DECORATIVE COSMETICS FACE AND BODY CARE ORAL HYGIENE

2005 ANNUAL REPORT

DR. SCHELLER COSMETICS AG

creating care competence

KEY FIGURES IN EURO MILLION

	DR. SCHELLER COSMETICS Group IFRS		DR. SCHELLER COSMETICS AG German Commercial Code (HGB)		
	2005	2004	2003	2002	2001
Sales performance					
Sales (net)	**77.6**	72.1	76.6	80.1	81.4
Export share (%)	**32.3**	28.5	24.2	22.6	21.9
Earnings performance					
Result of ordinary business activities	**1.5**	1.2	-2.6	1.6	3.7
Annual net surplus / deficit	**0.69**	0.47	-2.5	1.0	2.3
Return on sales (net, in %)	**0.89**	0.65	–	1.3	2.8
Personnel expenses	**15.8**	16.5	16.6	16.3	15.6
Productivity per employee (EUR 000s)	**201.5**	180.6	182.9	194.8	202.0
Financial data					
Investments in fixed assets	**3.4**	2.1	7.8	8.9	5.8
Depreciation	**5.0**	5.5	3.9	3.4	2.7
Cash and cash equivalents as of Dec. 31	**0.7**	1.0	1.5	1.9	2.1
Asset and capital structure					
Fixed assets	**28.4**	30.4	25.0	21.5	17.9
Current assets	**22.4**	21.3	21.6	21.3	22.7
Total assets	**50.9**	51.8	46.7	42.8	40.6
Shareholders' equity	**15.0**	14.3	12.3	15.9	16.9
Liabilities	**35.8**	37.5	25.3	16.5	11.0
Earnings pursuant to DVFA/SG					
Total	**1.7**	1.2	-2.0	1.4	3.0
Earnings per share (EUR)	**0.26**	0.18	-0.31	0.21	0.46
Employees (annual average)	**385**	416	431	422	416

DEAR LADIES AND GENTLEMEN,
DEAR SHAREHOLDERS,

During the 2005 financial year, DR. SCHELLER COSMETICS consistently maintained the path of consolidation and realignment initiated in 2004.

Our net sales calculated on the basis of IFRS showed above-average growth of 7.6 percent to EUR 77.6 million in spite of the overall stagnation in our markets. Operating earnings before tax (EBT) increased by around 21 percent to Euro 1.5 million.

In order to secure the future existence of DR. SCHELLER COSMETICS in an increasingly competitive climate, at the beginning of 2004 we already defined three key strategies aimed at enabling us to achieve growth and value creation on a sustainable basis. We made a great deal of progress in all three areas in 2005 – in spite of some individual contrary developments which could not have been foreseen.

1. Above-average growth in our areas of competence

DR. SCHELLER COSMETICS has three areas of competence: decorative cosmetics, face and body care, and dental and oral hygiene. Our success is dependent on these areas. Our aim is to generate above-average growth in these markets by means of our own brands, as well as by developing product concepts for selected retail partners. Compared with the previous year, we succeeded in achieving this objective in two of these three areas:

In our most important area of competence, decorative cosmetics, we generated above-average overall growth of around 9 percent. This was achieved in spite of the decline of around 6 percent in this market segment as a result of the price fight carried out through private labels and cheap brands by a large number of retail partners, particularly prevalent in Germany which remains our most important market.

In our second-largest area of competence, dental and oral hygiene, we suffered a decline of around 5 percent. This area was also noticeably affected by the ongoing price war between discounters and drugstores, especially in Germany, which we were not able to escape in view of the high share of our sales still generated in that country.

In our third area of competence, face and body care, we generated significant overall growth of around 30 percent. This exceptional performance was driven both by our brands of Manhattan Clearface for young problem skin and Apotheker Scheller Naturkosmetik, as well as by our innovative brand concepts for select retail partners.

2. Building up our market position

Last year we outlined the intention of basing our growth on the expansion of our brands in foreign countries and on attaining a critical mass in other selected markets comparable to our position in the German market. We have been extremely successful in this, especially in our core countries.

This excellent performance was largely driven by the sales cooperation agreed at the end of 2004 with the OJSC Group »Kalina«. Sales in the Russian market more than quadrupled compared with the previous year. The cooperation with »Kalina«, which has also been the majority shareholder in our company since March 2005, has thus after one year already successfully developed into the most important component in our international expansion.

Moreover, we have also taken the business in Austria and the Netherlands/Belgium back into our own hands and away from the distributors previously active on our behalf. This is intended to enable us to act with greater market proximity and flexibility in future.

3. Significant improvement in value creation

At the beginning of 2004 we subjected the entire company to a comprehensive, two-year restructuring program called »Big Wave«.

Alongside the sales growth generated by the company, »Big Wave« has made a considerable contribution to increasing operating earnings. The positive effects of the program came into full effect in 2005. More efficient structures and the optimization of processes within the company have enabled personnel expenses and administration and sales expenses to be significantly reduced in spite of the rise in sales.

However, one-off effects meant that incomes have not yet developed on schedule. On the one hand, write-downs had to be undertaken on current assets and on the other hand the conversion of accounting procedures to IFRS during the financial year led to a change of perspective in the treatment of fixed and current assets with corresponding special depreciation and write-downs.

Annual net income amounted to Euro 0.7 million and was thus around Euro 0.2 million higher than in the previous year.

The key strategies at DR. SCHELLER COSMETICS continue to provide us with a clear direction. Their implementation over the past 2 years has already shown that we are on the right path. However, we cannot afford to be satisfied yet, given that further major efforts are currently considered necessary in order to achieve integrated and sustainable performance levels in all areas.

We nevertheless remain confident that we will continue to reliably achieve the consistent levels of sales and earnings growth to which we have committed ourselves.

We would like to thank all employees, partners and the Supervisory Board of DR. SCHELLER COSMETICS for their good collaboration in 2005. We look forward to maintaining this commitment in 2006.

Reinhold Schlensok
Chairman of the Management Board

Photos from left to right:
Dr. Hans-Ulrich Scheller, Reinhold Schlensok, Dr. Sebastian Feichtmair

DEAR LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

There were major changes in the Supervisory Board and in the circle of shareholders during the 2005 financial year.

Our longstanding member, Peter Cersovsky, retired from his position on the Supervisory Board. I should like to thank Mr. Cersovsky both on my own behalf and on that of my Supervisory Colleagues for his dedication and commitment to DR. SCHELLER COSMETICS AG. In its resolution dated June 15, 2005, the Annual General Meeting expressed its trust in me and elected me to be the third member of the Supervisory Board. As of January 1, 2006, I assumed the chairmanship. I am pleased to report to you on the work of the Supervisory Board for the first time in this capacity.

The voluntary public takeover bid made by the OJSC Group »Kalina« to the shareholders of DR. SCHELLER COSMETICS AG on February 4, 2005 and the amended bids made on March 3 and March 11, 2005 led to major changes in the shareholder structure of the company. Together with the Management Board, the Supervisory Board closely examined the bid and reached the conclusion that this should be expressly welcomed. »Kalina« is already our sales partner in Russia and thus represents an important component of our successful international expansion. Both companies hope that the shareholding will lead to an intensification of the highly successful cooperation to date. New markets are to be jointly accessed and synergy effects are to be identified and exploited.

In operational terms, DR. SCHELLER COSMETICS AG is on a very pleasing course. Thanks to consistent cost management and efficiency enhancement measures, a significant reduction has been achieved in operating expenses, notwithstanding the rise in sales. This constitutes a remarkable achievement on the part of our Management Board and employees. One-off effects, such as expenses resulting from the amortization of intangible assets and write-downs undertaken on current assets, unfortunately slowed down these positive developments and resulted in annual earnings based on the accounting principles of German commercial law merely reaching breakeven. The progress made in the restructuring process and the successful international expansion nevertheless provide us with confidence for the coming financial year.

During the year under report, the Supervisory Board performed the duties required of it by law, the Articles of Association, its Code of Procedure and the Corporate Governance Code. All of the business transactions of significance to the company were discussed in detail on the basis of reports provided by the Management Board. The Management Board provided us with regular, timely and extensive written and oral reports concerning all issues of relevance to the company's planning and strategic development, on the course of business, including the company's risk situation and risk management. We were provided with detailed explanations of any variances to the agreed budgets and targets. The Supervisory Board received written minutes of the meetings of the Management Board.

The Supervisory Board met on a total of 7 occasions during the 2005 financial year. The meetings were held on 02.09, 03.11, 04.25, 06.10, 09.19, 10.21 and 12.21.2005. All meetings were attended by all members of the Supervisory Board. When necessary, the meetings were held at least temporarily in the absence of the members of the Management Board. We advised the Management Board and satisfied ourselves on an ongoing basis of their proper conduct of the business. The Supervisory Board did not identify any indications of any possible claims for compensation on the part of the company against members of the Management Board during the 2005 financial year.

Focus of Supervisory Board deliberations

The shareholding held by the OJSC Group »Kalina« as a strategic investor and the international strategy formed the focus of deliberations during the year under report. We closely accompanied these decisions in an advisory and supervisory capacity. Further major focuses of our work included the company's revenue and earnings performance, its risk situation and the budget for 2006.

Adoption of annual financial statements

The consolidated financial statements of DR. SCHELLER COSMETICS AG were compiled for the first time in accordance with International Financial Reporting Standards (IFRS) in 2005. The group management report fulfills the requirements of DRS 15. Ernst & Young AG Wirtschaftsprüfungsgesellschaft was commissioned to audit the consolidated financial statements.

We obtained a declaration from the auditor outlining the scope of any further business or financial relationships with DR. SCHELLER COSMETICS AG. This declaration did not provide any grounds for objection. The statutory auditor provided the Supervisory Board with ongoing reports on the status of the audit. On the basis of the findings of the audit, the auditor granted unqualified audit opinions to the company's annual financial statements and consolidated financial statements for the 2005 financial year.

The annual and consolidated financial statements and the audit report were provided to all members of the Supervisory Board in good time for their annual financial statements meeting on March 10, 2006. The financial statements were discussed in great detail at this meeting. Within the framework of this meeting, the auditor reported on the principal findings of the audit and was available to answer questions. We acknowledged and approved the audit findings of the auditor. Our own detailed audit of the annual financial statements and consolidated financial statements, as well as of the group management report, did not give rise to any objections. The Supervisory Board approved the annual and consolidated financial statements compiled by the Management Board. The annual financial statements of DR. SCHELLER COSMETICS AG are thus adopted.

Corporate governance

The Supervisory Board addressed the implementation of the German Corporate Governance Code both within the framework of its meetings as well as between its meetings on the basis of written documentation. The Supervisory Board accordingly subjected the effectiveness of its activities to an annual review undertaken on the basis of self-assessment. There were no conflicts of interest on the part of individual members of the board. Dr. Vreeman is a non-executive member of the OJSC Group »Kalina« in Ekaterinenburg / Russian Federation. His position is comparable to that of a supervisory board chairman in Germany. In cases involving a possible conflict of interest, Dr. Vreeman will abstain. Further information concerning corporate governance and directors' dealings can be found in the corporate governance report on Page 6.

Dependent company report

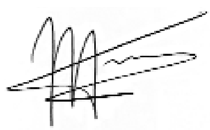
The Management Board compiled a dependent company report for the year under report pursuant to Section 312 (3) of the German Stock Corporation Act (AktG). This report was deemed by the statutory auditor to be correct. The dependent company report was forwarded to the Supervisory Board, which subjected the report and the transactions outlined therein to its own audit pursuant to Section 314 (2) of the German Stock Corporation Act (AktG). This audit did not give rise to any objections.

Change in the Management Board

There were no changes in the composition of the Management Board of DR. SCHELLER COSMETICS AG during the period under report. Reinhold Schlensok was appointed as Chairman of the Management Board with effect from January 1, 2006.

We should like to thank the Management Board and all employees for the high degree of commitment shown and work performed in 2005. We should also like to extend our thanks to our shareholders for the trust they have placed in the company.

Eislingen / Fils, March 17, 2006



Dr. Johan Vreeman
Chairman of the Supervisory Board

Photos from left to right:
Dr. Johan Vreeman (Chairman), Hartmut Herrlinger, Manfred Holzwarth

REPORT ON CORPORATE GOVERNANCE

Responsible company management forms the foundation for the business activities of DR. SCHELLER COSMETICS AG. Open and transparent communications represent a fixed component of the company's philosophy and enhance the trust placed in the company by investors, customers, employees and the general public. DR. SCHELLER COSMETICS AG is committed to complying with the recommendations of the German Corporate Governance Code to the extent that such are expedient in view of the company's specific circumstances.

Deviations from the Corporate Governance Code in its version dated June 2, 2005 have been outlined in the Statement of Compliance published in December 2005 and can be found on Page 9 of the annual report. During the 2005 financial year, DR. SCHELLER COSMETICS AG fulfilled further requirements of the German Corporate Governance Code (Points 5.4.5 and 7.1.2). The Management and Supervisory Boards welcome the changes made to the Code in its new version and have already implemented the majority of the newly included recommendations.

There were no changes in the codes of procedure for the Management and Supervisory Board during the reporting period. A comparison of the Statement of Compliance published in December 2004 and the corporate governance requirements actually implemented during the 2005 financial year did not result in the identification of any deviations.

PUBLIC TAKEOVER BID

The OJSC Group »Kalina« based in Ekaterinenburg, Russian Federation (hereinafter »bidder«), published a voluntary public takeover bid to the shareholders of DR. SCHELLER COSMETICS AG in accordance with the specific requirements of Section 4 of the German Securities Acquisition and Takeover Act (WpÜG). Furthermore, amendments to the bid were published on March 3, 2005 and on March 14, 2005. The OJSC Group »Kalina« has made all documents relating to the bid available on the internet at the address: http://www.kalina.org/poffer.

On February 21, 2005 and March 11, 2005 the Management Board and Supervisory Board of DR. SCHELLER COSMETICS AG issued a statement concerning the bid and the first amendment to the bid in accordance with Section 27 of the Securities Acquisition and Takeover Act (WpÜG). On March 16, 2005, Dr. Hans-Ulrich Scheller issued a statement concerning the amendment to the bid dated March 14, 2005. All such statements were published on our internet site at http://www.dr-scheller-cosmetics.de/investor.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Our shareholders are regularly informed of important dates by means of a financial calendar included in the annual and quarterly reports. The financial calendar can also be viewed at our internet site at www.dr-scheller-cosmetics.de. Moreover, this website also provides our shareholders with information concerning our company, share and Annual General Meeting. In view of cost-benefit considerations, the company will continue to refrain from broadcasting its Annual General Meeting on the internet.

Around 250 shareholders, representing approximately 70 percent of the company's share capital, took part in the Annual General Meeting held in June 2005. Moreover, the company also welcomed numerous guests and representatives of banks and the press. All six of the items on the agenda put to resolution were adopted with clear majorities of more than 95 percent in each case. No counter-motions were received by the company in the run-up to the Annual General Meeting.

COOPERATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Management and Supervisory Boards work closely together on a basis of trust. When necessary, the Supervisory Board meets in the absence of the Management Board. Detailed information as to the number of meetings and focus of deliberations can be found in the Report of the Supervisory Board on Page 4.

In its 2003 Annual Report, DR. SCHELLER COSMETICS AG reported for the first time on the status and development of corporate governance. This reporting has been and will continue to be maintained. Statements of compliance which are no longer up-to-date are made available on the company's website for a period of at least five years.

MANAGEMENT BOARD

There were no changes in the composition of the Management Board of DR. SCHELLER COSMETICS AG during the year under report. The three members of the Management Board were equally empowered during the period under report. Reinhold Schlensok will assume the newly created position of Chairman of the Management Board as of January 1, 2006.

The remuneration of members of the Management Board consists of fixed and variable components and is dependent on their responsibilities, performance and the business performance of the company. A bonus dependent on the company's operating earnings serves as a variable component of remuneration of a long-term incentive nature and involving risk. There were no stock option programs or other share-based incentive systems in 2005. The contracts of the members of the Management Board are regularly reviewed by the Supervisory Board, particularly in terms of the appropriateness of remuneration. Moreover, the Chairman of the Supervisory Board will outline the basic features of the remuneration system to the 2006 Annual General Meeting.

There were no conflicts of interest on the part of individual members of the Management Board during the 2005 financial year. Reinhold Schlensok is a non-executive member of the OJSC Group »Kalina« in Ekaterinenburg / Russian Federation. Mr. Schlensok holds this position exclusively in his capacity as a member of the Management Board of DR. SCHELLER COSMETICS AG and represents its interests. The company thus complies with Points 4.3.1 and 4.3.4 of the German Corporate Governance Code. The Supervisory Board of DR. SCHELLER COSMETICS AG has agreed to this double function. Mr. Schlensok will abstain in cases involving conflicts of interest.

SUPERVISORY BOARD

Peter Cersovsky retired from his position on the Supervisory Board during the 2005 financial year. The Annual General Meeting held on June 15, 2005 elected Dr. Johan Vreeman as his successor. He will assume the chairmanship of the Supervisory Board on January 1, 2006. The previous chairman, Hartmut Herrlinger, will assume the position of Deputy Chairman. Dr. Vreeman is Chairman of the Supervisory Board of the OJSC Group »Kalina« in Ekaterinenburg / Russian Federation and a member of the Supervisory Board of Tsar Kniga, Ekaterinenburg / Russian Federation. There were no conflicts of interest on the part of Supervisory Board members in 2005.

Each member received fixed remuneration amounting to EUR 6,000 in 2005, as well as variable remuneration amounting to 0.075 percent of the company's earnings before interest, taxes, depreciation and amortization (EBITDA). The Chairman of the Supervisory Board received additional fixed remuneration of EUR 6,000.

In view of its number of members, the Supervisory Board has refrained from establishing committees. The Supervisory Board reviews the effectiveness of its activities at regular intervals on the basis of self-assessment.

TRANSPARENCY

The disclosures relating to directors' dealings required by Section 15a of the German Securities Trading Act (WpHG) can be found in the Investor Relations section of the company's website.

Directors' dealings reported in the 2005 financial year:

Name	Transaction Type	Date	Place of Transaction	Price (EUR)	Number (000s)	Total Transaction Volume (EUR)
Dr. Atassi-Scheller	Sale	02.16.05	Off-market	4.20	18	75,600
Schlensok	Sale	03.18.05	Off-market	4.20	4.71	19,782
Dr. Scheller	Sale	03.18.05	Stuttgart	4.20	1,195	5,019,000
Dr. Scheller	Sale	03.23.05	Off-market	4.20	585	2,457,000
Dr. Feichtmair	Sale	03.31.05	XETRA	4.70	1	4,700
Dr. Feichtmair	Sale	04.06.05	Off-market	4.20	2.9	12,180
Dr. Feichtmair	Purchase	11.10.05	XETRA	5.25	0.841	4,415.25
Dr. Feichtmair	Purchase	11.25.05	XETRA	6.00	1	6,000
Dr. Feichtmair	Purchase	11.25.05	XETRA	5.75	1	5,750

All notifications received by the company concerning the exceeding or falling short of the voting rights thresholds of five, ten, 25, 50 and 75 percent were published in a stock market publication without delay and forwarded to the Federal Financial Supervisory Authority (BaFin).

The following notifications were received pursuant to Section 25 of the German Securities Trading Act (WpHG) in the 2005 financial year:

Notifications pursuant to Section 25 of the German Securities Trading Act (WpHG):

Name	Held Directly	Additional Allocation	Date
Brigitte Scheller	30.55%		03.09.2005
Brigitte Scheller	0.02%		03.09.2005
OJSC Konzern Kalina	11.62%		03.31.2005
OJSC Konzern Kalina	32.96%		03.31.2005
Lüttike, Franz	0.92%	6.07%	03.31.2005
Franz Lüttike GmbH	5.88%		03.31.2005
Dr. Ullrich Scheller	11.62%		04.04.2005
Dr. Ullrich Scheller	2.62%		04.04.2005
Andreas Timotheus Scheller, Matthias Scheller	30.57%		04.12.2005
OJSC Konzern Kalina	61.93%		04.13.2005
OJSC Konzern Kalina	59.31%	2.62%	04.20.2005
Matthias Scheller	0.0%		04.22.2005
Andreas Timotheus Scheller	0.0%		04.22.2005

A total of 172,941 shares in DR. SCHELLER COSMETICS AG were owned by members of the Management Board at the end of the 2005 financial year. The members of the Supervisory Board did not own any shares in the company as of the balance sheet reporting date.

ACCOUNTING AND AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The company previously complied with the accounting principles of the German Commercial Code (HGB). As announced in the 2004 Annual Report, the company converted its accounting to International Financial Reporting Standards (IFRS) in the past year and has compiled its 2005 consolidated financial statements in accordance with the new accounting principles for the first time. This means that Point 7.1.1 of the German Corporate Governance Code will be complied with in future. Point 7.1.2 was also complied with for the first time in 2005.

The 2005 consolidated financial statements were audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Stuttgart. Before circulating its proposed candidate for election by the 2005 Annual General Meeting, the Supervisory Board obtained a declaration from the auditor in respect of its personal and business relationships with the company. This declaration did not give rise to any objections.

DR. SCHELLER COSMETICS AG
March 17, 2006

STATEMENT OF COMPLIANCE OF DR. SCHELLER COSMETICS AG IN RESPECT OF THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Statement by the Management Board and Supervisory Board of DR. SCHELLER COSMETICS AG pursuant to Section 161 of the German Stock Corporation Act (AktG) in respect of the German Corporate Governance Code in its version dated June 2, 2005.

The Management Board and Supervisory Board of DR. SCHELLER COSMETICS AG declare that the company has complied with and continues to comply with the recommendations made in the »German Corporate Governance Code Government Commission« in its version dated June 2, 2005, with the following deviations:

Point 3.8
In view of the level of remuneration, no deductible has been provided for in the D&O insurance policy.

Point 4.2.1
The Management Board of DR. SCHELLER COSMETICS AG, which consists of three equally empowered full members, does not have any chairman or spokesperson.

Point 4.2.2
The structure of the management board remuneration system is discussed by the Supervisory Board as a whole, given that the Supervisory Board consists of three members in total.

Point 4.2.3
Stock options and comparable instruments currently form no component of the overall remuneration of the Management Board. However, this is to be subject to review in order to adjust the future remuneration structure.

Point 4.2.4
The company has refrained from depicting these disclosures on an individual basis. The Management and Supervisory Boards are monitoring current developments in this respect.

Points 4.3.1 + 4.3.4
Reinhold Schlensok has been elected as a non-executive board member of the »OJSC GROUP Kalina« (Russian Federation). He will abstain in the event of any conflicts of interest. The Supervisory Board has consented to the double function of Reinhold Schlensok as a member of the Management Board of DR. SCHELLER COSMETICS AG and as a board member of OJSC Kalina.

Points 5.3.1 + 5.3.2
Given that the Supervisory Board of the company consists of only three members, no committees have been established.

Point 5.4.3
Following the retirement of the previous Chairman of the Supervisory Board, Hartmut Herrlinger, and the resultant need to hold elections, Dr. Johan Vreeman will assume the chairmanship of the Supervisory Board with effect from 1.1.2006. In view of the prevailing majority ownership, it was decided not to announce the candidates proposed for election to the chairmanship of the Supervisory Board to the shareholders.

Point 7.1.1
The annual financial statements and interim reports of the company were compiled as separate financial statements in accordance with national requirements (HGB) up to 09.30.2005. Consolidated financial statements will be compiled in accordance with IFRS (International Financial Reporting Standards) for the first time as of Dec. 31, 2005 (IFRS 1).

DR. SCHELLER COSMETICS AG
December 22, 2005 (released)

DR. SCHELLER COSMETICS AG, Eislingen (Fils)

GROUP MANAGEMENTREPORT FOR THE FISCAL YEAR 2005

ECONOMY AND MARKET

The German economy showed mixed developments in 2005. While the export sector benefited from the robustness of the global economy, domestic consumption remained weak. Overall, there has been hardly any improvement in the economic situation in Germany. Gross domestic product (GDP) rose by a mere 0.9 percent (Source: Federal Statistics Office). As in the previous year, this was primarily attributable to exports, which rose by 6.2 percent. Consumer spending showed a further decline of 0.3 percent. This development took its toll on the German retail sector, which once again failed to achieve any growth in sales in 2005 and remained at more or less the same level as in the previous year. Decisive factors in the weak development of consumer spending included the sharp rise in oil and energy prices, as well as the ongoing tense situation on the labor market.

Germany performed relatively poorly compared with other European countries and was once again in the lower third. Only Italy (+0.2%), Portugal (+0.4%) and the Netherlands (+0.5%) reported a lower level of economic growth. Average growth in the Euro zone amounted to 1.3 percent (previous year: 2.0%).

The German economy is also not expected to show any significant recovery in 2006. The Federal Government has forecast growth of around 1.4 percent. The leading research institutes are counting on a slight revival in consumer spending and expect to see growth of 1.5 to 1.8 percent in 2006.

The findings of studies undertaken by the Company for Consumer Research (GfK), which showed a significant improvement in the consumer climate in Germany at the end of 2005, provide more grounds for optimism. This trend could be maintained, but this remains to be seen.

MARKET FOR BODY CARE PRODUCTS

Although the market for body care products in Germany has not managed to escape the downturn in overall consumer spending, it nevertheless at least managed in 2005 to halt the negative development seen in the previous year. According to the annual statistics released by the Body Care and Detergents (IKW) industry association, the market volume remained stable at EUR 11.1 billion, equivalent to an increase of 0.2 percent. In the previous year, the market volume had declined by 1.4 percent.

A wide variety of developments was shown by the individual product groups within the body care market in 2005. The dental and oral hygiene segment grew for the second year in succession, rising by 2.2 percent (2004: 2.5%). Only the skin care segment, which grew by 3.0 percent having reported a decline in the previous year, showed a higher level of growth. With a 5.8 percent decline in sales, the market for decorative cosmetics proved to be exceptionally difficult. This is due less to a decline in overall demand levels than to the ongoing price war, especially in the lower price segment at discounters and drugstores.

Hair care and skin care products continue to represent by far the largest sub-segments, with market shares of around 26 percent and 22 percent respectively. The third-largest segment is now dental and oral care, which has a 9 percent share of the total market volume. The IKW association does not expect economic developments to provide any ongoing momentum in 2006.

GROUP DEVELOPMENT

DR. SCHELLER COSMETICS* is one of the leading manufacturers of brand products in the field of cosmetics and body care in Germany. The company is active with its own brands and retail brands in various subsections of the market for body care products. DR. SCHELLER COSMETICS is subdivided into three areas of competence:

- decorative cosmetics, especially MANHATTAN
- face and body care with MANHATTAN CLEARFACE, »Apotheker Scheller – Das Naturkonzept«
- oral hygiene, including Durodont and DentaClin, as well as retail brands

Furthermore, a distinction is also made between the core countries and markets (Germany, Russia, Slovenia, Poland) in which DR. SCHELLER COSMETICS AG operates with its subsidiaries or associated companies.

* in the following DR. SCHELLER COSMETICS and DR. SCHELLER COSMETICS GROUP are used synonymic

SALES PERFORMANCE

The sales performance of the DR. SCHELLER COSMETICS Group was markedly positive in the 2005 financial year. Sales revenues rose by 7.6 percent from EUR 72.1 million in 2004 to EUR 77.6 million. The pleasing trend of sales growth in core countries which began in the previous year was thus maintained in the past year.

These core countries, in which sales rose by around 14 percent to EUR 62.7 million, were thus the driving force behind the company's sales growth. Around 80 percent of total sales were therefore generated in these regions. The most important individual market outside Germany is Russia, where sales totaling EUR 7.1 million were generated in 2005 (previous year: EUR 1.7 million). The share of other markets is nevertheless expected to grow once again in future, given that these are still thought to harbor great potential. In particular, the cooperation with the company's strategic partner and majority shareholder, the OJSC Group »Kalina« still offers a large number of opportunities, both in terms of the exploitation of synergies and of the tapping of new markets.

SALES PERFORMANCE

EUR million	2005	2004
Core countries	62.7	53.8
Other	14.9	18.3
Total	77.6	72.1

SEGMENT REPORT

DECORATIVE COSMETICS

The decorative cosmetics division showed positive overall developments in the past year. Following the decline in sales seen in the two previous years, decorative cosmetics is now only the fourth-largest segment in the market for body care products in Germany. This division nevertheless remains the segment with the highest sales in the portfolio of DR. SCHELLER COSMETICS, generating 64.7 percent of total sales. MANHATTAN is supplemented by the retail brands offered via the Premium Cosmetics GmbH subsidiary.

FACE AND BODY CARE

The face and body care division, which includes the MANHATTAN CLEARFACE and »Apotheker Scheller – Das Naturkonzept« brands, is the group's smallest segment. MANHATTAN CLEARFACE serves the demand of young girls and boys for care products for problem skin. It is focused on trendy products at good value for money. The »Apotheker Scheller – Das Naturkonzept« line is among the best-known natural cosmetics brands in Germany and stands for the highest quality in terms of the raw materials and ingredients used.

The face and body care division showed extremely pleasing developments in the past year, reporting sales growth of 29.6 percent to EUR 9.4 million.

ORAL HYGIENE

The oral hygiene division with its DentaClin and Durodont brands, as well as retail brands, suffered a decline in sales. This division was noticeably affected by the ongoing price war at discounters and drugstores. Sales fell by 5.3 percent to EUR 17.9 million.

More detailed information as to the performance of individual segments can be found in the notes to the consolidated financial statements.

EARNINGS PERFORMANCE

The positive sales performance was not directly reflected in the operating earnings. This development was primarily attributable to expenses resulting from one-off items. Annual net income rose from EUR 0.5 million to EUR 0.7 million. Earnings per share improved from EUR 0.18 to EUR 0.26.

OPERATING PERFORMANCE

The operating performance was positive in the past year. As a result of one-off items, however, earnings did not develop as planned.

Account was taken of the negative performance of the private labels in the oral hygiene division during the year under report, with extraordinary amortization (EUR 0.4 million) being undertaken on one trademark.

Costs of sales rose to EUR 44.6 million, an increase of 6.9 percent on the previous year. In 2005, the positive effects of the »Big Wave« restructuring program came fully into effect. With the help of better structures and by optimizing processes within the group, it was possible to achieve a considerable reduction in personnel expenses. In spite of the significant increase in sales, personnel expenses fell by 4.7 percent to EUR 15.8 million.

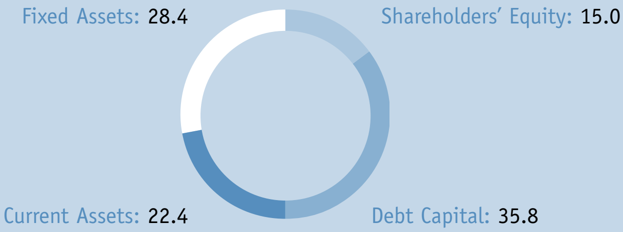
Marketing and sales expenses showed a considerable increase compared with the previous year. This is due on the one hand to the intensification of marketing efforts and on the other to a considerable increase in the field of sales-related expenses. The increase in the latter was primarily due to start-up expenses. Marketing expenses alone rose by 16.7 percent from EUR 6.1 million in the previous year to EUR 7.2 million.

ASSET AND FINANCIAL SITUATION

The assets of DR. SCHELLER COSMETICS declined by around EUR 0.9 million to EUR 50.9 million in 2005. This development was attributable to changes in both fixed and current assets. Intangible assets showed the most striking change, falling by 50.6 percent to EUR 0.5 million.

The expansion of the private label business resulted in a higher overall level of gross inventory volumes, which amounted to EUR 13.1 million. These were countered by write-downs of EUR 2.7 million as of December 31, 2005, which meant that net inventories rose by 14.4 percent to EUR 10.4 million. Fixed assets showed only a marginal change as a proportion of total assets, making up around 56 percent of total assets.

BALANCE SHEET STRUCTURE IN 2005 (EUR MILLION)



The company's solid equity ratio was maintained at a stable level in the past year. As a result of the lower level of total assets, the equity ratio improved from 27.6 percent in the previous year to 29.5 percent at the balance sheet reporting date.

Long-term debt declined by around 4 percent to EUR 12.4 million. Short-term debt showed mixed developments. Other liabilities and accruals witnessed a significant rise of around EUR 4 million as a result of marked increases in accruals for advertising expenses, bonuses and outstanding invoices. On the other hand, bank liabilities were reduced by around EUR 5 million. Overall, short-term debt declined by 4.7 percent to EUR 23.4 million.

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The cash flow from operating activities rose from EUR 5.8 million to EUR 11.7 million. Cash and cash equivalents declined in the past financial year from EUR 1.0 million to EUR 0.7 million. The liquidity supply is based on the principle of efficient cash management and can be termed adequate. In the event of increased capital requirements, then a considerable volume of unutilized credit lines is available at short notice.

INVESTMENTS

Investments mainly relate to replacement investments financed by the operating cash flow. The focus of investments was on strengthening the brands. The investments of EUR 1.6 million made in shop counters also related to this purpose.

SHARE

2005 was a highly positive year on the stock markets in spite of the rapid rise in the oil price. The DAX, for example, rose from around 4,200 to around 5,500 points. The financial community sees the DAX as harboring further upward potential, although the number of voices predicting a significant correction is on the increase.

The performance of the DR. SCHELLER COSMETICS AG share was affected by two main developments. On the one hand, a takeover bid was made by the OJSC Group »Kalina«, Ekaterinenburg, Russian Federation, whose offer of EUR 4.20 per share influenced the share price from the beginning of the year. On the other hand, following the successful takeover of more than 60 percent of the company's shares by the OJSC Group »Kalina«, Ekaterinenburg, Russian Federation, the share price rose further, reaching EUR 6.00 in September 2005. Since then, it has mainly moved sideways. While the share price amounted to EUR 4.06 at the beginning of the year, the year-end closing price as of December 30, 2005 amounted to EUR 5.65 per share.

Average daily trading volumes amounted to 8,844 shares during the period under report (on XETRA). With a share of around two-thirds, the XETRA electronic trading platform once again maintained its position as the most liquid emporium, followed by the Stuttgart Stock Exchange and floor trading in Frankfurt. The company's market capitalization amounted to EUR 36.73 million at the end of the year (XETRA closing price on December 30, 2005: EUR 5.65), compared with EUR 26.39 million in the previous year (XETRA closing price on December 30, 2004: EUR 4.06).

The DR. SCHELLER COSMETICS AG share is listed in the Prime All Share Index, as well as in the Prime Consumer Index and Prime Personal Products Index. The Prime Standard includes all companies which are positioned for international investors and which fulfill strict transparency requirements. Furthermore, the share is also listed in the German Entrepreneurial Index and the CDAX Index.

The shareholder structure showed major changes in 2005 as a result of the takeover by the OJSC Group »Kalina«. This company now owns 61.01% of the shares. A further 9.99 percent of the shares in DR. SCHELLER COSMETICS AG is held by the Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen, by SüdKapitalanlagegesellschaft mbH, Frankfurt am Main, holding 7.48 percent and Franz Lütticke holding 6.99 percent. The remaining 14.53 percent is in free float.

Key Share Data

	DOS
WKN	720130
ISIN	DE00007201303
Börsenplätze	Xetra, Frankfurt, Stuttgart,
	Munich, Düsseldorf, Berlin,
	Hamburg, Bremen
Share capital	6.5 million shares
Zugelassene Aktien	6.5 million shares
Ausstehende Aktien	6.44 million shares

EMPLOYEES

The number of employees at the Group declined in the course of the »Big Wave« restructuring program to 385 (annual average excluding trainees). The personnel expenses ratio fell from 22.9 percent to 20.4 percent of sales. The consent provided by the Works Council and trade union representatives enabled weekly working hours to be increased from their previous level of 37.5 hours to 40 hours without any compensatory wage increases. Only by making working hours more flexible in this way and by optimizing working prices has it been possible to raise the competitiveness and to handle the growth of the company. The agreement governing working hours also applies to the 2006 financial year. No further major reduction in the personnel expenses ratio has currently been planned.

DR. SCHELLER COSMETICS employed a total of 16 trainees in 2005. In addition to the training of career starters, DR. SCHELLER COSMETICS also supports the further development of all of its employees. Only if the company has highly-qualified specialist personnel will it be able to keep up with the rapid pace of technical developments, to identify market trends and thus to survive in global competition.

The Management Board of DR. SCHELLER COSMETICS AG would like to thank all employees for the concessions they have made and for their commitment. Without them, the successful course of business in the past year would not have been possible. Moreover, the Management Board would like to thank the Works Council for its constructive and reliable cooperation.

EVENTS SUBSEQUENT TO REPORTING DATE

Since the balance sheet reporting date, there have been no operative or structural changes or transactions at DR. SCHELLER COSMETICS which have had a major impact on the net asset, financial or earnings position of the company and which would require report in this section or change the statements made in the 2005 annual financial statements.

RISK REPORT

The risk management activities of DR. SCHELLER COSMETICS are aimed at the early identification and efficient control of risks and opportunities. The conscious control of risks and opportunities, particularly of risks which could endanger the ongoing existence of the Group or have an ongoing impact on its earnings, net asset and financial position, is intended to create scope for maneuver in the interests of safeguarding the company in the long term and of exploiting new potential for business success.

The risk management of DR. SCHELLER COSMETICS is implemented in its budgeting, controlling and reporting processes. The risk management complies with the legal requirements in respect of ensuring that risks are foreseen and is enhanced on an ongoing basis. Further optimizations will also be made in 2006. No risks which considered either individually or as an entirety could endanger the ongoing existence of the company have currently been identified for the present or the future.

From a current perspective, the following risks could materially affect the economic position and business performance of DR. SCHELLER COSMETICS:

MARKET RISK

DR. SCHELLER COSMETICS operates in a market which includes international participants and which is subject to intense competition. The market is characterized by seasonal trends, a constant drive towards innovation and changing consumer behavior. These changes result in the risk that market developments may not be identified at a sufficiently early stage. However, they also provide the opportunity of reacting more rapidly and more proficiently than the competition and of meeting customers' taste particularly closely and thus of actively contributing to the development of the market. In view of this, the company has a clearly defined strategy: using consistent brand leadership and permanent innovation to strengthen and expand the position occupied in the market as a provider of products at unbeatable value for money. Ongoing market and competitor surveillance is intended to avert the risk of launching unsuccessful products.

FINANCIAL RISK

Risks relating to foreign currency, interest rate and liquidity fluctuations are controlled by means of interest rate/currency management and covered wherever necessary by the use of derivatives. Moreover, the company's debt ratio was reduced during the 2005 financial year. In the event of increased liquidity requirements, unutilized credit lines are available at well-known banks.

PROCUREMENT RISK

The business success of DR. SCHELLER COSMETICS is largely dependent on the quality and punctual delivery of the products manufactured. The company is therefore exposed to procurement risks for its raw materials and preliminary and intermediate products in terms of their quality, reliability of supply and costs. Such risks could impair the expected level of value for money. The company counters these risks by conscientiously monitoring the relevant markets. Its well-established network and longstanding experience enable suppliers to be selected with due care. Long-term framework agreements are intended to prevent any delays in production.

IT RISKS

DR. SCHELLER COSMETICS counters the risks which could arise from issues surrounding the security of its IT infrastructure by means of regular maintenance cycles and the gradual substitution of IT appliances. Data security and protection against unauthorized access to the data represent further major areas for which precautions have been taken. The possibility of any unauthorized system access or significant loss of data has therefore been virtually eliminated.

ENVIRONMENTAL RISK

No significant environmental risks have been identified to date. The sensitive treatment of the natural world and the environment are a matter of priority for DR. SCHELLER COSMETICS . These concerns are accounted for by using energy sparingly and by making optimal use of raw and residual materials. DR. SCHELLER COSMETICS will continue to take all measures necessary to avoid any environmental risks.

OVERALL RISK

The overall risk situation has remained unchanged on the previous year. The company will in future continue to draw on all available possibilities of identifying risks at an early stage and of minimizing such risks to the greatest possible extent. The company generally only enters into risks in cases where the related opportunities mean that significant added value is to be expected.

OUTLOOK

In spite of the market climate remaining difficult, DR. SCHELLER COSMETICS expects to maintain its positive overall business performance in the 2006 and 2007 financial years. The international business will gain in significance in this respect. The international expansion forms the clear focus of the company's strategic plans, given that this area harbors the greatest potential for further growth. Together with our partner and majority shareholder, the OJSC Group »Kalina«, we will continue the penetration of existing markets and jointly access new markets. The consistent exploitation of synergies means that this cooperation will also have a positive impact on our cost structures. However, the company's further growth is to be promoted not only in Eastern Europe, but also in other markets as well. Countries in which the company is not yet active are to be closely analyzed in terms of possible market entries.

Even though the majority of economic forecasts for Germany are thoroughly positive, the domestic market for body care products is expected to show at best marginal growth. Moreover, no abatement can be expected in the pressure on prices at discounters and drugstores. Our focus is on strengthening our brands. The investments of EUR 4.4 million planned to be made in shop counters in 2006 will make a contribution in this respect, while improvements in earnings can primarily be expected to be driven by efficiency enhancements.

RELATIONSHIPS TO AFFILIATED COMPANIES

The Management Board compiled a report on the relationships between DR. SCHELLER COSMETICS AG and affiliated companies for the 2005 financial year and presented this report to the auditor. The Management Board declares that, to the best of its knowledge, the company has received commensurate compensation for all transactions undertaken with affiliated companies. There were no measures requiring report pursuant to Section 312 (1) Sentence 2 of the German Stock Corporation Act (AktG) during the 2005 financial year.

The Management Board

Eislingen / Fils, March 2006

DR. SCHELLER COSMETICS AG, Eislingen (Fils)

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2005

ASSETS	Note	Dec. 31, 2005	Dec. 31, 2004
		TEUR	TEUR
Fixed assets			
Property, plant and equipment	7	27,766	29,366
Intangible assets	7	526	1,065
Shares in one associated company	8	129	0
		28,421	**30,431**
Current assets			
Inventories	9	10,406	9,094
Accounts receivable	10	9,420	9,253
Tax claims	10	155	0
Advance payments	10	21	103
Other receivables	10	1,763	1,900
Cash and short-term deposits	11	672	976
		22,437	**21,326**
Total assets		**50,858**	**51,757**

SHAREHOLDERS' EQUITY AND LIABILITIES	Note	Dec. 31, 2005	Dec. 31, 2004
		TEUR	TEUR
Shareholders' equity			
Share capital	12	6,500	6,500
Capital reserve	12	7,800	7,800
Treasury stock	12	-315	-315
Currency conversion	12	-6	-60
Revenue reserves	12	1,040	353
		15,019	**14,278**
Long-term debt			
Liabilities to banks	14	5,182	6,139
Pension accruals	13	5,081	5,037
Financial leasing obligations	14	1,050	1,385
Deferred tax liabilities	5	1,086	310
		12,399	**12,871**
Short-term debt			
Accounts payable	14	3,391	2,158
Accruals	15	6,593	4,466
Tax liabilities	14	481	779
Financial leasing obligations	14	966	1,991
Other liabilities	14	4,894	3,031
Liabilities to banks	14	7,115	12,183
		23,440	**24,608**
Total shareholders' equity and liabilities		**50,858**	**51,757**

DR. SCHELLER COSMETICS AG, Eislingen (Fils)

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2005

	Note	2005	2004
		TEUR	TEUR
Sales		77,570	72,077
Cost of sales		-44,636	-41,768
Gross earnings on sales		32,934	30,309
Marketing and sales expenses		-24,945	-22,236
General administration expenses		-5,244	-5,426
Operating earnings		**2,745**	**2,647**
Other income	4	624	421
Other expenses	4	-429	-398
Financing income	4	135	90
Financing expenses	4	-1,604	-1,532
Share in profit of associated companies	4	17	0
Earnings before taxes		**1,488**	**1,228**
Income tax expenses	5	-801	-759
Annual net income		**687**	**469**
Earnings per share		0.26	0.18

DR. SCHELLER COSMETICS AG, Eislingen (Fils)

CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDING ON DECEMBER 31, 2005

			2005	2004
			TEUR	TEUR
1.		**Annual net income before interest and income taxes**	**1,864**	**2,033**
2.	+/-	Write-downs/write-ups of fixed assets	5,003	5,521
3.	+/-	Increase/decrease in pension accruals	44	26
4.	-/+	Profit/loss on the disposal of fixed assets	497	48
5.	-/+	Increase/decrease in inventories, accounts receivable and other		
		assets not allocable to investment or financing activities	-1,415	-4,704
6.	+/-	Increase/decrease in accounts payable and other assets not allocable		
		to investment or financing activities	5,701	2,998
7.	+/-	Taxes paid	-25	-139
8.	**=**	**Cash flow from operating activities**	**11,669**	**5,783**
9.	-	Cash paid for investments in property, plant and equipment	-3,221	-1,778
10.	-	Cash paid for investments in intangible assets	-140	-294
11.	-	Cash paid for the acquisition of consolidated companies and other business units	-129	0
12.	**=**	**Cash flow from investment activities**	**-3,490**	**-2,072**
13.	-	Cash paid for the repayment of financial leasing obligations	-1,360	-1,553
14.	-	Cash paid for the repayment of loans	-957	50
15.	+	Interest received	135	90
16.	-	Interest paid	-1,287	-1,515
17.	**=**	**Cash flow from financing activities**	**-3,469**	**-2,928**
18.		Changes in cash and cash equivalents affecting payments (subtotal of 8, 12, and 17)	4,710	783
19.	+/-	Change in cash and cash equivalents due to exchange rates	54	-51
20.	**+**	**Cash and cash equivalents as of Jan. 01**	**-11,207**	**-11,939**
21.	**=**	**Cash and cash equivalents as of Dez. 31**	**-6,443**	**-11,207**
Composition of cash and cash equivalents				
		Cash and short-term deposits	672	976
		Short-term liabilities to banks	-7,115	-12,183
			-6,443	-11,207

DR. SCHELLER COSMETICS AG, Eislingen (Fils)

CONSOLIDATED EQUITY SCHEDULE FOR THE FINANCIAL YEAR ENDING ON DECEMBER 31, 2005

	Note	Share Capital	Capital Reserve	Other Reserves	Revenue Reserves	Treasury Stock	Total
		TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Balance as of January 1, 2004		**6,500**	**7,800**	**-9**	**-116**	**-315**	**13,860**
Annual net income					469		469
Foreign currency conversion				-51			-51
Balance as of January 1, 2005	12	**6,500**	**7,800**	**-60**	**353**	**-315**	**14,278**
Annual net income	12				687		687
Foreign currency conversion	12			54			54
Balance as of December 31, 2005	12	**6,500**	**7,800**	**-6**	**1,040**	**-315**	**15,019**

DR. SCHELLER COSMETICS AG, Eislingen (Fils)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2005 FINANCIAL YEAR

1. INFORMATION ON THE COMPANY

The consolidated financial statements of DR. SCHELLER COSMETICS AG, Eislingen (Fils) for the financial year ending on December 31, 2005 were approved for publication by resolution of the Management Board dated March 17, 2006. DR. SCHELLER COSMETICS AG is a company with limited liability based in Germany whose shares are publicly traded.

The principal activities of the Group have been described in the segment report.

2. ACCOUNTING AND VALUATION PRINCIPLES

BASIS FOR THE COMPILATION OF THE FINANCIAL STATEMENTS

The compilation of the consolidated financial statements has mainly been based on the cost of acquisition principle. Derivative financial instruments, which have been stated at fair value, constitute an exception in this respect. The book values of the assets and liabilities stated in the balance sheet which represent underlying transactions within the framework of hedging fair values have been adjusted as a result of changes in the fair values attributable to the risks thereby covered. The consolidated financial statements have been compiled in Euros. Unless otherwise stated, all figures have been rounded up or down to the nearest thousand (TEUR).

DECLARATION CONCERNING COMPLIANCE WITH IFRS

The consolidated financial statements of DR. SCHELLER COSMETICS AG and its subsidiaries have been compiled in accordance with the regulations contained in the guidelines of the International Accounting Standards Board (IASB), London, valid as of the balance sheet reporting date and take due account of the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). Application has been made of new standards passed by the IASB and adopted by the EU from the time at which they come into force. Use has not been made of the possibility of premature application. The application of the respective accounting and valuation methods has been outlined in the corresponding items in the notes to the financial statements. The impact of the transition to IFRS on the net asset and financial position of the company has been depicted in Note 16.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the financial statements of DR. SCHELLER COSMETICS AG and its subsidiaries as of December 31 for each respective financial year. The financial statements of subsidiaries have been compiled on the basis of uniform accounting and valuation methods as of the same balance sheet reporting date as that for the financial statement of the parent company.

All inter-company balances, transactions, income, expenses, profits and losses relating to transactions within the Group and reflected in the book value of assets have been eliminated in full. The required tax delimitation has been undertaken for consolidation processes impacting on earnings.

Subsidiaries have been fully consolidated from the time of acquisition, i.e. from the time at which the Group gains control of the respective company. Their inclusion in the consolidated financial statements ends upon the parent company no longer exercising control.

REPORTING ENTITY

In addition to DR. SCHELLER COSMETICS AG, the consolidated financial statements include four German (Dr. Scheller DuroDont GmbH, Eislingen/Fils, Germany; Lady Manhattan Cosmetics GmbH, Stuttgart, Germany; Apotheker Dr. Scheller Naturmittel GmbH, Göppingen, Germany) and three international (Lady Manhattan Cosmetics Vertriebsgesellschaft m.b.H., Vienna, Austria; Dr. Scheller Cosmetics Polska sp.z.o.o., Wroclaw, Poland; Lady Manhattan Limited, London, Great Britain) companies in which DR. SCHELLER COSMETICS AG directly or indirectly owns a majority of the voting rights and which are subject to its uniform management. There has been no change in the number of such companies since the previous year.

The 50% shareholding held in the associated company Dr. Scheller Cosmetics kozmetika in storitve d.o.o., Ljubljana/Slovenia, which is a joint venture founded together with Tamaschi kozmetika in storitve d.o.o, Ljubljana/Slovenia on April 1, 2005, has been included in the consolidated financial statements using the equity method, given that DR. SCHELLER COSMETICS AG was contractually bound to waive the exercising of its rights as shareholder for the 2005 financial year until April 1, 2006.

In line with the equity method, the shares in the associated company have been stated in the balance sheet at cost of acquisition plus any changes in the share of the net assets of the associated company held by the Group following the acquisition. The costs of acquisition relating to the company acquisition totaled EUR 112k and include the contribution to the share capital as well as expenses directly allocable to the combination. When applying the equity method, the Group determines whether any additional write-down expenses are required in respect of the net investment made by the Group in the associated company. The income statement includes the Group's share in the performance of the associated company. Any changes recorded by the associated company directly under equity are also recorded by the Group directly under equity in accordance with its share in the company and recorded to the extent required in the depiction of changes in shareholders' equity. The balance sheet reporting date and the accounting and valuation methods for comparable business transactions and events are in agreement at the associated company and the Group.

2.1 KEY DISCRETIONARY DECISIONS AND ESTIMATES

The compilation of the consolidated financial statements requires estimates to be made to a very limited extent and discretionary decisions and assumptions to be made which have implications for the level and reporting of the assets and liabilities, income and expenses and contingent liabilities thereby stated. Actual figures may deviate from the respective estimates.

2.2 SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

FOREIGN CURRENCY CONVERSION

The financial statements of foreign subsidiaries have been converted into Euros on the basis of the functional currency concept. The balance sheets have been converted at mean exchange rates on the balance sheet reporting date and the income statements at annual average exchange rates in view of the fact that these companies conduct their business autonomously in financial, economic and organizational terms. Any differential amounts resulting from the currency conversion for asset and liability items compared with the conversion undertaken in the previous year, as well as any conversion differences arising between the balance sheet and the income statement, are treated without any impact on earnings.

In the separate financial statements of the companies, receivables and liabilities denominated in foreign currencies have been valued at the exchange rate on the balance sheet reporting date, unless the respective rates have been hedged. The development of the exchange rates for the principal currencies relevant to the consolidated financial statements has been listed in the table below:

	ISO Code	Average Rates	
1 Euro =		2004	2005
Swiss francs	CHF	1.5442	1.5555
Polish zlotys	PLN	4.5424	4.0151
Australian dollars	AUD	1.6909	1.6145
US dollars	USD	1.2463	1.1834

	ISO Code	Reporting Date Rates	
1 Euro =		2004	2005
Swiss francs	CHF	1.5437	1.5582
Polish zlotys	PLN	4.0852	3.8546
Australian dollars	AUD	1.7501	1.6222
US dollars	USD	1.3640	1.1843

INTANGIBLE ASSETS

Intangible assets acquired individually have been valued at cost of acquisition or manufacture upon their initial statement. Self-manufactured intangible assets have not been capitalized. Related expenses have been recorded with an impact on earnings in the period in which they were incurred.

It is initially necessary to ascertain whether the intangible assets have limited or indeterminate useful lives. Intangible assets with limited useful lives are amortized over the course of their economic useful lives and tested for any possible value impairments should there be any indication that the value of the intangible assets could be impaired. The period and method of amortization are reviewed for intangible assets with limited useful lives at least at the end of each financial year. Should there have been any change in the expected useful life or the expected period of amortization for the asset, then a different period or method of amortization is selected. Such changes are treated as changes in estimates (extraordinary amortization of EUR 353k was undertaken during the financial year). The amortization of intangible assets with limited useful lives is recorded in the income statement under the category of expenses appropriate to the function of the intangible assets. The amortization has been based on useful lives of between 3 and 10 years.

In the case of intangible assets with indeterminate useful lives (certain trademarks and brands), impairment tests are undertaken at least once per year for the individual asset or at the level of the cash generating unit. These intangible assets are not subject to scheduled amortization. The useful life of an intangible asset with an indeterminate useful life is reviewed at least once annually in order to ascertain whether the assessment that it has an indeterminate useful life is still justified. Should this not be the case, then the change in the assessment from that of an indeterminate useful life to that of limited useful life is undertaken on a prospective basis.

GOODWILL

Goodwill resulting from a business combination is initially stated at cost of acquisition, which is measured as the surplus of the costs of acquisition for the business combination over the share held by the Group in the fair values of the identifiable assets, liabilities and contingent liabilities thereby acquired. Following such initial statement, goodwill is valued at cost of acquisition less cumulative write-down expenses. Goodwill is subject to an impairment test at least once per year, as well as in the event of facts or changes in circumstances indicating that the book value could be impaired.

For the purposes of testing whether its value is impaired, the goodwill acquired in the context of a business combination has to be allocated from the takeover date onwards to each of the cash generating units or groups of cash generating units at the Group which are expected to benefit from the synergies resulting from the business combination. This applies regardless of whether other assets or liabilities of the Group have already been allocated to these units or groups of units. Each unit or group of units to which the goodwill has been allocated represents the lowest level of the Group on which the goodwill is monitored for internal management purposes – and may not be any larger than a segment based either on the primary or secondary reporting format of the Group as set out in IAS 14 »Segment Reporting«.

The value impairment is determined by calculating the achievable amount for the cash generating unit (group of cash generating units) to which the goodwill refers. In the event of the achievable amount of the cash generating unit (group of cash generating units) lying below the book value, then a value impairment expense is recorded. In cases in which the goodwill represents one part of the cash generating unit (group of cash generating units) and where one part of the business division of this unit is sold, then the goodwill allocable to the business division thereby sold is included as a component of the book value of the business division when calculating the proceeds from the sale of such business division. The goodwill sold in this way is calculated on the basis of the relationship of the business division thereby sold to the part of the cash generating unit not sold.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment has been capitalized at cost of acquisition or manufacture and subject to scheduled depreciation in line with the expected economic useful life. Costs relating to the repair and maintenance of property, plant and equipment have been recorded as expenses. Such costs have been capitalized in exceptional cases were the measures involved have resulted in an extension or significant improvement in the respective asset.

Property, plant and equipment used on the basis of leasing agreements has been capitalized at the present value of the minimum leasing payments or at the lower fair value, provided that the financial leasing requirements set out in IAS 17 (Leasing) are met, and depreciated over its respective economic useful life. These agreements have terms of between 2.5 and 7 years, cannot be terminated and include rental extension options. Following the expiry of the rental period, the company is entitled to acquire the assets at fair value. The book value of the financial leasing assets amounts to EUR 3,243k (previous year: EUR 4,229k). The corresponding liabilities relating to the rental obligation have been recorded separately under financial liabilities.

Property, plant and equipment is subject to straight-line depreciation. The scheduled depreciation of property, plant and equipment is based on the estimated useful lives of the respective assets.

The depreciation has been based on the following useful lives:

Buildings	10 to 40 years
Technical equipment and machinery	5 to 27 years
Plant and office equipment	3 to 15 years
Shop counters	3 years

The book values of property, plant and equipment are reviewed for any impairment in value as soon as any indications arise that the book value of the asset may be in excess of its achievable value.

Property, plant and equipment is canceled from the books either upon its disposal or in cases where no further economic benefit is expected from its further use or from the disposal of the asset. The profits or losses resulting from the canceling of such assets are calculated as the difference between the net proceeds on disposal and the book value and recorded in the income statement with a corresponding impact on earnings in the period in which the respective items were canceled.

The residual values of assets, useful lives and depreciation methods are reviewed at the end of each financial year and adjusted when necessary.

Upon large-scale maintenance measures being undertaken, the related expenses are recorded as a replacement in the book value of the asset in question, provided that the criteria for such statement are met.

DEBT CAPITAL COSTS

Debt capital costs are recorded as expenses in the period in which they are incurred.

IMPAIRMENT IN THE VALUE OF ASSETS

The Group assesses at each balance sheet reporting date whether there are any indications for any impairments in the value of assets. Should such indications be identified, or if the asset in question is required to be subjected to an annual impairment test, then the Group estimates the achievable value of the asset in question. The achievable value of an asset is the higher of either the fair value of the asset or the cash generating unit less costs of disposal or its use value. The achievable value is to be identified for each individual asset, unless the asset does not generate any flow of funds largely autonomous from those of other assets or groups of assets. Should the book value of the asset be in excess of its achievable value, the value of the asset is deemed to be impaired and is written down to its achievable value. The use value is calculated by discounting the estimated future cash flows to their fair value on the basis of a discount rate before taxes which reflects current market expectations in terms of the interest effect and the specific risks of the asset. Write-down expenses incurred at ongoing business divisions are recorded in the expense categories relating to the function of the impaired asset.

Investigations are undertaken at each balance sheet reporting date to ascertain whether there are any indications that a write-down undertaken in earlier reporting periods is no longer applicable or might have reduced. Should there be any such indication, then the achievable amount is estimated. Write-down expenses previously recorded are to be reversed in cases where there has been a change in the estimates referred to in the calculation of the achievable amount since the recording of the previous write-down expenses. When this is the case, the book value of the asset is to be increased to its achievable value. This increased book value may not exceed the book value which would pertain having accounted for depreciation if no write-down expenses had been recorded in previous years. Such write-ups in the value of assets are to be recorded in the results for the respective period unless the asset is recorded at the amount resulting from a revaluation. In this case, the write-up in the value of the asset is to be treated as an increase in value resulting from revaluation. Following a write-up in the value of an asset, depreciation expenses are to be adjusted in future reporting periods in order to distribute the corrected book value of the asset, less any remaining book value, systematically over its remaining useful life.

FINANCIAL INVESTMENTS AND OTHER FINANCIAL ASSETS

Financial assets pursuant to IAS 39 are classified as financial assets valued at fair value with a corresponding impact on earnings, as loans and receivables, as investments held until final maturity and as financial assets available for sale. Financial assets are valued at fair value upon their initial statement. In the case of financial investments not valued at fair value with a corresponding impact on earnings, the transaction expenses directly allocable to the acquisition of the financial asset are also included in the value. The Group determines the classification of its financial assets upon their initial statement and reviews this classification at the end of each financial year to the extent that such review is permitted and commensurate.

In the case of purchases and sales of financial assets at customary market conditions, such assets are accounted for as of the trading day, i.e. on the day on which the company entered into the obligation to purchase the asset. Purchases and sales at customary market conditions are such purchases or sales of financial assets which provide for the transfer of the assets within a period determined by market regulations or conventions.

Financial assets valued at fair value with a corresponding impact on earnings

Financial assets classified as being held for trading purposes are included in the »valued at fair value with a corresponding impact on earnings« category. Financial assets are classified as being held for trading purposes if they have been acquired for the purpose of disposal in the near future. Derivative financial instruments are also classified as being held for trading purposes, unless they constitute derivatives designated as hedging instruments and effective as such. Profits or losses resulting from financial assets held for trading purposes are recorded with a corresponding impact on earnings.

Financial investments held until final maturity

Non-derivative financial assets with fixed or at least determinable payment amounts and fixed maturities are classified as financial assets held until final maturity if the Group intends and is in a position to hold such assets until their final maturity. This classification does not include financial investments to be held for an indeterminate period. Other long-term financial investments which are to be held until final maturity (e.g. bonds) are valued at updated cost of acquisition. This is the amount at which the financial asset was valued upon its initial statement, less repayments, plus or less the cumulative amortization of any difference between the original amount and the amount repayable at final maturity by application of the effective interest method. This calculation includes all fees paid or received by the contractual partners, as well as other considerations, if such represent an integral part of the effective interest rate, the transaction expenses and all other premiums or negative premiums. Profits and loses relating to financial investments stated at updated cost of acquisition are recorded in the earnings for the respective period if the financial investments are canceled from the books or impaired in their value, as well as within the framework of amortization.

Loans and receivables

Loans and receivables are non-derivative financial instruments involving fixed or determinable payments and are not listed on an active market. These assets are valued at updated costs of acquisition using the effective interest rate method. Profits and loses are reported under period earnings in cases where the loans and receivables are canceled from the books or impaired and within the framework of amortization.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets classified as being available for sale and not classified in any of the three aforementioned categories. Following their initial statement, financial assets available for sale are valued at fair value, with profits and losses being recorded in a separate item under equity. At the time at which the financial investment is canceled from the books or at which an impairment is identified in the value of the financial investment, the profit or loss previously recorded under equity is stated in the income statement with a corresponding impact on earnings.

The fair value of financial investments which are traded on organized markets is determined by reference to the buying rate on the stock exchange on the balance sheet reporting date. The fair value of financial investments for which there is no active market is estimated by application of valuation methods. Such procedures are based on transactions recently undertaken under market conditions or on the current fair value of another instrument which in most respects represents the same instrument or on the analysis of discounted cash flows and option price models.

INVENTORIES

Pursuant to IAS 2 (Inventories), inventories are valued at cost of acquisition or manufacture or at their lower net disposal value.

Inventories are valued using the average method. In addition to direct costs, the costs of manufacture include a prorated share of indirect material and production costs, as well as of production-related depreciation. Moreover, the valuation also includes a prorated share of expenses relating to company pension schemes and to voluntary welfare payments made by the company, as well as production-related administration expenses.

The net disposal value is the estimated sales price achievable in the course of usual business operations, less the estimated costs up to completion and the estimated sales expenses involved.

ACCOUNTS RECEIVABLE

Receivables and other assets have been stated at face value. Account is taken of any identifiable individual risks by means suitable write-downs. Receivables are canceled from the books as soon as they no longer recoverable.

TREASURY STOCK

If the Group acquires treasury stock, then this is deducted from equity. The purchase, sale, issue and collection of treasury stock is recorded without any impact on earnings.

CASH AND CASH EQUIVALENTS

The cash and short-term deposits reported in the balance sheet includes cash holdings, credit balances at banks and short-term deposits with original maturity periods of less than three months.

For the purposes of the consolidated cash flow statement, cash and cash equivalents include the cash and short-term deposits outlined above plus any overdraft facilities drawn down.

INTEREST-BEARING LOANS

Loans are initially stated at the fair value of the counter-consideration thereby received following the deduction of the transaction expenses relating to the taking up of the loans.

Following their initial statement, interest-bearing loans are subsequently valued at updated cost of acquisition using the effective interest method.

Profits and losses are recorded under period earnings if the liabilities are canceled from the books and within the framework of amortization.

CANCELLATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets

A financial asset (or a part of a financial asset or a part of a group of comparable financial assets) is canceled from the books in the event of one of the three following conditions being met:

- the contractual rights to cash flows from a financial asset have expired
- the Group retains the contractual rights in respect of cash flows from financial assets, but nevertheless assumes a contractual obligation to pay the cash flows without any significant delay to a third party within the framework of an agreement fulfilling the conditions set out in IAS 39.19 (»pass-through arrangements«)
- the Group has assigned its contractual rights to cash flows from a financial asset and has (a) assigned all significant risks and rewards relating to the ownership of the financial asset or (b) neither assigned nor retained all significant risks and rewards relating to the ownership of the financial asset, but has nevertheless assigned the authority to dispose over the financial asset.

If the Group assigns its contractual rights to cash flows from an asset and neither assigns nor retains all significant risks and rewards relating to the ownership of this asset and also retains the right to dispose over the asset thereby assigned, then the Group continues to record the asset thereby assigned to the extent of its ongoing engagement.

Should the ongoing engagement formally involve a guarantee for the asset assigned, then the extent of the ongoing engagement is the lower of the original book value of the asset and the maximum amount of the counter-consideration received and which the Group may have to repay. Should the ongoing engagement formally involve a written and/or purchased option (including an option fulfilled by cash settlement or by comparable means) to the asset assigned, then the extent of the ongoing engagement of the Group is the amount of the asset assigned which the company can repurchase. In the case of a written sale option (including an option fulfilled by cash settlement or by comparable means) to an asset valued at fair value, however, the extent of the ongoing engagement of the Group is restricted to the lower of the fair value of the asset assigned and the exercise price of the respective option.

Financial liabilities

A financial liability is canceled from the books if the obligation underlying such liability has been fulfilled or terminated or has lapsed.

Should an existing financial liability be exchanged for another financial liability from the same creditor with substantially different contractual conditions, or should there be any substantial amendment in the conditions governing an existing liability, then such exchange or amendment is treated as a cancellation of the original liability and the statement of a new liability. The difference between the respective book values is recorded under period earnings.

IMPAIRMENT IN THE VALUE OF FINANCIAL ASSETS

The Group determines on each balance sheet reporting date whether the value of a financial asset or of a group of financial assets is impaired.

Assets stated at updated cost of acquisition

Should there be any objective indication that the value of loans and receivables stated at updated cost of acquisition is impaired, the level of the loss is calculated as the difference between the book value of the asset and the present value of the expected future cash flows (with the exception of future loan defaults which have not yet arisen), discounted by the original effective interest rate of the financial asset (i.e. the interest rate determined upon initial statement). The book value of the asset is to be reduced either directly or by means of a write-down account. The amount of such loss is to be recorded with a corresponding impact on earnings.

The Group initially determines whether there is any objective indication of value impairments for financial assets significant in their own terms and for financial assets not significant in their own terms, both on an individual and on a joint basis. Should the Group ascertain that there is no objective indication of value impairment for an individually investigated financial asset, regardless of whether it is significant or not, then it includes such asset in a group of financial assets with comparable default risk profiles and investigates them jointly in terms of value impairment. Assets individually investigated in terms of value impairment and for which write-downs are recorded for the first time or upheld from previous occasions are not included in joint value impairment assessments. Should the level of the write-down reduce in one of the following reporting periods and in the event of such reduction being objectively attributable to a circumstance arising after the recording of such write-down, then the write-down previously recorded is reversed. Any subsequent write-up is recorded with a corresponding impact on earnings to the extent that the book value of the asset does not exceed the updated cost of acquisition at the time of such write-up.

Assets stated at cost of acquisition

Should there be any objective indication that a value impairment has arisen in the case of a non-listed equity instrument not stated at fair value as a result of it not being possible to determine its fair value reliably or in the case of a derivative asset linked to this non-listed equity instrument and which can only be fulfilled by delivery, then the level of write-down is equivalent to the difference between the book value of the financial asset and the present value of the estimated future cash flows discounted by the current market return on comparable financial assets.

ACCRUALS

Accruals are stated in cases where the Group has a current (legal or factual) obligation due to a previous event which is likely to result in an outflow of resources of economic use and where the level of such obligation can be reliably estimated. Should the Group expect to receive a refund at least in part for any accrual capitalized as a liability (e.g. as in the case of an insurance agreement), then such refund is only recorded as a separate asset in cases where the refund is virtually certain to be received. The expenses relating to the taking of such accrual are reported in the income statement following deduction of the refund. In cases where the interest effect is substantial, accruals are discounted at an interest rate before taxes which reflects the specific risks relating to the obligation. In the case of discounting, the increase in accruals resulting from the passage of time is recorded under interest expenses. The valuation of customer-related accruals is undertaken on the basis of the agreements concluded with customers in respect of sales-related bonus payments or of the payment agreements concluded.

ACCRUALS FOR PENSIONS AND SIMILAR OBLIGATIONS

Employees of DR. SCHELLER COSMETICS AG are entitled to claims from direct benefit pension plans within the framework of company pension schemes. The level of benefits is generally based on the duration of employment and salary of the employees thereby entitled.

The direct and indirect obligations include those relating to pensions already being paid and entitlements to pensions and retirement allowances to be paid in future. The corresponding expenses are included in the expenses for the respective functional division.

The accrued interest on benefit claims acquired in previous years and the amortization of unrealized actuarial profits/losses are reported under interest expenses. Pursuant to IAS 19 (Payments to Employees), the pension obligations for direct benefit pension plans are calculated using the projected unit credit method. The expected benefit payments are distributed over the entire period of employment of the employees. No extraordinary expenses and income were incurred during the year under report as a result of the termination of benefit plans or due to the reduction and assignment of benefit payments. The calculation of pension obligations takes due account of market interest rates, as well as of wage/salary, pension and staff turnover trends.

Pursuant to the corridor method, actuarial profits and loses are generally not stated, provided that they do not exceed 10% of the current value of the obligations. Should they exceed 10%, then the amounts in excess of such corridor are amortized over the average remaining period in employment of the employees starting in the following year. The length of service expenses to be charged retrospectively are distributed on a straight-line basis over the average period up to the vesting of the entitlement. In cases where entitlements are vested immediately upon their introduction or following any change in a pension plant, the length of service expenses are recorded with an immediate impact on earnings.

LEASING RELATIONSHIPS AND OBLIGATIONS

The decision as to whether an agreement constitutes or involves a leasing relationship is based on the economic content of the agreement and requires an assessment as to whether the contractual agreement is dependent on the use of a certain asset or of certain assets and whether the agreement grants rights concerning the use of the asset.

Financial leasing agreements in which all significant risks and rewards relating to the ownership of the asset are assigned to the Group are capitalized at the beginning of the leasing relationship at the fair value of the leased object, or at the present value of the minimum leasing payments should these be lower. Leasing payments are divided into their components of financial expenses and the repayments of the leasing obligation in such a way that the remaining book value of the leasing obligation is charged interest at a constant interest rate. Financing expenses are recorded with an immediate impact on earnings.

Should the transfer of ownership to the Group at the end of the term of the leasing relationship not be sufficiently secure, then the capitalized leasing objects are depreciated in full over the shorter of the term of the leasing relationship or of their useful life.

Leasing payments for operating leasing relationships are recorded as expenses in the income statement on a straight-line basis over the term of the leasing relationship.

RECORDING OF INCOME

Income is recorded when it is probable that the economic benefit will be transferred to the Group and when the level of income can be reliably determined. Moreover, for the income to be recorded, the following statement criteria have to be fulfilled:

Sale of goods and products

Income is recorded when the significant risks and rewards relating to ownership of the goods and products sold has passed to the buyer.

Interest income

Income is recorded when the interest is generated (using the effective interest method, i.e. the discount rate by which the estimate future cash flows are discounted to the net book value of the financial asset over the expected term of the financial instrument).

COSTS OF SERVICES PROVIDED (COSTS OF SALES)

This item includes the costs of the self-manufactured products sold and the procurement expenses relating to the merchandise sold. In addition to directly allocable costs, such as material, personnel and energy costs, the costs of self-manufactured products also include indirect production-related costs, including depreciation of production facilities. The costs of services provided include write-downs undertaken on inventories.

MARKETING AND SALES EXPENSES

Marketing and sales expenses include the expenses relating to marketing, sales organization and logistics, as well as the costs of market research, product development and write-downs undertaken on supplier receivables.

RESEARCH AND DEVELOPMENT EXPENSES

Pursuant to IAS 38 (Intangible Assets), the research and development expenses (EUR 811k; previous year: EUR 876k) include the costs of research and of product and process development, including expenses for services provided by third parties. Development expenses are recorded in full as expenses in the period in which they are incurred, given that the requirements for capitalization are not fulfilled in view of the risks existing in each case up to market launch.

GENERAL ADMINISTRATION EXPENSES

Personnel and material expenses incurred by the administration expenses relating to external services are reported under this item to the extent that they are not allocated to other functional divisions.

OTHER INCOME

Other income includes licensing income, non-period income, income from the reversal of write-downs on receivables and other operating income.

OTHER EXPENSES

Other expenses include accruals for other risks and other operating expenses.

FINANCIAL RESULTS

The interest expenses resulting from additions to pensions are stated at the level of the annual amount of accrued interest.

Other financial income primarily relates to currency gains on financial positions denominated in foreign currencies. Currency losses on financial positions have been reported under other financial expenses.

TAXES

Actual tax refund claims and tax liabilities

Actual tax refund claims and tax liabilities for the current period and for earlier periods are to be valued at the amount of the refund or payment expected to be received from or made to the tax authorities. The calculation of the amount is based on the tax rates and tax legislation valid as of the balance sheet reporting date or due to become valid shortly thereafter.

Deferred taxes

Deferred taxes have been stated using the balance sheet liability method for all temporary differences as of the reporting date between the value of an asset or liability as reported in the balance sheet and the respective value stated for tax purposes.

Deferred tax liabilities are recorded for all taxable temporary differences, with the following exceptions:

- It is not permitted to state the deferred tax liability resulting from the initial statement of goodwill or of an asset or liability in the case of a business transaction which is not a business combination and which has no impact on the earnings stated for the period in line with commercial law or for tax purposes.

- It is not permitted to state the deferred tax liability on taxable differences in connection with shareholdings in subsidiaries, associated companies and shares in joint ventures in cases where the timing of the reversal of such temporary differences can be controlled and where such differences are not likely to be reversed in the foreseeable future.

Deferred tax claims are recorded for all deductible temporary differences, tax loss carryovers not yet utilized and unutilized tax credits to the extent that taxable income is likely to be available for the deductible temporary differences and the tax loss carry-overs and tax credits not yet used to be offset against, with the following exceptions:

- It is not permitted to state deferred tax claims for deductible temporary differences resulting from the initial statement of an asset or a liability in the case of a business transaction which is not a business combination and which has no impact on the earnings stated for the period in line with commercial law or for tax purposes.
- Deferred tax claims resulting from taxable temporary differences in connection with shareholdings in subsidiaries, associated companies and shares in joint ventures may only be stated to the extent that such temporary differences are likely to be reversed in the foreseeable future and that sufficient taxable income will be available for the temporary differences to be offset against.

The book value of the deferred tax claims is reviewed at each balance sheet reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available for the deferred tax claim to be offset against at least in part. Deferred tax claims which have not been stated are reviewed at each balance sheet reporting date and subsequently stated to the extent that it has become probable that future income will enable the deferred tax claims to be realized.

Deferred tax claims and liabilities are measured using the tax rates expected to be valid for the period in which the asset is realized or the liability is fulfilled. This calculation is based on the tax rates (and tax regulations) valid or announced as of the balance sheet reporting date.

Income taxes referring to items recorded directly under equity are recorded under equity and not in the income statement.

Deferred tax claims and deferred tax liabilities are offset against each other if the Group has an enforceable claim to the imputation of actual tax refund claims against actual tax liabilities and that these relate to income taxes of the same tax subject levied by the same tax authorities.

Sales tax

Sales, expenses and assets have been recorded following the deduction of sales taxes, with the following exceptions:

- if the sales tax incurred on the purchase of goods or services cannot be claimed by the tax authorities, the sales tax is reported as part of the costs of manufacture of the respective asset or as part of the respective expenses
- receivables and liabilities are stated together with the amount of sales tax included.

The level of sales tax to be refunded by or forwarded to the tax authorities is recorded under receivables or liabilities in the balance sheet.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative financial instruments are used at the DR. SCHELLER COSMETICS Group for controlling current and future interest rate risks. The instruments serve to hedge the basic operative business and the financial transactions required by the company. The Group is therefore not exposed to additional risks. The transactions relate exclusively to customary market instruments (swaps).

At the beginning of a hedging relationship the Group formally determines both the hedging relationship which the Group intends to state as a hedging transaction and the risk management objectives and strategies in respect of such hedging and then documents these. This documentation includes the selection of the hedging instrument, the underlying transaction or the transaction thereby hedged and the type of risk to be hedged, as well as a description of how the company will calculate the effectiveness of the hedging instrument when compensating for the risks resulting from changes in the fair value or the cash flow of the underlying transaction thereby hedged. Such hedging relationships are assessed as highly effective in terms of achieving a compensation of the risks resulting from changes in the fair value or cash flow. They are assessed on an ongoing basis to determine whether they were actually highly effective for the whole of the period under report for which the hedging relationship was designated.

The use of derivative interest rate contracts is restricted to the hedging of interest rates for long-term financing facilities and in individual cases to short-term interest rate optimizations. These derivative financial instruments are initially stated at fair value at the time at which the corresponding agreement is concluded and subsequently revalued at fair value. Derivative financial instruments are stated as assets in cases where their fair value is positive and as liabilities when their fair value is negative.

In the case of derivative financial instruments which do not fulfill the criteria for being treated as hedging transactions, the profits or losses resulting from changes in the fair value are recorded with an immediate impact on earnings. The fair value of interest swap contracts is calculated by reference to the market values of comparable instruments.

3. SEGMENT REPORTING

The segment reporting at the DR. SCHELLER COSMETICS Group is primarily based on the products manufactured and sold in the company divisions. The division into the company divisions of decorative cosmetics, face and body care and dental and oral hygiene corresponds to the company's organizational structure. The regional breakdown reflects the international division of business activities at the DR. SCHELLER COSMETICS Group. Based on the type of product involved, the business divisions are organized and managed independently of each other. Each segment represents a strategic business division whose product range and markets differ from those of other segments.

The company divisions and the business performance of the company divisions and regions have been depicted in the management report.

Transfer prices between the business segments have been calculated on the basis of customary market conditions between third parties. Segment income, segment expenses and segment earnings include transfers between the respective business segments. These transfers have been eliminated in the context of the consolidation.

The geographical segments of the Group are determined in accordance with the locations of the assets of the Group. Sales to external customers recorded under the geographical segments have been allocated to the individual segments in accordance with the geographical locations of the customers.

BUSINESS SEGMENTS

The following tables provide information as to the income and results, as well as information as to the assets and liabilities, of the business segments of the Group for the financial years ending on December 31, 2005 and December 31, 2004.

3.1 SEGMENTS BROKEN DOWN INTO BUSINESS FIELDS

Consolidated income statement

	Decorative Cosmetics		Dental and Oral Hygiene		Face and Body Care		Total	
	2004	2005	2004	2005	2004	2005	2004	2005
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Sales	45,878	50,223	18,939	17,935	7,260	9,412	72,077	77,570
Gross profit	**25,061**	**25,745**	**2,939**	**3,872**	**2,310**	**3,318**	**30,310**	**32,934**
Operating expenses	**-20,262**	**-23,582**	**-3,160**	**-2,588**	**-4,241**	**-4,022**	**-27,662**	**-30,193**
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**4,799**	**2,162**	**-221**	**1,284**	**-1,931**	**-705**	**2,647**	**2,741**
Earnings before taxes on income (EBT)	3,842	945	-537	1,383	-2,075	-841	1,228	1,488
Net income	1,566	496	-166	383	-928	-192	469	687

	Decorative Cosmetics		Dental and Oral Hygiene		Face and Body Care		Total	
	Dec. 31, 05	Dec. 31, 04	Dec. 31, 04	Dec. 31, 05	Dec. 31, 04	Dec. 31, 05	Dec. 31, 04	Dec. 31, 0
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Segment assets	34,604	34,417	10,708	8,317	5,469	7,452	50,781	50,186

(Pursuant to IAS 14, segment assets represent the total assets of the business area less interest-bearing loans, cash and cash equivalents, deferred tax assets and other tax refund claims).

Segment liabilities	10,178	14,074	2,334	1,068	1,298	2,233	13,809	17,375

(Pursuant to IAS 14, segment liabilities represent total shareholders' equity and liabilities less shareholders' equity, pension accruals, accruals for deferred tax liabilities and financial debt).

	Decorative Cosmetics		Dental and Oral Hygiene		Face and Body Care		Total	
	2004	2005	2004	2005	2004	2005	2004	2005
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Shares in associated companies	0	86	0	25	0	18	0	129
Investments in intangible assets and in property, plant and equipment	1,417	2,338	421	598	234	426	2,072	3,361
Depreciation and amortization	3,775	3,212	1,122	821	624	585	5,521	4,618
Write-downs recorded under earnings				385				385

3.2 SEGMENTS BROKEN DOWN INTO CORE COUNTRIES* / OTHER COUNTRIES

Consolidated income statements

	Core Countries		Other Countries		Total	
	2004	2005	2004	2005	2004	2005
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Sales	53,756	62,646	18,321	14,925	72,077	77,570
Gross profit	**21,408**	**24,272**	**8,902**	**8,666**	**30,310**	**32,938**
Operating expenses	**-21,887**	**-23,735**	**-5,775**	**-6,458**	**-27,662**	**-30,193**
Operating earnings before interest, taxes, depreciation and amortization (EBITDA)	**-479**	**537**	**3,127**	**2,208**	**2,648**	**2,744**
Earnings before taxes on income (EBT)	-1,515	-445	2,743	1,934	1,228	1,488
Net income	-1,426	-531	1,895	1,219	469	687

	Core Countries		Other Countries		Total	
	Dec. 31, 04	Dec. 31, 05	Dec. 31, 04	Dec. 31, 05	Dec. 31, 04	Dec. 31, 05
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Segment assets	37,213	40,984	13,568	9,061	50,781	50,045

(Pursuant to IAS 14, segment assets represent the total assets of the business area less interest-bearing loans, cash and cash equivalents, deferred tax assets and other tax refund claims).

Segment liabilities	10,606	14,169	2,425	2,726	13,031	16,895

(Pursuant to IAS 14, segment liabilities represent total shareholders' equity and liabilities less shareholders' equity, pension accruals, accruals for deferred tax liabilities and financial debt).

*Germany, Russia, Slovenia, Poland

	Core Countries		Other Countries		Total	
	2004	2005	2004	2005	2004	2005
Shares in associated companies		129				129
Investments in intangible assets and in property, plant and equipment	1,612	2,780	460	581	2,072	3,361
Depreciation and amortization	4,295	3,819	1,226	799	5,521	4,618
Write-downs recorded under earnings		385				385

4. OTHER INCOME AND EXPENSES

4.1 OTHER INCOME	2005	2004
	TEUR	TEUR
Profit on disposal of assets	0	1
Income from release of accruals	147	161
Other operating income	477	259
	624	**421**

4.2 OTHER EXPENSES	2005	2004
	TEUR	TEUR
Losses on disposal of assets	328	33
Other operating expenses	101	365
	429	**398**

4.3 FINANCING INCOME	2005	2004
	TEUR	TEUR
Interest income	99	37
Exchange rate differences	36	53
	135	**90**

4.4 FINANCING EXPENSES	2005	2004
	TEUR	TEUR
Exchange rate differences	317	17
Interest expenses	1,287	1,515
	1,604	**1,532**

4.5 SHARE IN PROFIT OF ASSOCIATED COMPANIES	2005	2004
	TEUR	TEUR
Share in profit of associated companies	**17**	**0**

4.6 COST OF MATERIALS	2005	2004
	TEUR	TEUR
Expenditure on raw materials and supplies and on goods purchased	31,683	30,126
Expenditure on services purchased	5,083	1,617
	36,766	**31,743**

4.7 PERSONNEL EXPENSES	2005	2004
	TEUR	TEUR
Wages and salaries	12,983	13,582
Social security contributions and welfare expenses	2,417	2,668
Aufwendungen für Altersversorgung	353	280
	15,753	**16,530**

5. INCOME TAX EXPENSES

The main components of income tax expenses for the 2005 and 2004 financial years are structured as follows:

Consolidated income statement	2005	2004
	TEUR	TEUR
Actual income tax expenses	25	139
Deferred income taxes	776	620
Income tax expenses reported in the consolidated income statement	**801**	**759**

The transition to income tax expenses from the product of the period earnings and the tax rate applicable to the Group is structured as follows for the 2005 and 2004 financial years:

	2005	2004
	TEUR	TEUR
Earnings of ongoing business divisions before income taxes	**1,488**	**1,228**
Income tax expenses at a tax rate of 37.30% (previous year: 37.30%)	-555	-458
Adjustments of income taxes actually incurred in previous years	0	-139
Non-deductible expenses	-149	-68
Effect of depreciation of deferred tax assets on loss carryover		
Dr. Scheller Cosmetics Polska Sp.z.o.o.	-97	-94
Income tax expenses reported in the consolidated income statement	**-801**	**-759**

Deferred income taxes

Deferred income taxes were structured as follows as of the balance sheet reporting date:

	Consolidated Balance Sheet		Consolidated Income Statement	
	Dec. 31, 05	Dec. 31, 04	2005	2004
	TEUR	TEUR	TEUR	TEUR
Deferred tax assets				
Inventories	31	65	-34	-652
Receivables and other assets	0	245	-245	210
Accruals for pensions and similar obligations	474	342	132	-6
Tax loss carryovers	233	624	-391	-252
	738	**1,276**	**-538**	**-700**
Deferred tax liabilities				
Fixed assets	1,686	1,515	-171	63
Receivables and other assets	78	2	-76	8
Other accruals	0	12	12	-12
Liabilities	60	57	-3	21
	1,824	**1,586**	**-238**	**80**
Deferred tax liabilities in the balance sheet	**-1,086**	**-310**		
Deferred income tax income / (expenses)			**-776**	**-620**

In Germany, the Group has tax loss carryovers amounting to EUR 608k (corporate income tax) and EUR 652k (trade tax) (previous year: EUR 1,624k corporate income tax; EUR 1,749k trade tax) which are unrestrictedly available for offsetting against the future taxable income of the company at which the losses were incurred. The deferred tax assets resulting from tax loss carryovers at Dr. Scheller Cosmetics Polska Sp.z.o.o. were written down in full as of December 31, 2005, as they had also been as of December 31, 2004, in view of the fact that there is unlikely to be sufficient taxable income available for the deferred tax claim to be offset against at least in part.

6. EARNINGS PER SHARE

Earnings per share amounted to EUR 0.26 in 2005 (previous year: EUR 0.18). Since the execution of the share buyback in 2002, DR. SCHELLER COSMETICS AG has held 60,000 treasury stocks (0.92%). These have been deducted for the calculation of earnings per share. This produced a weighted average number of 6,440,000 shares. Given that there are no financial instruments outstanding which could be converted into shares, there is no separate figure for diluted earnings per share.

7. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	Intangible assets	Land, leasehold rights and buildings	Technical equipment & machinery	Plant and office equipment	Prepayments made & assets under construction	Total property, plant & equipment	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Costs of acquisition							
Opening balance as of January 1, 2004	2,726	25,373	11,228	21,448	404		61,179
Additions	294	174	372	1,232	0		2,072
Disposals	2	0	0	348	0		350
Reclassifications	-54	5	50	171	-172		0
Closing balance as of December 31, 2004	2,964	25,552	11,650	22,503	232	59,937	62,901
Depreciation and amortization							
Opening balance as of January 1, 2004	1,588	7,331	4,856	13,476	0		27,251
Additions	313	1,035	893	3,280	0		5,521
Disposals	2	0	0	300	0		302
Closing balance as of December 31, 2004	1,899	8,366	5,749	16,456	0	30,571	32,470
Book value as of December 31, 2004	**1,065**	**17,186**	**5,901**	**6,047**	**232**	**29,366**	**30,431**
Costs of acquisition							
Opening balance as of January 1, 2005	2,964	25,552	11,650	22,503	232		62,901
Additions	140	50	71	2,936	164		3,361
Disposals	0	0	0	536	234		770
Reclassifications	0	0	0	71	-71		0
Closing balance as of December 31, 2005	3,104	25,602	11,721	24,974	91	62,385	65,492
Depreciation							
Opening balance as of January 1, 2005	1,899	8,366	5,749	16,456	0		32,470
Additions	679	870	882	2,572	0		5,003
Disposals	0	0	0	273	0		273
Closing balance as of December 31, 2005	2,578	9,236	6,631	18,755	0	34,622	37,200
Book value as of December 31, 2005	**526**	**16,366**	**5,090**	**6,219**	**91**	**27,766**	**28,292**

8. SHARES IN A ASSOCIATED COMPANIE

	Companies valued at equity (DSC Slovenia)	Total
	TEUR	TEUR
Book value as of December 31, 2004	**0**	**0**
Costs of acquisition		
Opening balance as of January 1, 2005	0	0
Additions	129	129
Closing balance as of December 31, 2005	129	129
Amortization		
Closing balance as of December 31, 2005	0	0
Book value as of December 31, 2005	**129**	**129**

9. INVENTORIES

	Dec. 31, 2005	Dec. 31, 2004
	TEUR	TEUR
Raw materials and supplies	4,702	3,845
Depreciation of raw materials and supplies	-680	-374
Unfinished products	1,208	758
Finished products	6,004	4,802
Merchandise	1,180	1,046
Depreciation of finished products and merchandise	-2,008	-983
	10,406	**9,094**

10. RECEIVABLES AND ADVANCE PAYMENTS (MEDIUM-TERM)

	Dec. 31, 2005	Dec. 31, 2004
	TEUR	TEUR
Accounts receivable	9,044	9,518
Individual write-downs of accounts receivable	-706	-265
Receivables from affiliated companies	1,082	0
	9,420	**9,253**
Tax claims	155	0
Advanced payments	21	103
Other receivables	1,763	1,900
	11,359	**11,256**

11. CASH AND SHORT-TERM DEPOSITS

	Dec. 31, 2005	Dec. 31, 2004
	TEUR	TEUR
Cash holdings	0	3
Credit balances at banks	672	973
Cash and short-term deposits	**672**	**976**

As of December 31 2005, the Group had unutilized credit lines amounting to EUR 11,728k (2004: EUR 2,539k), for which all the conditions required for utilization had already been met.

For the purposes of the consolidated cash flow statement, cash and cash equivalents consists of the liquid funds referred to above and short-term liabilities to banks.

12. SHAREHOLDERS' EQUITY

	Dec. 31, 2005	Dec. 31, 2004
	TEUR	TEUR
Share capital	6,500	6,500
Capital reserve	7,800	7,800
Treasury stock	-315	-315
Currency conversion	-6	-60
Revenue reserves	1,040	353
Revenue reserves	145	145
Retained earnings	208	-261
Annual net earnings	687	469
	15,019	**14,278**

Share capital
The share capital amounts to EUR 6,500,000 and is divided into 6,500,000 individual shares. Since the execution of the share buyback in 2002, the company owns 60,000 individual shares (equivalent to 0.92% of the share capital in the company).

Authorized capital
The Annual General Meeting held on June 8, 2004 authorized the Management Board, subject to the consent of the Supervisory Board, to increase the share capital by a maximum of EUR 2,600,000 by June 7, 2009 by issuing new individual shares on one or more occasions in return for cash or non-cash contributions. The Management Board was further authorized up to December 14, 2006 to acquire treasury stock up to 10 percent of the current share capital.

Capital reserve
The capital reserve includes the premium from the IPO of DR. SCHELLER COSMETICS AG in 1999.

Revenue reserves
The revenue reserves contain the earnings generated in the past by the companies included in the consolidated financial statements, to the extent that such earnings have not been distributed.

Currency conversion
This item includes the differences resulting from the currency conversion undertaken in the annual financial statements of the consolidated companies without any impact on earnings.

13. PENSION ACCRUALS

	Dec. 31, 2005	Dec. 31, 2004
	%	%
Assumptions		
Discount rate	4.00	5.25
Wage/salary trend	1.50	1.50
Pensions trend	1.50	1.50
Personnel turnover	0.00	0.00

	2005	2004
	TEUR	TEUR
Accruals		
Accrual pursuant to IAS 19 as of 1.1	**5.037**	**5.011**
Current period in service expenses	53	51
Interest expenses on present value of entitlement	255	256
Pension payments	-264	-281
Accrual pursuant to IAS 19 as of 12.31	**5.081**	**5.037**
Present value of pension obligations	5.298	5.037
Actuarial profits (+) / losses (-) not recorded	-217	0
Accrual pursuant to IAS 19 as of 12.31	**5.081**	**5.037**

14. FINANCIAL DEBT AND OTHER LIABILITIES

	Dec. 31, 2005	Dec. 31, 2004
	TEUR	TEUR
Financial debt	**12,297**	**18,322**
Accounts payable	**3,391**	**2,158**
Liabilities relating to wage, salary and vacation claims	1,367	1,212
Liabilities relating to social security contributions	505	537
Marketing and sales expenses	2,855	1,084
Other liabilities	167	198
Other debt	**4,894**	**3,031**
Liabilities relating to wage and church taxes	309	356
Sales tax liabilities	152	418
Other tax liabilities	20	5
Tax liabilities	**481**	**779**
Liabilities relating to financial leasing agreements	**2,016**	**3,376**
Long-term liabilities relating to financial leasing agreements	1,050	1,385
Short-term liabilities relating to financial leasing agreements	966	1,991
	23,079	**27,666**

Liabilities to banks

	Dec. 31, 2005	Dec. 31, 2005
	TEUR	TEUR
Liabilities to banks	**12,297**	**18,322**
Remaining term of up to 1 year (short-term)	7,115	12,183
Remaining term of more than 1 year (long-term)	5,182	6,139

15. ACCRUALS

	Customer-related accruals	Other	Total
	TEUR	TEUR	TEUR
Opening balance as of January 1, 2004	**3,134**	**272**	**3,406**
Added	3,642	771	4,413
Utilized	3,018	260	3,278
Released	75	0	75
Closing balance as of December 31, 2004	**3,683**	**783**	**4,466**
Opening balance as of January 1, 2005	**3,683**	**783**	**4,466**
Added	5,597	1,565	7,162
Utilized	3,564	1,328	4,892
Released	0	143	143
Closing balance as of December 31, 2005	**5,716**	**877**	**6,593**

16. NOTES ON THE TRANSITION TO IFRS

Application has been made of the accounting and valuation methods depicted in Note 2 in the compilation of this year's financial statements, as well as for the comparative information and the IFRS opening balance sheet.

Überleitungsrechnung zum Eigenkapital zum 1. Januar 2004 (Zeitpunkt des Übergangs auf IFRS)

	Subsequent No.	HGB	Effect of transition to IFRS	01.01.2004 IFRS
		TEUR	TEUR	TEUR
ASSETS				
Fixed assets				
Property, plant and equipment	1,2,3	23,689	9,102	32,791
Intangible assets	1,2	1,046	91	1,137
Financial assets	1	310	-310	0
Deferred tax assets	6	0	303	303
		25,045	**9,186**	**34,231**
Current assets				
Inventories	1,3	10,596	-1,602	8,994
Accounts receivable	1	3,873	-108	3,765
Advance payments	1	91	-66	25
Other receivables	1	4,500	-1,638	2,862
Securities, short-term	1	261	-261	0
Cash and short-term deposits	1	1,513	211	1,724
		20,834	**-3,464**	**17,370**
Total assets		**45,879**	**5,722**	**51,601**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	4	6,500	0	6,500
Capital reserve	4	7,800	0	7,800
Treasury stock	1,4	-261	-54	-315
Currency conversion	1	0	-9	-9
Revenue reserves	1,4	-1,750	1,634	-116
		12,289	**1,571**	**13,860**
Long-term debt				
Liabilities to banks	1	6,150	-61	6,089
Pension accruals	5	4,100	911	5,011
Leasing obligations	1,3	0	1,720	1,720
		10,250	**2,570**	**12,820**
Short-term debt				
Accounts payable	1	3,573	-1,719	1,854
Accruals	1	5,038	-8	5,030
Tax liabilities	1	248	32	280
Leasing obligations	1,3	0	3,209	3,209
Other liabilities	5	818	67	885
Liabilities to banks	1	13,663	0	13,663
		23,340	**1,581**	**24,921**
Total shareholders' equity and liabilities		**45,879**	**5,722**	**51,601**

1. The implications of the transition to IFRS mainly relate to the compilation of consolidated financial statements for DR. SCHELLER COSMETICS AG for the first time. Under the accounting requirements of German commercial law previously applied, the company did not previously compile any consolidated financial statements.

2. Under the previous accounting principles, depreciation and amortization were affected by tax regulations. Under IFRS, depreciation and amortization reflect the useful lives of the respective assets. The cumulative adjustment amount has increased the book value of property, plant and equipment by EUR 9,102k and that of intangible assets by EUR 91k.

3. Property, plant and equipment used on the basis of leasing agreements has been capitalized at the present value of the minimum leasing payments or at its lower present value, provided that the requirements for financial leasing set out in IAS 17 (Leasing) are met. The corresponding liabilities relating to the leasing obligation have been stated under financial liabilities. Under the previous accounting principles, the requirements for a corresponding accounting treatment were not met.

4. Shareholders' equity has been stated in agreement with the classification under the previous accounting requirements.

5. Pension accruals have been calculated in accordance with IAS 19. This has resulted in an increase of EUR 911k compared with under the previous accounting principles.

6. Under the previous accounting principles, the capitalization of deferred taxes was not required. The transition to IFRS has resulted in an amount of EUR 303k being capitalized.

Transition account for earnings for the 2004 financial year

	Subsequent No.	HGB	Impact of Transition to IFRS	2004
		TEUR	TEUR	TEUR
Sales	1,2	79,332	-7,255	72,077
Costs of sales	1,2,3,4	-43,367	1,599	-41,768
Gross earnings on sales		**35,965**	**-5,656**	**30,309**
Marketing and sales expenses	1,2,3,4	-29,034	6,798	-22,236
General administration expenses	1,2,3,4	-5,335	-91	-5,426
Operating earnings		**1,596**	**1,051**	**2,647**
Other income	1	294	127	421
Other expenses	1	-556	158	-398
Financing income	1	96	-43	53
Financing expenses	1	-1,265	-230	-1,495
Earnings before taxes		**165**	**1,063**	**1,228**
Income tax expenses	5	-139	-620	-759
Annual net income		**26**	**443**	**469**

1. The implications of the transition to IFRS mainly relate to the compilation of consolidated financial statements for DR. SCHELLER COSMETICS AG for the first time. Under the accounting requirements of German commercial law previously applied, the company did not previously compile any consolidated financial statements.

2. There has been a reduction in the level of sales revenues compared with the figures compiled under the previous accounting requirements as a result of the different classification of revenue reductions.

3. Pension accruals increased by EUR 26k in the 2004 financial year compared with EUR 20k under the previous accounting requirements. This has resulted in prorated increases in the costs of sales, marketing and sales expenses and general administration expenses.

4. Under the previous accounting principles, depreciation and amortization were affected by tax regulations. Under IFRS, depreciation and amortization reflect the useful lives of the respective assets. The impact on earnings as of December 31, 2004 was insubstantial.

5. The adjustments set out in Points 1 to 4 resulted in an increase of EUR 620k in deferred tax expenses.

Notes concerning major adjustments in the cash flow statement as of December 31, 2004:

Income taxes amounting to EUR 139k paid in the 2004 financial year are classified under IFRS as cash flows from operating activities.

17. CONTINGENT LIABILITIES

	Dec. 31, 2005	Dec. 31, 2004
	TEUR	TEUR
Other financial obligations		
Obligations relating to rental and leasing agreements		
Due in subsequent year	94	330
Due in 2 to 5 years	1,057	1,261
Due in more than 5 years	0	313

In the course of its customary business activities, DR. SCHELLER COSMETICS AG is subject to possible obligations resulting from legal proceedings and claims asserted. Any estimates as to the possible level of future expenses are subject to numerous uncertainties. DR. SCHELLER COSMETICS AG does not expect such factors to have any significant negative impact on the economic or financial situation of the DR. SCHELLER COSMETICS Group.

18. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair Values		Face Values	
	2004	2005	2004	2005
	TEUR	TEUR	TEUR	TEUR
Interest swaps	1,883	2,686	1,943	2,943

19. INFORMATION CONCERNING AVERAGE PERSONNEL TOTALS

Personnel

The average number of employees amounted to:

	2005	2004
Industrial workers	182	196
Salaried employees	203	220
Trainees	16	11
	401	**427**

20. AUDIT AND ADVISORY FEES

The fee of the group auditor reported as expenses in the financial year amounted to:

	TEUR
– for the audit of the separate and consolidated financial statements:	70
– for other advisory services:	69
– for tax advisory services:	8
	147

21. SUBSIDIARIES EXEMPT FROM DISCLOSURES

The following wholly-owned subsidiaries of DR. SCHELLER COSMETICS AG, Eislingen/Fils

- Dr. Scheller DuroDont GmbH, Eislingen/Fils
- Lady Manhattan Cosmetics GmbH, Stuttgart
- Apotheker Scheller Naturmittel GmbH, Göppingen
- Premium Cosmetics GmbH, Stuttgart

have drawn on the possibility of exemption from disclosure obligations for the annual financial statements as of December 31, 2005 pursuant to Section 264 (3) in connection with Section 325 of the German Commercial Code (HGB).

OTHER DISCLOSURES

DISCLOSURES PURSUANT TO IAS 24 ON RELATIONSHIPS TO CLOSELY RELATED COMPANIES

On April 15, 2005, the OJSC Group »Kalina« acquired a share of 32.96% in the share capital of DR. SCHELLER COSMETICS AG. On April 15, 2005, the OJSC Group »Kalina« increased its share to 61.01%, of which around 2.62% is attributable to it pursuant to Section 22 (2) of the German Securities Trading Act (WpHG).

DR. SCHELLER COSMETICS AG is accordingly a dependent company pursuant to Section 312 (1) Sentence 1 in connection with Section 17 (2) of the German Stock Corporation Act (AktG). Given that no subordination agreement has been concluded between DSC and the OJSC Group »Kalina«, the Management Board of DR. SCHELLER COSMETICS AG has compiled a report on relationships to closely related companies pursuant to Section 312 (1) Sentence 1 of the German Stock Corporation Act (AktG).

During the period under report, DR. SCHELLER COSMETICS AG and its subsidiaries and the OJSC Group »Kalina« and its subsidiaries procured products from each other at customary market conditions. DSC sold shop counters with a value of EUR 90k to the OJSC Group »Kalina« during the financial year under report. The Group has not undertaken any write-downs on receivables from closely related companies and persons for the financial year ending on December 31, 2005 (2004: EUR 0k).

During the financial year, existing shareholder loans provided by DR. SCHELLER COSMETICS AG to Dr. Scheller Cosmetics so. z.o.o., Wraclow, Poland, amounting to EUR 530k were converted into capital reserves at Dr. Scheller Cosmetics sp. z.o.o. The write-downs undertaken on the shareholding and receivables due from the Dr. Scheller Cosmetics sp. z.o.o. subsidiary in the separate financial statements of DR. SCHELLER COSMETICS AG were eliminated once again in the consolidated financial statements.

The necessity of undertaking write-downs is reviewed annually in the form of a review of the financial situation of the closely related company or person and of the market in which they operate.

Moreover, a limited volume of deliveries and services, as well as administration services, was provided within the framework of customary business activities between the DR. SCHELLER COSMETICS Group and Dr. Scheller Cosmetics kozmetika in storitve d.o.o., Ljubljana/Slovenia, a subsidiary valued at equity. The business transactions with closely related companies were undertaken at customary market conditions.

STATEMENT OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE

On December 22, 2005, the Supervisory Board and Management Board of DR. SCHELLER COSMETICS AG submitted their Statement of Compliance with the recommendations of the »German Corporate Governance Code Government Commission« pursuant to Section 161 of the German Stock Corporation Act (AktG) and made this permanently available to shareholders at the website of the company at www.dr-scheller-cosmetics.de.

DISCLOSURES CONCERNING THE SUPERVISORY BOARD AND THE MANAGEMENT BOARD

OVERALL REMUNERATION

The overall remuneration of the members of the Supervisory Board for the 2005 financial year amounted to EUR 57k (previous year: EUR 24k). This amount includes variable remuneration totaling EUR 8k, which was paid following the approval of the Annual General Meeting on June 15, 2005. One member of the Supervisory Board received remuneration, including the reimbursement of expenses, for the provision of legal advisory services.

The overall remuneration of the Management Board for the 2005 financial year amounted to EUR 749k (previous year: EUR 501k). Use has been made of the protective clause set out in Section 286 (4) of the German Commercial Code (HGB) in respect of the disclosure required by Section 285 No. 9b of the German Commercial Code (HGB).

LOANS GRANTED

There are no loans to members of the Supervisory Board or the Management Board.

SHAREHOLDINGS

As of the balance sheet reporting date, the members of the Management Board of DR. SCHELLER COSMETICS AG held a total of 172,941 of the shares issued by the company, which is equivalent to 2.66% (previous year: 1,958,710 shares; 30.13%).

The members of the Supervisory Board did not hold any shares in the company as of the balance sheet reporting date.

SECURITIES TRANSACTIONS INVOLVING DISCLOSURE OBLIGATIONS

Pursuant to Section 15a of the German Securities Trading Act (WpHG), the members of the Management Board and the Supervisory Board of the company were obliged during the 2005 financial year to notify the company without delay of the purchase or sale of shares in DR. SCHELLER COSMETICS AG. The following transactions requiring disclosure were reported during the past financial year:

Name	Transaktion Type	WKN ISIN	Date	Number	Price
Schlensok, Reinhold	Sale	DE0007201303	18.03.2005	4,710	4.20
Dr. Scheller, Ulrich	Sale	DE0007201303	18.03.2005	1,195,000	4.20
Dr. Scheller, Ulrich	Sale	DE0007201303	23.03.2005	585,000	4.20
Dr. Feichtmair, Sebastian	Sale	DE0007201303	31.03.2005	1,000	4.70
Dr. Feichtmair, Sebastian	Sale	DE0007201303	06.04.2005	2,900	4.20
Dr. Feichtmair, Sebastian	Purchase	DE0007201303	10.11.2005	841	5.25
Dr. Feichtmair, Sebastian	Purchase	DE0007201303	25.11.2005	1,000	6.00
Dr. Feichtmair, Sebastian	Purchase	DE0007201303	25.11.2005	1,000	5.75

SHAREHOLDINGS OF DR. SCHELLER COSMETICS AG

A list of the shareholdings of DR. SCHELLER COSMETICS AG has been deposited in the Commercial Register of the Göppingen District Court, HRB 38.

SHAREHOLDINGS IN DR. SCHELLER COSMETICS AG

As of the balance sheet reporting date, DR. SCHELLER COSMETICS AG had received notifications from several shareholders in the company pursuant to the requirements of the German Securities Trading Act (WpHG), which the company then published pursuant to Section 25 (1) of the German Securities Trading Act (WpHG) as follows: The OJSC Group »Kalina«, Ekaterinenburg/Russian Federation, notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights in our company exceeded the 5% threshold on April 5, 2005 and the 50% threshold on April 15, 2005 and that it was entitled to a 61.01% share in the voting rights.

DEPENDENT COMPANY REPORT

In view of the fact that no subordination agreement has been concluded with the majority shareholder, the Management Board of DR. SCHELLER COSMETICS AG was obliged to compile a report on relationships to closely related companies pursuant to Section 312 of the German Stock Corporation Act (AktG). The relationships to the Kalina Group and to the companies belonging to the DR. SCHELLER COSMETICS Group were set out in this report. Pursuant to Section 312 (3) of the German Stock Corporation Act (AktG), the Management Board declares that, in respect of the transactions undertaken in the context of the relationships to closely related companies listed in the report, the company received commensurate consideration in accordance with the circumstances known to it at the time at which such transactions were undertaken. No measures requiring report occurred during the 2005 financial year. The dependent company report was audited by the auditor and granted an unqualified audit opinion.

Eislingen (Fils), March 17, 2006

DR. SCHELLER COSMETICS AG
The Management Board

AUDIT OPINION

We audited the consolidated financial statements of DR. SCHELLER COSMETICS AG, Eislingen (Fils), - comprising balance sheet, income statement, statement of changes in equity, cash flow statement and notes - and the Group management report for the financial year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as they are to be applied within the EU, and the application commercial regulations prescribed in Article 315a Paragraph 1 of the German Commercial Code (HGB) is the responsibility of the company management. Based on our audit, it is our responsibility to express an opinion on said consolidated financial statements and the Group management report.

We conducted our audit of the consolidated financial statements pursuant to Article 317 HGB in accordance with the generally accepted standards for the audit of financial statements established by the German Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are correct and comply with the applicable accounting regulations and that the Group management report provides a fair representation of the financial position, financial performance and cash flows. Knowledge of the business activities and the economic and legal environment of the Group and expectations are examined for any errors during the audit. The effectiveness of the accounting related control system and the evidence supporting information in the consolidated financial statements and the Group management report are examined on a test basis within the framework of the audit. The audit also includes the assessment of the financial statements of companies included in the consolidated financial statements, the scope of consolidation, the accounting principles use, significant estimates made by the management and the evaluation of the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion based on the results of our audit, the consolidated financial statements comply with both the IFRSs, as they are to be applied within the EU, and the applicable commercial regulations in accordance with Article 315a Paragraph 1 HGB and give a true and fair view of the financial position, financial performance and cash flows of the Group. The Group management report corresponds to the consolidated financial statements and provides a true and fair view of the situation of the Group and the opportunities and risks of future development.

Stuttgart, March 17 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Göhner	Schill
Wirtschaftsprüfer	Wirtschaftsprüfer
(Certified Auditor)	(Certified Auditor)

2006 FINANCIAL CALENDAR

MONDAY, APRIL, 10 2006	Analysts' Conference, Eislingen
	Publication of 2005 Annual Report
MONDAY, MAY, 15 2006	Publication of 3 Month Report
THURSDAY, JUNE, 22 2006	Annual General Meeting, Eislingen
TUESDAY, AUGUST, 15 2006	Publication of 6 Month Report

CONTACT

For further information, please contact:

DR. SCHELLER COSMETICS AG, Schillerstr. 21–27, 73054 Eislingen, Phone +49 (0) 7161/803-0
Fax: +49 (0) 7161/803-300, www.dr-scheller-cosmetics.de

Kontakt für Investor Relations:
Dr. Sebastian Feichtmair, CFO, Phone +49 (0) 7161/803-252
E-Mail: aktie@dr-scheller-cosmetics.com

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DR. SCHELLER COSMETICS AG SCHILLERSTRASSE 21 – 27 D-73054 EISLINGEN
TELEFON: +49 (0) 7161 / 803-0 TELEFAX: +49 (0) 7161 / 803-300 WWW.DR-SCHELLER-COSMETICS.DE