Annual Report 2010 ESSANELLE HAIR GROUP AG

Events

ESSANELLE HAIR GROUP

KEY FIGURES

Mio. € – IFRS, Group

Mio. €	2010	2009	2008	2007	2006
Consolidated sales	127.2	128.0	129.2	123.1	117.5*
essanelle Ihr Friseur	58.4	63.3	69.0	72.1	74.2
TOP TEN	5.1	5.4	5.9	4.1	1.9
Super Cut	21.2	20.5	20.6	19.6	19.0
HairExpress	35.7	32.1	27.7	22.2	17.6
Beauty Hair Shop	6.8	6.7	6.0	5.0	4.3
EBITDA	10.8	11.3	12.1	11.0	10.6
EBIT	5.4	5.9	7.0	6.1	6.1
EBT	5.1	5.5	6.4	5.4	5.3
Annual net income	3.4	3.2	3.6	4.6	2.9
Earnings per share (basic)	0.75 €	0.71 €	0.79 €	1.01 €	0.66 €
Equity ratio	58.7%	56.1%	53.7%	53.0%	46.0%
Cashflow (from operating activities)	6.2	9.1	11.5	8.3	8.3
Cashflow per share	1.35 €	1.99 €	2.50 €	1.81 €	1.82 €
Number of employees	4,246	4,185	4,306	4,183	4,038
Number of shares	**4.6 Mio.**	**4.6 Mio.**	**4.6 Mio.**	**4.6 Mio.**	**4.6 Mio.**
Free Float (per 28.02.2011)	**10.24 %**	**10.24 %**	**10.24 %**	**10.24 %**	**63.7 %**

* Includes sales revenues from mod's hair, which are not reported separately.

ESSANELLE HAIR GROUP

Events

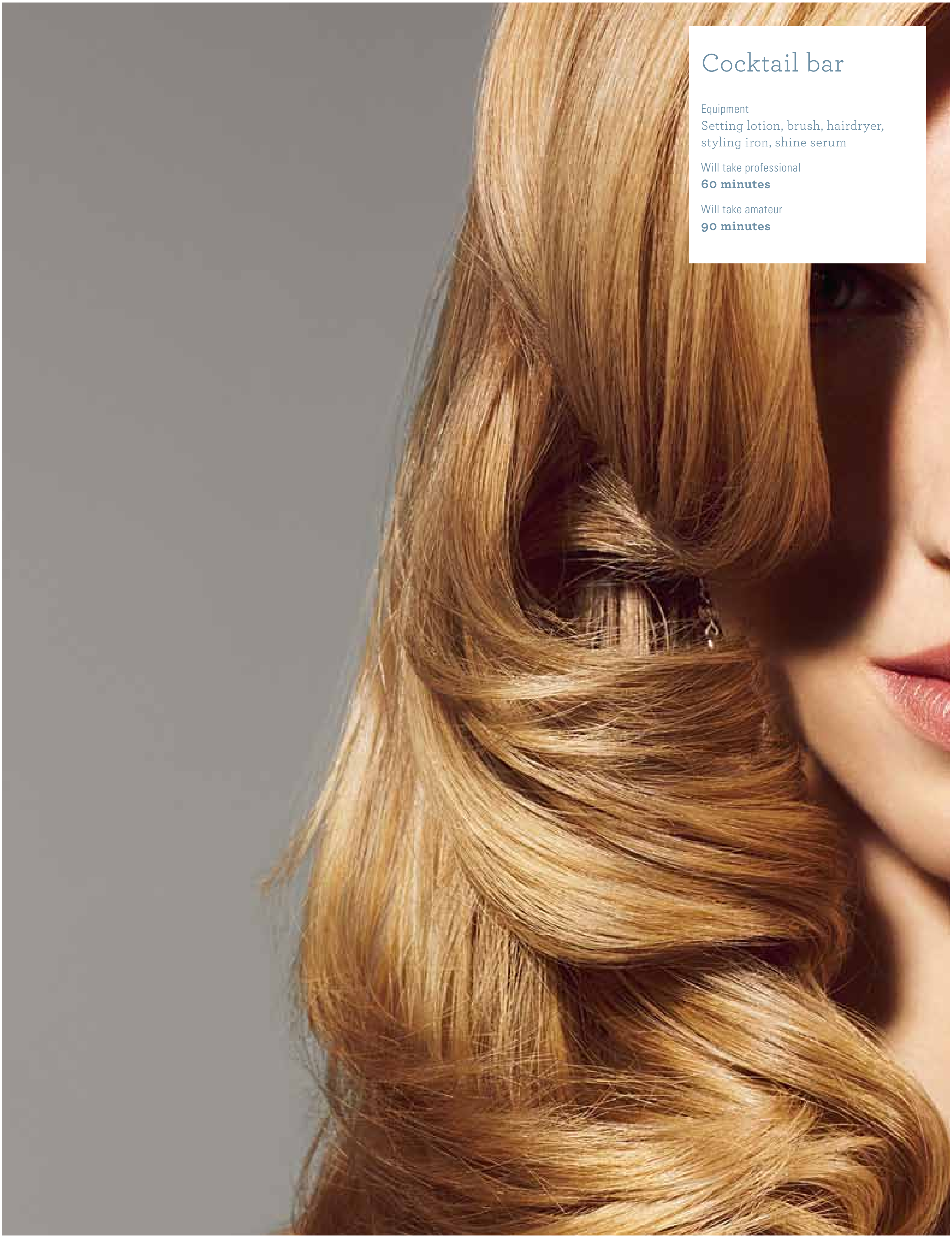
CONTENTS

Wedding

Equipment
Setting lotion, brush, hairdryer, curling iron, hairpins, hairspray

Will take professional
90 minutes

Will take amateur
Almost impossible to do yourself



Cocktail bar

Equipment
Setting lotion, brush, hairdryer, styling iron, shine serum

Will take professional
60 minutes

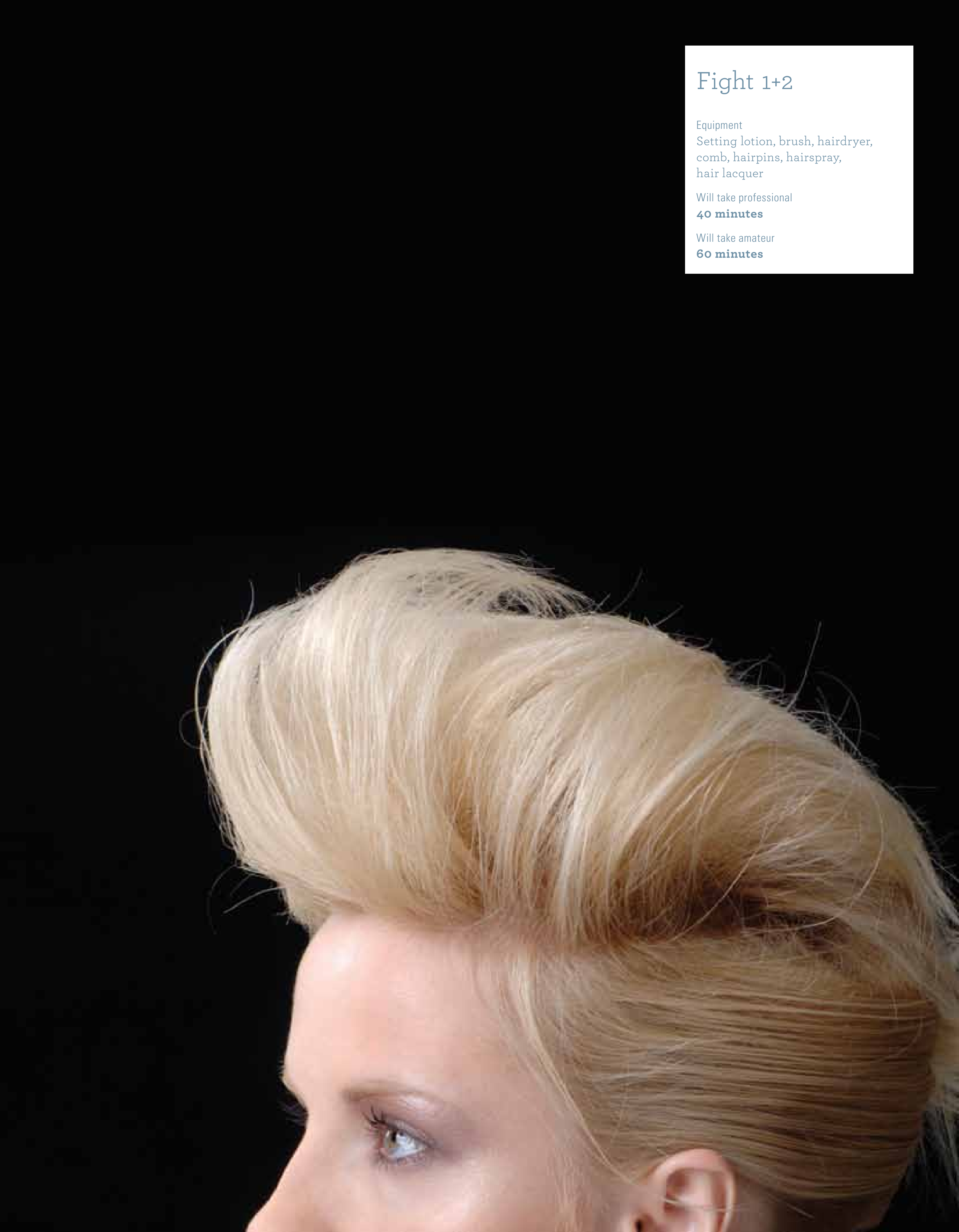
Will take amateur
90 minutes

Fight 1+2

Equipment
Setting lotion, brush, hairdryer, comb, hairpins, hairspray, hair lacquer

Will take professional
40 minutes

Will take amateur
60 minutes



Out of Bed

Equipment
Pillow

Will take professional
8 hours

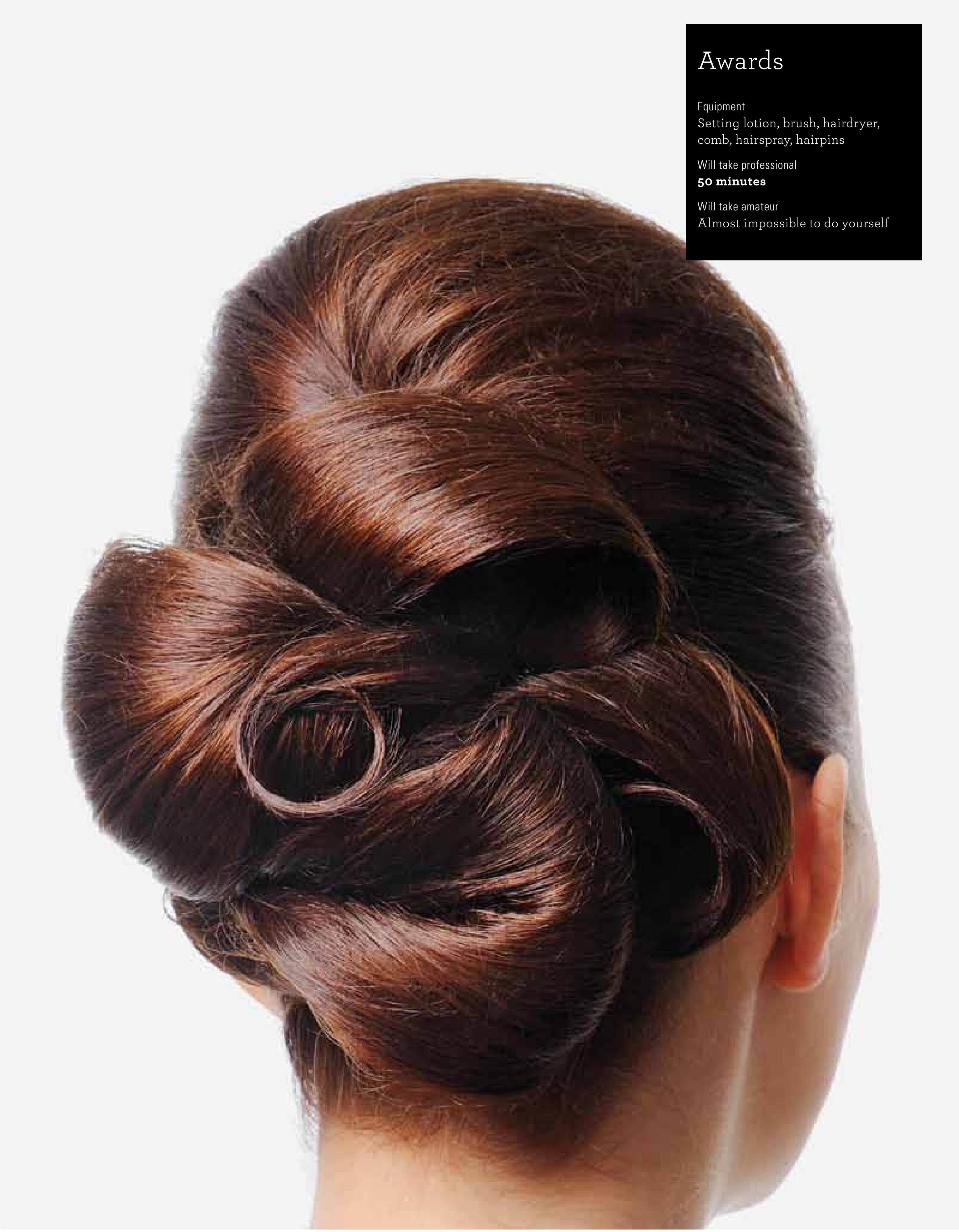
Will take amateur
8 hours

Awards

Equipment
Setting lotion, brush, hairdryer, comb, hairspray, hairpins

Will take professional
50 minutes

Will take amateur
Almost impossible to do yourself

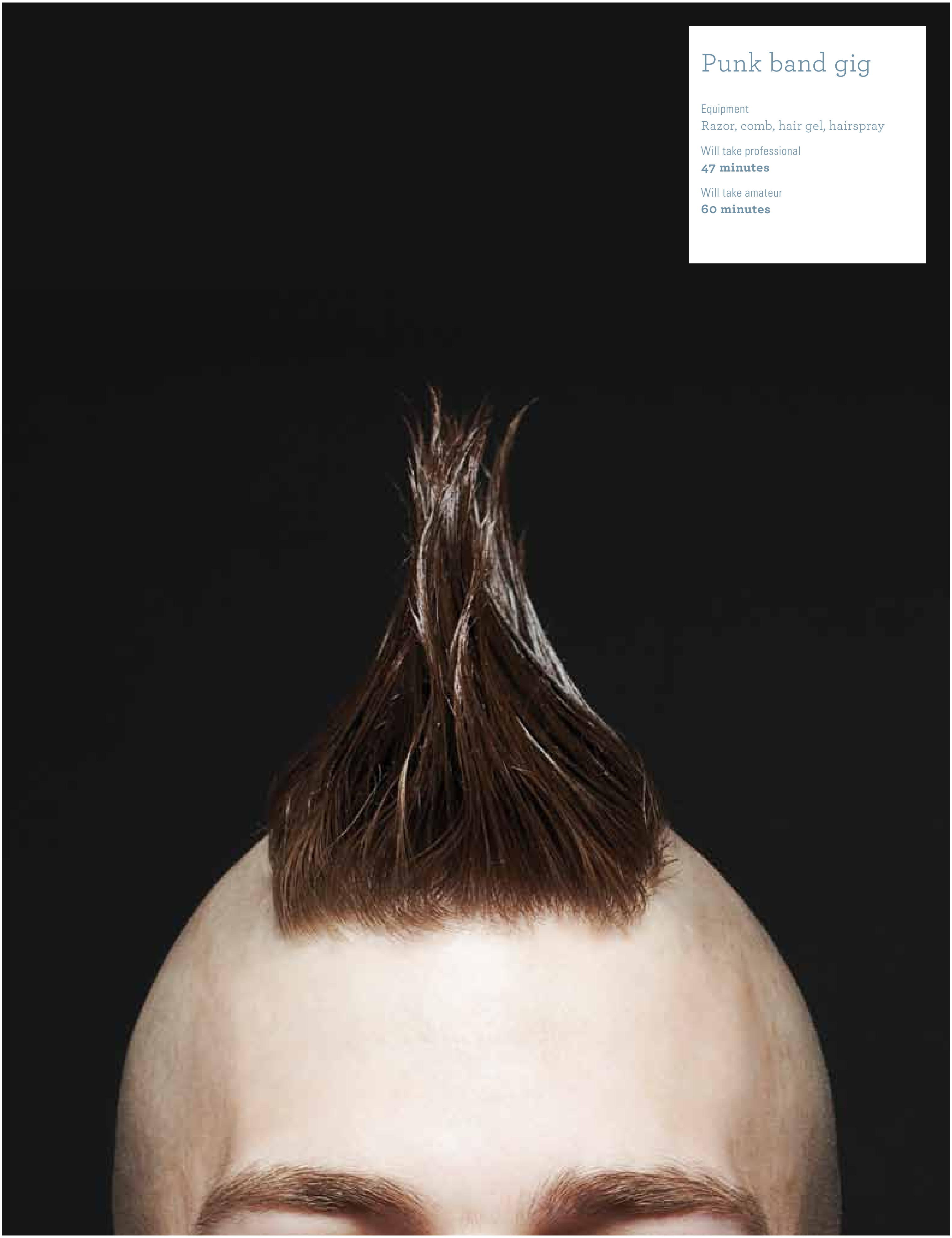


Punk band gig

Equipment
Razor, comb, hair gel, hairspray

Will take professional
47 minutes

Will take amateur
60 minutes

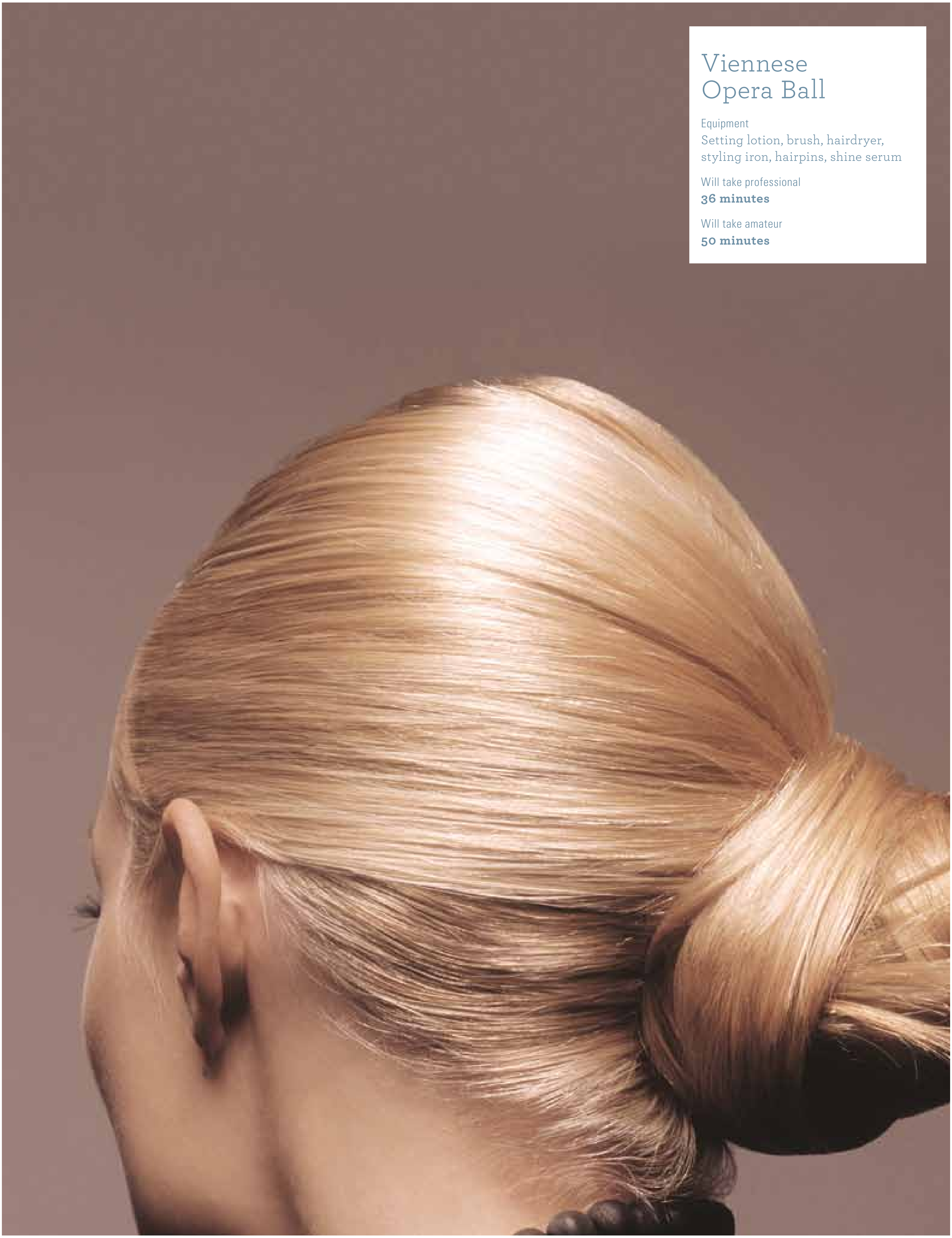


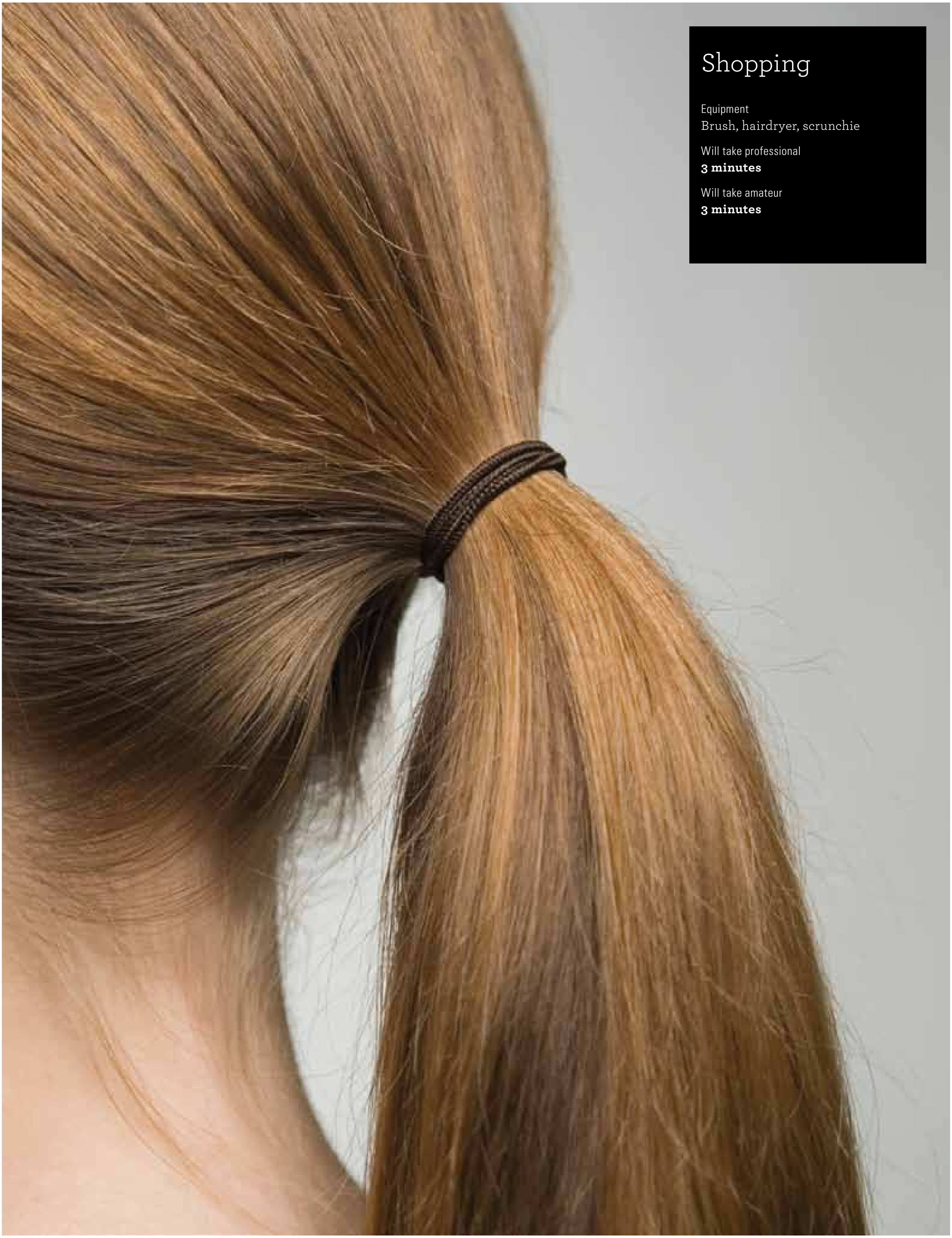
Viennese Opera Ball

Equipment
Setting lotion, brush, hairdryer, styling iron, hairpins, shine serum

Will take professional
36 minutes

Will take amateur
50 minutes





Shopping

Equipment
Brush, hairdryer, scrunchie

Will take professional
3 minutes

Will take amateur
3 minutes

Prêt-à-porter

Equipment
Setting lotion, brush, hairdryer, flat iron, hairspray

Will take professional
24 minutes

Will take amateur
39 minutes

INTERVIEW WITH THE MANAGEMENT BOARD

Mr Mansen, on the one hand, sales revenues and earnings for the fiscal year 2010 were down from the previous year's results. On the other hand, you beat your autumn forecast. So, what is your conclusion? Are you more satisfied or more dissatisfied?

Achim Mansen Overall, of course, it is our goal to increase sales revenue and earnings. In this regard we are not satisfied with the performance of the past fiscal year. On the other hand, we must consider current economic conditions: Consumer confidence recovered slowly during the course of the year; the department store environment, which is very important for us, remains unsatisfactory. In light of these developments, we still performed satisfactorily.

Our benchmark for success for the medium term is, naturally, not the environment, but growth in sales revenue and earnings.

How were the figures for 2010?

Achim Mansen We were able to significantly stabilise sales revenue development in the second half of the year. While we were 2.2% behind last year's sales revenues in the middle of the year, we generated sales revenues of EUR 127.3 million for the entire year, compared with EUR 128 million the previous year. Although this is a drop of 0.6%, we also caught up considerably. This means that our pre-tax profit of EUR 5.1 million exceeded the autumn forecast that lay between EUR 4.5 million and EUR 5.0 million.

Overall, sales revenue declined for the second year in a row. What are the main reasons?

Dirk Wiethölter The department store crisis that has been on-going since 2006 is, of course, the decisive reason. In this market segment, we are represented by about 200 of our salons – even though in past years we have been able to reduce this dependency considerably through growth in shopping centres and hypermarkets. We lose sales revenue in department stores every year but at the same time, we are satisfied with the bottom line in other types of outlets.

Can we then assume that each of the 51 salons that were opened last year were not located in department stores and warehouse stores?

Dirk Wiethölter Yes, that's right. Our strongest growth concept, HairExpress, is located only in hypermarkets, a sector that is going to develop dynamically in the future. New Super Cut and "essanelle Ihr Friseur" salons are opened almost exclusively in shopping centres. The stability of our business's development is thereby increased.

Did the department store environment improve in the course of the year – or was it as weak at the end of 2010 as it was at the beginning of the year?

Dieter Bonk No, this environment did not improve substantially. Karstadt, for example, invests in several locations; some of the newer locations are also functioning well. Overall, however, the department stores have not been able to turn the tide. And as long as these positive examples remain the exception rather than the rule, we will be sceptical. In our current planning, we are not reckoning with a sudden improvement.

Does that mean a complete exit from the department stores?

Achim Mansen No, not at the moment. Many of our salons in department stores still make a positive contribution and bring in profits for Essanelle Hair Group. But for some years, these margins have been dropping steadily. This year we will tackle certain particularly weak locations in department stores forcefully. In the medium term, we will observe the overall development and will then decide.

And how did the sales revenues develop in the other locations? In the shopping centres and hypermarkets?

Dieter Bonk Here we are much more satisfied. In the shopping centres, we can speak of overall good development, especially when the centre has the simultaneous function of serving a neighbourhood. Here, the future pace of growth is likely to be more moderate than in past years. But overall, these locations continue to be a very good choice.

The hypermarkets are still developing dynamically. Because people always buy groceries, the customer frequency is always very high – irrespective of the strength of the domestic rate of consumption. As a result we also profit in the HairExpress salons, where the price suits the hypermarket clientele.

That means you are satisfied with HairExpress?

Dirk Wiethölter Purely because of the number of salons, this will be, our biggest concept this year, or next year at the latest. In two or three years it will also contribute the largest share of sales revenue to our company. The social trend toward selective price sensitivity will continue – and with HairExpress we have hit the mark precisely. Dynamic locations, high customer frequency, and a fitting concept: HairExpress is a success story.

In 2010, you opened more Super Cut salons than you have opened in years. This was also announced last year. What is the strategic background here?

Dieter Bonk Basically, Super Cut is a really strong concept; the target group of young, trend-oriented customers is extremely attractive. We are very satisfied with our margins here. Thus, we have paid special attention to this concept, and in the past two years, we have changed our procedure for the opening of new salons. The organisation of growth at Super Cut is now more centralised – and more successful! In 2010 we achieved a clear increase in the growth rate for the first time, and we want that to continue.

Dirk Wiethölter In shopping centres Super Cut rates as a second option after “essanelle Ihr Friseur”. Centre management wants to attract different groups of customers. With our different concepts, we can contribute to that goal – while at the same time making a profit. And because of the very different orientations in terms of target groups, having these two salon types in the same location does not present a conflict of interests.

You also wanted to open new "essanelle Ihr Friseur" salons. Have you achieved this goal?

Dieter Bonk Just as with Super Cut, we have opened 10 new "essanelle Ihr Friseur" salons in shopping centres. And these salons have proven to be quite promising. Because of the high number of department store closures that primarily affect the "essanelle Ihr Friseur" concept, people have the impression that there have only been a cutbacks here. This is not so – salons from our core concept also run well if they are in the right location.

What are your expectations from this, your leading concept, in 2011 and beyond?

Dirk Wiethölter Due to the situation in department stores, we expect some closures within "essanelle Ihr Friseur" in the short- to medium term and as a result of that, some decrease in sales revenues. Parallel to that, however, we will open new salons in this concept each year – so that in the medium term, the trend in the number of salons, and also in sales revenues, will turn.

What is the status of TOP TEN?

Achim Mansen We have decided to sell the trademark rights but will continue to operate the existing salons for the time being. In the medium term, we have various options.

Why this step?

Achim Mansen We were faced with the fundamental question of how we want to grow in the future and where we want to invest. We would have had to expand TOP TEN significantly in order to reach the crucial size in terms of the number of salons. To do that, we would have had to restrict the growth rate of the other concepts. We did not want to do that. In future, we will concentrate on the three concepts HairExpress, Super Cut and "essanelle Ihr Friseur", because we already have a high number of those salons, and this serves to distribute expenses for marketing, employee training and so on appropriately.

TOP TEN is still a very new concept. Was it a bad decision to launch this concept?

Achim Mansen We developed TOP TEN and brought it onto the market in 2005. At that time, we had a significantly better market environment, no department store crisis and far fewer stores on our books. Against this background, TOP TEN was the right concept at the right time. We also needed to consider vacant premises as new branches. TOP TEN simply has not developed as we deem necessary in order to give priority to investments in this concept – for example, ahead of further growth by HairExpress or Super Cut. We want to concentrate our financial and human resources even more.

Mr Bonk, what does it mean strategically for the Essanelle Hair Group, to lose the TOP TEN concept leaving you with only three concepts?

Dieter Bonk In Super Cut we have a concept that precisely meets the expectations of young people. We already have more than 100 salons operating throughout Germany. With its 240 salons, HairExpress is aimed at the price-sensitive customer base. Add to that the concept "essanelle Ihr Friseur", which covers a broad spectrum of customer demands – families, people of all age groups and in certain circumstances also people who are luxury-oriented. We also have our Beauty Hair Shop concept, where exclusive salon products are sold, which is developing very well, showing increasing sales revenue and delivering good margins. We believe that we have covered all the bases regarding social trends in the hairdressing branch.

If we look at your financial statements and especially the profit and loss statement, it is notable that the expense ratio for materials drops year after year – how has that come about?

Achim Mansen Firstly, we negotiate well. Secondly, with about 700 salons, we represent an important share of the market for all suppliers Brands become known very quickly through our salons, as customer habits and preferences develop. We have more than seven million customer contacts per year – that is very interesting for manufacturers of hair products. In addition, we decided to be supplied by L'Oreal in nearly 300 "essanelle Ihr Friseur" salons. That too, has had a positive effect on the situation.

Is the drop in material costs also attributable to the fact that the share of product sales has declined?

Achim Mansen No. This can be attributed to a simple change in allocation: The products used in the salons are now allocated to the sales revenues for services. In the past year, we were able to increase the pure product sales – in the salons and in the Beauty Hair Shops. This again resulted in increased sales figures in the past year.

And how long can the trend of declining material costs with increasing product sales continue?

Achim Mansen Basically we work on each expense item every year. That also applies to the cost of materials. But there are certainly natural limits for this development. Long term, we cannot expect increased product purchases at lower costs each year. However, I am confident that we will continue to develop well.

And personnel costs – how do the medium- and long term trends look?

Achim Mansen In past years, there have been significant wage increases in our industry. This is also evident in our personnel costs, which dominate our expense categories at nearly 60% of sales revenues.

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

Hairdressing is often mentioned as an occupation that earns comparatively little.

Dirk Wiethölter Yes – and that is basically not incorrect. In addition, for our nearly 4500 employees there is also a very good bonus system, which is tied directly to the sales revenues, i.e. to performance. Thus, an employee in our firm can earn far more than the industry average.

And there is another important aspect: Customers are extremely price-sensitive in the hairdressing industry. We would support the demand for higher incomes for hairdressers immediately if the prices permitted it. On the contrary, however, the personnel cost ratio is increasing. Cheap salons have been booming for some years, and they are well supported. But many of these low price salons do not survive long because it simply does not pay – there are as many closures of salons which have failed, as there are openings of new salons. Thus, for us, the cheap competition is constant, even though the ownership changes.

Is your commission system the deciding factor as to why hairdressers work for you?

Dirk Wiethölter It is one of several reasons. We also offer hairdressers a multitude of programs with which they can train and move ahead. On the one hand, employees that are fascinated by the creative art of styling hair can choose from many training programmes and advanced training courses thereby improving their skills continuously. On the other hand, we also recruit employees and management and sales candidates almost exclusively from within the organisation. Management training programs are a very important building block in this regard. Overall, we have been able to achieve a lot in recent years. That also provides incentive for our employees to keep working for the Essanelle Hair Group.

Regarding the current fiscal year, the forecast for consumption is positive. What is your outlook for 2011?

Achim Mansen Quite positive. For this year, we are again expecting an increase in sales revenue. Our goal is an increase of 2–3%. The salons that opened in 2010 will contribute to that, but if the experts are right, so will increased consumer demand. The department store environment is still a risk factor – but overall, we are cautiously optimistic.

How many salons do you want to open in 2011?

Dieter Bonk Our current goal is to open 30 new salons this year. The emphasis will be on the HairExpress concept. But we will also open new Super Cut and “essanelle Ihr Friseur” salons. In that way, we will remain on an expansion course.

Why do you want to open fewer salons than in previous years?

Achim Mansen We place our strategic focus in the current year on the development of our earnings. We want to add to our pre-tax earnings by at least 5%. Therefore, we will firstly invest a little less than in previous years, and at the same time select new locations more carefully. In addition, we will concentrate our resources even more on the improvement of existing business. In the current fiscal year, profitability will remain in the foreground for now.

How does that impact sales revenues in the medium term?

Achim Mansen The sales revenue trend should also go up in 2012. In that regard moreover, we profit from last year's new salons as well as from the new salons that we will open this year. The opening of 30 salons means continued expansion.

Will this growth target for the coming year stand the test?

Achim Mansen for now, this applies only to 2011. In the middle of the year, the Management Board will re-evaluate the situation. How is our sales revenue developing? Where do we stand with earnings? And naturally, how many closures are foreseen? By 2012 at the latest, we will decide anew how much further we want to expand. Our cash flow situation continues to be strong and our equity ratio continues to be more than 50%. That gives us substantial financial flexibility.

Will your profitability be sufficient to continue to pay dividends?

Achim Mansen Together with the Supervisory Board, we have decided to propose a dividend at last year's level of 50 cents per share once again, at the next Annual General Meeting. We are also confident regarding the next few years, In three years time, at the latest when we no longer have to amortise our goodwill, our results under the German Commercial Code (HGB), which are relevant for the dividends, will be as strong as our results under the IFRS. Then our shareholders will have even more flexibility.

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

Fiscal year 2010 was marked by ongoing difficulties in the department store environment that also outweighed the slightly positive momentum in the domestic economy. Despite that, a good second half of the year enabled the company to once again improve its sales, and with an income of EUR 127.2 million, it was able to come close to the 2009 level of EUR 128.0 million. This resulted in a pre-tax figure that was EUR 5.1 million higher than the latest forecast. Overall, the development of the last fiscal year made it possible for the Management Board and the Supervisory Board to recommend a dividend to the same value as last year, at the annual general meeting.

In 2010, the Supervisory Board carried out the duties assigned to it by law, the company's articles, corporate governance principles and rules of procedure. In doing so, the Management Board was advised regularly in its leadership of the company, just as our tasks were appropriately checked and monitored. The Supervisory Board was directly involved in all decisions that were of fundamental importance to the Essanelle Hair Group.

As part of our advisory and monitoring activity, we were regularly, promptly and fully informed in written and verbal reports provided to us by the Management Board, regarding all relevant topics. These included, among others, issues of corporate planning and strategic development, business trends, the company's position including risk level, risk management and compliance. Deviations from the plans and goals for the business were explained in detail. The Management Board consistently checked with us about the strategic orientation of the Company. Based upon the Management Board's reports, we discussed all of the business processes that are important for the Essanelle Hair Group thoroughly. The chairman of the Supervisory Board was also in regular contact with the Management Board outside of the regular Supervisory Board meetings in order to remain informed about current business developments and key business events.

The Supervisory Board came together for a total of four regular meetings in fiscal year 2010, on March 30, June 18, September 28 and November 24. When members were not able to attend, they participated by submitting written votes on the resolutions. The meetings covered the topics of development of business, assets, financial and earning situations, proposed investments as well as the risk situation and risk management of Essanelle Hair Group. In addition, the following major topics were on the agenda and were discussed and handled with the Management Board:

- Extent of the growth strategy for 2011
- The economic course of fiscal year 2010 and plans for fiscal years 2011 to 2015
- Strategies with respect to the weak development of the department store environment
- Sale of the trademark TOP TEN
- The preparation and adoption of Management Board contracts

At the meetings held on 25.02. and 16.03., the Audit Committee occupied itself primarily with issues involving financial reporting, risk management and compliance. In addition, outside of the meetings, the Audit Committee concerned itself with quarter reports and the half-year report and discussed these with the Management Board. At both meetings, the Audit Committee also analysed the annual and consolidated financial statements in detail, in preparation for the Supervisory Board's balance sheet meeting. In conclusion, the Audit Committee made recommendations regarding approval and adoption of the results.

The Appointments and Compensation Committee met in the past fiscal year on February 19, March 29, September 27 and by telephone on March 5. Major topics were the new contracts with the Management Board, the compensation system for the Management Board, the area leaders and sales directors as well as regulations regarding the D & O insurance policies with deductibles.

During the reporting year, the Management Board and the Supervisory Board thoroughly discussed the recommendations and suggestions of the May 26, 2010 version of the German Corporate Governance Code. On November 24, 2010, both boards jointly issued an updated compliance declaration pursuant to § 161 of the German Stock Corporation Act (AktG) and this was made permanently available to shareholders on the company's website. The Supervisory Board is of the opinion that it is functioning well. During the reporting year, neither the Supervisory Board nor the Management Board had conflicts of interest that needed to be disclosed to the Supervisory Board without delay or about which the Annual General Meeting needed to be informed.

At the Annual General Meeting on June 18, 2010, PricewaterhouseCoopers Corporation, Auditing, Düsseldorf, was re-elected as the auditor for the annual and consolidated financial statements. The chairman of the Supervisory Board, after obtaining the auditor's statement of independence, conveyed the audit engagement to the auditor, entered into the fee agreement and determined the priorities for the audit of the annual and consolidated financial statements. Based on this, and with reference to the bookkeeping records, PricewaterhouseCoopers Auditing thoroughly audited the annual financial statement of Essanelle Hair Group AG prepared by the Management Board pursuant to the rules of the German Commercial Code (HGB) and the consolidated financial statement based upon the International Financial Reporting Standards (IFRS), as of December 31, 2010, the corresponding management reports for the company and the group for fiscal year 2010 as well as the risk management system. The audits did not yield any objections, so that an unqualified audit statement was issued. In addition, the report of the Management Board regarding the relationships with controlled companies ("dependency report") was audited and approved with the following unqualified audit statement:

"After our due audit and judgment, we confirm that the factual information in the report is correct and the company's performance in the transactions set forth in the report was not unreasonably high."

The financial statements, management reports, audit reports and the Management Board's proposal as to how to use the profits were submitted to the Supervisory Board and the Audit Committee in good time, before their respective meetings. In the balance sheet meeting on March 29, 2011, these documents were reviewed in detail. At the same time, the auditor reported on the major results of his audit and was available to answer questions. In addition, the chairman of the Audit Committee reported on the consultations and results of his preliminary examination.

Taking the results of the auditor and the Audit Committee into consideration, the Supervisory Board subjected the annual and consolidated financial statements, the corresponding management reports and the Management Board's proposal for the use of the retained earnings to its own detailed examination. After the completion of this review there were no objections. The Supervisory Board then concurred with the audit result of PricewaterhouseCoopers Auditing and approved the annual statement and the consolidated statement that were prepared by the Management Board as of December 31, 2010. The annual report of Essanelle Hair Group AG is thereby adopted. In addition, after our own review, we also concurred with the Management Board's proposal that the retained earnings be used for another dividend distribution.

We thank the Management Board and all of the employees for their great personal commitment. Through their achievements they have greatly contributed to the good results of Essanelle Hair Group in fiscal year 2010.

Düsseldorf, 29.03.2011

Fritz Kuhn
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

The direction and control of Essanelle Hair Group AG have always been oriented towards a sustainable increase in the value of the company. The Management and Supervisory Boards are committed to quality and transparent corporate governance and are guided by the recommendations and suggestions of the German Corporate Governance Code. Our goal is to increase the trust of our investors, customers, employees, suppliers and the general public in the company's management in the long term, and to develop the firm's corporate governance continually.

During the fiscal year, the Management Board and the Supervisory Board have dealt with the topic of corporate governance several times, and on 24 November 2010, they jointly submitted an updated declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG). Pursuant to the aforementioned, conformity continues under the new version of the Code of 26 May 2010 continues. Deviations exist only in substantiated cases based on size, structure and company-specific circumstances. The declaration was made permanently available to the general public on the company's webpage.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of Essanelle Hair Group AG exercise their rights at the Annual General Meeting and cast their votes there. The shareholders have the opportunity to exercise their voting rights at the Annual General Meeting in person, through an authorised person or through a nominated proxy representative of the company. All reports and documents that are relevant for the Annual General Meeting are made available in good time on the company's website.

The Annual General Meeting of Essanelle Hair Group AG took place on 18 June 2010 in Düsseldorf. All items on the agenda were passed with a substantial majority, including authorising the company to acquire its own stock. In addition, the plenum agreed to the proposal to pay a dividend of 50 cents per share for fiscal year 2009.

COOPERATION BETWEEN MANAGEMENT BOARD AND SUPERVISORY BOARD

As a German stock corporation, the Essanelle Hair Group AG, with its Management Board and Supervisory Board, has a two-tier management and supervisory structure. These two boards are strictly separated from one another, both with regard to their membership and their powers. The Management Board is responsible for managing the company. The Supervisory Board is responsible for supervising the Management Board as well as for appointing and dismissing members of the Management Board. The two boards work together with mutual trust and efficiency.

During the fiscal year, the Management Board informed the Supervisory Board regularly, promptly and comprehensively in writing and verbally about all aspects significant for the Essanelle Hair Group. Among others, these include planning, business development and the position of the Group, as well as risks, risk management and compliance.

The Supervisory Board has determined that prior consent must be given for fundamentally important transactions.

The Supervisory Board follows concrete goals pursuant to point 5.4.1 of the Corporate Governance Code when deciding upon its membership. In that regard, the company-specific situation as well as the diversity of the members will be taken into account into the future, just as it was in the past. The special consideration of women is not only a concrete goal in selecting members of the Supervisory Board, but has been in practice for years. Since 31.12.2010, five of the 12 members of the Supervisory Board have been female. Furthermore, in its 2010 annual declaration of conformity, Essanelle Hair Group stated that exceptions can be made to the age limit for individual members of the Supervisory Board. Presently no member exceeds the age limit of 75 years.

In addition to Achim Mansen, Chief Executive Officer (CEO), Dieter Bonk, Chief Sales and Marketing Officer (CSMO), and Dirk Wiethölter, Chief Human Resources Officer (CHRO), there are three other members of the Management Board. During the fiscal year, there were no conflicts of interest in the Management Board that needed to be reported to the Supervisory Board immediately.

All members of the Management Board belong to the Administrative Board of the BKK Essanelle (health insurance programme), whereby Dirk Wiethölter also holds the position of alternating chairman of the Administrative Board.

The Supervisory Board of Essanelle Hair Group advises and supervises the Management Board regularly on the management of the company. The Supervisory Board is of the opinion that it has a sufficient number of independent members. In addition, the Supervisory Board has established an Audit Committee as well as a Personnel Committee from its members. In the past fiscal year, no conflicts of interest in the Supervisory Board came up that needed to be disclosed.

The compensation report, which forms a part of the management report on page 44 of the annual report, provides information about the compensation of members of the Management Board and the Supervisory Board.

For more information about the cooperation between the Management Board and the Supervisory Board as well as the work of the Supervisory Board and its committees, please see the Supervisory Board’s report.

TRANSPARENCY

In dealing with the shareholders of the company, Essanelle Hair Group follows the principle of comprehensive, continuous and prompt information. Against this background, the company also reports according to the regulations of Prime Standard, the highest transparency standard of the German Stock Exchange. In the interests of open and regular communication with all interest groups, we put details in the form of documents and information about the Annual General Meeting, all financial reports as well as current ad hoc releases and press releases. on our homepage both in German and English. In the fiscal year 2010 one ad hoc release pursuant to Section 15 of the German Securities Trading Act (WpHG). On the other hand pursuant to Section 15a of the German Securities Trading Act, no Directors' Dealings were published. No Managing Board or Supervisory Board member owns, either directly or indirectly, more than one per cent of the issued stock.

REPORTING AND AUDITING

The Management Board compiles the consolidated financial statements and the shortened consolidated financial statements in the semi-annual report and the quarter reports. The Group's reporting methods are in accordance with International Financial Reporting Standards (IFRS), which assures a high level of transparency comparable to international standards.

All reports are published within the time limits determined by the rules of the Frankfurt Stock Exchange for Prime Standard. The audit for fiscal year 2010 was conducted before the Annual General Meeting on 18 June 2010 by the appointed auditors, Pricewaterhouse Coopers Corporation, Auditing, Düsseldorf, as well as by the Audit Committee and the Supervisory Board.

DECLARATION BY THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF ESSANELLE HAIR GROUP AG PURSUANT TO SECTION 161 OF THE CORPORATE GOVERNANCE CODE

The Management Board and Supervisory Board of Essanelle Hair Group AG advocate the suggestions and rules of the German Corporate Governance Code as per the version adopted on 26 May 2010. Last year they fulfilled the conduct recommendations contained therein and will continue to largely fulfil these in the future. Deviations are disclosed below by the Management Board and Supervisory Board.

Deviations that remain applicable:

3.8 The Company has adjusted its D & O insurance policy appropriately for the Management Board in order to meet the specifications of the German Law for Appropriateness of Management Board Compensation (VorstAG). However, the already existing D & O insurance policy for the Supervisory Board with no deductible will be retained, because the board does not consider such a deductible to be an appropriate means to further strengthen the sense of responsibility of the Supervisory Board, nor does it noticeably reduce the premiums paid by the company.

4.2.3 The existing Management Board employment contracts have no cap on severance pay. Also for the future, the Supervisory Board does not rule out that it may enter into arrangements regarding Management Board contracts that do not comply with the German Corporate Governance Code in this regard. The Supervisory Board hereby takes the position that a prejudiced contractual regulation unduly limits the freedom of the Supervisory Board in the search for optimal Management Board membership.

5.3.3 The Supervisory Board will not establish a Standards Committee because the Supervisory Board believes that the current number of committees is already sufficient to be able to work efficiently.

5.4.1 The German Corporate Governance Code does not specify what age limit should be set. The Supervisory Board is of the view that there is no objectively determinable age limit in the sense of absolute capacity to work responsibly as a Supervisory Board member and for the good of the company. Thus, the Supervisory Board has specified in its company rules that its members "as a rule" should serve no longer than until after the close of the Annual General Meeting in their 75th year. The Supervisory Board is of the opinion that this is a balanced rule which, on the one hand, fixes a general age limit, but also makes it possible for the company in justified exceptional cases to use the special competence and experience of a Supervisory Board member, even if the age limit would be exceeded in a particular case.

5.4.6 According to the company ordinance, all members of the Supervisory Board receive fixed compensation because according to the previous resolutions of the Annual General Meeting, it did not make sense to divide the present amount of compensation into fixed and variable components.

7.1.2 The Essanelle Hair Group will continue to prepare the consolidated financial statements within 90 days, and the quarterly reports within 45 days and to publish them as soon as possible. In individual cases, the time limits may be exceeded in certain circumstances where a longer preparation period is required in order to publish proper, high-quality financial statements.

Düsseldorf, 24.11.2010
Essanelle Hair Group AG

The Management Board The Supervisory Board

THE SHARE

In 2010, the international stock markets recovered significantly from the lows of the financial crisis at the end of 2008. In the first weeks of the year, the DAX again dropped from 6,000 to 5,500 points, then rose with high volatility until October to more than 6,000 points. The DAX reached the year's high of more than 7,000 points in December 2010. Thus, like last year, the annual performance of the German blue chip index was almost 20%. Essanelle Hair Group's stock opened on the Xetra in fiscal year 2010 at a price of EUR 7.81. The stock reached its annual high on the Xetra on June 1 at EUR 9.01. The low was on February 4 at EUR 7.30. The closing price on December 31, 2010 was EUR 8.60. With about 4.6 million shares, the value of the enterprise at the end of the fiscal year was EUR 39.6 million. Thus, the stock of Essanelle Hair Group had an annual performance yield of 10.1%.

INVESTOR RELATIONS

Essanelle Hair Group AG will continue to report in accordance with Prime Standard, the highest transparency standard of the German stock exchange. In addition to continuous reporting and regularly informing the public via the company's home page, the Management Board presented the Essanelle Hair Group AG at the German Equity Forum of the German stock exchange in November 2010, where it sought to meet with investors, analysts and the financial press. As in the previous year, the Annual General Meeting decided to pay a dividend of EUR 0.50 per share for fiscal year 2009. There were also no changes in the shareholder structure. In fiscal year 2010, as at the end of 2009, approximately 89.76% of the shares were held by Saxonia Holding GmbH. Thus, the free float is 10.24%.

SHAREHOLDER STRUCTURE (AS OF 28 FEBRUARY 2011)

Saxonia Holding GmbH	89.76%
Free Float	10.24%

SHARE PERFORMANCE IN FISCAL YEAR 2010 (XETRA)

High on 1.6.2010	EUR 9.01
Low on 4.2.2010	EUR 7.30
Opening price 4.1.2010	EUR 7.81
Closing price 30.12.2010	EUR 8.60
Annual performance	10.1%
Enterprise value on 30.12.2010	EUR 39.6 million

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

GROUP MANAGEMENT REPORT UNDER IFRS FOR FISCAL YEAR 2010

MACROECONOMIC FRAMEWORK

After the crisis year 2009, the German economy was able to recover appreciably again in 2010. After a decrease of 4.7% in 2009 the price-adjusted Gross Domestic Product (GDP), increased strongly by 3.6%, which was not expected at the start of the year when an increase of 1.7% was expected. Because of the marked increasing demand from the emerging nations, especially China and India, exports contributed to this on the one hand, in addition to government stimulus measures worldwide, On the other hand, domestic consumption also proved to be robust in the past fiscal year. This significant macroeconomic recovery could be seen above all in the spring and summer of 2010.

Specifically, exports as well as investments in plant and equipment definitely increased. After negative growth rates in 2008 and 2009, the export trade resumed its role as a growth driver for development of the German economy. In 2010, exports increased by 14.2%, investments in plant and equipment increased by 9.4% over the previous year.

Consumer spending was also positive. Government purchases increased by 2.2% and private consumption increased by 0.5%. The reason for this lies in the employment numbers, which developed much better than expected and which had already reached a new high point at the end of 2010, only two years after the outbreak of the world economic crisis. In 2010 an average of 40.5 million people were employed – and that was 0.5% more than in the previous year. Furthermore, the number of hours worked increased even more than the number of people working.

The massive drop in short-work programs, collectively agreed wage increases and the increase in employment led to a clear increase in gross wages and salaries in 2010. They increased by 2.7% to EUR 1,019 billion. The 11.4% savings rate of private households was somewhat higher in 2010 than in 2009.

Overall, the marginal propensity to consume improved more than was expected. According to the Federal Statistical Office the sales revenues of retail businesses increased in 2010 at a nominal rate of 2.3%. After being adjusted for inflation, the growth rate was 1.3%. The non-food retail segment increased disproportionately (nominal rate 3.2%; real 2.6%). The Federal Statistical Office reported that other retail sales with goods of various kinds, a category that includes warehouse- and department stores, developed less strongly and had nominal growth of 0.5%. In real terms, sales revenues were actually 0.2% less than in the previous year.

As a consequence of the strong economic upswing, the inflation rate in Germany also increased, and after 0.4% in the previous year, was expected to be about 1.1% in 2010 – indeed, with an upward trend throughout the year and a high of 1.7% in December.

SECTOR DEVELOPMENT

In the estimation of the Management Board, the increase in the market share of hairdressing chain stores as well as the growth in small and micro operations (revenues less than EUR 17,500), that as a rule are operated by a single hairdresser, will continue in the German hairdressing market. As in other sectors of the retail market, these developments will result in shrinkage of the number of medium-sized salons. The Essanelle Hair Group estimates that the current market volume in Germany is about EUR 4 to 5 billion, and the middle term trend is for volume to remain constant or decrease slightly.

The Gesellschaft für Konsumforschung (GfK) reports in its current study from February 2011 that in Germany about 55.3% of the population goes to a hairdresser regularly. This is a reduction of 2.7% from the previous year's figure of 58%. This development has been seen among both men and women. In 2010, the figure for women dropped to 57.2%, in comparison with the previous year, when it increased to 60.8%. The percentage of men that go to a hairdresser dropped to 53.1% from 54.6% in 2009.

In contrast to the drop in the number of people that regularly go to a hairdresser, the number of visits and the amount spent per visit increased for hairdressing clients in the past year. On average, women visited a hairdressing salon an average of 6.0 times per year, whereas in the previous year it was 5.7 times. In 2010, men went to a hairdresser an average of 5.6 times (previous year 5.4 times). Overall, then, the frequency of visits for men and women increased from 5.6 to 5.8.

The expenses per year for hairdressers increased for both genders by 5.4%, from EUR 145.35 to EUR 153.16. Men spent 4.3% more EUR 86.63 than in the previous year (EUR 83.04). Women purchased an average of EUR 205.31 for services and products. This is an increase of 6.3% over the 2009 value of EUR 193.21. The highest rate of increase in spending was seen in hair care and styling products; this increased overall by 11.6% from EUR 31.86 to EUR 35.55 per purchase. For male customers, the amount spent per visit increased by 20.9%, from EUR 29.72 to EUR 35.94. The 2009 expenditures were already 7.9% higher than the previous year. The results support the trend that men are increasingly ready to invest in care and care products and thus are becoming an increasingly attractive target group. In 2010, with spending of EUR 35.29 per visit, women spent about 5.7% more than in the previous year (EUR 33.40). These rates of increase are also attributable to an increased average price per package as well as to an increased average number of packages purchased per visit.

GENERAL INFORMATION ABOUT THE GROUP

THE COMPANY

The ESSANELLE HAIR GROUP AG (also: Essanelle Hair Group) is one of the two leading hairdressing chains in Germany and the only publicly traded company in the industry. The Essanelle Hair Group offers its services exclusively in Germany through the brands essanelle Ihr Friseur, Super Cut, HairExpress and TOP TEN. In addition, hair care products are sold in shops situated near the salons, under the name Beauty Hair Shop. At the end of 2010, 702 salons and sales outlets belonged to the Group (previous year: 673). In fiscal year 2010, 48 new salons were opened, and 19 salons were closed. The company generated sales revenues of EUR 127.2 million (previous year: EUR 128.0 million).

EMPLOYEES

As of 31 December 2010, Essanelle Hair Group employed a total of 4,246 people, compared to 4,185 in the previous year. This corresponds to an increase of 1.5%. Of those employees, 4,144 work in salons. 102 employees work at headquarters and in distribution. The share of part-time workers is about 39.2%. In addition, there were 271 trainees. The share of employees in training was 6.4% and again was higher than the previous year's rate of 6.1%.

STRATEGY AND CONCEPTS

Essanelle Hair Group's strategy is aimed at profitable growth. With that strategy, the Group has been very successful in recent years, with continually increasing sales revenues and earnings that have been growing exponentially and disproportionately to the increases in sales revenues. In the last two years, the market environment has been quite weak, especially in department stores, where almost 200 Group-owned salons are located. This led to decreases in sales revenues and earnings. Against this background, the growth trend for the time being will be somewhat more moderate, although growth will continue to be pursued at a rapid pace, and the emphasis on earnings will be placed in the forefront. In principle, the performance of the department store locations confirmed the strategy that has been followed for years, to successively accelerate the development of concepts outside of the department store environment. In this regard, the first thing to be mentioned is the HairExpress concept that is primarily located in megastores; the number of its salons has increased from 33 salons in 2001 to 240 salons at the end of 2010. The goal for 2011 is to open a total of at least 30 salons. The strategic success factors here are to have salon concepts that are precisely tailored to clearly defined target groups, financial and labour resources that are well above the market average, and promotion of the exclusive sale of hair care products. The share of sales revenues from product sales at Essanelle Hair Group lies well above the industry average and the group managed to increase sales steadily in recent years.

Within its growth strategy, Essanelle Hair Group aims its focus above all at the target groups “young consumers” and “price-sensitive customers.” In the opinion of management and from the experience gained in recent years, these target groups offer the greatest sales potential for a hairdressing chain. As a result of its sales and cost structures, the Group is in a position to be able to make a profit even with low price concepts and thereby also to gradually reach the one-third of the population that did not visit a hairdresser in recent years. The concepts Super Cut and HairExpress serve the two named target groups and have reported the highest rates of growth in the past. Thus, the sales revenue share of salons that are not part of the essanelle Ihr Friseur brand increased by about 20% to a current share of about 54%.

This strategy, which has been followed for the past 10 years, has proven to be correct, in particular against the background of the increasingly more difficult department store environment. The concept essanelle Ihr Friseur currently generates about 46% of sales revenues. This decrease in the share of sales revenues coupled with the growth of other brands is attributable to decreasing sales revenues and closings of salons – particularly in department stores. In the middle term, essanelle Ihr Friseur should once again be able to increase sales revenues in good department store locations and shopping centres.

In the course of discussions about a further growth strategy, the Management Board decided last year to sell the rights to the trademark TOP TEN and to concentrate on expansion of the above-described concepts, which already have reached a critical size with regard to the number of salons. This sale was completed in December 2010, but for the time being, the existing salons will continue to be operated. In recent years, TOP TEN, against the background of the changed environment, has not developed as hoped.

In order to generate further growth, high value, quality locations are continually sought for all concepts. The Essanelle Hair Group prefers locations in shopping centres, hyper markets and department stores – depending upon the salon concept and the anticipated target group – that have especially high customer traffic. Despite the currently unsatisfactory situation in department and warehouse stores, the Essanelle Hair Group currently expects that, in principle, it will maintain its presence, but will not, as a rule, open new salons there. In the middle to long term, there will always be changes in the purchasing habits of consumers. Thus, the chief goal of the Group is to retain a diversity of locations. In that way, individually negative developments can be cushioned by concurrent positive trends at other locations.

Another important pillar of the group and growth strategy is the sale of salon products only in the salons and Beauty Hair Shops. Based upon the purchased amounts, which are well above the industry average, Essanelle Hair Group can achieve significant price advantages in purchasing. Parallel to this, the Group focuses strongly on the training and motivation of the employees, who speak to the customers in their salons in a targeted manner, about possible purchases. Finally, the Beauty Hair Shops, which are exclusively specialised in the sale of salon products, offer a further successful distribution channel by connecting with salons.

BUSINESS PERFORMANCE OF ESSANELLE HAIR GROUP

OBJECTIVES OF THE OBJECTIVES OF THE PREVIOUS FISCAL YEAR

Because the extremely uncertain macroeconomic situation after the crisis year of 2009, the Essanelle Hair Group could not make any serious, concrete sales revenue and earnings forecasts for fiscal year 2010. This also occurred against the background that in fiscal year 2009, it was not possible to realise any net increase in the salon inventory, in part because of the Hertie insolvency and the closure of more than 50 salons. Thus, for the first time in several years, no growth in sales revenues was expected from the salons that had opened the previous year, and an overall forecast was difficult. The only goal that was clearly quantitatively formulated was the plan to expand by opening 50 to 60 salons during the fiscal year. The goal was to generate sales revenues and earnings at the previous year's level as far as possible. At the end of the third quarter, the Management Board finally firmed up its forecast for fiscal year 2010. The sales revenues were to be between EUR 127.0 million and EUR 128.0 million, and the pre-tax profit was to be between EUR 4.5 million and EUR 5.0 million.

BUSINESS PERFORMANCE IN 2010

With 48 newly opened salons, the Essanelle Hair Group was able to implement its growth plans to the extent desired. With 19 closings, the net growth of 29 salons raised the total number of salons to 702. With a growth of 31 salons, the HairExpress concept, based in megastores, showed the largest increase in the number of salons.

In the course of the year, the sales revenues already indicated that the lack of salon growth in 2009 and a weak department store environment had influenced the sales revenues. Thus, the sales revenues for the first half-year were still 2.2% lower than the previous year. Overall, in fiscal year 2010, the Essanelle Hair Group generated sales revenues of about EUR 127.2 million which was 0.6% lower than the previous year's figure of EUR 128.0 million. While the development of salons in megastores and shopping centres was generally up to expectations, the sales results in the department store environment fell significantly below expectations. Thus, the group's development in this segment paralleled that of the economy as a whole. In the macro economy, the sales revenues in other retail divisions, the category that includes department and warehouse stores, were, at -0.2%, clearly below the total development of the retail trade, which experienced a real increase of +1.2%. In the current fiscal year 2011, all indications are that sales revenues will slightly improve, because even the indicators for domestic consumption are showing an upward trend. In addition, the salon inventory that increased in 2010 will contribute to increased earnings. The department store environment will remain an uncertain factor, however.

Regarding the distribution of sales revenues, services contributed the most, as usual. Sales revenues from services were at EUR 107.9 million in 2010 and thus, 1.2% above the previous year's sales revenues of EUR 106.6 million, and a sales revenue share of 84.8% (83.3% in the previous year). The sales revenues from salon products exclusively dropped compared to the previous year and reached a sales revenue share of 15.2%, compared to 16.7% in the previous year. The foremost reason for this shift is the changed allocation of products used in the salons from Product Sales to Service Revenues. Viewed absolutely, the sales revenues from the sale of products came in at EUR 19.4 million, compared with EUR 21.4 million for the previous year.

As forecast, because of weak sales revenue development, the earnings of Essanelle Hair Group decreased in 2010. The pre-tax results under IFRS were, at EUR 5.1 million, 7.9% below the previous year's results of EUR 5.5 million. Thus, it was possible to exceed the expected earnings range of EUR 4.5 million to EUR 5.0 million slightly. The result before deductions, interest and taxes (EBITDA) dropped by 4.8% from EUR 11.3 million to EUR 10.8 million, but still remained high.

PERFORMANCE OF THE SALON CONCEPTS

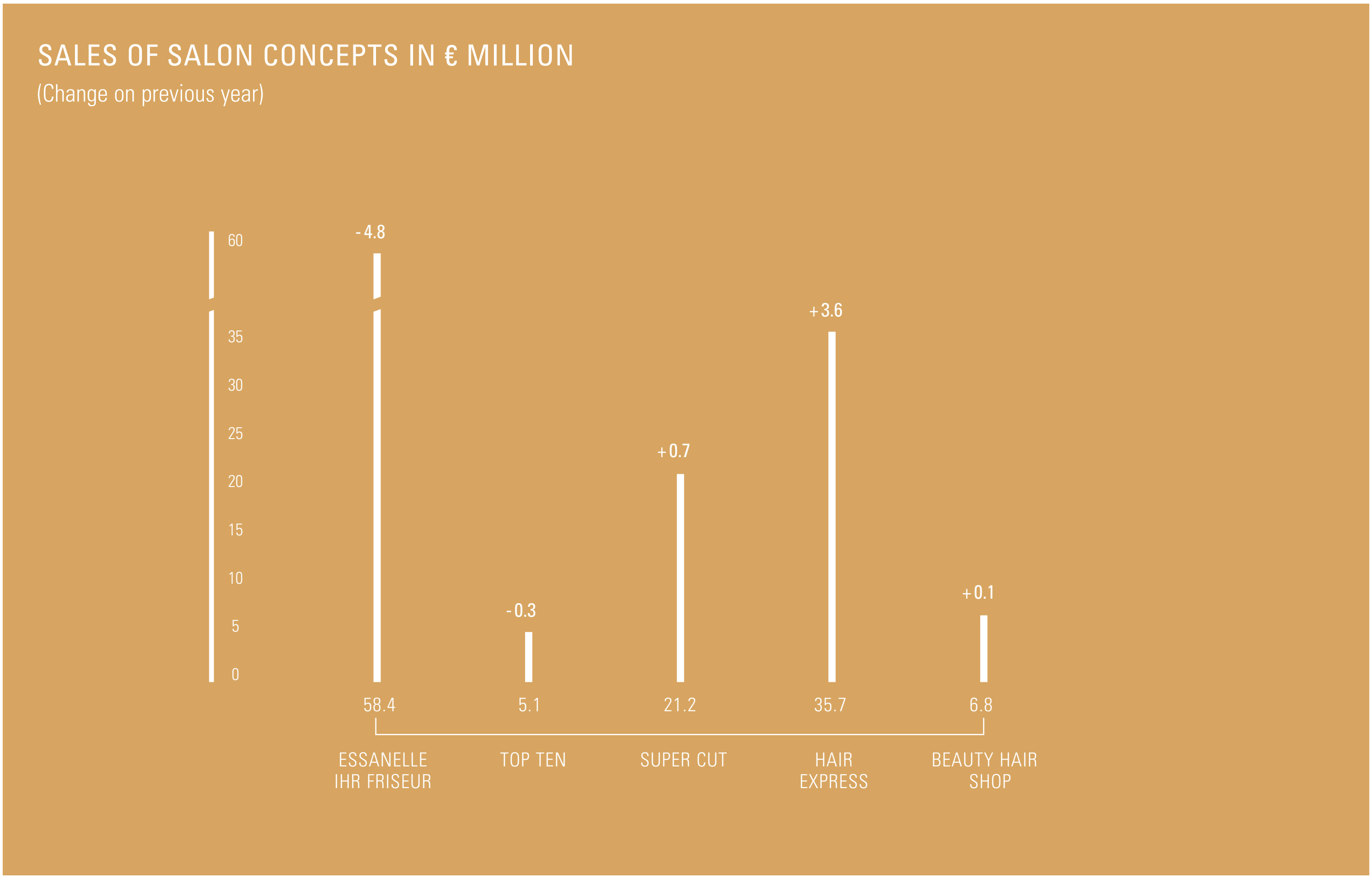
essanelle Ihr Friseur is the core brand of the group and appeals to customers of all ages. The salons are located primarily in department stores and warehouse stores. In 2010, this salon concept generated sales of EUR 58.4 million, compared with EUR 63.3 million the previous year. This is a decrease of 7.7%, which above all can be traced back to a weak department store environment and a decrease of 12 salons in the salon inventory. At the end of the year, this brand had 296 salons compared with 308 salons the previous year. Through a re-evaluation of the entire concept, the sales revenues from this concept, too, should improve in the middle term.

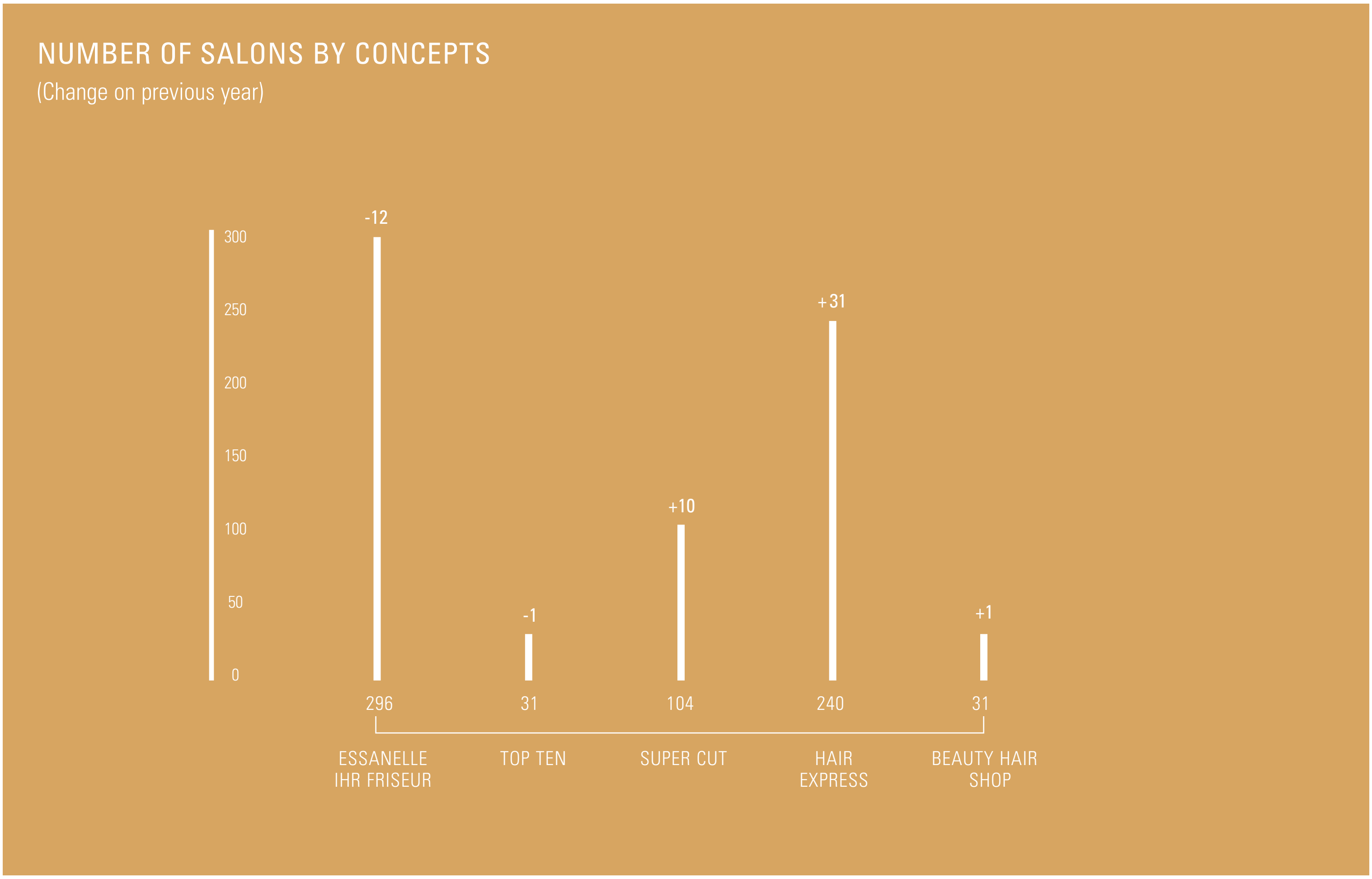
For years HairExpress has been by far the fastest growing concept of Essanelle Hair Group, and it targets price-sensitive customers that demand a clean, but nevertheless professional, basic service. In the overall weak year of 2010, HairExpress was able to increase both the number of salons and sales revenues. Overall, the number of salons increased by 31 salons to a total of 240 salons. The sales revenues in the last fiscal year increased by 11.1% to EUR 35.7 million (previous year: EUR 32.1 million).

The Super Cut concept concentrates on a young and trend-oriented target group and appeals to this group with an uncomplicated approach and contemporary music. Once again in 2010, more salons were opened, so that the total increased by 10 from 94 to 104 salons. The sales revenues increased correspondingly by 3.5% from EUR 20.5 million in the previous year to EUR 21.2 million in 2010.

The TOP TEN concept falls within the lower price segment and by way of a "cooler" atmosphere is aimed at a young and price-sensitive customer base. "Stylish, fresh and sassy" are the catchwords for TOP TEN. In the past fiscal year, TOP TEN generated revenues of EUR 5.1 million with 31 salons (previous year 32) compared with the previous year's revenues of EUR 5.4 million.

An important part of the business strategy of Essanelle Hair Group is the increase of sales revenues from salon products exclusively for hair. In order to generate additional sales revenues, the Essanelle Hair Group operates retail


SALES OF SALON CONCEPTS IN € MILLION
(Change on previous year)
60
35
30
25
20
15
10
5
0
- 4.8
- 0.3
+ 0.7
+ 3.6
+ 0.1
58.4
5.1
21.2
35.7
6.8
ESSANELLE IHR FRISEUR
TOP TEN
SUPER CUT
HAIR EXPRESS
BEAUTY HAIR SHOP


NUMBER OF SALONS BY CONCEPTS
(Change on previous year)
300
250
200
150
100
50
0
-12
-1
+10
+31
+1
296
31
104
240
31
ESSANELLE IHR FRISEUR
TOP TEN
SUPER CUT
HAIR EXPRESS
BEAUTY HAIR SHOP

product sales outlets under the brand name Beauty Hair Shop in close proximity to its own salons. Here the private label brand Keranelle, as well as products from the market leaders Wella and L'Oreal are sold. With these shops, Essanelle Hair Group is able to stimulate customers into purchasing salon products between visits to the hairdresser and to generate a higher share of sales revenues overall with those product sales. In fiscal year 2010, the sales revenues from a total of 31 shops (previous year 30) generated EUR 6.8 million, compared with EUR 6.7 million the previous year.

EXPENSES AND INCOME (CONSOLIDATED / IFRS)

The sales revenues of Essanelle Hair Group decreased by 0.6% in the past fiscal year from EUR 128.0 million to EUR 127.2 million. The reasons lie in weak development in the department store environment as well as the lack of salon growth in 2009, which affected the development of sales revenues in 2010. The other operating earnings increased to EUR 1.9 million and were thereby 56.7% higher than the previous year's earnings of EUR 1.2 million. It was possible to reduce the cost of materials by 7.1% which came to EUR 9.8 million, compared to EUR 10.5 million in fiscal year 2009. With that, the materials cost ratio relative to sales was 7.7%, which was substantially less than the previous year's figure of 8.2%. Personnel expenses increased by 1.2% from EUR 70.8 million to EUR 71.7 million. Above all, that is attributable to the net growth in salons in the past fiscal year. With that growth, the personnel expense ratio was 56.4% compared with 55.3% in the previous year. Similarly, because of the new openings, the expense positions for rent, including related costs, increased by 1.9% from EUR 25.0 million to EUR 25.4 million. The other operating expenses could be reduced slightly, by 0.7%, but when rounded off, remained at the previous year's level of EUR 11.5 million.

Because of the decreased sales revenues with partially increasing expense categories, the earnings before deductions, interest and taxes (EBITDA) decreased by 4.8% and came to EUR 10.8 million compared with EUR 11.3 million in the previous year. The deductions of the Group under IFRS were the same as in the previous year, EUR 5.4 million. The earnings before interest and taxes (EBIT) were EUR 5.4 million in fiscal year 2010, compared with EUR 5.9 million in the previous year. The financial results improved slightly from about EUR -0.4 million in fiscal year 2008, to EUR -0.3 million in 2010. With that, the pre-tax result ultimately decreased by 7.9% from EUR 5.5 million to EUR 5.1 million. The tax expense dropped significantly and came to EUR 1.7 million compared with EUR 2.3 million in the previous year. Thus, pursuant to the IFRS, the annual profit was EUR 3.4 million, 5.3% higher than the EUR 3.2 million at the end of fiscal year 2009, and earnings per share were EUR 0.75 (previous year: EUR 0.71).

NET ASSET AND FINANCIAL SITUATION (GROUP, IFRS)

Pursuant to IFRS, as of 31 December 2010, the asset side of the balance sheet shows only minor changes compared to the balance sheet date of the previous year. Thus the non-current assets were EUR 43.4 million compared with EUR 43.6 million as of 31 December 2009. While the property, plant and equipment decreased slightly from EUR 23.9 million to EUR 23.4 million, the other loans increased from EUR 0.1 million to EUR 0.3 million. Current assets were

EUR 12.2 million compared with EUR 12.5 on the closing date of the previous year. The largest positions here are the inventories at EUR 6.6 million (previous year: EUR 6.8 million) as well as the cash at EUR 4.9 million (previous year: EUR 5.0 million). With that, the balance of Essanelle Hair Group as of 31 December 2010 came to a total of EUR 55.6 million, EUR 56.2 million the previous year.

The liabilities side of the balance sheet as of 31 December 2010 showed an increased equity ratio of 58.7%, compared with 56.1% at the end of fiscal year 2009. This can be attributed to an increase in the capital contribution as well as a reduction of debt. The owner's equity increased from EUR 31.5 million to EUR 32.7 million as of 31 December 2010. The long-term debt increased from EUR 9.0 million to EUR 10.6 million. This can be attributed to slight increases in financial liabilities, deferred tax liabilities and the other provisions. The current liabilities, however, could be reduced and were EUR 12.4 million as of 31 December 2010, compared with EUR 15.7 million on the previous year's closing date. This resulted above all from the reduction in trade payables from EUR 4.5 million to EUR 2.2 million and a reduction in financing liabilities from EUR 3.2 million to EUR 2.7 million. With that, the total debt came to EUR 22.9 million, compared with EUR 24.6 million on the previous year's closing date.

For fiscal year 2010, the consolidated cash flow statement for Essanelle Hair Group showed a net cash flow increase from on-going business activity in the amount EUR 6.2 million compared with the previous year's value of EUR 9.1 million. This can be attributed above all to a reduction in the cash flow from on-going business activity, which was EUR 8.6 million last year, compared with EUR 11.3 million in the year before. Along with the reduced sales revenues, this is attributable above all to a reduction in trade payable cash flow of more than EUR 2.2 million. The cash flow from investment activities decreased in the last fiscal year – through reduced revenues from property, plant and equipment – to EUR -3.9 million compared with EUR -5.2 million in 2009. This shows that the expansion effort was continued in the past fiscal year, but the speed was decreased. The cash flow from financing activity shows a net cash outflow in the amount of EUR 2.4 million, compared with EUR 4.5 million in the previous year. This occurred above all because of increased borrowings in the amount of EUR 3.3 million compared with EUR 1.4 million in 2009; the dividend payment of EUR 2.3 million was unchanged. The repayment of financing debt remained at a high - EUR 3.5 million compared with EUR 3.6 million the previous year. Overall the inventory of cash and cash equivalents for the Group remained nearly unchanged for fiscal year 2010 at EUR 4.9 million, after EUR 5.0 million in the previous year.

THE ESSANELLE SHARE

The share of Essanelle Hair Group opened on the Xetra in fiscal year 2010 at a price of EUR 7.81. The share reached its annual high on the Xetra on June 1 at EUR 9.01. The low was on February 4 at EUR 7.30. The closing price on 31 December 2010 was EUR 8.60. With about 4.6 million shares, the value of the enterprise at the end of its fiscal year was EUR 39.6 million. Thus, the stock of Essanelle Hair Group had an annual performance yield of 10.1%.

The Annual General Meeting decided for fiscal year 2009 as well as for the previous year to pay a dividend of EUR 0.50 per share. There were no changes in the shareholder structure. As at the end of the fiscal year 2009, at the end of fiscal year 2010, about 89.76% of the shares were held by Saxonia Holding GmbH. Thus, the free float was 10.24%.

RISK REPORT

RISK MANAGEMENT AND BUSINESS RISKS

The Essanelle Hair Group has installed an early risk warning system pursuant to section 91 (2) of the German Stock Corporation Act (AktG) that covers all areas of the holding company and its subsidiaries. This serves to recognise risks early and to be able to respond reasonably and quickly. As required by law, the company handbook defines operations, responsibilities, reporting and possible controls and also specifies how information from the early risk warning system is to be forwarded.

The Essanelle Hair Group has named a central risk manager, who is in charge of overseeing the implementation of these measures. By taking a regular inventory, the risks within an area of responsibility are identified and reported to the central risk manager every three months. This person in turn, after an independent review, reports these risks to the Management Board.

In addition, a comprehensive control system monitors the development of all areas of the company and salons. This makes possible up-to-date analyses, current statements of objectives and the implementation of necessary measures at all levels of responsibility. In this way, undesirable developments can be counteracted head-on. Comparisons of budgeted to actual performance and analyses are prepared weekly and monthly and are forwarded to the Management Board. In light of the general growth strategy, the continual expansion of the salon network and the continuing difficult situation in the department store environment, a system that constantly monitors and evaluates the salon expansion is of great importance.

REPORT ON THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS: INPUT PURSUANT TO SECTION 315 (2) NO. 5 OF THE GERMAN COMMERCIAL CODE (HGB) AND REPORT OF THE MANAGEMENT BOARD PURSUANT TO SECTIONS 176, 175 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

As with every company, Essanelle Hair Group, also has the risk in the external financial reporting that there could be material miss-statements in the annual and interim financial statements that could possibly affect the decisions made by the report recipients. Against this background, Essanelle Hair Group's reporting-related internal control system (ICS) and risk management system (RMS) include measures and procedures in order to identify, avoid and minimise such risks. The systems are so conceived that all business transactions in the fiscal year are collected completely, promptly, correctly and in an orderly manner. This should ensure the effectiveness, efficiency and orderliness of the financial reporting and compliance with the applicable legal provisions.

The group planning and internal reporting stem from the planning for salon earnings. The financial reporting-related ICS is derived primarily from the regular internal reporting (planned, actual and previous year comparison) for the purpose of managing business operations and checking the plausibility of the numbers. Over and above that, organisational security measures have been set up, e.g. standard operating policies and procedures, definition of responsibilities and powers and representation schemes.

Fundamentally, there is a "Four Eyes Principle" in effect at all levels of Essanelle Hair Group. The financial reporting processes thus go through pre-determined approval procedures. Changes in the law, changes in the requirements for financial reporting, the possibility of bookkeeping errors and the like are continually analysed within the RMS with regard to relevance and possible impacts on the financial statements. Where necessary, the ICS-procedures are adapted. The financial reporting RMS is a component of the risk early warning system established pursuant to section 91 (2) of the German Stock Corporation Act (AktG). At this point, reference is made to the "Risk Report". The management of the primary and secondary ledgers as well as controlling take place at headquarters. The Management Board is responsible for the conception, implementation and maintenance of an accounting-related ICS and RMS, while it is the responsibility of the Supervisory Board to supervise the measures undertaken by the Management Board. However, it should be noted that the ICS and RMS have intrinsic limitations so that, regardless of how they are designed, one cannot be absolutely certain that material misstatements in the financial reporting will be avoided or discovered.

MARKET RISK

In principle, there is a correlation between the general development of retail trade and development of the market for hairdressing services. From past experience, this is true in an attenuated form. Continuing restraint by consumers or a change in consumer expectations can also have a corresponding effect on the group's salons. In order to take into account the significant demands and needs of the customers, the Essanelle Hair Group acts in the market with contemporary brands that are tailored to the customer groups' different quality and price needs.

The salons of Essanelle Hair Group are predominantly in department stores and warehouse stores, hyper markets and shopping centres. The company sees the basic choice of these types of locations as advantageous because of the high amount of customer traffic there. However, this also results in an unusual dependence on the overall location as well as the structure and behaviour of its users. Currently, Essanelle is benefitting from the generally very good development in megastores, but has also experienced weak performance in department stores.

In order to recognise individual risks or misguided developments, all available data of the individual salons and locations are collected and analysed and if necessary, countermeasures are initiated. If the Management Board does not see any chance of improving profitability in the medium term, salons will be closed or converted to a different concept.

RENTAL

Essanelle Hair Group has long-term leases with a variety of partners in different types of locations. In that regard there is a general risk that individual contractual partners will close an affiliate or must file for bankruptcy and that the Group must then give up a location. If a certain number of leases with the same partner exist, then on the one hand, there is dependency on that partner, and on the other hand, it is difficult to close salons that reflect weak earnings. In order to reduce these risks to a minimum, the existing tenancies are distributed among a number of different lessors. The long duration of the leases also protects the Group from the risk of losing especially good locations that are in demand. The largely long-term and good relationships with the leasing partners offer additional security and support the continuous development of the group's own network of salons.

In principle, it is a significant goal for the group to optimise its own mix of lessors on a regular basis.

SUPPLIERS

There are cooperation agreements for hairdressing and hairstyling products with two important suppliers.

PERSONNEL

Providing hairdressing services is an extremely labour-intensive business. The relationship between customer and employee thus decides to a significant extent whether there is customer satisfaction and thus, about the success of the company. With that in mind, strategic and operational measures to motivate and further train the employees are highly valued.

For review of the effectiveness of these measures, detailed analyses about productivity, labour turnover as well as human resources development are regularly prepared and evaluated. The personal exchanges among the responsible Management Board members, the regional sales managers and the salon managers on the ground establish a central communications and information system to provide continual support to the employees.

Other than the risks described, the company presently sees no unusual risks to its future development.

COMPENSATION REPORT

The overall compensation of the Management Board in 2010 was structured as follows (EUR '000):

	Mansen	Bonk	Wiethölter	Total
Basic salary (non-performance related)	259	173	168	600
Performance-related bonus	177	88	88	353
Non-cash benefit from use of company car	16	12	13	41
Total	**452**	**273**	**269**	**994**

The variable compensation is calculated according to whether the enterprise has reached its target value. The value for calculation of this variable compensation is calculated basically as a multiple of the EBITDA less the net debt on the balance sheet day. The variable compensation is a combination of two partial compensations which are weighted equally (50%). The first part (the annual component) is based upon the target reached in the fiscal year. The second part (sustainability component) is based upon the three year average of the target realised in the current fiscal year as well as in the two preceding fiscal years. The closer the result, or respectively, the more the earnings exceed the target set by the Supervisory Board, the higher the corresponding compensation. However, with regard to meeting the target, this compensation is limited to 150% of the base amount. The variable compensation is paid one month after approval of the annual financial statements.

The pension provisions set aside for the active Management Board is EUR 284k. The basis for the agreement to pay a pension to Mr Mansen is a promise from the year 2008 regarding a pension starting at age 65 in the amount of EUR 3,540.00 per month, a disability payment in the amount of the old-age pension and a widow's pension. The widow's pension shall be 60% of the old-age pension amount. There is also an entitlement to an orphan's pension. An adjustment of 2% per year is also guaranteed, with the adjustment based on the pension paid in the previous year. Beginning on 1.7.2009, the disability payment increases annually by 2% based on the previous year's payment. If there is a Management Board contract that is not extended with timely notice by the Supervisory Board, the Management Board contracts include an agreement to pay transition money for a limited period of time in the amount of 100% of the last paid basic salary per month.

The compensation of the Supervisory Board is set forth in the articles of association of the Essanelle Hair Group. Pursuant thereto, each member of the Supervisory Board receives a fixed compensation of EUR 10,000 for the past fiscal year, in addition to reimbursement of expenses and reimbursement of the income taxes levied because of the member's activity. The chairman of the Supervisory Board is paid twice as much; the vice-chairman receives one and one-half times the compensation amount. In fiscal year 2010, compensation in the amount of EUR 153k (EUR 146k in the previous year) was paid.

TAKEOVER PROVISIONS PURSUANT TO SECTION 315 (4) OF THE GERMAN COMMERCIAL CODE (HGB)

The share capital of Essanelle Hair Group consists of 4,595,044 bearer shares with a nominal value of EUR 1. The subscribed capital of the company as of the end of the last fiscal year was EUR 4,595,044. According to the articles of association, each share has one vote. There are currently no restrictions on transfer and voting rights. The shareholders exercise their rights at the Annual General Meeting, and in particular, the right to vote, pursuant to the legal requirements and the articles of association.

Saxonia Holding GmbH holds 89.76% of the shares of Essanelle Hair Group. There are no other large shareholders.

There are no special rights, such as delegation rights, given to the Supervisory Board or a right to control votes vis a vis employees. According to the articles of association, the Management Board of the company consists of at least two members, who are chosen by the Supervisory Board, which also determines their number. The Supervisory Board can revoke the designation of a Management Board member and the naming of a chairman of the board, with good grounds. Each change in the articles with the exception of changes as to form requires a resolution at the Annual General Meeting with a majority of at least three-fourths of the capital stock represented at the Annual General Meeting. According to a resolution at the Annual General Meeting of 18 June 2010, the Management Board was given the right to repurchase up to 10% of the company's own shares until 31 May 2015. In 2010, no shares were repurchased. There is no authorised capital.

If there is a change of control as a consequence of a takeover bid (Change of Control), there are agreements with the Management Board of the company that under certain conditions, if the employment contract is not extended, the members will be paid a temporary transitional allowance. There are no other compensation agreements in place.

DEPENDENCY REPORT

Saxonia Holding GmbH Wolfsburg holds a majority interest. Pursuant to section 312 of the German Stock Corporation Law (AktG), we reported on 15 March 2011 about the relationships with affiliated companies. The report concludes: "We received appropriate consideration in the legal transactions listed. There were no other legal transactions or measures that were required to be reported under section 312 of the German Stock Corporation Act (AktG)."

STATEMENT ON MANAGEMENT

The statement on management is published on the homepage of the Essanelle Hair Group,
http://www.essanelle-hair-group.com/sites/investor_cogo1.html

POST BALANCE SHEET EVENTS

There were no events after the closing date on 31 December 2010 which materially influenced the revenues and earnings of Essanelle Hair Group.

OUTLOOK AND OPPORTUNITIES

According to various forecasts, the significant and unexpected upswing in Germany in 2010 will continue this fiscal year in a weakened form. Thus, for example, the Sachverstaendigenrat (Advisory Council for Economics) expects the gross domestic product to grow 2.2% in 2011, compared with 3.6% last year. The federal government assumes a growth rate of 2.3% in its Annual Economic Report. Strong exports as well as a continuing high rate of employment should both contribute increasingly as stable pillars of domestic consumption. Given the hard consolidation steps being taken by some European countries, the risks for 2011 are tensions in the currency structure and continuing risks in the financial markets.

In Germany, exports are expected to remain at a good level, even if the global economic dynamic in 2011 eases. The Advisory Council expects exports to increase by 6.7%. Domestically, increasingly positive impulses are forecast for fiscal year 2011. The reasons for that lie in a slightly lower unemployment rate, a persistently high employment rate and concurrently increasing wages. Overall, according to the Advisory Council's forecasts, total consumer expenditures should increase by 1.5%. As a result, the domestic economic impulse should be even stronger than in 2010. Against this background, the domestic demand in 2011 could become a significant stabiliser of the macro economy. In any case, 2010 already has shown that the overall positive development of consumption was differentiated. For retail, which is also relevant for Essanelle Hair Group, the trade group HDE expects growth of more than 1%.

For the Essanelle Hair Group in particular, the development of the direct salon environment was of special importance. The overall positive development of consumption will be supported by a basically good environment in shopping centres and megastores. However, there are not yet any solid signs of a prompt improvement in the equally important department store environment which has been weak for years. Overall, despite these different basic conditions, Essanelle Hair Group again expects a positive development of its business. The 50 new salon openings in 2010 which increased the salon inventory by about 30 salons, should contribute to this. For 2011, the Management Board expects revenue growth of 2% to 3%.

The growth strategy will be continued in 2011. In this, the emphasis is on a very selective choice of locations and an overall somewhat moderate tempo. Presently, it is planned to open 30 new salons in the current fiscal year, whereby the corresponding planning will be reviewed at mid-year. Here, the development of sales revenues and earnings, as well as the number of scheduled closures will help as criteria. In fiscal year 2012, the goal of 50 new salon openings is again a realistic option. Strategically, the Essanelle Hair Group is still aiming at the three strong locations – shopping centres, hyper markets and department stores. In the middle term, the development of the department store environment and the salons remains to be seen. Also, the multiple brand strategy will definitely be retained. With essanelle Ihr Friseur, Super Cut and the fast-growing concept HairExpress, the enterprise has three strong brands of a substantial size with which it can cover all important social trends. The Beauty Hair Shops in close proximity to the salons will round off the strategic profile.

In the estimation of the Management Board, the earnings situation also will improve again in 2011. In the current fiscal year, it is expected that pre-tax earnings will increase by at least 5%, which is disproportionate to the sales revenues increase. This is again the clear focus of the group's management for 2011. This is the foremost goal, after the decrease in earnings in past years. With this development, the Essanelle Hair group can continue to pay a steady, high dividend to the shareholders. On the basis of the current expansion plans, the Management Board expects to see further growth in sales revenues as well as a disproportionate earnings increase for fiscal year 2012.

Düsseldorf, 15 March 2011

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 2010

ASSETS

€	Notes	31.12.2010	31.12.2009
ASSETS			
Long-term assets			
Property. plant and equipment	6	23,404,558.51	23,878,349.92
Goodwill	7	19,558,872.10	19,558,872.10
Other intangible assets	7	142,555.22	106,367.25
Other loans	8	259,921.97	88,037.69
		43,365,907.80	**43,631,626.96**
Short-term assets			
Other loans	8	36,854.97	9,153.55
Inventories	9	6,625,461.10	6,805,052.90
Accounts receivable	10	61,883.76	165,296.57
Other assets	11	587,875.56	548,070.91
Cash and cash equivalents	12	4,916,613.03	5,020,732.58
		12,228,688.42	**12,548,306.51**
Total assets		**55,594,596.22**	**56,179,933.47**

SHAREHOLDERS' EQUITY AND LIABILITIES

€	Notes	31.12.2010	31.12.2009
SHAREHOLDERS' EQUITY			
Capital and reserves allocable to the shareholders in the parent company			
Share capital	13	4,522,841.00	4,522,841.00
Capital reserve	14	15,717,699.17	15,717,699.17
Revenue reserves	15	12,419,632.20	11,303,033.79
		32,660,172.37	**31,543,573.96**
DEBT			
Long-term debt			
Financial debt	16	3,742,389.53	3,088,432.50
Deferred tax liabilities	17	4,544,354.57	4,297,354.57
Pension provisions	18	833,918.00	804,159.00
Other provisions	19	1,441,342.11	777,235.14
		10,562,004.21	**8,967,181.21**
Short-term debt			
Financial debt	16	2,678,547.36	3,186,393.62
Accounts payable	20	2,237,066.95	4,477,410.53
Current income tax liabilities	21	1,268,954.05	1,880,872.20
Other liabilities	22	2,807,991.33	2,885,634.05
Other provisions	23	3,379,859.95	3,238,867.90
		12,372,419.64	**15,669,178.30**
Total debt		**22,934,423.85**	**24,636,359.51**
Total shareholders' equity and liabilities		**55,594,596.22**	**56,179,933.47**

CONSOLIDATED INCOME STATEMENT (IFRS)

for the period from 1 January 2010 to 31 December 2010

€	Notes	2010	2009
Sales	24	127,243,425.71	127,958,799.77
Other operating income	25	1,924,037.76	1,227,593.26
Cost of materials	26	-9,797,838.31	-10,543,865.15
Personnel expenses	27	-71,702,785.91	-70,821,477.79
Depreciation and amortisation	28	-5,350,476.89	-5,389,234.99
Rental and ancillary rental expenses	29	-25,434,716.51	-24,961,213.43
Other operating expenses	30	-11,465,862.41	-11,549,303.55
Operating earnings		**5,415,783.44**	**5,921,298.12**
Financial income	31	23,390.82	14,670.29
Financial expenses	32	-363,196.39	-424,707.72
Financial result		**-339,805.57**	**-410,037.43**
Earnings before taxes		**5,075,977.87**	**5,511,260.69**
Tax expenses	34	-1,697,959.45	-2,304,549.97
Consolidated net income		**3,378,018.42**	**3,206,710.72**
Earnings per share	35		
basic		0.75	0.71
diluted		0.75	0.71

CONSOLIDATED CASHFLOW STATEMENT (IFRS)

for the period from 1 January 2010 to 31 December 2010

k€	Notes	2010	2009
1. CASHFLOW FROM OPERATING ACTIVITIES	37		
Cash generated by ongoing business activities		8,553	11,275
Interest paid		-302	-416
Taxes on income paid		-2,063	-1,725
Net inflow of funds from operating activities		**6,188**	**9,134**
2. CASHFLOW FROM INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	6	-3,830	-5,338
Proceeds from sale of property, plant and equipment	37	2	147
Acquisition of intangible assets	7	-117	-38
Loans paid out	8	0	-70
Loans repaid	8	18	60
Interest received		23	15
Net outflow of funds for investment activities		**-3,903**	**-5,224**
3. CASH FLOW AUS DER FINANZIERUNGSTÄTIGKEIT			
Dividend payout	14, 15	-2,261	-2,261
Receipts from taking up of financial debt	16	3,334	1,356
Repayment of financial debt	16	-3,463	-3,585
Net outflow of funds for financing acivities		**-2,390**	**-4,490**
Net decrease/increase in cash and cash equivalents		-105	-580
Cash and cash equivalents at beginning of year	12	5,021	5,600
Cash and cash equivalents at 31 December		**4,916**	**5,021**

SCHEDULE OF CHANGES IN GROUP EQUITY (IFRS)

as of 31 December 2010

in €	Notes	Share capital	Capital reserve	Revenue reserves	Total equity
Balance at 1 Jan. 2009		**4,522,841.00**	**15,717,699.17**	**10,357,743.59**	**30,598,283.76**
Dividend payout	15			-2,261,420.52	-2,261,420.52
Consolidated earnings	15			3,206,710.72	3,206,710.72
Balance at 31 Dec. 2009		**4,522,841.00**	**15,717,699.17**	**11,303,033.79**	**31,543,573.96**
Balance at 1 Jan. 2010		**4,522,841.00**	**15,717,699.17**	**11,303,033.79**	**31,543,573.96**
Dividend payout	15			-2,261,420.01	-2,261,420.01
Consolidated earnings	15			3,378,018.42	3,378,018.42
Balance at 31 Dec. 2010		**4.522.841,00**	**15.717.699,17**	**12.419.632,20**	**32.660.172,37**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

as of 31 December 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(IFRS) as of 31 December 2010

1 BASIC INFORMATION

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

The total salon network comprises of 702 hairdressing salons and sales shops, compared to 673 in the previous year.

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

– essanelle Ihr Friseur
– Super Cut
– HairExpress
– JT by essanelle
– TOP TEN
– Beauty Hair Shop

The original concept "essanelle Ihr Friseur" is targeted at regular and occasional customers of all age groups. The "Super Cut" concept is tailored to the needs of younger customers, with the "Hair-Express" 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 "TOP TEN" concept offers hairdressing services in the 10 euro segment primarily at stand-alone locations. As in the previous year, an independent hairdressing salon is taken in as a franchisee within the "essanelle Ihr Friseur" brand concept.

The head office for all operating units of the Group is located in 40225 Düsseldorf/Germany, Himmelgeister Street 103–105.

The company's corporate planning visualises an increase in the company's market share through special emphasis given to the expansion of its network of outlets.

The parent company, Essanelle Hair Group AG, is a stock corporation which emerged from ESSANELLE GmbH on 4 May 2001 through corporate transformation.

Essanelle Hair Group has been listed at the Frankfurt Stock Exchange since 22 June 2001. The Company was listed in the SMAX quality segment until 20 December 2002, and in official trading until 30 September 2005. Since then, Essanelle Hair Group has been listed in the prime standard. As previously, Essanelle Hair Group 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 2010 were:

Achim Mansen, Monheim	Finance, Chairman
Dieter Bonk, Neuss	Sales
Dirk Wiethölter, Hilden	Human Resources

Subsidiary activities of the members of the Management Board:

Achim Mansen	Administrative Board Essanelle Company Health Insurance Fund, Augsburg Member of Supervisory Board CRESCES Sports Media AG
Dieter Bonk	Administrative Board Essanelle Company Health Insurance Fund, Augsburg Chairman of the Board of Advertising Community of the shopping centre Neuss
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
Fritz Kuhn, Seeheim (Chairman)	Management Consultant
Olaf Rogowski, Munich	Managing Director
Werner Schneider, Cologne	Management Consultant
Hiltrud Seggewiß, Düsseldorf	Managing Director
Jürgen Tröndle, Kelsterbach	Proprietor of a hairdressing salon
Andreas Tscherner, Ahlum	Head of Group Accounting and Controlling

Employee Representatives

	Profession
Peter-Michael Herold, Stuttgart, (Acting Chairman)	Trade Union Secretary
Silvia Altenberger, Munich	Sales Director
Michael Eberhard, Berlin	Trade Union Secretary
Cornelia Glaß, Erlbach	Hairdresser
Barbara Wietusch, Stuttgart	Hairdresser
Ursel Lohmüller, Winsen/Luhe (since 1.1.2010)	Hairdresser

The following members of the Supervisory Board sit or have sat on supervisory or administrative boards for other companies:

Fritz Kuhn	Ondal Friseurtechnik GmbH, Eiterfeld (Advisory Board)
Michael Eberhard	Stadtwerke Leipzig GmbH – until 30 June 2010 (Member) Since Dec. 2010 – ELBLANDKLINIKEN Meißen Holding GmbH
Olaf Rogowski	Ondal Holding GmbH, Hünfeld (Advisory Board)

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 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 Standards Interpretations Committee (IFRIS IC), as applicable in the EU. All standards and interpretations of the IASB that were mandatory as of 31 December 2010 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 take account of all relevant provisions of IFRS adopted and requiring mandatory application as of 31 December 2010.

Application has been made of the supplementary provisions of the German Stock Corporation Act (AktG). The Group management report as of 31 December 2010 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 summarized in the interests of clarity. Corresponding explanations have been provided in the notes.

New international financial reporting standards (IFRS) and interpretations (IFRIS IC):

The International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRS IC) have adopted a series of reporting standards and interpretations that became effective for annual periods beginning on or after 1 January 2010 and were first applied by the ESSANELLE Group as of this date.

The following standards and interpretations which are applied for the first time in this financial year have no material impact on the Essanelle Hair Group:

- IFRS 1 (rev. November 2008), "First application of IFRS" (EU-Endorsement as of 25 November 2009, applicable from 1 January 2010).
- Amendment to IFRS 1, "Additional exemptions for first time applicants" (EU-Endorsement as of 23 June 2010).
- Amendment to IFRS 2 and IFRIC 11, "Group and Treasury Share Transactions" (EU-Endorsement as of 23 March 2010).
- IFRS 3 (Revised), "Mergers" (EU-Endorsement as of 3 June 2009).
- Improvements to IFRS 2009 / collective standard to amend various IFRS (EU-Endorsement as of 23 March 2010).
- IAS 27 (Revised), "Consolidated and individual financial statements" (EU-Endorsement as of 3 June 2009).
- Amendments to IAS 39, "Financial Instruments: Recognition and Measurement – allowed underlying transactions within hedges" (EU-Endorsement as of 15 September 2009).
- IFRIC 12, "Service Concession Arrangements" (EU-Endorsement as of 25 March 2009).
- IFRIC 15, "Agreements for the Construction of Real Estate" (EU-Endorsement as of 22 July 2009).
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation" (EU-Endorsement as of 4 June 2009).
- IFRIC 17, "Distributions of Non-cash Assets to Owners" (EU-Endorsement as of 26 November 2009).
- IFRIC 18, "Transfers of Assets from Customers" (EU-Endorsement as of 1 December 2009).

Standards, interpretations and amendments to existing standards, that are not yet effective or applicable early:

The following standards, amendments to standards and interpretations have been adopted but will become effective for annual periods beginning on or after 1 January 2011 (the company did not take advantage of the permission for earlier application). They are estimated to have no material impact on the Essanelle Hair Group.

- Amendment to IAS 32, "Classification of Rights Issues" (EU-Endorsement as of 23 December 2009).
- Amendment to IFRS 1, "Limited Disclosure Exemption for First-Tie adopters according to IFRS 7" (EU-Endorsement as of 30 June 2010).
- Amendment to IAS 24, "Related Party Disclosures" (EU-Endorsement as of 19 July 2010).
- IFRIC 14, "Prepayments of a Minimum Funding Requirement" (EU-Endorsement as of 19 July 2010).
- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments" (EU-Endorsement as of 23 July 2010).
- Improvements to IFRS 2010 / Collective standard to amend various IFRS (EU-Endorsement as of 19 February 2011).

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

The following standards and interpretations that have not yet been applied as they have still to be approved by the EU are estimated to have no material impact on the Essanelle Hair Group:

– Amendment to IFRS 7, “Disclosure of Transfers of Financial Assets”
– IFRS 9 (November 2009), “Financial Instruments: Classification and Measurement: Financial Assets”
– IFRS 9 (October 2010), “Financial Instruments: Classification and Measurement: Financial Liabilities”

2.2 GROUP ACCOUNTING AND REPORTING ENTITY

2.2.1 SUBSIDIARIES

Subsidiaries, i. e. companies in which Essanelle Hair Group 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 is in the position to control another company in this respect has taken into account the existence and implications of potential voting rights, which could be exercised or converted as of the balance sheet reporting date.

Subsidiaries are only consolidated when Essanelle Hair Group acquires the possibility of controlling the company thereby acquired; they are deconsolidated upon Essanelle Hair Group 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, 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 Hair Group as of 31 December 2010:

Parent company
Essanelle Hair Group AG, Düsseldorf

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

Indirect shareholdings (Subsidiaries of CFS)
ESSANELLE DIENSTLEISTUNGS GMBH, Düsseldorf

The share capital of ESSANELLE DIENSTLEISTUNGS GMBH amounts to EUR 25,000 and is held in full by CFS GmbH.

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 2010 or in 2009. In the event of any foreign currency transactions being undertaken, these will be converted into the functional currency on the basis of the exchange rate valid at the time of such transactions. 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 furniture and fittings in the hairdressing salons.
Property, plant and equipment are stated at cost of acquisition/manufacture and in most cases subject to straight-line depreciation over their expected useful life. Costs of acquisition/manufacture include expenses directly allocable to such acquisition. Costs of repairs are recorded as current expenses. 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 portions of the leasing instalments are then off-set against these financial liabilities on an ongoing basis, while the interest portion is recorded under interest expenses.

Leases that do not substantially transfer 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 capitalized 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 are any indications of value impairments. In the event of the recoverable amount for an asset being lower than its respective carrying amount, then such asset is subject to extraordinary depreciation. For the purposes of this impairment test, assets are combined at the lowest level for which cash flows can be separately identified and allocated (cash generating units, in short: CGUs). The individual hairdressing salon is viewed as representing the lowest such level, given that it is possible to identify economic success or failure at this level.

Should the reason for an exceptional write-down undertaken at an earlier date no longer pertain, then the value of the asset is written up to a maximum of the amount of updated acquisition/manufacture 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 a test but no less than 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 vary 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 cash flows, discounted using the effective interest method.

2.8 INVENTORIES

Inventories are stated at the lower value 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.

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 posted on all feasible tax loss carryforwards. 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 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 of 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 annually by an independent actuarial surveyor using the projected unit credit method. The present value of the DBO is calculated by discounting the expected outflow of funds using the interest rate for industrial bonds of top credit standing (interest rate 4.4%; previous year 5.4%).

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 regarded as an expense. The valuation has accounted for the particular circumstances involved in the individual design of the plan at Essanelle Hair Group. The total expenses that need 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 of more than 12 months following the balance sheet reporting date are discounted to their present values.

2.19 BONUS PAYMENTS AND ROYALTIES

A provision is capitalised for bonus payments and royalties 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

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

In exceptional cases, however, respites and defaults may occur due to bill-backs 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 very closely by the Management Board. 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 creating financial reserves.

(d) Cash flow risk and fair value interest risk

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

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

No use is made of derivative financial instruments.

(e) Material risks

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

3.2 CALCULATION OF THE FAIR VALUE

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

3.3 CAPITAL MANAGEMENT

The purpose of capital management is to ensure that the company has financial room to 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. Implementation of the financial policy and ongoing risk management are the tasks of the Treasury Department.

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

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

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

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

Short-term liquidity, calculated as the ratio between current assets and current liabilities, was 0.80 in 2009 and 0.98 in 2010.

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 has been 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 0.72 in 2009 to 0.75 in 2010. The equity ratio increased from 56.1% in 2009 to 58.7% in 2010.

4 CRITICAL ESTIMATES USED IN ACCOUNTING AND VALUATION

All estimates and assessments are reviewed on an ongoing basis and are 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 a test to be undertaken, but not less than once per year. This involves the achievable earnings of the underlying cash generating unit, which are calculated by determining its use value, being set in relation to its assets. In the event of the total of the expected and discounted cash flows falling short of the asset value of the investment, a write-down is undertaken. This involves adjusting the prorated carrying amount of the goodwill to the reduced earnings prospects. The calculation of the use value requires assumptions to be made (note 7).

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

(b) Provision for customer subscriptions and customer vouchers

The Group sells subscriptions and vouchers for hairdressing services for which payments are received but for which no services have as yet been performed. Given that the obligations still outstanding are not individually recorded, their scope has to be estimated as of the balance sheet reporting date. In the case of customer subscriptions, the estimate is made on the basis of the months of October to December with different weightings in each case (October 1/3, November 2/3 and December 3/3), with the figures only being included in the calculation if sales are in excess of redemptions. In the case of vouchers, the sales figures for the months of October to December are included in the provision, provided that sales are in excess of redemptions.

If the actual claims were to be 10% higher or lower than the estimated figure, the provision would change by an amount of EUR -66k/123k (previous year EUR 95k).

(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 neither met 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 and 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 2009			
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
2009 financial year			
Opening carrying amount (net)	21,953,636.66	1,978,245.09	23,931,881.75
Additions	5,337,886.92	90,002.50	5,427,889.42
Disposals	-1,141,969.79	0.00	-1,141,969.79
Additions to depreciation	-4,746,691.73	-570,133.55	-5,316,825.28
Disposals from depreciation	977,373.82	0.00	977,373.82
Closing carrying amount (net)	22,380,235.88	1,498,114.04	23,878,349.92
As of 31 December 2009			
Costs of acquisition/manufacture	57,918,693.18	10,212,913.69	68,131,606.87
Cumulative impairments (IAS 36)	-179,392.52	0.00	-179,392.52
Cumulative depreciation	-35,359,064.78	-8,714,799.65	-44,073,864.43
Carrying amount (net)	22,380,235.88	1,498,114.04	23,878,349.92
2010 financial year			
Opening carrying amount (net)	22,380,235.88	1,498,114.04	23,878,349.92
Additions	4,676,983.84	274,615.78	4,951,599.62
Disposals	-2,095,295.74	-109,118.08	-2,204,413.82
Impairments (IAS 36)	-253,376.08	0.00	-253,376.08
Additions to depreciation	-4,526,353.58	-475,433.79	-5,001,787.37
Disposals from depreciation	1,958,566.24	75,620.00	2,034,186.24
Closing carrying amount (net)	22,140,760.56	1,263,797.95	23,404,558.51
As of 31 December 2010			
Costs of acquisition/manufacture	60,500,381.28	10,378,411.39	70,878,792.67
Cumulative impairments (IAS 36)	-432,768.60	0.00	-432,768.60
Cumulative depreciation	-37,926,852.12	-9,114,613.44	-47,041,465.56
Carrying amount (net)	**22,140,760.56**	**1,263,797.95**	**23,404,558.51**

Investments in property, plant and equipment amounted to EUR 4,952k (previous year EUR 5,428k) and are predominantly related to salon furnishings at newly opened salons and renovations of existing salons. The disposals of assets in 2010 in a net carrying amount of EUR 170k (previous year EUR 165k) mainly refer to salon closures. Income from asset disposals amounted to EUR 2k (previous year EUR 1k), while losses amounted to EUR 170k (previous year EUR 19k).

The property, plant and equipment are 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 305k (previous year EUR 297k) have been recorded in the income statement. Moreover, rental expenses amounting to EUR 21,579k (previous year EUR 21,293k) have also been included in connection with the letting of premises for hairdressing salons and Beauty Hair Shops.

The impairment tests for property, plant and equipment have been undertaken in a differentiated manner in accordance with the individual salon locations based on the cash flows expected from the individual salons on an ongoing basis following deduction of prorated overhead expenses, interest and taxes. The cash flow forecasts are based on the salon earnings budgets approved by the management. The underlying average values were extrapolated over a period of ten years using the same discount rate as in the previous year, namely 10% before taxes. No account has been taken of growth rates.

The impairment test revealed impairments of property, plant and equipment as defined in IAS 36 in an amount of EUR 253k (previous year EUR 0k).

7 INTANGIBLE ASSETS

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

€	Goodwill	Other	Total
As of 1 January 2009			
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
2009 financial year			
Opening carrying amount (net)	19,558,872.10	140,952.59	19,699,824.69
Additions	0.00	37,824.37	37,824.37
Disposals	0.00	-3,429.07	-3,429.07
Additions to amortisation	0.00	-72,409.71	-72,409.71
Disposals from amortisation	0.00	3,429.07	3,429.07
Closing carrying amount (net)	19,558,872.10	106,367.25	19,665,239.35
As of 31 December 2009			
Costs of acquisition/manufacture	19,929,880.72	844,789.72	20,774,670.44
Cumulative impairment (IAS 36)	-371,008.62	0.00	-371,008.62
Cumulative amortisation	0.00	-738,422.47	-738,422.47
Carrying amount (net)	19,558,872.10	106,367.25	19,665,239.35
2010 financial year			
Opening carrying amount (net)	19,558,872.10	106,367.25	19,665,239.35
Additions	0.00	116,758.40	116,758.40
Disposals	0.00	-54,263.86	-54,263.86
Impairment (IAS 36)	0.00	-4,672.19	-4,672.19
Additions to amortisation	0.00	-75,898.24	-75,898.24
Disposals from amortisation	0.00	54,263.86	54,263.86
Closing carrying amount (net)	19,558,872.10	142,555.22	19,701,427.32
As of 31 December 2010			
Costs of acquisition/manufacture	19,929,880.72	907,284.26	20,837,164.98
Cumulative impairment (IAS 36)	-371,008.62	-4,672.19	-375,680.81
Cumulative amortisation	0.00	-760,056.85	-760,056.85
Carrying amount (net)	**19,558,872.10**	**142,555.22**	**19,701,427.32**

At EUR 19,559k, goodwill remains unchanged compared to the previous year.

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

The extrapolation is based on the assumption that once the start-up period of 1 to 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 on the year thereafter.

At 10% (previous year 10%), the discount factor thereby used corresponds to the rate used internally at Essanelle Hair Group 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 4.7% (previous year 4.8%).

As in the previous year, the impairment test undertaken in 2010 did not result in any extraordinary amortisation of goodwill according to IAS 36.

8 OTHER LOANS

Other loans are structured as follows:

€	Loans to mod´s hair franchisees	Miscellaneous loans	Total
As of 1 January 2009			
Costs of acquisition/manufacture	400,729.48	95,558.63	496,288.11
Cumulative impairment (IAS 36)	-400,729.48	-8,301.89	-409,031.37
Carrying amount (net)	0.00	87,256.74	87,256.74
2009 financial year			
Opening carrying amount (net)	0.00	87,256.74	87,256.74
Disposals	0.00	-60,065.50	-60,065.50
Additions	0.00	70,000.00	70,000.00
Closing carrying amount (net)	0.00	97,191.24	97,191.24
As of 31 December 2009			
2010 financial year			
Opening carrying amount (net)	0.00	97,191.24	97,191.24
Disposals	0.00	-18,352.24	-18,352.24
Additions	0.00	232,680.95	232,680.95
Impairment IAS 36	0.00	-14,743.01	-14,743.01
Closing carrying amount (net)	0.00	296,776.94	296,776.94
As of 31 December 2010			
Costs of acquisition/manufacture	400,729.48	319,821.84	720,551.32
Cumulative impairment (IAS 36)	-400,729.48	-23,044.90	-423,774.38
Carrying amount (net)	**0.00**	**296,776.94**	**296,776.94**

"Loans" refers to loans made to three different persons, which have been repaid as planned and rent deposits.

As in the previous year, the loans carry interest rates of between 2.0% and 4.5%. The income statement shows interest income in the amount of EUR 9k (previous year EUR 2k).

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

€	31 Dec. 2010	31 Dec. 2009
Not due yet	296,776.94	96,175.53
Overdue and unimpaired	0.00	1,015.71
	296,776.94	**97,191.24**

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

€	31 Dec. 2010			
	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	**296,776.94**	**38,854.97**	**103,760.48**	**154,161.49**

€	31 Dec. 2009			
	Total	Remaining term of up to 1 year	Remaining term of more than 1 year to 5 years	Restlaufzeit über 5 Jahre
Loans	**97,191.24**	**9,153.55**	**15,577.78**	**72,459.91**

9 INVENTORIES

Inventories are structured as follows:

€	31 Dec. 2010	31 Dec. 2009
Goods for sale	4,191,978.79	4,173,274.79
Goods for use	2,469,402.31	2,739,198.11
	6,661,381.10	6,912,472.90
Write-down	-35,920.00	-107,420.00
	6,625,461.10	**6,805,052.90**

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. 2010	31 Dec. 2009
Gross receivables	140,698.37	379,306.12
less write-downs	-78,814.61	-214,009.55
	61,883.76	**165,296.57**

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

€	31 Dec. 2010	31 Dec. 2009
Overdue and unimpaired	27,328.05	118,485.76
Overdue and not discounted	34,555.71	46,810.81
	61,883.76	**165,296.57**

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

€	31 Dec. 2010	31 Dec. 2009
Less than 30 days	-12,133.41	110,908.18
Between 30 and 60 days	13,229.79	7,369.48
Between 61 and 90 days	2,785.52	40.00
Between 91 and 180 days	12,134.71	69.20
Between 181 and 360 days	11,311.44	98.90
More than 360 days	0.00	0.00
	27,328.05	**118,485.76**

The entry to the amount of EUR -12k refers to a credit related to the rental account one of our debtors.

The above accounts receivable are not collateralised.

The itemised allowances on accounts receivable developed as follows:

€	31 Dec. 2010	31 Dec. 2009
Allowances as at 1 January	214,009.55	249,580.60
Additions (Expenses on allowances)	46,241.31	0.00
Utilisation	0.00	-14,237.60
Retransfers	-181,436.25	-21,333.45
	78,814.61	**214,009.55**

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. 2010	31 Dec. 2009
Prepayments made on assets ordered	75,573.44	68,625.73
Accrued income	51,518.33	167,065.19
Rental deposits	0.00	64,049.98
Rental receivables	40,278.88	19,384.50
Payroll receivables	164,739.49	140,144.12
Tax refund claims	13,828.28	9,375.66
Other	241,937.14	79,425.73
	587,875.56	**548,070.91**

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. 2010	31 Dec. 2009
Credit balances at banks	3,711,863.02	3,785,859.78
Payments in transit from Essanelle hairdressing salons (prior to credit to bank accounts)	433,476.18	472,724.04
Cash holdings	771,273.83	762,148.76
	4,916,613.03	**5,020,732.58**

The effective interest rate for short-term bank deposits amounted to an average of 0.55% (previous year 0.86%). 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.

€	31 Dec. 2010	31 Dec. 2009
Share capital	4,595,044.00	4,595,044.00
Acquisition of own shares	-72,203.00	-72,203.00
Balance at 31 Dec.	**4,522,841.00**	**4,522,841.00**

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 year 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,
– Members of the management bodies of certain subordinate affiliated companies and
– Employees of Essanelle Hair Group 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 in 2008. In the case of members of the Management Board of Essanelle Hair Group, the responsibility for granting subscription rights lies exclusively with the Supervisory Board. No further subscription rights were issued as of 31 December 2010.

(2) Shareholdings disclosed pursuant to section 160 (1) no. 8 of the German Stock Corporation Act (AktG) *

Shareholders required to make such notifications	Date	Reason	Share in voting rights
William Geoffrey Oldfield, United Kingdom	01.06.10	Exceeding the threshold of 5% of voting rights	5,30%
Friseur Klier GmbH, Wolfsburg	08.12.09	Falling short of the thresholds of 25, 20, 15, 10, 5 and 3% of the voting rights	0,00%
Saxonia Holding-Verwaltungs-GmbH, Wolfsburg	24.09.09	Falling short of the thresholds of 75, 50, 30, 25, 20, 15, 10, 5 and 3% of the voting rights	0,00%
Uwe Grimminger, Germany	20.02.08	Falling short of the threshold of 3% of the voting rights	0,00%
Jürgen Tröndle, Germany	11.02.08	Falling short of the threshold of 3% of the voting rights	0,00%
Axxion S.A., Luxemburg-Munsbach/Luxemburg	22.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0,00%
Hubertus Klier, Wolfsburg	22.02.08	Exceeding the thresholds of 50 and 75% of the voting rights	89,77%
Joachim Klier, Wolfsburg	22.02.08	Exceeding the thresholds of 50 and 75% of the voting rights	89,77%
Saxonia Holding-Gesellschaft mbH & Co. KG, Wolfsburg	22.02.08	Exceeding the thresholds of 50 and 75% of the voting rights	89,77%
INTRINSIC VALUE INVESTORS (IVI) LLP, 1 HAT & MITRE COURT, 88 ST JOHN STREET, LONDON, EC1M 4EL, UNITED KINGDOM	20.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0,00%
IVI UMBRELLA FUND PLC	20.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0,00%
Ratio European Fund	20.02.08	Falling short of the thresholds of 5 and 3% of the voting rights	0,00%
MAC Lochsong 19A Limited	20.02.08	Falling short of the threshold of 3% of the voting rights	0,00%
Ratio Asset Management LLP, London, Great Britain	20.02.08	Falling short of the thresholds of 10, 5 and 3% of the voting rights	0,00%
FPM Funds SICAV, Luxemburg	09.02.07	Falling short of the threshold of 3% of the voting rights	1,67%
Fortis Investment Management S.A., Brussels/Belgium	22.05.07	Exceeding the threshold of 5% of voting rights	5,07%
Threadneedle Investment Funds ICVC, London/Great Britain, the voting rights are to be assigned to the following companies: Threadneedle Investment Services Limited, Threadneedle Asset Management Limited – both located in London/Great Britain, Threadneedle Asset Management Holding Limited, London/Great Britain, and the Ameriprise Financial Inc., Minneapolis/USA	04.04.07	Falling short of the threshold of 3% of the voting rights	2,93%
dit Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH, Frankfurt am Main	21.11.06	Falling short of the threshold of 5% of the voting rights	3,56%
INVESTMENTS IV-A CUSTODIAN B.V., Netherlands, for account of Halder INVESTMENTS IV-A C.V., Netherlands.	29.04.05	Falling short of the threshold of 10 and 5% of the voting rights	3,79%
Stadtsparkasse Cologne	24.11.04	Falling short of the threshold of 5% of the voting rights	1,56%

* Because the requirement for notification of shares of less than 5% did not exist at the time, it is possible that some of these investors do not have shares anymore.

(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	Individual shares in Essanelle Hair Group
Subscription right	Right to subscribe individual shares in Essanelle Hair Group 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 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 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 on 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, no further change in subscription rights stock occurred.

In 2009, 6,504 subscription rights reached their date of expiration and expired.

In 2010, 138,072 subscription rights reached their date of expiration and expired.

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

	Total	1st tranche	2nd tranche	3rd tranche	4th tranche
Options issued	613,679	134,198	87,898	229,500	162,083
Options not accepted	-286,436	-73,270	-47,278	-91,428	-74,460
Options accepted	327,243	60,928	40,620	138,072	87,623
Exercised in 2006	-95,044	-58,563	-36,481	0	0
Expiry	-144,576	-2,365	-4,139	-138,072	0
Expired because of termination of employee relationship	-19,838	0	0	0	-19,838
Not yet exercised	67,785	0	0	0	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
Term	4.82 Jahre	4.82 Jahre	4.81 Jahre	4.81 Jahre
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 up to 2008.

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. 2010	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:

€	2010	2009
Balance at 1 Jan.	849,019.54	849,019.54
Additions acc. to accrual plan	0.00	0.00
Balance at 31 Dec.	**849,019.54**	**849,019.54**

(4) Share

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

€	2010	2009
Annual high	9.00	9.00
Annual low	7.32	5.50
Year-end	8.60	7.90
Number of shares	4,595,044	4,595,044
of which: own shares	72,203	72,203

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.

€	2010	2009
Premiums on cash deposits of the former GmbH shareholders as a result of capital increases	5,892,650.58	5,892,650.58
Agio 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	-465,709.36	-465,709.36
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	849,019.54	849,019.54
Balance at 1 Jan.	15,717,699.17	15,717,699.17
Acquisition of own shares	0.00	0.00
Value of services of employees from share option programmes	0.00	0.00
Balance at 31 Dec.	**15,717,699.17**	**15,717,699.17**

15 REVENUE RESERVES

Revenue reserves developed as follows:

€	2010	2009
Balance at 1 Jan.	11,303,033.79	10,357,743.59
Dividend distribution	-2,261,420.01	-2,261,420.52
Consolidated net income	3,378,018.42	3,206,710.72
Balance at 31 Dec.	**12,419,632.20**	**11,303,033.79**

The dividend distribution amounted to EUR 0.50 per share based on a volume of 4,522,841 shares (as in the previous year).

16 FINANCIAL DEBT

€	31 Dec. 2010			
	Total	Remaining term up to 1 year	Remaining term 1 year to 5 years	Remaining term over 5 years
Liabilities to banks	2,352,007.69	902,007.69	1,450,000.00	0.00
Liabilities in connection with financial leases	312,815.25	154,182.25	158,633.00	0.00
Investment loans from suppliers	2,152,919.47	937,649.34	1,215,270.13	0.00
Other financial loans	1,603,194.48	684,708.08	918,486.40	0.00
	6,420,936.89	**2,678,547.36**	**3,742,389.53**	**0.00**

€	31 Dec. 2009			
	Total	Remaining term up to 1 year	Remaining term 1 year to 5 years	Remaining term over 5 years
Liabilities to banks	1,423,962.71	636,067.99	787,894.72	0.00
Liabilities in connection with financial leases	495,762.83	388,324.47	107,438.36	0.00
Investment loans from suppliers	2,914,119.90	1,162,001.16	1,752,118.74	0.00
Other financial loans	1,440,980.68	1,000,000.00	440,980.68	0.00
	6,274,826.12	**3,186,393.62**	**3,088,432.50**	**0.00**

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

€	31 Dec. 2010			
	Total	Cash flows 2011	Cash flows 2012 to 2015	Cash flows after 2015
Liabilities to banks	2,508,601.04	966,606.56	1,541,994.48	0.00
Liabilities in connection with financial leases	328,255.08	162,713.83	165,541.25	0.00
Investment loans from suppliers	2,263,354.16	996,773.60	1,266,580.56	0.00
Other financial loans	1,716,024.48	731,475.44	984,549.04	0.00
	6,816,234.76	**2,857,569.43**	**3,958,665.33**	**0.00**

€	31 Dec. 2009			
	Total	Cash flows 2010	Cash flows 2011 to 2014	Cash flows after 2014
Liabilities to banks	1,471,654.82	669,115.36	802,539.46	0.00
Liabilities in connection with financial leases	516,051.34	406,193.52	109,857.82	0.00
Investment loans from suppliers	3,086,276.20	1,249,400.25	1,836,875.95	0.00
Other financial loans	1,463,775.42	1,019,637.13	444,138.29	0.00
	6,537,757.78	**3,344,346.26**	**3,193,411.52**	**0.00**

The cash flows contain fixed and variable interest:

€	31 Dec. 2010			
	Total interest	**Interest contained in cash flows 2011**	**Interest contained in cash flows 2012 to 2015**	**Interest contained in cash flows after 2015**
Liabilities to banks				
Fixed interest	145,509.74	55,394.24	90,115.50	0.00
Variable interest	11,271.61	9,392.63	1,878.98	0.00
Liabilities in connection with financial leases				
Fixed interest	15,439.83	8,531.58	6,908.25	0.00
Investment loans from suppliers				
Fixed interest	110,246.69	58,936.26	51,310.43	0.00
Other financial loans				
Fixed interest	109,343.80	43,281.16	66,062.64	0.00
Variable interest	3,486.20	3,486.20	0.00	0.00
	395,297.87	**179,022.07**	**216,275.80**	**0.00**

€	31 Dec. 2009			
	Total interest	**Interest contained in cash flows 2010**	**Interest contained in cash flows 2011 to 2014**	**Interest contained in cash flows after 2014**
Liabilities to banks				
Fixed interest	19,342.11	15,197.37	4,144.74	0.00
Variable interest	28,350.00	17,850.00	10,500.00	0.00
Liabilities in connection with financial leases				
Fixed interest	20,288.51	17,869.05	2,419.46	0.00
Investment loans from suppliers				
Fixed interest	172,156.30	87,399.09	84,757.21	0.00
Other financial loans				
Variable interest	22,794.74	19,637.13	3,157.61	0.00
	262,931.66	**157,952.64**	**104,979.02**	**0.00**

Liabilities to banks

Liabilities to banks are structured as follows:

€	31 Dec. 2010			
	Interest Rate	Total	Short-term	Long-term
HypoVereinsbank, Nürnberg	Euribor + 1.25	633,924.97	423,924.97	210,000.00
Gladbacher Bank, Mönchengladbach	fest 5.25%	157,894.72	157,894.72	0.00
Gladbacher Bank, Mönchengladbach	fest 3.95%	560,000.00	120,000.00	440,000.00
Postbank	fest 3.384%	1,000,188.00	200,188.00	800,000.00
		2,352,007.69	**902,007.69**	**1,450,000.00**

€	31 Dec. 2009			
	Interest Rate	Total	Short-term	Long-term
HypoVereinsbank, Nürnberg	Euribor + 1.25	1,055,541.67	425,541.67	630,000.00
Gladbacher Bank, Mönchengladbach	fest 5.25%	368,421.04	210,526.32	157,894.72
		1,423,962.71	**636,067.99**	**787,894.72**

To ensure that the Essanelle Hair 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 4.5 million (previous year EUR 2.5 million) have been signed. As of the balance sheet date, EUR 4.1 million of the total amount was unused (previous year EUR 2.5 million). EUR 400k have been used as surety credit.

No security has been provided to cover bank loans.

Liabilities from finance leases

In the past years, Essanelle Hair Group leased part of the salon fittings under finance leases in the context of both sale-and-leaseback 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 1,263,797.95 (previous year EUR 1,498,114.04). The lease liabilities total EUR 312,815.25 (previous year EUR 495,762.83). These liabilities are due to various leasing companies and carry interest rates of between 4.18% and 6.54% p.a. (previous year between 6% and 11%).

€	20010		2009	
	Nominal amount	Discounted amount	Nominal amount	Discounted amount
Remaining term up to 1 year	162,713.84	154,182.26	406,193.52	388,324.47
Remaining term 1 to 5 years	165,541.24	158,633.00	109,857.82	107,438.36
Remaining term over 5 years	0.00	0.00	0.00	0.00
	328,255.08	**312,815.26**	**516,051.34**	**495,762.83**

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 one and five 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. The investment loan Welonda expired in June 2010.

Other 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% interest respectively, which is due for payment paid at the end of each respective quarter. Furthermore, they relate to two hire purchase agreements concluded in 2010 with SüdLeasing, which are to be repaid on a monthly basis over the next five years.

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 No financial instruments	Measured pursuant to IAS 39 *	Measured pursuant to IAS 17
31 Dec. 2010					
ASSETS					
Other loans	LaR	296,776.94	0.00	296,776.94	0.00
Accounts receivable	LaR	61,883.76	0.00	61,883.76	0.00
Other assets	LaR	587,875.50	402,918.00	184,957.50	0.00
Cash and cash equivalents	LaR	4,916,613.03	0.00	4,916,613.03	0.00
LIABILITIES					
Financial debt	FLAC	6,420,936.89	0.00	6,108,121.64	312,815.25
Accounts payable	FLAC	2,237,066.95	0.00	2,237,066.95	0.00
Other liabilities	FLAC	2,807,991.33	2,621,674.88	186,316.45	0.00
31 Dec. 2009					
ASSETS					
Other loans	LaR	97,191.24	0.00	97,191.24	0.00
Accounts receivable	LaR	165,296.57	0.00	165,296.57	0.00
Other assets	LaR	548,070.91	479,445.18	68,625.73	0.00
Cash and cash equivalents	LaR	5,020,732.58	0.00	5,020,732.58	0.00
LIABILITIES					
Financial debt	FLAC	6,274,826.12	0.00	5,779,063.29	495,762.83
Accounts payable	FLAC	4,477,410.53	0.00	4,477,410.53	0.00
Other liabilities	FLAC	2,885,634.05	2,692,342.18	193,291.87	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. 2010	31 Dec. 2009
Deferred tax liabilities	4,544,354.57	4,297,354.57

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. Only deferred tax liabilities occurred as of the balance sheet reporting dates of 31 December 2010 and 31 December 2009.

Deferred tax liabilities refer to the following balance sheet items:

€k	31 Dec. 2010 assets	31 Dec. 2010 liabilities	31 Dec. 2009 assets	31 Dec. 2009 liabilities
Deferred tax liabilities on balance sheet items				
Goodwill (non-current)	0	4,218	0	3,623
Property, plant and equipment (non-current)	0	733	0	684
Pension provisions (non-current)	38	0	12	0
Other provisions				
current	123	0	0	0
non-current	152	0	0	150
Liabilities in connection with financial leases				
current	46	0	116	0
non-current	48	0	32	0
	407	4,951	160	4,457
Net balances	-407	-407	-160	-160
	0	**4,544**	**0**	**4,297**

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

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

€	2010	2009
Increase in deferred trade tax liabilities due to increase in the IFRS capital gain	132,000.00	257,000.00
Increase in deferred corporate income tax liabilities	115,000.00	293,000.00
	247,000.00	**550,000.00**

18 PENSION PROVISIONS

This relates to two individual commitments to one active and one former member of the Management Board. The resulting obligations are classified as defined benefit Pension grant.

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

€	2010	2009
Present value of the obligations	1,011,638.00	879,252.00
Fair value of plan assets	-104,983.00	-83,099.00
Non-recognised actuarial gains	-72,737.00	8,006.00
Balance at 31 Dec.	**833,918.00**	**804,159.00**

Changes in the present value of the obligations:

€	2010	2009
1 Jan.	879,252.00	698,202.00
Current service cost	24,215.00	55,428.00
Interest cost	46,491.00	43,638.00
Actuarial loss	98,358.00	85,035.00
Pension payments	-36,678.00	-3,051.00
Balance at 31 Dec.	**1,011,638.00**	**879,252.00**

EUR 284k of the total obligation are counted under a funded plan, while EUR 727k are counted under an unfunded plan.

Changes in the plan assets:

€	2010	2009
1 Jan.	83,099.00	596,981.00
Payment of reinsurance to Essanelle Hair Group for a beneficiary after start of retirement	0.00	-531,429.00
Contributions	24,069.00	17,547.00
Expected Return on Plan Assets	3,407.00	24,010.00
Actuarial loss	-5,592.00	-24,010.00
Balance at 31 Dec.	**104,983.00**	**83,099.00**

The plan assets consist of the asset values of reinsurance policies at Swiss Life. An estimated total of EUR 24k will be deposited into the plan assets in the financial year 2011.

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

€	2010	2009	2008	2007	2006
Present value of the obligations	1,011,638.00	879,252.00	698,202.00	673,414.00	704,210.00
Fair value of plan assets	-104,983.00	-83,099.00	-596,981.00	-508,615.00	-405,594.00
Non recognised actuarial losses (or gains)	72,737.00	8,006.00	53,143.00	-4,723.00	-118,639.00
Balance at 31 Dec.	833,918.00	804,159.00	154,364.00	160,076.00	179,977.00

The following amounts were recorded in the income statement:

€	2010	2009
Current period of service expenses	24,215.00	55,428.00
Interest expenses	46,491.00	43,638.00
Expected return on plan assets	-3,407.00	-24,010.00
Amortisation	23,207.00	63,908.00
	90,506.00	**138,964.00**

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

€	2010	2009
Beginning of the year	804,159.00	154,364.00
Payment of plan assets to Essanelle Hair Group in connection with the start of retirement of a beneficiary	0.00	531,429.00
Total expenses recorded in the income statement	90,506.00	138,964.00
Endowment of plan assets	-24,069.00	-17,547.00
Payment of pensions	-36,678.00	-3,051.00
Balance at 31 Dec.	**833,918.00**	**804,159.00**

The following principal actuarial assumptions were made:

€	2010	2009
Discount rate	5,15% / 4,4%	5.40%
Expected income on plan assets	3,8% / 0%	4,1 / 0%
Future salary increases	2% / 0	2% / 0
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. 2010	
€	**Obligation**	**Development plan assets**	**Provision**
1 Jan. 2010	-147,518.00	147,518.00	0.00
Participant Contribution	-5,729.64	5,729.64	0.00
Actuarial gains/losses	0.00	0.00	0.00
31 Dec. 2010	-153,247.64	153,247.64	0.00

		31 Dec. 2009	
€	**Obligation**	**Development plan assets**	**Provision**
1 Jan. 2009	-141,766.58	141,766.58	0.00
Participant Contribution	-5,751.42	5,751.42	0.00
Actuarial gains/losses	0.00	0.00	0.00
31 Dec. 2009	-147,518.00	147,518.00	0.00

19 OTHER NON-CURRENT PROVISIONS

€	31 Dec. 2010	31 Dec. 2009
Anniversary provision	0.00	179,000.00
Provision for dismantling obligations	1,441,342.11	598,235.14
	1,441,342.11	**777,235.14**

Changes in non-current provisions:

€	Anniversary Provisions	Dismantling Obligations
Balance at 1 Jan. 2010	179,000.00	598,235.14
Utilised	-25,879.00	-11,776.89
Released	-153,121.00	-5,346.87
Added	0.00	860,230.73
Balance at 31 Dec. 2010	**0.00**	**1,441,342.11**

The payment of an anniversary provision for employees has been terminated as of 2010, following a management decision.

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. The increase compared to the previous year can be traced back to the adjustments of parameters regarding provision expenses and maturity equivalent interest rates. This led to a performance-neutral increase of the provision for dismantling obligations in the amount of EUR 847k.

20 ACCOUNTS PAYABLE

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

21 CURRENT INCOME TAX LIABILITIES

€	31 Dec. 2009/ 1 Jan. 2010	Utilised	Released	Added	31 Dec. 2010
Trade tax 2007	29,984.00	-5,005.31	-24,978.69	0.00	0.00
Trade tax 2008	867,911.56	-867,911.56	0.00	0.00	0.00
Corporate income tax 2008	492,755.00	-492,345.30	-409.70	0.00	0.00
Trade tax 2009	89,736.74	-13,947.93	0.00	276,731.64	352,520.45
Corporate income tax 2009	400,484.90	0.00	0.00	22,473.10	422,958.00
Corporate income tax 2010	0.00	0.00	0.00	118,269.13	118,269.13
Trade tax 2010	0.00	0.00	0.00	375,206.47	375,206.47
	1,880,872.20	**-1,379,210.10**	**-25,388.39**	**792,680.34**	**1,268,954.05**

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

22 OTHER LIABILITIES

Other current liabilities are structured as follows:

€	31 Dec.2010	31 Dec. 2009
Social security contributions	847.92	2,466.86
VAT liabilities	1,727,150.05	1,554,951.10
Liabilities towards employees due to wages, salaries and commission still to be paid	303,801.55	309,617.45
Liabilities relating to rental agreements	186,316.45	193,291.87
Corporate income and Trade taxes 2004-2006	0.00	292,144.28
Wage and VAT according to the wage tax audit	0.00	105,400.00
Wage tax and church tax 2010 (2009)	353,881.79	358,865.21
Miscellaneous	235,993.57	68,897.28
	2,807,991.33	**2,885,634.05**

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

23 OTHER CURRENT PROVISIONS

Composition and development of other current provisions:

€	01.01.2010	Utilised	Released	Added	31 Dec. 2010
Personnel provisions	1.241.431,50	-1.056.085,32	-185.346,18	1.566.835,76	1.566.835,76
Subscriptions and customer vouchers	945.900,00	-945.900,00	0,00	956.794,16	956.794,16
Miscellaneous	1.051.536,40	-623.834,96	-180.386,43	608.915,02	856.230,03
	3.238.867,90	**-2.625.820,28**	**-365.732,61**	**3.132.544,94**	**3.379.859,95**

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 but not yet taken up, as of the balance sheet reporting date.

Miscellaneous current provisions mainly relate to provisions for energy costs (EUR 424k, previous year EUR 493k) and for outstanding incoming invoices (EUR 217k, previous year EUR 230k).

All other current provisions are expected to result in expenses being incurred in the 1st quarter of 2011.

24 SALES

Consolidated sales are structured as follows:

€	2010	2009
Revenues from services	107,263,582.11	106,028,533.28
Revenues from sales	**19,414,734.88**	**21,356,025.13**
Revenues in connection with rental agreements	**276,121.56**	**365,906.50**
Other revenues	288,987.16	208,334.86
	127,243,425.71	**127,958,799.77**

Sales were exclusively generated in Germany.

25 OTHER OPERATING INCOME

Composition:

€	2010	2009
Income from invoicing of ancillary rental expenses	222,198.85	351,724.46
Income from release of provisions	554,163.06	236,658.02
Income from disposal of assets	1,680.67	1,499.11
Income from the release of write-downs on accounts receivable	172,218.72	21,333.45
Income from statute-barred debt	31,348.54	145,270.32
Income from selling TopTen Licenses	112,000.00	0.00
Insurance compensations	117,001.68	42,610.17
Other income	713,426.24	428,497.73
	1,924,037.76	**1,227,593.26**

26 COST OF MATERIALS

Cost of materials includes:

€	2010	2009
Expenses for goods purchased	9,793,438.31	10,546,895.15
Increase in written inventories (previous year decrease)	4,400.00	-3,030.00
	9,797,838.31	**10,543,865.15**

27 PERSONNEL EXPENSES

Personnel expenses are structured as follows:

€	2010	2009
Wages and salaries	58,992,230.42	58,315,459.93
Social security contributions	12,638,540.03	12,327,746.31
Pension expenses for defined benefit plans	44,015.46	137,571.55
Share options granted to managers and employees	0.00	0.00
Compensations resulting from the termination of employment contracts	28,000.00	40,700.00
	71,702,785.91	**70,821,477.79**

Contributions to the statutory pension insurance fund: EUR 5,875k (previous year EUR 5,815k).

28 DEPRECIATION AND AMORTISATION

Composition:

€	2010	2009
Scheduled depreciation and amortisation		
Amortisation of other intangible assets	80,570.43	72,409.71
Depreciation of proprietary salon furnishings	4,521,681.39	4,746,691.73
Depreciation of leased salon furnishings	475,433.79	570,133.55
Impairments IAS 36	272,791.28	0.00
	5,350,476.89	**5,389,234.99**

29 RENTAL AND ANCILLARY RENTAL COSTS

Composition:

€	2010	2009
Rent for hairdressing salons and head office in Düsseldorf	21,579,216.26	21,292,932.57
Ancillary rental expenses	3,855,500.25	3,668,280.86
	25,434,716.51	**24,961,213.43**

30 OTHER OPERATING EXPENSES

Other operating expenses include:

€	2010	2009
Losses incurred on the disposal of non-current assets	170,227.58	18,759.32
Operating requirements	507,626.88	589,884.77
Advertising and sales promotion	1,965,835.54	1,771,213.76
Employee training	48,284.78	132,220.74
Vehicle-related expenses	601,159.48	589,697.67
IT-related expenses	968,018.51	1,025,920.57
Legal and advisory expenses	622,657.05	659,310.41
Bank charges	341,638.34	337,656.88
Telephone, office materials, print materials	566,821.16	574,316.77
Travel expenses and hospitality	352,767.98	444,292.56
Insurances	117,390.25	116,000.69
Cleaning companies	135,334.91	144,534.33
Postal charges, radio fees	207,737.73	227,799.69
Energy costs, electricity	1,844,899.94	1,775,532.03
Miscellaneous	3,015,462.28	3,142,163.36
	11,465,862.41	**11,549,303.55**

31 FINANCING INCOME

This item relates to interest income of EUR 9k on loans (previous year EUR 2k), interest income of EUR 10k (previous year EUR 0k) on taxes and to interest income of EUR 4k on short-term bank deposits and other current receivables (previous year EUR 13k).

32 FINANCING EXPENSES

This item relates to pension-related interest of EUR 46k (previous year EUR 44k), to interest of EUR 16k on dismantling obligations (previous year EUR 15k), interest from taxes of EUR 1k (previous year EUR 21k) and interest expenses of EUR 300k in connection with financial debt (previous year EUR 344k).

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

	2010			2009
€	Interest	Change in allowances	Total	
Loans and Receivables				
Other loans	9,498.79		9,498.79	1,722.07
Cash and cash equivalents	3,821.50		3,821.50	12,948.22
Accounts receivable		-181,436.25	-181,436.25	-21,333.45
Financial Liabilities Measured at Amortised Cost				
Commitments towards credit institutions	-94,904.05		-94,904.05	-60,492.73
Leasing liabilities	-18,972.71		-18,972.71	-51,976.36
Financing from suppliers	-186,036.55		-186,036.55	-226,599.15
	-286,593.02	**-181,436.25**	**-468,029.27**	**-345,731.40**

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

€	2010	2009
Actual taxes		
Trade tax for previous years	65,841.89	237,761.62
Corporate income tax for previous years	-45,531.44	-74,211.65
Corporate income tax for current year	552,257.00	579,900.00
Trade tax for current year	878,392.00	1,011,100.00
	1,450,959.45	**1,754,549.97**
Deferred taxes		
Deferred corporate income tax for current year	132,000.00	293,000.00
Deferred trade tax for current year	115,000.00	257,000.00
	247,000.00	550,000.00
	1,697,959.45	**2,304,549.97**

Deferred taxes have been accounted for at 30% (previous year 30%). This is equivalent to a trade tax rate of 14% (previous year 14%), a corporate income tax rate of 15% (previous year 15%) and a solidarity surcharge of 5.5% (previous year 5.5%).

The following tax reconciliation account shows the development of tax expenses in 2010 (2009):

€k	2010	2009
Earnings before taxes	5,076	5,511
Taxes based on a rate of 30% (previous year 30%)	1,523	1,653
Taxes on income as stated in income statement	1,698	2,304
less income taxes on modifications	-155	-487
less taxes for previous years	-20	-164
	1,523	**1,653**

The effective tax rate amounts to 33.45% (previous year 41.8%).

35 EARNINGS PER SHARE

(1) Basic

	2010	2009
Earnings allocable to providers of equity in EUR	3,378,018.42	3,206,710.72
Average number of shares issued	4,522,841	4,533,115
Basic earnings per share (EUR per share)	**0.75**	**0.71**

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. Furthermore, the weighted average number of outstanding shares is calculated by multiplying with the respective temporal weighting factor, less the shares held by Essanelle Hair Group itself.

(2) Diluted

	2010	2009
Earnings allocable to providers of equity in EUR	3,378,018.42	3,206,710.72
Average number of shares issued	4,522,841	4,534,984
Diluted earnings per share (EUR per share)	**0.75**	**0.71**

When calculating the diluted earnings per share, the number of shares issued was increased when employees still held subscription rights relating to the share option programme. At the same time, the number of available shares which the company would have been able to purchase at the average share price for the year under report at the company's trial price was reduced, in the event of such subscription rights being exercised.

36 DIVIDEND PER SHARE

In 2010, the company paid out its dividend for the year 2009. The dividend amounted to EUR 0.50 per share and totalled EUR 2,277,811.50 based on a volume of 4,555,623 shares. The Management Board of Essanelle proposed to pay out a dividend of EUR 0.50 per share for 2010 in 2011.

37 CASH FLOW STATEMENT

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

The cash flow statement has been compiled using the indirect method and can be found in Annex II/4.

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

€k	2010	2009
Consolidated annual earnings	**3,378**	**3,207**
Adjustments for …		
Taxes (Note 34)	1,698	2,305
Depreciation of property, plant and equipment (Note 6)	5,255	5,317
Amortisation of intangible assets (Note 7)	81	72
Write-ups to other loans (Note 8)	15	0
Losses on the sale of property, plant and equipment	168	18
Expenses relating to share option programme (Note 13)	0	0
Interest income (Note 31)	-23	-15
Interest expenses (Note 32)	363	425
Change in working capital		
Inventories (Note 9)	180	191
Accounts receivable and other receivables (Note 10)	-129	11
Provisions (Notes 18, 19 and 22)	-12	66
Other financial assets valued at fair value (Note 11)	-68	-15
Accounts payable and other liabilities (Notes 20 to 22)	-2,352	-305
Inflow of funds from operating activities	**8,554**	**11,277**

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

€k	2010	2009
Net carrying amount	170	164
Loss on the sale of property, plant and equipment (balance)	-168	-18
Proceeds from the sale of property, plant and equipment	**2**	**146**

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

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 21,579k (previous year EUR 21,284k).

The Group also leases motor vehicles and various items of equipment. The expenses relating to these assets amounted to EUR 305k (previous year EUR 297k).

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

€	31 Dec. 2010	31 Dec. 2009
Remaining term up to 1 year	19,865,581.09	19,187,967.82
Remaining term 1 to 5 years	59,336,799.78	55,460,633.25
Remaining term more than 5 years	23,571,574.05	25,858,203.60
	102,773,954.92	**100,506,804.67**

(2) 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 Hair Group does not deploy any derivative financial instruments.

40 BUSINESS TRANSACTIONS WITH CLOSELY RELATED COMPANIES AND INDIVIDUALS

Essanelle Hair Group 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 2010 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 1k). Furthermore, remuneration of EUR 9k (previous year EUR 30k) was paid to the company Tröndle GmbH for the provision of trainers to train Essanelle Hair Group personnel.

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

Majority investment of Saxonia Holding GmbH in Essanelle Hair Group AG

Saxonia Holding GmbH, formerly Saxonia Holding-Gesellschaft GmbH & Co KG, Wolfsburg, holds a majority investment in Essanelle Hair Group. 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 15 March 2011.

Shares held by the Supervisory Board and the Management Board

As of 31 December 2010, the members of the Management Board and the Supervisory Board held no shares in Essanelle Hair Group.

For the compensation of the Management Board, please refer to No. 45.

41 NUMBER OF EMPLOYEES

The company had an average of 2,326 (previous year 2,344) employees, 1,648 (1,620) part-time employees and 255 (243) 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	2010	2009
Auditing of financial statements	112	110
Other audit services	2	2
Tax advisory services	62	89
	176	**201**

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 2010.

44 STATEMENT CONCERNING THE GERMAN CORPORATE GOVERNANCE CODE

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 permanently available to shareholders on our homepage at http://www.essanelle-hair-group.com/sites/investor_cogo1.html.

45 MANAGEMENT BOARD AND SUPERVISORY BOARD COMPENSATION

(1) Management Board compensation

The total compensation of the Management Board amounted to EUR 994k in 2010 (previous year EUR913k) and was structured as follows:

		2010		
€k	**Mansen**	**Bonk**	**Wiethölter**	**Gesamt**
Basic salary (non-performance related)	259	173	168	600
Bonus (performance-related)	177	88	88	353
Benefit in kind from use of company car	16	12	13	41
	452	**273**	**269**	**994**

		2009		
€k	**Mansen**	**Bonk**	**Wiethölter**	**Gesamt**
Basic salary (non-performance related)	259	162	156	577
Bonus (performance-related)	178	57	57	292
Benefit in kind from use of company car	17	13	14	44
	454	**232**	**227**	**913**

A defined benefit pension commitment has been made to Management Board member Achim Mansen. The respective provision after deduction of plan assets of EUR 105k (previous year EUR 83k) amounts to EUR 179k (previous year EUR 153k). The interest rate used for accounting purposes is 5.15% (previous year 5.4%).

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.

(2) Compensation of former members of the Management Board

A defined benefit pension commitment has been made to former Management Board member Uwe Grimminger. The provision amounts to EUR 655k (previous year EUR 651k).

From the age of 60, Uwe Grimminger is entitled to a monthly pension of EUR 3,112.48 from the Essanelle Hair Group. The widow's pension amounts to 60% of the old-age pension entitlement An annual adjustment in the ongoing pension payments of 2% based on the level of pension in the previous year is guaranteed.

The deferral of compensation to a pension commitment results in an asset value of the reinsurance policy of EUR 153k. A pension provision in a corresponding amount has been established.

(3) 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 153k (previous year EUR 146k) was paid in the 2010 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, 15 March 2011

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

BALANCE SHEET (HGB) as of 31 December 2010

ASSETS

€	31.12.2010	31.12.2009
A. FIXED ASSETS		
I. Intangible Assets		
1. Concessions. industrial and similar rights assets and licenses in such rights and assets	142,913.74	106,367.25
2. Goodwill	5,498,432.95	7,482,284.01
	5,641,346.69	**7,588,651.26**
II. Tangible Assets		
1. Office equipmnent including fixtures in rented premises	20,701,791.32	21,598,047.17
2. Prepayments	75,573.44	68,625.73
	20,777,364.76	**21,666,672.90**
III. Financial Assets		
1. Investments in subsidiaries	1.00	1.00
3. Other loans	296,776.94	97,191.24
	296,777.94	**97,192.24**
	26,715,489.39	**29,352,516.40**
B. CURRENT ASSETS		
I. Inventories		
Merchandise	6,625,461.10	6,805,052.90
	6,625,461.10	**6,805,052.90**
II. Receivables and other assets		
1. Accounts receivables	61,883.76	165,296.57
2. Other assets	1,562,413.54	2,578,031.89
	1,624,297.30	**2,743,328.46**
III. Current Investments		
Treasury Stock	0.00	554,251.52
	0.00	**554,251.52**
IV. Cash on hand, Balance with banks	**4,910,146.32**	**5,012,408.59**
	13,159,904.72	**15,115,041.47**
C. PREPAID EXPENSES	**51,518.33**	**167,065.19**
Total assets	**39,926,912.44**	**44,634,623.06**

SHAREHOLDERS' EQUITY AND LIABILITIES

€		31.12.2010	31.12.2009
A. EQUITY			
I. Subscribed Capital	4,595,044.00		4,595,044.00
./. Accounting par value of own shares	-72,203.00		0.00
Issued capital stock		4,522,841.00	
II. Capital Reserves		13,595,420.24	13,595,420.24
III. Surplus Reserve			
1. Treasury Stock		0.00	554,251.52
2. Other retained earnings		209,425.41	0.00
IV. Distributable profit		2,900,532.14	3,343,740.21
		21,228,218.79	**22,088,455.97**
B. ACCRUALS			
1. Accruals for pensions and similar obligations		841,022.00	993,815.21
2. Tax Accruals		1,268,954.05	1,880,872.20
3. Other Accruals		4,340,645.93	4,492,089.78
		6,450,621.98	**7,366,777.19**
C. LIABILITIES			
1. Liabilities to banks		2,352,007.69	1,423,962.71
2. Accounts Payable Trade		3,330,670.43	6,513,021.19
3. Intercompany Payables		1,468.27	1,671.37
4. Other liabilities		6,563,925.28	7,240,734.63
		12,248,071.67	**15,179,389.90**
Total shareholders' equity and liabilities		**39,926,912.44**	**44,634,623.06**

INCOME STATEMENT (HGB)

for the Period from 1 January 2010 to 31 December 2010

€	2010	2009
1. Revenue	127,243,425.71	127,958,799.77
2. Other operating income	1,855,679.61	1,343,782.81
3. Cost of materials	-9,797,838.31	-10,543,865.15
	119,301,267.01	**118,758,717.43**
4. Personnel expenses		
a) Wages and salaries	-59,020,230.42	-58,356,159.93
b) Social security, pensions and other benefit costs (of which for pension € 34.658,52; PY € 175.417,10)	-12,673,198.55	-12,503,163.41
5. Depreciation and amortization of non-current intangible assets and property, plant and equipment	-6,637,906.54	-6,615,648.50
6. Other operating expenses	-37,347,232.34	-37,239,555.39
	3,622,699.16	**4,044,190.20**
7. Income from investments (of which from affiliated companies € 0,00; PY € 0,00)	9,498.79	1,722.07
8. Other interest and similar income € 413,85; PY € 318,00), (thereof discountings € 2.244,57, PY € 0,00)	16,550.45	12,821.11
9. Write-downs of financial assets	-14,743.01	0.00
10. Interest and similar expenses (thereof accumulations € 92.296,59, PY € 0,00)	-374,083.44	-312,718.19
11. Profit from ordinary operations	**3,259,921.95**	**3,746,015.19**
12. Extraordinary expenses	-55,982.00	0.00
13. Extraordinary result	**-55,982.00**	**0.00**
14. Income taxes	-1,450,959.45	-1,754,615.33
15. Other taxes	-6,971.56	-67,012.26
16. Net profit for the year	**1,746,008.94**	**1,924,387.60**
17. Profit carry forward	1,082,320.20	1,435,691.77
18. Withdrawals from capital reserves	72,203.00	0.00
19. Additions to Treasury Stock	0.00	-16,339.16
20. Net accumulated loss	**2,900,532.14**	**3,343,740.21**

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 2010. 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, 15 March 2011
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Bibiana Bolsenkötter	ppa. Dietrich Schollmeyer
Chartered Accountant	Chartered Accountant

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