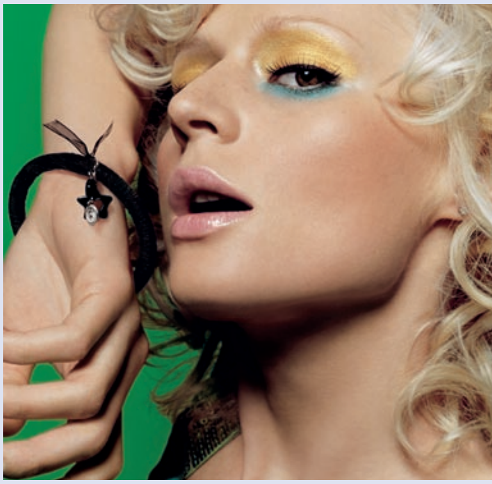
DR. SCHELLER COSMETICS AG

ANNUAL REPORT 2006



DECORATIVE COSMETICS

SKIN CARE

ORAL HYGIENE

KEY FIGURES IN EURO MILLION

	DR. SCHELLER COSMETICS Group IFRS			DR. SCHELLER COSMETICS AG German Commercial Code (HGB)	
	2006	2005	2004	2003	2002
Sales Performance					
Sales (net)	74.6	75.2	72.1	76.6	80.1
Export share (in %)	31.0	32.3	28.5	24.2	22.6
Earnings performance					
Result of ordinary business activities	-2.0	1.5	1.2	-2.6	1.6
Annual result	-1.6	0.69	0.47	-2.5	1.0
Return on sales (net. in %)	-	0.89	0.65	-	1.3
Personnel expenses	17.2	15.8	16.5	16.6	16.3
Productivity per employee (EUR 000s)	184.7	195.3	180.6	182.9	194.8
Financial data					
Investments in fixed assets	6.2	3.4	2.1	7.8	8.9
Depreciation	5.4	5	5.5	3.9	3.4
Cash and cash equivalents as of Dec. 31	0.9	0.7	1	1.5	1.9
Asset and capital structure					
Fixed assets	30.6	28.4	30.4	25.0	21.5
Current assets	22.3	22.4	21.3	21.6	21.3
Total assets	52.9	50.9	51.8	46.7	42.8
Shareholders´ equity	13.4	15.0	14.3	12.3	15.9
Liabilities	39.4	35.8	37.5	25.3	16.5
Earnings per share (Euro)	-0.25	0.11	0.18	-0.31	0.21
Employees (annual average)	404	385	416	431	422

DEAR LADIES AND GENTLEMEN, DEAR SHAREHOLDERS,

The management and employees of Dr. Scheller Cosmetics AG based all of the company's activities in financial year 2006 on the three following key strategies. In an environment that continues to be difficult, unfortunately the results were not as expected and largely due to one-off effects.

1. Above average growth in our areas of competence

Dr. Scheller Cosmetics AG has three areas of competence: Decorative Cosmetics, Skin Care, Dental and Oral Hygiene. These are the key to our success. Our objective was above average growth with our brands in these markets.

In our most important area of competence, Decorative Cosmetics, revenues rose significantly in our home market. This was due to the successful launch of new products with a strong focus on value for the consumer and a clear differentiation from the ongoing proliferation of store and discount brands in this segment. In the foreign markets we had to accept declining sales. Not because of the loss of market shares, but primarily of inventories built up during 2005 in our core market of Russia. Sales at the distribution centres were significantly higher as well.

In our second largest area of competence, Dental and Oral Hygiene, growth was at 5.5 %. This is attributable to continuous optimisation of the product line and the addition of seasonal flavours.

In the third area of competence, Skin Care, sales were down -7.2 %. The cause of this was our inadequate cost structure, which prevented us from implementing the marketing activities required to prevail in the extremely intensive competitive environment.

2. Building of a European market position

The second strategic objective is to expand the build a European market position outside of the home market of Germany through expansion of the Dr. Scheller Cosmetics brands.

In 2006, we made significant progress in 7 of the top 10 strategic markets, with average growth of 12.8 %. Outstanding were the developments in England, Belgium, Austria and Switzerland. The decline in the number of distribution centres in Poland and the Netherlands resulted in negative growth in these countries.

3. Improved value creation

The third strategy consist of an improved value creation through optimization of the production structures and company processes of Dr. Scheller Cosmetics AG.
There was a clear reduction (EUR -565k) in sales expenses in the year under review.

However, earnings failed to meet expectations due to one-off effects caused by inventory write-downs and value adjustments on receivables, especially at the Polish subsidiary (EUR -349k).

In November, the Management and Supervisory Boards of Dr. Scheller Cosmetics AG resolved to outsource production in the Skin Care segment as of 01 January 2007. In future OJSC Concern "KALINA" will be commissioned for production, and Dr. Scheller Cosmetics AG will perform quality assurance. All production-related rights will remain property of the company. The objective is an improvement of production costs, resulting in a structural improvement of competitiveness in this segment. Non-recurring restructuring costs required for this measure totalled in EUR 2,452k.

The resulting net annual loss in 2006 was EUR -1,580k.

The direction of the company remains clear based on the key strategies. In 2007, this will mean, in particular, implementation of value-oriented branding, rapid expansion of our European sales organization and successful completion of the outsourcing project together with our majority shareholder OJSC Concern „KALINA".

As our mission since years, successful implementation of our key strategies rests in the professionalism and steadfast commitment of the Dr. Scheller Cosmetics AG management and employees. We would like to thank each of you. At the same time, we thank our partners and clients for the again good teamwork, often on the basis of longstanding connections. Not least, we thank our Supervisory Board and our Shareholders for the trust you have invested in us in 2006.

We look forward to an active continuation in 2007.

Reinhold Schlensok
Chairman of the Management Board

Reinhold Schlensok

LADIES AND GENTLEMEN, DEAR SHAREHOLDERS:

There were significant changes to the Supervisory and Management Boards of our company in 2006, accompanied by further consolidation of the shareholder structure.

Supervisory Board Chairman Dr. Hans Vreeman and Supervisory Board member Manfred Holzwarth stepped down on 22 June 2006. I would like to take this opportunity to thank them both most warmly for their work on the board. A decision dated 7 August by the Ulm Local Court appointed Mr. Thierry Chetaille and me as new members of the Supervisory Board. The Supervisory Board voted on 24 August 2006 and named me Chairman of the Supervisory Board. Mr. Harmut Herrlinger was appointed Deputy Chairman of the Supervisory Board. It is my pleasure to give my first report on the work of the Supervisory Board in this year's annual report.

Majority shareholder, OJSC Concern "KALINA", transferred its interest in our company to its European holding, Kalina International S.A., based in Lausanne, Switzerland. It also increased its shareholding to the current level of roughly 88 %. Over time, closer organizational cooperation has developed between Dr. Scheller Cosmetics AG and "KALINA", for instance, the move of production for Skin Care products by KALINA to Ekaterinburg. From now on, "KALINA" will produce these products for Dr. Scheller Cosmetics AG, and we will continue to market them ourselves under our brand name. A comparative price study determined that "KALINA" was the least expensive producer, while offering very high product quality. The resulting cost savings will free up funds for the expansion and enhancement of the product portfolio and brands of Dr. Scheller Cosmetics AG.

Despite consistent cost management, a loss in financial year 2006 was unavoidable. Earnings suffered, however, largely as a result of one-off effects. These were attributable, for one, to depreciation charges at our Polish subsidiary, but primarily to non-recurring costs in connection with the removal of production for Skin Care products to Ekaterinburg. The Management Board and our employees carried out this project very effectively. These steps forward and the expected absence of one-off effects this year, make us optimistic about financial year 2007.

In the year under review, the Supervisory Board fulfilled its obligations under the Articles of Association, the Code of Procedure and the Corporate Governance Code. All of the business transactions of significance to the company were examined on the basis of detailed reports provided by the Management Board. The Management Board provided us with regular, timely and comprehensive written and oral reports concerning all issues of relevance for the company's planning and strategic development, as well as the status of transactions, including the company's risk situation and risk management. We were provided with detailed explanations of any deviations from the agreed budgets and targets. Between the meetings of the Supervisory Board as well, regular contact was upheld, particularly between the Chairman of the Supervisory Board and the Management Board, in order to ensure the exchange of information about all significant processes. In particular, the Management Board regularly reported on business at the company's Polish subsidiary, on the progress of the production transfer to Ekaterinburg and on the development of revenues, costs and earnings.

The Supervisory Board met a total of six times in 2006. The meetings were held on 10 March 2006, 22 June 2006, 24 August 2006, 28 September 2006, 6 November 2006 and 12 December 2006. 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 were consistently satisfied as to their proper conduct of the business. The Supervisory Board did not identify any indications of possible claims for damages on the part of the company against members of the Management Board during the 2006 financial year.

Focus of Supervisory Board meetings

In the year under review, collaboration with majority shareholder KALINA was an important area of emphasis, especially with respect to the move of Skin Care product production and the development of distribution for the brands and products of Dr. Scheller Cosmetics AG in Russia. Another important focus in the work of the Supervisory Board was on the changes in the membership of the Management Board, which will be detailed below. The Supervisory Board was also occupied intensively with the repositioning, of our Polish subsidiary in particular. Finally, the Supervisory Board was concerned with the ongoing revenues´ and earnings´ performance of the company, and its risk situation.

The Supervisory Board closely attended to all significant processes of the company in an advisory and supervisory capacity, particularly regarding reservation of consent to measures taken by the Management Board.

Adoption of the annual financial statements

The consolidated financial statements of Dr. Scheller Cosmetics AG were prepared for the 2006 financial year in accordance with International Financial Reporting Standards (IFRS). The group management report is in line with the requirements of DRS 15. The auditing firm, Deloitte & Touche GmbH, was commissioned to audit the consolidated financial statements. The statutory auditor provided the Supervisory Board with successive reports on the status of the audit. On the basis of the audit findings, the auditor granted unqualified auditers´ report on the company's annual financial statements and consolidated financial statements for financial year 2006.

The annual and consolidated financial statements and the audit report were provided to all members of the Supervisory Board in time for their meeting to adopt the annual financial statements on 6 March 2007. Representatives of the audit firm were present at this meeting, at which the financial statements were discussed in detail and the auditor reported on the principal audit findings and answered any questions. We acknowledged and approved the audit findings of the auditor. No objections were raised with respect to our own internal audit of the annual financial statements and consolidated financial statements, as well as of the group management report. The Supervisory Board unanimously approved the annual and consolidated financial statements prepared by the Management Board, whereby the annual financial statements of Dr. Scheller Cosmetics AG are adopted.

Notes on the management report and group management report

In accordance with section 289 (4) and section 315 (4) of the Germany Commercial Code (Handelsgesetzbuch – HGB), certain facts relevant to the question of a takeover have been disclosed in the management and group management reports, which the Supervisory Board must explain in its report pursuant to section 171 (2) sentence 2 of the Stock Corporation Act (Aktiengesetz – AktG). The question of a takeover likely has little practical relevance to the situation of Dr. Scheller Cosmetics AG at present, because we have a majority shareholder with a long-term interest in the company. The relevant information in the management and group management reports is comprehensible within the context of the reports themselves and requires no further explanation.

Corporate Governance

The Supervisory Board addressed the implementation of the German Corporate Governance Code both in its meetings and 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 in relation to individual members. Mr. Thierry Chetaille is CFO of Kalina International S.A. and I am CEO of Kalina International S.A.. These positions are comparable to the positions of Management Board Chairman (Vorsitzenden der Geschäftsleitung) and Financial Director (Finanzchef) in Germany. Moreover, I am a non-executive member of the board of OJSC Concern "KALINA", which is equivalent to a position on a supervisory board in Germany. In the event of conflicts of interest, Mr. Chetaille and I will abstain from voting. Further information on Corporate Governance and Directors' Dealings are available in the Corporate Governance report in page 8.

Dependent company report

The company was a dependent company of Kalina International S.A. and OJSC Concern "KALINA" in the year under review. The Management Board prepared a dependent company report for the year under review in accordance with section 312 AktG. This report was reviewed by the statutory auditor and found to be correct and proper. The dependent company report was forwarded to the Supervisory Board, which subjected the report and the transactions and measures outlined therein to a detailed examination pursuant to section 314 (2) AktG. This resulted in no objections or significant findings leading in a reporting obligation.

Changes in the Management Board

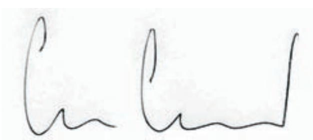
Management Board member, Dr. Sebastian Feichtmair, resigned from the board as at 31 December 2006, in order to pursue new career challenges. The Supervisory Board thanks Dr. Feichtmair for his engagement.

Also at the end of 2006, Dr. Hans-Ulrich Scheller left the Management Board. We thank Dr. Scheller very warmly for his long years of work within the company, and are pleased that he will remain available to Dr. Scheller Cosmetics AG in financial year 2007 as an advisor, due to his continued allegiance to the company.

In particular with respect to the Code of Procedure for the Management Board, the Supervisory Board undertook appropriate measures based on the fact that Mr. Reinhold Schlensok became the sole board member as a result of these changes.

We would like to thank the Management Board and all employees for the high degree of commitment and hard work in 2006. We also extend thanks to our shareholders for the trust they have placed in the company.

Eislingen/Fils, 6 March 2007



Christophe Clavé
Chairman of the Supervisory Board

REPORT ON CORPORATE GOVERNANCE

Dr. Scheller Cosmetics AG observes the German Corporate Governance Code (GCGC) in company management and decision-making. We are committed to complying with the recommendations of the GCGC. To the extent that this is not deemed expedient due to the specific size and capacity circumstances of the company, exceptions are possible. Deviations from the Corporate Governance Code in its version dated 12 June 2006 have been outlined in the Declaration of Conformity published in August 2006 and can be found on page 9 of the Annual Report.

During the 2006 financial year, Dr. Scheller Cosmetics AG fulfilled further requirements of the German Corporate Governance Code (items 5.4.5 and 7.1.1).

During the period under review, the Code of Procedure for the Management and Supervisory Boards remained unchanged. No deviations were identified in a comparison of the Declaration of Conformity published in December 2005 and the Corporate Governance measures actually implemented during the 2006 financial year.

COOPERATION BETWEEN THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The close cooperation for the good of the company between the Management and Supervisory Boards is characterized in particular by a continual and personal exchange of information. The strategic direction of the company was determined through close collaboration between the two boards, and implementation of the strategy is discussed regularly. The Management and Supervisory Boards have a relationship built on trust, which enables open discussion between them. If necessary, the Management Board attended meetings of the Supervisory 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.

MANAGEMENT BOARD

Since 01 January 2006, Mr. Reinhold Schlensok is Chairman of the Dr. Scheller Cosmetics AG Management Board. Dr. Walter Sebastian Feichtmair left the board as of 30 October 2006. Furthermore, as planned, Dr. Ulrich Scheller stepped down from his position as of 31 December 2006. Consequently, Mr. Reinhold Schlensok has functioned as the sole member of the Dr. Scheller Cosmetics AG Management Board since then.

In financial year 2006, there were no conflicts of interest on the part of individual members of the Management Board. Mr. Schlensok is a non-executive member of OJSC Concern "KALINA". Mr. Schlensok fulfils this mandate exclusively in his function as member of the Dr. Scheller Cosmetics AG Management Board, and represents the interests of the company. This satisfies items 4.3.1 and 4.3.4 of the German Corporate Governance Code. The Supervisory Board of Dr. Scheller Cosmetics AG approved this double function. In the event of conflicts of interest, Mr. Schlensok will abstain from voting.

SUPERVISORY BOARD

In financial year 2006, Dr. Hans Vreeman and Mr. Manfred Holzwarth stepped down from the Supervisory Board. In accordance with the decision dated 7 August by the Ulm Local Court, Mr. Christophe Clavé and Mr. Thierry Chetaille were appointed as new members of the Supervisory Board. The appointment is valid for the period until the end of the next shareholders' meeting. At the constituent session on 24 August 2006, Mr. Clavé was elected chairman by the Supervisory Board.

Mr. Clavé is CEO of Kalina International S.A. and Mr. Chetaille is CFO of Kalina International S.A.. There were no conflicts of interest in the part of Supervisory Board members in 2006.

Due to the number of members, no committees were formed. The Supervisory Boards´ efficiency performs regular self assessments to review the effectiveness of its activities.

SHAREHOLDERS AND SHAREHOLDERS' MEETING

In order to ensure that all shareholders are comprehensively informed in advance of the shareholders' meeting, the company publishes all relevant information on its website before the event. On the website, shareholders can view and download the meeting agenda and any counter motions, as well as appointing proxies and issuing instructions. Last year, the annual general shareholders' meeting was held on 22 June in Eislingen. Approximately 250 shareholders and guests were in attendance, representing 79.91 % of equity capital. The six agenda items put to a vote were adopted with clear majorities. No counter motions were received by the company in advance of the shareholders' meeting.

TRANSPARENCY

Disclosures relating to Directors' Dealings pursuant to section 15a WpHG can be found in the Investor Relations section of the company's website.

Directors' dealings reported in financial year 2006:

Name	Transaction type	Date	Place of transaction	Price	Number	Total transaction volume
Dr. Scheller, Ulrich	Sale	09/10/06	off exchange	6.00 €	170,000	1,020,000 €

All notifications received by the company concerning the exceeding or falling below of the voting rights thresholds of 5, 10, 25, 50 and 75 percent were published in an official stock exchange gazette without delay and forwarded to the Federal Financial Supervisory Authority (BaFin).

The following notifications were received pursuant to section 25 WpHG in the financial year 2006:

Voting rights percentages reported in accordance with section 25 WpHG

Name	Held directly	Attributed	Date
Südkapitalanlagengesellschaft	0.00%		27/04/2006
Franz Lütticke	0.00%		04/05/2006
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	0.00%		05/05/2006
OJSC Concern "KALINA"	77.77%	4.54%	24/05/2006
Kalina International S.A.	78.28%	75.86%	26/07/2006
OJSC Concern "KALINA"	78.68%	5.45%	24/05/2006
OJSC Concern "KALINA"	80.54%	80.54%	17/10/2006
Kalina International S.A.	80.54%	3.54%	17/10/2006
Kalina International S.A.	80.54%	0.92%	22/10/2006

The members of the Management and Supervisory Boards did not own any shares in Dr. Scheller Cosmetics AG at the balance sheet date.

REMUNERATION

The remuneration of the Management Board includes a fixed and a variable component, and is determined by the duties performed as well as the financial success of the company. A bonus contingent on the operating result of the company serves as a remuneration component with long-term incentive effect and risk elements. There were no stock option-programs or other securities based incentives in place in 2006. The Management Board contracts are regularly reviewed, in particular with respect to the suitability of remuneration. In addition, the Chairman of the Supervisory Board will explain the fundamentals of the remuneration system to the 2007 shareholders' meeting.

Every member of the Supervisory Board received fixed remuneration of EUR 6k and variable remuneration of EUR 13k in 2006. These amounts are based on a percentage of earnings before interest, taxes, depreciation and amortization (EBITDA). The Chairman of the Supervisory Board received additional fixed remuneration of EUR 6k. Remuneration was paid pro rata temporis, based on individual terms of service.

ACCOUNTING AND AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of Dr. Scheller Cosmetics AG were prepared in accordance with the principles of the German Commercial Code (Handelsgesetzbuch – HGB); the consolidate financial statements were prepared on the basis of the International Financial Reporting Standards (IFRS). The German Financial Reporting Enforcement Panel (FREP) and the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) will be provided with the consolidated financial statements for review if required. The shareholders' meeting commissioned the auditing firm Deloitte & Touche GmbH, Stuttgart, to audit the financial statements. Before proposing the candidate to the 2006 shareholders' meeting, the Supervisory Board obtained a declaration from the auditor concerning its personal and business relationships with the company. This declaration did not give rise to any objections.

The consolidated financial statements were prepared by the Management Board and reviewed by the auditor and the Supervisory Board. The auditor participated in the deliberations of the Supervisory Board and included significant findings in its audit report. No deficiencies were revealed by the audit.

DECLARATION OF CONFORMITY OF DR. SCHELLER COSMETICS AG IN RESPECT OF THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO SECTION 161 OF THE STOCK CORPORATION ACT (AKTIENGESETZ - AKTG)

Declaration by the Management Board and Supervisory Board of DR. SCHELLER COSMETICS AG pursuant to section 161 AktG in respect of the German Corporate Governance Code in the version of 12 June 2006.

The Management Board and Supervisory Board of Dr. Scheller Cosmetics AG hereby declare that the company has complied with and continues to conform to the recommendations of the "Commission of the German Corporate Governance Code" in the version dated 12 June 2006, with the following deviations:

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

Item 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.

Item 4.2.3
There is currently no stock option and comparable components included in the overall remuneration of the Management Board; a review, however, is being undertaken for adjustment of the future remuneration structure.

Items 4.2.4 + 4.2.5
Based on the resolution by the shareholders' meeting on 22 June 2006, the company is taking advantage of its option of non-disclosure under section 286 (5) sentence 1 HGB.

Items 4.3.1 + 4.3.4
Reinhold Schlensok has been elected as a non-executive board member of "OJSC Concern Kalina" (Russian Federation). He will abstain from voting in the event of conflicts of interest. The Supervisory Board has approved the double function of Reinhold Schlensok as a member of the Management Board of Dr. Scheller Cosmetics AG and board member of OJSC Kalina.

Item 5.3
Given that the Supervisory Board of the company consists of only three members, no committees have been formed.

Item 5.4.3
Following the resignation Supervisory Board Chairman Hans Vreeman and member Manfred Holzwarth, Mr. Christophe Clavé and Mr. Thierry Chetaille were appointed to the Supervisory Board in accordance with the court decision of 07 August 2006. Due to the prevailing voting majority, no candidates were presented to the shareholders for new elections.

Dr. Scheller Cosmetics AG
14 August 2006

Dr. Scheller Cosmetics AG, Eislingen (Fils)

GROUP MANAGEMENT REPORT FOR FINANCIAL YEAR 2006

ECONOMY AND MARKET

According to the Federal Statistics Office, the German economy grew in 2006 at a rate not seen since the boom year 2000. Gross Domestic Product (GDP) was up 2.5 % on the previous year. In particular, gross figures for fixed investment grew faster than at any time since reunification, while private consumption spending also picked up for the first time in years. Foreign trade also remained strong in the year under review. Real exports grew 12.4 %, which slightly outpaced import growth (12.1 %).

There was also a clear improvement in Euro area economic performance. According to the OECD, growth reached 2.6 % in 2006, compared to 1.5 % the previous year. The global economy continued its strong expansion as well, at a rate of roughly 5 % in 2006. This was largely attributable to the performance of quickly growing developing economies such as China, India, Russia and Eastern Europe, coupled with the global recovery, which has gone on for the past three years. Poland and Slovenia, which are two important countries for Dr. Scheller Cosmetics, saw growth of 5.1 % and 8.2 % respectively.

For 2007, the OECD is projecting a slowdown, with growth to hit just 1.8 % in Germany. Many experts also expect domestic consumption and retail performance to suffer somewhat from the increase in VAT, which at the very least casts a shadow of uncertainty. On the other hand, continued improvement in the labour market should bring about an increase in purchasing power. In Eastern Europe, although the OECD forecasts a slackening of the pace, growth should continue to beat out the Eurozone average.

MARKET FOR BODY CARE PRODUCTS

The favourable consumer climate in 2006 also had a positive effect on the market for body care products in Germany. According to the German Cosmetic, Toiletry, Perfumery and Detergent Association (Industrieverband Körperpflege- und Waschmittel e.V. – IKW), in a continuation of the positive trend from the previous year, market volume increased by 2.9 % to EUR 11.4 billion. Annual per capita consumption rose to nearly EUR 139.

The largest market segments were once again skin care products (24.9 %) and body care products (22.6 %). These were followed by the dental and oral hygiene segment and decorative cosmetics, at 10.9 % and 10.5 % respectively.

For 2007, the IKW is expecting continued growth, albeit at a slower pace than in 2006. The increased rate of VAT is likely to have a negative impact on private consumption. But, since body care products largely comprise daily use articles, this should only have a minimal effect on the market.

GROUP STRUCTURE

For decades, Dr. Scheller Cosmetics (i.e. the Dr. Scheller Cosmetics Group) has been an expert in the areas of skin care, dental care and cosmetics. We focus on optimally satisfying the wishes and needs of those who use our products by consistently offering products of the highest quality at a reasonable price.

Dr. Scheller Cosmetics is represented with proprietary and store brands in various segments of the market for body care products. The company is subdivided into three areas of competence:

- Decorative Cosmetics: MANHATTAN and own store brands for selected customers
- Skin Care: MANHATTAN CLEARFACE, »Apotheker Scheller – Das Naturkonzept« and own store brands for selected customers
- Oral Hygiene: Durodont, DentaClin and own store brands for selected customers

There is also a regional differentiation of the core countries or markets (Germany, Russia, Slovenia, Poland, Serbia and Croatia) in which Dr. Scheller Cosmetics operates through subsidiaries or affiliated companies and other countries. In all, products are exported to more than 40 countries.

Several measures were taken to stabilise the earnings strength of the Polish subsidiary in the 2006 reporting year. Until the middle of 2006 the development of the company was negative and did not complied the expectations. After changes of certain operation processes the development in the remaining month of 2006 was stable and clearly showed positive trends. In particularly improving sales and earnings situation were registered.

Our subsidiary in Slovenia (50 % stake) returned satisfactory sales performance in the year under review.

SALES PERFORMANCE

The 2006 financial year was characterised by a broad variation of performance within the Dr. Scheller Cosmetics Group. Whereas domestic sales rose, performance abroad was inadequate. Overall sales figures fell by 0.8 % to EUR 74.6 million.

Sales generated in the core countries declined by 9.4 % to EUR 55.0 million. These regions remain the most important to the company in terms of sales, but their share in the total fell from 80.8 % to 73.8 %. The most important individual market is Germany, where revenues were up despite ongoing price pressure. This positive performance was attributable to both price and volume effects, but it was not enough to balance out the order postponements and inventory clearance in Russia, as well as declining orders in Poland.

The most important individual market outside of Germany in 2005 was Russia, but the full warehouse shelves of our customers led to clearly lower sales in 2006, with revenues totalling EUR 3.8 million (2005: EUR 7.2 million), a decline of 47,2 %.

By contrast, the share of sales from other countries increased considerably.

We expect the importance of the other countries to continue growing. Potential for growth is seen, in particular, in the other Eastern European countries. But the core countries are also expected to once again make a positive contribution to sales performance, after inventory clearance and expansion of our sales network, especially in the important Russian market.

SALES PERFORMANCE

	2006	2005
	in EUR m	in EUR m
Core countries	55.0	60.7
Other	19.6	14.5
Total	74.6	75.2

SEGMENT REPORT

DECORATIVE COSMETICS

In financial year 2006, the Decorative Cosmetics segment was unable to keep up the positive trend of the past several years. This was due in part to the high levels of inventory built up, especially in our core Russian market, which was cleared over the course of the year. Although the segment, with its core brand MANHATTAN, remains the strongest in terms of sales (64.1 % share) within the Dr. Scheller Cosmetics Group, revenues declined in the segment by 1.8 %, down to EUR 47.8 million. With name recognition of 70 % in the target group, the MANHATTAN brand holds excellent potential for growth. In order to exploit this, the company continues to invest in the brand. The launch of the new “Vulcano” line of mascara was very successful. In addition, the look of the brand was completely redesigned and modernised last year. For instance, the current assortment, from lipstick to nail polish is now presented in the new high-quality and modern counter design “BLACKLINE”.

SKIN CARE

Dr. Scheller Cosmetic's line of Skin Care products consists mainly of the brands MANHATTAN CLEARFACE and >>Apotheker Scheller – Das Naturkonzept<<. MANHATTAN CLEARFACE is positioned as a product for young people with problem skin. This sub-line of the MANHATTAN brand speaks to young people and offers trendy products that are a good value for the price. >>Apotheker Scheller – Das Naturkonzept<< 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 Skin Care segment also failed to meet expectations. Sales were down 7.2 %, to EUR 8.5 million. In addition to the one-off effects from inventory clearance as described above, the relaunch of the >>Apotheker Scheller – Das Naturkonzept<< brand negatively impacted sales as well as the contribution to profit and debit the results in the smallest of the group's segments.

ORAL HYGIENE

Dr. Scheller Cosmetics offers oral hygiene products with its DentaClin and Durodont brands, as well as own store brands. Following the massive price pressures faced by this segment in the previous year, sales rebounded again in 2006, climbing 5.5 %, to EUR 18.3 million. Due to the favourable performance of the segment, its share of revenues increased from 23.1 % to 24.6 %. These developments are attributable to continuous optimisation of the product line and the addition of seasonal flavours.

The notes contain more detailed information on the performance of the individual segments.

OPERATING PERFORMANCE

Operating performance in the year under review was positive. One-off effects, however, resulted in a significant loss. Sales costs rose 0.1 % to EUR 44.7 million.
In the year under review, an impairment charge was taken on a trademark due to the negative performance of own store oral hygiene brands; inventory write-downs were made largely in relation to trade brands as a result of a surplus. Additionally, a further allowance was made for trade receivables. At the same time our Polish subsidiary saw a significant loss of roughly EUR 350k.

In order to improve efficiency and competitiveness, the decision was made in November 2006 to outsource or close down most of production in the Skin Care segment as of 01 January 2007. This restructuring resulted in substantial non-recurring expenses in financial year 2006, which took EUR 2.5 million away from the company's earnings. After completion, these measures should have a positive effect on earnings at all levels of Dr. Scheller Cosmetics AG.

Personnel costs increased by 9.3 %, to EUR 17.2 million, due primarily to one-off effects.

Measures to improve the efficiency of marketing and sales were successful in reducing costs by 2.5 % to EUR 22.0 million.

FINANCIAL POSITION

In the financial year under review, the total assets of Dr. Scheller Cosmetics grew by around EUR 1.3 million to EUR 52.9 million. This rise is attributable primarily to the EUR 1.0 million increase in property, plant and equipment, largely from the purchase of new shop counters. Whereas inventories declined by roughly EUR 0.3 million, tax-related assets increased by around EUR 0.4 million. Non-current assets increased by some EUR 1.5 million to EUR 30.6 million, while current assets were down EUR 0.2 million to EUR 22.3 million. Property, plant and equipment as at 31 December 2006 comprised approximately 55.3 % of total assets.

The equity ratio declined from 29.1 % in the previous year, to

INVESTMENTS

BALANCE SHEET STRUCTURE IN EUR M

25.4 %, as a result of the net annual loss. Dr. Scheller Cosmetics thus maintains a solid equity ratio.

Non-current liabilities were reduced by 15.9 % to EUR 11.1 million in financial year 2006. This resulted from the offsetting of a reinsurance policy concluded in 2006 against the pension provision. There was a significant climb in current liabilities to EUR 5.0 million, due principally to new short-term bank debt or draws against current account credit lines. Additionally, provisions increased as a result of restructuring charges.

Operating cash flow was down from EUR 11.7 million to EUR 1.5 million. Cash and equivalents were up slightly in the financial year under review, at EUR 0.9 million (2005: EUR 0.7 million).

Cash flow from financing activities increased to EUR 0.1 million (2005: EUR -3.6 million).

The liquidity supply is based on the principle of efficient cash management. In financial year 2006, the company increased the amounts drawn against credit lines, due to the increased demand for capital.

In 2006, replacement investments at the shop counters were made. Under the name "Blackline", the MANHATTAN product line is being presented even more attractively, helping to strengthen the brand. In total, EUR 6.2 million were invested in property, plant, equipment and intangible assets.

EARNINGS

In addition to the decline in sales, one-off effects such as restructuring costs and allowances on inventories and receivables as well as the loss at the Polish subsidiary impacted earnings performance. Pre-tax profit in 2006 was EUR -2.0 million, compared with EUR 1.5 million in the previous year. Adjusted for the reconstruction costs, operating profit would have been EUR 1.7 million in 2006. The final result in 2006 was a loss of EUR 1.6 million, which translates to earnings per share of EUR -0.25 (2005: EUR 0.11).

Return on equity declined from 4.8 % in 2005 to -10.5 % in the year under review. Due to the net annual loss, return on sales was also down, to -2.1 % (2005: 0.9 %).

REMUNERATION STRUCTURE

The overall structure of Management Board remuneration is determined by the Supervisory Board. Overall Management Board remuneration is performance related, and includes two components: fixed remuneration (salary) and performance-related remuneration (bonus). No long-term incentives (stock options) are offered.

The following criteria apply to the two components of Management Board remuneration:

- Fixed remuneration is paid as a monthly salary,
- The amount of the bonus for the 2006 financial year is dependent on achievement of the target for earnings before interest, taxes, depreciation and amortisation (EBITDA).

EMPLOYEES

Dr. Scheller Cosmetics employed a staff of 421 in 2006, including 17 trainees (average for the year). This constitutes a year-on-year increase in the size of the staff (2005: 401 employees).

Employee turnover in 2006 was 5 % among regularly employed staff and 2.3 % among self-employed workers.

Length of service, including both regular staff and self-employed workers, averaged 11 years in 2006. The average age of employees in 2006 was 39 years, while self-employed workers averaged 44 years of age. The remuneration structures are based on the collective agreement with IG Bergbau, Chemie und Energie.

In 2006, managers were trained in the area of personnel management. In addition to this group training, the following individual courses were available: Business English, French, Security Representative, First Aid and Fork-Lift Driver's License.

The economic position of the company in 2006 made a restructuring of Dr. Scheller Cosmetics AG necessary. Consequently, the Management Board resolved on 03 November 2006 to outsource the majority of production in the Skin Care segment beginning 01 January 2007. For the 23 affected employees at the Eislingen site, a redundancy plan was agreed with the Works Council (Betriebsrat). In addition to the redundancy payment, the company created a special assistance fund at the request of the Works Council for those suffering hardship from the measure. Both the Management Board and the Works Council consider the result to be a positive contribution to the future growth of the company. The objective is improvement of the company's earnings situation, in order to ensure the long-term existence of the company.

The Management Board of Dr. Scheller Cosmetics AG would like to thank all of its employees for their high degree of personal commitment and for the concessions they have made in 2006. Without the measures taken by the company, we would not be able to overcome the great challenges.

SUMMARY STATEMENT ON THE ASSET, FINANCIAL AND EARNINGS POSITION

In summary, the asset, financial and earnings position of the Dr. Scheller Cosmetics Group indicates that the company is in a stable economic position at the reporting date.

RESEARCH AND DEVELOPMENT

Research and development are accomplished only at Dr. Scheller Cosmetics AG in Eislingen. Expenditure for research and development remained constant in the year under review, at EUR 0.8 million. R&D spending includes the costs for research as well as product and process development, including expenditures for external services.

In order to develop innovative products, we concentrated on the area of natural cosmetics. Natural cosmetics is one of the fastest growing segments of the cosmetics market. Certifications are of key importance in this area. In order to strengthen our position in this field, we underpinned development of a cosmetics line (Decorative and Skin Care) through certification.

In the area of functional cosmetics (with active ingredients), we developed a line containing plant extracts, which offers targeted products for three age groups. These are formulated on the basis of an emulsifier-free product developed for sensitive skin. The composition of the cream base is similar to parts of human skin, which makes it suitable for sensitive skin.

In the area of Decorative Cosmetics, we systematically developed products in the existing areas of competence to the marketing stage, e.g. "Volcano" mascara or "Longlasting Gloss Glide" lip-gloss.

PROCUREMENT AND PRODUCTION

The planned cost optimisation measures were successfully implemented in the area of procurement. The proportion of goods purchased from Asia was increased somewhat. There was, however, a related low-level price adjustment to be observed in this context. Moreover, longer delivery times are to be expected due to commodity shortages. On the whole, we expect no change to the situation on the input markets in 2007.

The year 2006 was characterised by structural change in the area of production. Organisational measures were taken in connection with the closing of the production and filling unit of the Skin Care segment. The investment in a tube filling line resulted in more production safety and productivity increases. More investments will be made in production safety and productivity in 2007, the first months of which have seen increases in productivity and output volume.

Key Share Data	
WKN	720130
ISIN	DE0007201303
Exchanges	Xetra, Frankfurt, Stuttgart.
	Munich, Düsseldorf,
	Berlin, Bremen
Share capital	6.5 million shares
Listed	6.5 million shares
Outstanding	6.44 million shares
Own Shares	60,000 Shares

SHARE

The year 2006 was a positive one on the stock market. The DAX rose from around 5,500 to roughly 6,600 points, and the financial community still considers it to hold potential.

The performance of the Dr. Scheller Cosmetics AG share was affected mainly by the successive purchase of stakes in the company by OJSC Concern “KALINA”, Ekaterinburg, Russian Federation. As at the balance sheet date, OJSC Concern “KALINA” held 80.54 % of voting rights in Dr. Scheller Cosmetics AG through its fully owned subsidiary, Kalina International S.A., Lausanne, Switzerland.

The remaining 19.46 % are owned by diverse shareholders.

The share price began the year at EUR 5.71, and the average price for the year was EUR 6.15 per share as at 29 December 2006. The highest close for the share was on 12 May 2006, at a price of EUR 7.59 per share.

The Dr. Scheller Cosmetics AG share is listed in the Prime All Share Index, the Prime Consumer Index and the Prime Personal Products Index. The Prime Standard includes companies that are positioned for international investors and satisfy high standards of transparency. The share is also listed on the German Entrepreneurial Index and the CDAX.

EVENTS SUBSEQUENT TO THE REPORTING DATE

Since the balance sheet date, there have been no operative or structural changes or transactions at Dr. Scheller Cosmetics which have had a material impact on the asset, financial or earnings position of the company and which would require reporting in this section or change the information in the 2006 annual financial statements.

DISCLOSURE OF POSSIBLE TAKEOVER BARRIERS IN ACCORDANCE WITH SECTION 315 (4) HGB

OJSC Concern “KALINA” indirectly holds a majority interest in Dr. Scheller Cosmetics AG. Dr. Scheller Cosmetics AG was informed by OJSC Concern “KALINA” that its stake in the company as at 17 October 2006 was 80,54 %, held by its fully owned subsidiary, Kalina International S.A., Lausanne, Switzerland. The source of information on the interests held in the company is always the latest voting rights notification in accordance with the Securities Trading Act (Wertpapierhandelsgesetz – WpHG). Please note that the company is not required to report changes to voting right percentages that do not meet reporting thresholds.

COMPOSITION OF ISSUED SHARE CAPITAL

As at 31 December 2006, the share capital of Dr. Scheller Cosmetics AG remains unchanged at EUR 6.5 million, divided into 6.5 million no-par value shares. There are no different classes among the shares.

TRANSFER RESTRICTIONS/VOTING RIGHT RESTRICTIONS

Each of the 6,440,000 shares of Dr. Scheller Cosmetics AG guarantee one vote at the shareholders' meeting.

The Articles of Association do not provide for any limitations with respect to voting rights or the transfer of shares. The Management Board is unaware of any such agreements between shareholders.

EQUITY HOLDINGS OF THE DR. SCHELLER COSMETICS GROUP

Information on the equity holdings of the Dr. Scheller Cosmetics Group is available in the notes section.

PREFERRED RIGHTS

There are no shares with preferred rights, which offer rights of control.

VOTING RIGHT MONITORING

There is no monitoring of voting rights for employees holding shares in the company who do not indirectly exercise their voting rights.

AUTHORISATION TO BUY BACK OWN SHARES

The shareholders' meeting adopted the following resolution on 22 June 2006:

"b) Until 21 December 2007, the Company is authorized to acquire own shares totalling up to 10 percent of current share capital. Acquisition for the purpose of trading in own shares is prohibited. Acquisition must be made exclusively via the stock exchange. The amount paid per share by the Company (excluding ancillary costs) may not by higher or lower than the average value of closing prices for shares of the Company in XETRA trading at the Frankfurt Stock Exchange (or comparable replacement system) over the last five trading days prior to acquisition of the shares by more than 5 % or less than 5 %. The authorisation may be utilised in full or in part, once or more than once.

c) With respect to the shares of the Company acquired under the authorisation pursuant to b) above, the Management Board is authorised, with the approval of the Supervisory Board, to:

aa) offer the shares to third-parities in the context of acquisition of companies, parts of companies, stakes in companies or as part of mergers. The price at which the shares of the Company are transferred to third-parties may not by higher or lower than the average value of closing prices for shares of the Company in XETRA trading at the Frankfurt Stock Exchange (or comparable replacement system) over the last five trading days prior to the coming into force of the contractual agreement with the third party by more than 5 % (excluding ancillary costs). The shareholders' subscription rights to the own shares are thus excluded;

bb) cancel the shares, without the need a further resolution by the shareholders' meeting relating to the recall or cancellation;

as well as to sell them via the stock exchange.

d) The authorisation under c) aa) and bb) above may be utilised once or more than once, in full or in part, individually or collectively. The Management Board shall inform the Supervisory Board concerning: the purpose of the acquisition of own shares, the number of shares acquired and the amount of share capital represented by the shares, as well as value of the shares."

AUTHORISED CAPITAL MEASURES

Article 4 (5) of the Articles of Association contains the following provision with respect to authorised capital:

"Until 07 June 2009, the Management Board is authorised, with approval of the Supervisory Board, to increase share capital by issuing new no-par value shares against cash contribution or contribution in kind, once or more than once, up to a maximum of EUR 2,600,000 (in words: two million six hundred thousand euros). Shareholders' subscription rights may be excluded in some cases. The Management Board is authorised, with the approval of the Supervisory Board, to define the further content of the rights attached to the shares and the terms and conditions relating to their issue (authorised capital 2004)."

POWERS OF THE MANAGEMENT BOARD

In addition to the above authorisations to buy back own shares and change authorised capital, the Management Board has powers assigned to it by statute.

COMPOSITION OF THE MANAGEMENT BOARD/AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In accordance to article 6, the Supervisory Board determines the number and the appointment of the regular members of the Management Board as well as the deputy members of the Management Board. Additionally, the Supervisory Board decides on the appointment of a Chairman of the Management Board or CEO, in accordance with the provisions of section 84 of the Stock Corporation Act (Aktiengesetz – AktG), to which reference is made in other provisions.

In deviation of section 179 (2) AktG, article 19 (2) of the Articles of Association provides that a simple majority of votes cast or share capital represented in the voting suffices for adoption of resolutions by the shareholders' meeting (including amendments of the Articles of Association), provided no greater majority is mandatory by law. Which amendments to the Articles of Association are subject to the requirement of a greater majority is set forth in the Stock Corporation Act (AktG). Otherwise, reference is made to sections 179 to 181 AktG.

CHANGE OF CONTROL AGREEMENTS

The company is party to no agreements subject to the condition of a change of control as a result of a takeover bid.

COMPENSATION AGREEMENTS

There are no agreements in place with members of the Management Board or with company employees stipulating monetary compensation in the event of a change of control or takeover of the company.

RISK REPORT

As an international group of companies, Dr. Scheller Cosmetics is confronted with a variety of risks. As a reaction to these risks, the company maintains an integrated risk management system in all business processes. Moreover, the company management takes risks only when this is unavoidable in the process of value creation, so that the opportunities outweigh the risks.

Risk management at Dr. Scheller Cosmetics AG is implemented in the planning, management accounting and reporting processes. The aim is early identification of possible risks as well as opportunities, in order to achieve flexibility of action. Regular, systematic recording and analysis of risks, along with ongoing comparison with the company strategy is meant to ensure that risks and opportunities are in a balanced relationship when making business decisions. This system is in line with the statutory obligations relating to risk transparency and is subject to ongoing development. There is presently no indication of individual risks or overall risk that could be a current or future threat to the existence of the company.

MARKET RISK

Dr. Scheller Cosmetics is active in highly competitive international markets. The field is characterised by seasonal trends, ongoing cycles of innovation and fluctuating patterns of consumer behaviour. This culminates in the risk that the company may not recognise market trends quickly enough, as well as the opportunity to react better and more quickly to the needs of customers than the competition. The resulting strategy is clear: bolstering and expanding the company's position as a maker of products offering unbeatable value, through consistent branding and constant innovation. The company meets the risk of unsuccessful product launches by conducting intensive market and competition analysis.

FINANCIAL RISK

In the context of financial management, the Dr. Scheller Cosmetics Group addresses liquidity, price and default risks. A comprehensive cash management system, solid relationships with its financial backers and long-term liquidity planning are all employed in a targeted manner to counter such risks. As at 31 December 2006, the company had cash and equivalents of EUR 0.9 million on hand. Further financial flexibility is ensured via lines of credit with reputable banks.

The Dr. Scheller Cosmetics Group uses derivative financial instruments to manage current and future interest rate risks. The instruments serve the purpose of securing financial transactions necessary for the business; they do not result in additional risks to the group. The transactions are exclusively in standard market instruments (swaps).

PROCUREMENT RISK

As a manufacturer of products, Dr. Scheller Cosmetics is exposed to procurement risks in connection with the price, quality, reliability of supply and availability of raw materials, as well as preliminary and intermediate products. The company addresses these risks through conscientious monitoring of the relevant markets. An established network and years of gathered experience allow a careful selection of suppliers. Long-term preferred supplier agreements are in place to prevent production delays.

IT-RISKS

Dr. Scheller Cosmetics counters the risks which could arise from IT issues with modern hardware and software that is regularly updated to the latest standards. The company has backup systems, anti-virus protections and access controls as well as encryption systems in place to secure data against third-party access and data loss.

ENVIRONMENTAL RISKS

No significant environmental risks have been identified to date. Regard for nature and the environment is an important matter for Dr. Scheller Cosmetics, which is expressed through energy conservation and optimal usage of raw materials and waste materials. Dr. Scheller Cosmetics will continue to take all measures necessary to avoid environmental risks.

OVERALL RISK

From the present perspective, there is no indication of individual risks or overall risk that could be a current or future threat to the existence of the company. In the future as well, all available measures will be taken to allow early identification and optimum minimisation of risks. As a rule, risks are only taken if the related opportunities result in clear added value.

PROJECTIONS

The leading economic research institutions are forecasting further growth for Germany in 2007. Following the strong growth of 2006, however, we expect the rate of expansion to be somewhat modest. Favourable overall performance is also expected to continue for the euro area. Growth prospects in the body care market are moderate at best.

Based the current market and competition analysis, we project the following for Dr. Scheller Cosmetics:

Dr. Scheller Cosmetics expects the market environment to remain difficult in 2007, characterised by intensive competition and price pressure. Nonetheless, the company is targeting sales and earnings growth in all three areas of competence (Decorative Cosmetics, Skin Care, Dental and Oral Hygiene). Further revenue growth is to be expected from foreign business in particular. Both the existing and the new markets abroad hold considerable potential, which should also have a positive effect on EBIT yield. We will make use of these opportunities thanks to our partner and majority shareholder OJSC Concern "KALINA", which not only contributes its production resources, but also maintains the sales organisation needed for this purpose. With respect to earnings, the restructuring begun in 2006 will have a positive impact. The costs of the measures were largely accounted for in 2006, so that they will have little effect on results in the coming year and the full earnings benefits of the increase in efficiency will be conveyed. Since the value of a brand will remain an important selling point in the future as well, investment will naturally continue in the strengthening of the brands.

SUMMARY STATEMENT ON THE PROJECTIONS

Assuming that the situation will develop as projected, the management of the Dr. Scheller Cosmetics Group expects positive sales and earnings performance in the 2007 and 2008 financial years. Growth is forecast for all segments, and EBIT yield should increase. However, political and economic uncertainties, over which the Dr. Scheller Cosmetics Group has no influence, can derogate the projections as a whole and impair the accuracy of planning.

RELATIONSHIPS TO AFFILIATED COMPANIES

Dr. Scheller Cosmetics AG is an indirectly dependent member of OJSC Concern "KALINA", Ekaterinburg, Russian Federation, and a directly dependent company of Kalina International S.A., Lausanne, Switzerland.

Since no CPL agreements have been concluded with any of the companies, the Management Board of Dr. Scheller Cosmetics AG is obliged to report on relationships to affiliated companies pursuant to section 312 AktG. Consequently, the Management Board reports:

In all transactions entered into as a dependent company of OJSC Concern "KALINA" and Kalina International, our company received consideration commensurate with the circumstances known at time of the transaction. Dr. Scheller Cosmetics AG was not disadvantaged by measures implemented or forborne. This applies as well to transactions entered into with our affiliated company - the Polish subsidiary. These statements are based on the circumstances known to us at the time of the transactions subject to this reporting obligation.

The auditor made no objections to the dependent company report.

Eislingen/Fils, 27 February 2007

Dr. Scheller Cosmetics AG
The Management Board

DR. SCHELLER COSMETICS AG, Eislingen (Fils)

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006

ASSETS	Appendix	31.12.2006	31.12.2005
		EUR k	EUR k
Non-current assets			
Property, plat and equipment	8	28,773	27,766
Intangible Assets	8	333	526
Shares in affiliated companies	9	145	129
Deferred tax assets	5	1,371	738
		30,622	**29,159**
Current assets			
Inventories	10	10,082	10,406
Trade receivables	11	9,256	9,420
Tax claims	11	511	155
Advance payments	11	0	21
Other receivables	11	1,492	1,763
Cash and cash equivalents	12	919	672
		22,260	**22,437**
Balance sheet total		**52,882**	**51,596**

LIABILITIES	Appendix	31.12.2006	31.12.2005
		EUR k	EUR k
Equity			
Issued share capital	13	6,500	6,500
Capital reserves	13	7,800	7,800
Treasury shares	13	-315	-315
Translation adjustment	13	-10	-6
Revenue reserves	13	-540	1,040
		13,435	**15,019**
Non-current liabilities			
Amounts owed to credit institutions	15	4,655	5,182
Pension provisions	14	3,689	5,081
Leasing liabilities	15	708	1,050
Deferred tax liabilities	5	1,998	1,824
		11,050	**13,137**
Current liabilities			
Trade payables	15	2,241	3,391
Provisions	16	3,158	2,127
Tax liabilities	15	343	481
Leasing liabilities	15	429	966
Other debt	15	7,510	9,360
Amounts owed to credit institutions	15	14,716	7,115
		28,397	**23,440**
Balance sheet total		**52,882**	**51,596**

Dr. Scheller Cosmetics AG, Eislingen (Fils)

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2006

	Appendix	2006	2005
		EUR k	EUR k
Sales revenues		74,627	75,206
Cost of sales		-44,679	-44,636
Gross earnings from sales		29,948	30,570
Marketing & sales costs		-22,016	-22,581
General admin, costs		-6,266	-5,244
Restructuring costs	7	-2,452	0
Operating profit		**-786**	**2,745**
Other operating income	4	62	624
Other operating expenses	4	-12	-429
Finance income	4	69	135
Finance expenditure	4	-1,346	-1,604
Share in profits of affiliated companies	4	16	17
Earnings before taxes		**-1,997**	**1,488**
Income taxes	5	417	-801
Net profit/loss for the year		**-1,580**	**687**
Earnings per share (in EUR)		-0.25	0.11

Dr. Scheller Cosmetics AG, Eislingen (Fils)

CONSOLIDATED CASH FLOW STATEMENT
FOR FINANCIAL YEAR ENDING ON DECEMBER 31 2006

			2006	2005
			EUR k	EUR k
1.		**Net earnings before interest and taxes**	**- 291**	**+ 1,864**
2.	+/-	Write downs/write ups on fixed assets	+ 5,360	+ 5,003
3.	+/-	Income from companies valued at equity, non-cash	- 16	- 17
4.	+/-	Additions to/release of pension provisions	- 1,392	+ 44
5.	+/-	Additions to/release of other provisions	+ 1,031	- 2,339
6.	-/+	Profit/loss from disposal of fixed assets	+ 5	+ 497
7.	-/+	Changes in inventories, trade receivables and other assets not attributable		
		to investing or financing activities	- 209	- 2,153
8.	+/-	Changes in trade liabilities and other liabilities not attributable		
		to investing or financing activities	- 2,964	+ 8,778
9.	+/-	Taxes paid	- 42	- 25
10.	**=**	**Operating cash flow**	**+ 1,482**	**+ 11,652**
11.	-	Expenditures for investment in property, plant and equipment	- 6,161	- 3,221
12.	-	Expenditures for investment in intangible assets	- 17	- 140
13.	-	Expenditures for the acquisition of consolidated companies		
		and other business units	+ 0	- 112
14.	**=**	**Investment cash flow**	**- 6,178**	**- 3,473**
15.	+	Cash from borrowing (financing)	+ 4,173	+ 0
16.	-	Expenditures for the settlement of liabilities from finance leases	- 879	- 1,360
17.	-	Expenditures for the redemption of loans	- 1,966	- 1,125
18.	+	Interest received	+ 21	+ 135
19.	-	Interest paid	- 1,268	- 1,287
20.	**=**	**Financing cash flow**	**+ 81**	**- 3,637**
21.		Net change in cash and cash equivalents		
		(Sum of lines 10, 14 and 20)	- 4,615	+ 4,542
22.	+/-	Currency-related changes in cash and cash equivalents	- 4	+ 54
23.	**+**	**Cash and cash equivalents as at 01 January**	**- 5,491**	**- 10,087**
24.	**=**	**Cash and cash equivalents as at 31 December**	**- 10,110**	**- 5,491**

Composition of cash and cash equivalents

Cash and short-term deposits	919	672
Amounts owed to credit institutions (short-term)	-11,029	-6,163
	-10,110	**-5,491**

For further explanation see item 12 in the notes
(Cash and cash equivalents).

Dr. Scheller Cosmetics AG, Eislingen (Fils)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR FINANCIAL YEAR 2006

	Appendix	Issued share capital	Capital-reserves	Treasury shares	Translation adjustment	Revenue reserves	Total
		EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Balance as at 01 January 2005		6,500	7,800	-315	-60	353	14,278
Net income						687	687
Foreign currency translation					54		54
Balance as at 01 January 2006	**12**	**6,500**	**7,800**	**-315**	**-6**	**1,040**	**15,019**
Net loss	12					-1,580	-1,580
Foreign currency translation	12				-4		-4
Balance as at 31 December 2006	**12**	**6,500**	**7,800**	**-315**	**-10**	**-540**	**13,435**

Dr. Scheller Cosmetics AG, Eislingen (Fils)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2006 FINANCIAL YEAR

1. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Dr. Scheller Cosmetics AG is a publicly traded limited liability company founded and domiciled in Germany. The principle activities of the group have been described in the segment report.

The consolidated financial statements of Dr. Scheller Cosmetics AG have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), and take into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as they are to be applied in the EU.
New standards adopted by the IASB and incorporated by the EU are applied at their effective date. No advantage is taken of option for early application. The application of accounting and valuation methods is explained in the notes under the corresponding items.

The consolidated financial statements have been prepared in euro (EUR). Unless otherwise stated, all figures are rounded to the nearest thousand (EUR k).

2. ACCOUNTING AND VALUATION PRINCIPLES

BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

As a rule , the consolidated financial statements are prepared according to the historical cost concept. Derivative financial instruments, which were measured at fair value, are an exception to this rule. The book values of assets and liabilities reported on the balance sheet which represent underlying transactions within the framework of fair value hedging are adjusted as a result of changes in fair value which can be attributed to the hedged risks.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the annual financial statements of Dr. Scheller Cosmetics AG and its subsidiaries as at 31 December of each respective financial year. The financial statements of the subsidiaries are prepared according to uniform accounting and valuation methods as at the same balance sheet date of the parent company's financial statements. All intercompany balances, transactions, income, and expenses, as well as profits and losses arising from intercompany transactions contained in the book value of assets are eliminated in full. Necessary tax accruals and deferrals are undertaken for consolidation processes affecting earnings. Subsidiaries are fully consolidated as of the acquisition date, i.e. the date at which the group acquires control. Inclusion in the consolidated financial statements ends as soon as the parent company no longer has control.

CAPITAL CONSOLIDATION

Capital consolidation was undertaken in accordance with IFRS 3 such that, with respect to additions, the acquisition value of equity holdings is offset against the equity stake attributable to them at the date of acquisition or initial consolidation.

Assets transferred between group companies are reported in the consolidated financial statements at most at the values at which they could have been entered on the balance sheet if the companies included in the consolidated financial statements were legally a single company (IAS 27).

Consolidation of debt

Debt is consolidated in accordance with IAS 27. Accounts receivable and payable between the companies included in the consolidated financial statements are offset against one another.

Foreign currency translation

The presentation currency corresponds to the functional currency of the parent company. The functional currency concept is applied with respect to the translation of financial statements of the consolidated companies prepared in foreign currencies. The functional currencies of the group companies correspond to the respective local currency.

The translation of financial statements in functional currency into the presentation currency of the group is accomplished through application of the modified current rate method. According to this method, assets and liabilities are translated at the exchange rate current at the balance sheet date, whereas equity is translated at the historical rate, and expenses and earnings are translated at the average annual rate.

The resulting difference is offset neutrally in equity so as not to affect income. Upon sale of a subsidiary, the currency differences recognised in equity are eliminated from the income statement.

SCOPE OF CONSOLIDATION

In addition to Dr. Scheller Cosmetics AG, four German companies (Dr. Scheller Durodont GmbH, Eislingen (Fils), Germany; Lady Manhattan Cosmetics GmbH, Stuttgart, Deutschland; Apotheker Dr. Scheller Naturmittel GmbH, Göppingen, Germany; Premium Cosmetics GmbH Stuttgart, Deutschland) and three foreign companies (Lady Manhattan Cosmetics Vertriebsgesellschaft m.b.H., Vienna, Austria; Dr. Scheller Cosmetics Polska sp.z.o.o., Wroclaw, Poland; Lady Manhattan Limited, London, UK) in which Dr. Scheller Cosmetics AG directly or indirectly holds the majority of voting rights and which are under its uniform management are included in the scope of consolidation. Their number has not changed compared to the previous year. The 50 % equity stake in the affiliated company Dr. Scheller Cosmetics d.o.o., Ljubljana/Slovenia, a joint venture founded 1 April 2005 with Tamaschi kozmetika in storitve d.o.o., Ljubljana/Slovenia, is included in the consolidated financial statements according to the equity method, since Dr. Scheller Cosmetics AG has contractually agreed to forgo execution of its rights stemming from its shareholder position for the 2006 financial year until 31 December 2006.

According to the equity method, the shares in the affiliated company are recognised in the balance sheet at acquisition cost plus the changes in the group's share of the affiliated company's net assets occurring after the acquisition date. The acquisition costs of the company amounted to a total of EUR 112k and included the deposit in nominal capital as well as costs directly attributable to the merger. In applying the equity method, the group determines whether an additional impairment charge is necessary in relation to group's net investment in the affiliated company. The income statement contains the share of the group in the results of the affiliated company. Changes recognised directly in the equity of the affiliated company are also recognised directly in equity by the group in the amount of its share, and, if necessary, included in the statement of changes in equity. The balance sheet date and the accounting and valuation methods for similar transactions and events are the same for both the affiliated company and the group.

2.1 SIGNIFICANT DISCRETIONARY DECISIONS AND ESTIMATES

Estimates, discretionary decisions, and assumptions which have an effect on the amounts of assets and liabilities, including contingent liabilities, and earnings and expenses measured and shown on the books must be made to a limited extent in the consolidated financial statements. The actual values can deviate from the estimates.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING AND VALAUTION METHODS

FOREIGN CURRENCY TRANSLATION

The financial statements of foreign subsidiaries are translated into euros according to the concept of functional currency. The amounts on the balance sheet are translated at the average exchange rate on the balance sheet date, whereas those on the income statement are translated at weighted average annual exchange rates, since these companies conduct their business financially, economically, and organisationally independent of the group.

The differences arising from currency translation with respect to the asset and liability items compared to the translation of the previous year, as well as differences between the balance sheet and income statement, are treated neutrally so as not to affect income. In the individual financial statements of the companies, accounts receivable and payable in foreign currency are measured using the exchange rate on the balance sheet date if they have not been hedged against exchange rate fluctuations. The movements of the exchange rates for those currencies which are important for the consolidated financial statements are listed in the following table:

	ISO-Code	Average exchange rates	
1 Euro =		2005	2006
Swiss Franc	CHF	1.5555	1.5729
Polish Zloty	PLN	4.0151	3.8959
Australien Dollar	AUD	1.6145	1.6668
US-Dollars	USD	1.1834	1.2556

	ISO-Code	Reporting date rates	
1 Euro =		2005	2006
Swiss Franc	CHF	1.5582	1.6080
Polish Zloty	PLN	3.8546	3.8310
Australien Dollar	AUD	1.6222	1.6681
US-Dollars	USD	1.1843	1.3181

INTANGIBLE ASSETS

Individually acquired intangible assets are initially valued at cost. Self-produced intangible assets are not capitalised. All associated costs are recognised in the income statement in the period in which they are incurred.

For intangible assets, it is first necessary to determine whether they have a limited or uncertain useful economic life. Intangible assets with limited useful economic life are amortised over the economic life and reviewed for potential impairment whenever there is an indication that the value of the intangible asset could be impaired. The amortisation periods and methods applied to intangibles with a limited useful economic life are reviewed at least at the end of every financial year. If the expected useful economic life or amortisation period of the asset has changed, another amortisation period or method is chosen. Such changes are treated as estimation changes. Amortisation of intangible assets with a limited useful economic life are recorded on the income statement under the expense category that best corresponds to the function of the intangible asset. Amortisation is based on a useful life of between 3 and 10 years.

Tests are conducted at least once per year for the individual assets or at the level of the cash-generating unit to substantiate the value of intangible assets with an uncertain useful economic life (certain trade marks or brand figures). These intangible assets are not subject to scheduled amortisation. The useful economic life of intangible assets with an uncertain useful economic life is, therefore, reviewed annually to ascertain whether the estimation of an uncertain useful economic life can be further justified. If this is not the case, the estimate is changed from an uncertain to a limited useful economic life on a prospective basis.

GOODWILL

The goodwill attributable within the scope of the consolidation represents the surplus of acquisition costs of a company purchase over the group's share of the fair value of the identifiable assets and liabilities of a subsidiary, affiliated company, or joint venture at the time of acquisition.

The previous offsetting of goodwill with the reserves pursuant to section 309 (1) sentence 3 of the German Commercial Code (HGB) is not reversed during the transition to IFRS. Thus, goodwill offset against the reserves is excluded when determining the disposal gain or loss if the company is later sold.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are capitalised at acquisition or production costs and depreciated at regular intervals according to the corresponding expected operating life. Costs for repair and maintenance of property, plant, and equipment are recorded as expense. Capitalisation occurs in exceptional cases if the measures result in the expansion or significant improvement of the asset.

Property, plant, and equipment used on the basis of leasing agreements - to the extent that the requirements for financial leasing pursuant to IAS 17 (Leasing) are met - are capitalised at the fair value of the leasing object at the beginning of the leasing relationship or at the present value of the minimum lease payments and depreciated over their useful economic life. These contracts have term of between 2 and 7 years, are not terminable, and include an option to extend the lease. The book value of the financial leasing objects amounts to EUR 2,478k (2005: EUR 3,243k). The including liabilities arising from the leasing obligation are reported under financing liabilities.

Property, plant, and equipment are depreciated according to the straight line method. The scheduled depreciation on assets is based on the following estimated operating lives:

Buildings	10 to 40 years
Technical equipment and machines	5 to 27 years
Operational and office equipment	3 to 15 years
Shop counters	3 years

The book value of the property, plant, and equipment is reviewed for impairment as soon as there is an indication that the book value of an asset exceeds its recoverable amount.

A fixed asset is derecognised when it is retired or if no further economic utility is expected from its sale or continued use. The profits or losses from the derecognition of the asset are calculated as the difference between the net gains on sale and the book value and recorded on the income statement in the period in which the item is derecognised.

The residual value of the assets, useful economic lives, and depreciation methods are reviewed at the end of each financial year and revised if necessary.

BORROWING COSTS

Borrowing costs are recorded as expense in the period in which they are incurred.

IMPAIRMENT OF ASSETS

The group assesses on each balance sheet date whether there are any indications that the value of an asset could be impaired. If there are any such indications, or if an annual review for impairment of an asset is required, the group makes an estimate of the recoverable amount. The recoverable amount of an asset is the greater of the two amounts of the fair value of an asset or cash-generating unit less selling costs and its value in use. The recoverable amount is to be determined for each individual asset, unless an asset does not generate any cash flows that are independent of other assets or groups of assets. If the book value of an asset exceeds its recoverable amount, the asset is considered to be impaired and written down to its recoverable amount. For the calculation of the value in use, the estimated future cash flows are discounted to their present value based on a discount rate before taxes that reflects the current market expectations with respect to the interest effect and the specific risk of the asset. Impairment charges incurred at going-concern divisions are recorded in the expense categories that correspond to the function of the impaired asset.

A review is made at each balance sheet date of whether there are any indications that a impairment charge which occurred in an earlier reporting period no longer exists or could have been reduced. If there are any such indications, the recoverable amount is re-estimated. A previously recorded impairment charge is, then, to be offset if a change in the estimates has arisen that was applied to the determination of the recoverable amount since the time the last impairment charge was recorded. If this is the case, the book value of the asset is to be increased to its recoverable amount. This increased book value may not exceed the book value that would have resulted after consideration of depreciation if no impairment had been recorded in the previous years. Such a reinstatement of original (net) value is to be recorded immediately in the result for the period, unless the asset is recorded at the revalued amount. In this case, the reinstatement of value is to be treated as an increase in value through revaluation. After a value is reinstated, the write down expense is to be adjusted in future reporting periods in order to allocate the adjusted book value of the asset, less any residual value, systematically to its remaining life.

FINANCIAL INVESTMENTS AND OTHER FINANCIAL ASSETS

Financial assets are classified as financial assets at fair value through profit or loss, as loans and receivables, as investments held to maturity, or as available-for-sale financial assets according to IAS 39. Initially, financial assets are measured at their fair value. Additionally, transaction costs which are directly attributable to the acquisition of the financial asset are included for financial assets which are not measured at fair value through profit or loss, the group determines the classification of its financial assets at the time of their initial recognition and reviews this classification at the end of each financial year.

By “regular way” sales and purchases of financial assets, recognition occurs on the trade date, i.e. the date at which the company enters into the obligation to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned.

FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets which are classified as held-for-trading are included in the category of „financial assets recognised at fair value through profit or loss“. Financial assets are classified as held-for-trading if they are acquired for the purpose of sale in the near future. Derivative financial instruments are also classified as held-for-trading, unless they are designated as hedging instruments and are such effectively. Profits or losses arising from financial assets which are held for trading are recorded on the income statement.

LOANS AND RECEIVABLES

Loans and receivables are not derivative financial assets with fixed or ascertainable payments which are not listed on an active market. These assets are measured at amortised cost through application of the effective interest rate method. Profits and losses are recorded in the period result if the loans and receivables are derecognised or impaired in value, as well as within the framework of amortisation.

INVENTORIES

Inventories are measured as the lower of acquisition or production costs and net realisable value. Production costs include costs of direct material and prime costs as well as overhead costs which are incurred in order to transfer the inventories to their current location and put them in their current condition. Acquisition or production costs are calculated according to the weighted average. The net realisable value represents the estimated selling price less all estimated costs to completion and the estimated costs necessary to make the sale.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised at nominal value. Foreseeable risks are taken into account through appropriate valuation adjustments. Receivables are derecognised as soon as they can no longer be collected.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents on the balance sheet include cash resources, bank balances, and short term deposits.

For purposes of the group statement of cash flow, cash and cash equivalents include the previously defined cash and short term deposits as well as credit drawn from the current account and money market deposits with original maturities of less than three months..

INTEREST-BEARING LOANS

Loans are initially recognised at the fair value of counter-performance received after deduction of transaction costs associated with the loan.

After initial recognition, interest-bearing loans are subsequently measured at amortised cost using the effective interest method.

Profits and losses are recognised in period result if the liabilities are removed from the balance sheet, as well as within the framework of amortisation.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

A financial asset (or a portion thereof or a portion of a group of similar financial assets) is derecognised if one of the three following requirements is met:

- The contractual rights to cash flows arising from a financial asset have expired.

- The group retains the contractual rights to draw cash flows from the financial assets; however, it takes on a contractual obligation to remit the cash flows without material delay to a third party within the framework of an agreement which fulfils the requirements of IAS 39.19 (“pass-through arrangement”).

- The group has assigned its contractual rights to cash flows from a financial asset and has (a) assigned all risks and opportunities associated with the ownership of the financial asset, or (b) has neither assigned, nor retained any risks or opportunities associated with the ownership of the financial asset, yet has assigned the power of control over the asset.

If the group has assigned its contractual rights to cash flows from a financial asset and, essentially, neither assigned, nor retained any risks or opportunities associated with the ownership of the asset, and also retains the power of control over the assigned asset, the group continues to recognise the assigned asset to the extent of its continuing involvements.

If the form of the continuing involvement guarantees the assigned asset, the extent of the continuing involvement is the lesser of the original book value of the asset and the maximum amount of the counter-performance received which the group eventually must repay. If the form of the continuing involvement is an option sold and/or acquired (including an option that is fulfilled via cash settlement or in a similar manner) on the assigned asset, the extent of the group's continuing involvement is the amount of the assigned asset which the company can repurchase. In the event of the sale of a put option (including an option which is fulfilled via cash settlement or in a similar manner) on an asset which is recognised at fair value, the extent of the group's continuing involvement is, however, limited to the lower amount of the fair value of the assigned asset and the strike price of the option.

Financial liabilities

A financial liability is removed from the balance sheet if the underlying obligation is discharged, cancelled, or expired.

If an existing financial liability is exchanged through another financial liability to the same lender with substantially different terms and conditions, or if the conditions of an existing liability are significantly altered, such an exchange or alteration is treated as derecognition of the original liability and recognition of a new liability. The difference between the respective book values is recognised in the period result.

IMPAIRMENT OF FINANCIAL ASSETS

The group examines whether an impairment in value of a financial asset or a group of financial assets has occurred at each balance sheet date.

Assets which are recognised at their amortised cost

If there is an objective indication that an impairment in value has occurred to loans and receivables recognised at amortised cost, the amount of the loss is equal to 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 losses not yet incurred), discounted at the original effective interest rate of the financial asset (i.e. the interest rate calculated at the time of initial recognition). The book value of the asset is to be reduced either directly or by means of a valuation account. The loss is to be recognised on the income statement.

Initially, the group determines whether there is an objective indication of impairment to financial assets which are significant in their own terms, and to financial assets which are not significant in their own terms, individually or collectively. If the group determines that there is no objective indication for an individually examined financial asset, whether it is significant or not, it shall place the asset in a group of financial assets with comparable default risk profiles and examine them collectively for impairment. Assets which are examined individually for impairment and for which an impairment is newly recognised or continues to be recognised are not included in a collective impairment assessment. If the amount of the value adjustment is reduced in one of the following reporting periods, and if this reduction can be objectively attributed to a fact occurring after the impairment was recorded, the impairment previously recorded shall be reversed. A subsequent reinstatement of the original value is recognised on the income statement to the extent that the book value of the asset at the time of the reinstatement of value does not exceed the amortised costs.

PROVISIONS

A provision is recognised if the group is obligated (legally or factually) as a result of a past event, the outflow of resources with economic use in order to fulfil the obligation is probable, and a reliable estimate of the amount of the obligation can be made. If the group expects at least a partial reimbursement of an accrued provision (for instance, as a result of an insurance contract), the reimbursement is only recognised as a separate asset if it is virtually certain. The expense for the accrual of the provision is reported on the income statement after deduction of the reimbursement. If the interest effect is significant, provisions shall be discounted at an interest rate before taxes which reflects the specific risks of the liability if necessary. In the event of discounting, the conditional increase in the provisions shall be recognised as interest expense.

Provisions for reorganisation expenses are recognised if the group has prepared a detailed, formal reorganisation plan which is provided to the affected parties.

Customer-related provisions are measured on the basis of agreements made with the customers.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Employees of Dr. Scheller Cosmetics AG are entitled to claims from defined benefit pension plans within the framework of company pension schemes. The company differentiates between two types of pension benefits. Members of the Management Board and executive employees receive individual pension commitments, whereas the remaining employees are insured through a pension scheme. The level of pension benefits for the former group is based principally on the duration of employment and the salaries of the employees thereby entitled. The pension scheme only takes the employee's duration of employment into account in determining the level of pension benefits.

The indirect and direct obligations include those from pensions currently being paid out and vested rights to future pension payments. The corresponding expenses are included in the costs of the functional areas. The accumulation of pension claims acquired in previous years, as well as the amortisation of unrealised actuarial gains/losses, is reported in the interest income. The pension obligations for the defined benefit old-age pension plans are calculated pursuant to IAS 19 (Employee Benefits) according to the Projected Unit Credit Method. The expected pension benefits are distributed over the entire duration of employment of the employee.

There were no extraordinary expenditures or earnings as a result of the termination of pension plans or owing to the reduction and transfer of pension benefits in the reporting year.

The calculation of pension obligations takes market interest rates, as well as wage/salary, pension, and fluctuation trends into account.

In accordance with the corridor method, actuarial gains and losses are not recognised on the balance sheet if they do not exceed 10 % of the present value of obligations. If they exceed 10 %, amounts outside of the corridor are amortised beginning with the following year over the average remaining service life of the employee. Service life expenditures charged retrospectively are distributed linearly over the average period until the entitlement is vested. If entitlements are vested immediately after the introduction or amendment of a pension plan, service life expenditures are to be immediately recorded on the income statement.

The amount recognised on the balance sheet is equal to the present value of the defined benefit obligation after offset against the fair value of the plan's assets.

LEASES AND LIABILITIES

Whether an agreement is or includes a leasing relationship is determined on the basis of the economic contents of the agreement and requires an estimate of whether the fulfilment of the contractual agreement over the use of a certain asset or assets is contingent and whether the agreement grants a right to use the asset.

Financial leasing relationships by which essentially all risks and opportunities associated with the transferred asset are transferred to the group are recognised at the beginning of the leasing relationship at the lower of the fair value of the leasing object or the present value of the minimum leasing payments.

Leasing payments are divided into their components of financial expenses and repayments of the leasing liability such that the remaining book value of the leasing liability bears a constant interest rate. Financial expenses are immediately recognised on the income statement.

If the transfer of ownership to the group at the end of the leasing relationship is not sufficiently certain, leasing objects which are recognised are completely depreciated over the shorter of the two periods of the duration of the leasing relationship or useful life. Leasing payments for operating leases are recognised as expense according to the straight line method over the duration of the leasing relationship on the income statement.

REALISATION OF INCOME

Sales revenues are measured at the fair value of the counter-performance received and represent amounts which have been received for goods and products through ordinary operations. Rebates, value-added taxes, and other taxes in connection with the sale are to be deducted.

Goods are recorded as sold at the time of delivery and transfer of ownership.

Interest income is recorded in the period in which it accrued, taking the outstanding loan sum and the applicable interest rate into account.

COST OF SALES

This item includes the cost of all work performed in order to realise sales revenues In addition to directly attributable costs such as raw material, personnel, and energy costs, the cost of self-manufactured products also includes manufacturing overhead, including depreciation on production equipment. Furthermore, proportional write downs on inventory are included in the cost of sales.

MARKETING AND DISTRUBUTION COSTS

The marketing and distribution costs include the costs for marketing, distribution organisation and logistics, as well as costs for market research, product development, and write downs on accounts receivable.

RESEARCH AND DEVELOPMENT EXPENSES

Pursuant to IAS 38 (Intangible Assets), the expenses for research and development (EUR 793k; 2005: EUR 811k) include research expenses, as well as product and process development, including expenses for external services. The development costs are recorded entirely as period expenses, since the requirements for recognition are not met owing to the respective risks existing up until market launch

GENERAL ADMINISTRATIVE EXPENSES

Administrative personnel and material costs, as well as the costs for external services are reported here, to the extent that they are not charged internally to other functional areas.

OTHER OPERATING INCOME

Other operating income includes gains from the sale of tangible and intangible assets as well as other income.

OTHER OPERATING EXPENSES

Other operating expenses include losses from the sale of tangible and intangible assets as well as other losses.

FINANCIAL RESULT

The financial expenses include interest expenses from bank and current account liabilities and fees in connection with the sale of receivables, as well as interest expenses from additions to pension provisions. Financial income essentially includes currency gains from financial items noted in foreign currency.

TAXES

Actual claims to tax refunds and tax liabilities

The actual claims to tax refunds and tax liabilities for the current and earlier periods are to be measured at the expected amount of reimbursement from or remittance to the tax authorities. The calculation of the amount is based on the tax rates and tax laws applicable at the balance sheet date.

Deferred taxes

Deferred taxes accrue using the balance sheet oriented liability method on all temporary differences between the valuation of an asset or liability on the balance sheet and the valuation for tax purposes existing at the balance sheet date.

Deferred tax liabilities are recorded for all temporary differences to be taxed. Hereby the following exceptions:

– Deferred tax liabilities from the initial recognition of goodwill or an asset or a liability arising from a business transaction which is not a merger and does not influence the accounting result for the period or the taxable profit at the time of the business transaction may not be recognised.

– Deferred tax liabilities from temporary differences to be taxed in connection with equity holdings in subsidiaries, affiliated companies, and shares of joint ventures may not be recognised if the timing of the reversal of the temporary differences can be manipulated and it is probable that they will not be reversed in the foreseeable future.

Deferred tax assets for all deductible temporary differences, unused tax credits, and tax loss carryforward not yet applied are recorded in the amount in which it is probable that taxable income will be available to be offset by deductible temporary differences, unused tax credits, and tax loss carryforward not yet applied. Hereby the following exceptions:

– Deferred tax assets from deductible temporary differences resulting from the initial recognition of an asset or a liability arising from a business transaction which is not a merger and does not influence the accounting result for the period or the taxable profit at the time of the business transaction may not be recognised.

– Deferred tax assets from taxable temporary differences in connection with equity holdings in subsidiaries, affiliated companies, and shares of joint ventures may only be recorded to the extent in which it is probable that the temporary differences will reverse in the foreseeable future and sufficient taxable profit are available to be offset by the temporary differences.

The book value of deferred tax assets is reviewed at each balance sheet date and reduced by the amount in which it is no longer probable that sufficient taxable profit will be available to be offset at least partially by the deferred tax assets. Deferred tax assets not recognised are reviewed at each balance sheet date and recognised to the extent that it has become probable that future taxable profit will enable the realisation of the deferred tax assets.

Deferred tax assets and liabilities are measured using the tax rates applicable to the period in which it is expected that an asset will be realised or a liability will be fulfilled. The tax rates (and regulations) which are applicable to or announced for the balance sheet date form the basis for this.

Deferred taxes are generally recorded on the income statement, except those items directly connected to equity.

Deferred tax assets and liabilities offset one another if the group has an enforceable claim to offset the actual claims to tax refunds against actual tax liabilities and these are related to taxes on income of the same taxable entity and levied by the same tax authority.

Value-added tax

Sales revenues, expenses, and assets are recorded after deduction of value-added tax. Hereby the following exceptions:

– if value-added tax incurred with the purchase of goods or services cannot be collected from the tax authorities, the value-added tax is recorded as a portion of the production costs of the asset or as a portion of expenses; and

– Receivables and liabilities are recognised together with the amount of value-added tax contained therein. The amount of value-added tax which is refunded by or remitted to the tax authorities is recorded under receivables or liabilities in the balance sheet.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Dr. Scheller Cosmetics Group uses derivative financial instruments to control current and future interest risks. The instruments serve to secure the basic operative business and financial transactions required by the company in order to prevent exposure to additional risks to the group. The transactions are exclusively conducted in marketable instruments (swaps).

The use of interest derivatives is limited to interest hedges for long term financing, as well as the occasional short term interest optimisation. These derivative financial instruments are recognised initially at their fair value at the time at which the corresponding contract is concluded and subsequently remeasured at their fair value.

Derivative financial instruments are recognised as assets if their fair value is positive, and as liabilities if their fair value is negative.

With respect to derivative financial instruments which do not meet the criteria for recognition of hedging transactions, gains or losses from changes in the fair value are recorded immediately on the income statement. The fair value of interest swap contracts is determined by comparison to the market value of similar instruments.

3. SEGMENT REPORTING

Above all, segment reporting in Dr. Scheller Cosmetics Group includes products which are produced and distributed in the company segments. The allocation to the company segments Decorative Cosmetics, Skin Care, and Dental and Oral Hygiene also corresponds to the internal organisational structure. The regional breakdown shows the international allocation of business activities within Dr. Scheller Cosmetics Group. The segments are organised and managed independently from one another based on product type. Each segment represents a strategic segment whose product range and markets differ from those of other segments.

The company segments, as well as the business performance in the company segments and regions, are represented in the group management report.

Segment earnings, segment expenses, and the segment results include transfers between business segments. Consolidation eliminates these transfers.

The geographic segments of the group are determined according to the location of the group's assets. Sales to external customers which are indicated in the geographic segments are allocated to individual segments according to the geographic location of the customers.

BUSINESS SEGMENTS

The following tables contain information pertaining to earnings and results, as well as information pertaining to assets and liabilities of the group's business segments for the 2005 and 2006 financial years.

3.1 SEGMENTS ACCORDING TO BUSINESS AREAS

	Decorative Cosmetics		Dental and Oral Hygiene		Skin Care		Total	
	2005	2006	2005	2006	2005	2006	2005	2006
	EUR k	EUR k	EUR k	EUR k	EUR k	TEUR	TEUR	TEUR
Sales revenue	47,859	47,825	17,935	18,336	9,412	8,466	75,206	74,627
Gross profit	23,380	23,480	3,872	3,950	3,318	2,518	30,570	29,948
Operating expenses	-21,081	-21,423	-2,537	-3,014	-3,995	-6,231	-27,613	-30,668
Earnings before interest and taxes (EBIT)	2,299	2,057	1,335	936	-677	-3,713	2,957	-720
Earnings before taxes (EBT)	946	1,253	1,383	609	-841	-3,859	1,488	-1,997
Profit	496	886	383	461	-192	-2,927	687	-1,580

Deviating from the previous year, the expenses for merchandising services (external shelf replenishment service) in the amount of EUR 2,691k (2005: EUR 2,364k) are not shown in the operating expenses, but rather deducted from the sales revenue. The reason for this is that these expenses represent a reduction in earnings.

In addition to the previous year, the calculation of the operating earnings before interest and taxes (EBIT) has been changed in order to lead over to the annual earnings before interest and taxes.

In the table above, the corresponding changes to the previous year's figures have been made.

	Decorative Cosmetics		Dental and Oral Hygiene		Skin Care		Total	
	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Segment assets	34,317	35,501	8,281	9,611	7,433	4,969	50,031	50,081

Pursuant to IAS 14, segment assets are the balance sheet totals (assets) of EUR 52,882k (2005: EUR 51,596k) less cash and cash equivalents of EUR 919k (2005: EUR 672k), the deferred tax assets of EUR 1,371k (2005: EUR 738k), and other claims to tax refunds of EUR 511k (2005: EUR 155k).

Segment liabilities	12,458	8,326	491	3,123	1,929	1,460	14,878	12,909

Pursuant to IAS 14, segment liabilities are the balance sheet totals (liabilities) of EUR 52,882k (2005: EUR 51,596k) less equity of EUR 13,435k (2005: EUR 15,019k), the pension provisions of EUR 3,689k (2005: EUR 5,081k), and other tax provisions of EUR 343k

(2005: EUR 481k), and the provisions for deferred tax liabilities of EUR 1,998k (2005: EUR 1,824k), and less the financial liabilities of EUR 20,508k (2005: EUR 14,313k).

Segment assets and segment liabilities of the previous year have been adjusted due to a calculation error in 2006.

Other information pursuant to IAS 14

	Decorative Cosmetics		Dental and Oral Hygiene		Skin Care		Total	
	2005	2006	2005	2006	2005	2006	2005	2006
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Shares of affiliated companies	86	113	25	0	18	32	129	145
Share of the annual results of an affiliated company	13	13	0	0	4	3	17	16
Investments in intangible and tangible assets	2,337	5,851	598	218	426	109	3,361	6,178
Depreciation	3,212	4,325	1,206	349	585	686	5,003	5,360
Impairments included in the results	0	0	385	50	0	591	385	641
Non-cash earnings and expenses	-1,347	-1,228	-503	-472	-264	-217	-2,114	-1,917

3.2 SEGMENTS ACCORDING TO CORE COUNTRIES /MARKETS

	Core Countries [1]		Other		Total	
	2005	2006	2005	2006	2005	2006
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Sales revenue	60,281	55,050	14,925	19,577	75,206	74,627
Gross profit	**21,908**	**21,852**	**8,662**	**8,096**	**30,570**	**29,948**
Operating expenses	**-21,197**	**-24,509**	**-6,416**	**-6,159**	**-27,613**	**-30,668**
Earnings before interest and taxes (EBIT)	**711**	**-2,657**	**2,246**	**1,937**	**2,957**	**-720**
Earnings before taxes (EBT)	-445	-3,668	1,933	1,671	1,488	-1,997
Profit	-532	-2,764	1,219	1,184	687	-1,580

[1] Germany, Russia, Poland, Slovenia, Croatia, Serbia, Bosnia

Deviating from the previous year, the expenses for merchandising services (external shelf replenishment service) in the amount of EUR 2,691k (2005: EUR 2,364k) are not shown in the operating expenses, but rather deducted from the sales revenue. The reason for this is that these expenses represent a reduction in earnings.

In addition to the previous year, the calculation of the EBIT has been changed and only the annual earnings before interest and taxes has been used.

In the table above, the corresponding changes to the previous year's figures have been made.

	Core Countries		Other		Total	
	31/12/05	31/12/06	31/12/05	31/12/06	31/12/05	31/12/06
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Segment assets	40,970	41,211	9,061	8,870	50,031	50,081

Pursuant to IAS 14, segment assets are the balance sheet totals (assets) of EUR 52,882k (2005: EUR 51,596k) less cash and cash equivalents of EUR 919k (2005: EUR 672k), the deferred tax assets of EUR 1,371k (2005: EUR 738k), and other claims to tax refunds of EUR 511k (2005: EUR 155k).

Segment liabilities	12,539	10,500	2,339	2,409	14,878	12,909

Pursuant to IAS 14, segment liabilities are the balance sheet totals (liabilities) of EUR 52,882k (2005: EUR 51,596k) less equity of EUR 13,435k (2005: EUR 15,019k), the pension provisions of EUR 3,689k (2005: EUR 5,081k), and other tax provisions of EUR 343k (2005: EUR 481k), and the provisions for deferred tax liabilities of EUR 1,998k (2005: EUR 1,824k), and less the financial liabilities of EUR 20,508k (2005: EUR 14,313k).

Due to a miscalculation in 2006, the segment assets and segment liabilities of the previous year have been adjusted.

OTHER INFORMATION PURSUANT TO IAS 14

in EUR k	Core Countries		Other		Total	
	2005	2006	2005	2006	2005	2006
Shares of affiliated companies	129	145	0	0	129	145
Share of the annual results of an affiliated company	17	16	0	0	17	16
Investments in intangible and tangible assets	2,780	4,964	581	1,214	3,361	6,178
Depreciation and amortisation	4,204	4,288	799	1,072	5,003	5,360
Thereof impairments included in the results	385	641	0	0	385	641
Non-cash earnings and expenses	-1,695	-1,415	-419	-502	-2,114	-1,917

4. OTHER REVENUES AND EXPENSES

4.1 OTHER OPERATING INCOME

	2006	2005
	EUR k	EUR k
Gains from the retirement of assets	2	0
Gains from the transfer of provisions	0	147
Other operating income	60	477
	62	**624**

4.2 OTHER OPERATING EXPENSES

	2006	2005
	EUR k	EUR k
Losses from the retirement of assets	7	328
Other expenses	5	101
	12	**429**

4.3 FINANCIAL INCOME

	2006	2005
	EUR k	EUR k
Interest income	21	99
Exchange rate differences	48	36
	69	**135**

4.4 FINANCIAL EXPENSES

	2006	2005
	EUR k	EUR k
Interest expenses	1,268	1,287
Exchange rate differences	78	317
	1,346	**1,604**

4.5 SHARE OF PROFITS OF AFFILIATED COMPANIES

	2006	2005
	EUR k	EUR k
Share in profit of associated companies	16	17

4.6 COST OF MATERIALS AND CONSUMABLES

	2006	2005
	EUR k	EUR k
Cost of raw materials, manufacturing and factory supplies		
and purchased goods	33,981	31,683
Cost of purchased services	2,782	5,083
	36,763	**36,766**

4.7 PERSONNEL COSTS	2006	2005
	EUR k	EUR k
Wages and salaries	14,363	12,983
Social insurance contributions and costs of employee support	2,561	2,417
Employee pension plan contributions	293	353
	17,217	**15,753**

5. INCOME TAX EXPENSES

The essential components of income tax expenses for the 2005 and 2006 financial years include the following:

	2006	2005
	EUR k	EUR k
Actual income tax expenses	42	25
Deferred taxes on income	-459	776
Income tax expenses reported on the consolidated income statement	**-417**	**801**

The reconciliation between the income taxes and the product of the balance sheet period results and the applicable group tax rate for the 2005 and 2006 financial years is comprised of the following:

	2006	2005
	EUR k	EUR k
Results of continuing business		
divisions before taxes	**-1,997**	**1,488**
Income tax expense at a tax rate		
of 37.60 % (2005: 37.30 %)	751	-555
Effects of		
- Tax rate changes	-10	0
- Adjustments of actual income taxes accrued in previous years	-42	0
- Non-deductible expenses	-151	-149
- the write down of deferred tax assets to the loss carryforward		
of Dr. Scheller Cosmetics Polska Sp.z.o.o.	-131	-97
Income taxes reported on the		
consolidated income statement	**417**	**-801**

DEFERRED TAX ASSETS AND LIABILITIES

The deferred tax assets and liabilities are comprised of the following at the balance sheet date:

	31/12/2006 EUR k	31/12/2005 EUR k
Inventories	7	31
Other assets	23	0
Liabilities	431	0
Provisions for pensions and similar obligations	458	474
Tax loss carryforward	452	233
Deferred tax assets	**1,371**	**738**
Fixed Assets	1,883	1,686
Accounts receivable and other assets	9	78
Liabilities	106	60
Deferred tax liabilities	**1,998**	**1,824**

Deviating from the previous year, deferred tax assets were not offset against deferred tax liabilities, since the perquisites for offsetting were not met. The previous year's figures were correspondingly adjusted.

The following table shows the effects of results from the changes in temporary differences and from the changes in the tax loss carryforward.

	31/12/2006 EUR k	31/12/2005 EUR k
Deferred tax assets		
Inventories	-24	-34
Other assets	23	-245
Liabilities	431	0
Provisions for pensions and similar obligations	-16	132
Tax loss carryforward	219	-391
	633	-538
Deferred tax liabilities		
Fixed assets	-197	-171
Accounts receivable and other assets	69	-76
Remaining provisions	0	12
Liabilities	-46	-3
	-174	-238
Deferred income taxes	**459**	**-776**

In Germany, there is a tax loss carryforward amounting to EUR 1,363k (corporate income tax), as well as EUR 1,125k (trade tax) (2005: corporate income tax EUR 608k; trade tax EUR 652k), which is entirely available to the group for offset against future taxable profit of the company. As at 31 December 2006, and also as at 31 December 2005, the deferred tax assets from tax losses carried forward by Dr. Scheller Cosmetics Polska Sp.z.o.o. were completely written off, since it is not likely that sufficient income or rather deferred tax liabilities will be available against which the deferred tax assets could at least be partially utilised.

6. EARNINGS PER SHARE

In 2006, the earnings per share were -0.25 EUR (2005: 0.11 EUR) and were calculated by dividing the profits for the year by the average number of outstanding shares in the reporting year (IAS 33.70). Since the execution of the share buyback in 2002, Dr. Scheller Cosmetics AG holds 60,000 of its own shares (0.92 %). These were not included in the calculation of the earnings per share. This produced a weighted average number of 6,440,000 shares. Since no financial instruments are outstanding which could be converted into shares, no separate figures are provided for diluted earnings per share.

7. REORGANISATION EXPENSES

In November 2006, the Management Board decided to outsource a large portion of production in the Skin Care segment. As a result of the production relocation, 23 employees were released by means of a social plan and compensation of interests; the assets attributable to this area (machines and inventories) were written down.

	2006
	Million EUR
Costs in connection with the termination of employment relationships	1.5
Loss from the impairment of tangible assets	0.6
Loss from the impairment of inventories	0.4
	2.5

The reorganisation provision reported under other provisions amounts to 1.2 million EUR as at the balance sheet date.

8. INTANGIBLE AND TANGIBLE ASSETS

	Intangible Assets	Real property and equivalent rights and buildings	Technical equipment and machines	Office and plant equipment	Advanced payments to suppliers and facilities under construction	Total tangible assets	Total
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Acquisition Costs							
Opening balance as at 1 January 2005	2,964	25,552	11,650	22,503	232	59,937	62,901
Additions	140	50	71	2,936	164	3,221	3,361
Disposals	0	0	0	536	234	770	770
transfers	0	0	0	71	-71	0	0
Ending balance as at 31 December 2005	**3,104**	**25,602**	**11,721**	**24,974**	**91**	**62,388**	**65,492**
Depreciation and amortisation							
Opening balance as at 1 January 2005	1,899	8,366	5,749	16,456	0	30,571	32,470
Additions	679	870	882	2,572	0	4,324	5,003
Disposals	0	0	0	273	0	273	273
Ending balance as at 31 Dezember 2005	**2,578**	**9,236**	**6,631**	**18,755**	**0**	**34,622**	**37,200**
Book value as at 31 December 2005	**526**	**16,366**	**5,090**	**6,219**	**91**	**27,766**	**28,292**
Acquisition Costs							
Opening balance as at 1 January 2006	3,104	25,602	11,721	24,974	91	62,388	65,492
Additions	17	20	136	5,542	463	6,161	6,178
Disposals	0	0	0	189	0	189	189
transfers	0	127	0	36	-163	0	0
Ending balance as at 31 December 2006	**3,121**	**25,749**	**11,857**	**30,363**	**391**	**68,360**	**71,481**
Depreciation and amortisation							
Opening balance as at 1 January 2006	2,578	9,236	6,631	18,755	0	34,622	37,200
Additions	210	882	1,237	3,031	0	5,150	5,360
Disposals	0	0	0	185	0	185	185
Ending balance as at 31 December 2006	**2,788**	**10,118**	**7,868**	**21,601**	**0**	**39,587**	**42,375**
Book value as at 31 December 2006	**333**	**15,631**	**3,989**	**8,762**	**391**	**28,773**	**29,106**

An impairment to the amortised cost of the brand Denta Clin (tootpaste and toothbrushes) amounting to EUR 50k was recorded as a result of declining unit figures.

In tangible assets, an impairment test was conducted - in particular for capital assets of the area of Skin Care. An impairment was ascertained in the amount of EUR 591k and an extraordinary write down was recorded.

The amortisation of intangible assets amounting to EUR 210k (2005: EUR 679k), EUR 6k (2005: EUR 4k) were allocated to costs of goods sold, EUR 204k (2005: EUR 675k) to marketing, distribution and general administrative expenses.

The book values of technical equipment and machines include assets held within the framework of financing leases in the amount of EUR 2, 478k (2005: EUR 3,243k).

The book value of the real estate amounts to EUR 15,631k (2005: EUR 16,366k). There is collateralisation in the form of encumbrances on real property pledged to credit institutions amounting to EUR 5,415k (2005: EUR 6,922k).

9. SHARES OF AN AFFILIATED COMPANY

The 50 % equity stake in the affiliated company Dr. Scheller Cosmetics kozmetika in storitve d.o.o., Ljubljana/Slovenian is included in the consolidated financial statements according to the equity method, since Dr. Scheller Cosmetics AG has forgone the execution of its rights stemming from the shareholder position for the 2006 financial year up until 31 December 2006 through contractual agreement.

	2006	**2005**
	EUR k	EUR k
Opening balance as at 1 January	129	112
Additions / Share in profits	16	17
Book value as at 31 December	145	129

DR. SCHELLER COSMETICS KOZMETIKA IN STORITVE D.O.O., LJUBLJANA, SLOVENIAN	**31/12/2006**	**31/12/2005**
	EUR k	EUR k
Total assets	439	417
Total liabilities	240	254
Sales revenues	1.104	908
Profit for the year	32	34

10. INVENTORIES	**31/12/2006**	**31/12/2005**
	EUR k	EUR k
Raw materials, manufacturing and factory supplies	4,869	4,702
Write downs on raw materials, manufacturing and factory supplies	-1,406	-680
Work in process	1,556	1,208
Finished goods	5,494	6,004
Merchandise	1,125	1,180
Write downs on finished goods and merchandise	-1,882	-2,008
Advanced payment to suppliers	326	0
	10,082	**10,406**

Write downs amounting to EUR 1,374k (2005: EUR 820k) were recorded mainly on finished goods as a result of excessive inventories and limited realisation potential.

11. TRADE RECEIVABLES, TAX RECEIVABLES, ADVANCED PAYMENTS, AND OTHER RECEIVABLES

	31/12/2006	31/12/2005
	EUR k	EUR k
Trade receivables	7,313	9,044
Individual value adjustments to trade receivables	-857	-706
Debt claims against affiliated companies	2,800	1,082
	9,256	**9,420**
Advanced payments	0	21
Tax claims	511	155
Other receivables	1,492	1,763
	11,259	**11,359**

The book value of trade receivables, tax claims, and other receivables corresponds to their fair value.

12. CASH AND CASH EQUIVALENTS

	31/12/2006	31/12/2005
	EUR k	EUR k
Cash	2	0
Balances at credit institutes	917	672
Cash and cash equivalents	**919**	**672**

For the purposes of the consolidated cash flow statement, the financial resources include cash and cash equivalents, as well as draws on lines of current account credit and money market loans with an original maturity of less than three months.

	31/12/2006	31/12/2005
	EUR k	EUR k
Cash and cash equivalents	919	672
Bank overdrafts and short term money market loans	-11,029	-6,163
Financial resources	**-10,110**	**-5,491**

Transition to amounts owed to credit institutions

	31/12/2006	31/12/2005
	EUR k	EUR k
Bank overdrafts and short term money market loans	-11,029	-6,163
Bank loans, including repayment portions with terms		
> 3 months, but < 12 months	-3,687	-952
Amounts owed to credit institutions (short term)	**-14,716**	**-7,115**

Compared with the consolidated financial statements of 31. December 2005 the compound of the cash and cash equivalents has been changed. Short term amounts owed to credit institutions with a with a residual term of less then three month are not included in the cash and cash equivalents. Accordingly the cash flow statements of the previous year has been adjusted.

Risk of default

The financial assets of Dr. Scheller Cosmetics AG include primarily cash and cash equivalents, trade receivables, tax claims, and other receivables which represent the maximum risk to the group through risk of default in proportion to the financial assets.

The group's risk of default arises primarily from the trade receivables and other receivables. The amounts reported on the balance sheet reflect impairments undertaken for receivables expected to be uncollectible, which were estimated on the basis of past experience and the current economic environment.

The risk of default is limited for cash and cash equivalents, since these are held by banks.

There are no significant concentrations of default risk for the group overall, since the risks are distributed over a large number of contractual parties and customers.

13. EQUITY

	31/12/2006	31/12./005
	EUR k	EUR k
Issued share capital	**6,500**	**6,500**
Capital reserves	**7,800**	**7,800**
Own shares	**-315**	**-315**
Translation adjustment	**-10**	**-6**
Revenue reserves	**-540**	**1,040**
Revenue reserves	145	145
Profit carried forward	895	208
Profit for the year	-1,580	687
	13,435	**15,019**

Issued share capital

The capital stock amounts to EUR 6,500,000 and is divided into 6,500,000 no-par value shares. The company holds 60,000 of its own shares since the execution of the share buyback in 2002 (corresponds to 0.92 % of the company's capital stock).

Approved capital

The shareholders' meeting authorised the Management Board on 8 June 2004 to increase the capital stock as at 7 June 2009 through one or more issuances of new share certificates for cash or tangible assets by a maximum total of EUR 2,600,000.00. The shareholders' meeting authorised the Management Board on 22 June 2006 to purchase the company's own shares amounting to no more than a total of 10 percent of the current capital stock up until 21 December 2007.

Capital reserves

The capital reserves include the premium from shares issued in connection with the initial public offering of Dr. Scheller Cosmetics AG in 1999.

Own shares

The own shares acquired by Dr. Scheller Cosmetics AG within the scope of the share buyback have been deducted from equity. The purchase, sale, issuance, or redemption of the company's own shares does not affect earnings.

Translation adjustment

This account reflects the differences arising from the income-neutral currency translation of the annual statements of those companies consolidated by the group.

Revenue reserves

The revenue reserves include the past results achieved by those companies included in the consolidated financial statements to the extent that they were retained.

14. PENSION PROVISIONS

The actuarial measurements of the present value of the defined benefit obligations were conducted as at 31 December 2006 by Kern Mauch & Kollegen GmbH, employee pension scheme and payment experts of Stuttgart. The present value of the defined benefit obligations and the accompanying service life expenditures were calculated according to the method of ongoing one-time premiums.

The most important assumptions are:

Assumptions	2006	2005
	%	%
Discount rate	4.50	4.00
Wage/salary trend	1.50	1.50
Pension trend	1.50	1.50
Fluctuation	0.00	0.00

The following amounts are recorded on the income statement:

	2006	2005
	EUR k	EUR k
Ongoing service life expenditures	64	67
Interest expense	222	207
	286	**274**

The complete expense of the financial year amounting to EUR 286k (2005: EUR 274k) were recorded in general administrative expenses.

The amount of the group's obligation reported on the balance sheet with respect to old-age pension plans consists of the following:

	31/12/2006	31/12/2005
	EUR k	EUR k
Provision pursuant to IAS 19 as at 1 January	**5,081**	**5,037**
Service life and interest expense	274	308
Pension payments	-275	-264
Fair value of the pension plan assets	-1,391	0
Provision pursuant to IAS 19 as at 31 December	**3,689**	**5,081**
Present value of pension obligations (DBO)	5,059	5,298
Actuarial gains (+) / losses (-) not recognised on the		
balance sheet	21	-217
Fair value of the pension plan assets	-1,391	0
Provision pursuant to IAS 19 as at 31 December	**3,689**	**5,081**

The pension provisions are strictly allocated to non-current liabilities

The changes in present value of the defined benefit obligations of the current financial year are illustrated as follows:

	2006	2005
	EUR k	EUR k
As at 1 January	5,298	5,003
Service life expenditures	67	51
Interest expense	207	255
Paid benefits	-275	-263
Actuarial gains and losses	-238	252
As at 31 December	**5,059**	**5,298**

The changes in fair value of pension plan assets in the current year are illustrated as follows:

	2006	2005
	EUR k	EUR k
As at 1 December	0	0
Group contributions	1,405	0
Expected loss from pension plan assets	-14	0
As at 31 December	**1,391**	**0**

In December 2006, a reinsurance policy was concluded to secure pension commitments for a member of the Management Board. The one-time premium for the insurance amounted to EUR 1,405k. As at the balance sheet date, this reinsurance claim was recognised in the amount of EUR 1,391k.

With respect to pension plan assets, a return of 2.2 % is expected for the 2007 financial year.

A two-year-comparison of adjustments based on past experience results in the following:

	2006	2005
	EUR k	EUR k
Present value of defined benefit obligations	5,059	5,298
Fair value of the pension plan assets	-1.391	0
Pension plan deficit	3.668	5.298
Adjustments to pension plan obligations based on prior experience		
Amount (EUR k)	-28	468
Percentage rate of pension plan obligations (%)	1	9

15. AMOUNTS OWED TO CREDIT INSTITUTIONS, TRADE CREDITORS, LEASING LIABILITIES, TAX LIABILITIES, AND OTHER DEBT

	31/12/2006	31/12/2005
	EUR k	EUR k
Amounts owed to credit institutions	**19,371**	**12,297**
Trade creditors	**2,241**	**3,391**
Liabilities from wages, salaries, and holiday entitlements	492	1,367
Social insurance obligations	156	505
Bonus expenditures	3,017	3,222
Central rebate and cash discount	436	1,295
Marketing and distribution expenses	1,985	2,855
Other liabilities	1,424	116
Other debt	**7,510**	**9,360**
Liabilities from wage and church taxes	314	309
Value-added tax liabilities	0	152
Other tax liabilities	29	20
Tax liabilities	**343**	**481**
Leasing liabilities	**1,137**	**2,016**
Non-current liabilities from financial leasing agreements	708	1,050
Current liabilities from financial leasing agreements	429	966
	30,602	**27,545**

The liabilities reported in the previous year under customer-related provisions from bonus payments to customers amounting to EUR 3,017k (2005: EUR 3,222k), as well as from central rebates and cash discounts amounting to EUR 436k (2005: EUR 1,295k) are reported under other debt in the 2006 financial year.

Furthermore, deviating from the previous year, provisions for indemnities amounting to EUR 310k (2005: EUR 51k) have been allocated to provisions and no longer to liabilities.

The previous year's balance sheet figures have been adjusted.

Amounts owed to credit institutions	31/12/2006	31/12/2005
	EUR k	EUR k
Amounts owed to credit institutions	**19,371**	**12,297**
Remaining term of up to 1 year (short term)	14,716	7,115
Remaining term of over 1 year (long term)	4,655	5,182

The apportionment of amounts owed to credit institutions is illustrated as follows:

	31/12/2006	**previous year**
	EUR k	EUR k
Bank overdrafts	4,775	3,905
Money market loans	6,000	2,257
Bank loans	8,596	6,135
	19,371	**12,297**

Loans and bank overdrafts exhibit the following remaining terms:

	31/12/2006	**previous year**
	EUR k	EUR k
Callable without notice or up to one year	14,716	7,115
More than one year and up to two years	1,922	2,353
More than two and up to five years	2,432	2,128
More than five years	301	701
	19,371	**12,297**
Less amounts with a remaining term of up to twelve months		
(reported under short term loans)	14,716	7,115
Amounts with a remaining term of more than 12 months	4,655	5,182

Breakdown of the loans and bank overdrafts according to currency:

As at 31/12/2006	**Total**	**EUR**	**CHF**
	EUR k	EUR k	EUR k
Bank overdrafts	4,775	4,775	0
Bank loans	14,596	12,863	1,733
	19,371	**17,638**	**1,733**

As at 31/12/2005	**Total**	**EUR**	**CHF**
	EUR k	EUR k	EUR k
Bank overdrafts	3,905	3,905	0
Bank loans	8,392	6,349	2,043
	12,297	**10,254**	**2,043**

The average interest rates were:

	31/12/2006	**previous year**
	%	%
Bank overdrafts	5.80	5.35
Bank loans	3.94	3.30

Fixed interest rates were negotiated for bank loans in the amount of EUR 8,596 million (2005: EUR 6,135 million). Thus, the company is exposed to an interest rate risk for the fair value. The fair value corresponds to the book value.

Other important characteristics of the loans taken up by the group:

- Credit drawn on the current account is callable without notice Credit drawn on the current account is not collateralised. The average effective interest rate pertaining to bank overdrafts is approximately 5.80 % (2005: 5.35 %) per annum and is predominantly calculated on the basis of the 3 month Euribor plus a surcharge.

The group has two important bank loans:
- One loan for EUR 3,208k (2005: EUR 0k). The loan was taken up in August 2006. The repayment began on 30 December 2006 and will continue until 30 September 2009. The loan is not collateralised through land charge and bears a fixed interest rate amounting to 4.44 %.
- One loan for EUR 874k (2005: EUR 1,068k) which is collateralised through land charges of the group. The loan was granted in June 2001 and should be repaid by 1 July 2010. The loan bears a fixed interest rate equalling to the 6 month Euribor plus a margin totalling 4.50 % (2005: 3.90 %).

As at 31 December 2006, credit lines not drawn down in the amount of EUR 3,405k (2005: EUR 11,728k) were available to the group, for which all necessary prerequisites for drawdown have already been fulfilled.

LEASING LIABILITIES

The leasing liabilities are illustrated as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31/12/2006	previous year	31/12/2006	previous year
	EUR k	EUR k	EUR k	EUR k
With a remaining term of up to one year	481	966	429	966
With a remaining term of more than one year and up to five years	749	1,230	708	1,050
	1,230	**2,196**	**1,137**	**2,016**
Less future financing costs	93	180		
Present value of leasing liabilities	**1,137**	**2,016**		
less: Amount due for repayment within twelve months (reported under short term debt)			429	966
Amount due for repayment after more than twelve months			**708**	**1,050**

Up until 31 December 2005, the group procured certain technical equipment and machines within the framework of financial leasing agreements. The average term is 5 years. As at 31 December 2006, the average effective interest rate was 5.58 %. The interest rates were negotiated at the time the agreements were concluded. All leasing relationships are based on negotiated fixed rates. No agreements pertaining to contingent lease payments were met.

All leasing liabilities are noted in Euro.

The fair value of the group's leasing liabilities approximately corresponds to the book value.

16. PROVISIONS

	Customer-related Provisions	Reorganisation provisions	Others	**Total**
	EUR k	EUR k	EUR k	EUR k
Opening balance as at 1 January 2005	**3,683**	**0**	**783**	**4,466**
Additions	1,080	0	928	2,008
Utilisation	3,564	0	640	4,204
Retransfer	0	0	143	143
Ending balance as at 31 December 2005	**1,199**	**0**	**928**	**2,127**
Opening balance as at 1 January 2006	**1,199**	**0**	**928**	**2,127**
Additions	838	1,204	1,071	3,113
Utilisation	1,199	0	714	1,913
Retransfer	0	0	169	169
Ending balance as at 31 December 2006	**838**	**1,204**	**1,116**	**3,158**

The reorganisation provisions in the amount of EUR 1,204k are primarily intended for the costs of dismantling the job site as a result of outsourcing production in the Skin Care segment to OJSC Concern "KALINA".

The other provisions include primarily profit-sharing bonus obligations amounting to EUR 409k (2005: EUR 320k), indemnity obligations in the amount of EUR 311k (2005: EUR 18k), and a provision for impending losses amounting to EUR 216k (2005: EUR 257k).

Regarding the reclassifications or adjustments, we refer you to the comments on trade creditors.

17. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

	31/12/2006	**31/12/2005**
	EUR k	EUR k
Other financial liabilities		
Obligations from rental and leasing agreements		
due in the following year	251	94
due in 2 to 5 years	1,005	1,057
due in >5 years	251	0
Total	**1,507**	**1,151**

In the course of normal business activity, Dr. Scheller Cosmetics AG is subject to potential obligations arising from processes and asserted claims. Estimates regarding potential future expenditures are subject to numerous uncertainties.

Dr. Scheller Cosmetics AG does not expect any significant negative effects from this on the economic or financial situation of Dr. Scheller Cosmetics Group.

Further financial obligations exist within the scope of normal business transactions. As at the balance sheet date, there are purchase commitments within the framework of long term supplier agreements amounting to EUR 2,060k.

18. DERIVATIVE FINANCIAL INSTRUMENTS

The group uses interest swaps to hedge the interest rate risk to which its bank loans are exposed. By contracts with a nominal value of EUR 2,554k, the interest payments were fixed with an average of 5.1 % for the periods until July 2010, compared to variable interest payments of EURIBOR plus 2.86 percentage points.

The fair value as at 31 December 2006 of EUR – 216k (2005: EUR – 257k) (reported under provisions) corresponds to the repurchase value by fictitious premature transfer of negotiated derivatives. It was calculated on the basis of generally accepted valuation models (Black Scholes, Heath-Jarrow-Morton). The changes in fair value were recorded on the income sheet.

	Market value		Nominal value	
	2006	**2005**	**2006**	**2005**
	EUR k	EUR k	EUR k	EUR k
Interest swaps	2,338	2,686	2,554	2,943

19. INFORMATION PERTAINING TO THE AVERAGE NUMBER OF EMPLOYEES

	2006	**2005**
Industrial employees	176	182
Salaried employees	228	203
Trainees	17	16
	421	**401**

20. AUDIT AND ADVISORY FEES

Professional fees for the group auditors recorded as expenditure in the financial year amount to:

	2006	**2005**
	EUR k	EUR k
Audit of the separate and consolidated financial statements	50	70
Other audit-related services	20	69
Other advisory services	1	0
Tax advisory services	6	8
	77	**147**

21. SUBSIDIARIES EXEMPT FROM DISCLOSURE

The subsidiaries

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

exercise their right to exemption from disclosure as wholly-owned subsidiaries of Dr. Scheller Cosmetics AG, Eislingen (Fils), pursuant to section 264 (3) of the German Commercial Code (HGB) in conjunction with section 325 HGB for the financial statements as at 31 December 2006.

22. SHARE OF OWNERSHIP OF DR. SCHELLER COSMETICS AG

Subsidiaries	Registered office	Capital share %	Voting rights share %	Primary business
Dr. Scheller DuroDont GmbH	Eislingen/Fils, Germany	100	100	Distribution
Lady Manhattan Cosmetics GmbH	Stuttgart, Germany	100	100	Distribution
Apotheker Dr. Scheller Naturmittel GmbH	Göppingen, Germany	100	100	Distribution
Premium Cosmetics GmbH	Stuttgart, Germany	100	100	Distribution
Lady Manhattan Cosmetics Vertriebsgesellschaft m.b.H.	Wien, Austria	100	100	Distribution
Dr. Scheller Cosmetics Polska sp.z.o.o.	Wroclaw, Poland	100	100	Distribution
Lady Manhattan Limited	London, Great Britain	100	100	Distribution
Dr. Scheller Cosmetics d.o.o.	Ljubljana, Slowenia	50	0	Distribution

23. EQUITY HOLDINGS SUBJECT TO DISCLOSURE REQUIREMENTS

Up until the balance sheet date, numerous shareholders of Dr. Scheller Cosmetics AG approached the company with information pursuant to the provisions of the Securities Trading Law (WpHG), which the company thus published in accordance with section 25 (1) WpHG:

The SüdKapitalanlagengesellschaft informed us on 3 May 2006 pursuant to section 21 (1) WpHG that their voting rights share of our company fell below the threshold of 5 % on 27 April 2006 and now amounts to 0.0 %.

Mr. Franz Lütticke of Meinerzhagen informed us on 8 May 2006 pursuant to section 21 (1) WpHG that his voting rights share of our company fell below the threshold of 5 % on 4 May 2006 and now amounts to 0.0 %.

The service institution for doctors, dentists and veterinarians of Baden-Württemberg, Tübingen informed us on 11 May 2006 pursuant to section 21 (1) WpHG that their voting rights share of our company fell below the threshold of 5 % on 5 May 2006 and now amounts to 0.0 %.

Kalina International S.A. of Lausanne, Switzerland, informed us in the name of OJSC Concern “KALINA” of Ekaterinburg of the Russian Federation, on 30 May 2006 pursuant to section 21 (1) WpHG that the voting rights share of OJSC Concern “KALINA” in Dr. Scheller Cosmetics AG had exceeded the threshold of 75 % on 24 May 2006 and now amounts to 77.77 %. Of this voting rights share, 1.92 % were attributable pursuant to section 22 (1) sentence 1 no. 1 WpHG and 2.62 % pursuant to section 22 (2) WpHG.

Kalina International S.A. of Lausanne, Switzerland, informed us on 31 July 2006 pursuant to section 21 (1) WpHG that the voting rights share in Dr. Scheller Cosmetics AG had exceeded the threshold of 5 %, 10 %, 25 %, 50 % and 75 % on 26 July 2006 and now amounts to 78.28 %. Of this voting rights share, 73.24 % were attributable pursuant to section 22 (1) sentence 1 no. 1 WpHG and 2.62 % pursuant to section 22 (2) WpHG.

Mr. Timur Rafkatovich Goryayev of Ekaterinburg, Russia, informed us on 16 November 2006 pursuant to section 21 et seq. WpHG that, effective 30 March 2005, he had exceeded the thresholds of 5 % and 10 % of voting rights shares in Dr. Scheller Cosmetics AG and that as at 16 November, his voting rights share amounted to 11.62 % - from which, 9 % of the voting rights were attributable to him pursuant to section 22 (1) sentence 1 no. 1 WpHG and 2.62 % of the voting rights pursuant to section 22 (2) WpHG.

Furthermore, he informed us on 16 November 2006 that, effective 31 March 2005, he had exceeded the threshold of 25 % of the voting rights in Dr. Scheller Cosmetics AG and that on that day, his voting rights share amounted to 32.96 %. 30.34 % of the voting rights were attributable to him pursuant to section 22 (1) sentence 1 no. 1 WpHG and 2.62 % pursuant to section 22 (2) WpHG.

Furthermore, he informed us on 16 November 2006 that, effective 12 April 2005, he had exceeded the threshold of 50 % of the voting rights in Dr. Scheller Cosmetics AG and that on that day, his voting rights share amounted to 62.86 %. 60.24 % of the voting rights were attributable to him pursuant to section 22 (1) sentence 1 no. 1 WpHG and 2.62 % pursuant to section 22 (2) WpHG. Of the voting rights attributable pursuant to section 22 (2) sentence 1 no. 1 WpHG, 0.92 % of the voting rights were attributed to treasury shares held by Dr. Scheller Cosmetics AG.

Finally, he informed us on 16 November 2006 that, effective 17 November 2005, the thresholds of 50 %, 25 %, 10 %, and 5 % of the voting rights in Dr. Scheller Cosmetics AG were fallen below and that since that day, his voting rights share has amounted to 0.0 %.

Kalina International S.A. of Lausanne, Switzerland, sent us a correctional notice on 8 November 2006 pursuant to sections 21 et seq. WpHG - informing us in the name of OJSC Concern “KALINA” of Ekaterinburg of the Russian Federation supplementary to the notification sent by OJSC Concern “KALINA” on 13 April 2005 that the latter had exceeded the threshold of 50 % of the voting rights share in Dr. Scheller Cosmetics AG effective 12 April 2005 and that it held a voting rights share of 62.86 % on that day. Of this voting rights share, 2.62 % were attributable pursuant to section 22 (2) WpHG and 0.92 % were attributable to treasury shares held by Dr. Scheller Cosmetics AG pursuant to section 22 (1) sentence 1 no. 1 WpHG.

Furthermore, Kalina International S.A. of Lausanne, Switzerland informed us per correctional notice on 8 November 2006 pursuant to sections 21 et seq. WpHG supplementary to the notification sent by Kalina International S.A. on 30 May 2006 in the name of OJSC Concern “KALINA” that the latter had exceeded the threshold of 75 % of the voting rights share in Dr. Scheller Cosmetics AG effective 24 May 2006 and held a voting rights share of 78.68 % on that day. 2.83 % of the voting rights were attributable to it pursuant to section 22 (1) sentence 1 no. 1 WpHG and 2.62 % pursuant to section 22 (2) WpHG. Of the voting rights attributable pursuant to section 22 (1) sentence 1 no. 1 WpHG, 0.92 % of the voting rights were attributed to treasury shares held by Dr. Scheller Cosmetics AG.

Furthermore, Kalina International S.A. of Lausanne, Switzerland, informed us voluntarily in the name of OJSC Concern “KALINA” that OJSC Concern “KALINA” held 80.54 % of the voting rights share in Dr. Scheller Cosmetics AG as at 17 October 2006. 77.93 % of the voting rights were attributable to it pursuant to section 22 (1) sentence 1 no. 1 WpHG and 2.62 % pursuant to section 22 (2) WpHG. Of the voting rights attributable pursuant to section 22 (1) sentence 1 no. 1 WpHG, 0.92 % of the voting rights were attributed to treasury shares held by Dr. Scheller Cosmetics AG. Effective 22 October 2006, the allocation pursuant to section 22 (2) WpHG was replaced by the allocation pursuant to section 22 (1) sentence 1 no. 1 WpHG.

Finally, Kalina International S.A. of Lausanne, Switzerland, informed us on 8 November 2006 voluntarily in writing with reference to the notification by Kalina International S.A. on 26 July 2006 that the allocation of the voting rights share in Dr. Scheller

Cosmetics AG held by itself had changed effective 17 October 2006. Of the 80.54 % of the voting rights share held by it on that day, 2.62 % of the voting rights share was attributable pursuant to section 22 (2) WpHG and 0.92 % of the voting rights share was attributable to treasury shares held by Dr. Scheller Cosmetics AG pursuant to section 22 (1) sentence 1 no. 1 WpHG. The allocation pursuant to section 22 (2) WpHG no longer applied as at 22 October 2006, since the 2.62 % voting rights share was now held directly.

24. INFORMATION PERTAINING TO RELATIONSHIPS WITH AFFILIATED COMPANIES AND BUSINESS TRANSACTIONS WITH AFFILIATED COMPANIES AND ENTITIES PURSUANT TO IAS 24

Business transactions between the company and its subsidiaries which are affiliated entities were eliminated in the course of consolidation and are not discussed in these notes to the consolidated financial statements. Business transactions between the company and its subsidiaries and affiliated companies are disclosed in the separate financial statements of the parent company or in the dependent company report.

TRADE-RELATED TRANSACTIONS

During the course of the financial year, group companies conducted the following transactions with affiliated companies and entities which do not belong to the group:

	Sale of goods / services		Acquisition of goods		Accounts receivable from affiliated companies		Liabilities to affiliated companies	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
OJSC Concern „KALINA“	3,784	7,244	0	0	2,333	709	0	0
Dr. Scheller Cosmetics d.o.o.	594	568	0	0	160	178	0	0
Kalina International S.A.	3	0	0	0	3	0	0	0

Sales of goods to affiliated companies and entities are concluded at arm’s length.

The receivables are unsecured and paid in cash. No guaranties were given, and none were received. No value adjustments were made to amounts owed by affiliated companies and entities.

Outsourcing of Skin Care production

In November 2006, the Management Board and Supervisory Board of Dr. Scheller Cosmetics AG resolved to implement structural changes and outsource Skin Care production, with the products Apotheker Dr. Scheller, Manhattan Clearface, and the corresponding store brands, which has been unprofitable.

OJSC Concern “KALINA” maintains production facilities at the Ekaterinburg location for Skin Care that correspond to our high standards of quality. The spare capacity available there will be utilised beginning 1 January 2007 under contract and quality assurance by Dr. Scheller Cosmetics AG.

In connection with the outsourcing of production, reorganisation expenses in the amount of EUR 2.5 million were incurred.

REMUNERATION OF THE SUPERVISORY AND MANAGEMENT BOARDS

The total remuneration for members of the Supervisory Board amounts to EUR 37k for 2006 (2005: EUR 57k). Variable compensation totalling EUR 13k, which was paid out following approval by the shareholders’ meeting on 22 June 2006, is included in this amount. One member of the Supervisory Board receives compensation for legal advice, including expenses.

The total remuneration of the Management Board (salaries and bonuses) amounted to EUR 997k (2005: EUR 749k) for the 2006 financial year. With respect to the information requirements pursuant to section 314 (1) no. 6a sentences 5 to 9 HGB, advantage was taken of the non-disclosure clause pursuant to section 286 (5) HGB as per shareholder resolution at the shareholders’ meeting. The total remuneration of prior board members amounted to EUR 166k (2005: EUR 0k) in the 2006 financial year and included severance benefits.

LOANS GRANTED

There are no loans granted to members of the Supervisory and Management Boards.

OTHER INFORMATION

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

On 14 August 2006, the Supervisory and Management Boards of Dr. Scheller Cosmetics AG submitted the declaration of conformity with the recommendations of the “Commission of the German Corporate Governance Code” pursuant to section 161 of the Stock Corporation Act (AktG) and made it permanently available to shareholders on the website of the company under www.dr-scheller-cosmetics.de. The declaration of conformity is printed in the management report in the chapter on corporate governance.

OWNERSHIP OF SHARES

The members of the Management Board of Dr. Scheller Cosmetics AG held no shares issued by the company as at the balance sheet date (2005: 172,941 shares; 2.66 %). The members of the Supervisory Board held no shares of the company as at the balance sheet date.

SECURITIES TRANSACTIONS SUBJECT TO DISCLOSURE OBLIGATIONS

The members of the management and Supervisory Boards of the company were required in the 2006 financial year to disclose the acquisition or sale of shares in Dr. Scheller Cosmetics AG to the company immediately pursuant to section 15a WpHG.

In the financial year ended 31 December 2006, the following transactions with mandatory disclosure were announced:

Name	Transaction type	WKN	Date	Number	Price
Dr. Scheller, Ulrich	Sale	DE0007201303	09/10/2006	170,000	EUR 6.00

DEPENDENT COMPANY REPORT

Dr. Scheller Cosmetics AG is an indirectly dependent member of OJSC Concern “KALINA”, Ekaterinburg, Russian Federation, and a directly dependent company of Kalina International S.A., Lausanne, Switzerland.

Since no control agreement has been concluded with any of the companies, the Management Board of Dr. Scheller Cosmetics AG is obliged to report on relationships to affiliated companies pursuant to section 312 AktG. Consequently, the Management Board reports:

In all transactions entered into as a dependent company of OJSC Concern “KALINA” and Kalina International, our company received consideration, commensurate with the circumstances known at time of the transaction. Dr. Scheller Cosmetics AG was not disadvantaged by measures implemented or forborne. This applies as well to transactions entered into with our affiliated company - the Polish subsidiary. These statements are based on the circumstances known to us at the time of the transactions subject to this reporting obligation.

The auditor had no objections to the dependent company report.

Eislingen (Fils), 27 February 2007

Dr. Scheller Cosmetics AG
The Management Board

AUDITERS' REPORT

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 2006. Preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS), as they are to be applied within the EU, and the applicable provisions of German commercial law undersection 315a (1) of the German Commercial Code (Handelsgesetzbuch - HGB) is the responsibility of the company management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB and the generally accepted standards in Germany for the audit of financial statements established by the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit such that inaccuracies and misstatements materially affecting the presentation of the consolidated financial statements in accordance with the applicable accounting standards, and presentation of the asset, financial and earnings position in the management report are detected with reasonable assurance. Knowledge of the business activities and of the economic and legal environment of the company as well as expectations concerning possible errors are taken into account in the determination of the audit procedures. The audit examines the effectiveness of the internal accounting control system as well as the evidence supporting the information in the consolidated financial statements and the group management report primarily on a representative sample basis. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the scope of consolidation, the principles of accounting and consolidation and significant estimates made by the management as well as an evaluation of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably sound basis for our opinion.

Our audit did not give rise to any objections.

In our opinion based on the results of our audit findings, the consolidated financial statements of Dr. Scheller Cosmetics AG, Eislingen (Fils), comply with both the IFRS, as they are to be applied within the EU, and the applicable provisions of German commercial law under section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB), as well as the supplementary provisions of the Articles of Association, and convey a true and fair view of the asset, financial and earnings position of the company. 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, 28 February 2007

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

(Gillar)	(pp Röscheisen)
Certified Auditor	Certified Auditor

FINANCIAL CALENDAR 2007:

FRIDAY, MARCH, 30 2007	Publication of 2006 Annual Report
TUESDAY, APRIL, 17 2007	Annual General Meeting, Eislingen
TUESDAY, MAY, 15 2007	Publication of 3 Month Report 2007
TUESDAY, AUGUST, 14 2007	Publication of 6 Month Report 2007
WEDNESDAY, NOVEMBER, 14 2007	Publication of 9 Month Report 2007
	Analysts´ Conference

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