were between 4.7% and 6.5% and for overdrafts between 4.0% and 8.0%.

LIABILITIES TO BANKS (LONG-TERM). Liabilities to banks are carried at their repayment value. A non-interest-bearing loan (nominal value: € 176k) is discounted at 5.5% (€ 73k) and has a book value as of December 31, 2003 of € 103k. The interest rates were between 4.7% and 6.5%.

TRADE LIABILITIES. Trade liabilities are carried at their repayment value. Due to the short-term maturities of these liabilities, this amount corresponds to the market value of the liabilities. Suppliers are generally paid within 10 days, in order to claim cash discounts, whereas the credit period is generally 30 days.

OTHER LIABILITIES (SHORT-TERM).

in €k	31.12.2003	31.12.2002
Wage and sales taxes	**1,186**	**1,087**
Social security contributions	**469**	**416**
Purchase vouchers	**490**	**382**
Members of the Supervisory Board	**0**	**100**
Leasing	**790**	**849**
Personnel expenses	**369**	**398**
Audit fees	**175**	**182**
Accruals (accrued liabilities)	**73**	**242**
Others	**424**	**339**
	3,976	**3,995**

Total liabilities from finance leases (of which long-term: € 4,576k, prior-year: € 5,127k) developed as follows in fiscal year 2003:

Present value Jan. 1, 2003	€k	5,976
Revaluation 2003	€k	235
Disposals 2003	€k	58
Leasing rates 2003	€k	1,133
Interest expense 2003	€k	346
Present value Dec. 31, 2003	€k	5,366

The revaluation (write-up) was made due to an adjustment to useful life.

■ > **(8) ACCRUALS.** The following details are provided on accruals in accordance with IAS 37:

in €k	As of Jan. 1, 2003	Use	Release	Additions	As of Dec. 31, 2003
Maintenance obligations	**938**	**0**	**0**	**2**	**940**
Impending loss from leases	**52**	**12**	**0**	**0**	**40**
Miscellaneous	**22**	**4**	**18**	**0**	**0**
Accruals for pensions and similar obligations	**33**	**0**	**0**	**0**	**33**
TOTAL	**1,045**	**16**	**18**	**2**	**1,013**

– Maintenance obligations. This accrual concerns a maintenance obligation from a lease and was formed on the basis of an expert opinion.

– Impending loss from leases. This accrual was formed for possible losses from pending transactions, resulting from sub-letting.

– Miscellaneous. This accrual was created for liquidation costs of ludwigbeck-online GmbH i.L. and was completely used or released in 2003 following the company's removal from the Commercial Register.

– Accurals for pensions and similar obligations. Pension accruals as of the consolidated balance sheet date consisted of the following:

in €k	31.12.2003	31.12.2002
Present value of pension obligation as of balance sheet date	**33**	**33**

Pension accruals were formed for commitments to former employees of the Ludwig Beck Group.

The consolidated income statement of the period under review contains the following pension obligations:

in €k	31.12.2003	31.12.2002
Current pension expenses	**13**	**15**

In the period under review, there were no changes to pension obligations:

As of Jan. 1, 2003	€k	33
Change in pension obligations	€k	0
As of Dec. 31, 2003	€k	33

Due to their minor significance, pension accruals in the IFRS/IAS consolidated financial statements are valued as in the consolidated financial statements of Ludwig Beck AG according to HGB. Pension accruals are calculated according to actuarial principles at going concern values, on the basis of an interest rate of 6%, as allowed for by German tax law regulations (Sec. 6a EStG). The guidelines drawn up in 1998 by Prof. Dr. Klaus Heubeck are applied. For reasons of materiality, no revised expert opinion as of December 31, 2003 was prepared.

■ > **(9) DEFERRED TAX LIABILITIES.** Deferred tax liabilities were carried as explained under section (5), »Deferred taxes«.

■ > **(10) MINORITY INTERESTS.** Minority interests consist of the following:

in €k	31.12.2003	31.12.2002
Feldmeier GmbH & Co. Betriebs KG	**24,574**	**24,663**
Ludwig Beck Verwaltungs GmbH	**12**	**13**
	24,586	**24,676**

■ > **(11) SHAREHOLDERS' EQUITY.** With regard to changes in shareholders' equity in fiscal year 2003, we refer to the »Consolidated equity statement«.

SUBSCRIBED CAPITAL. The subscribed capital (share capital) of Ludwig Beck AG is divided into 3,360,000 no-par shares (ordinary shares). These no-par shares are made out to the bearer. The share capital was paid up in full. The nominal value of the shares is € 2.56 per no-par share.

In fiscal year 2003 all Ludwig Beck shares were outstanding. The company sold its treasury shares (238,438 shares) in fiscal year 2002.

REVENUE RESERVES. Revenue reserves developed as follows in fiscal year 2003:

Statutory reserves:		
As of Jan. 1, 2003	€k	852
Change 2003	€k	0
As of Dec. 31, 2003	€k	852
Other revenue reserves:		
As of Jan. 1, 2003	€k	10,142
Drawings	€k	1,467
As of Dec. 31, 2003	€k	8,675

AUTHORIZATION TO PURCHASE TREASURY SHARES. With a resolution of the Annual General Meeting of May 17, 2002, the Executive Board was authorized, with the consent of the Supervisory Board, to purchase treasury shares for the Company over a period until October 31, 2003, either on one or several occasions. The redemption of the shares does not require any further resolution of the Annual General Meeting. This also applies to those shares already purchased.

The Executive Board was further authorized, with the consent of the Supervisory Board, to sell treasury shares via the stock exchange or to use them as currency for the acquisition of companies or investments in companies.
A maximum of 336,000 treasury shares may be purchased, but no more than 10% of the Company's share capital.

In fiscal year 2003 the Company did not purchase any treasury shares. As of the balance sheet date, the Company does not hold any treasury shares.

Treasury shares are financial instruments pursuant to IAS 32 and 39. Treasury shares are treated in accordance with SIC 16. In previous years, treasury shares were disclosed as a deduction from shareholders' equity.

NOTIFICATIONS PURSUANT TO SEC. 21 (1) GERMAN SECURITIES TRADING LAW (WPHG). Mr. Karl Schleicher (Ingolstadt) has given notification that, as of April 4, 2002, his voting rights of Ludwig Beck AG exceeded the 20% threshold. He currently holds 20.89% of voting capital (701,961 voting shares).

COMMERZINVEST Commerzbank Investment Management GmbH (Frankfurt am Main) has given notification that, as of April 1, 2002, its voting rights of Ludwig Beck AG exceeded the 5% threshold. It currently holds 9.07% of voting capital (304,752 voting shares).

Buchanan Holding Ltd. (Isle of Man) has given notification that, as of August 6, 2002, its voting rights of Ludwig Beck AG exceeded the 10% threshold. It currently holds 10.80% of voting capital (362,880 voting shares).

II. Consolidated income statement

The consolidated income statement was prepared according to the total cost method.

■ > (12) SALES REVENUES

in €k	2003	2002
Sales revenues	80,322	81,981

Sales revenues are explained in more detail in the Group's segment reporting section. With the exception of an amount totaling € 34k (prior-year: € 31k), all sales revenues of the Ludwig Beck Group were generated in Germany.

■ > **(13) OWN WORK CAPITALIZED.** In fiscal year 2003, own work capitalized amounted to € 23k (prior-year: € 162k). This item includes personnel expenses and allocated overheads incurred during rebuilding work at the flagship store in Munich.

■ > **(14) OTHER OPERATING INCOME.** Other operating income comprises rent and allocated rent costs amounting to € 783k (prior-year: € 2,805k), income from administration amounting to € 41k (prior-year: € 17k), income from sales activities amounting to € 563k (prior-year: € 536k), income from personnel activities amounting to € 230k (prior-year: € 127k) and other income amounting to € 501k (prior-year: € 482k) resulting mainly from canteen revenues (€ 292k, prior-year: € 304k).

■ > **(15) COST OF MATERIALS.**

in €k	2003	2002
Cost for raw materials, supplies and merchandise	43,462	44,417

The expenses of this item contain merchandise at cost less discounts received as well as changes in opening and closing stock and reductions due to lack of salability.

■ > **(16) PERSONNEL EXPENSES.**

in €k	2003	2002
Wages and salaries	14,463	15,680
Social security	2,892	3,027
Pension costs	525	501
	17,880	19,208

PENSION COSTS. The Company has set up so-called contribution-oriented and performance-oriented pension schemes (IAS 26) for employees of the Ludwig Beck Group. These are divided into three groups:

a) Pension scheme for all employees

As of January 1, 2001, employees have the possibility to apply for inclusion in the union-agreed pension scheme after 6 months of service.

For employees who joined the Company before March 31, 2000, the pension scheme is a direct insurance agreement concluded with an independent third party (with complete reinsurance cover). For employees who joined the Company after March 31, 2000, the contributions are paid into a pension fund.

The scheme is financed by employer contributions which are expensed to the consolidated income statement.

Employees who joined the Company before March 31, 2000, and are older than 25 and have at least 5 years of service, also receive a voluntary pension from Ludwig Beck, whereby the union-agreed pension claims are offset.

The cost of these pension obligations in 2003 amounted to € 247k.

A total of 366 employees participate in these pension schemes.

b) Pension scheme for management

These are relief funds into which the employer makes contributions on behalf of employees. The relief fund is operated by an independent third party, who in turn is comprehensively covered by a reinsurance agreement. The scheme is financed by employer contributions which are expensed to the consolidated income statement. The cost of these pension obligations amounted to € 265k.

c) Company pensions for former employees of Feldmeier GmbH Co. Betriebs KG

This performance-oriented pension scheme is of minor significance for the Group. The pension accrual was formed for these obligations. The accrual was formed for commitments made to employees by Feldmeier GmbH & Co. Betriebs KG. Feldmeier GmbH & Co. Betriebs KG no longer employs any staff. The pension scheme concerns »old commitments«, which were considered during the revaluation.

■ > **(17) DEPRECIATION.** For details concerning depreciation and amortization of intangible and tangible fixed assets, please refer to the »Development of fixed assets« schedule. Non-scheduled write-downs amounting to € 0k (prior-year: € 41k) were made in the period under review.

■ > (18) OTHER OPERATING EXPENSES.

Other operating expenses comprise the following items:

in €k	2003	2002
Writedowns on short-term receivables	64	50
Cost of office and store space	7,942	7,747
Administration expenses	2,190	2,166
Sales expenses	3,813	3,727
Other personnel expenses	715	991
Insurance/contributions	271	282
Other taxes	90	90
Others	588	560
	15,673	15,613

■ > (19) FINANCIAL RESULT.

in €k	2003	2002
Other interest and similar income	13	409
Interest and similar expenditure	3,597	3,468
FINANCIAL RESULT	–3,584	–3,059

Other interest and similar income results exclusively from interest received on bank balances. The interest portion for finance leases included under interest expenses amounts to € 346k.

■ > **(20) DEFERRED TAXES.** Due to corporate tax and trade tax loss carry forwards, the Ludwig Beck Group paid no effective taxes for fiscal year 2003.

Deferred tax income consists of the following:

in €k	2003	2002
Deferred tax income due to creation and reversal of temporary differences	–738	–406

Deferred tax income results from the following causes:

in €k	2003	2002
From the change in loss carry forwards	–642	–566
From capitalizing finance lease assets	51	62
From temporary differences in the carrying of a tenant loan	–140	0
From temporary differences in the amortization of goodwill	23	23
From temporary differences in non-interest-bearing liabilities	–23	30
From temporary differences in the depreciation of fixed assets	–16	32
Other	9	13
TOTAL DEFERRED TAXES	**–738**	**–406**

In calculating deferred taxes for temporary differences and loss carry forwards of the Ludwig Beck Group, a Group-wide trade tax rate of 40.9%, rounded to 41%, is applied.

As Feldmeier GmbH & Co. Betriebs KG is exempted from trade tax, the tax rate for temporary differences applied to majority shareholdings (50.1%) amounts to 26.375%. There are no other Group taxes for minority shares (49.9%) of Feldmeier GmbH & Co. Betriebs KG.

The following table represents a reconciliation between tax expense or income, resulting from the calculated application of a Group-wide tax rate of 41% (corporate tax, solidarity surcharge, trade tax), and the tax expense or income disclosed in the consolidated financial statements according to IFRS/IAS:

in €k	2003	2002
Result before income taxes	–1,656	9
Theoretical tax rate in %	41	41
Calculated tax income (prior-year: expense)	–679	4
Change in the calculated tax expense due to:		
– Netting of tax-neutral losses with taxable earnings of consolidated companies	6	–41
– Tax-neutral minority interests	–225	–286
– Tax expense due to temporary differences of Feldmeier GmbH & Co. Betriebs KG	2	–365
– Deferred taxes on a special item with equity portion in the tax balance sheet of Feldmeier GmbH & Co. Betriebs KG	–19	–19
– Tax expense due to non-deductible expenditure and additions	177	301
ACTUAL TAX INCOME	**–738**	**–406**

For reasons of materiality no adjustment was made for the increase in the corporate tax rate in 2003 from 25% to 26.5%.

■ > **(21) MINORITY INTERESTS.** Minority interests in the period under review comprise the following:

in €k	2003	2002
Feldmeier GmbH & Co. Betriebs KG	–550	–696
Ludwig Beck Verwaltungs GmbH	1	–1
TOTAL	**–549**	**–697**

Negative amounts are expenses from profit allocations, positive amounts are income from loss allocations to minority shareholders.

■ > **(22) TRANSFERS TO/FROM RESERVES.** Transfers to/from reserves refers only to revenue reserves:

in €k	2003	2002
Drawings from revenue reserves	1,467	282

■ > **(23) EXPLANATION OF EARNINGS PER SHARE.** Earnings per share are calculated in accordance with IAS 33 by dividing consolidated net income by the average weighted number of outstanding shares during the period under review.

EARNINGS PER SHARE.

in €k	2003	2002
Consolidated net loss in €k	–1,467	–282
Weighted number of shares in thousands	3,360	3,201
Earnings per share in € (undiluted and diluted)	–0.44	–0.09

The undiluted and diluted results are identical.

F. EXPLANATIONS TO SEGMENT REPORTING

The business segments of the Ludwig Beck Group are shared between the various companies as follows:

Ludwig Beck AG	Over-the-counter retailing under the Ludwig Beck brand (incl. general mail order)
ludwigbeck-online GmbH i.L.	e-commerce (music)
Ludwig Beck Vertriebs GmbH	Over-the-counter retailing under third-party brands (franchise activities)

The division was made according to the varying opportunities and risks inherent in the above-mentioned activities.

There are no geographical segments, as only a small amount of revenues was generated in varying regions.

As the flagship store (Marienplatz) generates over 75% of consolidated revenues, any further segmentation would not be sensible.

Discontinuation of business segments:

The »e-commerce« segment was discontinued on commencement of liquidation proceedings for ludwigbeck-online GmbH i.L. (October 1, 2002). Online trading continues with reduced cost within the Retail segment.

The segment report of the previous year included the »Real Estate« segment. As this segment concerned solely the Company's »Marienplatz« property, it has been assigned to the »Retail« segment. The prior-year figures have been adapted accordingly.

The consolidated sales and earnings relating to these segments in fiscal 2003 were as follows:

in €k	Retail	Franchise	Reconciliation	Group
Sales revenues (net)	**73,635**	**6,785**	**0**	**80,420**
Inter-segment sales	**–27**	**–71**	**0**	**–98**
Non-Group sales	**73,608**	**6,714**	**0**	**80,322**
Segment earnings (EBIT)	**2,151**	**–223**	**0**	**1,928**
Interest income				**13**
Interest expenditure				**3,597**
Financial result				**–3,584**
Income taxes				**–738**
NET INCOME/LOSS				**–918**
Depreciation included in segment	**3,335**	**352**	**0**	**3,687**
Revaluation included in segment	**167**	**0**	**0**	**167**
Segment assets	**109,293**	**4,784**	**–1,269**	**112,808**
Segment liabilities	**62,608**	**4,236**	**–1,269**	**65,575**
Investment in long-term assets	**2,225**	**839**	**–58**	**3,006**

Inter-segment transactions:

Goods transactions between segments were made at market purchase prices. Other inter-company charges result from the allocation of costs according to the degree to which they were incurred by the respective segment.

The consolidated sales and earnings relating to these segments in fiscal 2002 were as follows:

in €k	Retail	e-commerce	Franchise	Reconciliation	Group
Sales revenues (net)	**78,010**	**238**	**4,046**	**0**	**82,294**
Inter-segment sales	**−212**	**−10**	**−91**	**0**	**−313**
Non-Group sales	**77,798**	**228**	**3,955**	**0**	**81,981**
Segment earnings (EBIT)	**3,601**	**−207**	**−341**	**15**	**3,068**
Interest income					**409**
Interest expenditure					**3,468**
Financial result					**−3,059**
Income taxes					**−406**
NET INCOME/LOSS					**415**
Depreciation included in segment	**3,560**	**40**	**204**	**0**	**3,804**
Non-cash income	**0**	**0**	**0**	**408**	**408**
Segment assets	**110,183**	**55**	**3,216**	**−112**	**113,342**
Segment liabilities	**66,431**	**25**	**2,732**	**−112**	**69,076**
Investments in long-term assets	**5,179**	**8**	**2,431**	**−1,245**	**6,373**

G. EXPLANATIONS TO CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement shows how the Group's liquid funds changed during the period under review as a result of inflows and outflows of cash. In accordance with IAS 7 (Cash Flow Statements), the Company distinguishes between cash flows from operating, investing and financing activities. Liquidity shown in the cash flow statement comprises cash-in-hand and bank balances.

I. Liquidation of a subsidiary of the Ludwig Beck Group

As of September 30, 2002 ludwigbeck-online GmbH was put into liquidation. The company was involved in e-commerce and mail order in the field of music. This business was assumed by Ludwig Beck AG as of January 1, 2002.

ludwigbeck-online GmbH i.L. was removed from the Commercial Register as of December 4, 2003.

II. Contingent Liabilities, Contingent assets, other financial commitments

■ > **1. CONTINGENT LIABILITIES.** In addition to actual commitments covered by accruals, there are also contingent commitments subject to future events which cannot be influenced:

in €k	2003	2002
Liabilities due to guaranties, bill and check guaranties	22	287

As part of the dissolution process for one of the company's stores, the company accepted a guaranty for rent payments to its former landlord by the following tenant. The guaranty is limited to 90% of the respective monthly rent (poss. plus other claims, e.g. ancillary costs) and expires on December 31, 2004. The guaranty was secured by a counter guaranty granted by the parent company of the following tenant.

■ > **2. CONTINGENT ASSETS.** There are no contingent assets pursuant to IAS 37.

III. Other financial commitments

The Group's other financial commitments are as follows:

in €k	Annual commitment 2003	Annual commitment 2002	Total commitment 2003	Total commitment 2002
Lease commitments incl. ground rent	**7,750**	**7,136**	**94,863**	**98,947**
Advertising contribution commitments	**259**	**233**	**2,046**	**2,112**

The maturities of the total commitment are as follows:

in €k	within 1 year	1 to 5 years	over 5 years	total
Lease commitments incl. ground rent	**7,749**	**27,523**	**59,591**	**94,863**
Advertising contribution commitments	**259**	**789**	**998**	**2,046**

Ludwig Beck AG has a storage and shipping agreement with a logistics operator, which expires on December 31, 2005. Payment is linked to incoming goods.

IV. Relations to related companies and persons

DECLARATION OF CONFORMITY ACC. TO SEC. 161 AKTG (CORPORATE GOVERNANCE)

The Executive Board and Supervisory Board of Ludwig Beck AG filed their declaration of conformity acc. to § 161 AktG on May 21, 2003. The requirements of the German Corporate Governance Code are met in full. The Code is permanently available for inspection by shareholders on the Company's home page (www.ludwigbeck.de).

The following lists those companies and persons related to the Company pursuant to IAS 24.

EXECUTIVE BOARD.

Reiner Unkel – Chairman

Dieter Münch

The members of the Executive Board both have sole power of representation.

The members of the Executive Board are authorized to represent the Company in legal transactions with themselves as representatives of a third party.

Total remuneration of the Executive Board of Ludwig Beck am Rathauseck – Textilhaus Feldmeier Aktiengesellschaft in fiscal year 2003 was as follows:

Reiner Unkel:	€ 325k (of which variable: € 0k, of which D&O: € 3k)
Dieter Münch:	€ 252k (of which variable: € 0k, of which D&O: € 3k)

Pension expenses include payments into a relief fund for members of the Executive Board amounting to € 265k. As of December 31, 2003, the members of the Executive Board held 25,700 no-par shares (prior-year: 25,700; sale: 0).

SUPERVISORY BOARD.

Dr. Joachim Hausser, businessman, Munich, Chairman

Dr. Eva Annett Grigoleit, lawyer, Berlin, Deputy Chairperson

Günter Bergmann, businessman, Allershausen (as of May 27, 2003)

Dr. Ulla Ertelt, graduate economist and designer, Frankfurt (until May 27, 2003)

Gabriele Keitel, commercial clerk, Munich – workers' representative

Edgar Rosenberger, business graduate, Hamburg (until May 27, 2003)

Eva-Maria Stähle, commercial clerk, Weßling – workers' representative

Steven Wilkinson, businessman, Starnberg (as of May 27, 2003)

Remuneration of the Supervisory Board in fiscal 2003 was as follows:

Dr. Joachim Hausser € 26k (of which variable: € 0k, of which D&O: € 3k)

Dr. Eva Annett Grigoleit € 20k (of which variable: € 0k, of which D&O: € 3k)

Günter Bergmann € 8k (of which variable: € 0k, of which D&O: € 2k)

Dr. Ulla Ertelt € 6k (of which variable: € 0k, of which D&O: € 1k)

Gabriele Keitel € 14k (of which variable: € 0k, of which D&O: € 3k)

Edgar Rosenberger € 6k (of which variable: € 0k, of which D&O: € 1k)

Eva-Maria Stähle € 14k (of which variable: € 0k, of which D&O: € 3k)

Steven Wilkinson € 9k (of which variable: € 0k, of which D&O: € 2k)

Fees of € 120k paid for consultant services can also be attributed to two members of the Supervisory Board. Of this total, € 53k was paid to the law firm CMS Hasche Sigle Eschenlohr Peltzer Schäfer, of which Dr. Eva Annett Grigoleit is a member, and € 67k to the company HML Mode-Marketing Dr. Leichum+Partner GmbH, of which Dr. Ulla Ertelt is a member.

As of December 31, 2003, the members of the Supervisory Board held 256 no-par shares directly (prior-year: 256, purchase/sale: 0).

The following members of the Executive Board and Supervisory Board hold seats on supervisory boards or other executive bodies of further companies:

Herr Reiner Unkel:	Advisory Council:	C.J. Schmidt GmbH & Co. KG, Husum
Herr Dr. Joachim Hausser:	Advisory Council:	GETRAG Getriebe- und Zahnradfabrik
		Hermann Hagemeyer GmbH & Co. KG., Untergruppenbach
		Klöpfer & Königer GmbH & Co. KG, Munich
	Administrative Council:	Kühne & Nagel Intern. AG, Schindellegi
Frau Dr. Ulla Ertelt: (until May 27, 2003)	Advisory Council:	Henschel & Ropertz GmbH & Co. KG, Darmstadt
Herr Steven Wilkinson:	Supervisory Board:	ARQUES AG, Starnberg (Chairman)
	Director:	Buchanan Holdings Ltd., Isle of Man
		Rackham Distressed Ventures Ltd., London
	Administrative Council:	Redsafe Bank AG, Zürich
		Schönkind Holding AG, Basel
		Schönkind Asset Management AG, Zürich

V. Personnel

The Group members of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG employed an average of 539 people in 2003 (prior-year: 563), of which 190 (prior-year: 202) were part-time staff and 84 (prior-year: 74) temporary staff. Apprentices were not included in the calculation.

Munich, February 20, 2004

Reiner Unkel Dieter Münch

AUDITOR'S OPINION

We have audited the consolidated financial statements prepared by Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich, consisting of the balance sheet, income statement, equity statement, cash flow statement and notes for the fiscal year January 1 to December 31, 2003. The audit included the scope of consolidation, the consolidation principles and the adequacy of the annual financial statements included in the consolidated accounts. The preparation and content of the consolidated financial statements are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion, on the basis of our audit, on whether the consolidated financial statements are in accordance with International Financial Reporting Standards (IFRS) / International Accounting Standards (IAS).

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and in compliance with German principles of proper auditing of financial statements as laid down by the German Institute of Certified Public Accountants (IDW) and in additional compliance with International Standards on Auditing (ISA). These stipulate that the audit must be planned and executed in such a way as to be able to ascertain with sufficient reliability whether the consolidated financial statements are free from fundamentally inaccurate information. In planning the audit, we also take into consideration knowledge of the business activity, economic and legal environment as well as expectations of possible errors. As a part of the audit's remit, evidence for the estimated values and information in the consolidated financial statements is assessed on the basis of random samples. The audit includes assessing the accounting principles applied and the legal representatives' principal assessments, as well as an appreciation of the overall presentation of the consolidated financial statements. We believe that our audit provides a sufficiently reliable foundation for our judgment.

Our conviction is that the consolidated financial statements in accordance with IFRS/IAS convey a true and fair picture of the Group's net assets, financial and earnings position and of payment flows during the financial year.

Our audit, which also covered the consolidated management report drawn up by the Executive Board for the financial year January 1, 2003 to December 31, 2003, gave rise to no objections. Our conviction is that overall, the consolidated management report gives an accurate picture of the Group's position and describes the risks of future development accurately. We also certify that the consolidated financial statements and the consolidated management report for the financial year January 1, 2003 to December 31, 2003 fulfill the conditions for the Company to be exempted from drawing up consolidated financial statements and a consolidated management report in accordance with German law.

Munich, February 27, 2004

AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

G. Wörl	A. Bruckner
Auditor	Auditor

BALANCE SHEET

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

as of Dec. 31, 2003 acc. to German Commercial Code (HGB)

Assets in €k			31.12.2003	31.12.2002
A.	FIXED ASSETS			
	I.	Intangible assets	1,802	2,013
	II.	Tangible assets	12,010	12,209
	III.	Financial assets	7,430	7,261
			21,242	21,483
B.	CURRENT ASSETS			
	I.	Inventories	9,389	9,993
	II.	Receivables and other assets	1,657	1,844
	III.	Checks, cash-in-hand, bank balances	1,024	421
			12,070	12,258
C.	PREPAID EXPENSES		2,413	2,506
			35,725	36,247

Shareholders' equity and liabilities in €k

			31.12.2003	31.12.2002
A.	EQUITY			
	I.	Subscribed capital	8,590	8,590
	II.	Capital reserves	7	7
	III.	Revenue reserves	3,904	5,801
	IV.	Unappropriated net income	0	0
			12,501	14,398
B.	ACCRUALS		632	868
C.	LIABILITIES		22,591	20,981
D.	DEFERRED INCOME		1	0
			35,725	36,247

INCOME STATEMENT

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

for the period Jan. 1 – Dec. 31, 2003 acc. to German Commercial Code (HGB)

in €k		01.01.–31.12.2003		01.01.–31.12.2002	
1.	Sales revenues				
	– sales (gross)	85,114		90,010	
	– minus sales tax	11,663	73,451	12,183	77,827
2.	Own work capitalized		23		162
3.	Other operating income		2,572		4,135
			76,046		82,124
4.	Cost of materials	39,903		42,278	
5.	Personnel expenses	16,839		18,610	
6.	Depreciation	2,615		2,866	
7.	Other operating expenses	17,335	76,692	18,046	81,800
			–646		324
8.	Financial result		–1,251		–2,186
9.	**RESULT FROM ORDINARY BUSINESS ACTIVITY**		**–1,897**		**–1,862**
10.	Net loss		–1,897		–1,862
11.	Transfers to/from reserves		1,897		1,862
12.	**UNAPPROPRIATED NET INCOME**		**0**		**0**

CASH FLOW STATEMENT

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

for the period Jan. 1 - Dec. 31, 2003 acc. to German Commercial Code (HGB)

in €k	2003	2002
Net loss	-1,897	-1,862
Depreciation	2,615	2,866
Non-cash expenditure/income (+/-)	-105	1,537
Cash flow	613	2,541
Decrease/Increase (+/-) in working capital	723	-1,624
NET CASH FROM OPERATING ACTIVITIES	**1,336**	**917**
Proceeds from disposal of fixed assets	0	18
Disbursements for additions to fixed assets	-2,225	-3,906
Disbursements for investments in affiliated companies	-94	-1,076
Capital repayment from affiliated companies	4	674
NET CASH USED IN INVESTING ACTIVITIES	**-2,315**	**-4,290**
Dividend payment	0	-2,716
Treasury shares	0	2,277
Increase in interest-bearing liabilities	1,582	3,760
NET CASH FROM FINANCING ACTIVITIES	**1,582**	**3,321**
Change in cash and cash equivalents	603	-52
Cash and cash equivalents at beginning of fiscal year	421	473
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	**1,024**	**421**

DEVELOPMENT OF FIXED ASSETS

of Ludwig Beck am Rathauseck – Textilhaus Feldmeier AG, Munich

Jan. 01 – Dec. 31, 2003

in €k	Acquisition/Manufacturing costs		
	As of 01.01.2003	Additions	Disposals
I. Intangible assets			
1. Concessions, industrial and similar rights and assets as well as licenses in such rights and assets	364	0	66
2. Goodwill	4,213	0	814
	4,577	0	880
II. Tangible assets			
1. Land, land rights and buildings, including buildings on third party land	20,067	256	1,571
2. Other fixtures and fittings, tools and equipment	7,884	586	281
3. Payments on account and assets under construction	218	1,383	13
	28,169	2,225	1,865
III. Financial assets			
1. Shares in affiliated enterprises	4,217	0	1,217
2. Loans to affiliated enterprises	4,231	199	0
	8,448	199	1,217
	41,194	**2,424**	**3,962**

Reclassifications	As of 31.12.2003	Cumulated depreciation	Book value 31.12.2003	Book value 31.12.2002	Depreciation of fiscal year
113	411	194	217	201	97
0	3,399	1,814	1,585	1,812	227
113	3,810	2,008	1,802	2,013	324
557	19,309	11,286	8,023	8,575	1,361
744	8,933	5,120	3,813	3,416	930
−1,414	174	0	174	218	0
−113	28,416	16,406	12,010	12,209	2,291
0	3,000	0	3,000	3,030	0
0	4,430	0	4,430	4,231	0
0	7,430	0	7,430	7,261	0
0	39,656	18,414	21,242	21,483	2,615

REPORT OF THE SUPERVISORY BOARD

During the course of the past financial year, the Supervisory Board was provided with comprehensive and up-to-date information on the company's situation and business development by the Executive Board. The information was presented during five Supervisory Board meetings, attended by all members of the Supervisory Board, as well as in numerous oral and written reports. The Executive Board also called upon the Supervisory Board to discuss all fundamental policy questions with them. There was also one meeting of the management and personnel committee as well as one meeting of the audit committee. The Supervisory Board observed its legal and statutory duties and closely monitored the management of the company. There were no conflicts of interest among members of the Supervisory Board during the period under review.

The annual financial statements and the consolidated statements as at December 31, 2003 as well as the management report and consolidated management report were audited by the elected auditing firm AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft, Munich, which issued an unqualified opinion. The Supervisory Board examined the annual financial statements and the consolidated statements as well as the management report and consolidated management report itself and found no cause for objection. On March 17, 2004 the Supervisory Board adopted the annual statements prepared by the Executive Board and as presented by AWT in their audit report. The annual financial statements for 2003 are thereby approved.

The Executive Board and Supervisory Board of Ludwig Beck once again worked in close cooperation during the past year. They informed each other in numerous talks, meetings and phone calls. The main subjects of our intensive discussions last year were the current development of business in a further, extremely difficult year for the German retail sector, the necessary operative and strategic measures as well as the further development of Ludwig Beck Vertriebs GmbH. The necessary investments were discussed in detail on several occasions, as well as the company's medium and long-term planning.

The Supervisory Board was informed about major changes in the German Corporate Governance Code and discussed its implementation together with the Executive Board. The Supervisory Board and Executive Board issued a joint declaration of conformity pursuant to Sec. 161 German Stock Corporation Law (AktG).

Regular management reports on sales and profits kept the Supervisory Board informed at all times about the company's current business situation.

The Supervisory Board would like to thank all members of the Executive Board and the management team for their excellent work in fiscal year 2003. We would also like to extend our gratitude to all staff for their unfailing dedication to duty, which will remain a decisive factor for the success of Ludwig Beck in future.

The Supervisory Board
Munich, March 2004

Dr. Joachim Hausser
Chairman of the Supervisory Board

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… MARIENPLATZ 11 … D-80331 MUNICH … PHONE ++49 (0)89/23 691-0

… FAX ++49 (0)89/23 691-600 … WWW.LUDWIGBECK.DE

> INVESTOR RELATIONS … JENS SCHOTT … PHONE ++49 (0)89/23 691-798

… FAX ++49 (0)89/23 691-600 … JENS.SCHOTT@LUDWIGBECK.DE

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