





ANNUAL REPORT **ESSANELLE HAIR GROUP AG**

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Hairdresser's Tools: **Scissors**

There are two types of conventional dual-part scissors: spring scissors and pivoted blade scissors. The more common of the two, pivoted blade scissors, are used for various purposes, including cutting hair. They have two blades, each of which has a



ring-shaped handle (known as the eye), which are crossed over an axis so that the sharp edges of the blades face one another.



The first U-shaped spring scissors were used in Europe around 500 B.C. However, they did not develop into the pivoted blade scissors used today until the Middle Ages. Before spring scissors were invented, people used to shorten their hair by singeing it with fire, thus creating the first hairstyles. It is still disputed where and when scissors were invented as we know them today.



Scissors are the classic main hairdresser's tool, offering an endless range of cutting techniques and individual hairstyles for the first time. However, cutting hair with different shapes and sizes of scissors is a skill that needs to be learned, as incorrect use or the wrong technique could cost even Rapunzel her hair and might well result in a 'Mecki look', just like the cult hedgehog.



INTERVIEW WITH THE MANAGEMENT BOARD

Mr. Grimminger, how did the 2006 financial year go?

Grimminger We are very satisfied with the course of business in the past year. We opened slightly more salons than the planned number of 50, succeeded in increasing our sales and even surpassed our earnings forecasts.



Uwe Grimminger

Have the expectations you placed in the growth strategy been met? After all, at the beginning of 2006 you expected sales growth of 5% or more.

Grimminger The Group's sales rose by 3.5%. However, our sales performance gained considerable momentum in the course of the year: Having amounted to less than 2% in the first half, our rate of growth rose to around 7% in the fourth quarter. The overall direction is therefore clear. Following many years of stagnation, our company is growing once again and our sales are showing substantial growth. The important thing is that we are on this growth course. The question as to whether the tempo picked up in March 2006 or only in September or October is in our opinion not decisive, though we would naturally have liked to meet the forecast.

In terms of pre-tax earnings, you even succeeded in surpassing your forecast target.

Mansen That's right. We had aimed to match the pleasing level of earnings seen in the previous year, yet managed to improve our pre-tax earnings by more than 20% to Euro 5.3 million. We benefited in this respect from the sale of mod's hair, which generated one-off income of around Euro 0.8 million as well as from our pleasing operating performance. At the end of the day, however, our strong earnings performance is also due to our expansion. When salons are opened at a later stage of the year then only part of their start-up losses are incurred in the respective financial year. The fact that the majority of our new salons were opened somewhat later than planned thus had a beneficial impact on our earnings performance.

You referred to the sale of mod's hair. Why have you parted company with such a well-known brand?

Grimminger Regrettably, the economic results clearly failed to match this image. This was especially true for Es-sanelle in its role as franchisor. One of the reasons why franchising is less profitable in service sectors than in other sectors, such as Fielmann, McDonalds or Kamps, is that 85-90% of revenues are generated by sales based on services and that sales of products are correspondingly low. However, it is from product sales that the franchisor benefits most strongly, given that it supplies the franchisees with the relevant products. In the light of these factors, if you are faced with the choice of channelling future investments into franchise salons or into your proprietary business, then the decision is not difficult.

TOP TEN is still new as a concept. What progress are you making in establishing this brand?

Mansen Very good progress. We opened 15 salons in the past year, have succeeded at nearly all salons in attracting the desired target group and have rapidly generated substantial sales. The concept achieved breakeven in the past autumn already – considerably ahead of our expectations. In view of this, we are continuing to look for suitable locations across the whole of Germany.

TOP TEN offers a standard price of ten euros. Does this not mean that you are creating competition for your own company? After all, you already have a concept aimed at price-sensitive customers in the form of HairExpress.

Mansen No, the two concepts complement each other. HairExpress is located in consumer markets or comparable low-price shopping environments and is aimed at walk-in customers who simply wish to have their hair cut quickly for a reasonable price. TOP TEN, by contrast, stands not only for its fixed price, but also for lifestyle factors, such as the top ten in the music charts, which are played in the salons. We supplement this approach by providing a cool location referred to by the marketing people as having a “workshop character”. This all attracts a young public on the lookout not only for low prices, but also for an environment which meets their expectations.



Achim Mansen

And you can make money on this – with prices of just ten euros?

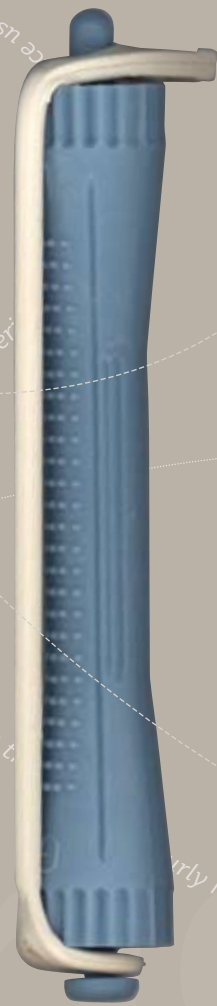
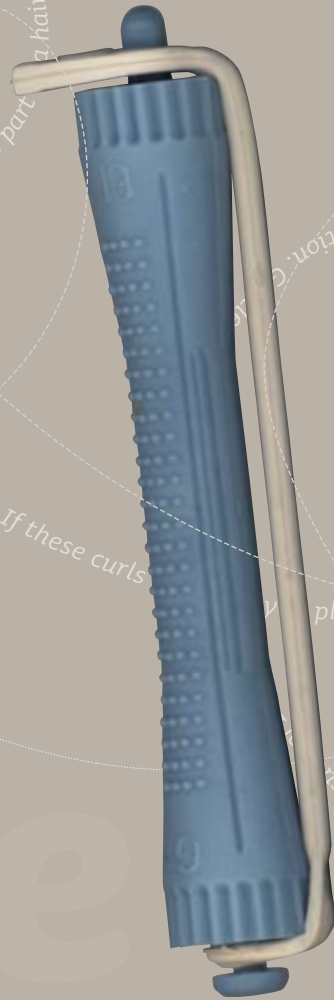
Grimminger We need high customer turnover rates for this concept. We achieve these by finding highly-frequented locations and by employing a workforce able to deliver high quality. Not only that, ten euros are generally not the final price, given that customers opt for several services. The price for washing, cutting, dyeing and drying, for example, is significantly higher than ten euros. If the customer then also decides to buy a product, then so much the better. The performance of TOP TEN to date has provided impressive evidence that we made the right decision by introducing the concept.

essanelle Ihr Friseur, by contrast, has been losing sales. Each year sees a further reduction in its share of sales.

Grimminger Essanelle Ihr Friseur is mainly present in department stores, whose numbers have fallen rather than risen in recent years, partly as a result of the increase in the number of shopping centres and consumer markets. This development has also encroached on our essanelle Ihr Friseur salons. The concept nevertheless remains successful – of our 30 salons with the highest sales volumes, 21 are essanelle Ihr Friseur salons. It is also still our larg-

Hairdresser's Tools: **The Curler**

Curlers are essentially cylindrical tools made from plastic or foam, which are part of a hairdresser's basic equipment and are used to wrap straight hair around to create curls. If these curls



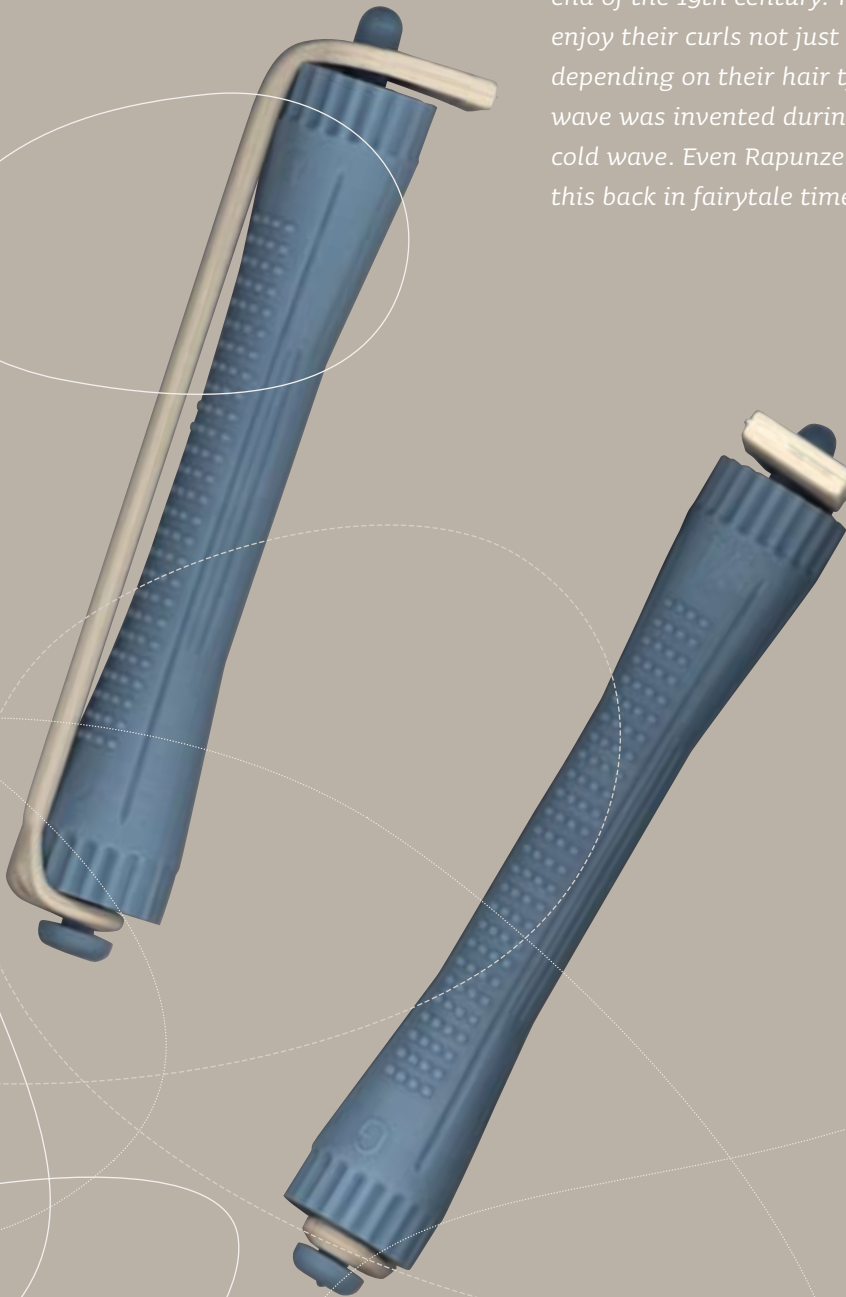
The Curler

Curly hair is high up in the trend st



Johann Sebastian Bach, grandma, Momo and Atze Schröder were not the only ones to know that curls can change your look for the better. Archaeologists have found hair curlers in Egypt, which show that people were curling their hair on the Nile as early as 3,100 years B.C. In Ancient Rome, the Romans styled their hair using the Calamistrum, a small pipe in which a hot iron was inserted.

In modern times, curls were created using heated flat irons and crimping irons. The curling tong was developed at the end of the 19th century. To make sure that people could enjoy their curls not just until the next hair wash but, depending on their hair type, for months to come, the hot wave was invented during the 20th century, followed by the cold wave. Even Rapunzel would have been delighted with this back in fairytale times.



akes once again.

est concept and consistently generates substantial profits year in year out. The fact that its relative share of sales is declining is also due to the growth in the other concepts and to the fact that we have converted some of the *essanelle Ihr Friseur* salons into Hair Express salons, for example, as a result of changes in the consumer environment. Our strategy is aimed at providing our company with several main pillars. Around 70% of our sales in 2000 were still attributable to this one concept. The equivalent figure today is below 60%. At the latest by 2010, 50% of our sales should already be contributed by our new concepts. We will then have a balanced, crisis-resistant portfolio.

Let's look at the key figures more closely. You have also achieved substantial improvements in your balance sheet in recent years. In 2002, your equity ratio amounted to a mere 17%. By 2006 it was well above 40%. That is an enormous increase. Does it make sense to have such a high ratio?

Mansen We feel very comfortable with this. After all, a few years ago we still had very poor balance sheet ratios. However, our very high cash flows have enabled us to pay off our liabilities step by step. By regaining our earnings strength we have also substantially boosted our equity. Now we can use our cash flow to finance our expansion, meaning that even this will require hardly any debt finance.

And then you can distribute a dividend?

Mansen Yes, that is our declared aim. We have laid the foundations in the balance sheet of the holding company for 2006 by eliminating the losses carried forward from the past. If 2007 runs according to plan – and our forecasts are highly cautious in this respect – then 2007 should be the first financial year for which we propose a dividend for approval by the Annual General Meeting.

And what does this forecast - on which the dividend is based – look like?

Mansen Our sales growth will reach the targeted range of 5-10% in 2007. In terms of earnings, we will of course not be able to benefit in the current year from the one-off income of Euro 0.8 million from the sale of *mod's hair*. We nevertheless aim to achieve a higher level of earnings from operations in 2007 than in the previous year. How far this will be possible depends on the one hand on the impact of the VAT increase and on the other on the extension of store opening hours, which leads to additional personnel expenses. However, should this factor impact positively on our sales performance by enabling us to acquire customers from hairdressers which close earlier, then we should also be able to generate some earnings growth. Even if we only manage to match the strong earnings performance seen in 2006, then we view a dividend as realistic. This would of course be subject to approval by the Supervisory Board and Annual General Meeting.

A dividend could compensate shareholders for the fact that the share price only rose by 2.5% in 2006. What prospects do you see for the share in 2007?

Grimminger We should not forget that our share price rose by almost 90% in 2005. It goes without saying that this level of performance cannot be sustained every year. We nevertheless assume that our company's ongoing pleasing development will then gradually be reflected in the performance of our share price. The share has already succeeded in crossing the Euro 9 mark several times.

You held talks with various investors in the past year. Which are currently the largest institutional investors within your shareholder structure?

Mansen Our institutional investors clearly include Axxion, which holds a share of more than 13%, as well as three funds from London - Ratio Asset Management and Intrinsic Value Investors, which each hold more than 5% of our shares and Threadneedle, which owns more than 3%. These latter investors only acquired their shareholdings in recent months. This underlines the success of the numerous talks we held with investors in London and demonstrates that the continued positive performance of our company has led to a sustained increase in the interest shown in our company by institutional investors.

Not only that, your largest competitor, Klier GmbH, holds around 29% of your shares. Can we expect to see a takeover in the near future?

Mansen We think not. Based on our information, the shareholding is purely a financial investment. The opportunities for a takeover were already there, but have never been used by this investor. Moreover, it would not be that easy to merge the companies given that there is already a feeling of intense competition between the employees. That would not work.

The final question – where do you see yourselves in the long term? Where will the Essanelle Hair Group be in ten years?

Grimminger Over this period we will have opened our 1000th salon. Sales should be approaching Euro 200 million, with profit margins at least as high as today. We would then be generating earnings of between Euro 1.30 and Euro 1.50 per share and distributing substantial dividends on a regular basis. Should the same valuation standards apply to our share, which is currently not unreasonably high either in terms of cash flow or of the P/E ratio, then this would of course also result in a highly respectable share price.

Hairdresser's Tools: **The Comb**



For Rapunzel, it was curlers. For Snow White, it was the comb. However, combs are not just one of the most popular hair care tools in fairytales. Men and women were already using combs to groom and adorn their hair several thousand years before Christ. Consequently, the comb is the oldest man-made personal grooming item. The first combs were made from bone or whalebone; later from wood, metal or other materials. Most modern combs are made of plastic.

However, hairdressers like to use combs made from natural rubber: the high quality of this material creates smooth and bi-conical, tapered teeth, which do not damage the structure of hair when combing through it.



The Comb



Heroes, magic and big shots
Combs have never been just a practical grooming
object. They are often associated with beauty and erotic appeal. They
are also a symbol of impenetrability. In many cultures, the heroes throw
a magic comb behind them when fleeing the baddies in folk
tales, which then cause a protective thicket or a forest to spring up. It
was said that witches could influence the weather by combing their
hair. Combs can also be found in written and spoken language:
comb and brush patterns used to be early forms of writing.
And as the saying still goes: "you can't go over everything
with a fine-tooth comb".

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REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Essanelle Hair Group AG reported its best results in 2006 since the beginning of its stock market listing in 2001. This is true both of the annual net income of Euro 2.9 million and of the sales performance, which has returned to positive territory once again. The Supervisory Board also views the equity ratio of around 46% as representing a superb figure. In view of these pleasing developments, the Supervisory Board agrees with the Management Board that the company's expansion strategy should be maintained in the coming year as well. The Supervisory Board advised the Management Board to the best of its ability with regard to all strategic and key operative issues. At the same time, in accordance with our duties as an elected supervisory body, our main focus was on supervising and monitoring the work of the Management Board. We performed all duties required of us by law, the Corporate Governance Code, the Articles of Association and our Code of Procedure.

Elections were held for the Supervisory Board positions allocable to representatives of the company's shareholders and owners at the Annual General Meeting on 27 June 2006. Since 27 June 2006, the Supervisory Board has included the following such representatives: Joachim Dübner (management consultant), Fritz Kuhn (management consultant), Hans-Joachim Oltersdorf (managing director), Werner Schneider (economist), Hiltrud Seggewiß (managing director) and Jürgen Tröndle (hairdresser and businessman). Moreover, following the Annual General Meeting, the employee representatives on the Supervisory Board were newly appointed in accordance with legal requirements. At the end of the 2006 financial year, these representatives were: Peter-Michael Herold (trade union secretary), Michael Eberhard (trade union secretary), Cornelia Glaß (hairdresser), Ulrike Witt (hairdresser) and Barbara Wietusch (hairdresser). At its inaugural meeting, the Supervisory Board subsequently confirmed Joachim Dübner in his position as Chairman.

The members of the Supervisory Board were regular in their attendance of the meetings of the Supervisory Board held in the 2006 financial year. In cases where this was not possible, the members in question mostly participated in the adoption of resolutions by casting their votes in writing. The meetings of the Supervisory Board in the past financial year were held on 29.03., 26.06. (two meetings), 27.06., 28.09. and 30.11.2006.

In terms of the methods used to control and supervise the activities of the Management Board, the Supervisory Board ensured that it was provided with the necessary information both in the run-up to and at its meetings. There was also regular written and oral contact, and the exchange of opinions, outside the framework of meetings, particularly between the Chairman of the Supervisory Board and the Management Board.

The Supervisory Board also discussed measures not requiring its consent in great detail with the Management Board in cases where such measures were of major significance. In particular, the following areas were addressed and discussed with the Management Board:

- Company strategy
- Key points relating to implementation of strategy on an operational level
- The business performance during the 2006 financial year – especially monthly and quarterly figures
- The budgets and targets for the 2007 to 2010 financial years
- Report from audit by Financial Reporting Enforcement Panel (DPR)
- Disposal of CFS franchise rights (mod's hair).

Together with the Management Board, the Supervisory Board submitted the company's updated Statement of Compliance with the German Corporate Governance Code in December 2006. The company has adopted all of the new recommendations in the version of the Code dated 12.06.2006, which chiefly relate to the compensation report for the Management Board, and has published the corresponding report in its management report and notes to the financial statements. Since the previous year, the company has also complied with the corporate governance recommendation that financial statements should be compiled and published in accordance with IFRS accounting standards. In view of the specific requirements of Essanelle Hair Group AG, however, the Management and Supervisory Boards also decided to continue not to comply with some of the recommendations. In accordance with the Takeover Directive Implementing Act, we have subjected the instruments and contractual arrangements which could render a possible takeover of the company more difficult in individual cases to a detailed review. This led us to the conclusion that the measures are appropriate to the company's specific situation. Further details can be found in the management report on Page 42.

In addition to the meetings of the Supervisory Board, the Audit Committee and Personnel Committee also met on a number of occasions. During the 2006 financial year, the Audit Committee met on 01.02. and 28.03.2006 and dealt in particular with the auditing of the annual financial statements. The Personnel Committee meetings took place on 29.03., 28.09. and 30.11. The compensation of the Management Board of Essanelle Hair Group AG was not amended in the past financial year and consists of fixed and variable components. The variable compensation is oriented towards medium-term and long-term incentive factors which are primarily based on the increase in the value of the company. Moreover, the Management Board also has pension entitlements and is covered by specific regulations in the event of the company being taken over. Both of these items are presented in detail in the compensation report on Page 41.

The Supervisory Board issued the audit mandate for the annual financial statements of Essanelle Hair Group AG to the auditing company elected by the Annual General Meeting, PwC Deutsche Revision AG. A statement of autonomy was obtained from the auditor in accordance with the recommendations of the German Corporate Governance Code. The annual financial statements of Essanelle Hair Group AG based on the German Commercial Code (HGB) and the consolidated financial statements compiled in accordance with IFRS were audited by the auditor, as were the management reports. Both sets of financial statements were granted unqualified audit opinions. These financial statements, the management reports and the audit reports compiled by the auditor were presented to all members of the Supervisory Board and were discussed in detail in the presence of the auditor at the meeting of the Supervisory Board held on 29.03.2007. The relevant information was made available to the Supervisory Board in good time. The documents were subject to an in-depth review at the meetings of the Audit Committee on 28.02. and 29.03.2007, with further details being discussed with the auditor and the Management Board at the subsequent meeting of the Supervisory Board.

These meetings led to the following conclusion. We have audited the annual financial statements of Essanelle Hair Group AG and the consolidated financial statements as of 31 December 2006, as well as the management reports of the holding company and the Group. We concur with the findings of the audit of the annual financial statements undertaken by the auditor and raise no objections to these findings. We approved the annual financial statements compiled by the Management Board for Essanelle Hair Group AG and for the Group. The annual financial statements of Essanelle Hair Group AG are thus adopted. We also endorse the statements made and the presentation of the situation of the company in the management reports.

Essanelle Hair Group AG has developed in recent years into a robust company whose pleasing earnings growth is now also being supplemented by an increasingly dynamic sales performance. This is mainly due to the efforts made by all employees and the Board of Management. The Supervisory Board would therefore like to thank all those who have been active on behalf of the company in the past years for the commitment they have shown.



Joachim Dübner
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT FOR 2006

Essanelle Hair Group AG and its management bodies follow the recommendations of the German Corporate Governance Code across all divisions of the company. As in previous financial years, the company implemented all measures necessary to ensure that the management of the company is transparent for shareholders. Top priority is accorded to increasing the value of the company. With regard to the past 2006 financial year, the Essanelle Hair Group met two further recommendations within the framework of legal requirements and the German Corporate Governance Code. On the one hand, the compensation of each member of the Management Board is now disclosed on an individual basis. On the other hand, since the 2005 financial year the consolidated financial statements have been compiled and published in accordance with IFRS. In addition to these, the company has implemented all of the further points of the German Corporate Governance Code, with the exception of those referred to in the Statement of Compliance from December 2005.

TRANSPARENCY

Essanelle Hair Group AG informs its shareholders and the general public with the highest possible degree of transparency. One exception involves information which could be critical from a competitive perspective. The company complied in this respect with legal stipulations and the requirements of the German Stock Exchange applicable to companies listed in the Prime Standards. Three ad-hoc announcements were published in 2006. The company also regularly updated its homepage and published extensive quarterly reports.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

On the occasion of its Annual General Meeting, which in 2006 was held on 27.06., Essanelle Hair Group AG published all major documents required by its shareholders. As recommended by corporate governance, these documents included the agenda and information concerning voting proxies, as well as the presentation accompanying the address held by the Management Board and a press release with the results of the votes held on the items on the agenda. All documents can be viewed and downloaded from the internet.

MANAGEMENT BOARD AND SUPERVISORY BOARD

Starting in 2005, the Supervisory Board of Essanelle Hair Group AG appointed an Audit Committee and a Personnel Committee from among its members. Relevant topics, such as the 2005 annual financial statements, were delegated to these committees in 2006, in some cases for discussion and the preparation of a decision and in others to reach a decision on behalf of the Supervisory Board.

On 11.04.2006, the then Chairman of the Supervisory Board, Martin Tresser, retired from his position. Joachim Dübner was subsequently elected as Chairman. Following the re-election of the Supervisory Board at the 2006 Annual

General Meeting, the newly elected body confirmed Joachim Dübner in this position. A review of the efficiency of supervisory board activities was held in 2005 already. Furthermore, there were also no conflicts of interest in 2006.

COMPENSATION OF THE MANAGEMENT BOARD

No changes were made to the Management Board compensation system during the 2006 financial year. The basic features of this system have been presented in the notes to the consolidated financial statements on Page 41 of the Annual Report.

COMPENSATION OF THE SUPERVISORY BOARD

The compensation of the Supervisory Board is governed by the Articles of Association of Essanelle Hair Group AG. Accordingly, in addition to the reimbursement of his or her expenses and of any VAT charged as a result of his or her activity, each member of the Supervisory Board receives fixed compensation of Euro 10,000 for the past financial year. The Chairman of the Supervisory Board receives twice and the Deputy Chairman one and a half times this compensation.

Martin Tresser, until 11 April 2006 (Chairman until 11 April 2006)	11,222.21
Joachim Dübner (Chairman from 27 June 2006)	15,111.10
Gabriele Eick until 26 June 2006	4,888.88
Dr. Gabriele Fontane, until 26 June 2006	4,888.88
Fritz Kuhn from 27 June 2006	5,111.10
Hans-Joachim Oltersdorf from 27 June 2006	5,111.10
Hiltrud Seggewiss from 27 June 2006	5,111.10
Werner Schneider	10,000.00
Jürgen Tröndle	10,000.00
Peter-Michael Herold (Deputy Chairman)	15,000.00
Barbara Wietusch from 27 June 2006	5,111.10
Cornelia Glaß	10,000.00
Michael Eberhard	10,000.00
Ulrike Witt	10,000.00
Dieter Bonk until 3 January 2007	10,000.00

OPTION PROGRAMME

In line with the resolution adopted by the Annual General Meeting on 24.06.2005, the Management Board has been authorised up to the Annual General Meeting in 2008 to issue subscription rights as variable salary components. The subscription rights may be exercised at the earliest two years following their subscription. The exercising of the subscription rights is linked to the performance of the company's share both in absolute terms and in relation to the performance of the SDAX.

DIRECTORS' DEALINGS DURING THE 2006 FINANCIAL YEAR:

Date	04.01.06	13.-15.02.06	16.02.06	17.02.06
Name	Achim Mansen	Cornelia Tröndle	Cornelia Tröndle	Cornelia Tröndle
Position	MB	SB Spouse	SB Spouse	SB Spouse
Transaction	Sale	Sale	Sale	Sale
Exchange	Xetra	Xetra	Xetra	Xetra
Number	15,000	3,000	2,000	1,920
Price (Euro)	8.41	7.80	7.90	8.00
Volume	126,150	23,400	15,800	15,360

Date	20.02.06	21.02.06	11.09.06	08.12.06
Name	Cornelia Tröndle	Cornelia Tröndle	Dieter Bonk	Achim Mansen
Position	SB Spouse	SB Spouse	SB	MB
Transaction	Sale	Sale	Sale	Sale
Exchange	Xetra / Frankfurt	Off-market	Xetra	Xetra
Number	1,640	9,000	5,500	4,334
Price (Euro)	8.05	8.00	7.70	7.75
Volume	13,202	72,000	42,350	33,588.50

DIRECTORS' HOLDINGS (AS OF 31.12.2006)

Management Board

Shares: Uwe Grimminger: 109,422 shares (2.4%), Achim Mansen: 44,980 shares (1.0%)

Options: Uwe Grimminger: 49,595 options, Achim Mansen: 33,063 options

Supervisory Board

Jürgen Tröndle: 138,190 shares (3.0%), Hans Joachim Oltersdorf: 7,000 shares (0.2%)

Hairdresser's Tools: **The Hairdryer**

The name 'Fön' has been a registered trademark of AEG Hausgeräte GmbH in Nuremberg since 1908. The general German term for hairdryer, Föhn, is derived from the brand name 'Fön', which is based on the term 'Foehn', meaning a warm, dry downwind and often used when describing weather conditions. In 1996, the general German term for hairdryer was changed to 'Föhn' to distinguish appliances from other brands from those of the 'FOEN' brand.



A hairdryer or blow-dryer is an electrical appliance used to dry hair as required after washing. This standard tool, which is a 'must-have' at the salon, in the bathroom or on your dressing table, blows air over a spiral-wound filament connected to the electricity supply. The temperature of this air can be varied. The filaments are wound around insulating mica-ceous material and the warm air generated is blown over wet hair. Care must be taken to avoid overheating the hair; otherwise, water molecules inside the hair begin to react, which damages the hair shaft. Unless you want to achieve the 'fingers in the plug socket' look, that is.



hair dryer

STATEMENT OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE BY THE
MANAGEMENT BOARD AND SUPERVISORY BOARD OF ESSANELLE HAIR GROUP AG

pursuant to Section 161 of the German Stock Corporation Act (AktG)

The Management Board and Supervisory Board of ESSANELLE HAIR GROUP AG endorse the suggestions and rules contained in the German Corporate Governance Code. They fulfilled the recommendations contained therein in the past financial year and will continue to do so in future. Deviations from the Code have been disclosed by the Management Board and Supervisory Board below:

Additions during the past 2006 financial year:

4.2.4 The compensation of members of the Management Board will in future be disclosed on an individual basis for each member of the Management Board.

7.1.1 Accounting: In line with legal requirements and the Code, Essanelle Hair Group AG based its reporting in 2006 on the requirements of IFRS.

Deviations still valid:

3.8 The D&O insurance policy established by the company for the Management Board and Supervisory Board did not include any deductible for the members thereby insured in the past and will not do so in future.

4.2.3 Variable compensation components of a long-term incentive nature have been in place since 2003. However, the balanced structure of the parameters to be achieved makes any cap redundant. Moreover, the low volume of share options means that no detailed publication is required on the homepage.

5.4.7 The members of the Supervisory Board will continue only to receive fixed compensation in view of the fact that the current level of compensation means that it is not expedient to divide such into fixed and variable components.

7.1.2 The Essanelle Hair Group will in future continue to compile its consolidated financial statements within 90 days and its quarterly financial statements within 45 days and to publish them at the earliest possible date. These deadlines may be exceeded in individual cases.

Düsseldorf, 07.12.2006
ESSANELLE HAIR GROUP AG

The Management Board

The Supervisory Board

Hairdresser's Tools: **The Hair Cutting Machine**

Shaving

(Latin 'rasura',
scraping,
scratching)
is cutting hair
with a blade
so that they
can no longer
be felt.

Unlike epilation,
which removes
the hair and part
of the root,
shaving simply
cuts the hair.



The first razors were made from ground flint, mussel shells and shark teeth. Stone razor blades date back as far as the 6th millennium B.C. The Egyptians used copper or gold knives in the 4th century.

The first dry shavers worked with rotating blades, powered by a mechanical wind-up motor. However, these early shavers were inaccurate and traces of stubble could still be felt and sometimes still be seen even after shaving. Nowadays, you can hardly tell the difference between the effectiveness of the two but today's electric razors were predated by a range of mechanical razors.



Even exotics such as the horse operated “Bartrossmuehle” from the year 1745.

The apparatus was supposed to shave 60 people all at once.

Elastic bedded razors rotated behind the holes for the head, cut into the wall.

However, nobody liked to put his head through the wall and

risk losing his mouth, nose, chin and ears by the slightest mistake or

wrong displacement of the position of the knives and the apparatus.

THE SHARE

The share of Essanelle Hair Group AG was not able to repeat the performance of 86% seen in 2005 during the past 2006 financial year. The difference between the share price of Euro 8 at the beginning of the year and the closing price of Euro 8.20 amounts to 2.5%, while the SDAX rose by 32.2% over the same period. The share nevertheless succeeded in crossing the Euro 9 mark by a significant margin both during 2006 and at the beginning of the current financial year. At the end of the past financial year, the market capitalisation of Essanelle Hair Group AG amounted to Euro 37.7 million with around 4.6 million shares.

There were some significant changes in the shareholder structure between the beginning of 2006 and February 2007. Frankfurt Performance Management reduced its overall shareholding from 9.4% to around 1.7%. dit funds held around 3.6% at the beginning of 2007, compared with 8.9% in the previous year. The 5% threshold was exceeded by Ratio Asset Management, London (5.0%) in July 2006 and by Intrinsic Value Investors, London (6.3%) in January 2007. Moreover, Threadneedle Asset Management, London, disclosed a shareholding of 3.1% and Fortis Investment Management, Brussels, one of 3.3%. The Essanelle Hair Group therefore now has a broad base of investors. The high level of interest shown by British investors in particular is also due to the numerous presentations and road shows held by the Management Board in London and at the company's head office. These activities are to be further intensified in 2007.

Essanelle Hair Group AG continues to accord priority to the regular provision of information to its shareholders and the financial community. This also applies to its homepage, which is updated and extended on an ongoing basis and which now also includes the most important articles and studies. At the Annual General Meeting, the two members of the Management Board, Uwe Grimminger (CEO) and Achim Mansen (CFO) once again reported extensively on the 2005 and 2006 financial years. Moreover, all relevant capital market magazines also reported on the company and its share in 2006.

SHAREHOLDER STRUCTURE (AS OF FEBRUARY 2007)

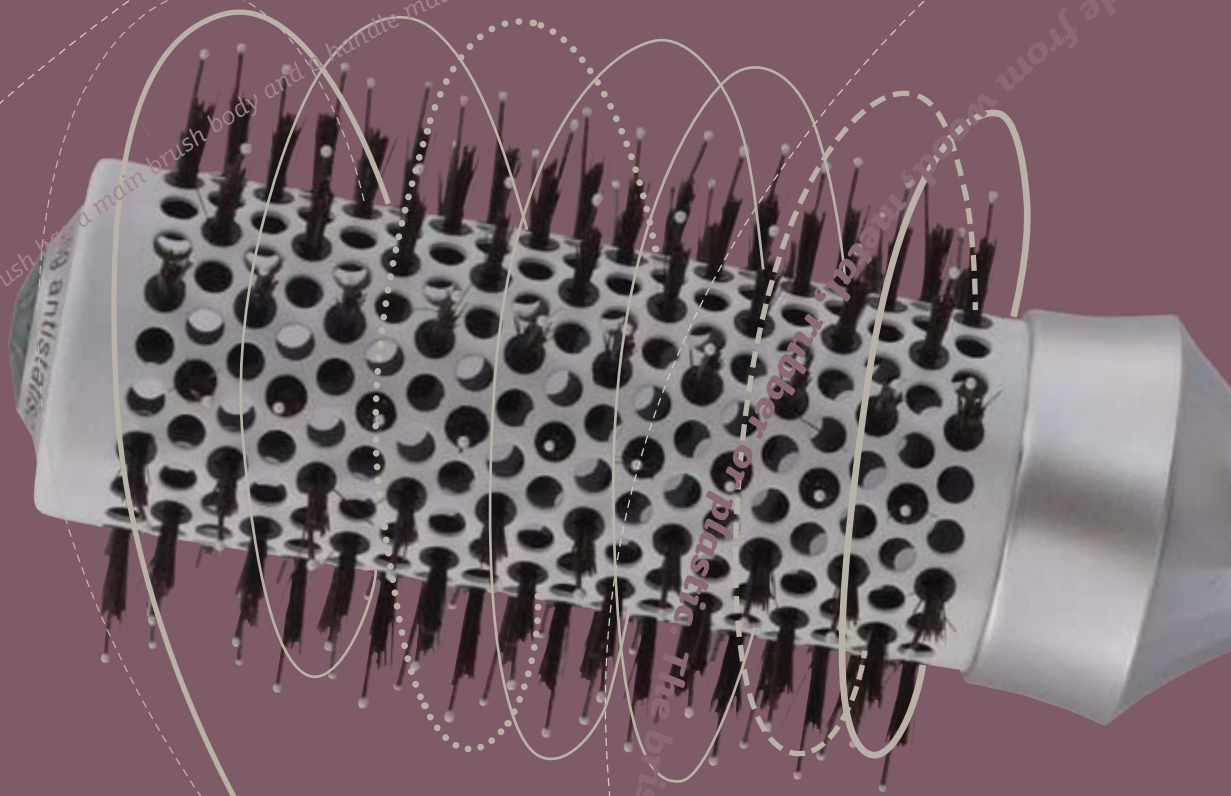
Management Board	3.4%
Klier GmbH	29.8%
Free float pursuant to Deutsche Börse	66.8%
of which:	
dit Vermögensverwaltung	3.56%
Axxion SA	13.2%
Ratio Asset Management	5.02%
Intrinsic Value Investors	6.26%
Threadneedle Asset Management	3.08%
Fortis Investment Management	3.33%
Other	30.4%

SHARE INFORMATION

Overall Year 2006

Annual high	Euro 9.90
Annual low	Euro 6.75
Performance 01.01. - 31.12.	+2.5%
SDAX	+32.2%
Share price at 31.12.	Euro 8.20
Market capitalisation at 31.12.	Euro 37.70 million

Hairdresser's Tools: **The round brush**



Back in the 2nd millennium B.C through to the dawn of the new era, personal hygiene was already very important to the Germanic tribes and they invented both the hairbrush and soap. Over the centuries, the hairbrush continued to develop, becoming all different shapes and using a range of materials. The round brush can be used on both dry and wet hair and offers endless scope for creativity. Used together with the hair-dryer or as an attachment to the electric hair curler, anything is possible using the round brush and the right styling product: from the Elvis quiff to the Charlie's Angels flip.



Like other hair brushes, a round brush has a main body and a handle. The main body is made of animal, plant or synthetic fibres. Round brushes in particular cater for a range of hair types and can create many different hairstyles due to their ergonomic features and the round-shaped layout of the bristles on the main body.

Round brushes in particular cater for a range of hair types and can create many different hairstyles due to their ergonomic features and the round-shaped layout of the bristles on the main body.

brush

CONSOLIDATED FINANCIAL STATEMENTS

GROUP MANAGEMENT REPORT (IFRS) FOR THE 2006 FINANCIAL YEAR

MACROECONOMIC FRAMEWORK

Based on information released by the OECD, German gross domestic product rose by around 2.7% in real terms in Germany in 2006. This constitutes the highest growth since 2000 and also exceeded the average growth reported by the European economic area, which amounted to 2.2%. Of greater relevance, however, is the performance of the retail sector, which provides a better picture of the market situation and performance of Essanelle Hair Group AG. Preliminary figures released by the Federal Statistics Office at the end of January 2007 for 2006 show that retail sales in Germany rose by 0.8% in nominal terms and by only 0.1% in real terms compared with 2005. One reason for the considerably poorer performance of retail sales compared with the growth in the overall economy is the fact that there were two shopping days fewer in 2006 than in 2005. The growth in retail sales is principally attributable to non-food retail (nominal +1.1%, real +1.2%), while retail sales involving food, beverages and tobacco goods rose only in nominal terms compared with 2005 (nominal + 0.3%, real – 1.6%).

The OECD expects growth to slow in 2007 and now only expects to see growth of 1.8%. The forecasts involve considerable uncertainty. All experts agree that domestic consumption and the development of retail sales will be negatively affected by the increase in VAT. On the other hand, a further improvement in the situation on the labour market should also result in increased purchasing power.

SECTOR DEVELOPMENT

Based on data compiled by the Company for Consumer Research (GfK) for the first three quarters of 2006, the percentage of male and female members of the population regularly frequenting hairdressing salons remained relatively stable in the past year. The surveys revealed considerable fluctuations in the course of 2006, especially in the case of women. On average, however, around 60% of the overall German population continued to frequent non-mobile hairdressing salons. Older consumers traditionally tend to be more likely to visit the hairdresser and to do so more frequently than younger people. Of consumers over 60, for example, 68% frequent a hairdressing salon, whereas only 60% of 30-39 year-olds do so. Moreover, older target groups also go to the hairdresser more often. Among women, 60-69 year-olds visit the hairdresser 6.4 times per year, while 20-29 year-olds only go 3.8 times. The differences between the age groups are less marked in the case of men. Overall, the frequency of visit statistics reveal a slightly downward trend for women, while the equivalent trend for men is rising somewhat. In general, men tend to go to the hairdressers more often, with an average of around 6.9 visits per year, compared with 5.2 times in the case of women.

The expenditure per visit to the hairdresser is markedly higher for women than for men. Whereas women pay just over Euro 40 per visit, the average expenditure in the case of men amounts to a little over Euro 15. Women therefore spent a total of between Euro 214 and Euro 240 in the past year, while total expenditure for men amounted to between Euro 101 and Euro 107. The volume of products bought directly at the hairdresser remains very low. 75.5% of women state that they never purchase products at the salon, while the equivalent figure for men even amounts to 92.5% of hairdressing customers. One reason for this is certainly the low frequency of product recommendations at the average hairdressing salon. Around 57% of those surveyed stated that no product had ever been offered to them to purchase at the salon.

An analysis of the development of prices at German hairdressers shows that the price increases introduced in this sector in recent years fell markedly short of the overall development of prices in Germany. While prices rose by 1.1% to 2.0% between 2003 and 2005, hairdressing salons raised their prices by an annual average of under 1% per year. Given the decline in the frequency of visits to the hairdresser, especially in the case of the female target group, which spends considerably higher amounts, as well as the slight reduction in expenditure per visit, sales at hairdressing companies in Germany have declined continuously in recent years, although the trend is slowing in this respect. Sales fell by 1.9% in 2006.

GENERAL INFORMATION ABOUT THE COMPANY

THE COMPANY

The Essanelle Hair Group is Germany's largest hairdressing chain in terms of sales and the only one to be publicly listed. The company provides hairdressing services and sells products exclusive to hairdressers at 597 salons and sales outlets. The Essanelle Hair Group acts in the market with clearly defined brand concepts - essanelle Ihr Friseur, Super Cut, HairExpress, TOP TEN, Jürgen Tröndle by essanelle and Beauty Hair Shop – each of which is aligned to the needs of certain target and age groups. In 2006, the company generated sales of Euro 117.5 million on the basis of around 7 million customer visits and thus has a share of around 2% of the German market.

EMPLOYEES

At the end of the past financial year, the Essanelle Hair Group had a total of 4,038 employees, compared with 3,852 in the previous year. These figures also included 203 trainees as of 31.12.2006. Of this total, 3,948 employees, and thus the overwhelming majority, are employed at the salons. 90 employees work at the company's head office and in its sales force. Part-time employees make up around 36% of the workforce.

STRATEGY AND CONCEPTS

For around two years now, the company has pursued a clear growth strategy involving the development of new salons and the takeover of suitable smaller-scale chains in order to generate long-term sales and earnings growth. More than 90% of the hairdressing salons in Germany are managed by their proprietors. Their weak financial situation in some cases means that they are not able to adapt to the changing market climate. Given its size, its clear alignment in terms of concepts based on different target groups and its financial and personnel resources, the Essanelle Hair Group occupies a leading position in the market. On this basis, it is possible for the company to achieve profitable growth in a stable to slightly negative market climate. In order to reach this objective, the Essanelle Hair Group is focusing on three key strategic building blocks – the company's brand concepts, the precise selection of locations and the expansion of its sale of products exclusive to hairdressers.

The various salon concepts are aimed at clearly defined target groups and cover the consumer requirements typical to the respective target group. The strategic target groups of "young customers" and "price-sensitive customers" are particularly worthy of mention in this respect. Partly based on experience gained in previous years, the management believes that these target groups harbour the greatest potential for a hairdressing chain. In view of its cost structures, the company is also able to work profitably in low-price concepts and thus at the same time to access consumers who in recent years have increasingly tended not to have their hair cut at salons. The TOP TEN, Super Cut and HairExpress concepts serve these two trends with various focuses and have also reported the highest growth rates in recent years. The company's largest brand concept is still essanelle Ihr Friseur, which accounted for around 59% of sales in 2006. By expanding the aforementioned concepts, however, the company has nevertheless been able to create a broader foundation for its sales. The share of sales attributable to other concepts only amounted to just under 30% in 2000, compared with its current level of 41%.

The selection of suitable locations for new salons is also of key significance. Essanelle Hair Group AG prefers locations within shopping centres, consumer markets and department stores. Thanks to its longstanding partnerships with leading providers in these areas, the company has been able continuously to expand its salon network and to work on the basis of long-term rental agreements. These environments are characterised by high frequencies of customers, passers-by and visitors, thus providing correspondingly large potential for the salons. The salon concepts are selected to fit the respective shopping environment and customer base. The TOP TEN concept launched in 2005 is mostly based at selected stand-alone locations, a decision which has proven to be correct given the course of business in the past year and the concept's economic performance.

A further pillar of the company's strategy is the sale of products exclusive to hairdressers at the salons and the Beauty Hair Shops. The company has been able to achieve a considerably higher share of sales in this area than the sector average. At the same time, the fact that procurement volumes are far greater than those customary in the sector enables the company to benefit from notable purchasing price benefits. The Beauty Hair Shops have been designed specifically to sell these products, thus enabling product sales to be promoted outside the hairdressing salons as well. Overall, the company generally generates a higher margin from the sale of exclusive hairdressing products than from its services. This division is therefore of strategic significance.

BUSINESS PERFORMANCE OF ESSANELLE HAIR GROUP AG

OBJECTIVES OF THE PAST FINANCIAL YEAR

For the 2006 financial year, the Essanelle Hair Group planned to continue its growth strategy with around 50 new salons. In parallel with this development, the mod's hair franchise concept with its 44 salons was to be sold. Overall, the target involved generating sales growth of at least 5% for the 2006 financial year. Given the start-up losses to be expected at new salons, notably also at the newly launched TOP TEN concept, and the very pleasing earnings situation in 2005, the Management Board forecast that earnings would only remain at the previous year's level.

BUSINESS PERFORMANCE IN 2006

With a total of 56 new salons, the Essanelle Hair Group succeeded in implementing its growth strategy on schedule in the past 2006 financial year, although the majority of new salons were opened from May onwards and the acquisition of nine salons from a small chain took effect only on 1 July 2006. Most new openings involved salons operating in the HairExpress, TOP TEN and Super Cut concepts. The franchise rights to mod's hair were sold in the spring of 2006. The fact that the new salon openings mainly took place after the end of the second quarter was also reflected in the more moderate sales growth of around 1.9% in the first half of the year, which was followed by sales growth of 5.1% in the second half. With growth of 6.7%, the fourth quarter was especially strong. Given that this represented the first sales growth since 2000, the company is thus on its desired strategic course, even if the growth of 3.5% for the year as a whole fell short of the forecast target. The company management accords decisive priority to ensuring that the company remains on its planned course of generating sales and earnings growth in the medium term. With pre-tax earnings of Euro 5.3 million, equivalent to an increase of 22.5% on the previous year, the company's earnings performance was significantly better than expected. This figure includes one-off income of Euro 0.8 million from the sale of mod's hair.

The Essanelle Hair Group generated total sales of Euro 117.5 million, compared with Euro 113.5 million in the previous year. Of this total, Euro 99.4 million was attributable to services, which accounted for 84.6% and thus the largest share of overall sales. Sales from the sale of products exclusive to hairdressers increased as in previous years, rising by 7.1% to Euro 18.1 million in the 2006 financial year and thus accounting for 15.4% of overall sales.

Overall, the number of salons at the company increased only slightly from 593 salons in 2005 to 597 salons at the end of the past financial year. It should be noted in this respect, however, that 44 salons at the mod's hair franchise concept, which had not been consolidated in the Group's sales, were sold. The total of 56 newly opened salons all had an immediate impact on sales. Moreover, 8 proprietary salons were closed.

PERFORMANCE OF THE SALON CONCEPTS

essanelle Ihr Friseur is the original concept and the company's largest brand. It is targeted at all age groups, in most cases in shopping centres and department stores. With sales of Euro 69.5 million (previous year: Euro 71.8 million), the concept generated 59.1% of total sales (previous year: 63.3%). By developing further concepts, the Essanelle Hair Group is intentionally reducing this concept's share of overall sales, which had still amounted to 70% in 2000. A total of 342 salons were operating under this concept at the end of 2006 (previous year: 347).

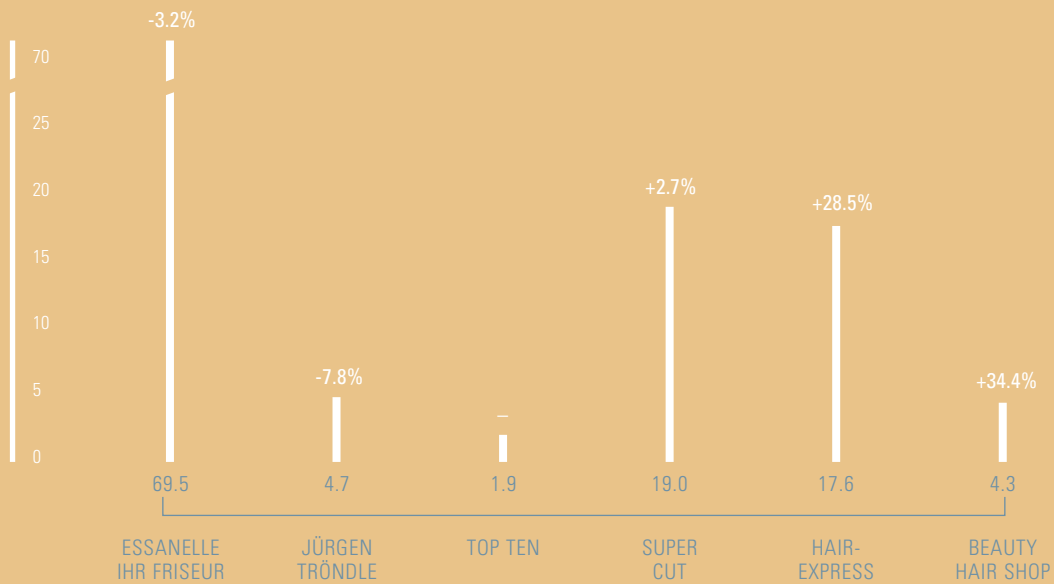
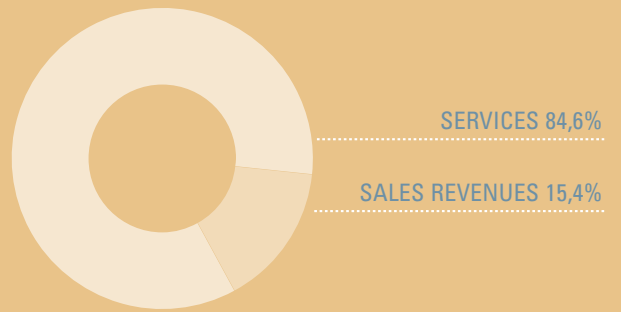
The Super Cut concept was successfully launched in 1999 and is aimed at a young, trend-conscious target group. Uncomplicated, with familiar forms of address and up-to-date music, the salons are tailored to attracting customers who are young or young-at-heart. Sales grew for the seventh consecutive year in 2006. Overall, Super Cut generated sales of Euro 19.0 million (previous year: Euro 18.5 million). The number of salons rose to 87 at the end of the past financial year, compared with 79 in 2005.

The TOP TEN concept newly created in the summer of 2005 is located in the lower price segment and targeted at a young, price-sensitive customer group which also expects a youthful, cool environment. The concept meets these requirements by offering a "workshop character" and the latest hits from the top ten in the music charts. The new concept is also characterised by a price of Euro 10 for each service. TOP TEN generated sales of Euro 1.9 million in the past financial year, with the number of salons rising to 15 by the end of 2006. The concept had already generated positive monthly salon earnings by the end of the past year, thus very rapidly reaching breakeven.

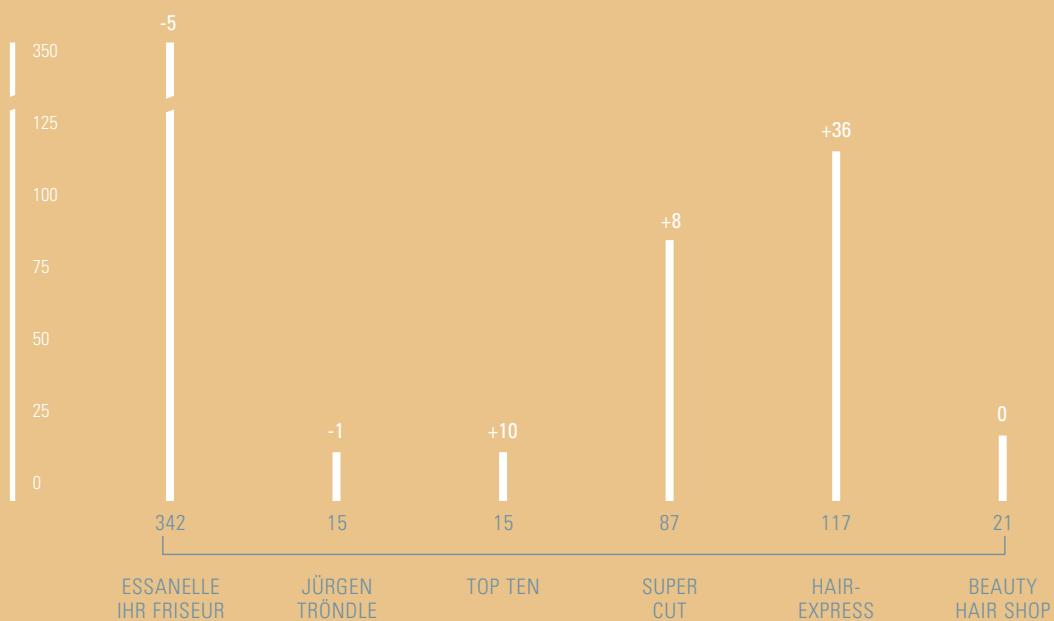
In spite of the massive expansion of the price-sensitive TOP TEN concept, HairExpress will remain a key pillar of the company's growth strategy in future, given that this concept optimally fits the consumer market and shopping centre environment. With its focus on price-sensitive customers, this concept provides unadulterated, professional core services. Sales amounted to Euro 17.6 million in the past financial year (previous year: Euro 13.7 million), equivalent to growth of 28.5%. The number of salons rose markedly from 81 to 117.

Jürgen Tröndle by essanelle is concept of exclusiveness and is correspondingly positioned at superb locations, such as the Berlin department store KaDeWe, the newly opened Alsterhaus in Hamburg or on the Königsallee in Düsseldorf. Operating under the label of the star-hairdresser Jürgen Tröndle, this brand offers high-quality services to a sophisticated business public. Its sales amounted to Euro 4.7 million in the 2006 financial year, compared with Euro 5.1 million in the previous year. At the end of the financial year, there were 15 salons, and thus one fewer than in the previous year, operating in this concept.

SALES OF SALON CONCEPTS IN € MILLION
(CHANGE ON PREVIOUS YEAR)



NUMBER OF SALONS BY CONCEPTS
(CHANGE ON PREVIOUS YEAR)



As well as offering services, the Essanelle Hair Group also offers products exclusive to hairdressers at Beauty Hair Shops designed specifically for this purpose. These shops sell products such as System Professional and High Hair from Wella, Redken from L'Oréal, as well as products offered under the company's private label Keranelle. Although the Beauty Hair Shops are located in close proximity to the salons, the intention is nevertheless to motivate customers to buy the products not only when they visit the hairdresser. In the 2006 financial year, the total of 21 shops (previous year: 21) generated sales of Euro 4.3 million and thus 34.4% more than the figure of Euro 3.2 million reported for the previous year.

DEVELOPMENT OF EXPENSES AND EARNINGS

The Essanelle Hair Group generated sales of Euro 117.5 million in the past 2006 financial year. This represents an increase of 3.5% on the figure of Euro 113.5 million reported for the previous year. It should be noted in this respect that franchise revenues amounting to Euro 0.5 million were discontinued as a result of the sale of the mod's hair franchise rights at the end of the 2nd quarter. Other operating income rose by around 114.7% to Euro 2.1 million. This was principally due to the sale of CFS (mod's hair) franchise rights. The company thereby received a purchase price of around Euro 0.2 million and a fee from a supplier also amounting to Euro 0.2 million. Moreover, receivables were also written up by an amount of Euro 0.5 million.

As a result of the company's growth strategy and the significant rise in the number of proprietary salons, the Essanelle Hair Group witnessed an increase in its key expenses items. Cost of materials rose by 6.4% from Euro 10.2 million to Euro 10.8 million. Personnel expenses, which represent the largest expenses item in the income statement, rose by around 3.4% from Euro 63.3 million to Euro 65.5 million. The company's depreciation showed a slight decline from Euro 4.7 million to Euro 4.6 million. Rental expenses, including ancillary costs, increased by 4.3% from Euro 20.8 million to Euro 21.7 million. Other operating expenses rose from Euro 10.1 million to Euro 10.9 million. Overall, earnings before interest and taxes (EBIT) therefore rose by 12.9% to Euro 6.1 million, compared with Euro 5.4 million in 2005. A significant improvement was achieved in net financial expenses, including income on loans of financial assets, which fell from around Euro -1.1 million to around Euro -0.8 million in the 2006 financial year.

The Group's earnings before taxes calculated in line with IFRS therefore amounted to Euro 5.3 million. This represents an increase of 22.5% on the previous year's figure of Euro 4.3 million. Taxes rose to around Euro 2.4 million, compared with Euro 1.8 million in the previous year. The possibility pursuant to IFRS of not deducting write-downs on goodwill for tax purposes, as well as tax loss carryovers eligible for use, meant that the actual tax charge payable amounted to Euro 0.6 million. The consolidated net income pursuant to IFRS thus increased by 14.6% to more than Euro 2.9 million, compared with Euro 2.6 million at the end of the 2005 financial year. Basic earnings per share therefore rose from Euro 0.57 to around Euro 0.66.

NET ASSET AND FINANCIAL POSITION

The cash flow statement of Essanelle Hair Group AG for 2006 underlines the strength of the company's liquidity in spite of its major investments. The company's operating activities generated cash of Euro 9.5 million in the 2006 financial year, compared with Euro 11.3 million in the previous year. This year-on-year decline is principally due to a legislative amendment requiring social security contributions of around Euro 1.6 million relating to 2006 to be paid, unlike in 2005, during the actual financial year. The net inflow of funds from operating activities correspondingly amounted to Euro 8.3 million, compared with Euro 10.4 million in the previous year. The ongoing pace of the company's growth strategy meant that the net outflow of funds for investment activities, which amounted to Euro 4.6 million, remained at the high level seen in the previous year. As a result of a considerable improvement in the debt-equity structure, the company reduced its repayment of liabilities. The net outflow of funds for financing activities thus declined from Euro -6.8 million in 2005 to Euro -2.4 million. Overall, liquid funds therefore grew by Euro 1.3 million (previous year: Euro -1.1 million) to Euro 5.3 million, compared with Euro 4.0 million in 2005.

The consolidated balance sheet of Essanelle Hair Group AG as of 31.12.2006 showed further improvements compared with the previous year's reporting date. The company's equity ratio rose from 41.3% to 46.0% at the end of the past financial year. In absolute terms, shareholders' equity increased from Euro 20.8 million to Euro 24.4 million. The options included in those tranches of the employee share option programme issued in 2003 and 2004 were exercised in 2006, with cash payments totalling Euro 293,000 being made in this respect by the owners of the options involved. The share capital therefore rose by Euro 95,000 and the capital reserve by Euro 198,000. The services provided by employees in connection with employee share option programmes were accounted for in the capital reserve at an increased value of Euro 303,000 Euro. The company's debt reduced from Euro 29.6 million to Euro 28.6 million. Of this sum, long-term debt accounted for Euro 13.0 million, as against Euro 9.5 million in the previous year, while short-term debt fell from Euro 20.1 million to Euro 15.6 million as of 31.12.2006. This mainly involved a reduction in liabilities to banks (financial debt). A loan from BNP Paribas amounting to Euro 5.4 million was repaid on schedule. In order to finance its expansion, Essanelle Hair Group AG obtained credit lines from various banks amounting to Euro 7.0 million in total, of which around Euro 3.1 million had been utilised at the reporting date. Moreover, the company has credit lines for cash utilisation purposes amounting to around Euro 4.0 million. There were no major changes on the asset side of the balance sheet. Property, plant and equipment rose from Euro 19.8 million to Euro 21.1 million as a result of the increase in investment activities, while liquid funds rose from Euro 4.0 million to Euro 5.3 million. The total assets of the Group grew from Euro 50.5 million to Euro 53.0 million at the end of the past financial year.

Investments in property, plant and equipment amounted to Euro 6.5 million, as against Euro 5.2 million in 2005. In this respect, the company invested a sum of around Euro 3.8 million in the 56 newly opened salons and the new TOP TEN salon concept. A sum of Euro 1.7 million was used to finance the renovation of existing salons. This was supplemented by Euro 0.8 million from financial leases and Euro 0.2 million in other investments.

THE SHARE

Having outperformed the relevant indices at the German Stock Exchange by a substantial margin in the 2005 financial year, the share of Essanelle Hair Group AG witnessed very moderate developments in the 2006 financial year as a whole. Having opened at a price of Euro 8.00 on Xetra on 02.01.2006, the share closed at Euro 8.20 on 31.12.2006. This is equivalent to value growth of around 2.5%. However, in the course of the financial year, the share succeeded for the first time in the history of its listing in crossing the nine euro mark, reaching a price of Euro 9.90. At the beginning of the current 2007 financial year, the share once again held its ground above this mark. The value of the company calculated on the basis of around 4.6 million shares amounted to Euro 37.7 million as of 31.12.2006.

At the end of the 2006 financial year, two major shareholders, FPM and dit, announced that the number of their shares had fallen short of the 5% and 3% thresholds, dropping to 3.13% (FPM) and 3.56% (dit) respectively. The company received notification of the exceeding of the threshold from Ratio Asset Management, London, (5.02%) in July 2006 and from Intrinsic Value Investors, London, (6.26%) in November 2006. Moreover, in February of the current 2007 financial year, Threadneedle Asset Management, London, reported a share of 3.08% and Fortis Investment Management, Brussels, one of 3.33%.

RISK REPORT

EARLY IDENTIFICATION

The Essanelle Hair Group has an early warning risk identification system pursuant to Section 91 (2) of the German Stock Corporation Act (AktG) whose functionalities, responsibilities, reporting requirements and possible controls are defined in a written handbook. The same applies to the appropriate forwarding of information from the early warning risk identification system. The early warning system is regularly adapted in line with changes at the company.

The company has commissioned decentralised risk managers to monitor the implementation of these measures. The risks within the respective areas of responsibility are recorded in a regularly updated inventory and reported to the central risk controller at intervals of three months. The risk controller reviews the risk and informs the Management Board as appropriate. The Management Board in turn informs the Supervisory Board of all major issues resulting from this procedure.

CONTROLLING AT THE SALONS

In the interests of monitoring the performance of all company divisions and salons in detail, the Essanelle Hair Group has a controlling system in place which enables prompt analyses to be compiled and targets and measures to be set at all levels of responsibility. Weekly and monthly budget/actual comparisons and analyses are compiled and forwarded to the Management Board. Particularly during the current phase of expansion and the development of the salon network, the controlling system assists in monitoring and evaluating the performance of the salons at all times.

MARKET RISK

The salons of the Essanelle Hair Group are in most cases located in department stores, consumer markets and shopping centres. This means that they are particularly dependent on the respective overall location, its consumer structure, totals and behaviour. In view of this, the company primarily selects very highly-frequented locations for the majority of its salons, given that these offer especially high potential in terms of customers. There is nevertheless the risk that individual cooperation partners could close down outlets, thus obliging the company to relinquish a particular location.

Irrespective of the location issue, there is a close link between the performance of the salon business and the performance of the overall retail sector. Based on past experience, however, developments in the retail sector are only passed on in diluted form. This is also reflected in the like-for-like sales performance, which generally adapts to its respective environment. The Essanelle Hair Group counters this trend by developing and expanding suitable salon

concepts. The TOP TEN salon brand newly established in 2005, for example, is targeted at a price-sensitive customer group, as well as the target group of young people, who remain relatively unaffected by economic developments. All data available at the individual salons is recorded and analysed in order to identify any additional individual risks or inappropriate developments and, if necessary, to initiate countermeasures. Every year, some salons for which the Management Board sees no prospects of improved profitability in the medium term are therefore closed.

RENTAL

The Essanelle Hair Group has concluded long-term rental agreements with a large number of letting partners. The agreements with some partners involve several locations, in some cases of varying quality. Cherry picking is not always possible in such cases. From a current perspective, however, the number of profitable salons is clearly in the majority in the case of these partners. Moreover, the long-term nature of the rental agreements and the development of longstanding partnerships with the lessors protect the company against the risk of losing particularly good and highly sought-after locations. One major objective in this respect is to optimise the mix of lessors to the greatest possible extent.

SUPPLIERS

The Essanelle Hair Group has concluded long-term cooperation agreements with two major suppliers concerning products exclusive to hairdressers. In cases involving acceptance obligations, the company expects, as in previous years, to meet these obligations.

PERSONNEL

Hairdressing services are an extremely personnel-intensive business where the relationship established between customers and employees is decisive for the performance of the company. The motivation and further training of employees therefore represents an important task for the company management and its sales managers. The success of these measures is reviewed on a regular basis by means of detailed analyses of personnel productivity, turnover and development levels. Direct talks between employees on location and the sales managers responsible for the respective regions, followed by their reports to the Management Board, provide an additional communication and information system enabling this key strategic factor to be monitored and appropriately managed on a regular basis.

Over and above the risks outlined above, we currently see no particular risks to the future development of the company.

COMPENSATION REPORT

The overall compensation of the Management Board in 2006 was structured as follows (Euro 000s):

	Uwe Grimminger	Achim Mansen	Total
Basic salary (non-performance-related)	270	195	465
Performance-related bonus	175	127	302
Share options (fair value)	8	5	13
Non-cash benefit from use of company car	6	12	18
Total	459	339	798

The variable compensation is calculated on the basis of the extent to which the company achieves its value targets in the respective financial year. The company value used in the calculation of this variable compensation is in principle based on the EBITDA multiplied by a factor of four, less the net indebtedness at the reporting date. The more closely this target is met, or the greater the margin by which the company exceeds the target value set in liaison with the Supervisory Board, then the higher the corresponding compensation. The variable compensation is paid one month following the adoption of the annual financial statements.

By issuing share options, the company also pays variable compensation whose value is based on the value of the company measured in terms of its share price. During the year under report, 19,838 share options were issued to Uwe Grimminger and 13,225 to Achim Mansen. In 2004, Achim Mansen was granted a loan of Euro 70k at an interest rate of 4.5%. The loan has a term of 3 years and is redeemed by quarterly repayments. An amount of Euro 23k was repaid during the financial year (previous year: Euro 22k), leaving a residual value of Euro 9k at the end of the year.

The total amount of pension provisions stated for the Management Board amounts to Euro 704k, or to Euro 180k when offset against the fair value of the plan assets (Euro 406k) and following the deduction of unrecognised actuarial losses (Euro 118k). Uwe Grimminger is thus entitled to a monthly pension payment of Euro 3,158.52 from the age of 60, as well as to a monthly disability pension of Euro 2,976.35 and a widow's pension. Achim Mansen is entitled to a monthly pension of Euro 3,628 from the age of 65, as well as to a monthly disability pension of Euro 2,540 and a widow's pension. The widow's pension in each case amounts to 60% of the old-age pension entitlement. An annual adjustment in the ongoing pension payments of 2% based on the level of pension in the previous year is guaranteed.

DISCLOSURE OF POSSIBLE BARRIERS TO TAKEOVER

The share capital of Essanelle Hair Group AG consists of 4,595,044 bearer shares with a face value of Euro 1. The company's subscribed capital amounted to Euro 4,535,044 at the end of the past financial year, including 60,000 shares in the possession of the company. Pursuant to the Articles of Association, each share entitles its holder to exercise one vote. There are currently no restrictions on assignment or voting rights. Shareholders exercise their rights, notably their voting rights, at the Annual General Meeting in accordance with legal requirements and the Articles of Association.

Shareholdings in Essanelle Hair Group AG of more than 10% are currently held on the one hand by the investment company Axxion, which owns 13.2%, and on the other by Frisör Klier GmbH, which by its own account holds 29.8% of the shares. There are no special rights, such as the right to appoint members of the Supervisory Board.

There are no rights of control over voting rights attributable to employees. In accordance with the Articles of Association, the company's Management Board consists of two members. The Supervisory Board appoints the members of the Management Board and determines their number. The Supervisory Board is entitled to revoke the appointment of a member of the Management Board and the appointment of the Chairman of the Management Board in the event of any compelling reason to do so. Any amendment to the Articles of Associations requires a resolution adopted by the Annual General Meeting with a majority of at least three quarters of the share capital represented upon the adoption of such resolution. There is currently no authorisation to buy back own shares and no authorised capital.

In the event of a change of control resulting from a takeover bid, the employment contracts of the members of the company's Management Board include provisions entitling them to receive transitional payments in certain circumstances in the event of their contracts not being extended. Apart from this, there are no agreements concerning the payment of compensation.

EVENTS AFTER THE REPORTING DATE

There have been no events with a significant impact on the sales and earnings situation of Essanelle Hair Group AG subsequent to the reporting date on 31.12.2006.

OUTLOOK

The outlook concerning the economic situation in 2007 and the performance of the retail sector cannot be forecast with any degree of precision, even by most experts. The majority of research institutes expect the VAT increase to have a negative overall impact on the domestic economy. On the other hand, the decline in unemployment and longer opening hours in the retail sector certainly have the potential to generate positive momentum. The OECD expects the economy to slow and has forecast GDP growth of 1.8% for Germany, compared with 2.7% in 2006.

The factors outlined above mean that any forecast made by Essanelle Hair Group AG for the current financial year will also involve a degree of uncertainty. Overall, the company will maintain its growth strategy and plans to open around 50 new salons, particularly in the HairExpress and TOP TEN concepts. In view of its rising equity ratio, reduction in liabilities and customary robust cash flow, the company sees itself as continuing to be very well placed to maintain its expansion. Following growth of 3.5% in 2006, the sales of the Essanelle Hair Group are thus expected to rise by 5% to 10% in the current financial year. The past year witnessed the first positive sales growth since 2000. This development is now to be maintained with increasingly dynamic rates of growth.

Earnings showed robust developments in 2006, surpassing the company's own forecasts. The pre-tax earnings of Euro 5.3 million were 22.5% higher than in the previous year, while also including the one-off income of Euro 0.8 million as a result of the sale of franchise rights to mod's hair. For the 2007 financial year, Essanelle Hair Group AG expects at least to match the pre-tax earnings of Euro 4.5 million reported for the previous year following adjustment for the one-off income in connection with mod's hair. Should the pleasing current economic developments continue and if the longer opening hours have a positive impact on the company's sales performance and do more than compensate for the resultant increase in personnel expenses, then it is certainly possible that earnings could increase. For the 2008 financial year, the company then expects to generate sales growth in the range also forecast for 2007, while also achieving disproportionate earnings growth.

Düsseldorf, 16 March 2007

Management Board

Uwe Grimminger

Achim Mansen

CONSOLIDATED BALANCE SHEET (IFRS)

as of 31 December 2006

ASSETS

€	Note	31.12.2006	31.12.2005
ASSETS			
Long-term assets			
Property, plant and equipment	6	21,149,157.73	19,803,198.26
Goodwill	7	19,558,872.10	19,243,872.10
Other intangible assets	7	208,465.92	204,967.52
Financial assets valued at equity	8	0.00	1.00
Other loans	9	92,624.24	336,483.80
		41,009,119.99	39,588,522.68
Short-term assets			
Inventories	10	6,132,112.32	5,838,391.02
Accounts receivable	11	105,320.13	327,520.14
Other assets	12	423,001.77	683,740.76
Cash and cash equivalents	13	5,321,163.33	4,023,586.86
		11,981,597.55	10,873,238.78
Total assets		52,990,717.54	50,461,761.46

SHAREHOLDERS' EQUITY AND LIABILITIES

€	Note	31.12.2006	31.12.2005
SHAREHOLDERS' EQUITY			
Capital and reserves allocable to the shareholders in the parent company			
Share capital	14	4,535,044.00	4,440,000.00
Capital reserve	15	15,422,954.30	14,922,074.35
Revenue reserves	16	4,413,771.29	1,465,846.08
		24,371,769.59	20,827,920.43
DEBT			
Long-term debt			
Financial debt	17	9,277,886.80	7,522,245.01
Deferred tax liabilities	18	2,880,000.00	1,104,000.00
Pension provisions	19	179,977.00	164,745.00
Other provisions	20	683,542.40	753,560.96
		13,021,406.20	9,544,550.97
Short-term debt			
Financial debt	21	3,537,262.56	7,182,302.22
Accounts payable	22	4,471,932.01	5,371,344.56
Current income tax liabilities	23	668,497.20	373,029.63
Other liabilities	24	2,819,661.38	4,132,429.83
Other provisions	25	4,100,188.60	3,030,183.82
		15,597,541.75	20,089,290.06
Total debt		28,618,947.95	29,633,841.03
Total shareholders' equity and liabilities		52,990,717.54	50,461,761.46

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2006 to 31 December 2006

€	Notes	2006	2005
Sales	26	117,508,845.62	113,534,270.44
Other operating income	27	2,097,692.65	977,180.64
Cost of materials	28	-10,820,576.26	-10,165,403.99
Personnel expenses	29	-65,491,099.00	-63,308,712.56
Depreciation and amortisation	30	-4,564,341.52	-4,717,599.61
Rental and ancillary rental expenses	31	-21,708,418.43	-20,807,785.40
Other operating expenses	32	-10,946,630.24	-10,132,511.06
Operating earnings		6,075,472.82	5,379,438.46
Financing income	33	52,648.97	86,671.18
Financing expenses	34	-784,981.66	-925,411.19
Share of losses in companies valued at equity	35	0.00	-6,999.00
Losses on financial loans	36	-41,160.55	-206,240.46
Net financial expenses		-773,493.24	-1,051,979.47
Earnings before taxes		5,301,979.58	4,327,458.99
Tax expenses	37	-2,354,054.37	-1,754,275.67
Consolidated net income		2,947,925.21	2,573,183.32
Earnings per share	38		
basic		0.66	0.57
diluted		0.62	0.56

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January 2006 to 31 December 2006

€ K	Notes	2006	2005
1. CASH FLOW FROM OPERATING ACTIVITIES	40		
Cash generated by ongoing business activities		9,459	11,335
Interest paid		-836	-750
Taxes on income paid		-274	-155
Net inflow of funds from operating activities		8,349	10,430
2. CASH FLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	6	-5,734	-5,172
Proceeds from sale of property, plant and equipment	40	725	436
Acquisition of intangible assets	7	-395	-83
Loans paid out	9	-55	-57
Loans repaid	9	770	187
Loans paid out to closely related persons	43	0	-42
Loans repaid by closely related persons	43	23	22
Interest received		34	36
Net outflow of funds for investment activities		-4,632	-4,673
3. CASH FLOW FROM FINANCING ACTIVITIES			
Payments received in connection with employee share option programmes	14.15	293	0
Buyback of own shares	14.15	0	-460
Receipts from taking up of financial debt	17.21	4,830	3,998
Repayment of financial debt	17.21	-7,543	-10,384
Net outflow of funds for financing activities		-2,420	-6,846
Net decrease/increase in cash and cash equivalents		1,297	-1,089
Cash and cash equivalents at beginning of year	13	4,024	5,113
Cash and cash equivalents at end of year		5,321	4,024

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2006

	Notes	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 1.1.2005		4,500,000.00	15,214,773.20	-1,107,337.24	18,607,435.96
Consolidated earnings	16			2,573,183.32	2,573,183.32
Buyback of own shares	15	-60,000.00	-400,061.88		-460,061.88
Value of employee services in connection with employee share option programmes	15		107,363.03		107,363.03
Balance at 31.12.2005		4,440,000.00	14,922,074.35	1,465,846.08	20,827,920.43
Balance at 1.1.2006		4,440,000.00	14,922,074.35	1,465,846.08	20,827,920.43
Consolidated earnings	16			2,947,925.21	2,947,925.21
Value of employee services in connection with employee share option programmes	15		302,565.18		302,565.18
Capital increase due to payments received in connection with exercise of share options (Tranches I and II)	15	95,044.00	198,314.77		293,358.77
Balance at 31.12.2006		4,535,044.00	15,422,954.30	4,413,771.29	24,371,769.59

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

as of 31 December 2006

1 BASIC INFORMATION

The consolidated Essanelle Hair Group, which consists of the parent company Essanelle Hair Group AG (in short: Essanelle) and the subsidiary CFS Coiffure Franchising System GmbH (in short: CFS GmbH), as well as the CFB GmbH shareholdings and Essanelle Dienstleistungs GmbH, which was founded on 4 December 2006 as a shareholding of CFS GmbH, is one of the leading providers of hairdressing services in Germany. Furthermore, Essanelle also sells products exclusive to hairdressers in its hairdressing salons and in specialist sales shops and acts as franchisor for proprietor-managed hairdressing salons.

The total salon network comprises 597 hairdressing salons and sales shops, compared with 593 in the previous year.

Essanelle has developed various salon concepts which are targeted at various customer groups under the following brand names:

- essanelle Ihr Friseur
- Super Cut
- HairExpress
- Jürgen Tröndle by essanelle
- TOP TEN
- Beauty Hair Shop

The original concept "essanelle Ihr Friseur" is targeted at regular and occasional customers of all age groups. The "Super Cut" concept is tailored to the needs of younger hairdressing customers, with the "HairExpress" and "Jürgen Tröndle by essanelle" concepts being targeted at price-conscious and luxury-oriented customers respectively. Essanelle's hairdressing salons are in most cases located in department stores and in shopping centres. The concept with the name "TOP TEN" offers hairdressing services in the 10 euro segment primarily at stand-alone locations.

Furthermore, as in the previous year the company also had franchising activities operating under the "essanelle Ihr Friseur" and "mod's hair" brand names.

As in the previous year, 8 independent hairdressing salons were linked as franchisees within the "essanelle Ihr Friseur" brand concept.

A total of 44 proprietor-managed salons was most recently linked to the Essanelle consolidated group under the "mod's hair" franchise concept (31.12.2005: 44 salons).

However, this business was sold to a private investor on 30 June 2006.

The head office for all operating units of the Group is located in 40547 Düsseldorf / Germany, Niederkasseler Lohweg 20.

The company's corporate planning provides for an increase in the company's market share by promoting the expansion of its network of outlets.

The parent company, Essanelle Hair Group AG, is a stock corporation which was converted from Essanelle GmbH on 4 May 2001 by means of a corporate transformation.

Essanelle Hair Group AG has been listed on the Frankfurt Stock Exchange since 22 June 2001. The company was listed until 20 December 2002 in the SMAX quality segment and until 30 September 2005 in official trading. Since then, Essanelle Hair Group AG has been listed in the Prime Standard. As previously, Essanelle Hair Group AG has its legal domicile in Düsseldorf und is registered under the number HRB 40749 in the Commercial Register of the Düsseldorf District Court.

These consolidated financial statements were approved for publication by the Management Board on 16 March 2007.

MEMBERS OF THE MANAGEMENT BOARD

The members of the Management Board during the year under report and currently are:

Uwe Grimminger, Kerpen, (Chairman)

Achim Mansen, Monheim, (Chief Financial Officer)

Subsidiary activities of the members of the Management Board:

Uwe Grimminger	Member of the Administrative Board (Employer Representative) of the Essanelle Company Health Insurance Fund, Augsburg
Achim Mansen	Member of the Administrative Board (Employer Representative) of the Essanelle Company Health Insurance Fund, Augsburg

MEMBERS OF THE SUPERVISORY BOARD

Shareholder representatives

	Profession
Martin Tresser, Nussdorf/Austria, until 11 April 2006 (Chairman until 11 April 2006)	Industrial engineer
Joachim Dübner, Düsseldorf, (Chairman from 27 June 2006)	Management consultant
Gabriele Eick, Frankfurt am Main, until 26 June 2006	Management consultant
Dr. Gabriele Fontane, Frankfurt am Main, until 26 June 2006	Lawyer
Fritz Kuhn, Seeheim, from 27 June 2006	Management consultant
Hans-Joachim Oltersdorf, Rellingen, from 27 June 2006	Managing director
Hiltrud Seggewiss, Düsseldorf, from 27 June 2006	Managing director
Werner Schneider, Cologne	Economist
Jürgen Tröndle, Kelsterbach	Hairdresser / businessman

Employee representatives

	Profession
Peter-Michael Herold, Stuttgart, (Deputy Chairman)	Trade union secretary
Barbara Wietusch, Stuttgart, from 27 June 2006	Hairdresser
Cornelia Glass, Erlbach	Salon manager
Michael Eberhard, Gerlingen	Trade union secretary
Ulrike Witt, Essen	Hairdresser
Dieter Bonk, Neuss, until 3 January 2007	Sales director

The following members of the Supervisory Board also sit on supervisory or administrative boards at other companies:

Michael Eberhard	Supervisory boards Stadtwerke Leipzig GmbH, Leipzig (Member) Technische Werke Dresden GmbH, Dresden (Member)
Joachim Dübner	Supervisory boards Procon Multimedia AG, Hamburg (Member) KROMI Logistik AG, Hamburg (Member)
Hans Joachim Oltersdorf	Supervisory boards Fielmann AG, Hamburg (Member until 30.09.06) InteraDent AG, Lübeck (Member) Advisory board Parte GmbH, Köln (Chairman)
Dieter Bonk	Administrative board Essanelle Company Health Insurance Fund, Augsburg

2 SUMMARY OF PRINCIPAL ACCOUNTING AND VALUATION METHODS

2.1 GENERAL PROVISIONS

The consolidated financial statements have been compiled in euros and cents.

The principal accounting and valuation methods applied in the compilation of these consolidated financial statements are set out below. Unless otherwise indicated, the methods outlined have been consistently applied to the reporting periods thereby depicted.

The consolidated financial statements of Essanelle Hair Group AG have been compiled in accordance with the requirements of International Financial Reporting Standards (IFRS) as applicable in the EU with supplementary application of the commercial law regulations requiring application pursuant to Section 315a (1) of the German Commercial Code (HGB).

In this respect, the consolidated financial statements of Essanelle Hair Group AG take account of all relevant provisions of IFRS adopted and requiring mandatory application as of 31 December 2006.

Application has been made of the supplementary provisions of the German Stock Corporation Act (AktG). The group management report as of 31 December 2006 has also been compiled in accordance with the requirements of the German Commercial Code (HGB).

The annual financial statements of subsidiaries and second-tier subsidiaries have been compiled as of the reporting date of the Group. Individual items in the balance sheet and the income statement, which has been compiled on the basis of the total cost method, have been summarised in the interests of clarity. Corresponding explanations have been provided in the notes.

New International Financial Reporting Standards (IFRS) and Interpretations (IFRIC)

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have adopted a series of new and revised standards and interpretations requiring mandatory application since 1 January 2006:

Amendments to IAS 19 – Actuarial gains and losses, group plans and disclosures
Amendments to IAS 21 – Net investment in a foreign operation
Amendments to IAS 39 – Hedge accounting for uncertain future cash flows from planned intragroup transactions
Amendments to IAS 39 – Option of valuation at fair value
Amendments to IAS 39 and IFRS 4 – Financial guarantees
IFRS 6 – Exploration for and evaluation of mineral resources
IFRIC 4 – Determining whether an arrangement contains a lease
IFRIC 5 – Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
IFRIC 6 – Liabilities arising from participating in a specific market – waste electrical and electronic equipment

However, these standards and interpretations requiring initial application as of 1 January 2006 have not had any implications for the consolidated financial statements of Essanelle AG.

Furthermore, the IASB and IFRIC also adopted further standards and interpretations not yet requiring mandatory application in the financial year under report. Their application will also require the approval of the EU, which is still outstanding in some cases:

Amendments to IAS 1 – Disclosure obligations concerning the management of economic capital

IFRS 7 – Financial instruments - Disclosures
IFRS 8 - Operating segments
IFRIC 7 – Applying the restatement approach under IAS 29 Reporting in hyperinflationary economies
IFRIC 8 – Scope of IFRS 2
IFRIC 9 – Reassessment of embedded derivatives
IFRIC 10 - Interim financial reporting and impairment
IFRIC 11 - IFRS 2 - Group and treasury share transactions
IFRIC 12 - Service concession arrangements

No use has been made of the possibility of making premature application of these standards and interpretations. The premature application of these standards and applications would not have had any significant implications on the consolidated financial statements of Essanelle AG; it would merely have led to an extension of the disclosures made in the notes.

Amendment to accounting and valuation methods

Discounts for bonuses and cash discounts, which in the previous year were included in the amount of write-downs of inventories, have now been deducted from costs of acquisition. The equivalent figure for the previous year has been adjusted, which led on the one hand to a reduction in the write-down by Euro 233k (to Euro 89k) and on the other hand to a corresponding reduction in gross inventories (to Euro 5,927k).

In contrast to the previous years, receivables from suppliers in connection with bonuses and reimbursements have no longer been reported under other assets but have rather been netted under accounts payable. The figure stated for the previous year has been correspondingly adjusted at Euro 521k.

Cash discount income which has not been deducted from costs of acquisition or inventories, has no longer been reported separately under other operating income, but has rather been deducted on a prorated basis directly from costs of materials or other operating expenses. The figures stated for the previous year have been adjusted, resulting in reductions in the corresponding items of Euro 322k and Euro 34k respectively.

2.2 GROUP ACCOUNTING AND REPORTING ENTITY

2.2.1 SUBSIDIARIES

Subsidiaries, i.e. companies in which Essanelle Hair Group AG either directly or indirectly controls more than half of the voting rights or is able to control their financial and business policies in other ways, have been included in the reporting entity. The assessment as to whether Essanelle Hair Group AG is in a position to control another company in this respect has taken account of the existence and implications of potential voting rights which could be exercised or converted as of the balance sheet reporting date.

Subsidiaries are first consolidated at the time at which Essanelle acquires the possibility of controlling the company thereby acquired. They are deconsolidated upon Essanelle losing the possibility of control.

The acquisition of subsidiaries has been accounted for using the purchase method.

The acquisition costs relating to the acquisition of the company are measured in terms of the cash and cash equivalents spent on such acquisition, as well as of the fair values of assets thereby transferred, shares issued and/or

liabilities assumed, plus the expenses directly allocable to such acquisition. The identifiable assets, liabilities and contingent liabilities thereby acquired are stated at fair value at the time of acquisition regardless of the existence of any minority interests. The costs of acquisition in excess of the fair value of the share of net assets of the subsidiary thereby acquired are stated as goodwill. In the event of the costs of acquisition being lower than the fair value of the share of net assets thereby acquired in the subsidiary, then the difference is recorded in the income statement with a corresponding impact on earnings. Rather than being subject to scheduled amortisation, goodwill is only subject to extraordinary amortisation (impairment).

Inter-company receivables and liabilities are offset, as are inter-company expenses and income. Unrecognised profits on business transactions between group companies are eliminated in full. Unrecognised losses are eliminated to the extent that the resulting costs of acquisition/manufacture do not exceed the recoverable amount for the respective asset. The accounting and valuation methods of the subsidiaries have been adapted wherever necessary to the uniform accounting and valuation methods applied by the Group.

2.2.2 ASSOCIATED COMPANIES

Associated companies are deemed to be companies upon which a group company is able to exercise significant influence by participating in the financial and business decision-making processes at the shareholding, but which nevertheless do not constitute subsidiaries or joint ventures. These often involve companies at which Essanelle directly or indirectly holds 20% to 50% of the voting rights. Associated companies are accounted for using the equity method. They are initially stated at cost of acquisition. Any goodwill present upon acquisition (less cumulative write-downs) is recorded in the carrying amount of the financial assets valued at equity.

The Group's share of the profit or loss of associated companies following acquisition is recorded in the income statement; its share in adjustments to reserves at the associated companies which do not impact on earnings are recorded under reserves. The counter-entry is made in the carrying amount of the financial assets valued at equity.

Should the Group's share in the loss incurred at an associated company exceed the carrying amount of the net investment in the associated company, then the Group does not record any further losses, unless it has assumed obligations on behalf of the associated company or made payments as a result of obligations on the part of the associated company.

Unrecognised profits on business transactions between the Group and its associated companies are eliminated in accordance with the level of shareholding. Unrecognised losses are also eliminated on a prorated basis, unless the value of the asset thereby transferred has been impaired. The accounting and valuation methods of the associated companies have been adjusted wherever necessary to the uniform accounting and valuation methods used by the Group.

2.2.3 REPORTING ENTITY

The following companies were included in the reporting entity of Essanelle as of 31 December 2006:

Parent company

Essanelle Hair Group AG, Düsseldorf

Direct shareholdings (100 %)

CFS Coiffure Franchising System GmbH, Düsseldorf

Indirect shareholdings (subsidiaries of CFS)

Essanelle Dienstleistungs GmbH, Düsseldorf (in short: EDL)

The share capital of Essanelle Dienstleistungs GmbH amounts to Euro 25,000 and is held in full by CFS GmbH.

Further subsidiaries of CFS GmbH at 31 December 2006:

CFB Dorsten 1 GmbH in liquidation, Dorsten

CFB Ludwigsburg 1 GmbH in liquidation, Ludwigsburg

CFB Offenburg 1 GmbH in liquidation, Offenburg

CFB Erfurt 1 GmbH in liquidation, Erfurt

The share capital of the CFB companies amounts in each case to Euro 37,500. With the exception of the company in Offenburg, CFS Coiffure Franchising System GmbH holds 83.33% of the shares on its own account (in the case of CFB Offenburg in liquidation: 50 %) and 16.67 % in a fiduciary capacity for CCP Coiffure Cosmetic Partner GmbH, Neuss.

Pursuant to the shareholder resolutions dated 19 December 2003, the CFB companies in Dorsten, Ludwigsburg and Offenburg are in liquidation. CFB Erfurt is in liquidation pursuant to the shareholder resolution dated 12 December 2004. Applications for the deletion of all companies from the Commercial Register have been submitted to the respective courts.

The salon in Erfurt has been sold. The salon in Dorsten has been let to lessees operating in a different sector and the salons in Ludwigsburg and Offenburg have been taken over by the Essanelle store network.

2.3 CURRENCY CONVERSION

The consolidated financial statements have been compiled in euros, which constitute the functional currency and reporting currency of the German parent company and of its subsidiaries and second-tier subsidiaries.

No foreign currency transactions were undertaken either in 2005 or in 2006. In the event of any foreign currency transactions being undertaken, then these will be converted into the functional currency on the basis of the exchange rate valid at the time of such transaction. Profits and losses incurred on the performance of such transactions and on the conversion of monetary assets and liabilities denominated in foreign currencies using the rate valid on the reporting date will be recorded in the income statement with a corresponding impact on earnings.

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost of acquisition/manufacture and in most cases subject to straight-line depreciation over its expected useful life. Costs of acquisition/manufacture include expenses directly allocable to such acquisition. Costs of repairs are recorded as current expenses. Debt capital costs are not capitalised as part of the costs of acquisition/manufacture (IAS 23). Grants and subsidies for the acquisition of assets are deducted from the costs of acquisition of the respective assets. Scheduled depreciation is in most cases based on useful lives of ten years in the case of salon furnishings and of four to seven years in the case of other plant and office equipment.

Rented property, plant and equipment which is classified as financial leasing is capitalised at the beginning of the term of the leasing relationship at the lower of the fair value of the object leased or the present value of the minimum leasing payments and then depreciated over its expected useful life. The corresponding liability relating to the leasing relationship is reported under other liabilities. The repayment portion of the leasing instalments is then offset against this liability on an ongoing basis, while the interest portion is recorded under interest expenses.

Dismantling obligations relating to the salon infrastructure are stated at present values and depreciated over the useful life of the salon in question. A provision is simultaneously capitalised as a liability and is compounded over the useful life involved until the full repayment amount has been reached.

The assets are reviewed should any triggering event occur in order to ascertain whether there any indications of value impairments. In the event of the recoverable amount for an asset being lower than its respective carrying amount, then such asset is subject to extraordinary depreciation. For the purposes of this impairment test, assets are combined at the lowest level for which cash flows can be separately identified and allocated (cash generating units, in short: CGUs). The individual hairdressing salon is viewed as representing the lowest such level, given that it is possible to identify economic success or failure at this level.

Should the reason for an exceptional write-down undertaken at an earlier date no longer pertain, then the value of the asset is written up to a maximum of the amount of updated cost.

Profits and losses incurred on the disposal of property, plant and equipment are calculated on the basis of the carrying amount of the assets at the time of such disposal.

Expenditure on maintenance and repairs is recognised as an expense with a corresponding impact on earnings.

2.5 GOODWILL

Goodwill represents the excess value of the acquisition costs for the acquisition of a company over the fair value of the shares held by the Group in the net assets of the company thereby acquired at the time of acquisition. Goodwill arising on account of the acquisition of a company is allocated to the intangible assets. Goodwill is subject to an impairment test should there be any reason for such test and at least once per year.

Pursuant to IAS 36, from the time of conversion to IFRS as of 1 January 2004, it is assumed in the case of goodwill that these assets can basically be used on an indefinite basis and are thus no longer subject to scheduled amortisation. Amortisation is accordingly only to be undertaken in the form of extraordinary amortisation should the annual or occasional impairment test render such measure necessary.

The goodwill is distributed among the cash generating units for the purpose of the impairment tests. It is generally assumed in this respect that the Essanelle salons in their entirety, with the exception of those salons resulting from the acquisition of the Tröndle Group, represent a uniform CGU and are to be viewed as a whole. As a result of their special hairdressing concept and their exposed size, by contrast, the salons resulting from the acquisition of the Tröndle Group are each defined as representing an individual CGU.

Any write-downs undertaken on goodwill may not be written up at a subsequent date.

2.6 OTHER INTANGIBLE ASSETS

Other intangible assets are stated at cost of acquisition/manufacture and are generally subject to straight-line amortisation over the period of their expected useful lives. Moreover, in the event of any occurrences or change in circumstances indicating that the carrying amount might not be recoverable, then the assets are reviewed to see whether any write-downs are required. The useful lives amount to between 3 and 5 years.

2.7 FINANCIAL ASSETS

Financial assets are generally subdivided into the following categories:

- Financial assets valued at fair value through profit or loss
- Loans and receivables
- Financial assets held to maturity
- Assets available for sale.

The classification depends on the purpose for which the respective financial assets were acquired. The management determines the classification of the financial assets upon their initial statement and reviews this classification at each subsequent reporting date. The Group did not hold any financial assets in the “held to maturity” or “at fair value through profit and loss” categories in this financial year.

- (a) Cash holdings and bank balances are stated at fair value at the time of their arising and upon subsequent valuations.
- (b) Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not listed on an active market. They arise when the Group provides money, goods or services directly to a debtor without any intention of trading in such receivables. They are included under short-term assets to the extent that their maturity does not lie 12 months after the balance sheet reporting date. Should this be the case, then they are reported as long-term assets. The subsequent valuation of loans and receivables is generally undertaken at updated cost. Should there be any doubts as to their recoverability, then they are stated at the lower achievable value. They are cancelled from the books in the event of the related rights lapsing or being assigned and of the Group having assigned all significant risks and rewards relating to ownership.

2.8 INVENTORIES

Inventories are stated at the lower of their costs of acquisition or their net disposal value. The costs of acquisition are calculated using the first-in, first-out (FiFo) method. The net disposal value represents the estimated sales proceeds attainable in the course of normal business activities, less the required variable costs of such disposal.

2.9 ACCOUNTS RECEIVABLE

Accounts receivable are initially stated at fair value and subsequently valued at updated cost using the effective interest method and deducting any write-downs. Write-downs are recorded when there are objective indications that the amounts due are not collectible in full.

2.10 OTHER ASSETS

Other assets are stated at fair value less any individual write-downs required as a result of value impairments.

Accrued income and prepayments made for assets are reported under other assets.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash holdings, credit balances at banks and payments in transit at the salons with terms of up to 3 months.

2.12 TAXES ON INCOME

Actual taxes on income during the current period are stated at the amount of the expected payment or refund.

2.13 DEFERRED TAXES

Deferred taxes are stated using the liability method for all temporary differences arising between the tax base of the assets and liabilities and their respective carrying amounts in the IFRS financial statements. However, if deferred tax arises in the context of a transaction which does not constitute a business combination from the initial statement of an asset or a liability which does not have any impact on the loss stated in the balance sheet or that stated for tax purposes at the time of such transaction, then no tax accrual is stated. Deferred taxes are valued at the respective tax rates (and tax regulations) valid or about to be adopted in law as of the balance sheet reporting date and which are expected to be valid at the time of the recognition of the tax claim or the settlement of the deferred tax liability.

Deferred taxes are stated to the extent that is probable that taxable earnings will be available for the temporary difference to be offset against. Deferred tax liabilities arising as a result of temporary differences in connection with shareholdings in subsidiaries and associated companies are stated, unless the time at which such temporary differences can be reversed can be controlled by the Group and provided that it is likely that the temporary differences will not be reversed in the foreseeable future.

2.14 SHAREHOLDERS' EQUITY

The **share capital** is stated at the nominal value of the shares in circulation.

The **capital reserve** includes premiums paid in cash upon various capital increases, following the deduction of expenses directly allocable to the issuing of new shares (stock market flotation expenses), taking due account of prorated deferred taxes. It also includes the reserves resulting from the value of employees' services from share options issued at fair values. Moreover, the premium for the acquisition of own shares is also recorded as a negative item in the capital reserve.

Retained earnings and the annual results are stated under revenue reserves.

2.15 FINANCIAL DEBT

Financial debt is initially stated at fair value, less transaction expenses. In subsequent periods it is valued at updated cost. Each difference between the amount paid out (following the deduction of transaction expenses) and the repayment amount is recorded in the income statement on a prorated basis using the effective interest method.

Financial debt is classified as a short-term liability to the extent that the Group does not have the unconditional right to postpone the settlement of such liability to a time at least 12 months following the balance sheet reporting date.

The company makes use of the effective interest method to calculate the updated cost of the financial debt and the allocation of interest income and interest expenses to the respective period. The effective interest rate is the imputed interest rate at which the estimated future incoming and outgoing payments are discounted precisely to the net carrying amount of the financial debt over the expected term of such debt or over a shorter period if appropriate.

2.16 PENSION PROVISIONS

The Group has made two individual commitments to members of the Management Board, for which reinsurance policies have been concluded.

The provision stated in the balance sheet is equivalent to the present value of the defined benefit obligation (DBO) as of the balance sheet reporting date, less the fair value of the plan assets, adjusted by cumulative unrecorded actuarial gains and losses. The DBO is calculated on an annual basis by an independent actuarial surveyor using the projected unit credit method. The present value of the DBO is calculated by discounting the expected outflow of funds using the interest rate for industrial bonds of top credit standing (interest rate: 4.25%; previous year: 4.25%).

Actuarial gains and losses based on historic adjustments and amendments in actuarial assumptions are recorded with a corresponding impact on earnings over the expected remaining period of service of the employee in question, provided that they do not exceed ten percent of the obligation.

The plan assets consist of the asset value of a reinsurance policy.

2.17 SHARE-BASED COMPENSATION

The Group has introduced share-based compensation plans which are to be settled by issuing own shares and/or by means of a conditional capital increase. The fair value of the work performed by the employees as a counter-performance for the granting of options is recorded as an expense. The valuation has accounted for the particular circumstances involved in the individual design of the plan at Essanelle. The total expenses requiring to be recorded over a period up to non-lapsability are calculated on the basis of the fair value of the option granted, taking no account of market-oriented exercise hurdles (e.g. profit and sales growth targets). The assumptions underlying the calculation take account of exercise hurdles which are not market-oriented in respect of the number of options expected to be exercisable. The estimate as to the number of options expected to be exercisable is reviewed at each reporting date. The consequences of any changes in the original estimates requiring to be taken into consideration are recorded in the income statement and in the form of a corresponding adjustment to equity over the remaining period up to non-lapsability. The payments received upon the options being exercised are credited to the share capital (nominal value) and the capital reserves following the deduction of directly allocable transaction expenses.

2.18 PAYMENTS RESULTING FROM THE TERMINATION OF EMPLOYMENT RELATIONSHIPS

Payments resulting from the termination of employment relationships are made in the event of an employee being dismissed prior to his/her reaching the regular retirement age or in the event of an employee voluntarily terminating the employment relationship in return for the payment of compensation. The Group records compensation payments when it can be proven that it is obliged to terminate the employment relationship with current employees in accordance with a detailed formal plan which cannot be reversed, or if it can be proven that it is obliged to pay compensation upon an employee voluntarily terminating the employment relationship. Payments with maturity dates more than 12 months following the balance sheet reporting date are discounted to their present values.

2.19 BONUS PAYMENTS

A provision is capitalised for bonus payments in cases involving a contractual obligation or in the event of a factual obligation arising on account of past business practice.

2.20 OTHER PROVISIONS

All other provisions take due account of all obligations identified as of the balance sheet reporting date relating to past business transactions or events and which are likely to be incurred and whose amount can be reliably calculated. The provisions are stated at the amount to be paid and are not offset against positive performance amounts.

Long-term provisions are stated at their discounted payment amounts as of the balance sheet reporting date in cases where the interest effect resulting from such discounting is substantial. The interest portion of additions to provisions is reported under net financial expenses.

2.21 LIABILITIES

Liabilities in connection with financial leases are stated at the present value of their minimum leasing payments at the time of the agreement being concluded. Other liabilities are initially stated at fair value and subsequently valued at updated cost.

2.22 RECOGNITION OF INCOME / DELINEATION OF EXPENSES

(a) Sales

Sales include the fair value received for the sale of goods and services, excluding VAT, discounts and price reductions. Sales are recorded at the time at which the goods were delivered or the services performed. Retail sales and services are generally settled in cash or by debit (EC) or credit card.

(b) Operating expenses

Expenses impact on earnings upon the service being received or at the time of their being incurred.

In cases where expenses which depend on certain reference values (e.g. sales rent) are incurred, or for which prepayments have been made, then such amounts are delineated as liabilities or provisions.

(c) Financing income and expenses

Financing income and expenses are recorded using the effective interest rate method in line with the periods to which they relate.

(d) Operating leases

Leasing relationships in which a major share of the risks and rewards relating to the ownership of the object thereby leased remain at the lessor are classified as operating leasing. The corresponding expenses are recorded in the income statement. The financial obligations resulting from such leasing relationships, particularly those resulting from the letting of premises for salons and Beauty Hair Shops, have been depicted under the multi-year obligations from rental relationships.

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

As a result of its business activities, the Group is in principle exposed to various financial risks and other material risks. It is the responsibility of the overall risk management of the Group to identify and value financial risks and to minimise the potential negative effects on the financial situation of the Group in cooperation with the operating units (salons).

(a) Market risk

General market risks are closely linked to the location risks of the individual salons. In order to identify and remedy erroneous developments at an early stage, the data available at the individual salons is recorded and analysed, with countermeasures being taken when necessary.

The Essanelle Group is not exposed to any significant foreign currency risk given that its activities are exclusively based in Germany.

(b) Credit risk

The proprietary business does not in principle involve any credit risk in view of the fact that hairdressing services are generally settled in cash.

The granting of loans to franchise companies involves a certain degree of risk. However, these individual transactions are monitored by the Management Board very closely.

Suitable individual write-downs are undertaken on dubious receivables relating to payments not covered by sufficient funds and loans granted to franchise companies.

(c) Liquidity risk

Given that the hairdressing business is subject to economic, seasonal and fashion-related fluctuations, the possibility of liquidity risk cannot be excluded. It is the responsibility of the Group's financial management to structure its financial planning in such a way that these influences are suitably accounted for by taking financial reserves.

(d) Cash flow risk and fair value interest risk

Given that the Group does not own any significant interest-bearing assets, its consolidated income and operating cash flow are largely independent of changes in market interest rates.

The interest risk of the Group arises on account of its long-term interest-charging liabilities which are subject in part to variable and in part to fixed interest rates. The liabilities with variable interest rates expose the Group to cash flow interest rate risk. The fixed-interest liabilities give rise to a fair value interest risk. The Group reacts to the basic existence of this risk by ensuring that it has an appropriate balance of fixed and variable interest rates when taking up long-term loans.

No application is made of derivative financial instruments.

(e) Material risks

As the operator of a large number of hairdressing salons at various locations, Essanelle is subject to certain material risks, such as fire, burglary/theft, interruptions to operations, third-party liability etc. The Group has generally covered itself against such risks by concluding insurance policies.

3.2 CALCULATION OF THE FAIR VALUE

In the case of accounts receivable and payable it has been assumed that the fair value is equivalent to the nominal amount less any write-downs. The fair value of financial liabilities stated in the notes to the financial statements has been calculated by discounting contractually agreed future cash flows with the current market interest rate granted to the Group for comparable financial instruments.

4 CRITICAL ESTIMATES USED IN ACCOUNTING AND VALUATION

All estimates and assessments are reviewed on an ongoing basis and have been based on past experience and additional factors, such as expectations as to future events which appear reasonable in the given circumstances.

Those estimates and assumptions involving a significant risk in the form of a major adjustment to the carrying amounts of assets and liabilities within the coming financial year have been outlined below:

(a) Estimated impairment of goodwill

In accordance with its overall accounting and valuation methods, the Group subjects goodwill to an impairment test in the event of any occurrence requiring such test to be undertaken and at least once per year. This involves the achievable earnings of the underlying cash generating unit, which are calculated by determining its use value, being set in relation to its assets. In the event of the total of the expected and discounted cash flows falling short of the asset value of the investment, then a write-down is undertaken. This involves adjusting the prorated carrying amount of the goodwill to the reduced earnings prospects. The calculation of the use value requires assumptions to be made (Note 7).

If the expected forecast cash flows or the expected discount rate used in the calculation of the cash flows were to be 10% above or below the estimates made by the management, then this would not result in any major changes to the existing result of the impairment test.

(b) Provision for customer subscriptions and customer vouchers

The Group sells subscriptions and vouchers for hairdressing services for which payments are received but for which no services have as yet been performed. Given that the obligations still outstanding are not individually

recorded, their scope has to be estimated as of the balance sheet reporting date. In the case of customer subscriptions, the estimate is made on the basis of the months of October to December with different weightings in each case (October 1/3, November 2/3 and December 3/3), with the figures only being included in the calculation if sales are in excess of redemptions. In the case of vouchers, the sales figures for the months of October to December are included in the provision, provided that sales are in excess of redemptions.

If the actual claims were to be 10% higher or lower than the estimated figure, then the provision would change by an amount of Euro 87k (previous year: Euro 88k).

(c) Estimated value impairment of salon furnishings

Any impairments in the value of property, plant and equipment as a result of an unfavourable earnings performance at individual salons are also calculated within the framework of impairment tests, taking due account of reorganisation and closure measures. The income and expenses underlying such calculations are largely based on estimates as to future developments, both in regional and in macroeconomic terms. If the losses actually incurred were to be 10% higher than the estimated figure, then the extraordinary depreciation would increase by approx. Euro 10k. Conversely, a reduction of 10% in the estimated losses would not have any impact on the level of extraordinary depreciation (given that this in any case amounts to zero).

(c) Estimates concerning purchase obligations in connection with supply agreements

As a result of a framework agreement with a supplier, the Essanelle Group has a certain amount of purchase obligations in terms of procurement volumes for hairdressing hair cosmetics products on the one hand and in terms of salon furnishings and large-scale equipment on the other. Based on the expected development in its procurement volumes calculated on the basis of around 60 salon openings per year, the Group has estimated its purchase obligations towards the supplier. This has resulted in estimated obligations of Euro 36 million (previous year: Euro 49 million) for merchandise and of Euro 6 million for the acquisition of property, plant and equipment (previous year: Euro 7 million).

Any changes in the forecast development in procurement volumes lead to a proportionate increase/decrease in the level of obligation expected.

Given that Essanelle had not reached the contractually agreed purchase target in terms of large-scale technical equipment and salon furnishing as of 31 December 2006, the Group would be required by the respective contractual provision to pay a penalty amounting to Euro 279k (25% of the minimum purchase volume, amounting to Euro 1,117k as of 31 December 2006). However, the group assumes that the payment of this penalty cannot be asserted by the supplier, given that the prices demanded by such supplier for salon furnishings do not correspond to customary market prices. It has therefore been decided not to state a provision for this item.

5 SEGMENT REPORTING

The requirements for segment reporting are met neither in regional terms nor in respect of factual or organisational circumstances.

A regional breakdown of our sales territory is not feasible given that our activities are exclusively based in Germany and that the risks and rewards relating to the hairdressing business are largely identical within Germany.

The breakdown into marketing lines or salon concepts in terms of factual or organisational structures is not expedient given that only one kind of service, namely hairdressing services, is offered, supplemented by the sale of hair care products. Although the individual salon concepts have different focuses, in principle the entire range of hairdressing services is available to customers at all concepts. Our internal reporting is based on accounting information at the level of the individual salons. The sales resulting from the sale of hair care products, which complement our hairdressing services, are integrated into these evaluations and not managed as a standalone segment. The income and expenses from the franchising business, as well as the asset and liability items allocable to this business, are of subordinate overall significance.

6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment showed the following developments:

€	Plant and office equipment	Capitalised leasing agreements	Total
As of 1 January 2005			
Costs of acquisition/manufacture	36,220,028.51	7,727,184.74	43,947,213.25
Cumulative impairments (IAS 36)	-101,191.00	0.00	-101,191.00
Cumulative depreciation	-19,354,082.56	-4,971,311.19	-24,325,393.75
Carrying amount (net)	16,764,754.95	2,755,873.55	19,520,628.50
2005 financial year			
Opening carrying amount (net)	16,764,754.95	2,755,873.55	19,520,628.50
Additions	3,962,956.82	1,209,540.37	5,172,497.19
Disposals	-911,428.40	0.00	-911,428.40
Additions to depreciation	-3,484,872.08	-749,750.99	-4,234,623.07
Additions to impairments (IAS 36)	-49,260.20	0.00	-49,260.20
Disposals from depreciation	305,384.24	0.00	305,384.24
Closing carrying amount (net)	16,587,535.33	3,215,662.93	19,803,198.26
As of 31 December 2005			
Costs of acquisition/manufacture	39,271,556.93	8,936,725.11	48,208,282.04
Cumulative impairments (IAS 36)	-150,451.20	0.00	-150,451.20
Cumulative depreciation	-22,533,570.40	-5,721,062.18	-28,254,632.58
Carrying amount (net)	16,587,535.33	3,215,662.93	19,803,198.26
2006 financial year			
Opening carrying amount (net)	16,587,535.33	3,215,662.93	19,803,198.26
Additions	5,734,374.14	823,072.03	6,557,446.17
Disposals	-1,556,971.29	0.00	-1,556,971.29
Additions to depreciation	-3,615,529.43	-871,935.98	-4,487,465.41
Disposals from depreciation	832,950.00	0.00	832,950.00
Closing carrying amount (net)	17,982,358.75	3,166,798.98	21,149,157.73
As of 31 December 2006			
Costs of acquisition/manufacture	43,448,959.78	9,759,797.14	53,208,756.92
Cumulative impairments (IAS 36)	-150,451.20	0.00	-150,451.20
Cumulative depreciation	-25,316,149.83	-6,592,998.16	-31,909,147.99
Carrying amount (net)	17,982,358.75	3,166,798.98	21,149,157.73

Investments in property, plant and equipment amounted to Euro 6,557k in the 2006 financial year and predominantly related to salon furnishings at newly opened salons and renovations of existing salons. The disposals of assets relate to sale and lease back transactions with historic costs of acquisition amounting to Euro 554k and cumulative depreciation of Euro 42k. The losses incurred on the disposal of assets primarily resulted from the closure of salons and amount to Euro 70k.

Plant and office equipment includes the following salon furnishings leased to franchisees:

€	2006	2005
Gross costs of acquisition		
Balance at 01.01	358,457.69	358,457.69
Addition	-358,457.69	0.00
Balance at 31.12	0.00	358,457.69
Cumulative impairment		
Balance at 01.01	234,168.69	213,758.69
Addition	9,581.00	20,410.00
Disposal	-243,749.69	0.00
Balance at 31.12	0.00	234,168.69
Carrying amount at 31.12	0.00	124,289.00

The property, plant and equipment is not subject to any restraints on disposal. There are extended reservations of title in the case of salon furnishings financed by suppliers.

The leased salon furnishings were disposed of in connection with the disposal of "mod's hair" business activities. Rental income of Euro 23k was collected up to the date of disposal on 30 June 2006 (previous full year: Euro 58k). Leasing expenses relating to operating leasing agreements for motor vehicles amounting to Euro 209k have been recorded in the income statement (previous year: Euro 156k). Moreover, rental expenses amounting to Euro 18,585k have also been included in connection with the letting of premises for hairdressing salons and Beauty Hair Shops (previous year: Euro 17,950k).

The impairment tests for property, plant and equipment have been undertaken in a differentiated manner in accordance with the individual salon locations based on the cash flows expected from the individual salons on an ongoing basis following deduction of prorated overhead expenses, interest and taxes. The cash flow forecasts are based on the salon earnings budgets approved by the management. The underlying average values were extrapolated over a period of ten years using the same discount rate as in the previous year, namely 10% before taxes. No account has been taken of growth rates. The impairment test undertaken in 2006 did not result in any extraordinary depreciation of property, plant and equipment. The extraordinary depreciation undertaken on property, plant and equipment in the previous year amounted to Euro 49,260.20.

7 INTANGIBLE ASSETS

Intangible assets showed the following developments during the year under report:

€	Goodwill	Other	Total
As of 1 January 2005			
Costs of acquisition/manufacture	20,333,567.58	693,773.41	21,027,340.99
Cumulative impairment (IAS 36)	-682,329.23	0.00	-682,329.23
Cumulative amortisation	0.00	-508,821.82	-508,821.82
Carrying amount (net)	19,651,238.35	184,951.59	19,836,189.94
2005 financial year			
Opening carrying amount (net)	19,651,238.35	184,951.59	19,836,189.94
Additions	0.00	82,723.65	82,723.65
Disposals	-718,686.86	-1,320.67	-720,007.53
Additions to impairments (IAS 36)	-371,008.62	0.00	-371,008.62
Disposals from impairments (IAS 36)	682,329.23	0.00	682,329.23
Additions to amortisation	0.00	-62,707.72	-62,707.72
Disposals from amortisation	0.00	1,320.67	1,320.67
Closing carrying amount (net)	19,243,872.10	204,967.52	19,448,839.62
As of 31 December 2005			
Costs of acquisition/manufacture	19,614,880.72	775,176.39	20,390,057.11
Cumulative impairment (IAS 36)	-371,008.62	0.00	-371,008.62
Cumulative amortisation	0.00	-570,208.87	-570,208.87
Carrying amount (net)	19,243,872.10	204,967.52	19,448,839.62
2006 financial year			
Opening carrying amount (net)	19,243,872.10	204,967.52	19,448,839.62
Additions	315,000.00	80,471.56	395,471.56
Disposals	0.00	-133,828.20	-133,828.20
Additions to amortisation	0.00	-76,876.11	-76,876.11
Disposals from amortisation	0.00	133,731.15	133,731.15
Closing carrying amount (net)	19,558,872.10	208,465.92	19,767,338.02
As of 31 December 2006			
Costs of acquisition/manufacture	19,929,880.72	721,819.75	20,651,700.47
Cumulative impairment (IAS 36)	-371,008.62	0.00	-371,008.62
Cumulative amortisation	0.00	-513,353.83	-513,353.83
Carrying amount (net)	19,558,872.10	208,465.92	19,767,338.02

Broken down into salons acquired, the goodwill is structured as follows:

€	Essanelle-Salons	Tröndle-Salons	Total
As of 1 January 2005			
Costs of acquisition/manufacture	19,243,872.10	1,089,695.48	20,333,567.58
Cumulative impairments (IAS 36)	0.00	-682,329.23	-682,329.23
Carrying amount (net)	19,243,872.10	407,366.25	19,651,238.35
2005 financial year			
Opening carrying amount (net)	19,243,872.10	407,366.25	19,651,238.35
Disposals	0.00	-718,686.86	-718,686.86
Additions to impairments (IAS 36)	0.00	-371,008.62	-371,008.62
Disposals from impairments (IAS 36)	0.00	682,329.23	682,329.23
Closing carrying amount (net)	19,243,872.10	0.00	19,243,872.10
As of 31 December 2005			
Costs of acquisition/manufacture	19,243,872.10	371,008.62	19,614,880.72
Cumulative impairments (IAS 36)	0.00	-371,008.62	-371,008.62
Carrying amount (net)	19,243,872.10	0.00	19,243,872.10
2006 financial year			
Opening carrying amount (net)	19,243,872.10	0.00	19,243,872.10
Additions	315,000.00	0.00	315,000.00
Additions to impairments (IAS 36)	0.00	0.00	0.00
Disposals from impairments (IAS 36)	0.00	0.00	0.00
Closing carrying amount (net)	19,558,872.10	0.00	19,558,872.10
As of 31 December 2006			
Costs of acquisition/manufacture	19,558,872.10	371,008.62	19,929,880.72
Cumulative impairments (IAS 36)	0.00	-371,008.62	-371,008.62
Carrying amount (net)	19,558,872.10	0.00	19,558,872.10

The impairment tests undertaken on the goodwill were differentiated on the basis of groups of salon acquisitions, with each Tröndle salon representing one cash generating unit and the remaining Essanelle hairdressing salons in their entirety forming a further CGU. The impairment tests have been based on the attainable income of these cash generating units, which is calculated on the basis of their use values. These in turn have been based on the expected sustainable cash flows within the CGUs following deduction of prorated overhead expenses, interest and taxes. The cash flow forecasts have been based on the salon earnings budgets approved by the management. The underlying average figures were extrapolated over a period of 10 years using the same discount interest rate as in the previous year, namely 10% before taxes. No account has been taken of growth rates.

The extrapolation is based on the assumption that once the start-up period of 1 – 2 years has been managed (mostly involving start-up losses), each salon will generate a certain level of earnings contribution based on its available capacity and situation. Moreover, one-off items relating to the previous year (e.g. as a result of conversion measures, changes in salon management) are eliminated and a decision is then made as to whether these factors will already impact on the coming year or only in the year after next.

At 10%, the discount factor thereby used corresponds to the rate used internally at Essanelle as the minimum rate of return for investment decisions and to the rate subsequently used for performance measurement. This interest rate is intentionally substantially higher than the long-term investment rate of the company (value in use), which is determined in the form of weighted average cost of capital (WACC). Given that it was not necessary to undertake any extraordinary amortisation, even upon application of a rate of return of 10%, it was decided to forego any calculation based on the actual WACC. The applicable WACC is reported as amounting to 6.7%.

The impairment test undertaken in 2006 did not result in any extraordinary amortisation of goodwill.

In the previous year, the goodwill of the "Tröndle Salons" group was subject to extraordinary amortisation of Euro 371,008.62.

The addition to goodwill relates to the takeover of 9 hairdressing salons at various locations in Nordrhein-Westfalen from Hermanns, Mönchengladbach, as of 1 July 2006.

8 FINANCIAL ASSETS VALUED USING THE EQUITY METHOD

In the previous year, this related to a 20% shareholding in CFS-A Coiffure Franchising System GmbH, Vienna/Austria. The carrying amount of this shareholding, amounting to Euro 1.00, was retired upon the disposal of the mod's hair franchising business as of 30.6.2006. A prorated purchase price of Euro 7k was received from the sale of the shareholding.

€	31.12.2006	31.12.2005
Balance at 1 January = 31 December		
Costs of acquisition/manufacture	1.00	7,000.00
As of 31 December		
Costs of acquisition/manufacture	0.00	7,000.00
At-equity results	-1.00	-6,999.00
Carrying amount (net)	0.00	1.00

The financial assets valued using the equity method showed the following developments:

€	total
As of 1 January 2005	
Cost of Acquisition/manufacture	7,000.00
Cumulative impairments (IAS 36)	0.00
Carrying amount (net)	7,000.00
2005 financial year	
Opening carrying amount (net)	7,000.00
Disposals	0.00
Additions to impairments (IAS 36)	-6,999.00
Disposals from impairments (IAS 36)	0.00
Carrying amount (net)	1.00
As of 31 December 2005	
Cost of Acquisition/manufacture	7,000.00
Cumulative impairments (IAS 36)	-6,999.00
Carrying amount (net)	1.00
2006 financial year	
Opening carrying amount (net)	1.00
Disposals	-7,000.00
Additions to impairments (IAS 36)	0.00
Disposals from impairments (IAS 36)	6,999.00
Closing carrying amount (net)	0.00
As of 31 December 2006	
Cost of Acquisition/manufacture	0.00
Cumulative impairments (IAS 36)	0.00
Carrying amount (net)	0.00

The shares held by the Group in CFS - Austria were structured as follows at the date of disposal on 30 June 2006 (31.12.2005):

€k	2006	2005
Assets	18.0	17.7
Liabilities	-36.8	-34.4
Income	11.3	18.4
Annual net deficit	-1.9	-9.8
Shareholders' equity	-18.8	-16.7

9 OTHER LOANS

Other loans are structured as follows:

€	Loans to mod's hair franchisees	Miscellaneous loans	Total
As of 1 January 2005			
Costs of acquisition/manufacture	1,733,280.74	103,148.69	1,836,429.43
Cumulative amortisation	-1,285,984.51	-15,301.89	-1,301,286.40
Carrying amount (net)	447,296.23	87,846.80	535,143.03
2005 financial year			
Opening carrying amount (net)	447,296.23	87,846.80	535,143.03
Additions	57,015.20	42,000.00	99,015.20
Disposals	-195,871.34	-45,245.96	-241,117.30
Write-ups	117,683.33	0.00	117,683.33
Additions to amortisation	-206,240.46	0.00	-206,240.46
Disposals from amortisation	25,000.00	7,000.00	32,000.00
Closing carrying amount (net)	244,882.96	91,600.84	336,483.80
As of 31 December 2005			
Costs of acquisition/manufacture	1,594,424.60	99,902.73	1,694,327.33
Cumulative amortisation	-1,349,541.64	-8,301.89	-1,357,843.53
Carrying amount (net)	244,882.96	91,600.84	336,483.80
2006 financial year			
Opening carrying amount (net)	244,882.96	91,600.84	336,483.80
Additions	3,196.06	52,238.68	55,434.74
Disposals	-1,113,601.81	-36,891.43	-1,150,493.24
Write-ups	534,384.57	0.00	534,384.57
Additions to amortisation	-14,955.73	-26,204.82	-41,160.55
Disposals from amortisation	357,974.92	0.00	357,974.92
Closing carrying amount (net)	11,880.97	80,743.27	92,624.24
As of 31 December 2006			
Costs of acquisition/manufacture	484,018.85	115,249.98	599,268.83
Cumulative amortisation	-472,137.88	-34,506.71	-506,644.59
Carrying amount (net)	11,880.97	80,743.27	92,624.24

The reductions in loans to mod's hair franchisees mainly relate to unscheduled payments made within the framework of the debt restructuring at the respective CFB companies, as well as to scheduled repayments.

Given that the loans granted in previous years have largely been written down, the payments received led to loans being written up by an amount of Euro 534k with a corresponding impact on earnings.

Other loans bear interest at rates ranging from 2.0% to 5.0% (previous year: 2.0% to 5.0%).

10 INVENTORIES

Inventories are structured as follows:

€	31.12.2006	31.12.2005
Goods for sale	4,128,821.05	4,265,794.86
Goods for use	2,096,291.27	1,661,596.16
	6,225,112.32	5,927,391.02
Write-down	-93,000.00	-89,000.00
	6,132,112.32	5,838,391.02

Inventories have been stated at their cost of acquisition or at a lower net disposal value. Given the risk of obsolescence, damage and sinking retail prices, write-downs are undertaken, any changes in which are recorded under cost of materials.

Inventories are not subject to any restraints on disposal.

11 ACCOUNTS RECEIVABLE

€	31.12.2006	31.12.2005
Gross receivables	476,296.32	1,148,081.01
less Write-downs	-370,976.19	-820,560.87
	105,320.13	327,520.14

The values stated are equivalent to the fair values. The write-downs were undertaken on receivables from franchisees and from customers' return debit notes, which have largely been passed on to debt collection agencies for collection and whose recoverability is deemed to be low. The release of write-downs in 2006 amounted to Euro 247k and has been recorded under other operating income.

There is no major default risk in respect of the remaining net carrying amount. In view of the short-term nature of the receivables, it was not necessary to undertake any discounting.

The Group recorded a loss of Euro 14k from write-downs of receivables during the 2006 financial year (previous year: Euro 64k). This loss is reported under other operating expenses in the income statement.

12 OTHER ASSETS

€	31.12.2006	31.12.2005
Prepayments made on assets ordered	133,986.46	358,025.09
Accrued income	68,106.22	130,371.86
Receivables from employees	33,333.07	47,342.50
Tax refund claims	9,376.50	24,295.52
Other	178,199.52	123,705.79
	423,001.77	683,740.76

The values reported correspond to the fair values. No major default risks have been identified. In view of the short-term nature of the claims, no discounting has been undertaken.

Within the framework of the adjustment of reporting procedures in 2006, the bonus claims from suppliers reported under other assets in the previous year (Euro 520,761.91) have been netted against accounts payable.

13 CASH AND CASH EQUIVALENTS

€	31.12.2006	31.12.2005
Credit balances at banks	3,380,364.46	2,711,116.93
Payments in transit from Essanelle hairdressing salons (prior to credit to bank accounts)	1,089,673.55	781,320.68
Cash holdings	851,125.32	531,149.25
	5,321,163.33	4,023,586.86

The effective interest rate for short-term bank deposits amounted to an average of 2.75% (previous year: 2.0%). The short-term bank deposits bear interest at variable market interest rates.

14 SHARE CAPITAL

The share capital of the company amounts to Euro 4,595,044.00 and is divided into 4,595,044 shares in the form of non-par individual shares. Each individual share entitles its holder to one vote.

€	2006	2005
Share capital	4,595,044.00	4,500,000.00
Acquisition of own shares	-60,000.00	-60,000.00
Balance at 31.12	4,535,044.00	4,440,000.00

Development:

€	2006	2005
Balance at 1.1	4,440,000.00	4,500,000.00
Acquisition of own shares	0.00	-60,000.00
Receipts from shares issued within framework of employee share option programme (95,044 shares)	95,044.00	0.00
Balance at 31.12	4,535,044.00	4,440,000.00

The company has acquired own shares on the basis of the authorisation provided to the Management Board by resolution of the shareholders and shareholder representatives at the Annual General Meeting held on 25 June 2004. The acquisition of 60,000 non-par individual shares, equivalent to 1.31% of the share capital, was undertaken in four transactions: 7,275 shares at a price of Euro 7.70 and 4,750 shares at a price of Euro 7.74 on 28 October 2005, 19,600 shares at a price of Euro 7.70 on 7 November 2005 and 28,375 shares at a price of Euro 7.63 on 10 November 2005.

The shares were acquired in order to service the employee share option programme. However, the Management Board is also authorised to use or collect own shares, subject to the consent of the Supervisory Board, for the purposes of compensating third parties in the context of the acquisition of companies or shareholdings in companies or of the merger of companies.

The portion of the acquisition of own shares relating to the share capital has been openly deducted from the share capital.

(1) Conditional capital

The Annual General Meeting held on 28 May 2001 resolved to conditionally increase the share capital of the company by up to Euro 263,141.00 by issuing up to 263,141 new individual shares in order to service an employee option program (conditional capital). The conditional capital is only to be executed to the extent that subscription rights to shares are issued and that their owners exercise the subscription rights thereby granted. The new shares in each case

participate in the profit of the company from the beginning of the financial year in which they arise as a result of the exercising of subscription rights. The Management Board is authorised, subject to the consent of the Supervisory Board, to determine the further details of the execution of the conditional capital increase. In this respect, the conditional capital increase serves exclusively to grant subscription rights to:

- Members of the Management Board of Essanelle Hair Group AG,
- Members of the management bodies of certain subordinate affiliated companies and
- Employees of Essanelle Hair Group AG and of certain subordinate affiliated companies.

Following the expiry of this authorisation, the shareholders and shareholder representatives passed resolution at the Annual General Meeting on 24 June 2005 authorising the Management Board to issue further subscription rights to parties entitled to subscribe for a period of up to 6 months following the holding of the Annual General Meeting of Essanelle Hair Group AG in 2008. In the case of members of the Management Board of Essanelle Hair Group AG, the responsibility for granting subscription rights lies exclusively with the Supervisory Board.

(2) Shareholdings disclosed pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG)

In 2004 we received the following notifications pursuant to Section 25 in connection with Section 21 (1) and (1a) of the German Securities Trading Act (WpHG) from shareholders required to make such disclosures, which we in turn published pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG) in the Frankfurter Allgemeine Zeitung on 15 December 2004 in the case of notification No. 1 and on 9 December for notification No. 2:

- (1) Frisör Klier GmbH, Wolfsburg, notified us that its share of the voting rights in Essanelle Hair Group AG, Düsseldorf, had exceeded the 25% threshold on 8 December 2004 and now amounts to 25.80%.
- (2) Stadtparkasse Köln notified us that its share of the voting rights in Essanelle Hair Group AG, Düsseldorf, had fallen short of the 5% threshold on 24 November 2004 and now amounts to 1.56%.

During 2005, we received notifications pursuant to Section 21 (1) and Section 22 (1) Sentence 1 No. 2 of the German Securities Trading Act (WpHG) from shareholders required to make such disclosures, which we in turn published pursuant to Section 25 (1) of the German Securities Trading Act (WpHG) in the Frankfurter Allgemeine Zeitung on 7 May 2005 in the case of notifications Nos. 1 and 2, in the Börsenzeitung on 17 May 2005 in the case of notification No. 3, in the Börsenzeitung on 14 September 2005 in the case of notifications Nos. 4 and 5 and in the Frankfurter Allgemeine Zeitung on 30 September 2005 in the case of notification No. 6:

- (1) Halder Holdings B.V. notified us on behalf of and with due authorisation by INVESTMENTS IV-A CUSTODIAN B.V., INVESTMENTS IV-B CUSTODIAN B.V., HALDER INVESTMENTS IV-A C.V. and HALDER INVESTMENTS IV-B C.V., in all cases based at 2514 EA 's-Grafenhage, Netherlands, that
 - (a) The share held by INVESTMENTS IV-A CUSTODIAN B.V. in the voting rights of Essanelle Hair Group AG fell short of the 10% and 5% thresholds on 29 April 2005 and has since amounted to 3.79%.

- (b) The share held by INVESTMENTS IV-B CUSTODIAN B.V in the voting rights of Essanelle Hair Group AG fell short of the 10% and 5% thresholds on 29 April 2005 and has since amounted to 0%.
 - (c) The shares held in Essanelle Hair Group AG by INVESTMENTS IV-A CUSTODIAN B.V. and referred to in section (a) were held in total for account of HALDER INVESTMENTS IV-A C.V. The shares held by INVESTMENTS IV-A CUSTODIAN B.V. were apportioned to HALDER INVESTMENTS IV-A C.V. pursuant to Section 22 (1) Sentence 1 No. 2 of the German Securities Trading Act (WpHG), so that, following its falling short of the 10% and 5% thresholds as of 29 April 2005, 3.79% of the voting rights in Essanelle Hair Group AG are apportioned to HALDER INVESTMENTS IV-A C.V.
- (2) Axxion S.A., 5365 Munsbach, Luxembourg, notified us that its share of the voting rights in Essanelle Hair Group AG had exceeded the 5% threshold on 28 April 2005 and now amounts to 13.2222%.
 - (3) dit – Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, 60329 Frankfurt am Main, Germany, notified us that its share of the voting rights in Essanelle Hair Group AG had exceeded the threshold of 5% on 3 May 2005 and now amounts to 8.89% (equivalent to 400,000 voting rights in public funds).
 - (4) FBV Friseurbetriebe-Verwaltungsgesellschaft mbH, Kaiserstrasse 24, 60311 Frankfurt am Main, informed us that its share of the voting rights in Essanelle Hair Group AG based in Düsseldorf had fallen short of the 10% and 5% thresholds on 5 September 2005. Its share of the voting rights now amounts to 0%.
 - (5) LUXINIA S.à r.l., 23, Avenue de la Liberté, Luxembourg, informed us that its share of the voting rights in Essanelle Hair Group AG based in Düsseldorf had fallen short of the 10% and 5% thresholds on 5 September 2005. Its share of the voting rights now amounts to 0%. All of these voting rights have been apportioned to this company pursuant to Section 22 (1) Sentence 1 No. 1 in connection with (1) Sentence 3 of the German Securities Trading Act (WpHG).
 - (6) FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L-1115 Luxembourg, notified us that its share of the voting rights in Essanelle Hair Group AG had exceeded the 5% threshold on 1 September 2005 and now amounts to 9.42%.

During 2006, we received notifications pursuant to Sections 21 (1) and 22 (1) Sentence 1 No. 6 of the German Securities Trading Act (WpHG) from shareholders required to make such disclosures, which we in turn published pursuant to Section 25 (1) of the German Securities Trading Act (WpHG) in all cases in the *Börsenzeitung*. Notification No. 1 was published on 04.08.2006, notification No. 2 on 25.11.2006, notification No. 3 on 30.11.2006 and Notification No. 4 on 12.12.2006:

- (1) Ratio Asset Management LLP, London, United Kingdom, notified us that its share of voting rights had exceeded the 5% threshold on 3 July 2006 and amounted to 5.02% at that time. 5.02% of the voting rights were apportionable to this company pursuant to Section 22 (1) Sentence 1 No. 6 of the German Securities Trading Act (WpHG).

- (2) dit Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt am Main, Germany, notified us in a letter dated 22.11.2006 that its share of the voting rights had fallen short of the 5% threshold on 21.11.2006 and now amounts to 3.56% (equivalent to 160,000 voting rights in public funds).
- (3) IVI UMBRELLA FUND PLC, Dublin, Ireland, notified us in a letter dated 28.11.2006 that its share of the voting rights had exceeded the 5% threshold on 22.11.2006 and amounted to 6.26% at that time.

INTRINSIC VALUE INVESTORS (IVI) LLP, London, United Kingdom, notified us in a letter dated 28.11.2006 that its share of the voting rights had exceeded the 5% threshold on 22.11.2006 and amounted to 6.26% at that time. 6.26% of the voting rights were apportionable to this company pursuant to Section 22 (1) Sentence 1 No. 6 of the German Securities Trading Act (WpHG).

- (4) Deutsche Bank AG, Frankfurt, notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) on behalf of FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L-1115 Luxembourg, in a letter dated 08.12.2006 that the share of voting rights in Essanelle Hair Group AG held by the aforementioned investment company had fallen short of the 5% threshold on 1 December 2006 and now amounted to 3.13%.

(3) Share options

On the basis of the share option programme adopted by the Annual General Meeting, subscription rights were issued to employees and the Management Board in 4 tranches in the years from 2003 to 2006, in each case on 29 September. These subscription rights are governed by the following conditions provided in summarised form:

- Underlying instrument** Individual shares in Essanelle Hair Group AG.
- Subscription right** Right to subscribe individual shares in Essanelle Hair Group AG at the exercise price.
- Exercise price** Average closing prices of Essanelle share in XETRA trading in the first ten trading days of the months in which the subscription rights are granted.
- Performance targets** The exercising of the subscription rights is subject to an absolute and a relative performance target:
- The stock market price of ordinary shares in Essanelle Hair Group AG must have risen by a minimum average of 1% per month in the period between the issue and exercise of the subscription rights (absolute performance target).
 - The stock market price of ordinary shares in Essanelle Hair Group AG must have risen by the same or a greater amount in percentage terms or have fallen by the same or a lower amount in percentage terms than the SDAX index in the period between the issue and exercise of the subscription rights (relative performance target).

Holding period	The holding period begins upon the issue of the subscription rights and ends upon the beginning of the first exercise window after the expiry of two years following the issue of the subscription rights.
Term	The term begins upon the issue of the subscription rights and ends upon the expiry of the sixth exercise window following the expiry of the holding period.
Exercise windows	The exercise windows begin in each case upon the stock market trading day and end with the twentieth trading day following the Annual General Meeting and following the publication of a quarterly report for the third quarter of the financial year.

In 2003, 60,928 subscription rights were allocated in the first tranche at an exercise price of Euro 2.53. Of these options, 58,563 were exercised by employees in 2006. The weighted average share price on the exercise date amounted to Euro 7.72.

In 2004, 40,620 subscription rights were allocated in the second tranche at an exercise price of Euro 3.98. Of these options, 36,481 were exercised by employees in 2006. The weighted average share price on the exercise date amounted to Euro 8.49.

In 2005, 138,072 subscription rights were allocated in the third tranche at an exercise price of Euro 6.88. None of these rights has been exercised to date.

There were therefore 239,620 subscription rights outstanding at the beginning of the 2006 financial year.

In 2006, 87,623 subscription rights were allocated in the fourth tranche at an exercise price of Euro 7.75.

The status of the options still outstanding is depicted in the following table:

	Total	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche
Options issued	613,679	134,198	87,898	229,500	162,083
Options not accepted	-286,436	-73,270	-47,278	-91,428	-74,460
Options accepted	327,243	60,928	40,620	138,072	87,623
Exercised in 2006	-95,044	-58,563	-36,481	0	0
Not yet exercised	232,199	2,365	4,139	138,072	87,623
Expiry date		25 July 2008	24 July 2009	23 July 2010	22 July 2011

The subscription rights were valued at the date of issue using a Monte Carlo simulation taking due account of the absolute and relative performance targets set out in the option plan. The following parameters were included in the valuation of the options:

	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche
Share price	2.55 €	4.00 €	7.44 €	7.63 €
Exercise price	2.53 €	3.98 €	6.88 €	7.75 €
Volatility: Essanelle	70.92%	61.69%	57.73%	53.56%
Volatility: SDAX	12.26%	11.64%	10.89%	11.43%
Correlation: Essanelle/SDAX	0.3221	0.3083	0.3585	0.3779
Term	4.82 years	4.82 years	4.81 years	4.81 years
Risk-free interest rate	3.26%	3.27%	2.69%	3.56%
Expected dividend	0	0	0	0
Fair value per option on issue date	1.30	1.85	3.47	3.18
Total fair value	79,206.40	75,147.00	479,109.84	278,641.14

The fair value of the work performed by the employees in return for the granting of options is recorded as expenses.

A total amount of Euro 293,358.77 was received for the 95,044 subscription rights exercised in 2006.

Broken down into the individual share option programmes, the reserve is structured as follows:

€	Total	1st Tranche	2nd Tranche	3rd Tranche	4th Tranche
Total reserve after 24 months (100%)	912,104.38	79,206.40	75,147.00	479,109.84	278,641.14
Balance of reserve at 31.12.2006	488,627.19	79,206.40	75,147.00	299,443.65	34,830.14

The corresponding reserve stated on a prorated basis has developed as follows:

€	2006	2005
Balance at 01.01	186,062.01	78,698.98
Additions	302,565.18	107,363.03
Balance at 31.12	488,627.19	186,062.01

Of the additions hereby reported, Euro 0 (previous year: Euro 9,900.80) relates to the first tranche, Euro 28,180.08 (previous year: Euro 37,573.50) to the second tranche, Euro 239,554.92 (previous year: Euro 59,888.73) to the third tranche and Euro 34,830.14 (previous year: Euro 0) to the fourth tranche.

(4) Share

Depiction and development of the share price and the number of shares issued:

€	2006	2005
Annual high	9.90	8.78
Annual low	6.75	4.35
Year-end	8.20	8.20
Number of shares	4,595,044	4,500,000
of which: own shares	60,000	60,000

15 CAPITAL RESERVE

The capital reserve contains the premiums paid in cash on the various capital increases and the reduction relating to stock market flotation expenses. The amount resulting from the acquisition of own shares which is not allocable to share capital has been deducted from the capital reserve.

€	2006	2005
Premiums on cash deposits of the former GmbH shareholders as a result of capital increases	5,892,650.58	5,892,650.58
Agio from stock market flotation	11,209,912.92	11,209,912.92
Stock market flotation expenses (after taxes)	-1,966,489.28	-1,966,489.28
	15,136,074.22	15,136,074.22
Acquisition of own shares	-400,061.88	0.00
Value of services of employees from share option programmes	186,062.01	78,698.98
Balance at 1.1	14,922,074.35	15,214,773.20
Capital increases resulting from payments made upon the exercising of share options (1st and 2nd tranches)	198,314.77	0.00
Acquisition of own shares	0.00	-400,061.88
Value of services of employees from share option programmes	302,565.18	107,363.03
Balance at 31.12	15,422,954.30	14,922,074.35

16 REVENUE RESERVES

Revenue reserves developed as follows:

€	2006	2005
Balance at 01.01	1,465,846.08	-1,107,337.24
Consolidated net income	2,947,925.21	2,573,183.32
Balance at 31.12	4,413,771.29	1,465,846.08

17 LONG-TERM FINANCIAL DEBT

Long-term financial debt is structured as follows:

€	2006	2005
Liabilities to banks	2,679,473.68	0.00
Liabilities in connection with financial leases	1,358,782.33	1,342,442.38
Investment loans from suppliers	5,239,630.79	6,179,802.63
	9,277,886.80	7,522,245.01

The remaining terms of the long-term debt are structured as follows:

€	31.12.2005	31.12.2005	
	Total	of which: remaining term	
		1-5 years	over 5 years
Long-term debt			
Liabilities in connection with financial leases	1,342,442.38	1,342,442.38	0.00
Investment loans from suppliers	6,179,802.63	5,738,006.62	441,796.01
	7,522,245.01	7,080,449.00	441,796.01

€	31.12.2006	31.12.2006	
	Total	of which: remaining term	
		1-5 years	over 5 years
Long-term debt			
Liabilities to banks	2,679,473.68	2,679,473.68	0.00
Liabilities in connection with financial leases	1,358,782.33	1,358,782.33	0.00
Investment loans from suppliers	5,239,630.79	5,239,630.79	0.00
	9,277,886.80	9,277,886.80	0.00

Liabilities to banks

Long-term liabilities to banks include two loans newly taken up in 2006 to finance salon furnishings,

€	Loan	Interest Rate	31.12.2006
	HypoVereinsbank, Nuremberg	Euribor + 1,25%	1,890,000.00
	Gladbacher Bank, Mönchengladbach	Fixed: 5,25%	789,473.686
			2,679,473.68

Both loans provide credit lines, limited until 1 April 2012 and 30 September 2008 respectively, each of which permits the drawdown of a maximum amount of Euro 3.5 million. Moreover, there are further credit lines of Euro 1.0 million in each case at Gladbacher Bank, Postbank and Dresdner Bank. Of these, only Euro 5k had been drawn down at Gladbacher Bank as of 31 December 2006.

No security has been provided to cover these loans.

Liabilities in connection with financial leases

These liabilities are due to various leasing companies and charge interest amounting on average to 7.4% (previous year: 7.9%).

Investment loans from suppliers

€	31.12.2006	31.12.2005
Financing of salon expansion in the Essanelle salon network	1,797,834.78	1,038,726.50
Financing loan for CFS	0.00	199,280.12
Supplier loans	3,441,796.01	4,941,796.01
	5,239,630.79	6,179,802.63

The financing loans for Essanelle serve to finance investments made in new salons. They are due for payment within a time corridor of between 2 and 6 years. The salon furnishings acquired by means of the loans have been provided as security with extended retention of title in favour of the lender. As in the previous year, the interest rates amount to 2.9% and to 3.5% in the case of new financing facilities from 2006 onwards.

The financing loans for CFS were redeemed in full in 2006.

The supplier loans relate to two credit lines at one supplier requiring repayment on a quarterly basis within the next six years. The amount to be repaid after 2007 has been recorded under long-term financial debt. The two credit lines charge interest at 3-month Euribor plus 0.5% and 1.2% respectively. The interest payments are also due on a quarterly basis.

The values stated in each case represent the fair values. Unscheduled payments are possible for all existing loans.

18 DEFERRED TAX REFUND CLAIMS / TAX LIABILITIES

Deferred tax claims and liabilities have been netted in cases where there is an enforceable right to offset current tax claims against current tax liabilities and where the deferred taxes relate to the same tax authority.

The following amounts have been netted:

€k	31.12.2006	31.12.2006	31.12.2005	31.12.2005
	assets	liabilities	assets	liabilities
Deferred tax claims				
on losses carried forward	617		1,893	
Deferred tax liabilities				
on balance sheet items				
Goodwill (long-term)		2,367		1,605
Property, plant and equipment (long-term)		1,683		1,742
Pension provisions (long-term)	10			1
Other provisions				
short-term		97		270
long-term		153		96
Liabilities in connection with financial leases				0
short-term	268		203	
long-term	525		514	
	1,420	4,300	2,610	3,714
Net balances	-1,420	-1,420	-2,610	-2,610
	0	2,880	0	1,104

The short-term items are expected to be recognised within 12 months.

The deferred tax claims on losses carried forward are expected to be recognised in full in 2007.

Deferred tax claims on tax loss carryovers have been stated at the amount of related tax benefits likely to be recognised by future tax profits. The Group has reported all deferred tax claims which relate to losses carried forward.

The recoverability of the tax loss carryovers has been proven on the basis of the salon earnings budgets.

The tax loss carryovers amount to Euro 0k (previous year: Euro 2,730k) in the case of trade tax and to Euro 2,338k (previous year: Euro 5,125k) in the case of corporate income tax and the solidarity surcharge. The underlying tax rate amounts to 38.66% in total, of which 16.67% relates to trade tax and 26.40% to corporate income tax and the solidarity surcharge.

The change in deferred taxes was structured as follows:

€k	2006		2005
Beginning of the year		-1,104	395
Expenses in the income statement			
From losses carried forward	-1,276		
From increase in capital due to IFRS	-500	-1,776	-1,499
End of the year		-2,880	-1,104

The change in deferred tax claims and liabilities in the current year has been calculated as follows:

€k	Losses carried forward	Increase in capital due to IFRS	Total
As of 1.1.2005	2,676	-2,281	395
Amount affecting earnings	-783	-716	-1,499
As of 31.12.2005	1,893	-2,997	-1,104
Amount affecting earnings	-1,276	-500	-1,776
As of 31.12.2006	617	-3,497	-2,880

19 PENSION PROVISIONS

Development:

€	
Balance at 01.01.2006	164,745.00
Additions	15,232.00
Balance at 31.12.2006	179,977.00

The provisions figure stated in the balance sheet has been calculated as follows:

€	2006	2005
Present value of the obligations	704,210.00	586,515.00
Fair value of plan assets	-405,594.00	-318,717.00
Non-recognised actuarial gains	-118,639.00	-103,053.00
Balance at 31.12	179,977.00	164,745.00

The plan assets consist of the asset value of a reinsurance policy at AXA Lebensversicherung AG, Cologne.

The following amounts were recorded in the income statement:

€	2006	2005
Current period of service expenses	61,033.00	156,349.00
Interest expenses	24,927.00	17,750.00
Expected income on plan assets	-12,108.00	-9,767.00
Amortisation of actuarial losses	14,193.00	3,368.00
	88,045.00	167,700.00

The actual income on the plan assets amounted to Euro 13,629 (previous year: Euro 25,389).

The amounts recorded in the provision in the balance sheet developed as follows:

€	2006	2005
Beginning of the year	164,745.00	60,460.00
Total expenses recorded in the income statement	88,045.00	167,700.00
Endowment of plan assets	-72,813.00	-63,415.00
Balance at 31.12	179,977.00	164,745.00

The following principal actuarial assumptions were made:

	2006	2005
Discount rate	4.25%	4.25%
Expected income on plan assets	4.0% / 4.2%	3.5% / 4.2%
Future salary increases	2% / 0%	2% / 0%
Future pension increases	2% in each case	2% in each case

20 OTHER LONG-TERM PROVISIONS

€	31.12.2006	31.12.2005
Anniversary provision	180,722.25	171,166.50
Provision for dismantling obligations	502,820.15	582,394.46
	683,542.40	753,560.96

Development of long-term provisions:

€	Dismantling Obligations	Anniversary Provisions
Balance at 01.01.2006	582,394.46	171,166.50
Utilised	0.00	-52,182.80
Released	-143,185.17	0.00
Added	63,610.86	61,738.55
Balance at 31.12.2006	502,820.15	180,722.25

The anniversary provision covers financial obligations towards employees upon their attaining expected long-term service anniversaries.

As in the previous year, the anniversary provision have been stated on the basis of past experience, taking due account of a general personnel turnover and interest-related discount.

The provision for dismantling obligations covers the renovation and conversion expenses expected to be incurred upon the expiry of the basic rental period for the hairdressing salons which the company has contractually undertaken to cover.

Of the addition, Euro 26k (previous year: Euro 24k) relates to interest-related factors, with the rest relating to new salon locations. As in the previous year, an interest rate of 6% has been assumed.

21 SHORT-TERM FINANCIAL DEBT

Short-term financial debt is structured as follows:

€	31.12.2006	31.12.2005
Liabilities to banks	444,570.68	5,388,000.00
Liabilities in connection with financial leases	693,245.71	513,321.48
Supplier financing for salon expansion Essanelle	892,314.86	578,186.85
Supplier financing for salon expansion CFS	7,131.31	158,576.88
Supplier loans	1,500,000.00	500,000.00
Interest	0.00	44,217.01
	3,537,262.56	7,182,302.22

Interest-bearing liabilities to banks

This item involves the repayment instalments due for payment in 2007 on the two loans newly taken up in 2006 from HypoVereinsbank, Nuremberg and Gladbacher Bank, Mönchengladbach, in order to finance salon furnishings, plus the interest of Euro 18,794.36 for the fourth quarter of 2006, which is due for payment in January 2007. The loans are repaid on a quarterly basis and charge interest at Euribor plus 1.25% in the case of HypoVereinsbank and of 5.25% in the case of the loan from Gladbacher Bank.

Liabilities in connection with financial leases

These involve leasing expenses in connection with financial leases which are due for payment in 2007.

Supplier financing: salon expansion at Essanelle

The financing loans primarily relate to supplier loans in connection with the opening of new salons. The interest charged amounts to 2.9% and to 3.5% in the case of financing facilities provided from 2006 onwards. The respective asset items thereby financed have been provided as security and granted extended retention of title in favour of the lender.

Supplier loans

These involve the short term portions of supplier loans requiring repayment in 2007. As in the past year, these charge interest at the 3-month Euribor rate, plus 0.5% or 1.2%, with such interest being paid at the end of each respective quarter.

The values stated for all loans are equivalent to their fair values. Unscheduled repayments are possible in the case of all existing loans.

22 ACCOUNTS PAYABLE

These primarily relate to liabilities towards suppliers of ongoing hairdressing requirements.

23 CURRENT INCOME TAX LIABILITIES

€	31.12.2005/ 01.01.2006	Utilised	Released	Added	31.12.2006
Trade tax and corporate income tax for accounting period	36,177.83	-1,654.67	0.00	0.00	34,523.16
2004 trade tax	58,000.00	-58,000.00	0.00	0.00	0.00
2004 corporate income tax	50,628.00	-50,628.00	0.00	0.00	0.00
2005 trade tax	106,299.05	-21,014.31	0.00	23,345.20	108,629.94
2005 corporate income tax	121,924.75	-27,535.00	0.00	27,535.00	121,924.75
2006 trade tax	0.00	0.00	0.00	195,788.64	195,788.64
2006 corporate income tax	0.00	0.00	0.00	207,630.71	207,630.71
	373,029.63	-158,831.98	0.00	454,299.55	668,497.20

The remaining term for current taxes amounts to less than one year.

24 OTHER LIABILITIES

Other short-term liabilities are structured as follows:

€	31.12.2006	31.12.2005
Social security contributions	13,195.23	1,649,262.08
Wage tax, church tax and VAT liabilities	1,812,421.33	1,646,443.75
Liabilities to employees due to wages, salaries and commission still to be paid	394,572.27	368,799.99
Liabilities in connection with rental agreements	426,221.75	253,374.82
Miscellaneous	173,250.80	214,549.19
	2,819,661.38	4,132,429.83

25 OTHER SHORT-TERM PROVISIONS

Composition and development of other short-term provisions:

€	01.01.2006	Utilised	Released	Added	31.12.2006
Personnel provisions	1,226,981.64	-1,045,161.76	-181,369.88	2,016,280.25	2,016,730.25
Subscriptions and customer vouchers	867,789.60	-867,789.60	0.00	881,100.00	881,100.00
Miscellaneous	935,412.58	-614,057.82	-118,255.01	999,258.60	1,202,358.35
	3,030,183.82	-2,527,009.18	-299,624.89	3,896,638.85	4,100,188.60

Personnel provisions cover customary obligations towards employees (remaining vacation, outstanding remuneration etc.).

The provision for obligations from customer vouchers covers claims on the part of customers resulting from subscriptions and vouchers for hairdressing services already paid yet not yet taken up as of the balance sheet reporting date.

Miscellaneous short-term provisions mainly relate to provisions for energy costs (Euro 320k, previous year: Euro 320k) and for outstanding incoming invoices (Euro 245k, previous year: Euro 240k).

All other short-term provisions are expected to result in expenses being incurred in the 1st quarter of 2007.

26 SALES

Consolidated sales are structured as follows:

€	2006	2005
Revenues from services	98,400,884.08	95,274,200.09
Revenues from sales	18,144,197.53	16,893,318.68
Franchise fees	336,619.39	669,209.23
Other revenues	627,144.62	697,542.44
– Revenues from vouchers/subscriptions	49,255.37	47,000.00
– Revenues in connection with rental agreements	342,054.47	301,711.26
– Other revenues	235,834.78	348,831.18
	117,508,845.62	113,534,270.44

Sales were exclusively generated in Germany.

27 OTHER OPERATING INCOME

Composition:

€	2006	2005
Income from invoicing of ancillary rental expenses	166,547.60	323,853.55
Income from release of provisions	442,810.06	204,272.12
Income from disposal of assets	70,801.29	32,901.17
Income from sale of active CFS business operations	91,854.92	0.00
Income from release of write-downs on financial receivables due from former mod's hair hairdressers	534,384.57	0.00
Fee revenues from the mediation of mod's hair partners as customers	240,000.00	0.00
Income from the release of write-downs on accounts receivable and on payments received on receivables written down	201,935.41	117,683.33
Other income	349,358.80	298,470.47
	2,097,692.65	977,180.64

The active business operations of the CFS division (mod's hair franchising) were sold for Euro 191k as of 30 June 2006. Having accounted for the net balance of assets and liabilities thereby transferred, this transaction generated earnings of Euro 92k.

One supplier of products for hairdressers paid a fee of Euro 240k for the mediation of 24 mod's hair salons as customers in connection with the transfer of business operations. This fee has been collected with a corresponding impact on earnings.

Furthermore, this supplier also provided loans amounting to Euro 812k to certain franchisees in connection with the sale of the mod's hair business. This enabled the franchisees to repay part of their loan liabilities to CFS prematurely, as well as making scheduled repayments. With regard to its remaining claims against CFB companies, CFS has issued waivers on the condition precedent of the punctual payment of rent for the hairdressing salons let on the part of Essanelle to the CFB companies.

Given that the loans granted had largely been written down in previous years, the payments received enabled a total amount of Euro 534k to be written up to loans with a corresponding impact on earnings.

In the previous year, other operating income included cash discount income amounting to Euro 355,523.12. Following the amendment of reporting procedures in 2006, this item is now offset against cost of materials (Euro 321,719.98) and other operating expenses (Euro 33,803.14).

28 COST OF MATERIALS

The cost of materials item includes:

€	2006	2005
Expenses for goods purchased	10,816,576.26	10,149,444.59
Increase in write-down of inventories	4,000.00	15,959.40
	10,820,576.26	10,165,403.99

29 PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2006	2005
Wages and salaries	53,127,365.13	51,816,922.77
Social security contributions	11,824,550.69	11,166,886.76
Pension expenses for defined benefit plans	63,118.00	149,950.00
Share options granted to managers and employees	302,565.18	107,363.03
Other payments resulting from the termination of employment contracts (compensation)	173,500.00	67,590.00
	65,491,099.00	63,308,712.56

30 DEPRECIATION AND AMORTISATION

Composition:

€	2006	2005
Scheduled depreciation and amortisation		
Amortisation of other intangible assets	76,876.11	62,707.72
Depreciation of proprietary salon furnishings	3,615,529.43	3,484,872.08
Depreciation of leased salon furnishings	871,935.98	749,750.99
Extraordinary depreciation and amortisation		
Depreciation of property, plant and equipment due to impairment tests	0.00	49,260.20
Amortisation of goodwill due to impairment tests	0.00	371,008.62
	4,564,341.52	4,717,599.61

31 RENTAL AND ANCILLARY RENTAL EXPENSES

Composition:

€	2006	2005
Rent for hairdressing salons and head office in Düsseldorf	18,584,882.36	17,949,622.82
Ancillary rental expenses	3,123,536.07	2,858,162.58
	21,708,418.43	20,807,785.40

32 OTHER OPERATING EXPENSES

Other operating expenses include:

€	2006	2005
Losses on financial loans	40,677.09	206,240.46
Losses incurred on the cancellation of receivables	84,211.61	130,483.74
Write-downs of receivables	75,115.24	143,326.39
Losses incurred on the disposal of long-term assets	70,152.15	88,834.41
Operating requirements	574,797.53	515,494.33
Advertising and sales promotion	2,048,993.98	1,715,385.16
Employee training	306,146.08	197,701.79
Vehicle-related expenses	517,529.96	420,250.00
IT-related expenses	905,787.29	673,417.94
Legal and advisory expenses	740,231.12	546,497.67
Bank charges	428,698.87	529,971.28
Telephone, office materials, print materials	651,756.49	562,807.95
Travel expenses and hospitality	326,239.63	273,715.12
Insurances	170,527.80	236,604.62
Cleaning companies	215,629.90	202,347.01
Postal charges, radio fees	282,055.55	286,846.47
Energy costs, electricity	1,168,520.19	1,081,125.91
Miscellaneous	2,339,559.76	2,321,460.81
	10,946,630.24	10,132,511.06

Miscellaneous operating expenses primarily relate to administration and sales-related expenses.

33 FINANCING INCOME

This item relates to interest income of Euro 19k on loans (previous year: Euro 50k) and to interest income of Euro 34k on short-term bank deposits and other short-term receivables (previous year: Euro 37k).

34 FINANCING EXPENSES

This item relates to pension-related interest of Euro 25k (previous year: Euro 18k), to interest of Euro 26k on dismantling obligations (previous year: Euro 24k) and interest expenses of Euro 734k in connection with financial debt (previous year: Euro 883k).

35 SHARE OF LOSSES IN COMPANIES ACCOUNTED FOR AT EQUITY

The share of losses reported in the previous year, amounting to Euro 7k, related to an associated company whose carrying amount of Euro 1.00 was cancelled from the books as of 30.6.2006 within the framework of the sale of mod's hair franchising activities.

36 LOSSES FROM FINANCIAL LOANS

The losses from financial loans relate to amortisation and to write-downs undertaken on loans to franchisees.

37 INCOME TAX EXPENSES

€	2006	2005
Actual taxes		
Trade tax for previous years	20,268.07	0.00
Corporate income tax for previous years	47,398.84	0.00
Corporate income tax for current year	262,387.46	148,275.67
Trade tax for previous year	248,000.00	107,000.00
	578,054.37	255,275.67
Deferred taxes		
Deferred corporate income tax for current year	995,000.00	839,000.00
Deferred trade tax for current year	781,000.00	660,000.00
	1,776,000.00	1,499,000.00
	2,354,054.37	1,754,275.67

Deferred taxes have been accounted for at a percentage of 38.65% (previous year: 38.65%). This is equivalent to a trade tax rate of 20%, not accounting for the deductibility of trade tax, a corporate income tax rate of 25% and a solidarity surcharge of 5.5%.

The development of tax expenses has been depicted in the following tax reconciliation account:

€k	2006	2005
Earnings before taxes	5,301	4,327
Taxes based on a rate of 38.65%	2,049	1,673
Taxes on income as stated in income statement	2,354	1,754
less income taxes on modifications	-117	-82
less trade tax due to adjustment in losses carried forward	-121	0
less taxes for previous years	-67	1
	2,049	1,673

The effective tax rate amounts to 44.4% (previous year: 40.5%).

The slight increase in the effective tax rate from 40.5% to 44.4% is due to an increase in taxes for previous years, to a trade tax item resulting from the adjustment of the corresponding losses carried forward and to an increase in tax modification, particularly in respect of provisions not deductible for tax purposes.

38 EARNINGS PER SHARE

(1) Basic

€	2006	2005
Earnings allocable to providers of equity	2,947,925.21	2,573,183.32
Average number of shares issued	4,464,477.00	4,491,027.05
Basic earnings per share (Euro per share)	0.66	0.57

Basic earnings per share are calculated by dividing the consolidated earnings by the weighted average of the number of shares in circulation during the financial year.

(2) Diluted

in €	2006	2005
Earnings allocable to providers of equity	2,947,925.21	2,573,183.32
Average number of shares issued	4,726,663.92	4,627,477.83
Diluted earnings per share (Euro per share)	0.62	0.56

When calculating the diluted earnings per share, the number of shares issued was increased to the extent that employees hold subscription rights relating to the share option programme and simultaneously reduced by the number of shares which the company would have been able to purchase at the average share price for the year under report from the exercise price received by the company in the event of such subscription rights being exercised.

The calculation did not include the conditional capital of the company, amounting to 168,097 new individual shares, which could nevertheless dilute the basic earnings per share in future.

39 DIVIDEND PER SHARE

No dividends were paid in 2006 and 2005.

40 CASH FLOW STATEMENT

The cash flow statement depicts the change in the level of financial funds as a result of inflows and outflows of funds during the financial year. In accordance with IAS 7, a distinction has been made between the cash flows from operating activities, investment activities and financing activities respectively.

The cash flow statement has been compiled using the indirect method and can be found in Annex IV.

The inflow of funds from operating activities is structured as follows:

€k	2006	2005
Consolidated annual earnings	2.948	2.573
Adjustments for ...		
Taxes (Note 37)	2,354	1,754
Depreciation of property, plant and equipment (Note 6)	4,487	4,284
Amortisation of intangible assets (Note 7)	77	434
Amortisation of other loans (Note 9)	41	206
Write-ups to other loans (Note 9)	-534	-117
(Profits/losses) on the sale of property, plant and equipment	-1	170
(Profits/losses) on the sale of intangible assets	0	36
Expenses relating to share option programme (Note 14)	303	107
Interest income (Note 33)	-53	-87
Interest expenses (Note 34)	785	925
Share in (loss/profit) of financial assets valued at equity (Note 8)	0	7
Change in working capital		
Inventories (Note 10)	-294	-11
Accounts receivable and other receivables (Note 11)	222	-79
Provisions (Notes 20 and 25)	1,015	242
Other financial assets valued at fair value (Note 12)	261	221
Accounts payable and other liabilities (Notes 22 and 24)	-2,152	670
Inflow of funds from operating activities	9,459	11,335

The proceeds from the sale of property, plant and equipment recorded in the cash flow statement include:

€k	2006	2005
Net carrying amount	724	606
Profit (previous year: loss) on the sale of property, plant and equipment (net)	1	-170
Proceeds from the sale of property, plant and equipment	725	436

The financial funds item includes the cash holdings, credit balances at banks and payments in transit at the salons reported in the balance sheet.

As of the balance sheet reporting date, the company had credit lines of Euro 11.0 million at four banks, of which sum Euro 7.9 million had not been utilised.

41 OTHER FINANCIAL OBLIGATIONS

(1) Financial leasing

In the past years, Essanelle has procured part of its salon furnishings by means of financial leasing. This was undertaken both within the framework of sale and lease back transactions, as well as by leasing assets directly. The income resulting from sale and lease back transactions was not significant and was recorded in full as income with immediate effect. The leasing agreements have been capitalised as assets under property, plant and equipment and as liabilities under financial debt in line with their respective terms and conditions. The scheduled depreciation has been based on an estimated useful life of ten years. The liabilities relating to leasing agreements have been repaid over periods of between 4 and 5 years. As of the balance sheet reporting date, the company had leased salon furnishings amounting to Euro 3,166,798.98 (previous year: Euro 3,215,662.93). Leasing liabilities amounted to Euro 2,052,028.04 (previous year: Euro 1,855,763.88). The liabilities are due to various leasing companies and charge interest at between 5% and 9% p.a. (previous year: 4.5% and 8%).

€	2006		2005	
	Nominal amount	Discounted amount	Nominal amount	Discounted amount
Remaining term up to 1 year	806,338.94	693,245.71	622,421.37	513,321.50
Remaining term 2 to 5 years	1,475,877.46	1,358,782.33	1,479,319.22	1,342,442.38
Remaining term more than 5 years	0.00	0.00	0.00	0.00
	2,282,216.40	2,052,028.04	2,101,740.59	1,855,763.88

(2) Operating leasing

The Group rents numerous store premises for hairdressing salons within the framework of non-terminable operating leasing agreements. These rental agreements involve various conditions, rent increase clauses, in most cases linked to the German retail price index, and extension options, e.g. options for extension for a certain period on one or two occasions. The rental expenses for premises amounted to Euro 18,585k (previous year: Euro 17,950k).

The Group also leases motor vehicles and various items of equipment. The expenses relating to these assets amounted to Euro 218k (previous year: Euro 156k).

The following table depicts the existing future non-terminable leasing payments (operating lease):

€	31.12.2006	31.12.2005
Remaining term up to 1 year	17,048,815.78	16,075,790.11
Remaining term 1 to 5 years	38,753,624.70	42,374,530.98
Remaining term more than 5 years	7,896,286.19	8,691,715.97
	63,698,726.67	67,142,037.06

(3) Purchase obligations from supply agreements

A purchase agreement concluded with a supplier has resulted in an estimated obligation for the acquisition of property, plant and equipment amounting to around Euro 6 million (previous year: Euro 7 million) over a period of five years. Moreover, the resultant obligation for goods amounts to an estimated level of Euro 36 million (previous year: Euro 49 million).

(4) Purchase commitment

The obligations resulting from binding orders of property, plant and equipment are of subordinate significance.

42 FINANCIAL INSTRUMENTS

The financial instruments reported by the company involve various risks. On the asset side, the financial assets involve the risk of default on the part of debtors. On the liabilities side, the liabilities charging interest involve risks resulting from variable components in the interest charged on liabilities or from the entire interest charged on the liabilities being variable (c.f. notes on liabilities charging interest). As a result, financial instruments are subject to the risk of changes in the interest rate. Essanelle does not deploy any derivative financial instruments.

43 BUSINESS TRANSACTIONS WITH CLOSELY RELATED COMPANIES AND INDIVIDUALS

The company concluded an advisory agreement with Jürgen Tröndle, a shareholder and member of the Supervisory Board, on 24 February 1999. This was replaced by two newly formulated contracts dated 9 February 2006. The remuneration paid in 2006 pursuant to the agreement valid as of the reporting date amounted to Euro 80k (previous year: Euro 75k). Moreover, travel expenses amounting to Euro 2k were paid (previous year: Euro 3k). Furthermore, remuneration of Euro 65k (previous year: Euro 56k) was paid to the company Tröndle Hairline for the provision of trainers to train Essanelle personnel. The overall compensation of the Management Board and the Supervisory Board has been reported under Note 48.

In 2004, Achim Mansen was granted a loan of Euro 70k at an interest rate of 4.5%. The loan has a term of 3 years and is to be repaid quarterly. An amount of Euro 23k was repaid during the financial year (previous year: Euro 22k), leaving a remaining amount of Euro 9k at the end of the financial year.

Shares held by the Supervisory Board and the Management Board

The members of the Management Board and the Supervisory Board owned the following shares in Essanelle Hair Group AG as of 31 December 2006:

	Number of shares	Share of total volume of Euro 4,595,044
Management Board	154,402	3.36%
Supervisory Board	145,202	3.16%
	299,604	6.52%

Uwe Grimminger (109,422 shares; 2,38%, previous year: 160,421 shares; 3.56%) and Jürgen Tröndle (138,190 shares; 3.01%, previous year: 155,750 shares; 3.46%) held more than 1% of the shares issued by Essanelle as of 31 December 2006.

44 NUMBER OF EMPLOYEES

The company had an average of 2,304 (previous year: 2,228) employees, 1,415 (1,364) part-time employees and 183 (165) trainees during the financial year.

45 BREAKDOWN OF EXPENSES FOR THE GROUP AUDITOR PURSUANT TO SECTION 314 (1) NO. 9 OF THE GERMAN COMMERCIAL CODE (HGB)

The fee for the auditor recorded as expenses in the financial year pursuant to Section 319 (1) Sentence 1 No. 2 of the German Commercial Code (HGB) amounted to:

€k	2006	2005
Auditing of financial statements	119	125
Other audit services	22	18
Tax advisory services	75	46
Other services	20	45
	236	234

46 EVENTS AFTER THE REPORTING DATE

There were no events with major implications for the company's net asset, financial and earnings position after the balance sheet reporting date. At the same time, there are no divisions where activities are planned to be discontinued in 2007.

47 STATEMENT CONCERNING CORPORATE GOVERNANCE

The Statement of Compliance with the German Corporate Governance Code (DCGK) required by Section 161 of the German Stock Corporation Act (AktG) has been submitted and made available to shareholders on an ongoing basis at our homepage at www.essanelle-hair-group.com.

48 MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

(1) Management Board compensation

The total compensation of the Management Board amounted to Euro 816k in 2006 (previous year: Euro 1,019k) and was structured as follows:

€k	Uwe Grimminger	Achim Mansen	Total	2005
Basic salary (non-performance related)	270	195	465	465
Bonus (performance-related)	175	127	302	365
Share options (fair value)	8	5	13	172
Benefit in kind from use of company car	6	12	18	17
	459	339	798	1,019

The entitlement from share option programmes results from the share of option rights apportioned to the Management Board in the share option programme issued in 2006. Of these, 19,838 share options were granted to Uwe Grimminger (total fair value: Euro 63,084.84) and 13,225 share options to Achim Mansen (total fair value: Euro 42,055.50). These have been valued at the fair value calculated for this tranche, which amounts to Euro 3.18. Hereupon Euro 8k account to Uwe Grimminger and Euro 5k to Achim Mansen for 2006.

Defined benefit pension commitments have been made to both members of the Management Board. A net total of Euro 15k was added to pension provisions in connection with pension commitments made to members of the Management Board. The total amount of the pension provisions stated for the Management Board amounts to Euro 180k following the deduction of plan assets.

From the age of 60, Uwe Grimminger is entitled to a monthly pension of Euro 3,158.52, a disability pension of Euro 2,976.35 and a widow's pension.

Achim Mansen is entitled to a monthly retirement pension of Euro 3,628.00 from the age of 65, as well as to a monthly disability pension of Euro 2,540.00 and a widow's pension.

The widow's pension in each case amounts to 60% of the old-age pension entitlement.

An annual adjustment in the ongoing pension payments of 2% based on the level of pension in the previous year is guaranteed.

(2) Supervisory Board compensation

The compensation of the Supervisory Board is defined in the Articles of Association of Essanelle Hair Group AG. In addition to the reimbursement of his or her expenses and of the VAT charged for his or her activities, each member of the Supervisory Board receives fixed compensation of Euro 10,000.00 for the past financial year. The Chairman of the Supervisory Board receives double and his Deputy one and half times this compensation.

Compensation totalling Euro 137k was paid in the 2006 financial year.

Düsseldorf, 16 March 2007

Uwe Grimminger
(Chairman of the Management Board)

Achim Mansen
(Member of the Management Board)

BALANCE SHEET (HGB)

as of 31 December 2006

ASSETS

€	31.12.2006	31.12.2005
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions, industrial and similar rights and assets and licenses in such rights and assets	208,465.92	204,967.52
2. Goodwill	13,433,837.33	15,092,188.45
	13,642,303.25	15,297,155.97
II. Tangible Assets		
1. Office equipment including fixtures in rented premises	16,788,429.07	15,154,474.28
2. Prepayments	133,986.46	358,025.09
	16,922,415.53	15,512,499.37
III. Financial Assets		
1. Investments in subsidiaries	1.00	1.00
2. Other loans	80,743.27	91,600.84
	80,744.27	91,601.84
	30,645,463.05	30,901,257.18
B. CURRENT ASSETS		
I. Inventories		
1. Merchandise	6,132,112.32	5,826,432.32
II. Receivables and other assets		
1. Trade receivables	104,926.57	253,681.18
2. Other assets	1,487,029.25	988,934.05
	1,591,955.82	1,242,615.23
III. Current Investments		
1. Treasury Stock	460,061.88	460,061.88
IV. Cash on hand. Balance with banks	5,299,414.01	4,018,941.36
	13,483,544.03	11,548,050.79
C. PREPAID EXPENSES	68,106.22	111,065.63
Total assets	44,197,113.30	42,560,373.60

SHAREHOLDERS' EQUITY AND LIABILITIES

€	31.12.2006	31.12.2005
A. EQUITY		
I. Subscribed Capital	4,595,044.00	4,500,000.00
II. Capital Reserves	13,595,420.24	17,102,563.50
III. Surplus Reserve		
1. Treasury Stock	460,061.88	460,061.88
IV. Accumulated Losses	0.00	-7,590,558.10
	18,650,526.12	14,472,067.28
B. ACCRUALS		
1. Accruals for pensions and similar obligations	559,024.00	487,324.00
2. Tax accruals	668,497.20	364,105.83
3. Other accruals	5,384,816.17	4,649,573.79
	6,612,337.37	5,501,003.62
C. LIABILITIES		
1. Liabilities to banks	3,124,044.36	5,388,000.00
2. Accounts Payable Trade	5,332,599.19	6,000,667.83
3. Intercompany Payables	25,999.00	0.00
4. Other liabilities	10,432,167.26	11,158,613.43
	18,914,809.81	22,547,281.26
D. DEFERRED INCOME	19,440.00	40,021.44
Total shareholders' equity and liabilities	44,197,113.30	42,560,373.60

INCOME STATEMENT (HGB)

for the Period from 1 January 2006 to 31 December 2006

€	2006	2005
1. Revenue	117,035,495.30	112,580,158.24
2. Other operating income	2,147,867.93	1,094,066.87
3. Cost of materials	-11,076,483.83	-10,224,929.19
	108,106,879.40	103,449,295.92
4. Personnel expenses		
a) Wages and salaries	-53,222,960.00	-52,137,588.01
b) Social security, pensions and other benefit costs (of which for pension EUR 71,700; past year EUR 157,456)	-11,874,344.01	-11,324,268.15
5. Depreciation and amortization of non-current intangible assets and property, plant and equipment	-5,520,620.41	-5,654,416.62
6. Other operating expenses	-33,063,043.42	-31,192,918.07
	4,425,911.56	3,140,105.07
7. Income from investments (of which from affiliated companies EUR 69,377.92; past year EUR 73,501.18)	72,379.07	73,501.18
8. Other interest and similar income (of which from subsidiaries EUR 64,472.79; past year EUR 88,640.19)	98,335.30	125,387.97
9. Write-downs of financial assets	-26,204.82	0.00
10. Interest and similar expenses	-580,787.46	-744,827.28
11. Profit from ordinary operations	3,989,633.65	2,594,166.94
12. Income taxes	-578,054.37	-255,275.67
13. Other taxes	9,484.72	1,133.22
14. Net profit for the year	3,421,064.00	2,340,024.49
15. Loss carryforward	-7,590,558.10	-9,470,520.71
16. Withdrawals from capital reserves	4,169,494.10	0.00
17. Additions to Treasury Stock	0.00	-460,061.88
18. Net accumulated loss	0.00	-7,590,558.10

AUDIT OPINION

We have audited the consolidated financial statements compiled by Essanelle Hair Group AG, Düsseldorf, which consist of the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and the notes to the consolidated financial statements, as well as the group management report for the financial year from 1 January to 31 December 2006. The responsibility for the compilation of the consolidated financial statements and group management report in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), lies within the responsibility of the management board of the company. It is our responsibility to submit an opinion on the consolidated financial statements and the group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 of the German Commercial Code HGB), taking due account of the principles governing the proper auditing of financial statements promulgated by the German Institute of Auditors (IDW). These standards require the audit to be planned and executed in such a manner that any inaccuracies and infringements with a material impact on the depiction of the net asset, financial and earnings situation provided by the consolidated financial statements, taking due account of the applicable accounting standards, and by the group management report are identified with reasonable certainty. When determining the audit procedures, account was taken of our knowledge of the business activities and economic and legal environment of the group, as well as of expectations as to any possible errors. The effectiveness of the internal accounting controlling system and the evidence supporting the disclosures made in the consolidated financial statements and the group management report were examined within the framework of the audit, principally on the basis of trial samples. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statements, the delineation of the reporting entity, the accounting and consolidation principles thereby applied, and the principal estimates made by the management board, as well as an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonably secure basis for our opinion.

Our audit did not give rise to any qualifications.

On the basis of the findings of our audit it is our opinion that the consolidated financial statements are in accordance with IFRS as applicable in the EU, as well as with the requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB), and that they provide a true and fair view of the net asset, financial and earnings situation of the Group, taking due account of the aforementioned requirements. The group management report is in agreement with the consolidated financial statements and provides an accurate overall impression of the situation of the group and adequately presents the opportunities and risks relating to its future development.

Düsseldorf, 16 March 2007
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Weiler)
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