ANNUAL REPORT
ESSANELLE HAIR GROUP AG

/2008

ESSANELLE HAIR GROUP

KEY FIGURES

million Euro – IFRS, Group

Mio. €	2008	2007	Change
Consolidated sales	129.2	123.1	+4.9%
essanelle Ihr Friseur	64.8	67.6	-4.1%
JT by essanelle	4.2	4.5	-5.2%
TOP TEN	5.9	4.1	+42.2%
Super Cut	20.6	19.6	+4.8%
HairExpress	27.7	22.2	+24.4%
Beauty Hair Shop	6.0	5.0	+20.0%
EBITDA	12.1	11.0	+10.2%
EBIT	7.0	6.1	+14.8%
EBT	6.4	5.4	+18.2%
Annual net income	3.6	4.6	-20.1%
Earnings per share (basic)	0.80 Euro	1.01 Euro	-20.8%
Cashflow (from operating activities)	11.5	8.3	+38.6%
Cashflow per share	2.50 Euro	1.81 Euro	+40.3%
Number of employees	4,306	4,183	+2.9%
Number of shares	**4.6 Mio.**	**4.6 Mio.**	**-**
Free Float (per 28.02.2009)	**10.24%**	**10.24%**	**-**

ANNUAL REPORT
ESSANELLE HAIR GROUP AG

/2008

ESSANELLE HAIR GROUP

INTERVIEW WITH THE MANAGEMENT BOARD

Mr Mansen, your sales revenues are just below the target range, while earnings clearly exceed your own expectations. Are you satisfied with these results?

Achim Mansen Yes, we are – maybe the only exception is the fourth quarter, especially the Christmas business, which failed to meet our expectations in full. Business during the Christmas weeks only matched the previous year's level although we had hoped for a little bit more. But we are not dissatisfied with our growth rate of 4.9% compared to a target rate of 5%. Needless to say, this is primarily due to the fact that earnings exceeded our original projections by far. An 18.2% increase in earnings before taxes to EUR 6.4 million is an excellent achievement. The fact that we invested roughly EUR 1.5 million in our core concept, essanelle Ihr Friseur, which was not included in our budgets at the beginning of the year, testifies to our excellent operating performance in 2008. The many new salons opened in the past two years broke even very quickly, which also contributed to the good earnings figures.

But earnings per share have declined?

Achim Mansen This is merely a tax effect. Due to amendments to the corporate income tax law, we had a tax ratio of only approximately 15% in 2007. We now have a normal rate of about 43% again. This certainly has a strong impact on our net profit. We did explain this last year.

Why were you able to reduce the cost of materials in spite of higher product sales?

Achim Mansen We negotiated successfully with our suppliers. With over 670 salons and shops, we are an important customer for any supplier of salon products and can build on excellent, long-term partnerships. In 2008, this had a particularly positive effect on our purchasing terms and we were able to add to our margin here – just as we did in other areas in the past years. We have always kept a close eye on our cost side, which has enabled us to increase our earnings disproportionately in the past years.

Mr Bonk, you have revamped the essanelle Ihr Friseur concept. What were the reasons for this decision?

Dieter Bonk essanelle Ihr Friseur contributes 50% to our total sales revenues and makes excellent profit contributions. This is why we want to grow this concept going forward. What is more, essanelle Ihr Friseur addresses the largest target group in absolute terms. We have therefore revitalised the concept to sharpen its profile and adjusted it more effectively to current market requirements.

What exactly is new about the concept?

Dieter Bonk Overall, we have made essanelle Ihr Friseur more exclusive. This means a more exclusive approach from marketing to the salon fittings and an even more personal service for our customers. We have also scaled back our aggressively priced offerings to differentiate ourselves more clearly from discounters. Customers should no longer base their decisions primarily on the price but on the quality we offer.

Does that fit the market?

Dieter Bonk We are very sure it does. On the one hand, price-conscious target groups are ideally served at HairExpress and TOP TEN. On the other hand, there is a constantly growing part of the population that attach great importance to their own beauty and enjoy treating themselves to something special from time to time. This is generally referred to as the "third place" – a place besides your home and your job, where you want to feel totally at ease. This is the atmosphere that we want to offer. And the experience we have gained since the relaunch in November shows that we are right.

When will sales revenues of this concept begin to pick up again?

Dieter Bonk Immediately would be ideal. But we expect it to take 1 to 2 years. We are well aware that such a turnaround cannot be achieved overnight and that our staff have to internalise these changes first. Also, it is possible that some new salon openings will contrast with salon closures, which means that our new salons may well achieve growth in the coming years but that this will not necessarily be reflected in an absolute increase in annual sales revenues of this concept – even if this is our medium-term objective.

Mr Wiethölter, with regard to the greater exclusiveness of essanelle Ihr Friseur, have there been any special measures in the field of human resources?

Dirk Wiethölter Our employees are certainly one of the key factors that make or break the success of the revitalisation. They must convey the sense of the exclusiveness that Dieter Bonk has mentioned in their everyday dealings with our customers – by way of very simple things like accompanying customers from the door to their seat and conveying that feel-good atmosphere to them. 100% attention to the customer is our goal. This applies not only to marketing but also to the actual salons. We must communicate intensively and constantly with our employees to ensure that this is achieved in 300 salons by some 2,250 hairdressers – each of whom must gradually also learn new cutting and work techniques.

What were the other focal points last year?

Dirk Wiethölter The training and development of our employees have become much more concept-specific. When training apprentices, we analyse at a very early stage into which of our concepts they would fit and train them not only in what is required by law but also in concept-specific matters. Our trained employees and the salon managers also benefit from this kind of further training. This way, we establish closer ties between employees and "their" concept – and, hence, to our company. At the same time, this specialisation allows us to sharpen the profile of the respective concept.

Dieter Bonk For many years, we have organised tours, i.e. Essanelle in-house exhibitions, at which we introduce our staff to the latest trends, haircuts and similar things. 2008 was the first year in which we no longer did this jointly for all employees but organised concept-specific and brand-specific tours.

Dirk Wiethölter The different brands that address different target groups are one of our main competitive advantages in the market. By sharpening the profiles of these concepts as described above, we address the individual target groups even more clearly. When we organise a tour at Super Cut, for instance, whose hairdressers are very trendy and youthful, it is much more effective to focus entirely on their specific situation and requirements than to cater to the needs of hundreds of other hairdressers, who have completely other interests. This focus is positively reflected in the salons when dealing with customers, who come to one of our salons because of its special format.

What will be the main focus in 2009?

Dirk Wiethölter The initiatives launched in the field of human resources in 2009 are long-term tasks, which we will continue to address in the coming years. Our objectives have been clearly defined: vocational and further training geared to the individual concepts; a gradual increase in the share of apprentices; an increase in the number of good employees recruited from the pool of apprentices; and further training of all hairdressers both in techniques that improve the quality of our work in the salons and in business management to promote the best employees to management positions in the salons and the company.

TOP TEN has grown only little in 2008. What are the plans for 2009?

Dieter Bonk Since mid-2005, TOP TEN has fully focused on growth and opened 32 salons in a very short period of time. After 3.5 years, we have now slowed down a bit to analyse this new concept and its performance. We are highly satisfied with TOP TEN and will continue to develop and grow the concept in the coming years. This will be done through own salons, similar to the other concepts. In addition, we will market TOP TEN as a license. The brand has been established in the market and mainly addresses good, young hairdressers. Most of them want to work in their own salons. Instead of losing them and letting them become competitors, we will use this demand for additional growth.

Mr Mansen, will 2009 be completely different? Do you expect sales revenues and earnings to decline again after so many years?

Achim Mansen We are cautiously optimistic on the customer side. Consumer spending has never grown dynamically in the past years but we have increased the number of customers and our revenues nevertheless. We therefore believe that we will be able to continue to grow in operational terms, although we have carefully reduced our target range for sales growth as compared to the previous years to between 3% and 7%.

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

Something we cannot influence is the performance of our lessors. It is impossible to predict today which of our 34 Hertie salons will still be in our portfolio at the end of the year. But it is certainly a great advantage that we have great financial muscle and maintained a perfectly clean balance sheet in the past years. With an equity ratio of over 50% and extremely high cashflow, we are much better off in a difficult market than smaller chains or independent salons. Countless small businesses have been set up in the past years, among them independent hairdressers generating less than EUR 17,500 in revenues per year. I believe that the market will correct this in the coming years – and that's great for us.

So will the crisis open up opportunities?
Achim Mansen Yes, of course. Good hairdressers will find it increasingly attractive to work for an employer of such stature as Essanelle Hair Group. Thanks to our good creditworthiness, we are also a preferred partner to current or potential new lessors, as we can cope with downturn phases. This does not apply to all businesses in our sector.

Last year you said you wanted to optimise your lessor groups. What does that mean in this context?
Dirk Wiethölter We have such a good standing with our lessors that we are usually the first to be asked whenever new department stores or shopping centres are opened or existing outlets become vacant. We are, for instance, Karstadt's preferred hairdresser and the first to be offered new or vacant outlets. Today, we have 80 salons in Karstadt department stores, which generate excellent revenues, and the situation is similarly positive with other lessors.

So you will continue your growth strategy in the present economic environment?
Dieter Bonk We are able to do exactly this. We will open some 50 new salons in 2009, which means we will be able to compensate for potential closures much better. As far as essanelle Ihr Friseur is concerned, for instance, we plan to open some 10 new salons. This should enable us to at least keep our revenues stable in a worst-case scenario, e.g. the closure of all 34 Hertie salons.

That's the revenue side. Do you have plans or measures on the cost side to offset a weaker trend?
Achim Mansen We will invest a bit more cautiously and take decisions about what and what not to do on a quarterly basis instead of an annual basis. In the context of our risk management activities in 2009, we will monitor each budget in an even more timely manner and analyse each investment even more closely. We attach top priority to our profitability and have been very successful with this policy in the past years. In uncertain economic times, this priority is even more important.

What about the first year of cooperation with Klier?
Achim Mansen Our good relations with Klier were expanded in the past year. As the majority shareholder, Klier gives us the freedom we need to continue our strategic and operational work and achieve good results as in the

previous years. With Klier as our partner, we have leveraged synergies on the procurement side and also addressed minor key issues that reduce costs. In the fight for outlets and customers, we have remained fierce competitors, though. This is good, as it makes both companies strive for top performance in day-to-day business. Competition is, in fact, good for business.

This is why all the rumours – such as a merger of the two companies or the delisting of our company – are wrong. Joachim Klier made this very clear at the Annual General Meeting in 2008. Both companies stand to benefit from continued access to the capital market and from ongoing competition.

Mr Mansen, will you again pay a dividend for the last fiscal year in 2009?
Achim Mansen Yes, we will maintain our consistent dividend policy. The amount of the dividend for 2008 will again be discussed with the Supervisory Board and proposed to the Annual General Meeting. The very low share price means that we will offer investors a very attractive dividend yield.

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Essanelle Hair Group AG continued its growth strategy in the past fiscal year, with sales and, in particular, earnings increasing clearly on the previous year. This allows us to continue the consistent dividend policy that we announced together with the Management Board and propose a dividend in the same amount as in the previous year.

The Supervisory Board agrees with the Management Board that the successful strategy of the company should basically be continued with due care in the current year. In 2008, the Supervisory Board advised the Management Board on all strategic and relevant operational matters. At the same time, we controlled and supervised the Management Board in accordance with our tasks. We performed all tasks imposed on us by law, the Corporate Governance Code, the Articles of Association and the Rules of Procedure. 2008 was the first fiscal year following the statutory offer of Saxonia Holding Gesellschaft mbH & Co. KG to the shareholders of Essanelle Hair Group AG. At the time of the publication of the Annual Report, this company holds 89.76% of the shares and, hence, the majority under German Stock Corporation Law. In this context, the related party disclosures ("dependent company report") were reviewed by the Supervisory Board and the auditors and given the following unqualified audit opinion:

"Having conducted a proper audit and appraisal, we hereby confirm that the facts set out in the report are correct and that the company's payments in connection with the legal transactions referred to in the report were not unduly high."

At the Annual General Meeting on 17 June 2008, Andreas Tscherner, was elected to the Supervisory Board as a shareholder representative. In fiscal 2008, the members of the Supervisory Board regularly attended the Supervisory Board meetings. Where they were unable to attend these meetings, they participated over the telephone and voted in writing. No member of the Supervisory Board attended fewer than half the meetings. Last year's Supervisory Board meetings were held on 21 January, 31 March, 17 June, 24 September and 27 November 2008. Prior to the meetings, the Supervisory Board was provided with all relevant information required to control and examine the work of the Management Board. In addition, the Chairman of the Supervisory Board was informed about current affairs and trends in the company at regular meetings with the Management Board.

In particular, the following topics were addressed and discussed with the Management Board at the Supervisory Board meetings in 2008:

– Expiry of the statutory offer of Saxonia Holding-Gesellschaft mbH & Co. KG
– Joint statement by the Management Board and the Supervisory Board pursuant to section 27 of the German Securities Acquisition and Takeover Act
– Election of a new Supervisory Board Chairman
– Schedule of Responsibilities of the Management Board
– Continuation of the company’s growth strategy
– Revitalisation of the essanelle Ihr Friseur brand concept and related investments
– Possible implications of the financial and economic crisis
– Business performance in fiscal 2008 and plans and projections for the fiscal years 2009 to 2011

In November 2008, the Management Board and the Supervisory Board jointly issued their declaration of conformity with the German Corporate Governance Code as amended on 6 June 2008. Changes regarding the deviations from the Code's recommendations occurred in the fiscal year in the form of the introduction of a cap on the variable compensation components in the new contracts of all three Management Board members. This means that Essanelle Hair Group AG complies with another recommendation of the German Corporate Governance Code. With a view to the specific requirements of Essanelle Hair Group AG, the Management Board and the Supervisory Board will continue to not comply with all recommendations. The efficiency of the work of the Supervisory Board was regularly reviewed in 2008 through self-assessments. No conflicts of interest occurred on the Management Board or the Supervisory Board.

In addition to the Supervisory Board meetings, the Audit Committee and the Appointments and Compensation Committee also held meetings. The Audit Committee met on 26 February and 19 March 2008 and primarily dealt with the annual audit. The Audit Committee was active also outside the meetings, e.g. in the audits of the quarterly reports. The Appointments and Compensation Committee met on 21 January, 4 April, 17 June, 23 September, 28 October and 27 November 2008 to discuss matters such as the new Management Board contracts, amendments and additions to the Schedule of Responsibilities for the Management Board and accrued pension rights. The compensation of the Management Board of Essanelle Hair Group AG basically remained unchanged in the past fiscal year and continues to consist of fixed and variable components. 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 46.

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 consolidated financial statements of Essanelle Hair Group. As in the previous years, 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 in detail at the Audit Committee meetings on 18 February 2009 and 9 March 2009. At the Supervisory Board meeting on 24 March 2009, we discussed them 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 2008 as well as the management report of Essanelle Hair Group AG and the Group management report. 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 as well as the respective managements reports. The financial statements of Essanelle Hair Group AG are thus approved. Following our own audit, we also agreed with the Management Board's proposal to pay out a dividend from the accumulated profits.

Over the past years, Essanelle Hair Group AG has achieved steady sales and earnings growth in a weak market. This is the result of diligent management, which has been continued by the two new Board members appointed in early 2008, Dieter Bonk and Dirk Wiethölter, together with CEO Achim Mansen. But the excellent performance over so many years is not least the result of the strong commitment shown each day by all employees in the head office and the salons. The Supervisory Board would therefore like to thank all of them for their commitment in the past years. We expect to be able to continue on this successful path also in a more difficult economic environment.

Fritz Kuhn
Chairman of the Supervisory Board

CORPORATE GOVERNANCE IN 2008

The Management Board and the Supervisory Board of Essanelle Hair Group AG attach great importance to responsible corporate governance geared to achieving a sustainable increase in the value of the company. Against this background, they are committed to the principles of good corporate governance with a view to strengthening the trust and confidence placed in the company by its shareholders, employees, customers, partners and the general public. On 17 December 2008, the Management Board and the Supervisory Board issued the annual declaration of conformity with the German Corporate Governance Code as amended on 6 June 2008 in accordance with section 161 of the German Stock Corporation Act (AktG). The company continues to comply with most of the recommendations of the Code. Exceptions relate to the size of the company, its structure and specific requirements.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The Annual General Meeting of Essanelle Hair Group AG was held in Düsseldorf on 17 June 2008. CEO Achim Mansen and new Chief Sales and Marketing Officer Dieter Bonk and, for the first time, new Chief Human Resources Officer Dirk Wiethölter informed the approx. 50 shareholders and guests about the company and the fiscal year 2007. For the first time since the company's 2001 IPO, a dividend was proposed to the Annual General Meeting. Against this background, the shareholders expressed their satisfaction with the performance of the company and its positive outlook. The plenum approved all items on the agenda with a clear majority. Apart from the discharge of the acts of the Management Board and the Supervisory Board and the election of the new auditor, these also included the election of the new Supervisory Board member, Andreas Tscherner, Ahlum.

All reports and documents that were relevant for the Annual General Meeting, including the Annual Report, were published on the website of Essanelle Hair Group in good time. In addition, all relevant company information is presented on the website in an easily accessible and clearly arranged manner to ensure that all shareholders and interested parties are comprehensively informed.

COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

The Management Board and the Supervisory Board cooperate closely and in a trusting manner in the interest of the company. The Management Board manages the company and is committed to achieving a sustainable increase in its value. The Management Board drafts the strategic orientation of the company, coordinates it with the Supervisory Board and ensures that it is implemented. The Supervisory Board advises the Management Board on the management of the company and supervises its management activities. The Management Board informs the Supervisory Board regularly, without delay and comprehensively, about the business performance, strategic corporate planning, the risk situation, risk management and compliance. For more detailed information on the cooperation between Management Board and Supervisory Board, please refer to the Report of the Supervisory Board.

MANAGEMENT BOARD

Since January 2008, the Management Board of Essanelle Hair Group AG has consisted of three members, namely Achim Mansen, Chief Executive Officer (CEO), Dieter Bonk, Chief Sales and Marketing Officer (CSMO), and Dirk Wiethölter, Chief Human Resources Officer (CHRO). The compensation of the Management Board members comprises fixed and variable components. Details of the Management Board compensation are disclosed in the compensation report in the management report on page 46 of this Annual Report.

No conflicts of interest occurred on the Management Board in the fiscal year 2008. All three Management Board members sit on the Administrative Board of BKK ESSANELLE, the company healthcare fund. Dirk Wiethölter is also alternating Chairman of this Administrative Board.

SUPERVISORY BOARD

The Supervisory Board regularly supervises and advises the Management Board. An Audit Committee, to which members of the Supervisory Board are elected, discusses the quarterly reports, whereas the full Supervisory Board reviews and approves the separate and the consolidated financial statements of Essanelle Hair Group AG. In view of the company's specific requirements, the Audit Committee and the Appointments and Compensation Committee were formed in 2004 to process and prepare complex matters for the Supervisory Board meetings with a view to increasing the efficiency of the work of the Supervisory Board. Information on the compensation of the Supervisory Board is provided on page 112 of this Annual Report.

TRANSPARENCY

Essanelle Hair Group AG provides all interested groups with timely, comprehensive and equal information. The company's website is the most important medium for communication. This comprehensive source of information is available in German and English. Two ad-hoc releases pursuant to section 15 of the German Securities Trading Act (WpHG) and four directors' dealings were published in 2008.

DIRECTORS' DEALINGS*

Date	11 February 2008	11 February 2008
Name	Tröndle GmbH	Jürgen Tröndle
Position	Supervisory Board	Supervisory Board
Transaction	Sale	Sale
Stock Exchange	OTC	OTC
Quantity	54,460	83,730
Price (Euro)	9.60	9.60
Volume	522,816	803,808

Date	12 February 2008	13 February 2008
Name	Achim Mansen	Uwe Grimminger
Position	CEO	former Board member
Transaction	Sale	Sale
Stock Exchange	OTC	OTC
Quantity	44,980	109,422
Price (Euro)	9.60	9.60
Volume	431,808	1,050,451.20

*All directors' dealings in 2008 occurred in the context of the acceptance of the statutory offer of Saxonia Holding mbH & Co. KG

REPORTING AND AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

The consolidated financial statements and the quarterly reports of Essanelle Hair Group AG are prepared in accordance with International Financial Reporting Standards (IFRS). The financial reports are published within the deadlines of the stock exchange rules and regulations for the Prime Standard. The Annual General Meeting of 17 June 2008, elected PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, auditors of the separate and the consolidated financial statements.

Pursuant to section 161 of the German Stock Corporation Act (AktG), the Management Board and the Supervisory Board of listed joint stock corporations are obliged to declare once a year whether the company has complied with the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Justice Ministry in the official section of the electronic Federal Gazette and to disclose which recommendations have not been applied. This declaration was issued by Essanelle Hair Group AG on 17 December 2008 and published on the company's website.

DECLARATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF ESSANELLE HAIR GROUP AG ON THE GERMAN CORPORATE GOVERNANCE CODE

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.

Compliance with additional rules and recommendations in 2008:

In 2008, a cap on the variable compensation component was introduced in all Management Board contracts.

Deviations that continue to apply:

3.8 The company has taken out 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. 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 a 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, 17 December 2008
ESSANELLE HAIR GROUP AG

The Management Board The Supervisory Board

THE SHARE

Global share prices declined sharply in 2008, especially in the second half of the year. Triggered by the US property crisis, a global financial crisis broke out in the second half of 2008, which led to an international economic crisis towards the end of the year. The global financial system could be stabilised only with the help of comprehensive government liquidity and guarantee programmes. Economic activity slowed down sharply in all major economic areas. Massive slumps in the prices of banking stocks were followed by sharp price drops across all sectors and worldwide indices. Germany's DAX lost half of its value and fell from over 8,000 points at the end of 2007 to below 4,000 in November 2008. The TecDax, which stood at clearly above 1,000 points at the end of 2007, slumped to almost 400 points at year-end 2008.

The share of Essanelle Hair Group AG opened the fiscal year 2008 at EUR 9.80 on Xetra, which was also the highest price of the year. The lowest price was quoted in December 2008 at EUR 6.60. The share closed the year at EUR 7.45 (Xetra). Based on approx. 4.6 million shares, this represented a market capitalisation of EUR 34.27 million at the end of the fiscal year. The negative performance – in spite of which the company paid out its first dividend of EUR 0.50 – was due, on the one hand, to the extremely weak stock market environment, which was clearly marked by the financial crisis. On the other hand, the EUR 9.60 takeover bid from Saxonia Holding-Gesellschaft mbh & Co. KG, which expired in mid-February, led to a high share price at the beginning of the year, which declined as expected after the bid had expired.

Based on the resolution passed by the Annual General Meeting on 17 June 2008, Essanelle Hair Group AG implemented a stock repurchase programme in the second half of 2008. In the context of this programme, the company bought back a total of 12,203 shares at an average price of approx. EUR 7.72.

Even against the background of the much lower free float, Essanelle Hair Group AG continues to attach great importance to regularly providing all shareholders and the financial community with up-to-date information. All relevant information is presented in detail in the Investor Relations section of the company's website and in its comprehensive quarterly reports.

SHAREHOLDER STRUCTURE AS AT 28 FEBRUARY 2009

Saxonia Holding-Gesellschaft mbh & Co. KG	89.76%
Free float as defined by Deutsche Börse	10.24%

INFORMATION ON THE ESSANELLE SHARE (XETRA)

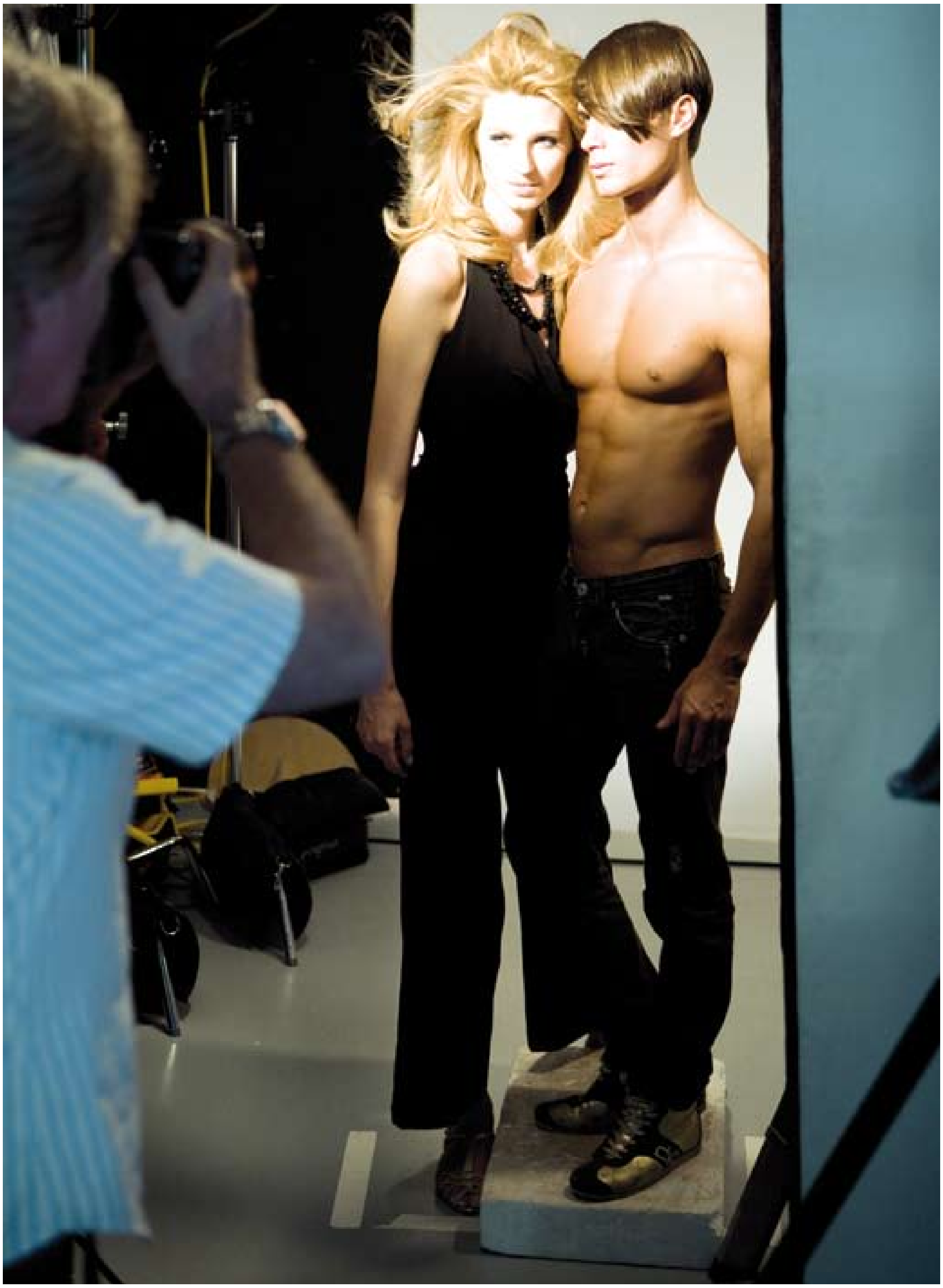
Full year 2008

Highest price	EUR 9.80
Lowest price	EUR 6.60
Performance 1 Jan. – 31 Dec.	-24.0%
Price on 31 Dec.	EUR 7.45
Market capitalisation on 31 Dec.	EUR 34.27 million

Backstage

It's 5.43 p.m. on July 30, 2008 at Briese Studios in Hamburg. For more than seven hours a team of some 20 people have been cutting, blow-drying, colouring and arranging hair – all in the name of beauty and in the quest for the perfect shot. Creating the cool and relaxed look they are after takes a lot of hard and sweaty work. There are still many hours to go before fashion photographer Claus Wickrath and director Wolfgang Schmitz, owner of the advertising agency WAS in Cologne, can call it a day and they have another three days of shooting scheduled.

Centre parting, right parting, left parting. Combed to the back and swept to the front. Long hair, short hair, curly hair. Thoroughly layered, added volume, discreet makeup, sensual vamps, red lips, hot cuts. Tobias Tröndle, Essanelle Hair Group's Art Director, is in charge of technical styling. Izio, the stylist, puts the finishing touches on outfits and hairstyles.



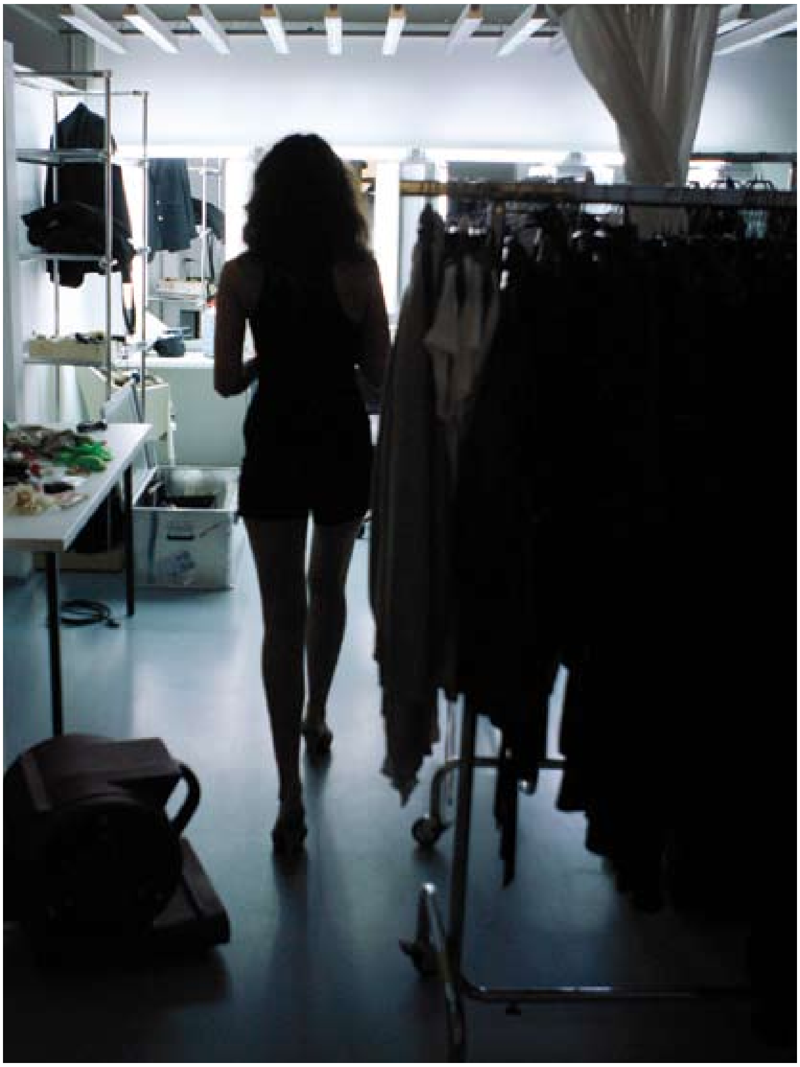
"Give me more wind! And, please, stop smiling. We're shooting for a salon, not for a dentist here."

“100 percent attention to your hair” reads the slogan used by “essanelle Ihr Friseur”, one of Essanelle Hair Group’s salon concepts, since its relaunch last November. This photo shoot for the new campaign is run in the same spirit, with everybody from the wardrobe assistant to the chief photographer giving it a hundred percent.


7


15

While Claus Wickrath continues to shoot, Creative Director Andreas Volkert is already sorting through his shots. A brief nod and the photographer knows it's a wrap and they can move on to the next set – this is teamwork at its best.



CONSOLIDATED FINANCIAL STATEMENTS

GROUP MANAGEMENT REPORT (IFRS) FOR THE 2008 FINANCIAL YEAR

MACROECONOMIC FRAMEWORK

According to the Federal Statistical Office (Destatis on 14 January 2009), GDP growth in Germany slowed down markedly in 2008 as compared to the previous years. Having grown by 3.0% in 2006 and 2.5% in 2007, the price-adjusted gross domestic product increased by only 1.3% in the past fiscal year. This is primarily attributable to the financial and economic crisis in the second half of 2008, which even led to a decline in GDP at the end of the year. In particular, exports were unable to repeat the high growth rates of the previous years. Export growth slowed down from 12.7% in 2006 and 7.5% in 2007 to only 3.9% in 2008. Against the background of continued high imports (+5.2%), net exports stood at -0.3%. This means that domestic demand was the only growth driver, with spending on plant and equipment as well as construction rising sharply. Government spending increased by 2.2%, while private consumption stagnated – in spite of strong pay rises and the highest employment rate in the history of the Federal Republic of Germany. At the bottom line, consumer spending increased by 0.5%.

According to preliminary estimates by the Federal Statistical Office in 2008, retail turnover increased by between 1.9% and 2.4% in nominal terms but remained unchanged from the previous year in real terms. Turnover in the non-food retail sector is expected to grow in both nominal (+2.7%) and real (+1.5%) terms, though. At 2.6%, consumer price inflation reached the highest level in 14 years. The high inflation rate is primarily attributable to increases in energy and food prices at the beginning of the year as well as to the VAT hike. Since August 2008, however, inflation has slowed down markedly.

According to eurostat, euro-zone GDP increased by 1.2% in 2008, which was also clearly below the previous years' level. Inflation in the euro-zone stood at 3.3% but slowed down in the second half of the year to -0.1% in December. The IMF estimates that the world economy expanded by 3.6%, mainly thanks to the good trend in fast-growing countries such as China, India and Russia.

A deep recession with negative growth rates in many countries is expected for 2009 and already had an adverse impact on the figures for the final months of 2008. In view of the high export share recorded in past years, a GDP contraction by between 2% and 4% as well as a marked deterioration in the labour market are projected for Germany. In response to this negative trend, economic stimulus packages have been launched across the globe.

SECTOR DEVELOPMENT

Essanelle Hair Group AG estimates that the German market currently has a total volume of EUR 4 – 5 billion. Generally speaking, there has been some movement on the supply side of the hairdressing market over the past years. Both the number of salons of large hairdressing chains such as Essanelle Hair Group or Friseur Klier GmbH and the number of small and mini businesses with annual sales of less than EUR 17,500 have increased. The "traditional mid-sized sector", however, has become smaller, according to the German ifo Institute. Overall, both the number of independent hairdressers and the number of chain stores has increased in the past years – although sales have declined in most parts of the sector.

In its latest study of December 2008, the Gesellschaft für Konsumforschung (GfK) stated that approx. 61.3% of the German population patronises hairdresser salons. Compared to the surveys conducted in the two previous years, this shows that the percentage remains relatively stable between 60% and 63%. By contrast, some 30% of all men and women have their hair cut by friends or family members, of whom about two thirds reportedly are trained hairdressers. The level of satisfaction of those who visit a professional hairdresser remains very high, though. More than 95% of the visitors said they are "very satisfied" or "satisfied". This applies to men and women alike.

Just like the previous studies, the December study showed that the percentage of women visiting a hairdresser is much higher than that of male visitors (64.2% vs. 58.2%). However, men visit a hairdresser more often per year than women. Men do it every 8.6 weeks, while women do it every 9.4 weeks, according to the December survey. This means that men visit a hairdresser about 6 times a year and women do it 5.5 times a year. While the intervals between men's visits to a hairdresser have become longer as compared to the two previous years (12/06: 7.7 weeks), they have become shorter for women (12/06: 10.3 weeks). Across both target groups, the average interval between visits is 9.1 weeks or an average 5.7 visits per year.

A look at the age groups shows that older people tend to visit a hairdresser more often than younger people. People aged 14 to 19 do so at intervals of 11.6 weeks, whereas the 60-to-69-year-olds go every 8.3 weeks. This overall trend is mostly determined by women, whereas the male group is more heterogeneous. According to the latest survey, men aged 20 to 29 visit a hairdresser most frequently (every 7.6 weeks), while men aged 50 to 59 do it most rarely (every 10.1 weeks).

Not surprisingly, a look at the services used shows that haircuts were in the highest demand (93.3%). At 59.8% and 49.8%, respectively, hairwashes and hair drying were also in high demand. Demand for dyes/colorations clearly exceeded the average for the previous years at 12.1%. Cure treatments, streaks and perms all scored over 5%. Most of these additional services were requested by women. Spending on hairdressing services has remained constant as compared to the two previous years and averaged EUR 30.30 per customer. Male customers paid approx. EUR 15 on average, while women paid EUR 43. Men spent this amount almost exclusively on the services provided and invested far less than EUR 1 in product purchases. The respective figures for women has fluctuated between EUR 1 and 3 per visit over the past years.

GENERAL INFORMATION ABOUT THE COMPANY

THE COMPANY

Essanelle Hair Group AG comprises the following salon concepts: essanelle Ihr Friseur, Super Cut, HairExpress, TOP TEN, JT by essanelle and Beauty Hair Shop, a concept specialising in the sale of salon products. At the end of 2008, the company had 672 salons and sales outlets (previous year 635) in Germany. 54 new salons were opened and 17 salons were closed in the course of 2008. Based on roughly 7 million customer visits, Essanelle Hair Group AG generated sales revenues of EUR 129.2 million. Since the beginning of 2008, the Management Board has consisted of three members: CEO Achim Mansen, Chief Sales and Marketing Officer Dieter Bonk and Chief Human Resources Officer Dirk Wiethölter.

EMPLOYEES

As at 31 December 2008, the Essanelle Hair Group employed 4,306 people, compared to 4,183 in the previous year. This represents an increase of 2.9%. The majority of them, 4,195 people, work in the salons, while 111 work at the head office and in sales. Part-time workers account for approx. 37%. The number of apprentices continued to increase in 2008 and now stands at 248, which represents 5.8% of the total workforce.

STRATEGY AND CONCEPTS

The Essanelle Hair Group pursues a strategy of profitable growth. Constantly rising sales revenues and disproportionate earnings growth in the past years show that this strategy has been very successful. The aim of the company is to open some 50 salons per year to increase its market share. Salon concepts tailored to clearly defined target groups, human and financial resources that are clearly superior to the market average and a focus on selling salon products, which generate higher margins than the services provided, are the company's key success factors. At Essanelle Hair Group, the share of product sales in total sales revenues has traditionally been much higher than at its peer companies and has increased successively over the past years.

With salon concepts tailored to specific target groups, Essanelle Hair Group reaches more consumers than an independent hairdresser or a smaller hairdressing chain. This is also reflected in average revenues generated by the company's own salons, which, at approx. EUR 200,000 p.a., clearly exceed the industry average of approx. EUR 90,000. In the context of its growth strategy, Essanelle Hair Group primarily focuses on the target groups of "young customers" and "price-sensitive customers". According to the management and the experience gained over the past years, these target groups hold great potential for a hairdressing chain. Thanks to its sales and cost structures, the company can operate profitably also with its low-price concepts, while at the same time reaching that part of the population (about one third) that 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.

When the new Management Board team took up office at the beginning of 2008, all brands were analysed and it was decided to sharpen the brand profiles even further, which has been achieved successively. An important strategic decision was taken for the company's largest concept, essanelle Ihr Friseur. While the young concepts showed clear and continued growth over the past years, sales revenues of the core concept declined in both absolute and relative terms. The aim is to increase sales revenues of this concept in the coming years. In the context of the revitalisation of the brand, its identity was modified and the salons given a more exclusive appeal in 2008. The former premium concept, JT by essanelle, has been integrated. By upgrading the brand, the company aims to attract a much larger customer group as well as excellent employees in the medium term. This way, the Essanelle Hair Group plans to turn around the trend of declining sales and to put essanelle Ihr Friseur back on the growth path in the coming years. The company sticks to its aim of a 50:50 revenue distribution between essanelle Ihr Friseur on the one hand and the remaining concepts on the other hand.

Apart from the revitalisation of essanelle Ihr Friseur, the company also revised its lessor strategy. Wherever it appears to make sense, second and third outlets will be opened within the same department store or shopping centre. This applies especially to those department stores and shopping centres that attract completely different target groups. This way, the company aims to increase sales revenues per location. The company's excellent relations with the large lessors are a great advantage in this context. These strategic adjustments do not mark a new direction in the company's general approach but represent a clearer positioning and an improvement in the system of target group-oriented brand concepts.

Besides this, the company will continue to look for promising new locations. 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. 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. Wherever appropriate outlets become vacant, this is also an alternative for the Super Cut concept.

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 offers 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

In fiscal 2008, the Essanelle Hair Group continued to pursue its strategy of profitable growth and winning new market share. For this purpose, the company intended to open at least 50 new salons last year and to increase its sales by 5% to 10% while at the same time improving its earnings figures. Given that the tax ratio in 2007 was extraordinarily low due to a special situation, this did not apply to earnings after taxes.

In addition, the company reviewed the positioning of its salon concepts and decided to revitalise its largest concept, essanelle Ihr Friseur, at the beginning of the year. The relaunch of the concept was to be completed before the end of 2008.

BUSINESS PERFORMANCE IN 2008

The Essanelle Hair Group opened 54 new salons in fiscal 2008, which means that it exceeded its target of 50 new salons. This contrasted with 17 salon closures. The increase in the number of salons breaks down as follows: The number of Hair Express salons rose by 34 to 180 salons, that of Super Cut salons by 5 to 93 salons and that of TOP TEN salons by 5 to 32 salons. The number of JT by essanelle salons declined by 1 to 14, while the largest concept, essanelle Ihr Friseur, now has 325 salons, a decline by 10. In addition, four new Beauty Hair Shops were opened for a total of 28 salons. The total number of the company's salons climbed from 635 at the end of 2007 to 672 at the end of the past fiscal year.

The revitalisation of the essanelle Ihr Friseur concept was implemented successfully and the revamped brand was introduced in the market with a number of activities in the last two months of 2008. The company spent a total of approx. EUR 1.5 million on the revitalisation in 2008. Like the new salon openings, these activities were financed from the high and stable cashflow. The investments in human resources, advertising and POS activities were also reflected in higher expenses.

Sales revenues of the Essanelle Hair Group rose by 4.9% in 2008, which was at the lower end of the planned bandwidth. This is primarily attributable to the suboptimal fourth quarter and Christmas business at the previous year's level. At the nine-month stage, the company had reported a 5.6% increase in sales revenues. Sales revenues for the full fiscal year totalled EUR 129.2 million, compared to EUR 123.1 million in 2007. Overall, this means that the company has stayed on the planned growth track.

At EUR 108.0 million, services provided in the salons made the highest contribution to sales revenues (previous year EUR 103.5 million), which represents 83.6% of total sales revenues. Revenues from the sale of salon products continued to grow and accounted for 16.4% of total sales in 2008, compared to 15.9% in the previous year. In absolute terms, revenues from product sales amounted to EUR 21.2 million, up 7.8% on the previous year's EUR 19.6 million.

Even against the background of the good previous years, the Essanelle Hair Group achieved particularly strong earnings growth in 2008. Earnings before interest, taxes, depreciation and amortisation (to IFRS) rose by 10.2% from EUR 11.0 million to EUR 12.1 million. At EUR 6.4 million, earnings before taxes (EBT) were up 18.2% on the previous year's EUR 5.4 million. This was the best result in the history of the Essanelle Hair Group. In spite of additional, unplanned investments, the company clearly exceeded its 10% earnings growth target.

PERFORMANCE OF THE SALON CONCEPTS

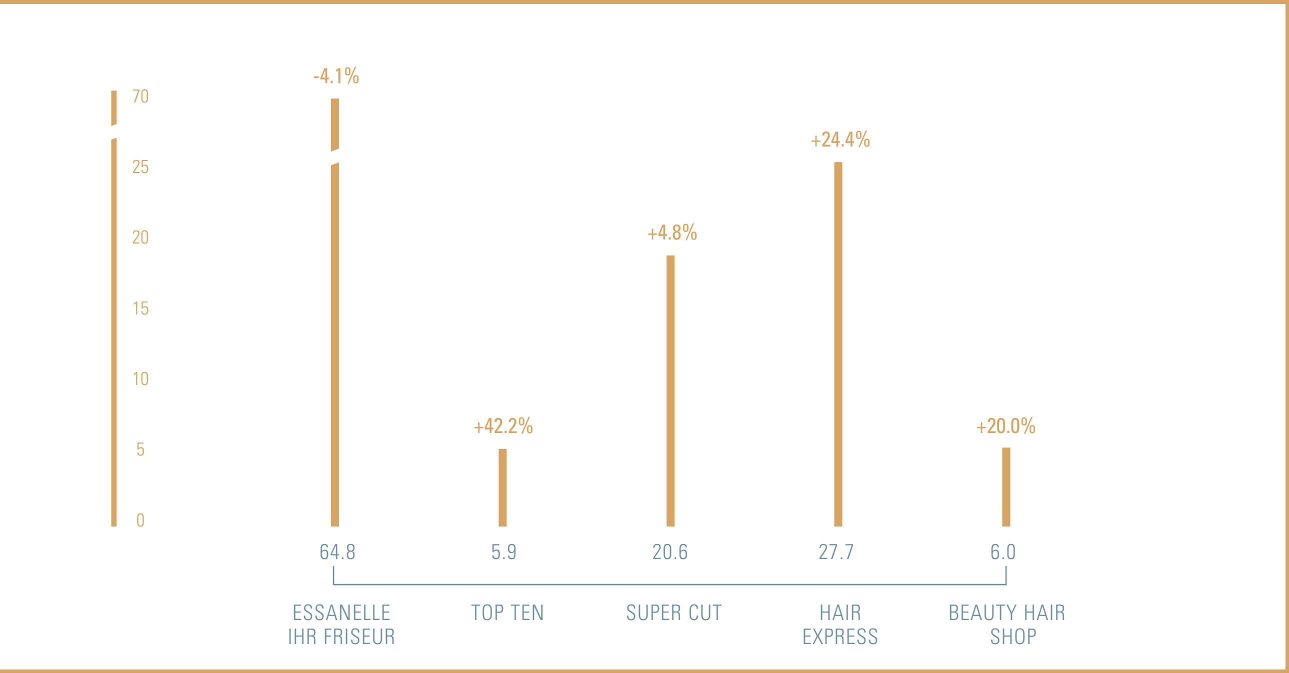
The company's largest brand, essanelle Ihr Friseur, is targeted at all age groups, in most cases in shopping centres and department stores. In 2008, sales revenues of this salon concept amounted to EUR 64.8 million, down 4.1% on the previous year's EUR 67.6 million. As of the end of the year, the brand had 325 salons, compared to 335 salons in the previous year. Following last year's relaunch, the concept is now positioned more exclusively and is expected to generate rising sales revenues in the medium term. The brand's exclusiveness has also been enhanced by the integration of the JT by essanelle concept. Under this name, the company operates salons only in selected locations such as KaDeWe in Berlin and Alsterhaus in Hamburg.

HairExpress has been the fastest growing concept of the Essanelle Hair Group for several years and is targeted at price-sensitive customers who nevertheless want a professional core service. In 2008, the number of salons increased by 34 to 180 salons, most of which are located in consumer markets. In the past fiscal year, sales revenues rose by 24.4% to EUR 27.7 million (previous year EUR 22.2 million).

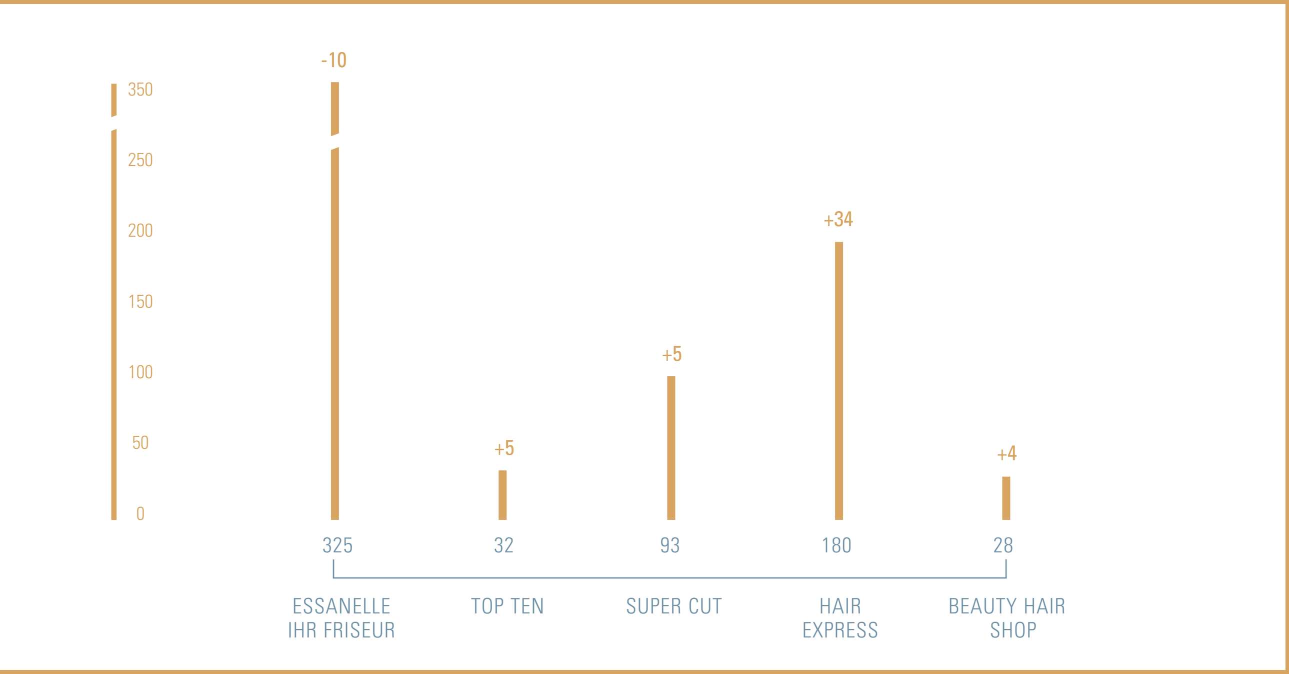
The Super Cut concept is aimed at a young, trend-conscious target group. The informal and uncomplicated environment with up-to-date music is tailored to a younger clientele. Five new outlets were opened in 2008, bringing the total number of Super Cut salons to 93. Sales revenues rose by 4.8% from EUR 19.6 million to EUR 20.6 million in fiscal 2008.

Launched in mid-2005, the TOP TEN concept is positioned in the lower price segment and targeted at a young customer group. "Stylish, fresh and cheeky" are characteristics that best describe the TOP TEN brand. The concept is based on the top ten music charts, and each service offered costs roughly EUR 10. TOP TEN generated sales revenues of EUR 5.9 million in the past fiscal year, up 42.2% on the previous year's EUR 4.1 million. The number of salons rose by 5 to a total of 32 salons.

SALES OF SALON CONCEPTS IN € MILLION
(Change on previous year)



NUMBER OF SALONS BY CONCEPTS
(Change on previous year)



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, the Essanelle Hair Group operates pure-play sales outlets under the Beauty Hair Shop brand name in close proximity to its salons. The outlets sell both the company's private label, Keranelle, and products from market leaders Wella and L'Oréal. The growing revenues in these Beauty Hair Shops show that the company is able to encourage customers to buy salon products also in between their visits to a hairdresser. In the 2008 financial year, the 28 shops (previous year 24) generated sales of EUR 6.0 million, up 20% on the previous year's EUR 5.0 million.

EXPENSES AND INCOME (GROUP, IFRS)

The Essanelle Hair Group continued to increase its sales in the past fiscal year. Sales revenues totalled approx. EUR 129.2 million in fiscal 2008, up 4.9% on the previous year's EUR 123.1 million. Other operating income declined from EUR 1.4 million in the previous year to approx. EUR 1.1 million in 2008, mainly due to lower income from the release of provisions. The Group's cost of materials decreased by 4.4% to EUR 10.7 million in spite of the rise in sales. This is attributable to better purchasing conditions. By contrast, personnel expenses rose by 2.9% from EUR 68.3 million to EUR 70.3 million as had been expected because of the sharp increase in the number of salons and employees. Personnel expenses as a percentage of sales was reduced further to 54.4%, compared to 55.5% in 2007, in spite of high pay rises. Non-recurrent effects relating to severance payments in the previous year had a positive effect on personnel expenses as a percentage of sales. The company's depreciation and amortisation (according to IFRS) rose moderately from EUR 5.0 million to EUR 5.2 million. Rents including incidental rental expenses climbed by 5.4% from EUR 22.9 million to EUR 24.1 million. Other operating expenses increased by 17.3% from EUR 11.0 million to EUR 12.9 million, primarily because of the revitalisation of essanelle Ihr Friseur in an amount of EUR 1.5 million.

As a result, earnings before interest, taxes, depreciation and amortisation rose sharply to EUR 12.1 million. This represents a 10.2% increase on the previous year's EUR 11.0 million. Earnings before interest and taxes climbed at an even higher rate of 14.8% from EUR 6.1 million to EUR 7.0 million in 2008. The financial result, including financing income, improved moderately from approx. -0.7 million in 2007 to EUR -0.6 million in 2008. This resulted in earnings before taxes (EBT) to IFRS of EUR 6.4 million, up 18.2% on the previous year's EUR 5.4 million. Due to the non-recurrence of positive one-time effects in the previous year, which resulted from the utilisation of tax loss carryforwards, the Essanelle Hair Group's tax expenses rose sharply in 2008. Income tax expenses climbed from EUR 0.8 million in fiscal 2007 to EUR 2.7 million in 2008. According to IFRS, this resulted in a consolidated net profit of EUR 3.6 million, compared to EUR 4.6 million at the end of fiscal 2007. Accordingly, basic earnings per share amounted to EUR 0.80 per share (previous year EUR 1.01), while diluted earnings per share stood at EUR 0.80 (previous year EUR 0.94).

NET ASSET AND FINANCIAL SITUATION (GROUP, IFRS)

Property, plant and equipment increased from EUR 21.5 million to EUR 23.9 million; investments of EUR 7.7 million contrasted with scheduled depreciation of EUR 5.2 million. Goodwill from salon takeovers remained unchanged at EUR 19.6 million. Current assets changed only little from the previous year, declining from EUR 13.8 million to EUR 13.3 million. Inventories increased from EUR 6.6 million to EUR 7.0 million, while cash on hand declined from EUR 6.1 million to EUR 5.6 million. As at 31 December 2008, total assets amounted to EUR 57.0 million, compared to EUR 55.1 million at year-end 2007.

As of 31 December 2008, the consolidated balance sheet of Essanelle Hair Group AG showed an equity ratio of 53.7%, compared to 53.0% at the end of fiscal 2007. Equity climbed from EUR 29.2 million to EUR 30.6 million primarily due to the increase in revenue reserves from EUR 9.0 million in the previous year to EUR 10.4 million. The rise in revenue reserves is the result of the 2008 consolidated net profit of EUR 3.6 million and the 2008 profit distribution for 2007 in an amount of approx. EUR 2.3 million. Financial liabilities were reduced as planned by approx. EUR 2.1 million; new investments in salons are funded by long-term loans in an amount of EUR 1.3 million. Tax liabilities comprise deferred taxes in an amount of EUR 3.7 million (previous year EUR 3.2 million) and, above all, corporate income tax and trade tax liabilities from 2008. In the other current debt category, trade payables increased due to the expansion of the salon network, while other provisions declined primarily due to lower severance payments.

The consolidated cashflow statement of Essanelle Hair Group AG shows the traditionally strong operating cashflow, which increased even further in 2008. Net cash inflow from current operations rose from EUR 8.3 million to EUR 11.5 million in 2008. Cashflow from investing activities is marked by further growth in property, plant and equipment. Net cash outflow amounted to EUR 7.3 million (previous year EUR 5.1 million). This reflects the continued growth strategy as well as investments in the revitalisation of essanelle Ihr Friseur. Cashflow from financing activities amounted to

EUR -4.6 million, compared to EUR -2.5 million in the previous year. The strong change is primarily attributable to the distribution of the company's first dividends in an amount of approx. EUR 2.3 million. As a result, cash and cash equivalents declined by EUR 0.5 million from the previous year and stood at approx. EUR 5.6 million on 31 December 2008.

THE ESSANELLE SHARE

The share of Essanelle Hair Group AG opened the fiscal year 2008 at EUR 9.80 on Xetra, which was also the highest price of the year. The lowest price was quoted in December 2008 at EUR 6.60. The share closed the year at EUR 7.45 (Xetra). Based on approx. 4.6 million shares, this represented a market capitalisation of EUR 34.27 million at the end of the fiscal year. The negative performance was due, on the one hand, to the extremely weak stock market environment, which was clearly marked by the financial crisis. On the other hand, the EUR 9.60 takeover bid from Saxonia Holding-Gesellschaft mbh & Co. KG, which expired on 14 February 2008, led to a high share price at the beginning of the year. Upon expiry of the statutory offer, Saxonia informed the company that they hold 89.76% of the shares in Essanelle Hair Group AG. In this context, Jürgen Tröndle, member of the Supervisory Board, informed the company that his shareholding had dropped below the 3% threshold and that he no longer held any shares in the company. Axxion S.A, Ratio Asset Management LLP, Intrinsic Value Investors and former Board member Uwe Grimminger informed the company that their voting interests had dropped below the 5% and 3% thresholds to 0%.

RISK REPORT

RISK MANAGEMENT AND BUSINESS RISKS

With a view to identifying potential risks at an early stage and responding appropriately, Essanelle Hair Group has installed an early warning risk identification system pursuant to section 91 (2) of the German Stock Corporation Act (AktG). This system covers all divisions and subsidiaries of the company. 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.

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.

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 timely analyses, targets and the effective implementation of measures at all responsibility levels 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. Especially in view of the growth strategy and the ongoing expansion of the salon network, constant monitoring and evaluation of the performance of the salons is of key importance to the management.

Due to an anonymous charge laid against the company, tax investigators searched the company's offices on 29 January 2009. The outcome will be known only once the pending investigations are closed. No provisions were established.

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 overall retail sector and the hairdressing services sector. Based on past experience, however, developments in the retail sector filter through only in diluted form. Accordingly, the purchasing restraint among consumers seen since 2001 also has an impact on the company's salons. This means that the economic crisis may well be reflected in the company's salons. To counteract this trend, 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. 17 salons were closed in fiscal 2008.

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 and enable the company to expand its salon network continuously.

At present 34 salons are affected by the insolvency of the Hertie Group. The lease agreements for 13 salons have already been terminated either by the lessor or by the company. By 7 March 2009, 8 salons had been closed. Essanelle Hair Group is in negotiations about use agreements with very short notice periods for 17 salons. In addition, the company is looking for alternative locations in the vicinity of the former salons. It is not least against this background, that the company aims to optimise the mix of lessors to the greatest possible extent.

SUPPLIERS

Cooperation agreements for hair cosmetics, salon furnishings and large-scale technical equipment have been signed with an important supplier.

PERSONNEL

Hairdressing services are an extremely personnel-intensive business. The company’s success hinges on the relations between the customer and the employee. This is why the company attaches great importance to the motivation and further training of employees. This is one of the reasons why a Chief Human Resources Officer was appointed at the beginning of 2008. 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 the salon managers 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.

COMPENSATION REPORT

The overall compensation of the Management Board in 2008 was structured as follows (EUR '000):

	Grimminger	Mansen	Bonk	Wiethölter	Total
Basic salary (non-performance-related)	24	255	143	141	563
Performance-related bonus	-60	164	53	53	210
Non-cash benefit from use of company car	1	14	9	10	34
Total	**-35**	**433**	**205**	**204**	**807**

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, the higher the corresponding compensation. With regard to the achievement of the targets, the compensation is capped at 150% of the basic amount, though. The variable compensation is paid one month following the adoption of the annual financial statements.

The pension provisions established for the active Management Board members amounted to EUR 0.2 million before netting with the fair value of the plan assets of EUR 0.1 million. Achim Mansen is entitled to a monthly pension of EUR 3,540.00 from the age of 65, as well as to a monthly disability pension of EUR 3,540.00 and a widow's pension. The widow's pension in each case amounts to 60% of the old-age pension entitlement. In addition, an entitlement to an orphan’s pension exists. An annual adjustment in the ongoing pension payments of 2% based on the level of pension in the previous year is guaranteed.

In the event that a Management Board contract is not renewed without the Supervisory Board giving due notice, the contracts include an arrangement for payment of a transitional allowance for a limited period of time.

Pension provisions for former Board member Mr Grimminger amount to EUR 0.6 million before netting with the fair value of the plan assets of EUR 0.5 million. From the age of 60, Uwe Grimminger is entitled to a monthly pension of EUR 3,158.52, a disability pension of EUR 3,096.59 and a widow's pension of 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 4,522,841 at the end of the past financial year, including 72,203 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.

The deadline for acceptance of the statutory offer of Saxonia Holding-Gesellschaft mbH & Co. KG ended in February 2008. After expiry of the deadline, the latter informed the company that it holds 89.76% of the shares in Essanelle Hair Group AG. There are no other major shareholders.

Special rights, such as the right to appoint members to the Supervisory Board, do not exist; nor do rights of control over voting rights attributable to employees. Pursuant to 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. The Annual General Meeting of 17 June 2008 authorised the Management Board to buy back own shares. A repurchase programme was launched in the second half of the year. In the context of this programme, the company repurchased 12,203 shares at an average price of approx. EUR 7.72. The company has 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

There have been no events with a significant impact on the sales and earnings position of Essanelle Hair Group AG subsequent to the reporting date on 31 December 2008.

EFFECTS OF THE FINANCIAL AND ECONOMIC CRISIS

Essanelle Hair Group has not taken any extraordinary risk prevention measures as the financial market crisis is not expected to have a direct impact on the Group.

OUTLOOK AND OPPORTUNITIES

The biggest economic crisis of the past decades is projected for the year 2009. Negative growth of several percent is expected for Germany, the euro-zone, the USA and Japan. Experts believe that Germany's unemployment figures will rise. At present, it is impossible to estimate the impact of the economic crisis on consumer spending, which is the most important indicator for the hairdressing sector. On the upside, employment in Germany is still at a very high level, collective wages have been increased quite substantially last year and the government has launched economic stimulus packages. The gross domestic product is projected to decline by between 2% and 4% in 2009. Private consumption, which stagnated in 2008, is not expected to improve.

Essanelle Hair Group AG has been able to increase its sales revenues continuously in the past years, although consumer demand remained weak and revenues in the hairdressing sector as a whole tended to decline. At the same time, the company has been able to achieve a high equity ratio and a steady and strong cashflow. Against this background, the Essanelle Hair Group will continue its successful growth strategy in 2009 and beyond. The company plans to again open some 50 salons in 2009. In view of the expected macroeconomic situation, the Management Board expects sales revenues to grow by between 3% and 7%. With a view to the excellent earnings figures of the last fiscal year, the company aims to maintain earnings before taxes at the high level of 2008. As it is difficult to predict the economic trend in Germany and abroad, these projections are subject to greater uncertainty than in the previous years.

The Essanelle Hair Group expects the revenue trend of the largest concept, essanelle Ihr Friseur, to turn around already in 2009 but especially in the next 2 – 4 years as a result of the revitalisation of the brand. Ultimately, sales revenues of the company's core brand will also grow again. The Management Board believes that the Group is well positioned also in a more difficult economic environment thanks to salon concepts that are targeted at a more price-sensitive clientele or a less crisis-prone young target group.

Moreover, the Essanelle Hair Group has numerous competitive advantages such as its capital and financial strength, excellent partnerships with its lessors and suppliers as well as strategic expertise. As a result, the company is very well positioned and can benefit from competitors' weaknesses and win market share especially in times of economic crisis.

The Essanelle Hair Group believes that it will be able to increase its sales revenues by at least 5% p.a. in the fiscal years from 2010 – subject to a more moderate economic situation. Earnings will be improved continuously at the same time.

Düsseldorf, 12 March 2009

Management Board

Achim Mansen
(Chairman of the Management Board)

Dieter Bonk
(Management Board)

Dirk Wiethölter
(Management Board)

CONSOLIDATED BALANCE SHEET (IFRS) as of 31 December 2008

ASSETS

€	Notes	31.12.2008	31.12.2007
ASSETS			
Long-term assets			
Property, plant and equipment	6	23,931,881.75	21,493,076.73
Goodwill	7	19,558,872.10	19,558,872.10
Other intangible assets	7	140,952.59	177,257.44
Other loans	8	72,382.53	88,877.88
		43,704,088.97	**41,318,084.15**
Short-term assets			
Other loans	8	14,874.21	10,815.16
Inventories	9	6,996,124.66	6,601,628.87
Accounts receivable	10	176,377.58	214,077.60
Other assets	11	532,706.00	920,612.76
Cash and cash equivalents	12	5,600,168.26	6,077,784.93
		13,320,250.71	**13,824,919.32**
Total assets		**57,024,339.68**	**55,143,003.47**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	Notes	31.12.2008	31.12.2007
SHAREHOLDERS' EQUITY			
Capital and reserves allocable to the shareholders in the parent company			
Share capital	13	4,522,841.00	4,535,044.00
Capital reserve	14	15,717,699.17	15,702,463.44
Revenue reserves	15	10,357,743.59	8,979,264.34
		30,598,283.76	**29,216,771.78**
DEBT			
Long-term debt			
Financial debt	16	5,116,349.08	7,200,220.76
Deferred tax liabilities	17	3,747,354.57	3,157,000.00
Pension provisions	18	154,364.00	160,076.00
Other provisions	19	784,916.10	738,737.38
		9,802,983.75	**11,256,034.14**
Short-term debt			
Financial debt	16	3,296,851.11	3,264,094.25
Accounts payable	20	4,399,960.59	3,461,653.92
Current income tax liabilities	21	1,851,127.76	639,380.67
Other liabilities	22	3,259,874.25	2,801,288.88
Other provisions	23	3,815,258.46	4,503,779.83
		16,623,072.17	**14,670,197.55**
Total debt		**26,426,055.92**	**25,926,231.69**
Total shareholders' equity and liabilities		**57,024,339.68**	**55,143,003.47**

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2008 to 31 December 2008

€	Notes	2008	2007
Sales	24	129,160,708.91	123,082,504.57
Other operating income	25	1,083,704.97	1,442,576.06
Cost of materials	26	-10,744,313.70	-11,239,798.12
Personnel expenses	27	-70,301,024.56	-68,347,659.53
Depreciation and amortisation	28	-5,198,291.45	-4,970,219.80
Rental and ancillary rental expenses	29	-24,129,522.95	-22,903,997.52
Other operating expenses	30	-12,920,998.25	-11,011,574.85
Operating earnings		**6,950,262.97**	**6,051,830.81**
Financing income	31	105,043.49	74,968.85
Financing expensesn	32	-677,975.10	-731,998.00
Net financial loans		**-572,931.61**	**-657,029.15**
Earnings before taxes		**6,377,331.36**	**5,394,801.66**
Tax expenses	34	-2,731,330.95	-829,308.61
Consolidated net income		**3,646,000.41**	**4,565,493.05**
Earnings per share	35		
basic		0.80	1.01
diluted		0.80	0.94

CONSOLIDATED CASHFLOW STATEMENT (IFRS)

for the period from 1 January 2008 to 31 December 2008

T€	Notes	2008	2007
1. CASHFLOW FROM OPERATING ACTIVITIES	37		
Cash generated by ongoing business activities		12,755	9,603
Interest paid		-567	-646
Taxes on income paid/received		-694	-631
Net inflow of funds from operating activities		**11,494**	**8,326**
2. CASHFLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	6	-7,455	-5,155
Proceeds from sale of property, plant and equipment	37	33	31
Acquisition of intangible assets	7	-43	-49
Loans paid out	8	0	-14
Loans repaid	8	12	23
Loans repaid by closely related persons		0	9
Interest received		105	72
Net outflow of funds for investment activities		**-7,348**	**-5,083**
3. CASHFLOW FROM FINANCING ACTIVITIEST			
Dividend payout	14,15	-2,268	0
Buyback of own shares	14,15	-78	0
Receipts from taking up of financial debt	16	1,131	1,230
Repayment of financial debt	16	-3,409	-3,716
Net outflow of funds for financing acivities		**-4,624**	**-2,486**
Net decrease/increase in cash and cash equivalents		-478	757
Cash and cash equivalents at beginning of year	12	6,078	5,321
Cash and cash equivalents at 31 December		**5,600**	**6,078**

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2008

	Notes	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 01.01.2007		**4,535,044.00**	**15,422,954.30**	**4,413,771.29**	**24,371,769.59**
Consolidated earnings	15			4,565,493.05	4,565,493.05
Value of employee services in connection with employee share option programmes	14		279,509.14		279,509.14
Balance at 31.12.2007		**4,535,044.00**	**15,702,463.44**	**8,979,264.34**	**29,216,771.78**
Balance at 01.01.2008		**4,535,044.00**	**15,702,463.44**	**8,979,264.34**	**29,216,771.78**
Dividend payout	15			-2,267,521.16	-2,267,521.16
Consolidated earnings	15			3,646,000.41	3,646,000.41
Purchase of own shares	14	-12,203.00	-65,647.48		-77,850.48
Value of employee services in connection with employee share option programmes	14		80,883.21		80,883.21
Balance at 31.12.2008		**4,522,841.00**	**15,717,699.17**	**10,357,743.59**	**30,598,283.76**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)
as of 31 December 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)
as of 31 December 2008

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 672 hairdressing salons and sales shops, compared with 635 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
– SuperCut
– 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.

3 (previous year 4) 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.

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, (Finance)	(Chairman from 1 February 2008)
Dieter Bonk, Neuss, (Sales)	(from 1 February 2008)
Dirk Wiethölter, Hilden, (Human Resources)	(from 1 February 2008)

Subsidiary activities of the members of the Management Board:

Achim Mansen	Administrative Board Essanelle Company Health Insurance Fund, Augsburg
Dieter Bonk	Administrative Board Essanelle Company Health Insurance Fund, Augsburg
Herr Dirk Wiethölter	Administrative Board Essanelle Company Health Insurance Fund, Augsburg Alternating Chairman and employer´s representative 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 (Chairman from 31 March 2008)	Management consultant
Hans-Joachim Oltersdorf, Rellingen (until 17 June 2008)	Managing director
Olaf Rogowski, Munich (from 14 April 2008)	Managing director
Werner Schneider, Cologne	Management consultant
Hiltrud Seggewiß, Düsseldorf	Managing director
Jürgen Tröndle, Kelsterbach	Hairdresser/businessman
Andreas Tscherner, Ahlum (from 17 June 2008)	Head of Group Accounting and Controlling

Employee representatives

	Profession
Peter-Michael Herold, Stuttgart, (Deputy Chairman)	Trade union secretary
Silvia Altenberger, Munich	Sales director
Michael Eberhard, Berlin	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:

Fritz Kuhn	Ondal Friseurtechnik GmbH, Eiterfeld (Advisory Board)
Michael Eberhard	Stadtwerke Leipzig GmbH (Member) Technische Werke Dresden GmbH (Member)
Olaf Rogowski	Ondal Holding GmbH, Hünfeld (Advisory Board) Sterntaler GmbH, Dornburg (Advisory Board)
Joachim Dübner	Procon Multimedia AG, Hamburg (Member) KROMI Logistik AG, Hamburg (Member) IP5 Gesellschaft für Wissenswerte AG, Hamburg (Member)
Hans-Joachim Oltersdorf	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 2008 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 2008.

Application has been made of the supplementary provisions of the German Stock Corporation Act (AktG). The Group management report as of 31 December 2008 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 reporting standards and interpretations that became effective for annual periods beginning on or after 1 January 2008 and were first applied by the Essanelle Group as of this date.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” (reclassification of financial assets) make it possible, under certain conditions, to reclassify certain non-derivative financial assets from the category of “financial assets at fair value through profit or loss” and of “available-for-sale financial assets” to other categories. Under the amended standards, additional information on the reclassification of financial assets must be disclosed in the notes. The amended standards could first be applied as of 1 July 2008. Their application had no impact on the consolidated financial statements of the Essanelle Hair Group.

The update to the amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" (reclassification of financial assets) makes it clear that reclassifications effected on or after 1 November 2008 become effective as of the date of the reclassification. Reclassifications before 1 November may be effected as of an earlier date but no earlier than 1 July 2008. This had no impact on the consolidated financial statements of the Essanelle Hair Group

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" answers the question of how IFRS 2 should be applied to share-based payments involving an entity's own equity instruments or equity instruments of another Group company. First-time application of IFRIC 11 had no material impact on the consolidated financial statements of the Essanelle Hair Group.

International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) that are not yet effective

The following standards and amendments to standards and interpretations have been adopted but will become effective for annual periods beginning on or after 1 January 2009 (the company did not take advantage of the permission for earlier application). Application of these standards is subject to the approval of the EU, which is still pending in some cases.

– The International Financial Reporting Standard (2008) of "Improvements to IFRSs" is the first standard issued in the context of the IASB's annual improvement process and includes minor amendments to a number of IFRSs. The purpose of the amendments is to put the contents of the standards into more concrete terms and to eliminate undesirable inconsistencies between the standards. Most amendments become effective for annual periods beginning on or after 1 January 2009. The effects of the amendments contained in the standard are currently being analysed by the Essanelle Hair Group.

– IFRS 1 (Revised) "First-time Adoption of International Financial Reporting Standards (effective from 1 January 2009). The revised IRFS 1 issued by the IASB on 27 November 2008 contains the same regulations as the previous standard but has been restructured. The amendments refer to first-time adopters of IFRS and are therefore not relevant for the Essanelle Hair Group.

– Amendments to IFRS 1 and IAS 27, "Cost of a Subsidiary, Joint Venture or Associate in the Separate Financial Statements of a Parent" (effective from 1 January 2009). The amendments refer to first-time adopters of IFRS and are therefore not relevant for the Essanelle Hair Group.

– Amendment to IFRS 2 "Share-based Payment: Vesting Conditions and Cancellations" (effective from 1 January 2009). The new regulations explain the meanings of certain terms and include a more precise definition of vesting conditions under share-based payment arrangements. They also explain how an entity should treat cancellations of share-based payment arrangements. The amended standard will be applied by the Essanelle Group with effect from 1 January 2009. The anticipated effects of the application of the amended standard on the Essanelle Hair Group are currently being examined.

- IFRS 3 (Revised) “Business Combinations” (effective from 1 July 2009) includes amended regulations for the accounting of business combinations. In particular, the scope of application and the accounting of step acquisitions have been amended. Also, entities can choose to measure the shares of non-controlling shareholders at their fair value or the NCI's proportionate share of net assets. Depending on the option chosen, goodwill in a business combination is either recognised in full or only at the NCI’s proportionate share. The Essanelle Hair Group will apply IFRS 3 (Revised) for annual periods beginning on or after 1 January 2010.

- IFRS 8 “Operating Segments” (effective from 1 January 2009) includes new regulations for the presentation of segment reports, according to which segment reporting must follow the “management approach”. Under this approach, the definition of segments as well as the preparation of information used for segment reporting are based on information used internally by the management to allocate resources and assess the performance of the segments. First-time application of the amended standard will have no impact on the net worth, financial and earnings position but change the presentation of the segment reports.

- IAS 1 (Revised) “Presentation of Financial Statements” (effective from 1 January 2009) contains new regulations for the presentation of financial statements. In particular, changes in equity arising from transactions with owners in their capacity as owners must be presented separately from non-owner changes in equity. Moreover, additional disclosures on other comprehensive income are required. First-time application of the revised standard will entail changes in the presentation of the income statement and the statement of changes in equity of the Essanelle Hair Group and lead to additional disclosures in the notes.

- Amendments to IAS 23 “Borrowing Costs” (effective from 1 January 2009). The right to choose whether borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised or expensed immediately has been replaced with an obligation to capitalise such costs. Depending on the type and amount of the borrowings, this may entail changes from 2009. The amendment is currently not relevant for the Essanelle Hair Group, as the Group has no qualifying assets in its balance sheet.

- IAS 27 (Revised) “Consolidated and Separate Financial Statements to IFRS” (effective from 1 July 2009). By revising IAS 27, the IASB has amended the regulations for the accounting of transactions with non-controlling shareholders of a Group and the accounting in the event of a loss of control over a subsidiary. Transactions through which a parent company changes its shareholding in a subsidiary without losing control must now be accounted for as equity transactions without recognition of gain or loss. The standard also regulates how to calculate a gain or loss on deconsolidation and how to measure a residual holding in the former subsidiary. The effects of the application of the amended standard on the Essanelle Hair Group are currently being examined.

- Amendments to IAS 32 and IAS 1 “Puttable Financial Instruments and Obligations Arising on Liquidation” (effective from 1 January 2009). The revised version of IAS 32 is important for the distinction between equity and debt capital and allows certain types of puttable instruments to be classified as equity under certain conditions. The amendments will be applied by the Essanelle Hair Group from 1 January 2009. They will probably have no impact on the net worth, financial and earnings position of the Group.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement – Exposures Qualifying for Hedge Accounting" (effective from 1 July 2009) explains the principles of hedge accounting in more concrete terms and complements the application principles in the areas of designating inflation risks as an underlying transaction as well as for designating hedging instruments used to hedge a one-sided risk. The Essanelle Hair Group will apply the amendments for annual periods beginning on 1 January 2010.

- IFRIC 13 "Customer Loyalty Programmes" (effective from 1 July 2008) addresses the question how loyalty award credits, such as 'points' or travel miles, granted to customers who later use them to obtain free or discounted goods or services should be accounted for. This interpretation is not relevant for the consolidated financial statements of the Essanelle Hair Group.

- IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1 January 2009) explains how entities should determine the limit placed by IAS 19 on the amount of a surplus in a pension plan they can recognise as an asset and how plan assets and obligations should be calculated taking legal or contractual minimum funding requirements into account. The interpretation is not relevant for the consolidated financial statements of the Essanelle Hair Group.

- IFRIC 15 "Agreements for the Construction of Real Estate" (effective from 1 January 2009). The interpretation provides guidance on when real estate developers should apply IAS 11 and when they have to apply IAS 18. The interpretation is not relevant for the consolidated financial statements of the Essanelle Hair Group.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective from 1 October 2008). IFRIC 16 explains that a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation (and not the presentation currency in the consolidated financial statements). The interpretation is not relevant for the consolidated financial statements of the Essanelle Hair Group, as the latter operates only in Germany.

- IFRIC 17 "Distributions of Non-cash Assets to Owners" (effective from 1 January 2009) addresses two issues relating to the distribution of non-cash assets to owners. The first is the question when a dividend payable should be recognised and measured. Second, the interpretation states that the difference between the carrying amount of the net assets distributed and the carrying amount of the dividend paid should be recognised in profit or loss at settlement. The interpretation is not relevant for the consolidated financial statements of the Essanelle Hair Group.

- IFRIC 18 "Transfers of Assets from Customers" (effective from 1 July 2009) primarily relates to the utility sector and is therefore not relevant for the consolidated financial statements of the Essanelle Hair Group.

Standards, amendments and interpretations of existing standards that are not applied as they have not yet been approved by the EU:

IFRIC 12 “Service Concession Arrangements” addresses the accounting and measurement of obligations and rights resulting from service concession arrangements for the operator. The scope of the interpretation extends to certain concession arrangements under which government infrastructure services (e.g. road building) are transferred to private entities. The interpretation is not relevant for the consolidated financial statements of the Essanelle Hair Group.
No use has been made of the possibility for early application of these standards and interpretations. Early application of these standards and interpretations would not have had any significant implications on the consolidated financial statements of Essanelle AG.

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 REPORTING ENTITY

The following companies were included in the reporting entity of Essanelle as of 31 December 2008:

Parent company
Essanelle Hair Group AG, Düsseldorf

Direct shareholdings (100%)
CFS Coiffure Franchising System GmbH, Düsseldorf

Indirect shareholdings (subsidiaries of CFS)
Essanelle Dienstleistungs GmbH, Düsseldorf (in short: EDL)

The share capital of Essanelle Dienstleistungs GmbH amounts to EUR 25,000 and is held in full by 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 2008 or in 2007. 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 cashflows 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 non-current assets; as loans, they fall under non-current 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 cashflows, 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 (FiFo) method. The net disposal value represents the estimated sales proceeds attainable in the course of normal business activities, less the required variable costs of such disposal.

2.9 ACCOUNTS RECEIVABLE

Accounts receivable are initially 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 current 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 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 exists in the FLAC category ("Financial Liabilities measured at Amortised Costs") and primarily relates 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 current 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 a member of the Management Board and a former member 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 6.25%; previous year 5.25%).

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.

Non-current 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) Cashflow risk and fair value interest risk

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

The interest risk of the Group arises on account of its non-current 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 cashflow 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 cashflows 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; cashflow deviations (actual/target comparison) are balanced through daily availability and provision of liquid funds.

Short-term liquidity, calculated as the ratio between current assets and current liabilities, was 0.94 in 2007 and 0.80 in 2008.

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 equity-to-non-current-assets ratio, which changed from 0.71 in 2007 to 0.70 in 2008. The equity ratio increased from 53.0% in 2007 to 53.7% in 2008.

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 cashflows 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 cashflows or the expected discount rate used in the calculation of the cashflows 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 84k (previous year EUR 93k).

(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.

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

The table below shows the changes in property, plant and equipment:

€	Plant and office equipment	Capitalised leasing agreements	Total
As of 1 January 2007			
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
2008 financial year			
Opening carrying amount (net)	19,004,298.82	2,488,777.91	21,493,076.73
Additions	7,455,439.92	227,486.70	7,682,926.62
Disposals	-2,109,750.49	0.00	-2,109,750.49
Additions to depreciation	-4,380,492.34	-738,019.52	-5,118,511.86
Disposals from depreciation	1,984,140.75	0.00	1,984,140.75
Closing carrying amount (net)	21,953,636.66	1,978,245.09	23,931,881.75
As of 31 December 2008			
Costs of acquisition/manufacture	53,722,776.05	10,122,911.19	63,845,687.24
Cumulative impairments (IAS 36)	-179,392.52	0.00	-179,392.52
Cumulative depreciation	-31,589,746.87	-8,144,666.10	-39,734,412.97
Carrying amount (net)	**21,953,636.66**	**1,978,245.09**	**23,931,881.75**

Investments in property, plant and equipment amounted to EUR 7,683k (previous year EUR 5,290k) in the 2008 financial year and predominantly related to salon furnishings at newly opened salons and renovations of existing salons. The disposals of assets in 2008 in a net carrying amount of EUR 126k (previous year EUR 57k) mainly refer to salon closures. Income from asset disposals amounted to EUR 1k (previous year EUR 2k), while losses amounted to EUR 94k (previous year EUR 28k).

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 277k have been recorded in the income statement (previous year EUR 235k). Moreover, rental expenses amounting to EUR 20,647k have also been included in connection with the letting of premises for hairdressing salons and Beauty Hair Shops (previous year EUR 19,656k).

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 cashflows expected from the individual salons on an ongoing basis following deduction of prorated overhead expenses, interest and taxes. The cashflow 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 0k (previous year EUR 29k).

7 INTANGIBLE ASSETS

The table below shows the changes in intangible assets in the year under report:

€	Goodwill	Other	Total
As of 1 January 2007			
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
2008 financial year			
Opening carrying amount (net)	19,558,872.10	177,257.44	19,736,129.54
Additions	0.00	43,474.74	43,474.74
Disposals	0.00	-2,593.61	-2,593.61
Additions to amortisation	0.00	-79,779.59	-79,779.59
Disposals from amortisation	0.00	2,593.61	2,593.61
Closing carrying amount (net)	19,558,872.10	140,952.59	19,699,824.69
As of 31 December 2008			
Costs of acquisition/manufacture	19,929,880.72	810,394.42	20,740,275.14
Cumulative impairment (IAS 36)	-371,008.62	0.00	-371,008.62
Cumulative amortisation	0.00	-669,441.83	-669,441.83
Carrying amount (net)	**19,558,872.10**	**140,952.59**	**19,699,824.69**

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

€	Essanelle Salons	Tröndle Salons	Total
As of 1 January 2007			
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
2007 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 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
2008 financial year			
Opening carrying amount (net)	19,558,872.10	0.00	19,558,872.10
Additions	0.00	0.00	0.00
Additions to impairments (IAS 36)	0.00	0.00	0.00
Disposals from impairments (IAS 36)	0.00	0.00	0.00
Closing carrying amount (net)	19,558,872.10	0.00	19,558,872.10
As of 31 December 2008			
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 cashflows within the CGUs following deduction of prorated overhead expenses, interest and taxes. The cashflow 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 7.8% (previous year 6.2%).

As in the previous year, the impairment test undertaken in 2008 did not result in any extraordinary amortisation of goodwill.

8 OTHER LOANS

Other loans are structured as follows:

€	Loans to mod's hair franchisees	Miscellaneous loans	Total
As of 1 January 2007			
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
Appreciation	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
Closing carrying amount (net)	0.00	99,693.04	99,693.04
2008 financial year			
Opening carrying amount (net)	0.00	99,693.04	99,693.04
Disposals	-71,408.40	-12,436.30	-83,844.70
Appreciations	0.00	0.00	0.00
Disposals from amortisation	71,408.40	0.00	71,408.40
Closing carrying amount (net)	0.00	87,256.74	87,256.74
As of 31 December 2008			
Costs of acquisition/manufacture	400,729.48	95,558.63	496,288.11
Cumulative amortisation	-400,729.48	-8,301.89	-409,031.37
Carrying amount (net)	**0.00**	**87,256.74**	**87,256.74**

Loans are loans to four 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 2k (previous year EUR 3k).

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

€	31 Dec. 2008	31 Dec. 2007
Not due yet	79,559.01	86,513.05
Overdue and unimpaired	7,697.73	13,179.99
	87,256.74	**99,693.04**

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

€	31 Dec. 2008			
	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	**87,256.74**	**14,874.21**	**17,170.86**	**55,211.67**

€	31 Dec. 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**

9 INVENTORIES

Inventories are structured as follows:

€	31 Dec. 2008	31 Dec.2007
Goods for sale	4,659,577.67	4,431,011.18
Goods for use	2,447,066.99	2,274,877.69
	7,106,644.66	6,705,888.87
Write-down	-110,520.00	-104,260.00
	6,996,124.66	**6,601,628.87**

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.

10 ACCOUNTS RECEIVABLE

€	31 Dec. 2008	31 Dec. 2007
Gross receivables	425,958.18	463,081.82
less write-downs	-249,580.60	-249,004.22
	176,377.58	**214,077.60**

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

€	31 Dec. 2008	31 Dec. 2007
Not due yet	0.00	0.00
Overdue and unimpaired	171,180.57	209,995.13
Overdue and not discounted	5,197.01	4,082.47
	176,377.58	**214,077.60**

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

€	31 Dec. 2008	31 Dec. 2007
Less than 30 days	94,953.17	121,070.39
Between 30 and 60 days	22,461.23	82,851.74
Between 61 and 90 days	0.00	1,981.31
Between 91 and 180 days	9,568.93	2,900.74
Between 181 and 360 days	44,197.24	1,116.95
More than 360 days	0.00	74.00
	171,180.57	**209,995.13**

The above accounts receivable are not collateralised.

The itemised allowances on accounts receivable developed as follows:

€	2008	2007
Allowances as at 1 January	249,004.22	370,976.19
Additions (expenses on allowances)	23,468.55	24,584.05
Utilisation	-20,769.68	-22,566.09
Retransfers	-2,122.49	-123,989.93
	249,580.60	**249,004.22**

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:

€	2008	2007
Write-off of accounts receivable	0.00	-1,781.50
Income from payments received for accounts receivable written off	0.00	16,452.92
	0.00	**14,671.42**

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.

11 OTHER ASSETS

€	31 Dec. 2008	31 Dec. 2007
Prepayments made on assets ordered	20,000.00	456,250.00
Accrued income	140,230.51	119,028.90
Rental deposits	47,210.73	43,881.44
Rental receivables	76,942.31	76,055.43
Payroll receivables	133,938.04	115,263.36
Tax refund claims	9,919.99	55,782.61
Other	104,464.42	54,351.02
	532,706.00	**920,612.76**

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.

12 CASH AND CASH EQUIVALENTS

€	31 Dec. 2008	31 Dec. 2007
Credit balances at banks	3,558,183.27	3,474,156.91
Payments in transit from Essanelle hairdressing salons (prior to credit to bank accounts)	1,268,346.56	1,673,467.41
Cash holdings	773,638.43	930,160.61
	5,600,168.26	**6,077,784.93**

The effective interest rate for short-term bank deposits amounted to an average of 2.22% (previous year 3.67%).
The short-term bank deposits bear interest at variable market interest rates.

13 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.

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

€	2008	2007
Share capital	4,595,044.00	4,595.044.00
Acquisition of own shares	-72,203.00	-60,000.00
Balance at 31 Dec.	**4,522,841.00**	**4,535,044.00**

The amounts deducted from the share capital are due to the acquisition of own shares in 2005 and 2008.

In 2005, the company acquired 60,000 non-par individual shares, equivalent to 1.31% of the share capital, in four transactions 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:

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.

Based on the resolution passed by the shareholders and shareholder representatives at the Annual General Meeting on 17 June 2008, the Management Board is also authorised to acquire own shares representing up to 10% of the company's share capital.

In 2008, 12,203 no-par shares were acquired in four transactions: 3,440 shares were acquired on 23 September 2008 at a price of EUR 8.34, 5,183 shares were acquired on 7 November 2008 at a price of EUR 7.70, 1,740 shares were acquired on 28 November 2008 at a price of EUR 7.26 and 1,840 shares were acquired on 29 December 2008 at a price of EUR 7.06.

The Management Board is authorised to use or collect own shares, subject to the consent of the Supervisory Board, for the purpose of compensating third parties in the context of the acquisition of companies or shareholdings in companies or of the merger of companies.

(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. In fiscal 2006, 95,044 new shares were subscribed in the context of a conditional capital increase (exercise of stock options). 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. No further subscription rights were issued as of 31 December 2008.

(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 Frankfurter Allgemeine Zeitung 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 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 on 25 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).

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 3 May 2007, notification no. 2 on 19 June 2007, notification no. 3 on 15 February 2007:

(1) On 26 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 had fallen short of the 3% threshold on 4 April 2007 and amounted to 2.934%, which is equivalent to 133,748 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).
(2) 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.
(3) 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 in Essanelle Hair Group AG 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).

During 2008, 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 25 February 2008, notification no. 2 on 26 February 2008, notification no. 3 on 26 February 2008, notification no. 4 on 3 May 2008, notification no. 5 on 31 March 2008 and notification no. 6 on 21 April 2008:

a. In accordance with a notification dated 25 February 2008, we published the following information:

1. On 22 February 2008, we received the following information from Saxonia Holding-Verwaltungsgesellschaft mit beschränkter Haftung, Wolfsburg, Germany: This is to inform you that our share in the voting rights of ESSANELLE HAIR GROUP AG, Niederkasseler Lohweg 20, 40457 Düsseldorf exceeded the 50% and 75% thresholds on 20 February 2008 and that we held 4,124,736 voting rights (89.765% 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 2,893,538 of these voting rights (62,97% 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 22 February 2008, 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 50% and 75% threshold on 20 February 2008 and that we held 4,124,736 voting rights (89.765% 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 22 February 2008, 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 50% and 75% thresholds on 20 February 2008 and that I held 4.124.736 voting rights (89.765% 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 (26.794% of the share capital entered in the Commercial Register) were counted towards me via Frisör Klier GmbH, which is under my controlled, and 2,893,538 of these voting rights (62.97% 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 22 February 2008, 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 50% and 75% thresholds on 20 February 2008 and that I held 4.124.736 voting rights (89.765% 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 (26.794% of the

share capital entered in the Commercial Register) were counted towards me via Frisör Klier GmbH, which is under my controlled, and 2,893,538 of these voting rights (62.97% 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.

b. On 21 February 2008, Ratio Asset Management LLP, London, Great Britain provided us with the following information pursuant to section 21 (1) of the German Securities Trading Act (WpHG):

1. We hereby give notice, pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that on 20 February 2008 the voting interest held by The Ratio European Fund in Essanelle Hair dropped below the 5% and 3% thresholds and now amounts to 0%.

2. We hereby give notice, pursuant to section 21 (1) of the German Securities Trading Act (WpHG), that on 20 February 2008 the voting interest held by MAC Lochsong 19A Limited dropped below the 5% and 3% thresholds to and now amounts 0%.

3. We hereby give notice, pursuant to section 21 (1) of the German Securities Trading Act (WpHG), mit, that on 20 February 2008 the voting interest held by Ratio Asset Management LLP dropped below the 10%, 5% and 3% threshold and now amounts to 0%.

c. On 26 February 2008, Intrinsic Value Investors (IVI) LLP, London, Great Britain, provided us with the following information:

1. Notification pursuant to section 21 (1) of the German Securities Trading Act (WpHG)

In accordance with section 21 (1) of the German Securities Trading Act (WpHG), we hereby inform you that IVI UMBRELLA FUND PLC sold shares in Essanelle Hair Group AG on 20 February 2008; as a result, their voting interest dropped below the 5% and 3% thresholds to 0%.

2. Notification pursuant to section 22 (1) sentence 1 no. 6 of the German Securities Trading Act (WpHG)

We, INTRINSIC VALUE INVESTORS (IVI) LLP, 1 HAT & MITRE COURT, 88 ST JOHN STREET, LONDON, EC1M 4EL, UNITED KINGDOM, herewith inform you that our voting interest in Essanelle Hair Group AG dropped below the 5% and 3% thresholds to 0% on 20 February 2008.

d. On 29 February 2008, Axxion S.A., Luxembourg-Munsbach, Luxembourg, informed us pursuant to section 21 (1) of the German Securities Trading Act (WpHG) that their voting interest dropped below the 5% and 3% thresholds to 0.00% on 22 February 2008

e. On 26 March 2008, Mr Jürgen Tröndle, Germany, informed us pursuant to section 21 (1) of the German Securities Trading Act (WpHG) that his voting interest dropped below the 3% threshold to 0.00% (equivalent to 0 voting rights) on 11 February 2008.

f. On 21 April 2008, Mr Uwe Grimminger, Germany, informed us pursuant to section 21 (1) of the German Securities Trading Act (WpHG) that his voting interest dropped below the 3% threshold to 0% (equivalent to 0 voting rights) on 20 February 2008.

(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.

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.

In 2008, tranche I was reduced by 2,365 due to the expiry of subscription rights.

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
Execised in 2006	-95,044	-58,563	-36,481	0	0
Eypiry	-22,203	-2,365	0	0	-19,838
Not yet execised	209,996	0	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	215,556.30

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 acc. to plan (100%)	849,019.54	79,206.40	75,147.00	479,109.84	215,556.30
Balance of reserve at 31. Dec. 2008	849,019.54	79,206.40	75,147.00	479,109.84	215,556.30

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

€	2008	2007
Balance at 1 Jan.	768,136.33	488,627.19
Additions acc. to accrual plan	80,883.21	318,986.76
Disposal due to termination of employment before unforfeitability of options (tranche IV)	0.00	-39,477.62
Balance at 31 Dec.	**849,019.54**	**768,136.33**

Of the additions hereby reported, EUR 0 (previous year EUR 179,666.19) relates to the third tranche and EUR 80,883.21 (previous year EUR 139,320.57) to the fourth tranche.

(4) Share

Share price performance and changes in the number of shares issued:

€	2008	2007
Annual high	9.80	10.55
Annual low	6.60	7.56
Year-end	7.45	9.75
Number of shares	4,595,044	4,595,044
of which: own shares	72,203	60,000

14 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.

€	2008	2007
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	198,314.77
Value of services of employees from share option programmes	768,136.33	488,627.19
Balance at 1 Jan.	15,702,463.44	15,422,954.30
Acquisition of own shares	-65,647.48	0.00
Value of services of employees from share option programmes	80,883.21	279,509.14
Balance at 31 Dec.	**15,717,699.17**	**15,702,463.44**

15 REVENUE RESERVES

Revenue reserves developed as follows:

€	2008	2007
Balance at 1 Jan.	8,979,264.34	4,413,771.29
Dividend distribution	-2,267,521.16	0.00
Consolidated net income	3,646,000.41	4,565,493.05
Balance at 31 Dec.	**10,357,743.59**	**8,979,264.34**

The dividend distribution amounted to EUR 0.50 per share based on a volume of 4,535,044 shares.

16 FINANCIAL DEBT

€	31 Dec. 2008			
	Total	**Remaining term up to 1 year**	**Remaining term 1 – 5 years**	**Remaining term over 5 years**
Liabilities to banks	2,072,527.96	654,106.92	1,418,421.04	0.00
Liabilities in connection with financial leases	1,061,468.42	630,460.37	431,008.05	0.00
Investment loans from suppliers	2,671,361.21	881,437.42	1,789,923.79	0.00
Other financial loans	2,607,842.60	1,130,846.40	1,476,996.20	0.00
	8,413,200.19	**3,296,851.11**	**5,116,349.08**	**0.00**

€	31 Dec. 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	2,768,780.99	944,848.50	1,823,932.49	0.00
Other financial loans	3,515,952.95	1,074,156.94	2,441,796.01	0.00
	10,464,315.01	**3,264,094.25**	**7,200,220.76**	**0.00**

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

€	31 Dec. 2008			
	Total	**Cashflows 2009**	**Cashflows 2010 to 2013**	**Cashflows after 2013**
Liabilities to banks	2,224,369.20	731,911.92	1,492,457.28	0.00
Liabilities in connection with financial leases	1,124,138.54	677,821.02	446,317.52	0.00
Investment loans from suppliers	2,847,623.01	973,070.32	1,873,550.13	1,002.56
Other financial loans	2,741,798.68	1,213,730.65	1,528,068.03	0.00
	8,937,929.43	**3,596,533.91**	**5,340,392.96**	**1,002.56**

€	31 Dec. 2007			
	Total	**Cashflows 2008**	**Cashflows 2009 to 2012**	**Cashflows 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**

The cashflows contain fixed and variable interest:

€	31 Dec. 2008			
	Total interest	Interest contained in cashflows 2009	Interest contained in cashflows 2010 to 2013	Interest contained in cashflows after 2013
Liabilities to banks				
Fixed interest	45,592.11	26,250.00	19,342.11	0.00
Variable interest	106,249.13	51,555.00	54,694.13	0.00
Liabilities in connection with financial leases				
Fixed interest	62,670.12	47,360.65	15,309.47	0.00
Investment loans from suppliers				
Fixed interest	176,261.80	91,632.90	83,626.34	1,002.56
Other financial loans				
Variable interest	133,956.08	82,884.25	51,071.83	0.00
	524,729.24	**299,682.80**	**224,043.88**	**1,002.56**

€	31 Dec. 2007			
	Total interest	Interest contained in cashflows 2008	Interest contained in cashflows 2009 to 2012	Interest contained in cashflows 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	372,371.64	177,126.91	195,244.73	0.00
	1,047,993.73	**496,778.53**	**551,215.20**	**0.00**

Liabilities to banks

Liabilities to banks are structured as follows:

€	31 Dec. 2008			
	Interest Rate	Total	Short-term	Long-term
HypoVereinsbank, Nürnberg	Euribor + 1.25	1,493,580.60	443,580.60	1,050,000.00
Gladbacher Bank, Mönchengladbach	fixed 5.25%	578,947.36	210,526.32	368,421.04
		2,072,527.96	**654,106.92**	**1,418,421.04**

€	31 Dec. 2007			
	Interest Rate	Total	Short-term	Long-term
HypoVereinsbank, Nürnberg	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**

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 7.0 million have been signed. As of the balance sheet date, EUR 4.9 million of the total amount was unused.

No security has been provided to cover bank loans.

Liabilities from 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 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 1,978,245.09 (previous year EUR 2,488,777.91). The lease liabilities total EUR 1,061,468.42 (previous year EUR 1,474,814.50). These liabilities are due to various leasing companies and carry interest rates of between 5% and 11% p.a. (previous year between 5% and 9%).

€	2008		2007	
	Nominal amount	Discounted amount	Nominal amount	Discounted amount
Remaining term up to 1 year	677,821.02	630,460.37	666,940.44	589,269.60
Remaining term 1 to 5 years	446,317.52	431,008.05	934,296.10	885,544.90
Remaining term over 5 years	0.00	0.00	0.00	0.00
	1,124,138.54	**1,061,468.42**	**1,601,236.54**	**1,474,814.50**

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 five 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 Dec. 2008					
ASSETS					
Other loans	LaR	87,256.74	0.00	87,256.74	0.00
Accounts receivable	LaR	176,377.58	0.00	176,377.58	0.00
Other assets	LaR	532,706.00	512,706.00	20,000.00	0.00
Cash and cash equivalents	LaR	5,600,168.26	0.00	5,600,168.26	0.00
LIABILITIES					
Financial debt	FLAC	8,413,200.19	0.00	7,351,731.77	1,061,468.42
Accounts payable	FLAC	4,399,960.59	0.00	4,399,960.59	0.00
Other liabilities	FLAC	2,987,225.77	2,595,668.84	391,556.93	0.00
31 Dec. 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

LaR = Loans and Receivables

FLAC = Financial Liabilities Measured at Amortised Costs (FLAC)

* The measurements pursuant to IAS 39 only relate to amortised cost.

** The carrying amounts shown are equivalent to the fair values.

17 DEFERRED TAX ASSETS/TAX LIABILITIES

Composition:

€	31 Dec. 2008	31 Dec. 2007
Deferred tax liabilities	3,747,354.57	3,323,000.00
Deferred tax assets for losses carried forward		
Deferred corporate income tax	0.00	-166,000.00
	3,747,354.57	**3,157,000.00**

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.

No deferred tax assets were recognised as of 31 December 2008, as the future possibilities for netting cannot be reliably assessed due to amendments to the law. The amount of EUR 166k recognised in the previous year was derecognised as an expense.

Deferred tax liabilities refer to the following balance sheet items:

€k	31 Dec. 2008 assets	31 Dec. 2008 liabilities	31 Dec. 2007 assets	31 Dec. 2007 liabilities
Deferred tax liabilities on balance sheet items				
Goodwill (non-current)	0	3,028	0	2,432
Property, plant and equipment (non-current)	0	879	0	1,042
Pension provisions (non-current)	10	0	10	0
Other provisions				
current	0	28	0	172
non-current	0	140	0	129
Liabilities in connection with financial leases				
current	189	0	176	0
non-current	129	0	266	0
	328	4,075	452	3,775
Net balances	-328	-328	-452	-452
	0	**3,747**	**0**	**3,323**

The current items are expected to be recognised within 12 months.

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

€	2008	2007
Increase in deferred trade tax liabilities due to increase in the IFRS capital gain	184,842.00	341,000.00
Increase in deferred corporate income tax liabilities due to increase in the IFRS capital gain	239,512.57	445,000.00
Decline in deferred tax liabilities due to tax rate changes as of 1 January 2008		
Deferred trade tax	0.00	-299,000.00
Deferred corporate income tax	0.00	-661,000.00
Consumption of deferred tax assets for losses carried forward		
Deferred trade tax	0.00	197,000.00
Deferred corporate income tax	0.00	649,000.00
Previous year: Increase in deferred trade tax assets due to adjustment to the tax return	0.00	-197,000.00
Decrease (previous year increase) in deferred corporate income tax assets due to amendment to the tax return	166,000.00	-308,000.00
Decline in deferred corporate income tax assets due to tax rate changes as of 1 January 2008	0.00	110,000.00
	590,354.57	**277,000.00**

18 PENSION PROVISIONS

Changes:

€	
Balance at 1 Jan. 2008	160,076.00
Reduction	-5,712.00
Balance at 31 Dec. 2008	**154,364.00**

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

€	2008	2007
Present value of the obligations	698,202.00	673,414.00
Fair value of plan assets	-596,981.00	-508,615.00
Non-recognised actuarial gains	53,143.00	-4,723.00
Balance at 31 Dec.	**154,364.00**	**160,076.00**

Changes in the present value of the obligations:

€	2008	2007
1 Jan.	673,414.00	704,210.00
Current service cost	57,850.00	66,119.00
Interest cost	35,354.00	29,929.00
DBO	766,618.00	800,258.00
Actuarial gains	-68,416.00	-126,844.00
31 Dec.	**698,202.00**	**673,414.00**

Changes in the plan assets:

€	2008	2007
1 Jan.	508,615.00	405,594.00
Contributions	81,092.00	79,517.00
Actual return on plan assets	7,274.00	23,504.00
31 Dec.	**596,981.00**	**508,615.00**

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

The existing plans are not fund-financed

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

€	2008	2007	2006	2005	2004
Present value of the obligations	698,202.00	673,414.00	704,210.00	586,515.00	341,347.00
Fair value of plan assets	-596,981.00	-508,615.00	-405,594.00	-318,717.00	-229,913.00
Non recognised actuarial losses (or gains)	53,143.00	-4,723.00	-118,639.00	-103,053.00	-50,974.00
31 Dec.	**154,364.00**	**160,076.00**	**179,977.00**	**164,745.00**	**60,460.00**

The following amounts were recorded in the income statement:

€	2008	2007
Current period of service expenses	59,401.00	61,332.00
Interest expenses	38,574.00	29,645.00
Expected income on plan assets	-22,433.00	-17,407.00
Amortisation of actuarial losses	7,112.00	21,059.00
Adjustment due to increase in the internal rate of discount	-7,274.00	-35,013.00
	75,380.00	**59,616.00**

The actual income on the plan assets amounted to EUR 19,680 (previous year EUR 22,151).

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

€	2008	2007
Beginning of the year	160,076.00	179,977.00
Total expenses recorded in the income statement	75,380.00	59,616.00
Endowment of plan assets	-81,092.00	-79,517.00
Balance at 31 Dec.	**154,364.00**	**160,076.00**

The following principal actuarial assumptions were made:

	2008	2007
Discount rate	6,25%	5,25%
Expected income on plan assets	4,2/4,0%	4,2/4,0%
Future salary increases	2%/0%	2%/1%
Future pension increases	2% in each case	2% in each case

The composition of a pension commitment towards a former Management Board member resulting from a deferred compensation arrangement is shown below:

		31 Dec. 2008	
€	Obligation	Development plan assets	Provision
1 Jan. 2008	0.00	0.00	0.00
Participant contribution	-144,511.00	144,511.00	0.00
Actuarial gains losses	2,744.42	-2,744.42	0.00
31 Dec. 2008	**-141,766.58**	**141,766.58**	**0.00**

		31 Dec. 2007	
€	Obligation	Development plan assets	Provision
1 Jan. 2007	0.00	0.00	0.00
Participant contribution	0.00	0.00	0.00
Actuarial gains losses	0.00	0.00	0.00
31 Dec. 2007	**0.00**	**0.00**	**0.00**

19 OTHER NON-CURRENT PROVISIONS

€	31 Dec. 2008	31 Dec. 2007
Anniversary provision	189,000.00	187,000.00
Provision for dismantling obligations	595,916.10	551,737.38
	784,916.10	**738,737.38**

Changes in non-current provisions:

€	Dismantling Obligations	Anniversary Provisions
Balance at 1 Jan. 2008	551,737.38	187,000.00
Utilised	-6,480.69	-61,929.00
Released	-7,855.51	0.00
Added	58,514.92	63,929.00
Balance at 31 Dec. 2008	**595,916.10**	**189,000.00**

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 27k (previous year EUR 29k) 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.

20 ACCOUNTS PAYABLE

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

21 CURRENT INCOME TAX LIABILITIES

€	31 Dec. 2007/ 1 Jan. 2008	Utilised	Released	Added	31 Dec. 2008
Trade tax 2006	148,285.25	-13,257.98	-135,027.27	272,648.48	272,648.48
Trade tax 2007	341,897.00	-79,389.02	0.00	0.00	262,507.98
Corporate income tax 2007	149,198.42	0.00	0.00	0.00	149,198.42
Trade tax 2008	0.00	0.00	0.00	997,421.36	997,421.36
Corporate income tax 2008	0.00	0.00	0.00	442,000.00	442,000.00
	639,380.67	**-92,647.00**	**-135,027.27**	**1,712,069.84**	**2,123,776.24**

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

22 OTHER LIABILITIES

Other current liabilities are structured as follows:

€	31 Dec. 2008	31 Dec. 2007
Social security contributions	2,170.02	4,646.50
Wage tax, church tax and VAT liabilities	1,782,243.29	1,922,615.32
Liabilities to employees due to wages, salaries and commission still to be paid	373,101.46	361,470.35
Liabilities in connection with rental agreements	391,556.93	328,324.47
Miscellaneous	438,154.08	184,232.24
	2,987,225.78	**2,801,288.88**

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

23 OTHER CURRENT PROVISIONS

Composition and development of other current provisions:

€	1 Jan. 2008	Utilised	Released	Added	31 Dec. 2008
Personnel provisions	2,427,593.02	-2,082,341.72	-185,700.06	1,698,487.37	1,858,038.61
Subscriptions and customer vouchers	927,100.00	-927,100.00	0.00	837,483.76	837,483.76
Miscellaneous	1,149,086.81	-706,532.49	-140,613.69	817,795.46	1,119,736.09
	4,503,779.83	**-3,715,974.21**	**-326,313.75**	**3,353,766.59**	**3,815,258.46**

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 current provisions mainly relate to provisions for energy costs (EUR 507k, previous year EUR 394k) and for outstanding incoming invoices (EUR 237k, previous year EUR 216k).

All other current provisions are expected to result in expenses being incurred in the 1st quarter of 2009.

24 SALES

Consolidated sales are structured as follows:

€	2008	2007
Revenues from services	107,408,309.15	102,611,238.25
Revenues from sales	21,164,270.77	19,850,889.62
Franchise fees	33,934.60	48,424.80
Revenues in connection with rental agreements	376,464.11	306,655.45
Other revenues	177,730.28	265,296.45
	129,160,708.91	**123,082,504.57**

Sales were exclusively generated in Germany.

25 OTHER OPERATING INCOME

Composition:

€	2008	2007
Income from invoicing of ancillary rental expenses	417,571.01	175,774.98
Income from release of provisions	334,169.26	817,491.15
Income from disposal of assets	1,023.36	2,381.20
Income from the release of write-downs on accounts receivable	2,122.49	123,989.93
Income from statute-barred debt	36,444.14	122,570.33
Other income	292,374.71	200,368.47
	1,083,704.97	**1,442,576.06**

26 COST OF MATERIALS

The cost of materials item includes:

€	2008	2007
Expenses for goods purchased	10,738,053.70	11,228,538.12
Increase in write-down of inventories	6,260.00	11,260.00
	10,744,313.70	**11,239,798.12**

27 PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2008	2007
Wages and salaries	57,762,915.42	55,238,296.43
Social security contributions	12,105,755.16	11,684,234.12
Pension expenses for defined benefit plans	44,671.01	35,619.84
Share options granted to managers and employees	80,883.21	279,509.14
Compensations resulting from the termination of employment contracts	306,799.76	1,110,000.00
	70,301,024.56	**68,347,659.53**

Contributions to the statutory pension insurance fund: EUR 5,742k (previous year EUR 5,479k).

28 DEPRECIATION AND AMORTISATION

Composition:

€	2008	2007
Scheduled depreciation and amortisation		
Amortisation of other intangible assets	79,779.59	80,034.10
Depreciation of proprietary salon furnishings	4,380,492.34	4,047,595.96
Depreciation of leased salon furnishings	738,019.52	813,648.42
Extraordinary depreciation and amortisation		
Depreciation of property, plant and equipment due to impairment tests	0.00	28,941.32
	5,198,291.45	**4,970,219.80**

29 RENTAL AND ANCILLARY RENTAL COSTS

Composition:

€	2008	2007
Rent for hairdressing salons and head office in Düsseldorf	20,646,837.91	19,655,923.05
Ancillary rental expenses	3,482,685.04	3,248,074.47
	24,129,522.95	**22,903,997.52**

30 OTHER OPERATING EXPENSES

Other operating expenses include:

€	2008	2007
Losses incurred on the cancellation of receivables	0.00	1,781.50
Write-downs of receivables	23,468.55	24,584.05
Losses incurred on the disposal of non-current assets	93,910.40	29,788.46
Operating requirements	576,031.14	538,820.12
Advertising and sales promotion	2,846,286.37	2,243,761.41
Employee training	283,361.92	311,166.64
Vehicle-related expenses	620,702.87	556,330.37
IT-related expenses	1,113,819.93	1,013,653.64
Legal and advisory expenses	868,153.95	1,056,344.67
Bank charges	329,638.42	312,420.42
Telephone, office materials, print materials	667,631.14	647,825.30
Travel expenses and hospitality	470,299.40	431,951.48
Insurances	115,656.53	136,450.71
Cleaning companies	201,013.00	193,762.81
Postal charges, radio fees	295,597.63	292,826.16
Energy costs, electricity	1,442,127.03	1,354,703.87
Miscellaneous	2,973,299.97	1,865,403.24
	12,920,998.25	**11,011,574.85**

An amount of EUR 1.5 million of the increase in other operating expenses and advertising and sales promotion relates to the revitalisation of essanelle Ihr Friseur.

31 FINANCING INCOME

This item relates to interest income of EUR 2k on loans (previous year EUR 3k), interest income of EUR 3k (previous year EUR 0k) on taxes and to interest income of EUR 99k on short-term bank deposits and other current receivables (previous year EUR 72k).

32 FINANCING EXPENSES

This item relates to pension-related interest of EUR 38k (previous year EUR 30k), to interest of EUR 27k on dismantling obligations (previous year EUR 29k) and interest expenses of EUR 587k in connection with financial debt (previous year EUR 673k).

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

€	2008			2007
	Interest	Change in allowances	Total	Total
Loans and receivables				
Other loans	2,447.73	0.00	2,447.73	-2,755.19
Cash and cash equivalents	102,595.76	0.00	102,595.76	-72,213.66
Accounts receivable	0.00	-20,769.68	-20,769.68	-14,671.42
Financial liabilities measured at amortised cost				
Liabilities to banks	57,336.07	0.00	57,336.07	210,215.98
Leasing liabilities C6	87,151.33	0.00	87,151.33	116,678.06
Loans from suppliers	442,549.83	0.00	442,549.83	345,647.24
	692,080.72	**-20,769.68**	**671,311.04**	**582,901.01**

Interest from financial instruments is shown in the interest result.

Changes in allowances for accounts receivable are shown under other operating income or expenses

34 TAX EXPENSES

€	2008	2007
Actual taxes		
Trade tax for previous years	132,967.81	25,569.98
Corporate income tax for previous years	56,229.39	-223,261.37
Corporate income tax for current year	776,000.00	320,000.00
Trade tax for current year	1,175,779.18	430,000.00
	2,140,976.38	552,308.61
Deferred taxes		
Deferred corporate income tax for current year	405,512.57	235,000.00
Deferred trade tax for current year	184,842.00	42,000.00
	590,354.57	277,000.00
	2,731,330.95	**829,308.61**

Deferred taxes have been accounted for at a percentage of 30% (previous year 38.65%). This is equivalent to a trade tax rate of 14% (previous year 20%), a corporate income tax rate of 15% (previous year 25%) and a solidarity surcharge of 5.5% (previous year 5.5%). Deferred tax expenses include the derecognition of capitalised corporate income tax from loss carryforwards that are no longer applicable in an amount of EUR 166k.

In the previous year, deferred tax assets and liabilities were adapted to the tax rates applicable from 2009, i.e. 14% trade tax and 16% corporate income tax (30% total tax rate).

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

In addition, deferred tax assets for losses carried forward were adjusted to the tax returns as follows:

€	2008	2007
Increase in deferred trade tax assets due to recalculation of losses carried forward	0.00	-197,000.00
Decrease (previous year: increase) in deferred corporate income tax assets due to recalculation of losses carried forward	166,000.00	-308,000.00
	166,000.00	**-505,000.00**

The following tax reconciliation account shows the development of tax expenses in 2008 (2007) before special effects from the tax rate changes and the qualified loss carryforwards in the tax returns:

€k	2008	2007
Earnings before taxes	6,377	5,395
Taxes based on a rate of 30% (previous year 38.65%)	1,913	2,085
Taxes on income as stated in income statement	2,731	829
plus effect from the change in the underlying mixed tax rate to 30% as of 1 January 2008	0	850
plus effect from the adjustment of deferred tax assets to the recalculation of tax loss carryforwards	-166	505
less income taxes on modifications	-463	-296
plus/less taxes for previous years	-189	197
	1,913	**2,085**

The effective tax rate amounts to 42.8% (previous year 15.4%).

35 EARNINGS PER SHARE

(1) Basic

€	2008	2007
Earnings allocable to providers of equity	3,646,000.41	4,565,493.05
Average number of shares issued	4,533,115.00	4,535,044.00
Basic earnings per share (EUR per share)	**0.80**	**1.01**

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

€	2008	2007
Earnings allocable to providers of equity	3,646,000.41	4,565,493.05
Average number of shares issued	4,535,339.00	4,862,288.00
Diluted earnings per share (EUR per share)	**0.80**	**0.94**

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.

36 DIVIDEND PER SHARE

In 2008, the company paid out its first dividend for the year 2007. The dividend amounted to EUR 0.50 per share and totalled EUR 2,267,522.00 based on a volume of 4,535,044 shares. The Management Board of Essanelle proposed to pay out a dividend of EUR 0.50 per share for 2008 in 2009.

37 CASHFLOW STATEMENT

The cashflow 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 cashflows from operating activities, investment activities and financing activities respectively. The cashflow statement has been compiled using the indirect method and can be found in Annex II/4.

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

€k	2008	2007
Consolidated annual earnings	**3,646**	**4,565**
Adjustments for …		
Taxes (Note 34)	2,731	829
Depreciation of property, plant and equipment (Note 6)	5,119	4,890
Amortisation of intangible assets (Note 7)	80	80
Write-ups to other loans (Note 9)	0	-26
(Profits/losses) on the sale of property, plant and equipment	93	26
(Profits/losses) on the sale of intangible assets	0	0
Expenses relating to share option programme (Note 13)	81	280
Interest income (Note 31)	-105	-75
Interest expenses (Note 32)	678	732
Change in working capital		
Inventories (Note 9)	-394	-470
Accounts receivable and other receivables (Note 10)	38	-109
Provisions (Notes 18, 19 and 22)	-648	439
Other financial assets valued at fair value (Note 11)	388	-498
Accounts payable and other liabilities (Notes 20 to 22)	1,048	-1,060
Inflow of funds from operating activities	**12,755**	**9,603**

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

€k	2008	2007
Net carrying amount	126	57
Profit (previous year: loss) on the sale of property, plant and equipment (net)	-92	-26
Proceeds from the sale of property, plant and equipment	**34**	**31**

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 7.0 million at four banks, of which EUR 4.9 million had not been utilised.

38 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 20,647k (previous year EUR 19,656k).

The Group also leases motor vehicles and various items of equipment. The expenses relating to these assets amounted to EUR 279k (previous year EUR 240k).

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

€	31 Dec. 2008	31 Dec. 2007
Remaining term up to 1 year	18,140,343.19	17,242,301.84
Remaining term 1 to 5 years	40,710,063.69	36,232,653.03
Remaining term more than 5 years	13,866,909.49	9,113,289.83
	72,717,316.37	**62,588,244.70**

(2) Purchase obligations from supply agreements

Essanelle has signed a framework agreement with a supplier for the purchase of certain annual volumes of hair cosmetics products, salon fittings and large technical equipment; the agreement will expire on 30 June 2009.

(3) Purchase commitment

As in the previous year, the obligations resulting from binding orders of property, plant and equipment are of subordinate significance.

39 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.

40 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 2008 pursuant to the agreement valid as of the reporting date amounted to EUR 80k (previous year EUR 80k). Moreover, travel expenses amounting to EUR 1k were paid (previous year EUR 5k). Furthermore, remuneration of EUR 12k (previous year EUR 0k) was paid to the company Tröndle GmbH for the provision of trainers to train Essanelle personnel.

The overall compensation of the Management Board and the Supervisory Board has been reported under Note 45.

Majority investment of Saxonia Holding-Gesellschaft mbH & Co. KG in Essanelle

Saxonia Holding-Gesellschaft mbH & Co. KG, Wolfsburg, holds a majority investment in Essanelle. In accordance with section 312 of the German Stock Corporation Act (AktG), the Management Board submitted the report on the company's relations with related parties to the auditor on 12 March 2009.

Shares held by the Supervisory Board and the Management Board

As of 31 December 2008, the members of the Management Board and the Supervisory Board held no shares in Essanelle Hair Group AG.

In the previous year, the Management Board held 154,402 shares, which represented 3.36% of the total volume. The Supervisory Board held 138,190 shares (3.01%) in the previous year.

Uwe Grimminger (109,422 shares; 2.38%) and Jürgen Tröndle (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. 45.

41 NUMBER OF EMPLOYEES

The company had an average of 2,441 (previous year 2,419) employees, 1,551 (1,468) part-time employees and 218 (192) trainees during the financial year.

42 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	2008	2007
Auditing of financial statements	145	123
Other audit services	12	31
Tax advisory services	114	75
Other services	12	10
	283	**239**

43 EVENTS AFTER THE REPORTING DATE

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 2008.

44 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.

45 MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

(1) Management Board compensation

The total compensation of the Management Board amounted to EUR 807k in 2008 (previous year EUR1,457k) and was structured as follows:

€k		2008			
	Grimminger	**Mansen**	**Bonk**	**Wiethölter**	**Total**
Basic salary (non-performance related)	24	255	143	141	563
Bonus (performance-related)	-60	164	53	53	210
Benefit in kind from use of company car	1	14	9	10	34
	-35	**433**	**205**	**204**	**807**

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

Mr Uwe Grimminger resigned from his post as Management Board member and CEO of Essanelle with effect from 31 January 2008. Mr Achim Mansen, formerly CFO, has additionally held the position of CEO since 1 February 2008. With effect from the same date, Mr Dieter Bonk (Sales and Marketing) and Mr Dirk Wiethölter (Human Resources) were appointed members of the Management Board.

A defined benefit pension commitment has been made to Management Board member Achim Mansen. The respective provision after deduction of plan assets of EUR 66k (previous year EUR 49k) amounts to EUR 101k (previous year EUR 89k). The interest rate used for accounting purposes is 6.25% (previous year 5.25%). The total amount of the pension provisions stated for the Management Board is EUR 154k (previous year EUR 160k) after the deduction of plan assets. Achim Mansen is entitled to a monthly retirement pension of EUR 3,540.00 from the age of 65, as well as to a monthly disability pension of EUR 3,540.00 and a widow's pension of 60% of the old-age pension entitlement. In addition, an entitlement to an orphan's pension exists.

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

A defined benefit pension commitment has been made to former Management Board member Uwe Grimminger, which amounts to EUR 53k (previous year EUR 71k) after deduction of plan assets of EUR 531k (previous year EUR 460k). The widow's pension amounts to 60% of the old-age pension entitlement. From the age of 60, Uwe Grimminger is entitled to a monthly pension of EUR 3,158.52, a disability pension of EUR 3,096.59 and a widow's pension of 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.

The deferral of compensation to a pension commitment results in an asset value of the reinsurance policy of EUR 142k. A pension provision in a corresponding amount has been established.

(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 137k (previous year EUR 140k) was paid in the 2008 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, 12 March 2009

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

BALANCE SHEET (HGB) as of 31 December 2008

ASSETS

€	31.12.2008	31.12.2007
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions, industrial and similar rights assets and licenses in such rights and assets	140,952.59	177,257.44
2. Goodwill	9,466,135.13	11,449,986.22
	9,607,087.72	**11,627,243.66**
II. Tangible Assets		
1. Office equipmnent including fixtures in rented premises	21,007,900.63	18,019,101.21
2. Prepayments	20,000.00	456,250.00
	21,027,900.63	**18,475,351.21**
III. Financial Assets		
1. Investments in subsidiaries	1.00	1.00
2. Other loans	87,256.74	99,693.04
	87,257.74	**99,694.04**
	30,722,246.09	**30,202,288.91**
B. CURRENT ASSETS		
I. Inventories		
Merchandise	6,996,124.66	6,601,628.87
	6,996,124.66	**6,601,628.87**
II. Receivables and other assets		
1. Accounts receivables	176,377.58	214,077.60
2. Receivables from affiliated companies	0.00	15,632.64
3. Other assets	2,314,821.60	1,784,281.99
	2,491,199.18	**2,013,992.23**
III. Current Investments		
Treasury Stock	537,912.36	460,061.88
	537,912.36	**460,061.88**
IV. Cash on hand, Balance with banks	**5,584,105.99**	**6,038,209.14**
	15,609,342.19	**15,113,892.12**
C. PREPAID EXPENSES	**140,230.51**	**119,028.90**
Total assets	**46,471,818.79**	**45,435,209.93**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	31.12.2008	31.12.2007
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	537,912.36	460,061.88
IV. Distributable profit	3,697,112.29	3,100,233.65
	22,425,488.89	**21,750,759.77**
B. ACCRUALS		
1. Accruals for pensions and similar obligations	857,942.58	635,187.00
2. Tax accruals	1,851,127.76	639,380.67
3. Other accruals	5,122,655.27	6,229,792.83
	7,831,725.61	**7,504,360.50**
C. LIABILITIES		
1. Liabilities to banks	2,072,527.96	2,704,766.57
2. Accounts Payable Trade	5,603,753.29	4,391,924.36
3. Intercompany Payables	6.65	1,001.00
4. Other liabilities	8,538,316.39	9,082,397.73
	16,214,604.29	**16,180,089.66**
D. DEFERRED INCOME	**0.00**	**0.00**
Total shareholders' equity and liabilities	**46,471,818.79**	**45,435,209.93**

INCOME STATEMENT (HGB)

for the Period from 1 January 2008 to 31 December 2008

€	2008	2007
1. Revenue	129,160,708.91	123,082,504.57
2. Other operating income	1,561,281.20	1,407,326.27
3. Cost of materials	-10,744,313.70	-11,239,798.12
	119,977,676.41	**113,250,032.72**
4. Personnel expenses		
a) Wages and salaries	-58,069,715.18	-56,554,489.56
b) Social security, pensions and other benefit costs (of which for pension € 81.580,01; PY € 76.163,00)	-12,187,335.17	-11,856,581.28
5. Depreciation and amortization of non-current intangible assets and property, plant and equipment	-6,376,998.94	-5,963,281.91
6. Other operating expenses	-37,810,977.77	-35,014,476.84
	5,532,649.35	**3,861,203.13**
7. Income from investments (of which from affiliated companies € 0,00; PY € 0,00)	2,447.73	2,755.19
8. Other interest and similar income (of which from subsidiaries € 115,69; PY € 119,70)	101,966.15	71,936.80
9. Write-downs of financial assets	-16,339.16	0.00
10. Interest and similar expenses	-525,372.90	-556,463.32
11. Profit from ordinary operations	**5,095,351.17**	**3,379,431.80**
12. Income taxes	-2,140,976.38	-552,224.59
13. Other taxes	-12,124.51	273,026.44
14. Net profit for the year	**2,942,250.28**	**3,100,233.65**
15. Loss carryforward	832,712.49	0.00
16. Withdrawals from capital reserves	16,339.16	0.00
17. Additions to Treasury Stock	-94,189.64	0.00
18. Net accumulated loss	**3,697,112.29**	**3,100,233.65**

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 cashflow 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 2008. 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, 12 March 2009
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bibiana Bolsenkötter	ppa. Dietrich Schollmeyer
Chartered Accountant	Chartered Accountant

CONTACT

Investor Relations, Business press

Haubrok Investor Relations
Michael Müller
Fon +49(0)211/3 01 26-0
Fax +49(0)211/3 01 26-172
m.mueller@haubrok.de
www.haubrok.de

Specialist press

PR & Kommunikation
Elisabeth Hammer
Jägerhofstraße 25
40479 Düsseldorf
Fon +49(0)211/513 695 14
Fax +49(0)211/513 695 16
hammer@hammerpr.de

IMPRINT

Published by

Essanelle Hair Group AG
Niederkasseler Lohweg 20
40547 Düsseldorf
Fon +49(0)211/17 48-0
Fax +49(0)211/17 48-290
kontakt@essanelle-hair-group.com
www.essanelle-hair-group.com

Concept, text and design

Haubrok Investor Relations GmbH, Düsseldorf
visuphil®, Düsseldorf
Photography: Claus Wickrath

Production

Margreff-Druck GmbH, Essen

Essanelle Hair Group AG
Niederkasseler Lohweg 20
40547 Düsseldorf
Fon +49(0)211/17 48-0
Fax +49(0)211/17 48-290
kontakt@essanelle-hair-group.com
www.essanelle-hair-group.com