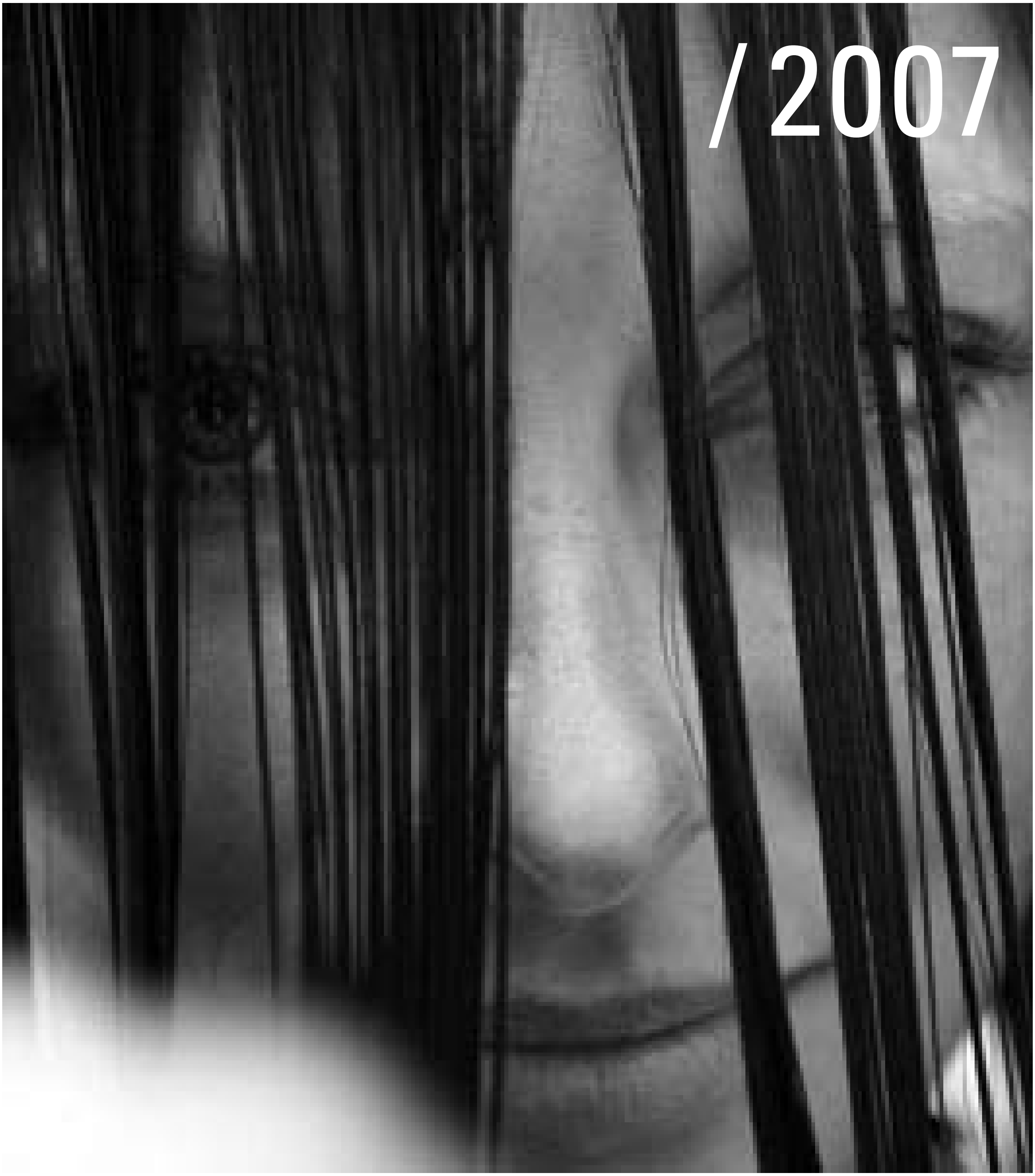
ANNUAL REPORT
ESSANELLE HAIR GROUP AG



ESSANELLE HAIR GROUP

KEY FIGURES million Euro – IFRS, Group

million €	2007	2006	Change
Consolidated sales*	123.1	117.5	+4.7%
essanelle Ihr Friseur	67.6	69.5	-2.7%
JT by essanelle	4.5	4.7	-4.9%
TOP TEN	4.1	1.9	+116.9%
Super Cut	19.6	19.0	+3.2%
HairExpress	22.2	17.6	+26.4%
Beauty Hair Shop	5.0	4.3	+17.1%
EBITDA	11.0	10.6	+3.6%
EBIT	6.1	6.1	-0.4%
EBT	5.4	5.3	+1.8%
Annual net income	4.6	2.9	+54.9%
Earnings per share (undiluted)	1.01 Euro	0.66 Euro	+53.0%
Cash Flow from operating activities	8.3	8.3	-0.3%
Cash Flow per share (basic)	1.81 Euro	1.82 Euro	-0.5%
Number of employees	4,183	4,038	3.59%
Number of shares	4.6 Mio.	4.6 Mio.	-
Free Float (per 29.02.2008)	10.24%	63.7%	-

* herein included revenues from the franchise concept mod's hair Euro 0.0 million (previous year: Euro 0.5 million)

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/ 2007

ESSANELLE HAIR GROUP

INTERVIEW WITH THE MANAGEMENT BOARD

Mr Mansen, what was the year 2007 like for the Essanelle Hair Group?

Achim Mansen Excellent, really. 2007 was the best year in the history of our company and saw sales and earnings grow steadily. This is all the more impressive as the previous year was characterised by non-recurrent effects, which needed to be matched by incremental operating profits in 2007. But this was achieved as well. So we can be really satisfied. But needless to say, we want to continue this trend going forward.

What were the main reasons for this development?

Achim Mansen The good development of all our concepts, the effective implementation of our growth strategy, which resulted in additional fixed cost effects or the gradual improvement of our capital structures a whole number of factors contributed to this good performance. I think we did a good job here at the headquarters, and this is all the more true of our more than 4,000 employees in the salons.

Sales revenues increased by almost 5%, although the situation looked much better at the half-year stage – Why has that not continued?

Achim Mansen The Christmas business did not exceed the very strong previous year to the extent this was the case in the rest of the year. Our sales per salon reach such a high level because we have salons whose environment guarantees a large number of occasional customers. In December 2006, business boomed because department centres and shopping centres and hence our salons were packed with customers in anticipation of the VAT hike. This was not repeated in 2007, although sales in the fourth quarter increased by another 2.9%. We had projected such a development, however, and had therefore left our projections unchanged at 5%. We are now just below this target but we are not dissatisfied.

Mr Bonk, you're the new Director of Sales and in this capacity you're also responsible for the installation of new salons. Will we see 5-10% growth in 2008?

Dieter Bonk January and February were really promising months. Our salons were packed and we reached the planned growth range in the first two months. Our target for 2008 is again to open 50 new salons and I am very confident that we will achieve this. But needless to say, sales growth will be generated primarily by those salons which we opened and built up in the past years.

You were previously responsible for the company's successful sales region "West". How does your new task as Director of Sales differ from your previous task?

Dieter Bonk On the one hand, my task as Director of sales is to support the regions in implementing this task effectively and consistently instead of focussing just a single region. On the other hand, my task and my main challenges have remained the same – how can we best motivate our employees, how can we boost our sales, how can we implement our concepts effectively and with clear messages in other words, how can we become as successful as possible in the salons?

When you took over a few years ago, the region "West" was bottom of the league of the Essanelle Hair Group. Twelve months later, this region was the No. 1 and has since maintained this position. What is the reason?
Dieter Bonk I have always attached importance to liaising at a personal level with all employees in the salons, including the apprentices. Instead of being the "Sales Manager", I want to be a contact person for all aspects that matter in the salons. I think this is very important especially in our industry. This personal level is now also a very important aspect in my relationships with our Sales Directors and Managers.

Where do you intend to place the focus of your work?
Dieter Bonk I would like our sales activities in the individual regions to be even closer to our employees, I want to sharpen and differentiate the profiles of our salon concepts even more clearly and I want us to act in a consistent manner in our seven regions. To achieve this, input from the salespeople in all regions is very important. I know from past experience that you get the best idea of what the actual situation is like when you're on site.

Mr Wiethölter, you have been appointed Director of Human Resources. Obviously, however, employees also play an important role in sales. How can your two roles be reconciled?
Dirk Wiethölter As a provider of hairdressing services, we are clearly a people-driven company. This means that human resources play an important role in all areas. I have been working with Dieter Bonk for about 15 years now and we both know very well how to integrate these two organisational units effectively.

Achim Mansen I said before that the current composition of the Management Board is my preferred constellation. This is not least because I know how well my two fellow Board members get along both professionally and personally. In view of the structure of our company, this is a very important success factor.

Mr Wiethölter, where do you see your main tasks for 2008 and in the long term?
Dirk Wiethölter In the Human resources development: as a large corporation, we have the possibility to train our employees to a level that is far above the industry average. This, in turn, allows us to provide the market with excellent services. This is one of the reasons why we have grown faster than the market for several years. Moreover, our industry is characterised by high employee turnover. We must therefore aim to retain our staff in the long term.

And how do you want to achieve this?

Dirk Wiethölter We will open training centres in selected conurbations, where we will offer vocational and further training from basic hairdressing services to the latest haircuts and trends. In addition, we want to offer further training possibilities to those employees who have the potential to assume management tasks, for instance as Salon Managers, Sales Managers or even Sales Directors. Our company can offer its employees much more interesting career prospects than an individual hairdresser. For some of our best hairdressers, managing one of our salons is a very attractive alternative to setting up their own salon, as they are backed by a powerful organisation, which does the administrative work for them, provides them with marketing support and uses sophisticated customer retention tools. We will also train our employees in brand-specific terms. A hairdresser at Super Cut focuses on different cutting techniques than someone at HairExpress. Apart from a consistent brand presentation, this will allow us to “tie” employees to “their” concept and hence with the company as a whole.

Mr Mansen – you’re the new CEO. Why are there three Board members and why has no “fresh talent” been brought in from outside the company?

Achim Mansen Our keys to long-term success are our employees and our customers. This is now also reflected in the Management Board’s organisational units, Human Resources and Sales. This interview has already shown that smooth and trusting cooperation is hugely important. Dieter Bonk, Dirk Wiethölter and I have been working together for almost 10 years and we know that it works. Somebody from outside would have needed much longer to get to know the organisation. In the current combination, we can begin to implement our strategy straight away.

As a CEO, will you focus on new strategies in addition to the growth strategy?

Achim Mansen We will continue to implement the growth strategy. Our figures show that this worked out perfectly in the past years. In addition, we will structure our lessor management more intensively and further strengthen our core brand, essanelle Ihr Friseur, with a view to positioning it even more clearly. Our sales target for this brand was 50% of total sales. We have almost reached this target and want to keep the brand at this level. As all our brands will continue to grow, this concept will also have to be back on the growth track in 2009 at the latest.

What will this look like in detail?

Dieter Bonk We want to sharpen the brand’s profile essanelle Ihr Friseur and position it more clearly in terms of shopfittings, location and marketing. Moreover, we will build up flagship stores and integrate our high-quality JT by essanelle. The overall objective is to revitalise the whole brand essanelle Ihr Friseur and to open new salons of this concept in suitable locations.

Would this not have been possible with Mr Grimminger – or why did he leave the company prematurely?

Achim Mansen This would certainly have been possible with him. But looking at his own plans for the future, it was clear that he would not stay with us for another eight or even ten years. But that’s the time that will be needed before our strategic additions will take full effect. He agreed that the people who will bring our strategic projects to an end should assume responsibility for them today. We were very much in agreement in this respect.

The new Management Board
of the Essanelle Hair Group AG
Achim Mansen (Chairman)
Dieter Bonk, Dirk Wiethölter

Maybe this also had to do with the takeover bid from Saxonia, of which your main competitor, Klier GmbH, is also a member?

Achim Mansen No. At the time it was clear that Uwe Grimminger would leave the company, I knew nothing of this takeover bid.

Just like Mr Grimminger, and Supervisory Board member Jürgen Tröndle you have sold your shares in the line with the takeover bid. Why? Your valuation wasn't exactly overwhelming.

Achim Mansen The fact that Uwe Grimminger sold his shares after he left the company is certainly only normal. In my case, the sale was due to purely personal reasons.

The sale of the shares and Klier´s large majority shareholding lead some people to think that you will not be the CEO for much longer.

Achim Mansen Right on the contrary. I signed a new 5-year contract at the beginning of the year – and I did so at the explicit request of the management board of Klier. In the past months, we have initiated quite a few things which I want to and will continue to work on.

But there have been changes on the Supervisory Board?

Achim Mansen Yes, that's right. But it is only logical for an almost 90% shareholder to appoint a member to the Supervisory Board.

Will the takeover also have strategic implications? Will it really be possible to cooperate with your former competitors?

Dieter Bonk On the operational side, there will be a strict separation. We must not forget that the feeling of competition in the salons is much stronger than at the management level. Actual cooperation on the operational side would help neither company.

Will Klier support the payment of a dividend at the Annual General Meeting?

Achim Mansen I assume that we will propose a dividend at the Annual General Meeting together with the Supervisory Board and that Klier will support this proposal.

Let's talk about the short-term outlook. What are your expectations for 2008?

Achim Mansen As Dieter Bonk said before, our company had an excellent start to the year 2008. We are optimistic that we will grow at a slightly higher rate than in 2007, so our sales growth should be in the 5-10% range. As every year, we want to be even better than in the previous year. I expect earnings to grow by 10% in 2008, which would mean that earnings before taxes would reach the EUR 6 million mark.

So earnings per share will be even higher than this year's EUR 1?

Achim Mansen No, certainly not. In 2007, we benefited from various tax effects, which reduced our income tax ratio to only approx. 18%. This situation will normalise in 2008 and we will again have a tax rate of approx. 40%.

And what about the vision of the new Management Board? Where will the Essanelle Hair Group stand in 2010 or even 2015?

Dirk Wiethölter We want to continue to improve our image, especially among hairdressers and employ and win the best hairdressers for our company. We want our employees to be the best in the market. This is the basis for long-term success.

Achim Mansen Our key figures are not far from what Uwe Grimminger and I projected last year: opening the 1000th salon and generating EUR 200 million in sales are realistic targets for 2015. As far as the margin is concerned, I am a bit more confident today and project an EBT margin of approx. 7%. This would be equivalent to between EUR 1.50 and EUR 2.00 per share, which certainly sounds interesting to any shareholder.

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Essanelle Hair Group AG again generated an excellent operating result in the past fiscal year. Sales continued to grow at an even stronger rate and earnings before taxes improved even further, enabling the company to propose the payment of a dividend to the Annual General Meeting. This was not least the achievement of the two Board members, Uwe Grimminger and Achim Mansen. Uwe Grimminger felt that this was just the right time to resign from the Management Board with effect from 31 January 2008. On behalf of my fellow Supervisory Board members, I would like to thank Mr Grimminger for the excellent job he did for the company for so many years and wish him all the best for the future. Achim Mansen has been appointed Chairman of the Management Board on February 1, 2008. We believe that this is only the logical consequence of his achievements in the past years. We also appointed Dieter Bonk and Dirk Wiethölter to the Management Board, who have been with the company for many years and will continue the successful development of the Essanelle Hair Group going forward. Mr Bonk has assumed the important position of Chief Sales Officer, while Mr Wiethölter is responsible for our 4,000+ employees in the capacity of Chief HR Officer and Director of Labour Relations. With effect from 17 March 2008, the former Supervisory Board Chairman, Joachim Dübner, resigned from his office and retired from the Supervisory Board in the context of the takeover of a majority shareholding of 89.76% in Essanelle Hair Group AG by Saxonia Holding-Gesellschaft mbH & Co. KG. On behalf of my fellow Supervisory Board members, I would like to thank Mr Dübner for his work on the Supervisory Board in the past two years. In the meeting of March 31, 2008, Fitz Kuhn, member of the Supervisory Board since 2006, was appointed Chairman.

The Supervisory Board agrees with the Management Board that the successful strategy of the company should be continued in the current year. In 2007, the Supervisory Board advised the Management on all strategic and relevant operational matters. At the same time, we controlled and supervised the Management Board – in accordance with our tasks as a supervisory body. We performed all tasks to which we are obliged by law, the Corporate Governance Code, the Articles of Association and the Rules of Procedure.

In fiscal 2007, the members of the Supervisory Board regularly attended the Supervisory Board meetings. Where they were unable to attend these meetings, they voted in writing. Last year's Supervisory Board meetings were held on 29 March, 26 June, 27 September and 29 November 2007.

To control and review the work of the Management Board, the Supervisory Board was provided with relevant information prior to the meetings. Outside the meetings, the Supervisory Board Chairman and the Management Board exchanged opinions on a regular basis. In its written and oral reports, the Management Board informed us regularly, promptly and comprehensively on the general course of business as well as fundamental issues of corporate policy. As a result, the Supervisory Board was at all times informed about the business policy, management's compliance with the relevant plans and budgets, the profitability of the Company and the course of business.

At the Supervisory Board meetings, the following main topics were addressed and discussed with the Management Board:

- Annual financial statements and consolidated financial statements 2006
- Announcement of a statutory offer by Saxonia Holding-Gesellschaft mbH & Co. KG
- Review of this offer and preparation of a joint statement by the Management Board and the Supervisory Board pursuant to sections 39 and 27 of the German Securities and Takeover Act
- Changes on the company's Management Board
- Continuation of the company's growth strategy
- Course of business in fiscal 2007 and plans for FY 2008 to FY 2011
- Review and discussion of additional strategic options for the whole organisation

In December 2007, the Management Board and the Supervisory Board jointly issued their declaration of conformity with the German Corporate Governance Code of June 14, 2007. No changes regarding the deviations from the Code's recommendations occurred in the past fiscal year. The Management Board and the Supervisory Board stick to their policy of not complying with certain recommendations due to the specific requirements of Essanelle Hair Group AG.

In addition to the Supervisory Board meetings, the Audit Committee and the Appointments and Compensation Committee also held meetings. The Audit Committee met on 28 February and 29 March 2007 and primarily dealt with the annual audit. The Appointments and Compensation Committee met on 29 March, 24 July, 9 August and 22 November 2007; among the topics addressed was the resignation of CEO Uwe Grimminger. The compensation of the Management Board of Essanelle Hair Group AG remained unchanged in the past fiscal year and consists of a fixed and a variable component. The variable component is based on incentive factors, which mainly target the maximisation of the company value. Additional compensation factors are listed separately in the compensation report on page 38.

The Supervisory Board entrusted PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Düsseldorf, which had been elected by the Annual General Meeting, with the audit of the financial statements and the management report prepared to HGB and the consolidated financial statements and the Group management report to ifrs of Essanelle Hair Group AG. A declaration of independence was obtained from the auditor. The separate financial statements of Essanelle Hair Group AG to HGB and the consolidated financial statements to IFRS as well as the management reports were audited by the auditor, who issued an unqualified audit opinion. The financial statements, the management reports and the audit reports were made available to the Supervisory Board in a timely manner. These documents were discussed and reviewed in detail at the Audit Committee meeting on 19 March 2008. At the Supervisory Board meeting on 31 March 2008 in the presence of the auditors. The Supervisory Board was informed of the result of this audit in writing. We discussed all documents in detail with the auditor and the Management Board. We thus state the following:

We have audited the financial statements of Essanelle Hair Group AG and the consolidated statements for the period ended 31 December 2007 as well as the management report of Essanelle Hair Group AG and the Group management report, the audit reports of the auditors as well as the profit appropriation proposal of the Management Board. We agree with the result of the auditor's audit of the financial statements and the information and presentation of the company's situation in the management reports and raise no objections. We have accepted the financial statements prepared by the Management Board for Essanelle Hair Group AG and the Group. The financial AG-statements are thus approved. The Supervisory Board agrees with the Executive Board's profit appropriation proposal.

Essanelle Hair Group AG has reported steady sales and earnings growth for several years, which is why it is planned to propose to the Annual General Meeting the payment of the company's first dividend for the fiscal year 2007. We are pleased to give our shareholders a direct share in the performance of the company. This has not least been enabled by the strong motivation of all our employees and the Management Board. The Supervisory Board would therefore like to thank everybody who showed their great commitment to the company in the past years. We are confident that this successful course will be continued by the new Management Board.

Fritz Kuhn
Chairman of the Supervisory Board

Peter-Michael Herold
Vice Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

The principles of the German Corporate Governance Code were again followed and implemented by Essanelle Hair Group AG in the past fiscal year. The Management Board welcomes the recommendations of the Code, which make the corporate governance system more transparent and more easily understandable and strengthen customers' and employees' trust in the company. Based on the Group's objective to achieve a sustainable increase in the company value, Essanelle Hair Group complied with the recommendations of the Code wherever this was possible and advisable.

TRANSPARENCY

Essanelle Hair Group AG informs its shareholders and the interested public with a maximum of transparency. The only exception is information that is critical from a point of view of competition. In 2007, the company published an ad-hoc press release, regularly updated its website and published detailed quarterly reports. In addition, the Management Board regularly answered the questions of investors, analysts and press representatives.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Last year's Annual General Meeting of Essanelle Hair Group AG was held in Düsseldorf on 26 June. The Management Board informed some 80 shareholders about the fiscal year 2006 and presented an outlook for 2007. All items on the agenda were approved by a vast majority of shareholders.

As in the previous year, the Annual General Meeting was not broadcast on the Internet due to the limited number of shareholders and the high costs involved. The website of Essanelle Hair Group AG gives shareholders an excellent insight into all information that is relevant. In addition, all documents and reports were available for downloading from the Internet at all times.

MANAGEMENT BOARD AND SUPERVISORY BOARD

Since 2005, the Supervisory Board of Essanelle Hair Group AG has appointed members to an Audit Committee and an Appointments and Compensation Committee from its own ranks. In 2007, relevant topics – such as the 2006 financial statements – were transferred to these committees, partly for consultation and preparation of a decision, partly for decision-making.

With effect from 17 March 2008, the former Supervisory Board Chairman, Joachim Dübner, resigned from his office and retired from the Supervisory Board. In the meeting of March 31, 2008, Fitz Kuhn, member of the Supervisory Board since 2005, was appointed Chairman.

COMPENSATION OF THE MANAGEMENT BOARD

The compensation system for the Management Board remained unchanged in fiscal 2007. The basic principles of this system are outlined in the notes to the consolidated financial statements on page 39 of the Annual Report. The compensation of the Supervisory Board is also shown there.

OPTION PROGRAMME

The 2005 Annual General Meeting authorised the Management Board of the Essanelle Hair Group AG to issue subscription rights as a variable compensation component until the 2008 Annual General Meeting. These rights may be exercised no earlier than two years after the subscription. The exercise of the subscription rights is subject to criteria relating to the absolute performance of the company's share and the relative performance as compared to the SDAX.

DIRECTORS' DEALINGS IN FISCAL 2007:

(Disclosure pursuant to clause 6.6 of the German Corporate Governance Code)

Date	22-25 January 2007
Name	Hans Joachim Oltersdorf
Position	Supervisory Board member
Transaction	Sale
Stock Exchange	Xetra / Frankfurt
Quantity	6,000 shares
Price	EUR 8.90
Volume	EUR 53,400

DIRECTORS' HOLDINGS

As of 29 February 2008, members of the Management Board or the Supervisory Board of Essanelle Hair Group AG held no shares in the company.

DECLARATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF ESSANELLE HAIR GROUP AG

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

The Management Board and the Supervisory Board of Essanelle Hair Group AG endorse the recommendations and rules of the German Corporate Governance Code. The company complied with these recommendations in the past fiscal year and will continue to do so going forward. Deviations are disclosed below.

Deviations that continue to apply:

3.8 The company has taken out, and will continue to maintain, a D&O insurance without deductible for the Management Board and the Supervisory Board.

4.2.3 Since 2003, the variable compensation element has included long-term incentives. The need for a cap is obviated by the well-balanced structure of the targets. A detailed publication on the company's website is not necessary due to the low volume of stock options.

5.3.3 The Supervisory Board will not set up an nomination committee, as the present number of committees is sufficient for efficient work.

5.4.7 The members of the Supervisory Board will continue to receive a fixed compensation only, as the present amount of the compensation means that a division into fixed and variable components is not advisable.

7.1.2 Essanelle Hair Group AG will continue to prepare its consolidated financial statements and its quarterly reports within 90 days and 45 days, respectively, and publish them as quickly as possible. These deadlines may be exceeded in individual cases.

Düsseldorf, 29 November 2007
ESSANELLE HAIR GROUP AG

The Management Board The Supervisory Board

THE SHARE

The share of Essanelle Hair Group AG delivered a clearly positive performance in fiscal 2007 and reached a high of EUR 10.55. The share started the year at EUR 8.28 in January 2007 and closed at EUR 9.75, thus gaining 17.8%. Based on approx. 4.6 million shares, the market capitalisation amounted to EUR 44.8 million at the end of the fiscal year.

In December 2007, Saxonia Holding-Gesellschaft mbH & Co. KG informed the company that its shareholding had exceeded the 5%, 10% and 30% thresholds and stood at 31.08%. In accordance with legal requirements, this company announced that it would submit a statutory offer to the shareholders of Essanelle Hair Group AG at a price of EUR 9.60. When the statutory offer expired on 14 February 2008, Saxonia reported a shareholding of 89.76%.

Providing all shareholders as well as the interested financial community with regular information nevertheless remains a key task for Essanelle Hair Group AG. This applies to information in the Investor Relations section on the company's website as well as to detailed quarterly reports. In 2007, studies were published by analysts from GSC Research, Performaxx and Stadtsparkasse Köln. In addition, all relevant capital market magazines reported on the company and the share in 2007.

SHAREHOLDER STRUCTURE (AS AT 29 FEBRUARY 2008)

Saxonia	89.76%
Free float according to Deutsche Börse	10.24%

SHARE INFORMATION

Full year 2007

Highest price	EUR 10.55
Lowest price	EUR 7.56
Performance 1 Jan. – 31 Dec.	+17.8%
SDAX	+35.2%
Price on 31 Dec.	EUR 9.75
Market capitalisation on 31 Dec.	EUR 44.8 million


Herzlich Willkomm

Hairy business: All in a day's work at the salon

Mr. Tietge enjoys the hustle and bustle around him. The hum of hairdryers, the sound of water, voices, the washing machine in the social room. Cars drive past outside while pop music blares from the loudspeakers. And there is Mr. Tietge in the middle of it all: curly silver hair, a white moustache, red raincoat. The pensioner delicately rocks his foot: "I prefer a different kind of music at home, but this is all right here." The 68-year-old is a "Super Cut" regular: he has remained a loyal customer ever since Ninette opened her salon five years ago. "I don't mind waiting a little longer for Ninette." Today, for instance. Before Mr. Tietge's turn comes round, the 28-year-old salon manageress has still to apply a brown colouring, colour some blond streaks and shave a customer's neck as well. She takes tube 6/7 from the shelf, squeezes a good dollop in a small plastic pot, adds the same amount of 66/07, as well as developer, about 80 grams. Routine stuff for Ninette. Then she briskly whisks the whole mixture with a brush, so fast that it only takes a few seconds to produce a creamy orange paste. "The result will be a lovely, warm brown," explains Ninette, at the same time adjusting another customer's fringe with her free hand as the woman dries her hair at the styling counter. Beeeeep: "Girls! Can one of you see to the washing machine, please? Thanks!"

The ventilator hums gently, occasionally interrupted by a quiet Pffft from a can of hairspray and the tinkle of a spoon in a cup as the blond lady stirs her coffee. "I suggest we add a colouring," whispers Wolfgang, her hairdresser as he lightly runs his fingertips through her hair. "This way, please," he adds, beckoning towards the washstand, where Helga Tönnies opens her eyes in surprise. "Oh dear, I must have dozed off for a couple of minutes!" Her weekly wash-and-style appointment at the "JT by essanelle" salon is the relaxing conclusion to a busy week: "The scent, the feeling of having my head massaged, being spoiled, is simply indescribable," she says enthusiastically. "Besides which, no-one bothers me here." Accompanied by the faint sound of guitar music in the background, hairdresser Larissa wraps a thick towel round her damp hair and colours her customer's eyebrows, never losing sight of the open entrance area. At that moment, a young woman with a baseball cap on her head hesitantly comes in, kneading her wrist as if in doubt. Larissa first escorts her customer to her seat where all her favourite magazines are already laid out and then hurries over to the newcomer. "Hi, my name is Larissa. What can I do for you?"

Bang. Johanna has dropped the tin of hair wax which rolls under the washstand. “I’m afraid I’ve got two left hands.” Despite this, she insists on styling her hair personally at the handy styling counter. “I simply love all the different brushes and care products and the huge rear mirror – not the sort of thing you usually have at home!” Ninette quickly picks up the fallen tin. “Are you OK? Need any help? No? Okay, but try using the big round brush for the tips. Who’s next, then?” she calls through the salon. Before her next customer has time to get up, the door opens and the owner of the next-door bakery comes in holding a tray with six croissants. Free. “Straight from the oven,” he announces, making his way directly to the social room at the back. “So that my girls don’t forget to eat in all this hustle,” he explains with a wink, as he winds his way back through the salon and disappears as fast as he came. Mareike has risen to her feet, Ninette’s 16th customer this morning - and the salon has only been open for an hour-and-a-half. “I came all the way from Frankfurt this morning,” explains Mareike, another loyal regular since the very first day. The 29-year-old blonde is getting married in the registry office in Frankfurt’s “Römer” in a couple of days and does not want to take any risks, at least when it comes to streaking her hair. Ninette quickly cleans the black armchair with a thick brush, straightens up her holster, runs her left hand through the bride’s hair and resolutely makes her decision: “Okay, streaks it shall be, but we’d better do the roots as well. Cup of coffee for you, Mareike?” Her colleague presses a coffee pad in

The 29-year-old bride is not taking any risks with her streaks.

the machine, and a few seconds later brings Mareike a steaming cup of coffee. Models present lingerie to the sound of fast beats on the flatscreen beside the mirror. “My dress is pink, I’ve already got that, but maybe I’ll see some matching underwear here,” she says with a laugh. The door opens again, admitting a young man. He takes out the earphone of his MP3 player and looks round. “Hallo,” says Ninette with a friendly welcome. “Take a seat if you don’t mind waiting.” He joins the others as they read or chat the time away.

Larissa must console her customer. And make the best of a bad job: her customer tested a blonding cream, but the result was not what she expected. She takes off her cap to reveal carroty curls. “I don’t have an appointment, but could you help me anyway?” Larissa has a little time to spare over noon and decides to “fix” the customer’s unfortunate hairdo. “We can dampen the whole effect with an ash tone, that should do the trick,” and shows her despairing customer the probable result on the colour board. But first she has to see to the customer who has been sitting under the heat lamp with innumerable foil strips on her head for the last 20 minutes, casually leafing through a magazine and occasionally taking a sip of coffee. Larissa calmly rinses the colouring twice with a gentle circular movement of her hands before adding a fragrant treatment to give the customer’s hair that perfect sheen. She wraps the young woman’s head in a warm towel while the treatment takes effect: “So that your head stays nice and warm.” The phone rings. Larissa gives Wolfgang a quick nod. He understands and moves quietly through the salon to take the call. “Sorry, we’re booked out today. Would Monday be all right for you?”

„Jens, it’s your turn now, is that right?“ Another regular customer – indeed he even describes himself as the “salon’s mascot” – the 23-year-old has waited patiently until Ninette has time. “I’m afraid I’m rather particular about my hair and would never let simply any hairdresser see to it. Hairdressing is a matter of confidence,” says the food manager who likes to watch the people around him as he whiles away the time spent waiting. “All the hustle and bustle here is miles better than any cinema film.” Jens settles down at the washstand while Ninette hurries over to the cash desk where a customer is waiting to pay and explains the “Super Cut Fan Card” to the new customer. At the same time, her colleague swiftly runs a brush through between and round the seven armchairs, sweeping up the hair on the floor, while another carries chairs from the social room to the front of the salon where so many people are now waiting in the small shop that it looks like it is about to burst at the seams. The mood is improving, the music has been turned up and the people – young and old – are chatting avidly as they wait. Almost like a big party, except that “Midnight Blue”, “Poppy Red”, “Rubber Ball” and “Apple Green” are hair colours and care products, not cocktails. His eyes closed, Jens philosophises on men and hair while Ninette massages his head. “When their hair becomes too long, men have only one answer: gel, gel and more gel. And when they step out of the hairdresser’s with a new haircut, they feel reborn!”



Oriental themes quietly complement the travel report on the screen beside the mirror. Wolfgang's customer unpacks a hair piece that she has brought along. “Wölfchen, that is the colour I want.” Before mixing the intensive colouring, the hairdresser dons a pair of rubber gloves – elegant black gloves that did not look at all like the usual kind of rubber gloves. Although colouring residues can be removed from hands and scalp quite easily with a little Colorcleaner, “it's better not to get your hands soiled in the first place.” Then Wolfgang reaches into his box and retrieves a somewhat nostalgic-looking implement, something like a cross between a can-opener and thumbscrews – but not the sort of thing you would expect to find in an elegant salon. Wolfgang grins: “It doesn't really have a name. Tube-squeezer maybe.” As if to explain what he means, he clamps the tube of colour in the contraption and turns the crank handle until the tube is flat as a pancake and completely empty. Larissa carefully guides her “car” – that is what she calls the mobile container holding her working tools – past the colouring station through the salon, taking care to be as quiet as possible. Yet another customer has fallen asleep at the washstand while a tonifying care treatment takes effect in her hair. Larissa uses the time to give a male customer a quick trim with her hair clipper. Eight, sixteen, twelve. Sounds like a secret code but these are in fact the values required for the clipper: eight millimetres at the back and sides of the head, sixteen on top and twelve millimetres for the transitions. “I've had the same haircut for 15 years,” says the customer. Because the clippers create such a pleasant tingling sensation on his scalp and the haircut is so convenient. The new cut takes just ten minutes and Larissa has even trimmed his eyebrows as well. She gently brushes the cut-off hair from his shoulders, ears and forehead. Then she removes the paper collar. All done. The customer nods contentedly.

If Ninette had a quiet sit-down job, it would drive her mad.

Monika could not bear to see herself in the mirror, her hair was far too long again. On days like this, the working mother likes to add a quick trip to the hairdresser to her packed day. "Whenever it suits. I go whenever I feel like it," says the 48-year-old with the handy grey spiky haircut. "I drop in every three or four weeks." Now, she has stopped at the styling counter and is finishing off the tips with hair gel. Back in the social room, Ninette takes a quick bite of her croissant and a drink from her water bottle. Stress? "Not really. If this were a quiet sit-down job, I'd go bananas," she says and strides off to meet her next customer who tells her all about her holiday while Ninette gently massages her scalp. "We're off to India tomorrow. For a fortnight, backpacking. At least the hairdo has got to survive."

The customer who had ordered an updo cancelled her appointment at the last minute. Migraine. Larissa takes advantage of the unexpected late-afternoon break to start clearing up. She checks that every one of the 18 hairdressing stations is fully equipped with cape, hairdryer, brushes and hairspray, sweeps the hair from the white stone floor, fills the boxes in the wood cupboards with paper collars and cotton wool, pushes the heavy leather armchairs into the right place and elegantly fans out the magazines. "Whatever can be done in between doesn't have to be done when we close for the day," she explains. The last appointments are made for 7 p.m., then it's time to tidy up. Time is short, for the lights go out at 10 past 8 in the department store to which the salon is attached. "We'd be left in the dark if we weren't ready by then!"

The last customer has left. Ninette switches off the music. Her colleague clears the tumble dryer and folds the towels. Bright stage lights on the ceiling mercilessly show everything that is left after a perfectly normal working day: every stain, every splash, every hair no matter how minute, every forgotten magazine. It is time to tidy up quickly so that the black-and-white tiles gleam brightly, the mirrors and washstands sparkle and every tube, every can and every brush has been put back where it belongs on the styling counter. "We don't have time to tidy up in the morning," says Ninette as she rinses the last colouring pots. It is not uncommon for a small crowd to gather outside half-an-hour before the salon opens. But now it is 8.30 p.m. – the end of a long working day. What does Ninette do now? Bathe her feet? Put her legs up? All wrong: it's time for sports.

CONSOLIDATED FINANCIAL STATEMENTS

GROUP MANAGEMENT REPORT (IFRS) FOR THE 2007 FINANCIAL YEAR

MACROECONOMIC FRAMEWORK

According to the Federal Statistics Office (Destatis), GDP growth in Germany slowed down by 0.4 percentage points from 2.9% to 2.5% in 2007. The economic upswing continued mainly thanks to growing net exports despite the problems caused by the increasingly weaker US dollar and strong capital spending in Germany. Domestic consumption remained weak, though. Not least as a result of the VAT hike, in anticipation of which purchases had been brought forward to December 2006, retail turnover declined by 1.2% in nominal terms and by 2.2% in real terms in 2007. In December 2007 alone, retail turnover was down by 4.9% and 6.9% on the previous year in nominal and real terms, respectively.

2007 was the first year since reunification with the exception of a special situation in 2000 in which Germany posted a balanced government budget. Moreover, inflation in Germany reached the highest level in thirteen years. In November 2007, the rate of inflation stood at 3.1%, which was the highest level since January 1994. On an annual average, consumer prices were up by 2.2% on the previous year.

Euro-zone GDP increased by 2.6% in 2007 despite the ongoing property crisis in the USA and the declining confidence in the financial markets. Compared to the previous year, growth slowed down by 0.3 percentage points. Contrary to the situation in Germany, private consumption was a major driver of the expansion in the EU economy. The EU inflation rate stood at 2.3% in 2007.

As in 2006, the world economy remained on its positive course positively in 2007. The changes and developments in emerging markets such as China, India, Russia and Eastern Europe as well as an overall economic expansion combined to sustain the positive trend in the world economy.

According to the Institut für Wirtschaftsforschung (IFO), the economic upswing in Germany will continue to slow down next year. The institute expects GDP to grow by just under 1.8% in 2008. While the IFO assumes that unemployment will decline further, the tight situation in the international financial markets will entail more and more risks for the economy. A possible US recession could also put a damper on German exports and, as a result, on domestic demand.

SECTOR DEVELOPMENT

According to a recent study conducted by Gesellschaft für Konsumforschung (GfK), 62.1% of all women and 59% of all men regularly visited a hairdresser last year. While the number of female visits remained unchanged at an average 5.5 p.a., the number of male visits increased moderately. In 2007, men visited a hairdresser approx. 6.5 times on average, i.e. one time more often than women. Women continue to spend much more money per visit than men, although the expenses per visit declined moderately in 2007. While women spent EUR 43.70 on an average salon session in the first quarter of 2007, this declined to EUR 41.80 in the fourth quarter. Men's expenses increased from EUR 15 to EUR 16.10 in the last three months of the year alone. In 2007 as a whole, women spent a total of EUR 229.90, compared to EUR 237.60 in the previous year; men's total annual expenses rose from EUR 94.50 to EUR 104.65.

Overall, the hairdressing market is dominated by older visitors. While 69.4% of the people aged 60 to 69 go to the hairdresser, only 59.6% (i.e. a good 10% less) of the 30-to-39-year-olds do. People in the 60-69 age group visit a salon 6.8 times on average, while those in the 20-29 age group go only 4.2 times. The differences between the male age groups are not that big. According to the GfK study, men in the 50-59 age group went to the hairdresser 7 times p.a., while those aged 20 to 29 went 6.4 times. A major difference also exists with regard to visiting habits. 88.1.% of the people aged 60 to 69 usually go to the same hairdresser, while this applies to only 54.8% of the people aged 20 to 29. This means that the young target group is much more easily ready to change their hairdresser. Compared to the previous year, fewer female visitors asked for additional services. For example, while 40.4% of them had their hair dyed in 2006, this declined to 39.2% in 2007. The decline in women requesting a perm was even stronger from 11.2% in 2006 to 8.7% in 2007 (-2.5 percentage points). The research institute believes that the readiness to spend money on additional services depends very much on the activities at the point of sale.

The Essanelle Hair Group estimates that the German market has a volume of EUR 4-5 billion.

GENERAL INFORMATION ABOUT THE COMPANY

THE COMPANY

635 salons and sales outlets make the Essanelle Hair Group Germany's top-selling hairdressing chain. Moreover, the company is the only provider of hairdressing services that is listed on the stock exchange. The Group comprises the following brands: essanelle Ihr Friseur, Super Cut, HairExpress, TOP TEN, JT by essanelle and Beauty Hair Shop, which sell salon products to all target and age groups. In fiscal 2007, the Essanelle Hair Group generated sales of EUR 123.1 million, which represents a market share of over 2%. Some 7 million customers visited the company's salons in 2007.

At the end of fiscal 2007, the Essanelle Hair Group announced that its Management Board Chairman would leave the company in January 2008. The Supervisory Board appointed Achim Mansen, the company's former CFO, Chairman of the Management Board in early 2008. He was joined by Dieter Bonk and Dirk Wiethölter, two long-serving managers, who are now responsible for Sales and Human Resources, respectively.

EMPLOYEES

At the end of the past financial year, the Essanelle Hair Group had a total of 4,183 employees, compared with 4,038 in the previous year. This represents an increase of 3.6%. 4,092 employees work in the salons, while 91 work in the headquarters and the sales organisation. As of 31 December 2007, the Essanelle Hair Group employed 206 apprentices, who are included in the above employee number. At 4.9 %, the share of apprentices has traditionally been high. Part-time workers account for approx. 36% of the workforce.

STRATEGY AND CONCEPTS

The Essanelle Hair Group continued its growth strategy in the financial year 2007. The company aims to open approx. 50 salons per year with a view to increasing its sales and earnings and winning market share in a moderately declining market. Apart from its range of salon concepts that are tailored to specific target groups, the company's strategic success factors include human and financial resources that are clearly superior to the typical independent hairdresser, as well as its focus on selling salon products, which generate higher margins than the services provided. The sales share of these products has traditionally exceeded the industry average by up to 100%. The same applies to the company's salons, whose average annual sales of approx. EUR 200,000 are more than twice as high as the industry average (approx. EUR 90,000).

The various salon concepts of the Essanelle Hair Group are aimed at clearly defined target groups and thus cover a larger part of total consumer demand than this can be achieved by an individual hairdresser. 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 market conditions offer 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 attract consumers who have not visited a salon in recent years. 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 selection of suitable locations for new salons is essential for the success of the company and its growth strategy. Depending on the salon concept and the target group, the Essanelle Hair Group prefers locations in shopping centres, consumer markets and department stores all of which ensure a high frequency of potential customers. Thanks to its long-standing partnerships with major retailers and landlords, the company is able to expand its branch network continuously and operate under long-term lease agreements. The company has deliberately adopted a different strategy for the TOP TEN concept, which was introduced in 2005 and whose salons are located at selected stand-alone sites.

A further pillar of the company's strategy is the sale of salon products at the salons and the Beauty Hair Shops. The fact that procurement volumes are far greater than those customary in the sector enables the company to benefit from notable purchasing price benefits. In addition, the salon staff directly offer these products to customers. The Beauty Hair Shops, which specialise in the sale of salon products, represent another successful distribution channel.

BUSINESS PERFORMANCE OF ESSANELLE HAIR GROUP AG

OBJECTIVES OF THE PAST FINANCIAL YEAR

As in the previous year, the Essanelle Hair Group planned to open approx. 50 new salons in the financial year 2007 with the aim of increasing its sales by approx. 5% p.a. This growth was to be achieved primarily by the salons opened in the previous years, as the new salons are normally not fully utilised in the first year and therefore do not generate the maximum possible turnover. At the operating level, the Essanelle Hair Group projected an increase in earnings figures of approx. 10%. As non-recurrent income in an amount of approx. EUR 0.8 million was generated in 2006 from the sale of the mod's hair franchise rights, the company projected to offset this non-recurrent effect with improved operating results and, hence, to achieve pre-tax earnings on a par with the previous years.

BUSINESS PERFORMANCE IN 2007

The Essanelle Hair Group opened 48 salons in 2007, which means that the 50 salon target was almost reached. The Hair Express brand opened the highest number of new salons (25), while essanelle Ihr Friseur opened 5 new outlets. 12 new salons were opened by TOP TEN and three by Super Cut. In addition, 3 new Beauty Hair Shops were opened. 10 salons were closed in 2007, most of them essanelle Ihr Friseur outlets. The number of the company's salons climbed from 597 at the end of 2006 to 635 at the end of the past fiscal year.

With sales revenues rising by 4.7%, the Essanelle Hair Group almost reached its 5% growth target. However, the weak Christmas business in the retail sector as a whole was also reflected in the development of the Essanelle Hair Group, which reported an increase in sales of only 2.9% in the fourth quarter. After nine month the sales was 5.4%. The Essanelle Hair Group generated total sales of EUR 123.1 million in 2007, compared to EUR 117.5 million in the previous year. The positive overall development of sales, which is mainly attributable to the new salons opened in recent years, shows that the company's growth strategy has been successful. At EUR 103.5 million or 84.1%, the services provided in the salons made the biggest contribution to total sales. Revenues generated from the sale of salon products continued their positive development and increased by 8.2% from EUR 18.1 million to EUR 19.6 million in 2007. These products contribute 15.9% to total sales.

The earnings figures of the Essanelle Hair Group clearly exceeded the original targets in 2007. At EUR 5.4 million, earnings before taxes (EBT) exceeded the projections of EUR 4.5 million by approx. 20% and were also up on the previous year's EUR 5.3 million, which had benefited from non-recurrent income of EUR 0.8 million from the sale of the mod's hair franchise rights. The figures also show that the higher earnings resulting from the additional sales generated in the salons opened in the past years more than offset the start-up costs of the new outlets opened in 2007.

PERFORMANCE OF THE SALON CONCEPTS

The company's largest brand, essanelle Ihr Friseur, is targeted at all age groups, in most cases in shopping centres and department stores. With sales of EUR 67.6 million (previous year: EUR 69.5 million), the concept generated 54.9% of total sales (previous year: 59.1%). 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 335 salons (previous year: 342) were operating under this concept at the end of the fiscal year.

The Super Cut concept was 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. The concept has generated growing sales since 1999, and this trend continued in 2007, when sales climbed from the previous year's EUR 19.0 million to 19.6 EUR million. Three new outlets were opened in 2007, bringing the total number of Super Cut salons to 88.

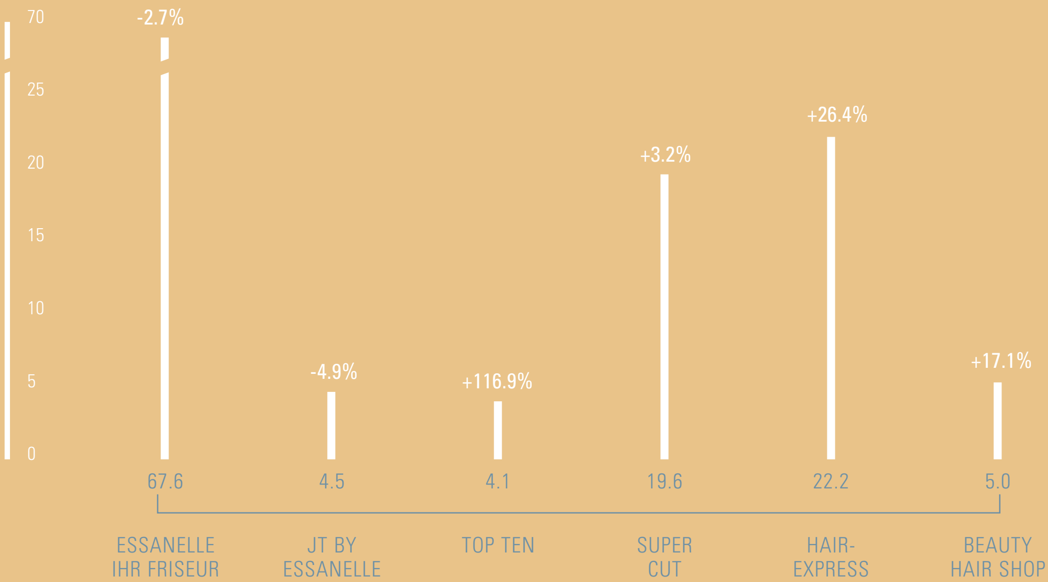
Launched in mid-2005, the TOP TEN concept is positioned in the lower price segment and targeted at a young customer group. TOP TEN serves this target group by offering a "workshop character" and the latest hits from the top ten in the music charts. The new concept is also characterised by a price of EUR 10 for each service. Top TEN more than doubled its sales from EUR 1.9 million in 2006 to EUR 4.1 million in the past financial year. The number of salons increased by 12 to 27.

HairExpress has been the fastest growing concept of the Essanelle Hair Group for several years. In 2007, the brand again opened the largest number of new salons (25), bringing the total number of outlets in Germany to 146.
Hair Express optimally fits the consumer market and shopping centre environment. With its focus on price-sensitive customers, this concept provides unadulterated, professional core services. In the past fiscal year, sales rose by 26.4% to EUR 22.2 million (previous year: EUR 17.6 million).

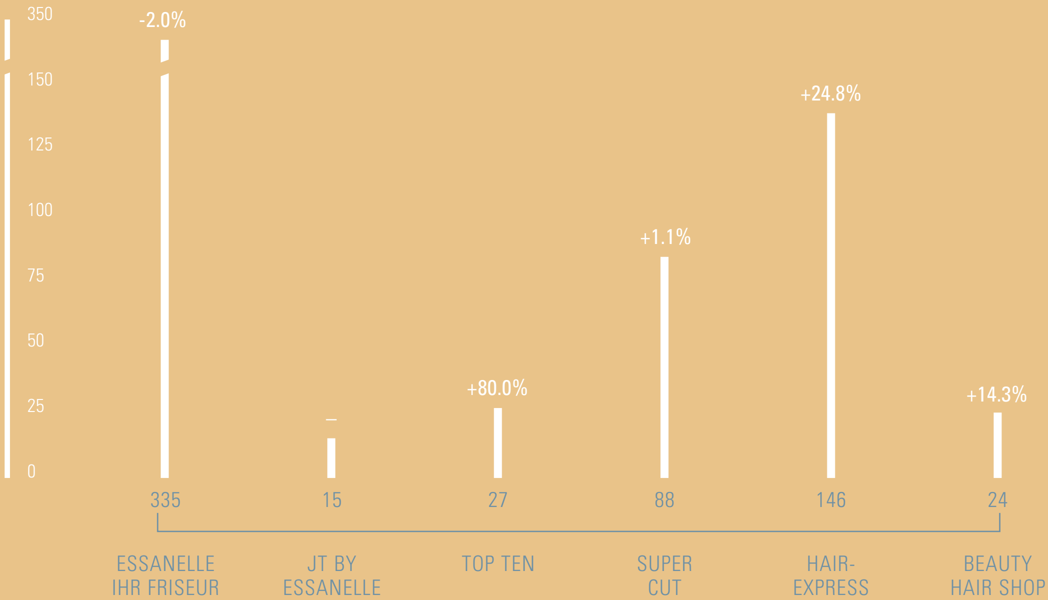
JT by essanelle is a concept of exclusiveness and is correspondingly positioned at superb locations, such as the Berlin department store KaDeWe, the Alsterhaus in Hamburg or on the Königsallee in Düsseldorf. Operating under the label of the star-hairdresser Jürgen Tröndle, this brand offers high-quality services to a sophisticated business public. Its sales amounted to EUR 4.5 million in the 2007 financial year, compared with EUR 4.7 million in the previous year. As in the previous year, 15 salons were operated under this brand name.

Boosting sales revenues through the sale of salon products is an integral element of the strategy of the Essanelle Hair Group. With a view to generating additional revenues outside the salons, the Essanelle Hair Group operates pure-play sales outlets under the Beauty Hair Shop brand name. 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. The growing turnover in these Beauty Hair Shops shows that the company is able to motivate customers to buy the products not only when they visit the hairdresser. In the 2007 financial year, the total of 24 shops (previous year: 21) generated sales of EUR 5.0 million, compared to EUR 4.3 million in the previous year.

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



NUMBER OF SALONS BY CONCEPTS (CHANGE ON PREVIOUS YEAR)



EARNINGS POSITION

In 2007, the Essanelle Hair Group boosted its sales by 4.7% from EUR 117.5 million to EUR 123.1 million. In the previous year, sales had grown by 3.5%. Due to a non-recurrent effect in 2006, other operating income declined by 31.2% to approx. EUR 1.4 million in 2007. In line with the higher sales, the growing number of salons and the intensified product sales, the corresponding expense items also increased in 2007. The cost of materials climbed 3.9% from EUR 10.8 million to EUR 11.2 million, while personnel expenses rose by 4.4% from EUR 65.5 million to EUR 68.3 million. This means that these two major expense items increased at a lower rate than sales. Depreciation/amortisation went up moderately from EUR 4.6 million to EUR 5.0 million. Rents including ancillary costs advanced sharply by 5.5% from EUR 21.7 million to EUR 22.9 million. Other operating expenses remained unchanged at roughly EUR 11.0 million.

Although the previous year was marked by a non-recurrent effect in an amount of EUR 0.8 million, EBIT before interest, taxes, depreciation and amortisation (EBITDA) increased from EUR 10.6 million to EUR 11.0 million, a rise of 3.6%. Earnings before interest and taxes (EBIT) amounted to EUR 6.1 million (previous year: EUR 6.1 million). The financial result, including income from long-term loans, improved from approx. EUR -0.8 million in the previous year to EUR -0.7 million in 2007.

The Group's earnings before taxes calculated in line with IFRS therefore amounted to EUR 5.4 million, compared to EUR 5.3 million in the previous year. Tax expenditure declined noticeably from approx. EUR 2.4 million to EUR 0.8 million. Changes in the corporate income and trade tax rates, which will become effective in 2008, led to a reduction in deferred taxes under IFRS already in 2007. The 2007 tax ratio also benefited from tax refunds for prior years and expanded possibilities to set off losses against tax. Due to these special factors, the average income tax rate is 18.2% of the consolidated net profit for the year. In view of the changed trade tax treatment of movable and immovable assets as well as interest payments as of the next fiscal year, the Essanelle Hair Group expects the tax rate to return to the level of 2006 from the year 2009. Under IFRS, this results in a consolidated net profit of EUR 4.6 million, up 54.9% on the previous year's EUR 2.9 million. Basic earnings per share thus climbed from EUR 0.66 to EUR 1.01.

NET ASSET AND FINANCIAL POSITION

The Essanelle Hair Group's cash flow statement for the 2007 financial year is again characterised by a high operating cash flow and continued strong investment activity. The cash flow from operating activities amounted to EUR 9.6 million, compared to EUR 9.5 million in the previous year. After deduction of interest expenses and income tax, this results in a net cash flow from operating activities of EUR 8.3 million. The cash flow from investing activities is characterised by a high outflow of funds for the acquisition of property, plant and equipment, which amounted to approx. EUR 5.1 million in 2007. This primarily includes investments in new salons as well as existing salons. The net outflow of funds for investment activities totalled EUR 5.1 million in 2007, compared to EUR 4.6 million in 2006. The cash flow from financing activities reflects the continued reduction in liabilities. The receipts from taking up of financial debt in an amount of EUR 1.2 million were offset by repayments of financial debt in an amount of EUR 3.7 million. This results in a net outflow of funds for financing activities of approx. EUR 2.5 million, compared to EUR 2.4 million in 2006 of approx. EUR 2.5 million and was thus almost on the previous year´s level.

Cash and cash equivalents thus increased by EUR 0.8 million from EUR 5.3 million at the end of 2006 to EUR 6.1 million at the end of 2007.

The consolidated balance sheet of Essanelle Hair Group AG as of 31 December 2007 shows an equity ratio of 53.0%, up from 46.0% at the end of the 2006 financial year. Equity increased from EUR 24.4 million to EUR 29.2 million primarily due to the allocation of the net profit to the revenue reserves. The company reduced both its current and non-current liabilities from a total of EUR 28.6 million to EUR 25.9 million. Non-current liabilities amounted to EUR 11.3 million, down from EUR 13.0 million in the previous year, while current liabilities declined from EUR 15.6 million on 31 December 2006 to EUR 14.7 million at the end of 2007. On the assets side of the balance sheet, non-current assets increased moderately from EUR 41.0 million to EUR 41.3 million, with capital expenditure slightly higher than depreciation. Among the current assets, inventories rose moderately from EUR 6.1 million to EUR 6.6 million as of 31 December 2007, liquid funds climbed to EUR 6.1 million (EUR 5.3 million as of 31 December 2006). Total assets rose from EUR 53.0 million in the previous year to EUR 55.1 million.

Investments in property, plant and equipment including finance leases, which must be included under IFRS amounted to EUR 5.3 million, compared to EUR 6.5 million in 2006. The company invested a sum of around EUR 3.6 million in the 48 newly opened salons. A sum of EUR 1.6 million was used to finance the renovation of existing salons; other investments amounted to EUR 0.1 million.

THE SHARE

In the 2007 financial year, the share of the Essanelle Hair Group traded at between EUR 7.56 (12-month low) and EUR 10.55 (annual high). Having opened at a price of EUR 8.28 in January 2007, the share closed at EUR 9.75 on 31 December 2007. The all-time high of EUR 10.55 was reached at the beginning of the fourth quarter. The share gained a good 17.8% in 2007. Based on the year-end price, the approx. 4.6 million shares represented a market capitalisation of EUR 44.8 million.

In the course of 2007, Ratio Asset Management LLP (London), announced that it had exceeded the 10% threshold and held 11.61% of the voting shares or 553,625 of the voting rights. In December 2007, Saxonia Holding-Gesellschaft mbH & Co. KG informed the company that its shareholding had exceeded the 5%, 10% and 30% thresholds and stood at 31.08% at this time. In accordance with legal requirements, this company announced that it would submit a statutory offer to the shareholders of Essanelle Hair Group AG at a price of EUR 9.60. In February 2008, Saxonia Holding-Gesellschaft mbH & Co. KG reported a shareholding of 89.76% in Essanelle Hair Group AG.

RISK REPORT

EARLY IDENTIFICATION

To ensure that risks are identified at an early stage, the Essanelle Hair Group has installed an early warning risk identification system pursuant to section 91 (2) of the German Stock Corporation Act (AktG). The system covers all divisions and subsidiaries of the Group. In accordance with legal requirements, functionalities, responsibilities, reporting requirements and possible controls are defined in a manual, which also specifies the appropriate forwarding of information from the early warning risk identification system.

In addition, 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. Following thorough examination of all risks, the latter reports to the Management Board.

CONTROLLING AT THE SALONS

The Essanelle Hair Group operates a complex controlling system, which monitors the performance of all company divisions and salons in detail. The aim is to enable prompt analyses to be compiled and targets and measures to be set at all levels of responsibility with a view to counter-acting undesirable developments immediately. 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 ongoing development of the salon network, the management attaches great importance to the constant monitoring and evaluation the performance of the salons.

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 and behaviour. The company is of the opinion that the general choice of such centres, which are characterised by high customer frequency, is an advantage. There is nevertheless a general 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 correlation between the development of the overall retail sector and the development of the hairdressing services sector. Based on past experience, however, developments in the retail sector are only passed on in diluted form. Accordingly, the purchasing restraint among consumers seen since 2001 also has an impact on the company's salons. To counteract this development, Essanelle Hair Group has developed matching concepts, e.g. HairExpress, which responds to the "savings trend".

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. Salons for which the Management Board sees no prospects of improved profitability in the medium term are therefore closed regularly.

RENTAL

The Essanelle Hair Group has concluded long-term rental agreements with a large number of letting partners. When a certain number of lease agreements are signed with the same partner, it is sometimes impossible to close individual salons. To reduce these to a minimum, the existing leases have been signed with a large number of different lessors. Moreover, the long-term nature of the rental agreements protects the company against the risk of losing particularly good and highly sought-after locations. The long-standing and good relations with the lessors mean additional safety. 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 salon products. 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 success of the Essanelle Hair Group. This is why the company attaches great importance to the motivation and further training of employees . In addition, detailed analyses of personnel productivity, turnover and development levels are performed and evaluated at regular intervals. The exchange between the Management Board and the regional sales managers as well as between the latter and the employees in the salons provides an additional communication and information system enabling this key strategic factor of the hairdressing services sector to be monitored on a regular basis.

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

OPPORTUNITIES

The Essanelle Hair Group sees its main opportunities in the continuation of its growth strategy and the broad diversification of salon concepts. Please refer to chapter entitled “Strategy and concepts” on page 29 of the annual report.

COMPENSATION REPORT

The overall compensation of the Management Board in 2007 was structured as follows (EUR K):

	Uwe Grimminger	Achim Mansen	Total
Basic salary (non-performance-related)	270	195	465
Performance-related bonus	199	151	350
Non-cash benefit from use of company car	7	14	21
Severance claims	621	0	621
Total	**1.097**	**360**	**1.457**

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.

Mr Uwe Grimminger is entitled to compensation for the early termination of his office, for which Essanelle Hair Group AG has established a provision.

The accepted but not yet exercised Tranche IV stock options have a fair value of EUR 0k for Mr Uwe Grimminger (previous year: EUR 63k for 19.838 shares) and of EUR 42k for 13.225 shares for Mr Achim Mansen.

In 2004, a EUR 70k loan was granted to Mr Achim Mansen at an interest rate of 4.5%. The loan has a term of 3 years and is repayable in quarterly instalments. The remaining EUR 9k amount due was repaid in the financial year.

Taking into account assets from qualifying insurance policies in an amount of EUR 0.5 million, pension provisions stated for the Management Board total EUR 0.2 million. Uwe Grimminger is thus entitled to a monthly pension payment of EUR 3,158.52 from the age of 60, as well as to a monthly disability pension of EUR 3,035.87 and a widow's pension. Achim Mansen is entitled to a monthly pension of EUR 3,628.00 from the age of 65, as well as to a monthly disability pension of EUR 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.

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 EUR 1. The company's subscribed capital amounted to EUR 4,595,044 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.

On account of their combined 31.08% shareholding, Frisör Klier GmbH and Saxonia Holding-Gesellschaft mbH & Co. KG announced a statutory offer to the shareholders of Essanelle Hair Group AG in accordance with legal requirements in December 2007. In February 2008, Saxonia Holding-Gesellschaft mbH & Co. KG reported that it holds 89.76% of the shares in Essanelle Hair Group AG.

No special rights, such as the right to appoint members to the Supervisory Board, exist at present.

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 where their contracts are not renewed. Apart from this, there are no agreements concerning the payment of compensation.

POST BALANCE SHEET EVENTS

In February 2008, Saxonia Holding-Gesellschaft mbH & Co. KG reported that it holds 89.76% of the shares in Essanelle Hair Group AG.

There have been no events with a significant impact on the net asset, financial and earnings position of Essanelle Hair Group AG subsequent to the reporting date on 31 December 2007.

OUTLOOK

Most experts expect economic activity in Germany to weaken in 2008. The main reason is the subprime crisis in the USA, which many experts expect to weigh considerably on the US economy. The effects on consumption and the retail sector in Germany are difficult to predict but will certainly be felt in the medium term. It is not clear whether this will be the case already in 2008. The German economy is expected to grow by just under 2%, which means that it would lose some momentum.

The Essanelle Hair Group assumes that it will be able to expand and boost its sales also in a more difficult environment. The company has set itself a sales growth target of 5 to 10%, albeit based on the assumption that consumer spending develops as outlined above. The Essanelle Hair Group will continue to push ahead its expansion in the coming years above all by continuing its expansion strategy, which provides for some 50 salons to be opened per year, by concentrating on promising target groups and by boosting its product sales. The appointment of two Board members responsible for Sales and Human Resources, respectively, shows that the company will put an even stronger focus on these two factors, which are essential for the success of the Group. The company will also focus on new strategic aspects in the current fiscal year. These include the revitalisation of essanelle Ihr Friseur; this core brand will be differentiated even more effectively from the other concepts. The aim is to keep the sales share of this brand stable at 50%, which means that it will also grow in absolute terms again. In addition, a multi-stage training programme will be implemented to support the development of young talent and improve staff retention. Finally, the lessor management will be reorganised with a view to exploiting additional expansion opportunities.

In line with its rising sales revenues, the Essanelle Hair Group also aims to increase its profitability to achieve disproportionate earnings growth. Accordingly, earnings figures are projected to improve by over 10% in 2008. Based on pre-tax earnings of EUR 5.4 million in 2007, this means that earnings should amount to at least EUR 5.9 million in 2008. Although the company plans to distribute a dividend to its shareholders for the year 2007, it aims to keep the equity ratio at a high level.

The majority takeover of the Essanelle Hair Group by Saxonia Holding-Gesellschaft mbH & Co. KG may result in other strategic implications in the current year. In its takeover bid, Saxonia Holding-Gesellschaft mbH & Co. KG had ruled out that the operations of the two companies would be combined.

For the financial years from 2009, the Essanelle Hair Group plans to increase its sales revenues by at least 5% and to achieve a disproportionate increase in earnings.

Düsseldorf, 19 March 2008

Management Board

Achim Mansen	Dieter Bonk	Dirk Wiethölter
(Chairman of the Management Board)	(Management Board)	(Management Board)

CONSOLIDATED BALANCE SHEET (IFRS)

as of 31 December 2007

ASSETS

€	Notes	31.12.2007	31.12.2006
ASSETS			
Long-term assets			
Property, plant and equipment	6	21,493,076.73	21,149,157.73
Goodwill	7	19,558,872.10	19,558,872.10
Other intangible assets	7	177,257.44	208,465.92
Other loans	9	88,877.88	72,940.72
		41,318,084.15	**40,989,436.47**
Short-term assets			
Other loans	9	10,815.16	19,683.52
Inventories	10	6,601,628.87	6,132,112.32
Accounts receivable	11	214,077.60	105,320.13
Other assets	12	920,612.76	423,001.77
Cash and cash equivalents	13	6,077,784.93	5,321,163.33
		13,824,919.32	**12,001,281.07**
Total assets		**55,143,003.47**	**52,990,717.54**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	Notes	31.12.2007	31.12.2006
SHAREHOLDERS' EQUITY			
Capital and reserves allocable to the shareholders in the parent company			
Share capital	14	4.535.044,00	4.535.044,00
Capital reserve	15	15.702.463,44	15.422.954,30
Revenue reserves	16	8.979.264,34	4.413.771,29
		29.216.771,78	**24.371.769,59**
DEBT			
Long-term debt			
Financial debt	17	7.200.220,76	9.277.886,80
Deferred tax liabilities	18	3.157.000,00	2.880.000,00
Pension provisions	19	160.076,00	179.977,00
Other provisions	20	738.737,38	683.542,40
		11.256.034,14	**13.021.406,20**
Short-term debt			
Financial debt	21	3.264.094,25	3.537.262,56
Accounts payable	22	3.461.653,92	4.471.932,01
Current income tax liabilities	23	639.380,67	668.497,20
Other liabilities	24	2.801.288,88	2.819.661,38
Other provisions	25	4.503.779,83	4.100.188,60
		14.670.197,55	**15.597.541,75**
Total debt		**25.926.231,69**	**28.618.947,95**
Total shareholders' equity and liabilities		**55.143.003,47**	**52.990.717,54**

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2007 to 31 December 2007

€	Notes	2007	2006
Sales	26	123,082,504.57	117,508,845.62
Other operating income	27	1,442,576.06	2,097,692.65
Cost of materials	28	-11,239,798.12	-10,820,576.26
Personnel expenses	29	-68,347,659.53	-65,491,099.00
Depreciation and amortisation	30	-4,970,219.80	-4,564,341.52
Rental and ancillary rental expenses	31	-22,903,997.52	-21,708,418.43
Other operating expenses	32	-11,011,574.85	-10,946,630.24
Operating earnings		**6,051,830.81**	**6,075,472.82**
Financing income	33	74,968.85	52,648.97
Financing expenses	34	-731,998.00	-784,981.66
Losses on financial loans		0.00	-41,160.55
Net financial loans		-657,029.15	-773,493.24
Earnings before taxes		**5,394,801.66**	**5,301,979.58**
Tax expenses	37	**-829,308.61**	**-2,354,054.37**
Consolidated net income		**4,565,493.05**	**2,947,925.21**
Earnings per share	38		
basic		1.01	0.66
diluted		0.94	0.62

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January 2007 to 31 December 2007

€K	Notes	2007	2006
1. CASH FLOW FROM OPERATING ACTIVITIES	39		
Cash generated by ongoing business activities		9,603	9,459
Interest paid		-646	-836
Taxes on income paid		-631	-274
Net inflow of funds from operating activities		**8,326**	**8,349**
2. CASH FLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	6	-5,155	-5,734
Proceeds from sale of property, plant and equipment	39	31	725
Acquisition of intangible assets	7	-49	-395
Loans paid out	9	-14	-55
Loans repaid	9	23	770
Loans paid out to closely related persons	42	9	23
Interest received		72	34
Net outflow of funds for investment activities		**-5,083**	**-4,632**
3. CASH FLOW FROM FINANCING ACTIVITIES			
Payments received in connection with employee share option programmes	14,15	0	293
Receipts from taking up of financial debt	17	1,230	4,830
Repayment of financial debt	17	-3,716	-7,543
Net outflow of funds for financing activities		**-2,486**	**-2,420**
Net decrease/increase in cash and cash equivalents		756	1,297
Cash and cash equivalents at beginning of year	13	5,321	4,024
Cash and cash equivalents at end of year		**6,078**	**5,321**

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2007

	Notes	Share capital	Capital reserve	Revenue reserves	Total equity
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**
Balance at 01.01.2007		**4,535,044.00**	**15,422,954.30**	**4,413,771.29**	**24,371,769.59**
Consolidated earnings	16			4,565,493.05	4,565,493.05
Value of employee services in connection with employee share option programmes	15		279,509.14		279,509.14
Capital increase due to payments received in connection with exercise of share options (Tranches I and II)	15				0.00
Balance at 31.12.2007		**4,535,044.00**	**15,702,463.44**	**8,979,264.34**	**29,216,771.78**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

as of 31 December 2007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of 31 December 2007

1 BASIC INFORMATION

The consolidated Essanelle Hair Group, which consists of the parent company, Essanelle Hair Group AG (in short: Essanelle), and its sole subsidiary, CFS Coiffure Franchising System GmbH (in short: CFS GmbH), as well as Essanelle Dienstleistungs GmbH (in short: EDL GmbH), the subsidiary of CFS, is one of the leading providers of hairdressing services in Germany. Furthermore, Essanelle also sells salon products in its hairdressing salons and in specialist sales shops and acts as franchisor for proprietor-managed hairdressing salons.

The total salon network comprises 635 hairdressing salons and sales shops, compared with 597 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
– JT 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 "JT 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" brand name.

6 (previous year: 8) independent hairdressing salons were linked as franchisees within the "essanelle Ihr Friseur" brand concept.

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 and 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 19 March 2008.

MEMBERS OF THE MANAGEMENT BOARD

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

Uwe Grimminger, Kerpen, until 31 January 2008	Chairman until 31 January 2008
Achim Mansen, Monheim	Chairman from 1 February 2008
Dieter Bonk, Neuss	from 1 February 2008
Dirk Wiethölter, Hilden	from 1 February 2008

Subsidiary activities of the members of the Management Board:

Uwe Grimminger	Administrative Board Essanelle Company Health Insurance Fund, Augsburg, (until 31 December 2007)
Achim Mansen	Administrative Board Essanelle Company Health Insurance Fund, Augsburg
Dieter Bonk	Administrative Board Essanelle Company Health Insurance Fund, Augsburg
Dirk Wiethölter	Administrative Board Essanelle Company Health Insurance Fund, Augsburg Alternating Chairman of Essanelle Company Health Insurance Fund, Augsburg

MEMBERS OF THE SUPERVISORY BOARD

Shareholder representatives

	Profession
Joachim Dübner, Düsseldorf, (Chairman and member until 17 March 2008)	Managing director
Fritz Kuhn, Seeheim	Management consultant
Hans-Joachim Oltersdorf, Rellingen	Managing director
Werner Schneider, Cologne	Economist
Hiltrud Seggewiß, Düsseldorf	Managing director
Jürgen Tröndle, Kelsterbach	Hairdresser / Businessman

Employee representatives

	Profession
Peter-Michael Herold, Stuttgart, (Deputy Chairman)	Trade union secretary
Silvia Altenberger, (from 16 April 2007)	Sales manager
Dieter Bonk, Neuss, (until 3 January 2007)	Sales director
Michael Eberhard, Gerlingen	Trade union secretary
Cornelia Glaß, Erlbach	Hairdresser
Ulrike Witt, Essen	Hairdresser
Barbara Wietusch, Stuttgart	Hairdresser

The following members of the Supervisory Board sit or sat 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) IP5 Gesellschaft für Wissenswerte AG, Hamburg (Member)
Hans-Joachim Oltersdorf	Supervisory board Fielmann AG, Hamburg (Member) Administrative board Parte GmbH, Cologne (Chairman)

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 including the figures for the previous year have been prepared in accordance with the IFRS of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as applicable in the EU. All standards and interpretations of the IASB that were mandatory as of 31 December 2007 have been applied 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 2007.

Application has been made of the supplementary provisions of the German Stock Corporation Act (AktG). The Group management report as of 31 December 2007 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 2007:

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

This amendment obliges all entities to disclose information that allows the users of IFRS statements to evaluate the measures taken to manage the group's capital.

IFRS 7 - Disclosures on financial instruments in the notes (formerly laid down in IAS 30 and 32)

This IFRS standard refers to comprehensive disclosures on financial instruments in the notes, which relate primarily to the nature and extent of risks well as the objectives, guidelines and processes of their risk management system and their valuation methods. Quantitative disclosures on the credit, liquidity and market risks are to be provided, with the information based on the data on which the internal reports to the Management Board are based.

- IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 - Scope of IFRS 2 (clarification regarding certain share-based payments)
- IFRIC 9 - Reassessment of Embedded Derivatives
- IFRIC 10 - Interim Financial Reporting and Impairment (rules relating to contradictions between the provisions of IAS 34 (Interim Financial Reporting) and the provisions relating to the reversal of impairment losses recognised for goodwill and certain assets, i.e. no reversal of impairment losses in subsequent periods, both annual financial statements and interim financial statements).
- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (treatment of share-based payment arrangements in conjunction with own shares)
- IFRIC 7 - 10 had no impact on the 2007 consolidated financial statements of Essanelle.

International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) not yet requiring mandatory application

The IASB has published a number of new and revised standards whose application is mandatory from 1 January 2008. Their application will also require the approval of the EU, which is still outstanding in some cases. These are the following standards:

- IFRS 8 “Operating Segments” - to be applied in financial statements for periods beginning on or after 1 January 2009 (approved by the EU, not relevant for Essanelle)

- Amendments to IAS 23 “Borrowing Costs” - to be applied in financial statements for periods beginning on or after 1 January 2009 (not yet approved by the EU, not relevant for Essanelle)

- Amendments to IAS 1 “Presentation of Financial Statements” - to be applied in financial statements for periods beginning on or after 1 January 2009 (not yet approved by the EU, probably relevant for Essanelle with regard to the revised presentation of the individual components of the financial statements)

In addition, the International Financial Reporting Interpretations Committee (IFRIC) has published the following interpretations:

– IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (treatment of share-based payment arrangements in conjunction with own shares), to be applied in financial statements for periods beginning on or after 1 March 2007, approved by the EU, not relevant for Essanelle)

– IFRIC 12 - Service Concession Arrangements (to be applied from 1 January 2008, not yet approved by the EU, not relevant for Essanelle)

– IFRIC 13 - Customer Loyalty Programmes (to be applied in financial statements for periods beginning on or after 1 January 2008, not yet approved by the EU)

This interpretation governs the presentation of the sales revenues and related expenses from obligations resulting from customer retention programmes (e.g. premium, bonus or loyalty programmes). Under IFRIC 13, sales must be recognised as ″deferred″ revenues at their fair value. The effects on the net worth, financial and earnings position of Essanelle cannot be predicted at this stage.

– IFRIC 14 - “IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (to be applied in financial statements for periods beginning on or after 1 January 2008, not yet approved by the EU, not relevant for Essanelle)

In 2008, the IASB published the following standards and amendments to existing standards, which have not yet been approved by the EU:

– Revised IFRS 3 “Business Combinations” (to be applied from 1 January 2010)
– Amendments to IAS 27 “Consolidated financial statements and accounting for investments in subsidiaries” (to be applied from 1 January 2010)
– Amendments to IFRS 2 “Share-based Payment” to be applied from 1 January 2009)
– Revision of IAS 32 “Financial Instruments: Presentation” and amendments to IAS 1 “Presentation of Financial Statements” with the title “Puttable Financial Instruments and Obligations arising on Liquidation”.

The new IFRS 3 contains rules relating to the scope, the purchase price components, the treatment of goodwill and minority interests and the scope of the assets, liabilities and contingent liabilities to be recognised in the context of a business combination.

The amendment to IAS 27 requires the application of the ″economic entity approach″ in the acquisition or sale of investments following the attainment or retention of the possibility of control.

The revised IFRS 2 includes clarifications regarding the vesting conditions in the context of share-based payment arrangements and the measurement of equity instruments issued.

The revised IAS 32 provides a clear distinction between equity and debt capital. The amendments must be applied in financial statements for periods beginning on or after 1 January 2009.

At present, it is not possible to say whether these four standards will be relevant for Essanelle.

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.

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 2007:

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

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

CFS-A Coiffure Franchising System GmbH, Vienna/Austria, which was recognised as an associated company in the previous year, has been sold and is therefore no longer included in the reporting entity. The same applies to four liquidated CFB Frisiersalon Betriebs-GmbH operating companies, which were subsidiaries of CFS GmbH.

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 2007 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 primarily include furnitures and fittings in the hairdressing salons.

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. 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.

The Group exclusively acts as a lessee and has signed both finance leases and operating leases.

In accordance with IAS 17, fixed assets that have been leased and are beneficially owned by the respective Group company (finance lease) are capitalised at the present value of the leasing rates or the lower fair value and written off over their useful lives or the shorter contractual period. The payment obligations arising from the leasing rates are recognised as financial liabilities. The repayment portion of the leasing instalments is then off-set against these financial liabilities on an ongoing basis, while the interest portion is recorded under interest expenses.

Leases that do not transfer substantially all the risks and rewards incident to ownership are classified as operating leases. The respective expenses are recognised in the income statement. The financial obligations arising under such leases, especially from the rental of premises for salons and Beauty Hair Shops are shown under multi-year obligations under rental agreements.

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. It is assumed that these assets have an indefinite useful life and no more scheduled amortisation will be required. Goodwill is subject to an impairment test should there be any reason for such test and at least once per year. Based on this impairment test, non-scheduled amortisation takes place whenever required.

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 fall in the "Loans and Receivables" category and comprise loans and trade receivables as well as cash and cash equivalents.

Receivables (including long-term loans) 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. In the Essanelle-Group, receivables are included in long-term assets; as loans, they fall under long-term assets if their maturity exceeds a period of 12 months after the balance sheet reporting date. The Group does not use receivables and loans for trading purposes.

Upon initial recognition, financial assets are measured at their fair value. Subsequently, they are measured at amortised cost using the effective interest method, with itemised allowances established whenever required.

An impairment loss on receivables and the salon debtors is recognised whenever there are objective indications that amounts cannot be collected as originally agreed. Significant financial difficulties of the debtor, especially delayed payments, are indications of impairment. The amount of the impairment loss covers the difference between the carrying amount or the receivable and the sum total of the expected cash flows, discounted using the effective interest method.

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-method (FiFo). 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 recognised at fair value and subsequently valued at amortised cost using the effective interest method and deducting any write-downs. Write-downs are recorded when there are objective indications that the amounts due cannot be collected in full.

Impairments of accounts receivable are partly recognised using allowance accounts. The decision whether to recognise a default risk by means of an allowance account or a direct write-off depends on the reliability with which the risk situation can be assessed.

2.10 OTHER ASSETS

Other assets include tax assets and short-term settlement items as well as prepayments made for assets and accrued income. They are measured at cost.

With the exception of prepayments made for assets, these are non-financial assets.

2.11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents relate to cash in hand and in bank including salon payments outstanding on the balance sheet date (salon debtors). They are measured at amortised cost.

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 tax assets have been recognized in respect of all tax carryforwards to be realized. 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 pro-rated 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 primarily refers to the financing of newly opened salons and includes liabilities to banks, liabilities under finance leases and investment loans from suppliers. Financial debt is classified as a short-term liability to the extent that there is no unconditional right to postpone the settlement of such liability to a time at least 12 months following the balance sheet reporting date.

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.

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: 5.25%; 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 TRADE PAYABLES AND OTHER LIABILITIES

Trade payables are measured at amortised cost using the effective interest method.

Other liabilities include wage tax, church tax and turnover tax liabilities, payroll liabilities as well as liabilities under rental agreements and are recognised at cost.

With the exception of liabilities under rental agreements, these are non-financial liabilities.

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.

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.

In exceptional cases, however, respites and defaults may occur due to billbacks in conjunction with bad credit cards.

The granting of loans to franchise companies using the “essanelle Ihr Friseur” brand name 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.

3.3 CAPITAL MANAGEMENT

The purpose of capital management is to ensure that the company has financial room for manoeuvre and, in particular is solvent at all times. The basic principles of the financial policy are defined by the Management Board and monitored by the Supervisory Board. The implementation of the financial policy as well as ongoing risk management are the tasks of the Treasury Department.

The Group defines capital as both equity capital and financial liabilities taking into account the planned expansion into new salons.

To implement the expansion, new salons are financed both from existing cash and from debt capital raised by the company.

To secure its liquidity, the company uses short, medium and long-term financial planning.

The purpose of short-term financing is to secure the company’s liquidity in day-to-day business, taking into account the seasonal factors of the hairdressing business. This is monitored by daily liquidity planning, which is extrapolated to one month; cash flow deviations (actual/target comparison) are balanced through daily availability and provision of liquid funds.

The improvement in short-term liquidity in 2007 as compared to 2006 is reflected in the ratio of current assets to current liabilities, which improved from 0.77 in 2006 to 0.94 in 2007.

Medium and long-term financial planning mainly refers to the financing of the salon expansion. To monitor and manage the expansion, the planned investments are compared with the planned revenues. This is monitored by annual planning and a 4-year plan, which is approved by the Supervisory Board.

In the long-term segment, the improvement in capital management is measured by the ratio of non-current assets and equity. This ratio improved from 0.59 in 2006 to 0.71 in 2007. Another indicator is the equity ratio, which increased from 46.0% in 2006 to 53.0% in 2007.

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 EUR 93k (previous year: EUR 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.

(d) Estimates concerning purchase obligations in connection with supply agreements
Under a framework agreement with a supplier, Essanelle has agreed to source a certain percentage of its annual procurement volumes for hairdressing hair cosmetics products, salon furnishings and large-scale technical equipment from this supplier until 30 June 2010. Based on the expected development in its procurement volumes calculated on the basis of around 60 salon openings per year, the Group estimates that its purchase obligations towards the supplier amount to EUR 31.2 million.

As of 31 December 2007, Essanelle had not reached the contractually agreed purchase target in terms of salon furnishings and large-scale technical equipment. According to the Management Board, this will have no consequences with regard to the originally agreed penalty, as this penalty was precluded retroactively in the renegotiations with the respective supplier, which started at the end of 2007. This was confirmed in a letter from the supplier dated 18 February 2008.

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 2006			
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
2007 financial year			
Opening carrying amount (net)	17,982,358.75	3,166,798.98	21,149,157.73
Additions	5,154,928.21	135,627.35	5,290,555.56
Disposals	-226,801.37	0.00	-226,801.37
Additions to depreciation	-4,047,595.96	-813,648.42	-4,861,244.38
Disposals from depreciation	170,350.51	0.00	170,350.51
Additions to impairments (IAS 36)	-28,941.32	0.00	-28,941.32
Closing carrying amount (net)	19,004,298.82	2,488,777.91	21,493,076.73
As of 31 December 2007			
Costs of acquisition/manufacture	48,377,086.62	9,895,424.49	58,272,511.11
Cumulative impairments (IAS 36)	-179,392.52	0.00	-179,392.52
Cumulative depreciation	-29,193,395.28	-7,406,646.58	-36,600,041.86
Carrying amount (net)	**19,004,298.82**	**2,488,777.91**	**21,493,076.73**

Investments in property, plant and equipment amounted to EUR 5,290k (previous year: EUR 6,557k) in the 2007 financial year and predominantly related to salon furnishings at newly opened salons and renovations of existing salons. The disposals of assets in 2007 in a net carrying amount of EUR 57k mainly refer to salon closures. The previous year's figure of EUR 724k related to asset disposals in the context of sale-and-lease-back transactions in an amount of EUR 512k and sales closures and other disposals in an amount of EUR 212k. Income from asset disposals amounted to EUR 2k (previous year: EUR 71k), while losses amounted to EUR 28k (previous year: EUR 70k).

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.

Leasing expenses relating to operating leasing agreements for motor vehicles amounting to EUR 235k have been recorded in the income statement (previous year: EUR 209k). Moreover, rental expenses amounting to EUR 19,656k have also been included in connection with the letting of premises for hairdressing salons and Beauty Hair Shops (previous year: EUR 18,585k).

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 revealed impairments of property, plant and equipment as defined in IAS 36 in an amount of EUR 28k (previous year: EUR 0k).

7 INTANGIBLE ASSETS

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

€	Goodwill	Other	Total
As of 1 January 2006			
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
2007 financial year			
Opening carrying amount (net)	19,558,872.10	208,465.92	19,767,338.02
Additions	0.00	49,481.02	49,481.02
Disposals	0.00	-1,787.48	-1,787.48
Additions to amortisation	0.00	-80,034.10	-80,034.10
Disposals from amortisation	0.00	1,132.08	1,132.08
Closing carrying amount (net)	19,558,872.10	177,257.44	19,736,129.54
As of 31 December 2007			
Costs of acquisition/manufacture	19,929,880.72	769,513.29	20,699,394.01
Cumulative impairment (IAS 36)	-371,008.62	0.00	-371,008.62
Cumulative amortisation	0.00	-592,255.85	-592,255.85
Carrying amount (net)	**19,558,872.10**	**177,257.44**	**19,736,129.54**

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

€	Essanelle-Salons	Tröndle-Salons	Total
As of 1 January 2006			
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
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
2007 financial year			
Opening carrying amount (net)	19,558,872.10	0.00	19,558,872.10
Closing carrying amount (net)	19,558,872.10	0.00	19,558,872.10
As of 31 December 2007			
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% (previous year: 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 6.2% (previous year: 6.7%).

As in the previous year, the impairment test undertaken in 2007 did not result in any extraordinary amortisation of goodwill.

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 EUR 1.00, was retired upon the disposal of the mod's hair franchising business as of 30 June 2006. A prorated purchase price of EUR 7k was received from the sale of the shareholding.

€	31.12.2007	31.12.2006
Balance at 1 January = 31 December		
Costs of acquisition/manufacture	0.00	1.00
As of 31 December		
Costs of acquisition/manufacture	0.00	0.00
at-equity results	0.00	-1.00
Carrying amount (net)	**0.00**	**0.00**

9 OTHER LOANS

Other loans are structured as follows:

€	Loans to mod's hair franchisees	Miscellaneous loans	Total
As of 1January 2006			
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 (sale of mod's hair)	-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 (sale of mod's hair)	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
2007 financial year			
Opening carrying amount (net)	11,880.97	80,743.27	92,624.24
Additions	842.83	12,702.27	13,545.10
Disposals	-12,723.80	-19,957.32	-32,681.12
Write-ups	0.00	26,204.82	26,204.82
Closing carrying amount (net)	0.00	99,693.04	99,693.04
As of 31 December 2007			
Costs of acquisition/manufacture	472,137.88	107,994.93	580,132.81
Cumulative amortisation	-472,137.88	-8,301.89	-480,439.77
Carrying amount (net)	**0.00**	**99,693.04**	**99,693.04**

Loans to mod's hair franchisees were disposed in 2006 in conjunction with the sale of the business (net carrying amount: EUR 756k) or were fully written off through itemised allowances of EUR 472k. The latter loans are subject to the condition that the Group waives their repayment if the former franchisee meets its obligations under the salon lease.

Miscellaneous loans are loans to five different persons, which have been repaid as planned. As in the previous year, the loans carry interest rates of between 2.0% and 4.5%. The income statement shows interest income in an amount of EUR 3k (previous year: EUR 19k).

Broken down by maturity categories, the net carrying amount of the loans is composed as follows:

€	31.12.2007	31.12.2006
Not due yet	86,513.05	75,752.75
Overdue and unimpaired	13,179.99	16,871.49
	99,693.04	**92,624.24**

The tables below show the remaining terms of the miscellaneous loans:

€	31.12.2007			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year to 5 years	Remaining term of more than 5 years
Loans	**99,693.04**	**10,815.16**	**31,889.00**	**56,988.88**

€	31.12.2006			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year to 5 years	Remaining term of more than 5 years
Loans	**92,624.24**	**19,683.52**	**23,688.39**	**49,252.33**

The tables below show the contractually agreed (undiscounted) interest and principal payments on the loans of the Essanelle Group:

€	31.12.2007			
	Total	Cash-Flows 2008	Cash-Flows 2009 – 2012	Cash-Flows after 2012
Loans	**112,907.21**	**13,285.20**	**38,484.20**	**61,137.81**

€	31.12.2006			
	Total	Cash-Flows 2007	Cash-Flows 2008 – 2011	Cash-Flows after 2011
Loans	**104,654.77**	**22,116.04**	**30,096.17**	**52,442.56**

10 INVENTORIES

Inventories are structured as follows:

€	31.12.2007	31.12.2006
Goods for sale	4,431,011.18	4,128,821.05
Goods for use	2,274,877.69	2,096,291.27
	6,705,888.87	6,225,112.32
Write-down	-104,260.00	-93,000.00
	6,601,628.87	**6,132,112.32**

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

€	31.12.2007	31.12.2006
Gross receivables	463,081.82	476,296.32
less write-downs	-249,004.22	-370,976.19
	214,077.60	**105,320.13**

Broken down by maturity categories, the net carrying amount of the accounts receivable is composed as follows:

€	31.12.2007	31.12.2006
Not due yet	0.00	0.00
Overdue and unimpaired	209,995.13	89,035.04
Overdue and not discounted	4,082.47	16,285.09
	214,077.60	**105,320.13**

The table below shows how long the overdue and unimpaired accounts receivable are overdue:

€	31.12.2007	31.12.2006
Less than 30 days	121,070.39	41,109.99
Between 30 and 60 days	82,851.74	9,525.06
Between 61 and 90 days	1,981.31	3,298.53
Between 91 and 180 days	2,900.74	5,305.30
Between 181 and 360 days	1,116.95	5,053.73
More than 360 days	74.00	24,742.43
	209,995.13	**89,035.04**

The above accounts receivable are not collateralised.

The itemised allowances on accounts receivable developed as follows:

€	31.12.2007	31.12.2006
Allowances as at 1 January	370,976.19	820,560.87
Additions (expenses on allowances)	24,584.05	75,115.24
Utilisation	-22,566.09	-322,764.51
Retransfers	-123,989.93	-201,935.41
	249,004.22	**370,976.19**

The table below shows the expenses for the write-off of receivables as well as the income from the receipt of accounts receivable that had been written off:

€	31.12.2007	31.12.2006
Write-off of accounts receivable	-1,781.50	0.00
Income from payments received for accounts receivable written off	16,452.92	15,186.50
	14,671.42	**15,186.50**

In the income statements, losses on receivables are shown under other operating expenses, while income from payments received for accounts receivable that had been written off are shown under other operating income.

12 OTHER ASSETS

€	31.12.2007	31.12.2006
Prepayments made on assets ordered	456,250.00	133,986.46
Accrued income	119,028.90	68,106.22
Payroll receivables	37,289.27	33,333.07
Tax refund claims	55,782.61	9,376.50
Other	252,261.98	178,199.52
	920,612.76	**423,001.77**

With the exception of prepayments made on assets ordered, these are non-financial assets.
Other assets were recognised at cost. In view of the short-term nature of the claims, no discounting has been undertaken.

13 CASH AND CASH EQUIVALENTS

€	31.12.2007	31.12.2006
Credit balances at banks	3,474,156.91	3,380,364.46
Payments in transit from Essanelle hairdressing salons (prior to credit to bank accounts)	1,673,467.41	1,089,673.55
Cash holdings	930,160.61	851,125.32
	6,077,784.93	**5,321,163.33**

The effective interest rate for short-term bank deposits amounted to an average of 3.67% (previous year: 2.75%).
The short-term bank deposits bear interest at variable market interest rates.

14 SHARE CAPITAL

The share capital of the company amounts to EUR 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.

€	31.12.2007	31.12.2006
Share capital	4,595,044.00	4,595,044.00
Acquisition of own shares	-60,000.00	-60,000.00
Balance at 31 Dec.	**4,535,044.00**	**4,535,044.00**

Development:

€	2007	2006
Balance at 01.01	4,535,044.00	4,440,000.00
Receipts from shares issued within framework of employee share option programme (95,044 shares)	0.00	95,044.00
Balance at 31.12	**4,535,044.00**	**4,535,044.00**

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 EUR 7.70 and 4,750 shares at a price of EUR 7.74 on 28 October 2005, 19,600 shares at a price of EUR 7.70 on 7 November 2005 and 28,375 shares at a price of EUR 7.625 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 EUR 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 to 2006, we received the following notifications pursuant to the German Securities Trading Act (WpHG a.F.) from shareholders required to make such disclosures. Below we list the notifications published by us in accordance with section 160 (1) no. 8 of the German Stock Corporation Act (AktG) which have not been replaced with more recent notifications and which did not inform us of the end of the shareholding. With regard to the notifications/publications no longer listed here, please refer to the notes to the financial statements of the respective years.

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 a.F.) 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 9 December 2004:

Stadtsparkasse 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 a.F.) from shareholders required to make such disclosures, which we in turn published pursuant to section 25 (1) of the German Securities Trading Act (WpHG a.F.) in the FAZ on 7 May 2005:

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.

During 2006, we received notifications pursuant to sections 21 (1) and 22 (1) sentence 1 no. 6 of the German Securities Trading Act (WpHG a.F.) from shareholders required to make such disclosures, which we in turn published pursuant to section 25 (1) of the German Securities Trading Act (WpHG a.F.) in all cases in the Börsenzeitung. Notification no. 1 was published on 25 November 2006 and notification no. 2 on 30 November 2006:

(1) dit Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt am Main, Germany, notified us in a letter dated 22 November 2006, that its share of the voting rights in Essanelle Hair Group AG had fallen short of the 5% threshold on 21 November 2006 and now amounts to 3.56% (equivalent to 160,000 voting rights in public funds).
(2) IVI UMBRELLA FUND PLC, Dublin, Ireland, notified us in a letter dated 28 November 2006 that its share of the voting rights had exceeded the 5% threshold on 22 November 2006 and amounted to 6.26% at that time. INTRINSIC VALUE INVESTORS (IVI) LLP, London, United Kingdom, notified us in a letter dated 28 November 2006

that its share of the voting rights had exceeded the 5% threshold on 22 November 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).

During 2007, 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 on the Internet at www.DGAP.de pursuant to section 26 (1) of the German Securities Trading Act (WpHG). Notification no. 1 was published on 12 February 2007, 15 February 2007, 6 March 2007, 26 April 2007 and 3 May 2007, notification no. 2 on 15 February 2007 and 19 June 2007, notification no. 3 on 15 February 2007, notification no. 4 on 6 June 2007, notification no. 5 on 6 September 2007 and 25 September 2007, notification no. 6 on 29 November 2007 and notification no. 7 on 17 December 2007:

On 12 February 2007, 26 February 2007 and 25 April 2007, we were informed pursuant to section 21 (1) of the German Securities Trading Act (WpHG) that the share of Threadneedle Investment Funds ICVC, London/UK, in the voting rights exceeded the 3% threshold on 8 February 2008 and amounted to 3.04% according to the notification dated 25 April 2007, which is equivalent to 138,748 voting rights. The voting rights are counted towards Threadneedle Investment Services Limited and Threadneedle Asset Management Limited – both headquartered in London/UK – pursuant to section 22 (1) s. 1 no. 6 of the German Securities Trading Act (WpHG) and towards Threadneedle Asset Management Holding Limited, London/UK, and Ameriprise Financial Inc., Minneapolis/USA, pursuant to section 22 (1) s. 1 no. 6 and s. 2 and 3 of the German Securities Trading Act (WpHG).

On 26 April 2007, we were informed that the above companies' share in the voting rights dropped below the 3% threshold on 4 April 2007 and amounted to 2.934%, which is equivalent to 133,748 voting rights.

On 13 February 2007, Fortis Investment Management Belgium S.A., Brussels/Belgium, informed us that their share in the voting rights exceeded the 3% threshold on 7 February 2007 and amounted to 3.33%. This is equivalent to 150,000 of a total of 4,500,000 voting rights.

On 18 June 2007, Fortis Investment Management S.A., Brussels/Belgium, informed us pursuant to section 21 (1) WpHG of the German Securities Trading Act (WpHG) in conjunction with section 32 (2) and (3) of the German Investment Act (InVG) that its share in the voting rights exceeded the 5% on 29 May 2007 and amounted to 5.69%, which is equivalent to 261,467 of a total of 4,595,044 voting rights.

On 14 February 2007, Deutsche Bank AG, Compliance, Frankfurt, notified us pursuant to section 21 (1) of the German Securities Trading Act (WpHG) on behalf of FPM Funds SICAV, Luxembourg, that the share of voting rights held by the aforementioned investment company had fallen short of the 3% threshold on 9 February 2007 and now amounted to 1.67% (equivalent to 75,577 voting rights).

Axxion S.A., Luxembourg-Munsbach, Luxembourg, notified us on 5 June 2007 pursuant to section 21 (1) of the German Securities Trading Act (WpHG) that its share of the voting rights had fallen short of the 10% threshold and amounted to 9.86%, which is equivalent to 453,268 of a total of 4,595,040 voting rights.

On 6 September 2007 and 21 September 2007, we were informed pursuant to section 21 (1) of the German Securities Trading Act (WpHG) that the share of Ratio European Fund, Grand Cayman/Cayman Islands, in the voting rights exceeded the 5% threshold on 5 September 2007 and amounted to 8.25% or 378,874 voting rights, and that MAC Lochsong 19A Limited, Hamilton/Bermuda, exceeded the 3% threshold on 5 September 2007 and held 3.37% or 154,751 of the voting rights. In addition, we were informed in these notifications that the above shares are counted towards Ratio Asset Management LLP, London/UK, pursuant to section 22 (1) s. 1 no. 6 of the German Securities Trading Act (WpHG) and that the company's share in the voting rights exceeded the 10% threshold on 5 September 2007 and amounted to 11.61% or 533,625 voting rights.

In accordance with a notification dated 27 November 2007, we published the following information:

1. On 27 November 2007, we received the following information from Saxonia Holding-Verwaltungsgesellschaft mit beschränkter Haftung, Heinenkamp 2, 38444 Wolfsburg: This is to inform you that our share in the voting rights of ESSANELLE HAIR GROUP AG exceeded the 5% and 10% thresholds on 30 October 2002 and that we held 744,863 voting rights (16.55% of the share capital) as of this date. All voting rights were counted towards our company pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Saxonia Holding-Gesellschaft mbH & Co. KG (formerly Klier Holding-Gesellschaft mbH & Co. KG) and Frisör Klier GmbH, which are controlled by us. We also inform you that our share in the voting rights in ESSANELLE HAIR GROUP AG exceeded the 25% threshold on 8 December 2004 and held 1,161,198 voting rights (25.80% of the share capital) as of this date. All voting rights were counted towards our company pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Saxonia Holding-Gesellschaft mbH & Co. KG (formerly Klier Holding-Gesellschaft mbH & Co. KG) and Frisör Klier GmbH, which are controlled by us.
2. On 27 November 2007, we received the following information from Saxonia Holding-Gesellschaft mbH & Co. KG, Heinenkamp 2, 38444 Wolfsburg: This is to inform you that our share in the voting rights of ESSANELLE HAIR GROUP AG exceeded the 5% and 10% thresholds on 30 October 2002 and that we held 744,863 voting rights (16.55% of the share capital) as of this date. All voting rights were counted towards our company pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Frisör Klier GmbH, which is controlled by us. We also inform you that our share in the voting rights in ESSANELLE HAIR GROUP AG exceeded the 25% threshold on 8 December 2004 and held 1,161,198 voting rights (25.80% of the share capital) as of this date. All voting rights were counted towards our company pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Frisör Klier GmbH, which is controlled by us.
3. On 27 November 2007, we received the following information from Mr Hubertus Klier, Germany: This is to inform you that my share in the voting rights of ESSANELLE HAIR GROUP AG exceeded the 5% and 10% thresholds on 30 October 2002 and that I held 744,863 voting rights (16.55% of the share capital) as of this date. All voting rights were counted towards me pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Saxonia Holding-Gesellschaft mbH & Co. KG (formerly Klier Holding-Gesellschaft mbH & Co. KG) and Frisör Klier GmbH, which are under my control. I also inform you that my share in the voting rights in ESSANELLE HAIR GROUP AG exceeded the 25% threshold on 8 December 2004 and held 1,161,198 voting rights (25.80% of the share capital) as of this date. All voting rights were counted towards me pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Saxonia Holding-Gesellschaft mbH & Co. KG (formerly Klier Holding-Gesellschaft mbH & Co. KG) and Frisör Klier GmbH, which are under my control.

4. On 27 November 2007, we received the following information from Mr Joachim Klier, Germany: This is to inform you that my share in the voting rights of ESSANELLE HAIR GROUP AG exceeded the 5% and 10% thresholds on 30 October 2002 and that I held 744,863 voting rights (16.55% of the share capital) as of this date. All voting rights were counted towards me pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Saxonia Holding-Gesellschaft mbH & Co. KG (formerly Klier Holding-Gesellschaft mbH & Co. KG) and Frisör Klier GmbH, which are under my control. I also inform you that my share in the voting rights in ESSANELLE HAIR GROUP AG exceeded the 25% threshold on 8 December 2004 and held 1,161,198 voting rights (25.80% of the share capital) as of this date. All voting rights were counted towards me pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG) via Saxonia Holding-Gesellschaft mbH & Co. KG (formerly Klier Holding-Gesellschaft mbH & Co. KG) and Frisör Klier GmbH, which are under my control.

In accordance with a notification dated 27 November 2007, we published the following information:

1. On 14 December 2007, we received the following information from Saxonia Holding-Verwaltungsgesellschaft mit beschränkter Haftung, Wolfsburg: This is to inform you that our share in the voting rights of ESSANELLE HAIR GROUP AG, Niederkasseler Lohweg 20, 40457 Düsseldorf, exceeded the 30% threshold on 14 December 2007 and that we held 1,428,053 voting rights (31.08% of the share capital entered in the Commercial Register) as of this date. Pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG), 1,231,198 of these voting rights (26.79% of the share capital entered in the Commercial Register) were counted towards our company via Frisör Klier GmbH, which is controlled by us, and 196,855 of these voting rights (4.28% of the share capital entered in the Commercial Register) were counted towards our company via Saxonia Holding-Gesellschaft mbH & Co. KG, which is controlled by us.
2. On 14 December 2007, we received the following information from Saxonia Holding-Gesellschaft mbH & Co. KG, Wolfsburg: This is to inform you that our share in the voting rights of ESSANELLE HAIR GROUP AG, Niederkasseler Lohweg 20, 40457 Düsseldorf, exceeded the 30% threshold on 14 December 2007 and that we held 1,428,053 voting rights (31.08% of the share capital entered in the Commercial Register) as of this date. Pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG), 1,231,198 of these voting rights (26.79% of the share capital entered in the Commercial Register) were counted towards our company via Frisör Klier GmbH, which is controlled by us.
3. On 14 December 2007, we received the following information from Mr Hubertus Klier, Germany: This is to inform you that my share in the voting rights of ESSANELLE HAIR GROUP AG, Niederkasseler Lohweg 20, 40457 Düsseldorf, exceeded the 30% threshold on 14 December 2007 and that I held 1,428,053 voting rights (31.08% of the share capital entered in the Commercial Register) as of this date. Pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG), 1,231,198 of these voting rights (26.79% of the share capital entered in the Commercial Register) were counted towards me via Frisör Klier GmbH, which is under my control, and 196,855 of these voting rights (4.28% of the share capital entered in the Commercial Register) were counted towards me via Saxonia Holding-Gesellschaft mbH & Co. KG, which is under my control.
4. On 14 December 2007, we received the following information from Mr Joachim Klier, Germany: This is to inform you that my share in the voting rights of ESSANELLE HAIR GROUP AG, Niederkasseler Lohweg 20, 40457 Düsseldorf, exceeded the 30% thresholds on 14 December 2007 and that I held 1,428,053 voting rights (31.08% of the share capital entered in the Commercial Register) as of this date. Pursuant to section 22 (1)

sentence 1 no. 1 of the German Securities Trading Act (WpHG), 1,231,198 of these voting rights (26.79% of the share capital entered in the Commercial Register) were counted towards me via Frisör Klier GmbH, which is under my controlled, and 196,855 of these voting rights (4.28% of the share capital entered in the Commercial Register) were counted towards me via Saxonia Holding-Gesellschaft mbH & Co. KG, which is under my control.

(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 EUR 2.53. of these options, 58,563 were exercised by employees in 2006. The weighted average share price on the exercise date amounted to EUR 7.72.

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

In 2005, 138,072 subscription rights were allocated in the third tranche at an exercise price of EUR 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 EUR 7.75.

In 2007, tranche IV was reduced by 19,838, as eligible persons left the company.

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
Expiry due to termination of employment	-19,838	0	0	0	-19,838
Not yet exercised	212,361	2,365	4,139	138,072	67,785
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
Tem	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 EUR 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 Dec. 2007	768,136.33	79,206.40	75,147.00	479,109.84	134,673.09

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

€	2007	2006
Balance at 1 Jan.	488,627.19	186,062.01
Additions acc. to accrual plan	318,986.76	302,565.18
Disposal due to termination of employment before unforfeitability of options (tranche IV)	-39,477.62	0.00
Balance at 31 Dec.	**768,136.33**	**488,627.19**

Of the additions hereby reported, EUR 0 (previous year: EUR 0.00) relates to the first tranche, EUR 0 (previous year: EUR 28,180.08) to the second tranche, EUR 179,666.19 (previous year: EUR 239,554.92) to the third tranche and EUR 139,320.57 (previous year: EUR 34,830.18) to the fourth tranche.

(4) Share

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

€	2007	2006
Annual high	10.55	9.90
Annual low	7.56	6.75
Year-end	9.75	8.20
Number of shares	4,595,044	4,595,044
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.

€	2007	2006
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	-400,061.88
Capital increases resulting from payments made upon		
the exercising of share options (1st and 2nd tranches)	198,314,77	0.00
Value of services of employees from share option programmes	488,627.19	186,062.01
Balance at 1 Jan.	**15,422,954,30**	**14,922,074.35**
Capital increases resulting from payments made upon		
the exercising of share options (1st and 2nd tranches)	0.00	198,314.77
Acquisition of own shares	0.00	0.00
Value of services of employees from share option programmes	279,509.14	302,565.18
Balance at 31 Dec.	**15,702,463.44**	**15,422,954.30**

16 REVENUE RESERVES

Revenue reserves developed as follows:

€	2007	2006
Balance at 1 Jan.	4,413,771.29	1,465,846.08
Consolidated net income	4,565,493.05	2,947,925.21
Balance at 31 Dec.	**8,979,264.34**	**4,413,771.29**

17 FINANCIAL DEBT

€	31.12.2007			
	Total	**Remaining term up to 1 year**	**Remaining term 1-5 years**	**Remaining term over 5 years**
Liabilities to banks	2,704,766.57	655,819.21	2,048,947.36	0.00
Liabilities in connection with financial leases	1,474,814.50	589,269.60	885,544.90	0.00
Investment loans from suppliers	2,842,937.93	1,019,005.44	1,823,932.49	0.00
Other financial loans	3,441,796.01	1,000,000.00	2,441,796.01	0.00
	10,464,315.01	**3,264,094.25**	**7,200,220.76**	**0.00**

€	31.12.2006			
	Total	**Remaining term up to 1 year**	**Remaining term 1-5 years**	**Remaining term over 5 years**
Liabilities to banks	3,124,044.36	444,570.68	2,679,473.68	0.00
Liabilities in connection with financial leases	2,052,028.04	693,245.71	1,358,782.33	0.00
Investment loans from suppliers	2,697,280.95	899,446.17	1,797,834.78	0.00
Other financial loans	4,941,796.01	1,500,000.00	3,231,796.01	210,000.00
	12,815,149.36	**3,537,262.56**	**9,067,886.80**	**210,000.00**

The tables below show the contractually agreed (undiscounted) interest and principal payments of the Essanelle-Group's financial debt:

€	31.12.2007			
	Total	**Cash flows 2008**	**Cash flows 2009 to 2012**	**Cash flows after 2012**
Liabilities to banks	3,040,150.31	791,701.09	2,248,449.22	0.00
Liabilities in connection with financial leases	1,601,236.55	666,940.44	934,296.11	0.00
Investment loans from suppliers	3,056,754.22	1,081,433.03	1,975,321.19	0.00
Other financial loans	3,814,167.66	1,177,126.92	2,637,040.74	0.00
	11,512,308.74	**3,717,201.48**	**7,795,107.26**	**0.00**

€	31.12.2006			
	Total	**Cash flows 2007**	**Cash flows 2008 to 2011**	**Cash flows after 2011**
Liabilities to banks	3,576,677.60	593,503.34	2,771,810.01	211,364.25
Liabilities in connection with financial leases	2,282,216.41	806,338.94	1,475,877.47	0.00
Investment loans from suppliers	2,947,801.75	1,010,561.28	1,937,240.47	0.00
Other financial loans	5,457,759.85	1,709,922.16	3,747,837.69	0.00
	14,264,455.61	**4,120,325.72**	**9,932,765.64**	**211,364.25**

The cash flows contain fixed and variable interest:

€	31.12.2007			
	Total interest	Interest contained in cash flows 2008	Interest contained in cash flows 2009 to 2012	Interest contained in cash flows after 2012
Liabilities to banks				
Fixed interest	82,894.74	37,302.63	45,592.11	0.00
Variable interest	252,489.01	98,579.25	153,909.76	0.00
Liabilities in connection with financial leases				
Fixed interest	126,422.05	77,670.85	48,751.20	0.00
Investment loans from suppliers				
Fixed interest	213,816.29	106,098.89	107,717.40	0.00
Other financial loans				
Variable interest	372,371.65	177,126.92	195,244.73	0.00
	1,047,993.74	**496,778.54**	**551,215.20**	**0.00**

€	31.12.2006			
	Total interest	Interest contained in cash flows 2007	Interest contained in cash flows 2008 to 2011	Interest contained in cash flows after 2011
Liabilities to banks				
Fixed interest	131,250.00	48,355.26	82,894.74	0.00
Variable interest	321,383.25	100,577.40	219,441.60	1,364.25
Liabilities in connection with financial leases				
Fixed interest	230,188.37	113,093.24	117,095.13	0.00
Investment loans from suppliers				
Fixed interest	250,520.80	111,115.10	139,405.70	0.00
Other financial loans				
Variable interest	515,963.85	209,922.16	306,041.69	0.00
	1,449,306.27	**583,063.16**	**864,878.86**	**1,364.25**

Liabilities to banks

Liabilities to banks are structured as follows:

€	31.12.2007			
	Interest Rate	Total	Short-term	Long-term
HypoVereinsbank, Nuremberg	Euribor +1.25	1,915,292.89	445,292.89	1,470,000.00
Gladbacher Bank, Mönchengladbach	Fixed: 5.25%	789,473.68	210,526.32	578,947.36
		2,704,766.57	**655,819.21**	**2,048,947.36**

€	31.12.2006			
	Interest Rate	Total	Short-term	Long-term
HypoVereinsbank, Nuremberg	Euribor +1.25	2,118,794.36	228,794.36	1,890,000.00
Gladbacher Bank, Mönchengladbach	Fixed: 5.25%	1,005,250.00	215,776.32	789,473.68
		3,124,044.36	**444,570.68**	**2,679,473.68**

To ensure that the Essanelle Group is solvent at all times, the company maintains a liquidity reserve in the form of credit lines.

For this purpose, credit agreements with a total volume of EUR 11.0 million have been signed. As of the balance sheet date, EUR 8.3 million of the total amount was unused.

No security has been provided to cover bank loans.

Liabilities in connection with finance leases

In the past years, Essanelle leased part of the salon fittings under finance leases in the context of both sale-and-lease-back-transactions and direct leasing of assets. The income from the sale-and-lease-back-transactions was negligible and immediately recognised as income in full. The leases are capitalised under property, plant and equipment and carried as financial liabilities depending on their maturities and conditions. Scheduled write-downs are based on an estimated useful life of three to ten years. The liabilities under the leases are repaid within four to five years. As of the balance sheet date, the Group's leased salon fittings amounted to EUR 2,488,777.91 (previous year: EUR 3,166,798.98). The lease liabilities total EUR 1,474,814.50 (previous year: EUR 2,052,028.04). These liabilities are due to various leasing companies and carry interest rates of between 5% and 9% p.a. (previous year: between 5% and 9%).

€	2007		2006	
	Nominal amount	Discounted amount	Nominal amount	Discounted amount
Remaining term up to 1 year	666,940.44	589,269.60	806,338.94	693,245.71
Remaining term 1 to 5 years	934,296.10	885,544.90	1,475,877.46	1,358,782.33
Remaining term over 5 years	0.00	0.00	0.00	0.00
	1,601,236.54	**1,474,814.50**	**2,282,216.40**	**2,052,028.04**

Investment loans from suppliers

The loans serve to finance investments made in new salons. They are due for payment within a time corridor of between two and six 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. The interest rates amount to 2.9% for the years from 2000 to 2005 and to 3.5% in the case of new financing facilities from 2006 onwards.

Supplier loans

The supplier loans relate to two credit lines at one supplier requiring repayment on a quarterly basis within the next six years. The two credit lines charge interest at 3-month Euribor plus 0.5% and 1.2% respectively, with such interest being paid at the end of each respective quarter.

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

Additional disclosures on financial instruments acc. to IAS 39

	Measurement categories pursuant to IAS 39	Carrying amount Total	Transition to carrying amount	Measured pursuant to	
			No financial instruments	IAS 39	IAS 17
31.12.2007					
ASSETS					
Other loans	LaR	99,693.04	0.00	99,693.04	0.00
Accounts receivable	LaR	214,077.60	0.00	214,077.60	0.00
Other assets	LaR	920,612.76	464,362.76	456,250.00	0.00
Cash and cash equivalents	LaR	6,077,784.93	0.00	6,077,784.93	0.00
LIABILITIES					
Financial debt	FLAC	10,464,315.01	0.00	8,989,500.51	1,474,814.50
Accounts payable	FLAC	3,461,653.92	0.00	3,461,653.92	0.00
Other liabilities	FLAC	2,801,288.88	2,472,964.41	328,324.47	0.00
31.12.2006					
ASSETS					
Other loans	LaR	92,624.24	0.00	92,624.24	0.00
Accounts receivable	LaR	105,320.13	0.00	105,320.13	0.00
Other assets	LaR	423,001.77	289,015.31	133,986.46	0.00
Cash and cash equivalents	LaR	5,321,163.33	0.00	5,321,163.33	0.00
LIABILITIES					
Financial debt	FLAC	12,815,149.36	0.00	10,763,121.32	2,052,028.04
Accounts payable	FLAC	4,471,932.01	0.00	4,471,932.01	0.00
Other liabilities	FLAC	2,819,661.38	2,393,439.63	426,221.75	0.00

LaR = Loans and Receivables, FLAC = Financial Liabilities Measured at Amortised Costs

18 DEFERRED TAX ASSETS / TAX LIABILITIES

Composition:

€	31.12.2007	31.12.2006
Deferred tax liabilities	3,323,000.00	3,497,000.00
Deferred tax assets for losses carried forward		
Deferred corporate income tax	-166,000.00	-617,000.00
	3,157,000.00	**2,880,000.00**

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

Deferred taxes in the balance sheet have been accounted for at a percentage of 30% (trade tax rate of 14%, plus corporate income tax rate of 16%). The previous year's mixed tax rate was 38.65%, of which 16.67% was trade tax and 26.64% was corporate income tax. The adjustment of the tax rates to the amended legislation as of 31 December 2007 has resulted in deferred tax income in an amount of EUR 850k, which is comprised as follows:

€	2007	2006
Deferred tax liabilities	960,000.00	0.00
Deferred tax assets for losses carried forward		
Deferred corporate income tax	-110,000.00	0.00
	850,000.00	**0.00**

Deferred tax income also resulted from the fact that due to the Essanelle Hair Group AG's 2006 tax returns, the trade tax loss carryforward increased by EUR 1,179k and the corporate income tax loss carryforward increased by EUR 1,167k, mainly because of the tax-effective write-off of a receivable. As a result, the deferred trade tax assets and the deferred corporate income tax assets increased by EUR 197k and by EUR 308k, respectively as of 1 January 2007.

Due to the above, in conjunction with the increase in deferred tax liabilities (which is attributable to the asset gain resulting from the adoption of IFRS) and the consumption of deferred tax assets due to the Essanelle-Group's positive result for the year, deferred taxes developed as follows:

	1.1.	Adjustment to 2006 tax return	Consumption	Increase	Adjustment to new tax rates from 1 Jan. 2008	31.12. Total
Deferred trade tax assets	0.00	-197,000.00	197,000.00	0.00	0.00	0.00
Deferred corporate income tax assets	-617,000.00	-308,000.00	649,000.00	0.00	110,000.00	-166,000.00
Deferred tax liabilities	3,497,000.00	0.00	0.00	786,000.00	-960,000.00	3,323,000.00
	2,880,000.00	**-505,000.00**	**846,000.00**	**786,000.00**	**-850,000.00**	**3,157,000.00**

Deferred tax liabilities refer to the following balance sheet items:

€ k	31.12.2007 assets	31.12.2007 liabilities	31.12.2006 assets	31.12.2006 liabilities
Deferred tax liabilities on balance sheet items				
Goodwill (long-term)		2,432		2,367
Property, plant and equipment (long-term)		1,042		1,683
Pension provisions (long-term)	10		10	
Other provisions				
short-term		172		97
long-term		129		153
Liabilities in connection with financial leases				
short-term	176		268	
long-term	266		525	
	452	3,775	803	4,300
Net balances	**-452**	**-452**	**-803**	**-803**
	0	**3,323**	**0**	**3,497**

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

Deferred tax assets on losses carried forward are expected to be recognised in full in 2008.

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 expenses from deferred taxes had the following impact on the income statement:

€	2007	2006
Increase in deferred trade tax liabilities due to increase in the IFRS capital gain	341,000.00	429,000.00
Increase in deferred corporate income tax liabilities due to increase in the IFRS capital gain	445,000.00	70,000.00
Decline in deferred tax liabilities due to tax rate changes as of 1 January 2008		
– Deferred trade tax	-299,000.00	0.00
– Deferred corporate income tax	-661,000.00	0.00
Consumption of deferred tax assets for losses carried forward		
– Deferred trade tax	197,000.00	566,000.00
– Deferred corporate income tax	649,000.00	711,000.00
Increase in deferred trade tax assets due to adjustment to the 2006 tax return	-197,000.00	0.00
Increase in deferred corporate income tax assets due to amendment to the 2006 tax return	-308,000.00	0.00
Decline in deferred corporate income tax assets due to tax rate changes as of 1 January 2008	110,000.00	0.00
	277,000.00	**1,776,000.00**

19 PENSION PROVISIONS

Development:

€	
Balance at 1.12.2007	**179,977.00**
Reduction	-19,901.00
Balance at 31.12.2007	**160,076.00**

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

€	2007	2006
Present value of the obligations	673,414.00	704,210.00
Fair value of plan assets	-508,615.00	-405,594.00
Non-recognised actuarial gains	-4,723.00	-118,639.00
Balance at 31.12	**160,076.00**	**179,977.00**

Development of the present value of the obligations:

€	2007	2006
1.1	704,210.00	586,515.00
Current service cost	66,119.00	60,843.00
Interest cost	29,929.00	24,927.00
DBO	800,258.00	672,285.00
Actuarial gains (previous year: losses)	-126,844.00	31,925.00
	673,414.00	**704,210.00**

Development of the plan assets:

€	2007	2006
1.1	405,594.00	318,717.00
Contributions	79,517.00	72,623.00
Actual return on plan assets	23,504.00	14,254.00
31.12	**508,615.00**	**405,594.00**

The plan assets consist of the asset values of reinsurance policies at AXA Lebensversicherung AG, Cologne, and Swiss Life.

The table below shows the development of the pension provisions since the adoption of IFRS:

€	31.12.2007	31.12.2006	31.12.2005	31.12.2004
Present value of the obligations	673,414.00	704,210.00	586,515.00	341,347.00
Fair value of plan assets	-508,615.00	-405,594.00	-318,717.00	-229,913.00
Non-recognised actuarial gains	-4,723.00	-118,639.00	-103,053.00	-50,974.00
31.12	**160,076.00**	**179,977.00**	**164,745.00**	**60,460.00**

The following amounts were recorded in the income statement:

€	2007	2006
Current period of service expenses	61,332.00	61,033.00
Interest expenses	29,645.00	24,927.00
Expected income on plan assets	-17,407.00	-12,108.00
Amortisation of actuarial losses	21,059.00	14,193.00
Adjustment due to increase in the internal rate of discount	-35,013.00	0.00
	59,616.00	**88,045.00**

The actual income on the plan assets amounted to EUR 22,151 (previous year: EUR 13,629).

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

€	2007	2006
Beginning of the year	179,977.00	164,745.00
Total expenses recorded in the income statement	59,616.00	88,045.00
Endowment of plan assets	-79,517.00	-72,813.00
Balance at 31.12	**160,076.00**	**179,977.00**

The following principal actuarial assumptions were made:

	2007	2006
Discount rate	5.25%	4.25%
Expected income on plan assets	4.2% / 4.0 %	4.2% / 4.0 %
Future salary increases	2% / 0%	2% / 0%
Future pension increases	2 % in each case	2 % in each case

20 OTHER LONG-TERM PROVISIONS

€	31.12.2007	31.12.2006
Anniversary provision	187,000.00	180,722.25
Provision for dismantling obligations	551,737.38	502,820.15
	738,737.38	**683,542.40**

Development of long-term provisions:

€	Dismantling Obligations	Anniversary Provisions
Balance at 1 Jan. 2007	502,820.15	180,722.25
Utilised	-972.90	-55,956.50
Released	-8,894.93	0.00
Added	58,785.06	62,234.25
Balance at 31 Dec. 2007	**551,737.38**	**187,000.00**

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, EUR 29k (previous year: EUR 26k) 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 ACCOUNTS PAYABLE

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

22 CURRENT INCOME TAX LIABILITIES

€	31.12.2006/ 01.01.2007	Utilised	Released	Added	31.12.2007
Trade tax and corporate income tax for accounting period	34,523.16	0.00	-34,523.16	0.00	0.00
Trade tax 2005	108,629.94	-108,629.94	0.00	0.00	0.00
Corporate income tax 2005	121,924.75	-95,350.00	-26,574.75	0.00	0.00
Trade tax 2006	195,788.64	-47,503.39	0.00	0.00	148,285.25
Corporate income tax 2006	207,630.71	-95,266.00	-112,364.71	0.00	0.00
Trade tax 2007	0.00	0.00	0.00	341,897.00	341,897.00
Corporate income tax 2007	0.00	0.00	0.00	149,198.42	149,198.42
	668,497.20	**-346,749.33**	**-173,462.62**	**491,095.42**	**639,380.67**

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

23 OTHER LIABILITIES

Other short-term liabilities are structured as follows:

€	31.12.2007	31.12.2006
Social security contributions	4,646.50	13,195.23
Wage tax, church tax and VAT liabilities	1,922,615.32	1,812,421.33
Liabilities to employees due to wages, salaries and commission still to be paid	361,470.35	394,572.27
Liabilities in connection with rental agreements	328,324.47	426,221.75
Miscellaneous	184,232.24	173,250.80
	2,801,288.88	**2,819,661.38**

With the exception of the rental liabilities, these are non-financial liabilities.

24 OTHER SHORT-TERM PROVISIONS

Composition and development of other short-term provisions:

€	01.01.07	Utilised	Released	Added	31.12.2007
Personnel provisions	2,016,730.25	-1,344,306.01	-528,924.24	2,284,093.02	2,427,593.02
Subscriptions and customer vouchers	881,100.00	-881,100.00	0.00	927,100.00	927,100.00
Miscellaneous	1,202,358.35	-638,326.13	-279,671.98	864,726.57	1,149,086.81
	4,100,188.60	**-2,863,732.14**	**-808,596.22**	**4,075,919.59**	**4,503,779.83**

Personnel provisions cover customary obligations towards employees (remaining vacation, outstanding remuneration, redundancy payments, 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 (EUR 394k, previous year: EUR 320k) and for outstanding incoming invoices (EUR 216k, previous year: EUR 245k).

All other short-term provisions are expected to result in expenses being incurred in the 1st quarter of 2008.

25 SALES

Consolidated sales are structured as follows:

€	2007	2006
Revenues from services	102,611,238.25	98,207,410.74
Revenues from sales	19,850,889.62	18,193,452.90
Franchise fees	48,424.80	530,092.73
Revenues in connection with rental agreements	306,655.45	342,054.47
Other revenues	265,296.45	235,834.78
	123,082,504.57	**117,508,845.62**

Sales were exclusively generated in Germany.

26 OTHER OPERATING INCOME

Composition:

€	2007	2006
Income from invoicing of ancillary rental expenses	175,774.98	166,547.60
Income from release of provisions	817,491.15	442,810.06
Income from disposal of assets	2,381.20	70,801.29
Income from sale of active CFS business operations	0.00	91,854.92
Income from release of write-downs on financial receivables due from former mod's hair hairdressers	0.00	534,384.57
Fee revenues from the mediation of mod's hair partners as customers	0.00	240,000.00
Income from the release of write-downs on accounts receivable	123,989.93	201,935.41
Income from statute-barred debt	122,570.33	0.00
Other income	200,368.47	349,358.80
	1,442,576.06	**2,097,692.65**

27 COST OF MATERIALS

The cost of materials item includes:

€	2007	2006
Expenses for goods purchased	11,228,538.12	10,816,576.26
Increase in write-down of inventories	11,260.00	4,000.00
	11,239,798.12	**10,820,576.26**

28 PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2007	2006
Wages and salaries	55,238,296.43	53,127,365.13
Social security contributions	11,684,234.12	11,824,550.69
Pension expenses for defined benefit plans	35,619.84	63,118.00
Share options granted to managers and employees	279,509.14	302,565.18
Compensations resulting from the termination of employment contracts	1,110,000.00	173,500.00
	68,347,659.53	**65,491,099.00**

Contributions to the statutory pension insurance fund: EUR 5,479k (previous year: EUR 5,075k).

29 DEPRECIATION AND AMORTISATION

Composition:

€	2007	2006
Scheduled depreciation and amortisation		
Amortisation of other intangible assets	80,034.10	76,876.11
Depreciation of proprietary salon furnishings	4,047,595.96	3,615,529.43
Depreciation of leased salon furnishings	813,648.42	871,935.98
Extraordinary depreciation and amortisation		
Depreciation of property, plant and equipment due to impairment tests	28,941.32	0.00
Amortisation of goodwill due to impairment tests	0.00	0.00
	4,970,219.80	**4,564,341.52**

30 RENTAL AND ANCILLARY RENTAL COSTS

Composition:

€	2007	2006
Rent for hairdressing salons and head office in Düsseldorf	19,655,923.05	18,584,882.36
Ancillary rental expenses	3,248,074.47	3,123,536.07
	22,903,997.52	**21,708,418.43**

31 OTHER OPERATING EXPENSES

Other operating expenses include:

€	2007	2006
Losses incurred on the cancellation of receivables	1,781.50	84,211.61
Write-downs of receivables	24,584.05	75,115.24
Losses incurred on the disposal of long-term assets	29,788.46	70,152.15
Operating requirements	538,820.12	574,797.53
Advertising and sales promotion	2,243,761.41	2,048,993.98
Employee training	311,166.64	306,146.08
Vehicle-related expenses	556,330.37	517,529.96
IT-related expenses	1,013,653.64	905,787.29
Legal and advisory expenses	1,056,344.67	740,231.12
Bank charges	312,420.42	428,698.87
Telephone, office materials, print materials	647,825.30	651,756.49
Travel expenses and hospitality	431,951.48	326,239.63
Insurances	136,450.71	170,527.80
Cleaning companies	193,762.81	215,629.90
Postal charges, radio fees	292,826.16	282,055.55
Energy costs, electricity	1,354,703.87	1,168,520.19
Miscellaneous	1,865,403.24	2,380,236.85
	11,011,574.85	**10,946,630.24**

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

32 FINANCING INCOME

This item relates to interest income of EUR 3k on loans (previous year: EUR 19k) and to interest income of EUR 72k on short-term bank deposits and other short-term receivables (previous year: EUR 34k).

33 FINANCING EXPENSES

This item relates to pension-related interest of EUR 30k (previous year: EUR 25k), to interest of EUR 29k on dismantling obligations (previous year: EUR 26k) and interest expenses of EUR 673k in connection with financial debt (previous year: EUR 734k).

34 LOSSES FROM FINANCIAL LOANS

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

35 NET RESULTS BY MEASUREMENT CATEGORIES (IAS 39/17)

€	2007			2006
	Interest	Change in allowances	Total	Total
Loans and receivables				
Other loans	-2,755.19	0.00	-2,755.19	-18,782.24
Cash and cash equivalents	-72,213.66	0.00	-72,213.66	-33,866.73
Accounts receivable	0.00	-14,671.42	-14,671.42	-15,186.50
Financial liabilities measured at amortised cost				
Liabilities to banks	210,215.98	0.00	210,215.98	270,281.75
Leasing liabilities C6	116,678.06	0.00	116,678.06	326,981.78
Loans from suppliers	345,647.24	0.00	345,647.24	143,801.94
	597,572.43	**-14,671.42**	**582,901.01**	**673,230.00**

Interest from financial instruments is shown in the interest result. Changes in allowances for accounts receivable are shown under other operating income or expenses.

36 INCOME TAX EXPENSES

€	2007	2006
Actual taxes		
Trade tax for previous years	25,569.98	20,268.07
Corporate income tax for previous years	-223,261.37	47,398.84
Corporate income tax for current year	320,000.00	262,387.46
Trade tax for previous year	430,000.00	248,000.00
	552,308.61	**578,054.37**
Deferred taxes		
Deferred corporate income tax for current year	235,000.00	995,000.00
Deferred trade tax for current year	42,000.00	781,000.00
	277,000.00	**1,776,000.00**
	829,308.61	**2,354,054.37**

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%.

With effect from 31 December 2007, deferred tax assets and liabilities were adapted to the tax rates applicable from 2008, i.e. 14% trade tax and 16% corporate income tax (30% total tax rate).

€	2007	2006
Decline in deferred tax liabilities due to tax rate changes as of 1 January 2008	-960,000.00	0.00
Decline in deferred tax assets due to tax rate changes as of 1 January 2008	110,000.00	0.00
	-850,000.00	**0.00**

In addition, deferred tax assets for losses carried forward were adjusted to the tax returns for 2006 filed in 2007.

€	2007	2006
Increase in deferred trade tax assets due to recalculation of losses carried forward	-197,000.00	0.00
Increase in deferred corporate income tax assets due to recalculation of losses carried forward	-308,000.00	0.00
	-505,000.00	**0.00**

The following tax reconciliation account shows the development of tax expenses in 2007 (2006) before special effects from the tax rate changes and the qualified loss carryforwards in the tax returns:

€ k	2007	2006
Earnings before taxes	5,395	5,301
Taxes based on a rate of 38.65%	2,085	2,049
Taxes on income as stated in income statement	829	2,354
plus effect from the change in the underlying mixed tax rate to 30% as of 1 January 2008	850	0
plus effect from the adjustment of deferred tax assets to the recalculaton of tax loss carryforwards	505	0
less income taxes on modifications	-296	-117
less trade tax due to adjustment in losses carried forward	0	-121
plus/less taxes for previous years	197	-67
	2,085	**2,049**

The effective tax rate amounts to 15.4% (previous year: 44.4%).

The sharp decline in the effective tax rate from 44.4% to 15.4% is primarily attributable to non-recurrent effects relating to the reduction of the underlying mixed tax rate to 30%, to higher deferred tax assets resulting from the recalculation of the tax loss carryforwards, to the net income from the previous years' taxes and, with the opposite effect, to increased tax modifications.

37 EARNINGS PER SHARE

(1) Basic

€ / pcs.	2007	2006
Earnings allocable to providers of equity	4,565,493.05	2,947,925.21
Average number of shares issued	4,535,044.00	4,464,477.00
Basic earnings per share (EUR per share)	**1.01**	**0.66**

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

€ / pcs.	2007	2006
Earnings allocable to providers of equity	4,565,493.05	2,947,925.21
Average number of shares issued	4,862,288.00	4,726,663.92
Diluted earnings per share (EUR per share)	**0.94**	**0.62**

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.

38 DIVIDEND PER SHARE

According to the proposal made by the Management Board of Essanelle, the company would pay out its first dividend for the year 2007 in 2008. A dividend of EUR 0.50 per share has been proposed, which would add up to EUR 2,267,522.00 based on 4,535,044 shares.

39 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	2007	2006
Consolidated annual earnings	4,565	2,948
Adjustments for...		
Taxes (Note 36)	829	2,354
Depreciation of property, plant and equipment (Note 6)	4,890	4,487
Amortisation of intangible assets (Note 7)	80	77
Amortisation of other loans (Note 9)	0	41
Write-ups to other loans (Note 9)	-26	-534
(Profits/losses) on the sale of property, plant and equipment	26	-1
Expenses relating to share option programme (Note 14)	280	303
Interest income (Note 33)	-75	-53
Interest expenses (Note 34)	732	785
Change in working capital		
Inventories (Note 10)	-470	-294
Accounts receivable and other receivables (Note 11)	-109	222
Provisions (Notes 19, 20 and 24)	439	1,015
Other financial assets valued at fair value (Note 12)	-498	261
Accounts payable and other liabilities (Notes 21 and 23)	-1,060	-2,152
Inflow of funds from operating activities	**9,603**	**9,459**

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

€ k	2007	2006
Net carrying amount	57	724
Profit (previous year: loss) on the sale of property, plant and equipment (net)	-26	1
Proceeds from the sale of property, plant and equipment	**31**	**725**

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 EUR 11.0 million at four banks, of which EUR 8.3 million had not been utilised.

40 OTHER FINANCIAL OBLIGATIONS

(1) Operating leases

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 EUR 19,656k (previous year: EUR 18,585k).

The Group also leases motor vehicles and various items of equipment. The expenses relating to these assets amounted to EUR 240k (previous year: EUR 218k).

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

€ k	31.12.2007	31.12.2006
Remaining term up to 1 year	17,242,301.84	17,048,815.78
Remaining term 1 to 5 years	36,232,653.03	38,753,624.70
Remaining term more than 5 years	9,113,289.83	7,896,286.19
	62,588,244.70	**63,698,726.67**

(2) Purchase obligations from supply agreements

Essanelle has signed an agreement with a supplier under which the company has agreed to source a certain percentage of its annual procurement volumes for hair cosmetics products, salon fittings and large technical equipment from this supplier until 30 June 2010. The purchase obligations towards this supplier are estimated at EUR 31.2 million.

(3) Purchase commitment

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

41 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.

42 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 2007 pursuant to the agreement valid as of the reporting date amounted to EUR 80k (previous year: EUR 80k). Moreover, travel expenses amounting to EUR 5k were paid (previous year: EUR 2k). Furthermore, remuneration of EUR 0k (previous year: EUR 65k) 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 47.

In 2004, Achim Mansen was granted a loan of EUR 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 EUR 9k was repaid during the financial year (previous year: EUR 23k), leaving a remaining amount of EUR 0k 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 2007:

	Number of shares	**Share of total volume of EUR 4,595,044**
Management Board	154,402	3.36%
Supervisory Board	138,190	3.01%
	292,592	**6.37%**

Uwe Grimminger (109,422 shares; 2.38%, previous year: 109,422 shares; 2.38%) and Jürgen Tröndle (138,190 shares; 3.01%, previous year: 138,190 shares; 3.01%) held more than 1% of the shares issued by Essanelle as of 31 December 2007.

For the compensation of the Management Board, please refer to No. 47.

43 NUMBER OF EMPLOYEES

The company had an average of 2,419 (previous year: 2,304) employees, 1,468 (1,415) part-time employees and 192 (183) trainees during the financial year.

44 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 no. 1 of the German Commercial Code (HGB) amounted to:

€k	2007	2006
Auditing of financial statements	123	119
Other audit services	31	22
Tax advisory services	75	75
Other services	10	20
	239	**236**

45 EVENTS AFTER THE REPORTING DATE

In February 2008, Saxonia Holding-Gesellschaft mbH & Co. KG, Wolfsburg, reported that it holds 89.76% of the shares in Essanelle Hair Group AG.

There were no other 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.

46 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.

47 MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

(1) Management Board compensation

The total compensation of the Management Board amounted to EUR 1,457k in 2007 (previous year: EUR 798k) and was structured as follows:

€k	2007		
	Uwe Grimminger	**Achim Mansen**	**Total**
Basic salary (non-performance related)	270	195	465
Bonus (performance-related)	199	151	350
Benefit in kind from use of company car	7	14	21
Severance claims	621	0	621
	1,097	**360**	**1,457**

€k	2006		
	Uwe Grimminger	**Achim Mansen**	**Total**
Basic salary (non-performance related)	270	195	465
Bonus (performance-related)	175	127	302
Share options (fair value)	8	5	13
Benefit in kind from use of company car	6	12	18
	459	**339**	**798**

The mandate of Mr Grimminger as Chairman of the Management Board, which had been renewed by the Supervisory Board on 23 June 2005, was given up with effect from 31 January 2008. In this context, the following agreements were reached:

A potential bonus for the fiscal year 2007 will be granted as agreed. This bonus is to be converted into a “pension commitment funded by deferred compensation”. Mr Grimminger will receive a compensation in a gross amount of EUR 621k, for which a provision was established as of 31 December 2007. With regard to the exercise of potential share options, the provisions of the option right agreement dated 29 September 2006 apply. His vested rights to retirement pension payments under the employer’s pension commitment dated 27 April 1994 remain unaffected. The relevant date for the retirement from the company and the calculation of the vested rights is 30 April 2009.

The total fair value of the accepted but unexercised share options under tranche IV amounts to EUR 0k (previous year: EUR 63k for 19,838 shares) for Mr Uwe Grimminger and to EUR 42k (13,225 shares as in the previous year) for Mr Achim Mansen.

Defined benefit pension commitments have been made to both members of the Management Board. In the past fiscal year, the provisions for pension commitments to Management Board members declined by a net amount of EUR 20k, which is mainly attributable to the fact that the interest rate used for accounting purposes was raised to 5.25% (previous year: 4.25%). The total amount of the pension provisions stated for the Management Board is EUR 160k (previous year: EUR 180k) after the deduction of plan assets.

From the age of 60, Uwe Grimminger is entitled to a monthly pension of EUR 3,158.52, a disability pension of EUR 3,035.87 and a widow's pension.

Achim Mansen is entitled to a monthly retirement pension of EUR 3,628.00 from the age of 65, as well as to a monthly disability pension of EUR 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 EUR 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 EUR 140k (previous year: EUR 137k) was paid in the 2007 financial year.

RESPONSIBILITY STATEMENT
ACCORDING TO THE TRANSPARENCY DIRECTIVE IMPLEMENTATION ACT (TUG)

"To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Düsseldorf, 19 March 2008

Achim Mansen (Chairman of the Management Board)	Dieter Bonk (Management Board)	Dirk Wiethölter (Management Board)

BALANCE SHEET (HGB)

as of 31 December 2007

ASSETS

€	31.12.2007	31.12.2006
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions, industrial and similar rights and assets and licenses in such rights and assets	177,257.44	208,465.92
2. Goodwill	11,449,986.22	13,433,837.33
	11,627,243.66	**13,642,303.25**
II. Tangible Assets		
1. Office equipmnent including fixtures in rented premises	18,019,101.21	16,788,429.07
2. Prepayments	456,250.00	133,986.46
	18,475,351.21	**16,922,415.53**
III. Financial Assets		
1. Investments in subsidiaries	1.00	1.00
2. Other loans	99,693.04	80,743.27
	99,694.04	**80,744.27**
	30,202,288.91	**30,645,463.05**
B. CURRENT ASSETS		
I. Inventories		
Merchandise	6,601,628.87	6,132,112.32
	6,601,628.87	**6,132,112.32**
II. Receivables and other assets		
1. Accounts receivables	214,077.60	104,926.57
2. Receivables from affiliated companies	15,632.64	0.00
3. Other assets	1,784,281.99	1,487,029.25
	2,013,992.23	**1,591,955.82**
III. Current Investments		
Treasury Stock	460,061.88	460,061.88
	460,061.88	**460,061.88**
IV. Cash on hand, Balance with banks	**6,038,209.14**	**5,299,414.01**
	15,113,892.12	**13,483,544.03**
C. PREPAID EXPENSES	**119,028.90**	**68,106.22**
Total assets	**45,435,209.93**	**44,197,113.30**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	31.12.2007	31.12.2006
A. EQUITY		
I. Subscribed Capital	4,595,044.00	4,595,044.00
II. Capital Reserves	13,595,420.24	13,595,420.24
III. Surplus Reserve		
1. Treasury Stock	460,061.88	460,061.88
IV. Distributable profit	3,100,233.65	0.00
	21,750,759.77	**18,650,526.12**
B. ACCRUALS		
1. Accruals for pensions and similar obligations	635,187.00	559,024.00
2. Tax accruals	639,380.67	668,497.20
3. Other accruals	6,229,792.83	5,384,816.17
	7,504,360.50	**6,612,337.37**
C. LIABILITIES		
1. Liabilities to banks	2,704,766.57	3,124,044.36
2. Accounts Payable Trade	4,391,924.36	5,332,599.19
3. Intercompany Payables	1,001.00	25,999.00
4. Other liabilities	9,082,397.73	10,432,167.26
	16,180,089.66	**18,914,809.81**
D. DEFERRED INCOME	**0.00**	**19,440.00**
Total shareholders' equity and liabilities	**45,435,209.93**	**44,197,113.30**

INCOME STATEMENT (HGB)

for the Period from 1 January 2007 to 31 December 2007

€	2007	2006
1. Revenue	123,082,504.57	117,035,495.30
2. Other operating income	1,407,326.27	1,713,073.78
3. Cost of materials	-11,239,798.12	-10,683,025.811
	113,250,032.72	**108,065,543.27**
4. Personnel expenses		
a) Wages and salaries	-56,554,489.56	-53,222,960.00
b) Social security, pensions and other benefit costs (of which for pension EUR 58.307,84; PY EUR 60.816,47)	-11,856,581.28	-11,874,344.01
5. Depreciation and amortization of non-current intangible assets and property, plant and equipment	-5,963,281.91	-5,520,620.41
6. Other operating expenses	-35,014,476.84	-33,021,707.29
	3,861,203.13	**4,425,911.56**
7. Income from investments (of which from affiliated companies EUR 2.755,19; PY EUR 72.379,07)	2,755.19	72,379.07
8. Other interest and similar income (of which from subsidiaries EUR119,70; PY EUR 64.472,79)	71,936.80	98,335.30
9. Write-downs of financial assets	0.00	-26,204.82
10. Interest and similar expenses	-556,463.32	-580,787.46
11. Profit from ordinary operations	**3,379,431.80**	**3,989,633.65**
12. Income taxes	-552,224.59	-578,054.37
13. Other taxes	273,026.44	9,484.72
14. Net profit for the year	**3,100,233.65**	**3,421,064.00**
15. Loss carryforward	0.00	-7,590,558.10
16. Withdrawals from capital reserves	0.00	4,169,494.10
17. Net accumulated loss	**3,100,233.65**	**0.00**

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 as well as the notes to the consolidated financial statements, as well as the group management report for the financial year from 1 January to 31 December 2007. 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, 19 March 2008
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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